GWG Holdings, Inc.
Form 10-K
March 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from _________ to ________

Commission File Number: None

GWG HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**26-2222607**
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	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)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

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

Indicate by check mark whether the registrant has submitted electronically 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

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

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

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

As of March 13, 2015, GWG Holdings, Inc. had 5,870,193 shares of common stock outstanding.

GWG HOLDINGS, INC.

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for the Fiscal Year Ended December 31, 2014

PART I

ITEM 1. BUSINESS.

Overview

GWG Holdings, Inc. is a specialty finance company and a leader in the life settlement market. A life settlement is the sale of an existing life insurance policy to a third party for more than its cash surrender value, but less than the face value of the policy benefit. There are a number of reasons that a policy owner may choose to sell his or her life insurance policy. Among others, the policy owner may no longer need or want his or her policy, he or she may wish to purchase a different kind of life insurance policy, or the premium payments may no longer be affordable. We target our life settlement offerings toward consumers, 65 years and older, owning life insurance who can benefit from realizing the actuarial value of their life insurance policy. We believe the value proposition of our services to the consumers we serve is very high, as we have found that we typically offer a multiple of the cash surrender value offered by the insurance carrier issuing the policy. Consumers, 65 years and older, represent the fastest growing demographic segment in the United States according to the U.S. Census Bureau. These consumers, and their families, are faced with a variety of challenges as they seek to address their post-retirement financial needs. We believe that for older consumers owning life insurance, our life settlement services provide a unique and valuable financial solution for their post-retirement financial needs.

To address this growing need, we recently have expanded our services by offering consumers a range of options to access the actuarial value of their life insurance, including (i) purchasing all of their life insurance policy for cash, (ii) purchasing a portion of their life insurance policy for cash and allowing them to retain a portion of their policy benefit with no future premium obligation, (iii) allowing for the conversion of their life insurance policy towards payments for long term care, and (iv) allowing the consumer to gift a portion of their life insurance to family or a charity with no future premium obligation. All of our services involve our purchase or financing of life insurance assets from consumers in the secondary market at a discount to the face value of the policy benefit we obtain. In cases where we purchase a life insurance policy, we continue paying the policy premiums until maturity, in order to collect the policy benefit upon the insured's mortality. In this way, we hope to profit from the difference between our cost of obtaining and financing a life insurance asset, and the face value of the policy benefit we receive upon the mortality of the insured.

In addition to our goal of providing consumers with value-added services based upon the actuarial value of their life insurance policies, we seek to build a profitable and large portfolio of life insurance assets that are well diversified in terms of insurance carriers, mortality profiles and the medical conditions of insureds. We believe that successfully diversifying our assets will lower our overall risk exposure and provide our portfolio of life insurance assets with greater actuarial stability and more reliable returns. To obtain the growth and diversification we seek, we have raised capital through a variety of financing efforts that have included the public offering of our common stock, private and public offerings of structured debt securities, private offerings of preferred stock, and a senior secured revolving credit facility.

Our business was organized in February 2006. As a parent holding company, GWG Holdings was incorporated on March 19, 2008, as a limited liability company. On June 1, 2011, GWG Holdings converted from a Delaware limited liability company to a Delaware corporation through the filing of statutory articles of conversion. In connection with the conversion, each class of limited liability company membership interests in GWG Holdings, LLC was converted into shares of common stock of GWG Holdings, Inc.

Since our formation in 2006, we have evaluated over 37,000 policies and acquired over $1.7 billion in face value of life insurance policy benefits in the secondary market. In 2008, after selling approximately $1 billion in face value of life insurance policy benefits, we adopted our current buy-and-hold strategy of investing in portfolio life insurance assets and offering investors the opportunity to finance our ownership of the portfolio. As of December 31, 2014, we owned approximately $779 million in face value of life insurance policy benefits with an aggregate cost basis (i.e., acquisition and related premiums and financing costs) of approximately $276 million.

On September 24, 2014, we consummated an initial public offering of our common stock resulting in the sale of 800,000 shares of common stock at $12.50 per share. In connection with this offering, we started listing our common stock on The NASDAQ Capital Market under the ticker symbol “GWGH” effective September 25, 2014.

GWG Holdings, Inc. (GWG Holdings) facilitates the purchase of life insurance policies through its wholly owned subsidiary, GWG Life, LLC (GWG Life), and GWG Life’s subsidiaries, GWG Trust (Trust), GWG DLP Funding II, LLC (DLP II) and DLP II’s wholly owned subsidiary, GWG DLP Master Trust II (the Trust II). All of these entities are legally organized in Delaware. Unless the context otherwise requires or we specifically so indicate, all references in this report to "we", "us", "our", "our Company", "GWG", or the "Company" refer to these entities collectively. We are based in Minneapolis, Minnesota.

Market

The market for the consumers we serve is large. According to the American Council of Life Insurers Fact Book 2014 (ACLI), individuals owned over $11.4 trillion in face value of life insurance policies in the United States in 2013. This figure includes all types of policies, including term and permanent insurance known as whole life, universal life, variable life, and variable universal life. The ACLI reports that the lapse and surrender rate of individual life insurance policies for 2013 was 5.7%, amounting to over $639 billion in face value of policy benefits surrendered in 2013 alone. These figures do not include group-owned life insurance, such as employer-provided life insurance, the market for which totaled over $8.2 trillion of face value of life insurance policies in the United States in 2013, which insurance policies exhibit similar lapse and surrender rates, according to the ACLI. Consumers owning life insurance generally allow policies to lapse or surrender the policies for a variety of reasons, including: (i) the life insurance is no longer needed; (ii) unrealistic original earnings assumptions made when the policy was purchased; (iii) increasing premium payment obligations as the insured ages; (iv) changes in financial status or outlook which cause the insured to no longer require life insurance; (v) other financial needs that make the insurance unaffordable; or (vi) a desire to maximize the policy’s investment value.

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The secondary market for life insurance has developed in response to the large volume of policy lapses and surrenders. Rather than allowing a policy to lapse as worthless, or surrendering a life insurance policy at a fraction of its inherent value, the secondary market can be a source of significant value to consumers. The inherent actuarial value of a policy in the life insurance secondary market often exceeds the cash surrender value offered by the insurance carrier. Without the development of the secondary market, insurance carriers would maintain monopsony power over the options offered to consumers who no longer want, need or can afford their life insurance.

Although still relatively new and still emerging, the secondary market for life insurance policies, as reported by Conning Research & Consulting (Conning), grew from $2 billion in face value of benefits purchased in 2002, to over $12 billion in face value of benefits purchased in 2008. During and after the 2009 credit crisis, the secondary market for life insurance contracted significantly, evidenced by Conning's report that investors purchased approximately $2 billion in face value of life insurance benefits in 2012. Nevertheless, Conning reports that consumer demand for continued development of the secondary market remains strong, and there are indications of strengthening interest among investors. Conning maintains that, given the current economic condition and investor sentiment, the secondary market will likely grow, and the market's largest growth will likely come from companies that attract capital to purchase the assets. We believe that socio-economic and demographic trends further support the long-term development and growth of the secondary market for life insurance, and that the secondary market for life insurance represents a significant and expanding market opportunity. In support of this belief, Conning reports that the net market potential for policies sold in the secondary market exceeded $109 billion in 2012, and is expected to grow to $151 billion by 2019.

Our Business Model

We believe that we are uniquely positioned to capitalize on this opportunity by providing value-added services to the consumers we serve and new investment opportunities for investors, where both participants can profit. To participate and compete in our growing market, we have spent and intend to continue to spend significant resources: (i) developing a robust operational platform and systems for originating and purchasing life insurance policies; (ii) obtaining requisite licensure to participate in the life insurance secondary market; (iii) developing financing resources, strategies, and capabilities for servicing a large portfolio of life insurance policies; (iv) recruiting and developing a professional management team; and (v) establishing strategic relationships for delivering our services.

We generally transact directly with the policy owner who originally purchased the life insurance in the primary market. Historically, we have purchased policies in the secondary market through a network of life insurance agents, life insurance brokers, and licensed providers who assist policy owners in accessing the secondary market. We expect to expand our origination practice by marketing directly to consumers through various marketing initiatives.

Before acquiring a life insurance asset, we value the related life insurance policy by conducting an underwriting review. Our present underwriting review process generally involves obtaining two life expectancy estimates on each insured from third-party medical-actuarial firms, and then averaging these two estimates. On occasion, we may obtain more than two life expectancy estimates, in which case we average the two life expectancy estimates that we believe are the most reliable, based on our own analyses and conclusions. In this regard, the two life expectancy estimates we ultimately choose to average may not always be the most conservative estimates we obtain. From time to time and as permitted by applicable borrowing covenants, we may modify our underwriting review process. For example, we recently changed our definition of a “small face policy” as a policy having a face value equal to or less than $1,000,000 in policy benefits. Prior to this change, a small face policy was one having a face value equal to or less than $250,000. For small face policies, rather than obtaining life expectancy estimates from third-party medical-actuarial firms, we may employ a modified underwriting review process involving the use of a combination of standard mortality tables, actuarial or medical consultants, and our own analysis to develop a life expectancy estimate for an insured. We seek to purchase life insurance policies issued by rated life insurance companies with investment grade credit ratings by Standard & Poor’s (AAA through BBB-), Moody’s (Aaa through Baa3), or A.M. Best Company (aaa through bbb). As of December 31, 2014, approximately 99.1% of life insurance policies in our portfolio were issued by companies rated “BBB-” or better under Standard & Poor’s rating system. Many of our current underwriting review processes, including our policy of obtaining two life expectancy estimates from medical actuarial firms as described above, are undertaken in satisfaction of obligations under our revolving credit facility. In the future we may modify our underwriting review process if permitted under our borrowing arrangements.

All of our services are premised on financial and actuarial modeling that assigns a present value to the face value of an insurance policy benefit. In this regard, the value we assign to a life insurance asset in the secondary market is primarily a function of: (i) the face value of the life insurance policy or portion thereof we may wish to acquire; (ii) the estimated life expectancy of the individual insured under the policy; (iii) the premiums expected to be paid over the life of the insured; (iv) market competition from other purchasers in the secondary market; and (v) the particular underwriting characteristics of the policy, relative to the characteristics of our portfolio of life insurance assets as a whole.

The types of policies we typically, but not always, acquire are universal life insurance policies. Universal life insurance is a type of permanent life insurance in which premium payments above the cost of insurance are credited to the "cash value" of the policy. The cash value is credited each month with interest based on the terms of the insurance policy agreement. If a universal life insurance policy were to lapse, the insured or other owner of the policy would nonetheless have a right to receive the "cash surrender value" of the policy. The cash surrender value is the cash value of the policy, less any surrender charges imposed by the insurance company for a cash value distribution. Our services provide greatest value to a consumer when the actuarial value of the life insurance policy benefit exceeds the cash surrender value of the policy—which is often the case. We also provide services to consumers who own term life insurance. Unlike permanent universal life insurance, term life insurance does not have a cash value associated with it. Nevertheless, most term insurance policies permit the policy to be converted into permanent universal life insurance. In the future, we may consider offering services in conjunction with variable universal life insurance, which differs from universal insurance in that the "variable" component of the policy involves the ownership of securities inside the policy.

Portfolio Summary

Our portfolio of life insurance policies, owned by our subsidiaries as of December 31, 2014, is summarized below:

Total portfolio face value of policy benefits	$779,099,000	
Average face value per policy	$2,677,000	
Average face value per insured life	$2,940,000	
Average age of insured (yrs.)	82.8	
Average life expectancy estimate (yrs.)	6.5	
Total number of policies	291	
Number of unique lives	265	
Gender	67% Males; 33% Females	
Number of smokers	3	
Largest policy as % of total portfolio	1.28	%
Average policy as % of total portfolio	0.34	%
Average annual premium as % of face value	3.37	%

Competitive Strengths

Industry Experience: We have actively participated in the development of the secondary market of life insurance as a principal purchaser and financier within the asset class since 2006. Our position within the marketplace has allowed us to gain a deep understanding of the life insurance secondary market. We have participated in the leadership of various industry associations and forums, including the Life Insurance Settlement Association (LISA) and the Insurance Studies Institute (ISI). Our experience gives us confidence in building a company to compete in the industry and acquire a portfolio of life insurance policies that will perform to our expectations.

Operational Platform: We have built and continue to refine and develop both an operational platform and systems for efficiently tracking, processing, and servicing life insurance policies that we believe provide competitive advantages when participating in the life insurance secondary marketplace.

Origination and Underwriting Practices: We seek to use underwriting review processes and file documentation standards that generally meet published guidelines for rated securitizations of life insurance portfolios. We purchase life insurance policies we consider to be non-contestable and that meet our underwriting criteria and reviews. We consider a life insurance policy to be “non-contestable” once applicable state law prohibits the insurer from challenging the validity of the policy due to fraud. In this regard, state non-contestability laws generally require a period of one to two years to elapse after the initial issuance of the policy before that policy is considered non-contestable. Non-contestability laws do not, however, prevent an insurer from challenging the validity of a policy procured by fraud for lack of an insurable interest at the time at which the policy was purchased, such as is the case with so-called “stranger-originated” life insurance policies. To the extent we use modified methodologies for estimating life expectancies for small face policies, those modified methodologies may not meet published guidelines for rated securitizations of life insurance portfolios.

Origination Relationships and Strategies: We have established origination relationships with life insurance policy brokers and insurance agents who submit policies for our purchase or financing. Our referral base knows our underwriting standards for purchasing life insurance policies in the secondary market, which provides confidence in our bidding and closing processes and streamlines our own due-diligence process. We expect to expand our origination methodology and channels with the proceeds of this offering (e.g., the addition of direct-to-consumer marketing).

Life Expectancy Methodology: We generally rely on two life expectancy estimates obtained from independent third-party medical-actuarial underwriting firms to arrive at a life expectancy estimate we use for valuing a life insurance asset. For a majority of our life insurance asset purchases, we rely on estimates obtained from 21st Services and AVS Underwriting to develop our life expectancy estimate. We may, however, also obtain and use life expectancy estimates from other medical-actuarial underwriting firms. As explained above, we may from time to time modify our underwriting review processes, including our methodology for arriving at life expectancy estimates we use in ascribing value to a life insurance asset.

Pricing Software and Methodology: To calculate our expected returns on the investments we make in life insurance assets, we use actuarial pricing methodologies and software tools built by a leading independent actuarial service firm and currently supported by Modeling Actuarial Pricing Systems, Inc. (“MAPS”).

Financing Strategy: We have actively developed a diversified financing strategy for accessing capital markets in support of our buy-and-hold strategy for our portfolio of life insurance policies, ranging from institutional bank financing to a network of broker-dealers registered with the Financial Industry Regulatory Authority (“FINRA”), many of whom have participated in one or more of our Series I Secured note financing, our Series A Preferred Stock financing, or our earlier L Bond financing (such L Bonds originally issued under the name “Renewable Secured Debentures” and renamed “L Bonds”). If in the future we decide to offer different kinds of investment products, we expect to leverage the network of broker-dealers that we have built over time.

Our business also involves certain challenges and risks described in the “Risk Factors” section of this form.

Acquiring Life Insurance Assets

We seek to offer our services nationwide. In general, we work directly with consumers in states where we hold proper licensure, and in states where we are not licensed we work through other licensed providers. Historically, sourcing policy assets typically begins with life insurance agents and financial advisors (“agents”) that identify consumers owning life insurance who could benefit from the extraction of value from their life insurance in the secondary market. The agents typically work with professional life insurance policy brokers specializing in packaging the policies for presentation to participants in the secondary market. Their packaging includes obtaining medical records on the insured, life expectancy estimates from medical-actuarial firms, current insurance policy illustrations, and other information needed to properly evaluate the policy. The only parties able to evaluate the policies are regulated licensed “providers.” Once the providers have evaluated the policy, offers are made to the owner through a competitive auction process whereby brokers facilitate competing offers from providers, concurrently negotiating fees.

We maintain membership affiliations and representation within key industry groups, such as the Life Insurance Settlement Association. Our Executive Chairman, Paul Siegert, currently serves on the board of the Life Insurance Settlement Association. We typically sponsor events and/or maintain a trade booth at events where we are able to maintain contacts with existing life settlement brokers and meet new brokers who submit policies for purchase.

We are developing new channels for acquiring life insurance assets by soliciting consumers directly, which may eliminate fees we pay brokers and competition we experience when a policy is auctioned through a broker. While these new channels are as yet unproven, we believe that consumer awareness of the life insurance secondary market is relatively low while the consumer value proposition is very high. As a result, these new channels may provide a significant growth opportunity for our business.

Life Insurance Policy Underwriting and Investment Process

The process used to value and underwrite life insurance policies is relatively new and continues to be refined. We underwrite and service all the life insurance policies that we purchase. When we identify a life insurance policy that meets our criteria, we seek to invest in the policy at a discount sufficient to provide us with an expected internal rate of return that meets our internal guidelines. Once our offer to invest in a policy is accepted, we enter into a purchase agreement with the seller. This agreement gives us the right to, among other things, pay premiums, collect policy benefits, file collateral assignments, change the ownership, and obtain medical records. The general terms and conditions of the agreement are standardized and regulated by most states.

We maintain an underwriting department with experience in underwriting life insurance policies for investment. The underwriting due diligence process consists of a careful review and analysis of available materials related to a life insurance policy and the covered individual. The goal of the underwriting process is to make an informed investment decision with respect to the life insurance policy. While we believe that our underwriting policies and practices are consistent with industry best practices, it is possible that the processes may change or may not accurately reflect actual mortality experience or catch fraud or deception by sellers. To the extent the underwriting is not accurate or we are subject to fraud or deception by sellers, the performance of policies may be different from expected results, which could adversely affect our profitability.

Life Insurance Policy Characteristics

We typically invest in universal life insurance policies whose insureds are 65 years or older and whose actuarial life expectancies are estimated to be less than 168 months (14 years). In some cases, however, we invest in term life insurance policies that are convertible into universal life insurance policies, depending upon the analysis of the life insurance policy and the insured's life expectancy estimate. The life expectancy estimate is the number of months the insured is expected to live based upon 50% mortality (meaning roughly half of the individuals with similar age, sex, smoking and medical statuses will have experienced mortality within that number of months), which is in turn based upon actuarial tables.

We invest only in life insurance assets that have been in force for more than two years from the policy issuance date and meet our other underwriting guidelines. We reserve the right to disqualify some life insurance companies or categories of life insurance policies for purchasing in our sole discretion.

Pricing Life Insurance Policies

Pricing involves an analysis of both the policy and the insured. An analysis of the insurance policy starts with an illustration obtained from the insurance company providing a schedule of level premium payments until the insured reaches age 125. Then, utilizing pricing software now owned by Modeling Actuarial Pricing Systems, Inc. ("MAPS"), we reverse engineer the premium schedule of the policy to determine a premium schedule that provides for the minimum payments required to keep the policy in effect. An analysis of the insured involves an actuarial evaluation of the insured's probable mortality at different points in the future—the mortality curve. This analysis covers the insured's entire projected lifespan using life expectancy estimates generated by third-party medical-actuarial underwriting firms or generated from base actuarial tables in the case of small face policies.

In determining the life expectancy estimate, we presently require two life expectancy estimates from independent third-party medical-actuarial underwriting firms, unless the life insurance policy is a small face policy (defined by us as a policy with $1,000,000 in face value benefits or less), in which case we may use a life expectancy estimate derived from base actuarial mortality table assumptions. When a life expectancy estimate is obtained from a medical-actuarial firm, the health of the insured is summarized by the underwriters in a written health assessment based on a review of the insured's historical and current medical records. Underwriting assesses the characteristics and health risks of the insured in order to quantify them into a mortality rating representing the life expectancy estimate. We currently average the life expectancy estimates provided by two independent medical-actuarial underwriting firms to form our life expectancy estimate for life insurance policies other than small face policies. In some cases, we may obtain more than two life expectancy estimates. In those cases, we average the two life expectancy estimates that we believe are the most reliable of those we have received, based on our own analyses and conclusions. In this regard, the two life expectancy estimates we ultimately choose to average may not always be the most conservative. If in the future we believe our business model will benefit from changes in our underwriting process and if such revisions are permitted under our borrowing covenants, we may change our underwriting processes and policies, including our present policy under which we generally obtain two life expectancy estimates from independent third-party medical-actuarial firms (other than for small face policies).

By combining the optimized premiums and the insured's life expectancy estimate within the MAPS software, we generate detailed information, including the expected mortality curve over the insured's total projected lifespan; the expected premiums and related costs over the insured's total projected lifespan; the expected policy benefit paid over the insured's total projected lifespan; the account values within the policy; and the expected internal rate of return we will achieve at various investment amounts. From this information, we are able to calculate the present value of the life insurance policy by discounting the anticipated cash flows at the targeted internal rate of return using the probabilistic pricing methodology used by the MAPS program. The actuarial value of the life insurance policy asset is the present value of the policy's cash flows discounted at an expected internal rate of return. We intend that our investments in life insurance assets will generate yields in excess of our borrowing and operating costs.

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. We expect medical-actuarial underwriting firms to continue improving and refining their underwriting methodology. Future changes may impact the life expectancies of insureds within our portfolio and the value of those policies, which may in turn affect our results of operations. We generally expect to incorporate any such changes to the policies within our portfolio when and as we value that portfolio from time to time.

Portfolio Administration

We have developed a comprehensive administration and servicing platform to manage the life insurance assets we own. This allows us to safeguard our life insurance assets and to process and report on the assets in our portfolio. We regularly contact each insurance company on every policy we own to verify policy account values and to confirm the correct application of premium payments made, and the resulting account values inside the life insurance policy after application of the premium payment and the deduction of the cost of insurance. We typically maintain little account value inside the policy and seek to make only minimum premium payments necessary to keep the life insurance policy in force until the next scheduled premium payment.

In addition to policy servicing, we monitor insureds by periodically contacting them directly, or their appointed representatives, to confirm their location and health status. We monitor the social security database for mortalities as well as online obituary databases. When we are notified of an insured’s mortality, we are required to obtain a copy of the death certificate and present it to the life insurance company for payment of the face value of the policy benefit.

Portfolio Management

We realize profits by earning a spread between the cost of our investment in our life insurance assets and the face value of the policy benefits paid upon the insured’s mortality. We believe that building and managing a profitable portfolio of life insurance policies is complex, requires considerable technical knowledge and resources, and is subject to numerous regulations. We have developed extensive experience and discipline to work toward a stable and profitable portfolio. We update our actuarial projections each month for the portfolio based on the life expectancy estimates, premium payments made, and mortalities experienced. These data points combine to provide us with future forecasted cash flows with respect to our portfolio of life insurance assets. These forecasted future cash flows, along with our current financial position, are combined in a comprehensive model that includes detailed assumptions as to interest rates, financing costs, life insurance asset acquisitions, and capital markets activities. This comprehensive financial model enables us to closely monitor and manage our necessary capital reserves and attempt to project our future profitability.

While we believe our portfolio of life insurance assets represents a balanced and stable portfolio of life insurance assets, we seek to grow the size of the portfolio in order to further mitigate risk, enhance diversification, and improve our profitability. In order to assess the stability of our portfolio, we analyze longevity risk, which is the risk of the insured living longer than his or her life expectancy estimate. Longevity risk is the single largest variable affecting the returns on an investment in life insurance assets and the ability to predict the portfolio’s value over time. Research by A.M. Best and others indicates that, as the number of insured lives increase within a portfolio of life insurance policies, there is a decrease in the standard deviation of the value of the portfolio—i.e., longevity risk is reduced with an increase in the number of insured lives. While Standard & Poor’s has indicated that statistical credibility is unlikely to be achieved with a pool of less than 1,000 lives, a study published in 2014 by A.M. Best concluded that at least 300 lives is sufficient to narrow the band of expected cash flow volatility using the Monte Carlo simulations, which is the same methodology we use to evaluate our portfolios. Our internal analysis of our portfolio, which as of December 31, 2014 consisted of 265 lives, resulted in a standard deviation that is comparable with the A.M. Best measurement for a portfolio of 200 lives. We believe this result is due to the specific portfolio make up of our portfolio relative to the variation in underlying life expectancy estimates. Further, A.M. Best recommends that no one life should comprise more than 3.33% of the face value of an entire portfolio or collateral pool. As of December 31, 2014, the largest face value policy on one life in our portfolio represented approximately 1.28% of the total portfolio. We intend to maintain a well-diversified portfolio as we continue to expand our investments in life insurance assets.

We also believe our portfolio represents a profitable portfolio. In order to assess the profitability, we analyze the future cash flows expected from our portfolio of life insurance assets. The standard practice within the insurance industry is to analyze the timing of uncertain future cash flows through stochastic modeling, or Monte Carlo simulations. We continue to analyze the expected internal rates of return and spread against borrowing costs represented by our portfolio. As of December 31, 2014, the expected internal rate of return on our portfolio of life insurance assets was 11.78% and our weighted-average borrowing costs to finance our portfolio were 7.24%.

Portfolio Credit Risk Management

The life insurance assets in which we invest represent obligations of third-party life insurance companies to pay the benefits under the relevant policy. We rely on the payment of policy benefits by life insurance companies as our sole source of revenue collection. Accordingly, the possible insolvency of a life insurance company is a significant risk to our business. To manage this risk, we seek to invest in life insurance assets that are issued by insurance companies with investment-grade ratings from either A.M. Best, Moody’s or Standard & Poor’s. To further mitigate risk, we seek to have no more than 20% of our aggregate face value of policy benefits in our portfolio issued by any one life insurance company. In addition, to assure diversity and stability in our portfolio, we regularly review the various metrics of our portfolio relating to credit risk. We track industry rating agency reports and industry journals and articles in order to gain insight into possible financial problems of life insurance companies. Finally, we only invest in those life insurance policies that meet the underwriting standards established in the indenture governing our debt securities, as applicable.

As of December 31, 2014, 93.1% of insurance companies in our portfolio hold an investment-grade rating by Standard & Poor's (BBB- or better), and the highest percentage of face value of policy benefits issued by one life insurance company within our portfolio was 14.55%. Of the 44 insurance companies that insure the policies we own, ten companies insure approximately 72.47% of total face value of policy benefits and the other 34 insurance companies insure the remaining approximately 27.53% of total face value of policy benefits. The concentration risk of our ten largest insurance company holdings as of December 31, 2014 is set forth in the table below.

Rank	Policy Benefits	Percentage of Policy Benefit Amount		**Insurance Company**	Ins. Co. S&P Rating
1	$113,380,000	14.55	%	AXA Equitable Life Insurance Company	A+
2	$89,470,000	11.48	%	John Hancock Life Insurance Company (U.S.A.)	AA-
3	$76,672,000	9.84	%	Transamerica Life Insurance Company	AA-
4	$58,769,000	7.54	%	Jefferson-Pilot Life Insurance Company	AA-
5	$56,215,000	7.22	%	ING Life Insurance and Annuity Company	A-
6	$42,735,000	5.49	%	Massachusetts Mutual Life Insurance Company	AA+
7	$41,750,000	5.36	%	American General Life Insurance Company	A+
8	$30,500,000	3.92	%	Pacific Life Insurance Company	A+
9	$28,450,000	3.65	%	West Coast Life Insurance Company	AA-
10	$26,661,000	3.42	%	Metropolitan Life Insurance Company	AA-
		72.47	%		

Servicing Agents

We have contracted with Wells Fargo Bank to provide servicing, collateral agent, and trustee services with respect to certain life insurance policies owned by DLP II. We have contracted with Bank of Utah to provide trustee services with respect to all other life insurance policies we own. Wells Fargo Bank provides services for certain life insurance policies in connection with ownership and tracking of life insurance policies we own, including paying premiums, posting of payments (receipts) of the life insurance policies, certain monitoring, enforcement of rights and payer notifications, and related services. We reserve the right to service and provide collateral agent services for certain life insurance policies directly, or appoint additional or an alternative third-party servicer in the future.

Our Portfolio

Our portfolio of life insurance policies, owned by our subsidiaries as of December 31, 2014, is summarized below:

Total portfolio face value of policy benefits	$779,099,000
Average face value per policy	$2,677,000
Average face value per insured life	$2,940,000
Average age of insured (yrs.)	82.8
Average life expectancy estimate (yrs.)	6.5
Total number of policies	291
Number of unique lives	265
Gender	67% Males; 33% Females
Number of smokers	3
Largest policy as % of total portfolio	1.28 %
Average policy as % of total portfolio	0.34 %
Average annual premium as % of face value	3.37 %

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Our portfolio of life insurance policies, owned by our subsidiaries as of December 31, 2014, organized by the insured's current age and the associated policy benefits, is summarized below:

Distribution of Policy Benefits by Current Age of Insured

Min Age	Max Age	Policy Benefits	Weighted Average Life Expectancy (yrs.)	Percentage of Total Policy Benefits	
90	95	31,997,000	3.18	4.11	%
85	89	240,218,000	4.75	30.83	%
80	84	289,762,000	7.06	37.19	%
75	79	168,198,000	8.08	21.59	%
70	74	40,767,000	9.43	5.23	%
65	69	$8,157,000	7.29	1.05	%
Total		$779,099,000	6.53	100.00	%

Our portfolio of life insurance policies, owned by our subsidiaries as of December 31, 2014, organized by the insured's current age and number of policies owned, is summarized below:

Distribution of Policies by Current Age of Insured

Min Age	Max Age	Policies	Weighted Average Life Expectancy (yrs.)	Percentage of Total Policies	
90	95	15	3.18	5.16	%
85	89	93	4.75	31.96	%
80	84	100	7.06	34.36	%
75	79	57	8.08	19.59	%
70	74	20	9.43	6.87	%
65	69	6	7.29	2.06	%
Total		291	6.53	100.00	%

Our portfolio of life insurance policies, owned by our subsidiaries as of December 31, 2014, organized by the insured's estimated life expectancy estimates and associated policy benefits, is summarized below:

Distribution of Policies by Current Life Expectancies of Insured

Min LE (Months)	Max LE (Months)	Policy Benefits	Percentage of Total Policy Benefits	
144	161	$11,502,000	1.48	%
120	143	63,357,000	8.13	%
96	119	148,624,000	19.08	%
72	95	218,480,000	28.04	%
48	71	216,827,000	27.83	%
11	47	120,309,000	15.44	%
Total		$779,099,000	100.00	%

We track concentrations of pre-existing medical conditions among insured individuals within our portfolio based on information contained in life expectancy reports. We track these medical conditions within the following ten primary disease categories: (1) cancer, (2) cardiovascular, (3) cerebrovascular, (4) dementia, (5) diabetes, (6) multiple, (7) neurological disorders, (8) no disease, (9) other, and (10) respiratory diseases. Our primary disease categories are summary generalizations based on the ICD-9 codes we track on each insured individuals within our portfolio. ICD-9 codes, published by the World Health Organization, are used worldwide for medical diagnoses and treatment systems, as well as morbidity and mortality statistics. Currently, cardiovascular is the only primary disease category within our portfolio that represents a concentration of over 10%.

Our portfolio of life insurance policies, owned by our subsidiaries as of December 31, 2014, organized by the primary disease categories of the insured and associated policy benefits, is summarized below:

Distribution of Policy Benefits by Primary Disease Category

Primary Disease Category	Policy Benefits	Percentage of Total Policy Benefits	
Cancer	$57,450,000	7.37	%
Cardiovascular	130,874,000	16.80	%
Cerebrovascular	24,462,000	3.14	%
Dementia	62,949,000	8.08	%
Diabetes	63,617,000	8.16	%
Multiple	201,363,000	25.85	%
Neurological disorders	16,104,000	2.07	%
No disease	94,468,000	12.12	%
Other	86,612,000	11.12	%
Respiratory diseases	41,200,000	5.29	%
Total policy benefits	$779,099,000	100.00	%

The primary disease category represents a general category of impairment. Within the primary disease category, there are a multitude of sub-categorizations defined more specifically by ICD-9 codes. For example, a primary disease category of cardiovascular includes subcategorizations such as atrial fibrillation, heart valve replacement, coronary atherosclerosis, etc. In addition, individuals may have more than one ICD-9 code describing multiple medical conditions within one or more primary disease categories. Where an individual's ICD-9 codes indicate medical conditions in more than one primary disease categories, we categorize the individual as having multiple primary disease categories. We expect to continue to develop and refine our identification and tracking on the insured individuals medical conditions as we manage our portfolio of life insurance policies.

The complete detail of the portfolio of all life insurance policies, owned by our subsidiaries as of December 31, 2014, organized by the current age of the insured and the associated policy benefits, sex, estimated life expectancy, issuing insurance carrier, and the credit rating of the issuing insurance carrier is set forth below.

Life Insurance Portfolio Detail

(as of December 31, 2014)

	Face Amount	Gender	Age (ALB)	LE (mo.)	Insurance Company	S&P Rating
1	$1,100,000	Male	94	31.2	ING Life Insurance and Annuity Company	A-
2	$1,500,000	Female	94	35.0	Aviva Life Insurance Company	A-
3	$4,000,000	Male	94	36.9	MetLife Investors USA Insurance Company	AA-
4	$3,200,000	Male	94	29.3	West Coast Life Insurance Company	AA-
5	$1,000,000	Female	93	41.1	Transamerica Life Insurance Company	AA-
6	$264,000	Female	93	26.9	Lincoln Benefit Life Company	BBB+
7	$250,000	Male	92	24.1	Transamerica Life Insurance Company	AA-
8	$2,500,000	Male	91	23.8	Columbus Life Insurance Company	AA
9	$500,000	Male	91	18.1	John Hancock Life Insurance Company (U.S.A.)	AA-
10	$2,000,000	Female	91	17.0	Pruco Life Insurance Company	AA-
11	$3,000,000	Male	91	50.5	West Coast Life Insurance Company	AA-
12	$5,000,000	Female	91	56.7	American General Life Insurance Company	A+
13	$5,000,000	Female	91	36.1	John Hancock Life Insurance Company (U.S.A.)	AA-
14	$1,682,773	Female	90	55.0	Hartford Life and Annuity Insurance Company	BBB+
15	$1,000,000	Male	90	29.4	State Farm Life Insurance Company	AA-
16	$5,000,000	Male	90	36.2	John Hancock Life Insurance Company (U.S.A.)	AA-
17	$1,000,000	Male	90	11.7	ING Life Insurance and Annuity Company	A-
18	$3,100,000	Female	90	37.9	Lincoln Benefit Life Company	BBB+
19	$1,500,000	Female	90	71.4	Jefferson-Pilot Life Insurance Company	AA-
20	$3,000,000	Female	90	37.4	Jefferson-Pilot Life Insurance Company	AA-
21	$600,000	Female	90	25.2	Columbus Life Insurance Company	AA
22	$3,500,000	Female	89	60.7	John Hancock Life Insurance Company (U.S.A.)	AA-
23	$5,000,000	Female	89	21.8	Lincoln National Life Insurance Company	AA-

	Face Amount	Gender	Age (ALB)	LE (mo.)	Insurance Company	S&P Rating
24	$1,203,520	Male	89	48.0	Columbus Life Insurance Company	AA
25	$5,000,000	Female	89	44.2	ING Life Insurance and Annuity Company	A-
26	$1,350,000	Female	89	39.8	Jefferson-Pilot Life Insurance Company	AA-
27	$2,500,000	Female	89	11.3	AXA Equitable Life Insurance Company	A+
28	$2,500,000	Female	89	11.3	AXA Equitable Life Insurance Company	A+
29	$715,000	Female	89	64.7	Jefferson-Pilot Life Insurance Company	AA-
30	$1,000,000	Female	89	55.0	United of Omaha Life Insurance Company	A+
31	$3,500,000	Female	89	45.3	Lincoln National Life Insurance Company	AA-
32	$5,000,000	Female	88	53.2	Massachusetts Mutual Life Insurance Company	AA+
33	$8,985,000	Male	88	35.7	Massachusetts Mutual Life Insurance Company	AA+
34	$2,225,000	Female	88	91.0	Transamerica Life Insurance Company	AA-
35	$2,500,000	Female	88	52.3	American General Life Insurance Company	A+
36	$2,500,000	Male	88	43.8	Pacific Life Insurance Company	A+
37	$1,103,922	Female	88	67.4	Sun Life Assurance Company of Canada (U.S.)	AA-
38	$1,000,000	Female	88	69.8	Transamerica Life Insurance Company	AA-
39	$250,000	Female	88	69.8	Transamerica Life Insurance Company	AA-
40	$500,000	Male	88	66.1	Lincoln National Life Insurance Company	AA-
41	$800,000	Male	88	77.4	Lincoln National Life Insurance Company	AA-
42	$5,000,000	Male	88	57.6	AXA Equitable Life Insurance Company	A+
43	$1,500,000	Male	88	46.0	John Hancock Life Insurance Company (U.S.A.)	AA-
44	$1,500,000	Male	88	46.0	John Hancock Life Insurance Company (U.S.A.)	AA-
45	$3,000,000	Female	88	86.5	Massachusetts Mutual Life Insurance Company	AA+
46	$1,500,000	Male	88	50.4	Union Central Life Insurance Company	A+
47	$3,000,000	Male	88	36.8	American General Life Insurance Company	A+
48	$1,050,000	Male	88	49.9	John Hancock Life Insurance Company (U.S.A.)	AA-
49	$4,785,380	Female	88	47.9	John Hancock Life Insurance Company (U.S.A.)	AA-
50	$1,803,455	Female	88	53.5	Metropolitan Life Insurance Company	AA-
51	$1,529,270	Female	88	53.5	Metropolitan Life Insurance Company	AA-
52	$5,000,000	Male	88	56.5	John Hancock Life Insurance Company (U.S.A.)	AA-
53	$4,000,000	Female	88	76.8	Transamerica Life Insurance Company	AA-
54	$1,000,000	Male	88	59.5	AXA Equitable Life Insurance Company	A+
55	$3,000,000	Male	88	47.9	Jefferson-Pilot Life Insurance Company	AA-
56	$2,000,000	Male	88	51.3	John Hancock Life Insurance Company (U.S.A.)	AA-
57	$500,000	Female	87	72.6	Sun Life Assurance Company of Canada (U.S.)	AA-
58	$5,000,000	Female	87	35.9	Penn Mutual Life Insurance Company	A+
59	$100,000	Female	87	62.3	American General Life Insurance Company	A+
60	$100,000	Female	87	62.3	American General Life Insurance Company	A+
61	$200,000	Male	87	52.9	Lincoln Benefit Life Company	BBB+
62	$4,445,467	Male	87	63.1	Penn Mutual Life Insurance Company	A+
63	$7,500,000	Male	87	54.6	Jefferson-Pilot Life Insurance Company	AA-
64	$250,000	Male	87	76.8	Metropolitan Life Insurance Company	AA-
65	$800,000	Male	87	59.9	National Western Life Insurance Company	A
66	$3,600,000	Female	87	62.3	AXA Equitable Life Insurance Company	A+
67	$3,000,000	Male	87	55.9	Transamerica Life Insurance Company	AA-
68	$2,500,000	Male	87	52.4	Transamerica Life Insurance Company	AA-
69	$1,000,000	Female	87	55.4	West Coast Life Insurance Company	AA-

70	$2,000,000	Female	87	55.4	West Coast Life Insurance Company	AA-
71	$2,000,000	Female	87	79.9	U.S. Financial Life Insurance Company	A+
72	$1,000,000	Female	87	31.7	John Hancock Life Insurance Company (U.S.A.)	AA-
73	$4,513,823	Female	87	27.4	Aviva Life Insurance Company	A-
74	$5,000,000	Female	87	38.8	Transamerica Life Insurance Company	AA-
75	$1,000,000	Female	87	40.0	New York Life Insurance Company	AA+
76	$10,000,000	Female	87	76.7	West Coast Life Insurance Company	AA-
77	$6,000,000	Female	87	60.8	Sun Life Assurance Company of Canada (U.S.)	AA-
78	$5,570,000	Female	87	51.7	ING Life Insurance and Annuity Company	A-
79	$5,570,000	Female	87	51.7	ING Life Insurance and Annuity Company	A-
80	$3,000,000	Male	87	87.6	AXA Equitable Life Insurance Company	A+

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	Face Amount	Gender	Age (ALB)	LE (mo.)	Insurance Company	S&P Rating
81	$1,200,000	Male	87	64.8	Transamerica Life Insurance Company	AA-
82	$5,000,000	Male	87	85.9	Lincoln National Life Insurance Company	AA-
83	$1,000,000	Male	86	65.6	John Hancock Life Insurance Company (U.S.A.)	AA-
84	$2,000,000	Male	86	65.6	John Hancock Life Insurance Company (U.S.A.)	AA-
85	$5,000,000	Male	86	53.5	Jefferson-Pilot Life Insurance Company	AA-
86	$500,000	Female	86	59.6	Beneficial Life Insurance Company	N/A
87	$8,500,000	Male	86	85.8	Massachusetts Mutual Life Insurance Company	AA+
88	$2,000,000	Male	86	102.6	ING Life Insurance and Annuity Company	A-
89	$2,000,000	Male	86	102.6	ING Life Insurance and Annuity Company	A-
90	$2,000,000	Male	86	102.6	ING Life Insurance and Annuity Company	A-
91	$1,000,000	Female	86	89.2	ING Life Insurance and Annuity Company	A-
92	$500,000	Male	86	86.6	Metropolitan Life Insurance Company	AA-
93	$1,000,000	Male	86	29.6	Transamerica Life Insurance Company	AA-
94	$200,000	Female	86	92.4	Lincoln National Life Insurance Company	AA-
95	$1,365,000	Female	86	89.7	Transamerica Life Insurance Company	AA-
96	$1,000,000	Male	86	44.2	Massachusetts Mutual Life Insurance Company	AA+
97	$1,800,000	Male	86	56.7	John Hancock Variable Life Insurance Company	AA-
98	$2,000,000	Male	86	89.4	Transamerica Life Insurance Company	AA-
99	$2,000,000	Male	86	66.3	Jefferson-Pilot Life Insurance Company	AA-
100	$1,425,000	Male	85	86.2	John Hancock Life Insurance Company (U.S.A.)	AA-
101	$2,328,547	Male	85	48.8	Metropolitan Life Insurance Company	AA-
102	$2,000,000	Male	85	48.8	Metropolitan Life Insurance Company	AA-
103	$3,000,000	Female	85	75.7	Transamerica Life Insurance Company	AA-
104	$2,000,000	Male	85	68.7	AXA Equitable Life Insurance Company	A+
105	$1,750,000	Male	85	68.7	AXA Equitable Life Insurance Company	A+
106	$2,000,000	Male	85	39.0	Transamerica Life Insurance Company	AA-
107	$5,000,000	Male	85	77.8	ING Life Insurance and Annuity Company	A-
108	$1,000,000	Male	85	64.6	John Hancock Life Insurance Company (U.S.A.)	AA-
109	$2,000,000	Female	85	89.6	AXA Equitable Life Insurance Company	A+
110	$3,000,000	Female	85	88.2	Sun Life Assurance Company of Canada (U.S.)	AA-
111	$1,000,000	Male	85	51.6	John Hancock Life Insurance Company (U.S.A.)	AA-
112	$1,500,000	Male	85	53.6	ING Life Insurance and Annuity Company	A-
113	$1,500,000	Male	85	53.6	ING Life Insurance and Annuity Company	A-
114	$3,750,000	Male	85	80.5	AXA Equitable Life Insurance Company	A+
115	$1,500,000	Male	85	84.0	AXA Equitable Life Insurance Company	A+
116	$5,000,000	Female	85	97.2	American General Life Insurance Company	A+
117	$1,500,000	Male	85	53.7	Transamerica Life Insurance Company	AA-
118	$829,022	Female	85	29.1	Hartford Life and Annuity Insurance Company	BBB+
119	$5,000,000	Male	85	93.8	ING Life Insurance and Annuity Company	A-
120	$4,000,000	Female	85	54.1	ING Life Insurance and Annuity Company	A-
121	$3,500,000	Female	84	112.4	Lincoln Benefit Life Company	BBB+
122	$1,000,000	Male	84	58.7	ING Life Insurance and Annuity Company	A-
123	$500,000	Male	84	45.4	Genworth Life Insurance Company	BBB+
124	$1,500,000	Female	84	113.6	Lincoln Benefit Life Company	BBB+
125	$1,000,000	Male	84	62.6	Hartford Life and Annuity Insurance Company	BBB+
126	$1,000,000	Female	84	88.1	John Hancock Life Insurance Company (U.S.A.)	AA-

127	$2,000,000	Female	84	103.2	Lincoln Benefit Life Company	BBB+
128	$2,500,000	Female	84	68.5	American General Life Insurance Company	A+
129	$4,000,000	Male	84	41.3	John Hancock Life Insurance Company (U.S.A.)	AA-
130	$1,000,000	Male	84	86.6	John Hancock Life Insurance Company (U.S.A.)	AA-
131	$1,703,959	Male	84	72.2	Jefferson-Pilot Life Insurance Company	AA-
132	$2,700,000	Male	84	66.2	John Hancock Life Insurance Company (U.S.A.)	AA-
133	$500,000	Male	84	22.3	Great Southern Life Insurance Company	N/A
134	$5,000,000	Female	84	101.7	AXA Equitable Life Insurance Company	A+
135	$6,000,000	Female	84	115.4	American General Life Insurance Company	A+
136	$7,600,000	Female	84	103.2	Transamerica Life Insurance Company	AA-
137	$2,500,000	Male	84	64.1	AXA Equitable Life Insurance Company	A+

	Face Amount	Gender	Age (ALB)	LE (mo.)	Insurance Company	S&P Rating
138	$3,000,000	Male	84	64.1	Lincoln National Life Insurance Company	AA-
139	$3,000,000	Female	84	48.1	AXA Equitable Life Insurance Company	A+
140	$10,000,000	Female	84	62.7	American National Insurance Company	A
141	$500,000	Male	84	29.2	West Coast Life Insurance Company	AA-
142	$750,000	Male	84	93.8	West Coast Life Insurance Company	AA-
143	$5,000,000	Male	84	79.5	Jefferson-Pilot Life Insurance Company	AA-
144	$2,000,000	Male	83	44.2	National Life Insurance Company	A
145	$5,000,000	Male	83	70.3	AXA Equitable Life Insurance Company	A+
146	$500,000	Male	83	105.6	Metropolitan Life Insurance Company	AA-
147	$4,200,000	Female	83	123.7	Transamerica Life Insurance Company	AA-
148	$2,000,000	Male	83	90.8	Pacific Life Insurance Company	A+
149	$3,000,000	Male	83	66.0	Metropolitan Life Insurance Company	AA-
150	$1,500,000	Male	83	80.8	Jefferson-Pilot Life Insurance Company	AA-
151	$3,500,000	Female	83	93.6	AXA Equitable Life Insurance Company	A+
152	$1,500,000	Male	83	29.4	Pacific Life Insurance Company	A+
153	$5,000,000	Male	83	78.4	AXA Equitable Life Insurance Company	A+
154	$3,000,000	Female	83	99.0	MetLife Investors USA Insurance Company	AA-
155	$2,275,000	Male	83	96.3	ING Life Insurance and Annuity Company	A-
156	$4,500,000	Male	83	78.8	AXA Equitable Life Insurance Company	A+
157	$2,000,000	Female	83	103.1	Jefferson-Pilot Life Insurance Company	AA-
158	$3,500,000	Male	83	77.4	AXA Equitable Life Insurance Company	A+
159	$3,000,000	Male	83	45.1	U.S. Financial Life Insurance Company	A+
160	$750,000	Male	83	87.1	John Hancock Life Insurance Company (U.S.A.)	AA-
161	$1,900,000	Male	83	71.2	American National Insurance Company	A
162	$500,000	Male	83	50.5	New York Life Insurance Company	AA+
163	$500,000	Male	83	50.5	New York Life Insurance Company	AA+
164	$250,000	Male	83	36.7	Jackson National Life Insurance Company	AA
165	$10,000,000	Male	83	84.4	AXA Equitable Life Insurance Company	A+
166	$2,300,000	Male	83	25.2	American General Life Insurance Company	A+
167	$6,217,200	Female	83	111.4	Phoenix Life Insurance Company	B+
168	$5,000,000	Male	83	89.1	Jefferson-Pilot Life Insurance Company	AA-
169	$3,500,000	Female	82	97.6	Jefferson-Pilot Life Insurance Company	AA-
170	$1,000,000	Male	82	73.9	Lincoln National Life Insurance Company	AA-
171	$5,000,000	Female	82	62.1	Massachusetts Mutual Life Insurance Company	AA+
172	$2,500,000	Female	82	77.2	ING Life Insurance and Annuity Company	A-
173	$5,000,000	Female	82	80.9	Sun Life Assurance Company of Canada (U.S.)	AA-
174	$1,250,000	Female	82	66.1	Columbus Life Insurance Company	AA
175	$5,000,000	Male	82	81.1	Transamerica Life Insurance Company	AA-
176	$4,000,000	Male	82	61.7	Jefferson-Pilot Life Insurance Company	AA-
177	$5,000,000	Male	82	115.9	American General Life Insurance Company	A+
178	$1,995,000	Female	82	85.8	Transamerica Life Insurance Company	AA-
179	$350,000	Male	82	40.7	Reassure America Life Insurance Company	AA
180	$1,500,000	Male	82	61.9	Pacific Life Insurance Company	A+
181	$3,000,000	Male	82	73.5	Protective Life Insurance Company	AA-
182	$1,500,000	Male	82	73.5	American General Life Insurance Company	A+
183	$10,000,000	Male	82	86.5	New York Life Insurance Company	AA+

184	$2,000,000	Female	82	122.3	Transamerica Life Insurance Company	AA-
185	$2,000,000	Male	82	76.7	Ohio National Life Assurance Corporation	AA-
186	$1,000,000	Male	82	76.7	Ohio National Life Assurance Corporation	AA-
187	$550,000	Male	81	110.7	Genworth Life Insurance Company	BBB+
188	$1,000,000	Female	81	104.0	Jefferson-Pilot Life Insurance Company	AA-
189	$5,000,000	Male	81	79.8	AXA Equitable Life Insurance Company	A+
190	$7,000,000	Male	81	94.2	Genworth Life Insurance Company	BBB+
191	$10,000,000	Male	81	121.5	John Hancock Life Insurance Company (U.S.A.)	AA-
192	$5,000,000	Male	81	98.8	AXA Equitable Life Insurance Company	A+
193	$1,680,000	Female	81	74.9	AXA Equitable Life Insurance Company	A+
194	$1,000,000	Male	81	72.6	AXA Equitable Life Insurance Company	A+

	Face Amount	Gender	Age (ALB)	LE (mo.)	Insurance Company	S&P Rating
195	$2,502,000	Male	81	160.5	Transamerica Life Insurance Company	AA-
196	$3,000,000	Female	81	114.2	West Coast Life Insurance Company	AA-
197	$1,250,000	Male	81	107.8	Metropolitan Life Insurance Company	AA-
198	$1,250,000	Female	81	81.7	Principal Life Insurance Company	A+
199	$2,000,000	Male	81	46.4	Jefferson-Pilot Life Insurance Company	AA-
200	$8,000,000	Male	81	90.7	AXA Equitable Life Insurance Company	A+
201	$3,000,000	Male	81	106.2	John Hancock Life Insurance Company (U.S.A.)	AA-
202	$1,000,000	Male	81	63.2	AXA Equitable Life Insurance Company	A+
203	$1,750,000	Male	81	90.3	AXA Equitable Life Insurance Company	A+
204	$250,000	Male	81	87.3	American General Life Insurance Company	A+
205	$1,210,000	Male	81	73.3	Lincoln National Life Insurance Company	AA-
206	$2,000,000	Male	80	33.6	Metropolitan Life Insurance Company	AA-
207	$3,000,000	Male	80	119.2	Principal Life Insurance Company	A+
208	$2,000,000	Female	80	97.4	Pacific Life Insurance Company	A+
209	$2,000,000	Female	80	96.0	Transamerica Life Insurance Company	AA-
210	$130,000	Male	80	57.5	Genworth Life Insurance Company	BBB+
211	$500,000	Male	80	55.0	Transamerica Life Insurance Company	AA-
212	$6,000,000	Male	80	132.1	AXA Equitable Life Insurance Company	A+
213	$1,000,000	Male	80	133.2	Empire General Life Assurance Corporation	AA-
214	$4,000,000	Male	79	88.8	Jefferson-Pilot Life Insurance Company	AA-
215	$4,300,000	Female	79	119.2	American National Insurance Company	A
216	$3,000,000	Male	79	99.3	ING Life Insurance and Annuity Company	A-
217	$5,000,000	Male	79	99.5	John Hancock Life Insurance Company (U.S.A.)	AA-
218	$7,000,000	Male	79	95.0	Lincoln Benefit Life Company	BBB+
219	$3,000,000	Male	79	49.6	Pacific Life Insurance Company	A+
220	$3,000,000	Male	79	49.6	Minnesota Life Insurance Company	A+
221	$3,000,000	Male	79	49.6	Prudential Life Insurance Company	AA-
222	$5,000,000	Male	79	87.2	Pacific Life Insurance Company	A+
223	$5,000,000	Male	79	87.2	Pacific Life Insurance Company	A+
224	$5,000,000	Male	79	122.7	Principal Life Insurance Company	A+
225	$6,000,000	Male	79	116.7	AXA Equitable Life Insurance Company	A+
226	$750,000	Male	79	78.3	Lincoln National Life Insurance Company	AA-
227	$476,574	Male	79	80.8	Transamerica Life Insurance Company	AA-
228	$3,601,500	Male	79	103.2	Transamerica Life Insurance Company	AA-
229	$1,000,000	Male	79	100.0	Sun Life Assurance Company of Canada (U.S.)	AA-
230	$2,250,000	Male	79	103.6	Massachusetts Mutual Life Insurance Company	AA+
231	$5,000,000	Female	79	126.5	ING Life Insurance and Annuity Company	A-
232	$3,000,000	Male	79	105.0	Principal Life Insurance Company	A+
233	$1,000,000	Male	78	120.2	Metropolitan Life Insurance Company	AA-
234	$5,000,000	Male	78	98.0	John Hancock Life Insurance Company (U.S.A.)	AA-
235	$1,009,467	Male	78	56.8	John Hancock Life Insurance Company (U.S.A.)	AA-
236	$5,000,000	Male	78	64.7	John Hancock Life Insurance Company (U.S.A.)	AA-
237	$4,000,000	Male	78	57.9	MetLife Investors USA Insurance Company	AA-
238	$3,750,000	Male	78	66.8	AXA Equitable Life Insurance Company	A+
239	$5,000,000	Male	78	87.2	John Hancock Life Insurance Company (U.S.A.)	AA-
240	$2,500,000	Male	78	97.2	Massachusetts Mutual Life Insurance Company	AA+

241	$2,500,000	Male	78	97.2	Massachusetts Mutual Life Insurance Company	AA+
242	$2,000,000	Female	78	65.3	Transamerica Life Insurance Company	AA-
243	$500,000	Female	78	126.4	Columbus Life Insurance Company	AA
244	$5,000,000	Male	78	128.5	Jefferson-Pilot Life Insurance Company	AA-
245	$500,000	Male	78	75.6	John Hancock Life Insurance Company (U.S.A.)	AA-
246	$5,000,000	Male	77	113.6	Transamerica Life Insurance Company	AA-
247	$1,000,000	Male	77	118.9	Metropolitan Life Insurance Company	AA-
248	$1,750,000	Male	77	71.5	John Hancock Life Insurance Company (U.S.A.)	AA-
249	$750,000	Male	77	15.5	U.S. Financial Life Insurance Company	A+
250	$2,840,000	Male	77	108.7	Transamerica Life Insurance Company	AA-
251	$1,000,000	Female	77	85.0	John Hancock Life Insurance Company (U.S.A.)	AA-

	Face Amount	Gender	Age (ALB)	LE (mo.)	Insurance Company	S&P Rating
252	$600,000	Male	77	94.4	Protective Life Insurance Company	AA-
253	$490,620	Male	76	97.1	Ameritas Life Insurance Corporation	A+
254	$4,000,000	Male	76	77.3	Massachusetts Mutual Life Insurance Company	AA+
255	$7,000,000	Female	76	134.4	Pacific Life Insurance Company	A+
256	$2,000,000	Male	76	131.5	Transamerica Life Insurance Company	AA-
257	$3,000,000	Male	76	115.1	Protective Life Insurance Company	AA-
258	$1,000,000	Male	76	93.9	Pacific Life Insurance Company	A+
259	$150,000	Male	76	117.6	Genworth Life Insurance Company	BBB+
260	$5,000,000	Male	76	69.2	West Coast Life Insurance Company	AA-
261	$2,000,000	Female	76	131.3	Aviva Life Insurance Company	A-
262	$850,000	Male	75	77.5	New York Life Insurance Company	AA+
263	$5,000,000	Male	75	161.2	Prudential Life Insurance Company	AA-
264	$3,000,000	Male	75	65.3	Aviva Life Insurance Company	A-
265	$5,000,000	Male	75	41.2	Lincoln Benefit Life Company	BBB+
266	$8,000,000	Male	75	115.2	Metropolitan Life Insurance Company	AA-
267	$200,000	Male	75	80.9	ING Life Insurance and Annuity Company	A-
268	$4,000,000	Female	74	156.8	American General Life Insurance Company	A+
269	$3,000,000	Female	74	128.5	General American Life Insurance Company	AA-
270	$300,000	Male	74	24.0	Lincoln National Life Insurance Company	AA-
271	$2,000,000	Male	74	111.2	American General Life Insurance Company	A+
272	$1,000,000	Male	73	80.4	United of Omaha Life Insurance Company	A+
273	$500,000	Male	73	45.7	Midland National Life Insurance Company	A+
274	$3,000,000	Male	73	86.6	AXA Equitable Life Insurance Company	A+
275	$2,500,000	Male	72	110.9	American General Life Insurance Company	A+
276	$1,167,000	Male	72	37.1	Transamerica Life Insurance Company	AA-
277	$1,500,000	Male	72	125.8	Metropolitan Life Insurance Company	AA-
278	$2,500,000	Male	71	132.0	Lincoln National Life Insurance Company	AA-
279	$2,500,000	Male	71	132.0	John Hancock Life Insurance Company (U.S.A.)	AA-
280	$600,000	Male	71	99.4	AXA Equitable Life Insurance Company	A+
281	$2,000,000	Male	71	116.2	New York Life Insurance Company	AA+
282	$2,000,000	Male	71	116.2	New York Life Insurance Company	AA+
283	$3,000,000	Male	71	89.3	John Hancock Life Insurance Company (U.S.A.)	AA-
284	$500,000	Male	70	107.3	Transamerica Life Insurance Company	AA-
285	$500,000	Male	70	107.3	North American Company for Life And Health Insurance	A+
286	$2,000,000	Male	68	129.1	Transamerica Life Insurance Company	AA-
287	$1,000,000	Male	68	129.1	Genworth Life Insurance Company	BBB+
288	$2,000,000	Male	68	62.0	MetLife Investors USA Insurance Company	AA-
289	$2,000,000	Male	68	62.0	MetLife Investors USA Insurance Company	AA-
290	$156,538	Female	67	121.5	New York Life Insurance Company	AA+
291	$1,000,000	Male	66	59.3	Lincoln National Life Insurance Company	AA-
	779,099,037					

(1) The insured’s age is current as of the measurement date.

(2) The insured’s life expectancy estimate, other than for a small face value insurance policy (defined by us as a policy with $1 million in face value benefits or less), is the average of two life expectancy estimates provided by independent third-party medical-actuarial underwriting firms at the time of purchase, actuarially adjusted through the measurement date. Numbers in this column represent months. For more information, see disclosure under the caption “*Pricing Life Insurance Policies*.”

Competition

We encounter significant competition in the life insurance purchasing and financing business from numerous companies, including hedge funds, investment banks, secured lenders, specialty life insurance finance companies and life insurance companies themselves. Many of these competitors have greater financial and other resources than we do and may have significantly lower cost of funds because they have greater access to insured deposits or the capital markets. Moreover, some of these competitors have significant cash reserves and can better fund shortfalls in collections that might have a more pronounced impact on companies such as ours. They also have greater market share. In the event that certain better-financed life insurance companies make a significant effort to compete against our business or the secondary market in general, we would experience significant challenges with our business model.

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

Government Regulation

The life insurance sector is highly regulated at both the federal and state levels. We are subject to federal and state regulation and supervision in the life insurance purchasing and finance business. There are significant regulations in many states that require us to obtain specific licenses or approvals to be able to purchase life insurance policies in those states. We continually research and monitor regulations and apply for the appropriate licenses in the required states.

Governments at both the federal and state levels have continued to review the impact of the business on the life insurance industry. Moreover, recent federal government actions with respect to insurance companies have increased the federal government's role in regulating the insurance industry. Recently we have seen legislative efforts by state governments to mandate the sale or liquidation of life insurance policies as part of the Patient Protection and Affordable Care Act in order to increase the number of Americans covered by health insurance and decrease the cost of health care. This legislative effort is designed to monetize all assets of the insured prior to eligibility for health care provided under the Patient Protection and Affordable Care Act. These efforts may affect the number of life insurance policies available for purchase and their attractiveness.

State statutes typically provide state regulatory agencies with significant powers to interpret, administer and enforce the laws relating to the purchase of life insurance policies in those states. Under statutory authority, state regulators have broad discretionary power and may impose new licensing requirements, interpret or enforce existing regulatory requirements in different ways or issue new administrative rules (even if not contained in state statutes). State regulators may also impose rules that are generally adverse to our industry. Because the life insurance secondary market is relatively new and because of the history of certain abuses in the industry, we believe it is likely that state regulation will increase and grow more complex in the foreseeable future. We cannot, however, predict what any new regulation would specifically involve or how it might affect our industry or our business.

Any adverse change in present laws or regulations, or their interpretation, in one or more states in which we operate (or an aggregation of states in which we conduct a significant amount of business) could result in a curtailment or termination of operations in such jurisdictions by us, or cause us to modify our operations in a way that adversely affects our ultimate profitability. Any such action could have a corresponding material and negative impact on our results of operations and financial condition, primarily through a material decrease in revenues, and could also negatively affect our general business prospects.

The Securities and Exchange Commission (the “SEC”) has, on occasion, attempted to regulate the purchase of non-variable life insurance policies as transactions in securities under federal securities laws. In July of 2010, the SEC issued a Staff Report of its Life Settlement Task Force. In that report, the Staff recommended that certain types of purchased life insurance policies be classified as securities. The SEC has not taken any position on the Staff Report, and there is no indication if the SEC will take any action to implement the recommendations of the Staff Report. In addition, there has been several federal court cases in which transactions involving the purchase and fractionalization of life insurance contracts have been held to be transactions in securities under the federal Securities Act of 1933. We presently believe that the matters discussed in the Staff Report, and existing case law, do not impact our current business model since our purchases of life settlements are distinguishable in our view from those cases that have been held by courts, and advocated by the Staff Report, to be transactions in securities. For example, we are not involved in fractionalization of any life insurance policies, and we presently do not purchase variable life insurance policies.

If federal law were to change, whether by action of the Congress or through the courts, with the result that purchases of non-fractionalized and non-variable life insurance policies would be considered transactions in “securities,” we would be in violation of existing covenants under our revolving credit facility which require us to not operate or be characterized as an “investment company” under the Investment Company Act of 1940. This could in the short-term or long-term affect our liquidity and increase our cost of capital and operational expenses, all of which would adversely affect our operating results. It is possible that such an outcome could threaten the viability of our business and our ability to satisfy our obligations as they come due.

With respect to state securities laws, almost all states currently treat the sale of a life insurance policy as a securities transaction under state laws, although some states exclude from the definition of a security the original sale from the insured or the policy owner to the life settlement provider. To date, due to the manner in which we conduct and structure our activities and the availability, in certain instances, of exceptions and exemptions under securities laws, such laws have not adversely impacted our business model.

State Life Settlement License Requirements

State laws differ as to the extent to which purchasers of life insurance policies are required to be licensed by a state regulatory agency. We may elect to conduct life insurance policy purchasing only in those states in which we are licensed or where no licensure is required. The licensing requirements differ from state to state, but where they exist, they typically require the payment of licensing fees, periodic reporting, and submission to audit by state regulators. We do not intend to purchase any life insurance policies in any states that require a license or similar qualification without first obtaining such license or qualification or purchasing through a licensed provider in that state.

The table below identifies all states (and the District of Columbia) in which we can conduct business directly with the seller of a life insurance policy or through a licensed provider. An asterisk (*) indicates that the state does not require licensing. In those states identified in the right-hand column, we can purchase policies through our provider relationships with Magna Administrative Services, Inc. Abacus Settlements, LLC, and Lotus Life, LLC. If our relationships with either Magna Administrative Services, Abacus Settlements or Lotus Life were to end, for any reason, we believe we would be able to enter into a relationship with a replacement provider shortly thereafter.

States Where We Conduct Business Directly	States Where We Conduct Business Through Other Licensed Providers
Alabama*	Colorado
Arizona	Georgia
Arkansas	Idaho
California	Nevada
Connecticut	New Jersey
Delaware	
District of Columbia*	
Florida	
Hawaii	
Illinois	
Indiana	
Iowa	
Kansas	
Kentucky	
Louisiana	
Maine	
Maryland	
Massachusetts	
Michigan*	
Minnesota	
Mississippi	
Missouri*	
Nebraska	

New Mexico*
New York
North Carolina
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina*
South Dakota*
Tennessee
Texas
Virginia
Washington
Wisconsin
Wyoming*

We are not presently able to conduct business in the following states due to the fact that we neither have a license to operate in the state nor do we have a relationship with another licensed provider in such state: Alaska, Montana, New Hampshire, North Dakota, Utah, Vermont, and West Virginia.

Health Insurance Portability and Accountability Act (HIPAA)

HIPAA requires that holders of medical records maintain such records and implement procedures in ways designed to assure the privacy of patient records. HIPAA has precipitated widespread changes in record keeping, including patient consent forms and access restrictions in data processing software. In order to carry out our business, we receive medical records and obtain a release to share such records with a defined group of persons. We are entitled to have access to patient information, take on the responsibility for preserving the privacy of that information, and use the information only for purposes related to the life insurance policies.

Employees

We employ approximately 40 employees.

Properties

Our principal executive offices are located at 220 South Sixth Street, Suite 1200, Minneapolis, Minnesota 55402. At that location, we lease 11,695 square feet of space for a lease term expiring in August 2015. We believe that these facilities are adequate for our current needs and that suitable additional space will be available as needed.

Company Website Access and SEC Filings

The Company’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are filed with the SEC. The Company is subject to the informational requirements of the Exchange Act and files or furnishes reports, proxy statements and other information with the SEC.

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

Legal Proceedings

Our Chief Executive Officer, Jon R. Sabes, and our corporate secretary and Executive Vice President of Originations and Servicing, Steven F. Sabes, who together beneficially own approximately 74.8% of our common stock, are involved in litigation relating to claims by a bankruptcy trustee for loan payments made to an affiliate, Opportunity Finance, LLC. The litigation stems in part from the 2010 conviction of an individual operating a fraudulent business which filed for bankruptcy in 2008. The bankruptcy trustee alleges that loan repayments to Opportunity Finance were avoidable transfers under preference or other legal theories and seeks to recover amounts for other creditors of the bankruptcy estate. Case No. 08-45257 (U.S. Bankruptcy Court District of Minnesota). Such payments may ultimately be deemed to be avoidable transfers under preference or other legal theories. In addition, GWG Holdings invested $1.0 million in Opportunity Finance, LLC in 2006 and was repaid and received $176,948 of interest income from that investment in 2007. To date, no claim has been made against the Company.

While we believe there are numerous meritorious defenses to the claims made by the bankruptcy trustee and others, and we are advised that the defendants in that action will vigorously defend against the trustee's claims, such defendants may not prevail in the litigation. If the bankruptcy trustee or a successful private plaintiff sought to sell or transfer the equity interests of Jon R. Sabes or Steven F. Sabes as a result of the litigation, there could be a change in control of the Company and our business together with all of our investors, including investors in our debentures, could be materially and adversely impacted. Such adverse results would likely arise in connection with negative change-in-control covenants contained in our revolving credit facility agreements, the breach of those covenants and an ensuing event of default under such facility. In addition, if the bankruptcy trustee or a private plaintiff sought to sell or transfer the equity interests of Jon R. Sabes or Steven F. Sabes as a result of the litigation, such transfers would adversely affect holders of our previously issued L Bonds by reducing the number of shares of common stock of GWG Holdings that have been pledged as collateral security for our obligations under the debentures. Regardless of the outcome of this litigation, these matters may distract management and reduce the time and attention that they are able to devote to our business.

ITEM 1A. RISK FACTORS.

Our business involves a number of challenges and risks. In addition to the other information in this report, you should consider carefully the following risk factors in evaluating us and our business. Moreover, the risks described below are not the only ones that we face. Additional risks not presently known to us or that we currently deem immaterial may also affect our business, financial condition, operating results, or prospects.

Risks Related to Our Business and Industry

Material changes in the life insurance secondary market, a relatively new and evolving market, may adversely affect our operating results, business prospects and our ability to repay our debt obligations.

Our sole business is the purchase and ownership of life insurance policies acquired in the secondary market, which is a relatively new and evolving market. The success of our business and our ability to satisfy our debt obligations depends in large part on the continued development of the secondary market for life insurance, including the solvency of life insurance companies to pay the face value of the life insurance benefits, both of which will critically impact the performance of the life insurance policy assets we own. We expect that the development of the secondary market will primarily be impacted by a variety of factors such as the interpretation of existing laws and regulations (including laws relating to insurable interests), the passage of new legislation and regulations, mortality improvement rates, and actuarial understandings and methodologies. Importantly, all of the factors that we believe will most significantly affect the development of the life insurance secondary market are beyond our control. Any material and adverse development in the life insurance secondary market could adversely affect our operating results, our access to capital, our ability to repay our various debt and other obligations, and our business prospects and viability. Because of this, an investment in our securities generally involves greater risk as compared to investments offered by companies with more diversified business operations in more established markets.

We have a relatively limited history of operations and our earnings and cash flows may be volatile, resulting in uncertainty about our ability to service and repay our debt when and as it comes due.

We are a company with a limited history, which makes it difficult to accurately forecast our earnings and cash flows. During the year ended December 31, 2014, we incurred a net loss of $6.0 million, and in the year ended December 31, 2013, we incurred a net loss of $0.2 million. Our lack of a significant history and the evolving nature of the market in which we operate make it likely that there are risks inherent in our business that are yet to be recognized by us or others, or not fully appreciated, and that could result in us earning less than we anticipate or even suffering further anticipated or unanticipated losses. As a result of the foregoing an investment in our company’s securities necessarily involves uncertainty about the stability of our earnings, cash flows and, ultimately, our ability to service and repay our debt. In addition, any earnings volatility we experience may adversely affect the market price of our common stock.

The valuation of our principal assets on our balance sheet requires us to make material assumptions that may ultimately prove to be incorrect. In such an event, we could suffer significant losses that could materially and adversely affect our results of operations and eventually cause us to be in default of restrictive covenants contained in our borrowing agreements.

Our principal asset is a portfolio of life insurance policies purchased in the secondary market, comprising approximately 88% of our total assets at December 31, 2014 and 85% of our total assets at December 31, 2013. Those assets are considered "Level 3" fair value measurements under ASC 820, *Fair Value Measurements and Disclosures*, as there is currently no active market where we are able to observe quoted prices for identical assets. As a result, our valuation of those assets on our balance sheet incorporates significant inputs that are not observable. Fair value is defined as an exit price representing the amount that would be received if assets were sold or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

A Level 3 fair value measurement is inherently uncertain and creates additional volatility in our financial statements that is not necessarily related to the performance of the underlying assets. As of December 31, 2014 and 2013, we estimated the fair value discount rate for our portfolio to be 11.43% and 11.69%, respectively. If in the future we determine that a higher discount rate is required to ascribe fair value to a similarly situated portfolio of life insurance policies, we could experience significant losses materially affecting our results of operations. It is also possible that significant losses of this nature could at some point cause us to fall out of compliance with borrowing covenants contained in our various borrowing agreements. This could result in acceleration of our loan balances under the revolving credit facility or securities issued under our indenture, such as our Series I Secured Notes and our L Bonds, which we may not be able to repay. As a result, we may be forced to seek additional debt or equity financing to repay such debt amounts, and additional financing may not be available on terms acceptable to us, if at all. If we are unable to repay our debt when it comes due, then our senior lender or the holders of our Series I Secured Notes and L Bonds, or both would have the right to foreclose on our assets.

We report non-GAAP financial measures to our lender under our revolving credit facility pursuant to financial covenants in the related borrowing documents. This presents operating results not subject to the valuation volatility associated with the discount rate we choose, thus presenting the actuarial performance we expect within our portfolio of life insurance policies at the expected internal rate of return against the costs we incur over the same period. Nevertheless, our reported GAAP earnings may in the future be volatile for reasons that do not bear an immediate relationship to the cash flows we experience.

For further disclosure relating to the risks associated with the valuation of our assets, see the risk factor below "*If actuarial assumptions we obtain from third-party providers . . . .*"

Our actual results from our life insurance portfolio may not match our expected results, which could adversely affect our ability to service and grow our portfolio for diversification.

Our business model relies on achieving actual results that are in line with the results we expect to attain from our investments in life insurance policy assets. In this regard, we believe that the larger the portfolio we own, the greater the likelihood that we will achieve our expected results. To our knowledge, rating agencies generally suggest that portfolios of life insurance policies containing enough policies on individual lives to achieve actuarial stability in receiving expected cash flows from underlying mortality. For instance, in a study published in 2012, A.M. Best concluded that at least 300 lives are necessary to narrow the band of cash flow volatility and achieve actuarial stability, while Standard & Poor's has indicated that stability is unlikely to be achieved with a pool of less than 1,000 lives. As of December 31, 2014, we owned $779 million in face value of life insurance policies covering 265 lives. Accordingly, while there is a risk with a portfolio of any size that actual yield may be less than expected; we believe that the risk we face is presently more significant given the size of our current portfolio as compared to rating agency recommendations.

Although we plan to expand the number of life insurance policies we own using proceeds raised from our continuous offering of L Bonds, we may be unable to meet this goal if sufficient financing from capital sources is not available or is available only on unfavorable or unacceptable terms. Furthermore, even if our portfolio reaches the size we desire, we still may experience differences between the actuarial models we use and actual mortalities.

Differences between our expectations and actuarial models on the one hand, and actual mortality results on the other hand, could have a materially adverse effect on our operating results and cash flow. In such a case, we may face liquidity problems, including difficulties servicing our remaining portfolio of policies and servicing our outstanding debt obligations. Continued or material failures to meet our expected results could decrease the attractiveness of our securities in the eyes of potential investors making it even more difficult to obtain capital needed to service our portfolio, grow the portfolio to obtain desired diversification, and service our existing debt.

We critically rely on debt financing for our business. Any inability to borrow could adversely affect our business operations, our ability to satisfy our obligations under the debentures and, ultimately, our viability.

To date, we have chosen to finance our business principally through the issuance of debt, including debt incurred by DLP II under a senior revolving credit facility provided by Autobahn/DZ Bank (which we refer to throughout this report as our "revolving credit facility"), our Series I Secured Notes and our L Bonds. Our revolving credit facility is secured by all of the assets of DLP II, has a maximum amount of $100 million, and the outstanding balance at December 31, 2014 was approximately $72 million. Obligations under the revolving credit facility have a scheduled maturity date of December 31, 2016, and obligations under our Series I Secured Notes and L Bonds have scheduled maturities as indicated below in the risk factor "*If a significant number of holders . . . .,*" Our debt arrangements comprise the most important sources of financing on which our business critically relies to grow our portfolio life insurance policies and maintain those policies.

Our business model expects that we will have continued access to financing to enable us to purchase a large and diversified portfolio of life insurance policies and pay the attendant premiums and costs of maintaining the portfolio, all while satisfying our current interest and principal repayment obligations under our revolving credit facility and other indebtedness. We expect to refinance our revolving credit facility, either through renewal or replacement, when it comes due on December 31, 2016. Pending the due date or refinancing of our revolving credit facility, we expect that proceeds from our life insurance policies will first be used to satisfy our obligations under that facility, as required by the agreement governing the revolving credit facility. Accordingly, until we achieve sufficient cash flows derived from the portfolio of life insurance policy benefits, we expect to rely on the proceeds from our ongoing offering of L Bonds to satisfy our ongoing financing and liquidity needs. Nevertheless, continued access to financing and liquidity under the revolving credit facility or otherwise is not guaranteed. For example, general economic conditions could limit our access to financing, as could regulatory or legal pressures exerted on us, our financiers, or those involved in our general plan of financing such as brokers, dealers, and registered investment advisors. If we are unable to borrow under the revolving credit facility or otherwise for any reason, or to renew or replace the revolving credit facility when it comes due in December 2016, our business would be adversely impacted and our ability to service and repay our obligations would be compromised.

Our investments in life insurance policies have inherent risks, including fraud and legal challenges to the validity of the policies, which we will be unable to eliminate and which may adversely affect our results of operations.

When we purchase a life insurance policy, we underwrite the purchase of the policy to mitigate certain risks associated with insurance fraud and other legal challenges to the validity of the policy. For example, to the extent the insured is not aware of the existence of the policy, the insured does not exist, or the insurance company does not recognize the policy, the insurance company may cancel or rescind the policy thereby causing the loss of an investment in that policy. In addition, if an insured's medical records have been altered in such a way as to shorten a life expectancy as reported, this may cause us to overpay for the related policy. Finally, we may experience legal challenges from insurance companies claiming that the insured failed to have an insurable interest at the time the policy was originally purchased or that the policy owner made fraudulent disclosures to the insurer at the time the policy was purchased (e.g., disclosures pertaining to the health status of the insured or the existence or sources of premium financing), or challenges from the beneficiaries of an insurance policy claiming, upon mortality of the insured, that the sale of the policy to us was invalid.

To mitigate these risks, we require a current verification of coverage from the insurance company, complete a due-diligence investigation of the insured and accompanying medical records, review the life insurance policy application, require a policy to have been in force for at least two years before purchasing, and require a legal review of any premium financing associated with the life insurance policy to determine an appropriate insurable interest existed. Nevertheless, we do not expect that these steps will eliminate the risk of fraud or legal challenges to the life insurance policies we purchase. Furthermore, changes in laws or regulations or the interpretation of existing laws or regulations, may prove our due-diligence and risk-mitigation efforts inadequate if policies within our portfolio are successfully challenged. These changes or alterations in interpretation may inhibit our ability to purchase new policies with confidence. If a significant face amount of policies were invalidated for reasons of fraud or any other reason, our results of operations would be adversely affected, perhaps materially.

Every acquisition of a life insurance policy necessarily requires us to materially rely on information provided or obtained by third parties. Any misinformation or negligence in the course of obtaining information could materially and adversely affect the value of the policies we own.

The acquisition of each life insurance policy is negotiated based on variables and particular facts that are unique to the life insurance policy itself and the health of the insured. The facts we obtain about the policies and the insured at the time at which the policy is applied for and obtained are based on factual representations made to the insurance company by the insured, and the facts the insurance company independently obtains in the course of its own due-diligence examination, such as facts concerning the health of the insured and whether or not there is an insurable interest present when the policy was issued. Any misinformation or negligence in the course of obtaining information relating to an insurance policy or insured could materially and adversely impact the value of the life insurance policies we own and could, in turn, adversely affect our financial condition, results of operations, and the value of any investment in our securities.

Our business is subject to state regulation and changes in state laws and regulations governing our business, or changes in the interpretation of such laws and regulations, could negatively affect our business.

When we purchase a life insurance policy, we are subject to state insurance regulations. Over the past years, we have seen a dramatic increase in the number of states that have adopted legislation and regulations from model laws promulgated by either the National Association of Insurance Commissioners (NAIC) or by the National Conference of Insurance Legislators (NCOIL). These laws are essentially consumer protection statutes responding to abuses that arose early in the development of our industry, some of which may persist. Today, almost every state has adopted some version of either the NAIC or NCOIL model laws, which generally require the licensing of purchasers of and brokers for life insurance policies, the filing and approval of purchase agreements, and the disclosure of transaction fees. These laws also require various periodic reporting requirements and prohibit certain business practices deemed to be abusive.

State statutes typically provide state regulatory agencies with significant powers to interpret, administer, and enforce the laws relating to the purchase of life insurance policies. Under statutory authority, state regulators have broad discretionary power and may impose new licensing requirements, interpret or enforce existing regulatory requirements in different ways or issue new administrative rules. State regulators may also impose rules that are generally adverse to our industry. Because the life insurance secondary market is relatively new and because of the history of certain abuses in the industry, we believe it is likely that state regulation will increase and grow more complex during the foreseeable future. We cannot, however, predict what any new regulation would specifically involve.

Any adverse change in present laws or regulations, or their interpretation, in one or more states in which we operate (or an aggregation of states in which we conduct a significant amount of business) could result in our curtailment or termination of operations in such jurisdictions, or cause us to modify our operations in a way that adversely affects our profitability. Any such action could have a corresponding material and negative impact on our results of operations and financial condition, primarily through material decrease in revenues, and could also negatively affect our general business prospects.

If federal regulators or courts conclude that the purchase of life insurance in the secondary market constitutes, in all cases, a transaction in securities, we could be in violation of existing covenants under our revolving credit facility, which could result in significantly diminished access to capital. We could also face increased operational expenses. The materialization of any of these risks could adversely affect our operating results and possibly threaten the viability of our business.

The SEC has, on occasion, attempted to regulate the purchase of non-variable universal life insurance policies as transactions in securities under federal or state securities laws. In July 2010, the SEC issued a Staff Report of its Life Settlement Task Force. In that report, the Staff recommended that certain types of purchased insurance policies be classified as securities. The SEC has not taken any position on the Staff Report, and there is no indication if the SEC will take any action to implement the recommendations of the Staff Report. In addition, there have been several federal court cases in which transactions involving the purchase and fractionalization of life insurance contracts have been held to be transactions in securities under the federal Securities Act of 1933. We believe that the matters discussed in the Staff Report and existing case law, do not impact our current business model since our purchases of life settlements are distinguishable from those cases that have been held by courts, and advocated by the Staff Report, to be transactions in securities. For example, neither we nor any of our affiliates are involved in the fractionalization of life insurance policies, and we presently do not purchase variable life insurance policies.

As a practical matter, the widespread application of federal securities laws to our purchases of life insurance policies, either through the expansion of the definition of what constitutes a “security,” the expansion of the types of transactions in life insurance policies that would constitute transactions in “securities,” or the elimination or limitation of available exemptions and exceptions (whether by statutory change, regulatory change, or administrative or court interpretation) could burden us and other companies operating in the life insurance secondary market through the imposition of additional processes in the purchase of life insurance policies or the imposition of additional corporate governance and operational requirements through the application of the federal Investment Company Act of 1940. Any such burdens could be material. In particular, we might be placed in a position where we might be in violation of existing covenants under our revolving credit facility requiring us not to operate or be characterized as an “investment company” under the Investment Company Act of 1940, which could in the short or long term affect our liquidity and increase our cost of capital and operational expenses, all of which would adversely affect our operating results. It is possible that such an outcome could threaten the viability of our business and our ability to satisfy our obligations as they come due.

Being a public company results in additional expenses and diverts management’s attention, and could also adversely affect our ability to attract and retain qualified officers and directors.

We have been a public reporting company since January 31, 2012. As a public reporting company, we are subject to the reporting requirements of the Securities Exchange Act of 1934. These requirements generate significant accounting, legal, and financial compliance costs, and make some activities more difficult, time consuming or costly, and may place significant strain on our personnel and resources. The Securities Exchange Act of 1934 requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to establish the requisite disclosure controls and procedures and internal control over financial reporting, significant resources and management oversight are required.

As a result, management's attention may be diverted from other business concerns, which could have an adverse and even material effect on our business, financial condition, and results of operations. These rules and regulations may also make it more difficult and expensive for us to obtain director and officer liability insurance. If we are unable to obtain appropriate director and officer insurance, our ability to recruit and retain qualified officers and directors, especially those directors who may be deemed independent, could be adversely impacted.

Our business and prospects may be adversely affected by changes, lack of growth, or increased competition in the life insurance secondary market.

The growth of the life insurance policy secondary market and our expansion within the market may be negatively affected by a variety of factors beyond our control, including:

- the inability to locate sufficient numbers of life insurance policy sellers and agents to source life sellers;
- the inability to convince life insurance policy owners of the benefits of selling their life insurance policy;
- competition from other companies in the life insurance secondary market;
- negative publicity about the life insurance secondary market based on actual or perceived abuses; and
- the adoption of additional governmental regulation.

The relatively new and evolving nature of the market in which we operate makes these risks unique and difficult to quantify. Nevertheless, contractions in the secondary market for life insurance policies, whether resulting from general economic conditions, regulatory or legal pressures, or otherwise (including regulatory pressures exerted on us or others involved in the secondary market for life insurance or involved with participants in that market), could make participation in the market generally less desirable. This could, in turn, depress the prices at which life insurance policies on the secondary market are bought and sold. As indicated elsewhere in this report, decreases in the value of life insurance policies on the secondary market could negatively affect our results of operations and our financial condition since the value of our policy portfolio is marked to market on a quarterly basis.

Changes in general economic conditions could adversely impact our business.

Changes in general economic conditions, including, for example, interest rates, investor sentiment, changes specifically affecting the insurance industry, competition, technological developments, political and diplomatic events, tax laws, and other factors not known to us today, can substantially and adversely affect our business and prospects. For example, changes in interest rates may increase our cost of capital and ability to raise capital, and have a corresponding adverse impact on our operating results. While we may engage in certain hedging activities to mitigate the impact of these changes, none of these conditions are or will be within our control.

If actuarial assumptions we obtain from third-party providers and rely on to model our expected returns on our investments in life insurance policies change, our operating results and cash flow could be adversely affected, as well as the value of our collateral and our ability to service our debt obligations.

The expected internal rate of return we calculate we will earn when purchasing a life insurance policy is based upon a probability curve estimate of how long the insured will live—an actuarial life expectancy estimate. We presently obtain actuarial life expectancy estimates from third-party medical-actuarial underwriting companies. In the case of small face policies, which we currently define as life insurance policies with $1.0 million or less in face value of policy benefits, we may choose not to obtain life expectancies from third-party medical-actuarial firms, but rather use standard mortality tables to develop our own life expectancy of an insured. All actuarial life expectancies are subject to interpretation and change based on evolving medical technology, actuarial data, and analytical techniques. Any increase in the actuarial life expectancy estimates of insureds within our portfolio could have a materially adverse effect on our operating results and cash flow. Adverse impacts on the value of our life insurance policy portfolio or our cash flow could in turn impair the value of the collateral we have pledged to our creditors and our ability to service our debt and obligations as they come due.

For example, on January 22, 2013, 21st Services, an independent provider of life expectancy analysis and related services for the life settlement industry in general, announced advancements in its underwriting methodology, resulting in revised life expectancy mortality tables for life settlement transactions. These revised actuarial calculations had an adverse effect on the valuation of portfolio at December 31, 2012. It is possible that the life expectancies we presently use will again change in the future or that the life expectancy assumptions will fail substantially to meet actuarial estimates, and that any such failure could have a materially adverse effect on our business.

On September 15, 2014, 21st Services announced further 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. Although these changes represent small portions of 21st Services' historical underwritings and were not material to the Company's portfolio of life insurance policies, we expect medical-actuarial underwriting firms to continue improving and refining their underwriting methodology. As a result, we will continue to monitor developments in medical-actuarial methodologies. We generally expect to incorporate such changes to our portfolio when we update our life expectancy reports.

In addition to actuarial life expectancies, we rely on pricing and premium forecasting software models developed by third-party actuarial companies for the valuation of policies we purchase, future mortality revenues, and the calculation of anticipated internal rates of return. These pricing models forecast the estimated future premiums due as well the future mortalities based on the survival probabilities of the insureds over their life expectancies. It is possible that the actuarial tables we presently use will again change the future or that the mortality assumptions will fail substantially to meet actuarial estimates, and that any such failure could have a materially adverse effect on our business.

We rely on estimated rates of mortality for the actuarial assumptions we use when valuing life insurance policies and forecasting the performance of our portfolio, and we also rely on other estimates derived from statistical methodologies for projecting our future cash flows, among other things. If our estimates prove to be incorrect, it could materially and adversely affect our ability to satisfy our debt service and repayment obligations.

If we assume we will receive cash inflows from policies sooner than we actually do, we may not be able to make payment on our debt obligations in a timely manner, or at all. Moreover, a significant medical discovery or advance that results in mortality improvements among seniors, above historically predicted actuarial rates could have a material adverse effect on our life insurance policy investments.

For example, we use a modeling method for projecting cash flows known as the "probabilistic method." This is an actuarial method that uses a mortality curve to project the likely flow of policy benefits to us, and attempts to reflect the probability that each premium must be paid. Since we have owned our current insurance policy portfolio we have in fact experienced fewer cash flows from policy benefits than projected in the early stages of ownership of our current life insurance policy portfolio using this method. We had expected to receive approximately $108.7 million cumulative policy benefits as of December 31, 2014, and in fact received $46.6 million. This has resulted in greater than expected premium payments, increasing such expected payments from an expected $79.7 million to $84.2 million. Barring significant mortality improvements (i.e., medical discoveries or advancements relating to the medical conditions of insureds), however, the fact that actual results have differed from the expectations derived from the probabilistic method of projecting cash flows should ordinarily result in greater cash flows later in the portfolio's servicing period.

We update and revise our projected future cash flows each month using the probabilistic method to reflect the actual experience within our life insurance policy portfolio to date. We use the current future cash flow projection to generate our expected internal rate of return on the life insurance policy portfolio we own. We would expect to change our method of calculating our future cash flows only if leading actuarial firms determined that such a methodology was no longer the most appropriate means of projecting cash flows from a life insurance policy portfolio. Any change to the pricing model, methodology, premium forecasting assumptions, cash flow projections, or the mortality assumptions accompanied therewith that increase the projected cost of insurance premiums or decrease the probability of mortality could have a material and adverse impact on our results of operations and cash flows. Ultimately, this could adversely affect our ability to meet our debt service and repayment obligations and our viability.

Risks Unique to Our Company

We may not be able to raise the capital that we are seeking, and may be unable to meet our overall business objectives of growing a larger, more statistically diverse portfolio of life insurance policies without the proceeds from our continuous offering of L Bonds.

Our offering of L Bonds has been the principal means by which we have raised the funds needed to meet our goal of growing a larger and more statistically diverse portfolio that is more likely to meet our cash flow projections. While we plan to continue financing our business, if we are unable to continue to do so for any reason we may be unable to meet our goal. In addition, if holders of our Series I Secured Notes or L Bonds were to fail to renew those securities with the frequency we have historically experienced, and actual cash flows from our portfolio of life insurance policies do not occur as our actuarial projections have forecasted, we could be forced to sell our investments in life insurance policies in order to service or satisfy our debt-related obligations. If we are forced to sell investments in life insurance policies or our entire portfolio, we may be unable to sell them at prices we believe are appropriate, and may not be able to sell them at prices that approximate the discount rate we have applied to value our portfolio, particularly if our sale of policies occurs at a time when we are (or are perceived to be) in distress. In any such event, our business and the value of our securities, including our debt securities and common stock, may be materially and adversely impacted.

We depend upon cash distributions from our subsidiaries, and contractual restrictions on distributions to us or adverse events at one of our operating subsidiaries could materially and adversely affect our ability to pay our debts and to continue to operate our business.

GWG Holdings, Inc. is a holding company. As a holding company, we conduct our operations through our operating subsidiaries, and our only significant assets are the capital stock of our subsidiaries. Accordingly, our ability to meet our cash obligations, including our obligations under the L Bonds, depends in material part upon the ability of our subsidiaries to make cash distributions to us. In this regard, the ability of our subsidiaries to make distributions to us is, and will continue to be, restricted by certain negative covenants in the agreement governing our revolving credit facility. DLP Funding II is the borrower under our revolving credit facility (see note 5 to our consolidated financial statements). The significant majority of the insurance policies we own are subject to a collateral arrangement with the agent for our revolving credit lender, as described in note 2 to our consolidated financial statements. Under this arrangement, collection and escrow accounts are used to fund purchases of and premiums for our insurance policies and to pay interest and other charges under the revolving credit facility. The lender and its agent 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 (us) realizing an annualized rate of return on the equity funded amount for such assets of not more than 18%, as determined by the agent. After such amount is reached, the credit agreement requires that excess funds be used to fund repayments or a reserve account in a certain amount, before any additional distributions may be made.

If any of the above limitations were to materially impede the flow of cash to us, such fact would materially and adversely affect our ability to service and repay our debt, including obligations under the L Bonds and Series I Secured Notes. In addition, any adverse event at the subsidiary level, such as a declaration of bankruptcy, liquidation or reorganization or an event of default under our revolving credit facility, could materially and adversely affect the ability of our subsidiaries to make cash distributions to us. Just as with a material contractual impediment to cash flow, any such subsidiary corporate event would materially and adversely affect our ability to service and repay our debt, including obligations under the L Bonds, and negatively impact our ability to continue operations.

If a significant number of holders of our Series I Secured Notes and L Bonds demand repayment of those instruments instead of renewing them, and at such time we do not have sufficient capital on hand to fund such repayment (and do not otherwise have access to sufficient capital), we may be forced to liquidate some of our life insurance assets, which could have a material and adverse impact on our results of operations and financial condition.

As of December 31, 2014 we had approximately $186.4 million of L Bonds outstanding. In addition, our direct and wholly owned subsidiary, GWG Life, had issued and outstanding approximately $28.0 million in Series I Secured Notes as of December 31, 2014. By virtue of GWG Life's full and unconditional guarantee of obligations under the L Bonds, and other agreements contained in or made in connection with the indenture, the L Bonds are pari passu in right of payment and collateral with the Series I Secured Notes. The indenture governing the L Bonds, and the note issuance and security agreement governing the Series I Secured Notes, each provide for cross defaults upon an event of default under the provisions of the other agreement (i.e., an event of default under the note issuance and security agreement will constitute an event of default under the indenture for the L Bonds, and vice-versa).

The terms of the Series I Secured Notes have renewal features. Since we first issued our Series I Secured Notes, we have experienced $133.7 million in maturities, of which $104.0 million has renewed for an additional term as of December 31, 2014. This has provided us with an aggregate renewal rate of approximately 78% for investments in our Series I Secured Notes. The terms of the L Bonds also have renewal features. Since we first issued our L Bonds, we have experienced $62.3 million in maturities, of which $41.4 million has renewed for an additional term as of December 31, 2014. This has provided us with an aggregate renewal rate of approximately 66% for investments in the currently outstanding L Bonds. Future contractual maturities of Series I Secured Notes and L Bonds at December 31, 2014 are as follows:

Years Ending December 31,	Series I Secured Notes	L Bonds	Total
2015	$13,887,000	$63,375,000	$77,262,000
2016	8,242,000	50,270,000	58,512,000
2017	4,713,000	29,546,000	34,259,000
2018	754,000	13,551,000	14,305,000
2019	347,000	14,262,000	14,609,000
Thereafter	104,000	15,373,000	15,477,000
	$28,047,000	$186,377,000	$214,424,000

If investors holding existing indebtedness with short-term maturities do not elect to renew and we do not, at such time, have access to sufficient capital or have not raised sufficient capital by other financing efforts, we may need to liquidate some of our investments in life insurance policies earlier than anticipated. In such an event, we may be unable to sell those life insurance policies at prices we believe are fair or otherwise appropriate and such sales could have a material and adverse impact on our results of operations.

Because we intend to hold our life insurance policies to their maturity, we therefore measure our debt coverage ratio against our current cost of financing, which may not reflect the sale price of our life insurance policies if we were to liquidate them.

We intend to hold our life insurance policy investments until they are paid out at the mortality of the insured. As a result, we measure our debt coverage ratio based on the portfolio's gross expected yield against the interest cost of our total debt obligations to finance the portfolio. The debt coverage ratio, expressed as a percentage, is defined as the ratio of (i) total amounts outstanding on any indebtedness for borrowed money, over (ii) the net present asset value of all life insurance assets we own, plus any cash held in our accounts. For this purpose, the net present asset value of our life insurance assets is calculated as the present value of the life insurance portfolio's expected future cash flows discounted at the weighted-average interest rate of the indebtedness for the previous month. Under the indenture, the maximum amount of such securities we may issue at any time is limited to an amount such that our debt coverage ratio does not exceed 90%. This limitation is designed to provide some comfort to holders of our debt that the value of our assets exceeds our obligations to those holders. Nevertheless, the debt coverage ratio (as calculated) is not based on the fair value of our life insurance assets, which may be different — greater or less—than the amount we would receive if we were forced to sell those assets in the marketplace. Furthermore, mere compliance with the debt coverage ratio does not contemplate or account for the significant transactional costs that could be associated with a sale of all or any significant portion of our portfolio.

Our controlling stockholders and principal executives are involved in litigation "clawback" claims, and it is possible that the trustee may assert claims against our company or that other adverse outcomes could negatively affect the Company.

Our Chief Executive Officer, Jon R. Sabes, and our corporate secretary and Executive Vice President of Originations and Servicing, Steven F. Sabes, who together beneficially own or control approximately 74.8% of our common stock, are subject to litigation relating to claims by a bankruptcy trustee for loan payments made to an affiliate, Opportunity Finance, LLC. The litigation stems from the 2010 conviction of an individual operating a fraudulent business, which business filed for bankruptcy in 2008. The bankruptcy trustee alleges that loan repayments to Opportunity Finance were avoidable transfers under preference or other legal theories and seeks to recover amounts for other creditors of the bankruptcy estate. Case No. 08-45257 (U.S. Bankruptcy Court District of Minnesota). Such payments may ultimately be deemed to be avoidable transfers under preference or other legal theories. In addition, GWG Holdings invested $1.0 million in Opportunity Finance, LLC in 2006 and was repaid and received $176,948 of interest income from that investment in 2007. To date no claim has been made against the Company.

While we believe there are numerous meritorious defenses to the claims made by the bankruptcy trustee and others, and we are advised that the defendants in that action will vigorously defend against the trustee's claims, such defendants may not prevail in the litigation. If the bankruptcy trustee or a successful private plaintiff sought to sell or transfer the equity interests of Jon R. Sabes or Steven F. Sabes as a result of the litigation, there could be a change in control of the Company, and our business together with all of our investors, including investors in our debentures, could be materially and adversely impacted. Such adverse results would likely arise in connection with negative change-in-control covenants contained in our revolving credit facility agreements, the breach of those covenants and an ensuing event of default under such facility. In addition, if the bankruptcy trustee or a private plaintiff sought to sell or transfer the equity interests of Jon R. Sabes or Steven F. Sabes as a result of the litigation, such transfers would adversely affect holders of our previously issued L Bonds by reducing the number of shares of common stock of GWG Holdings that have been pledged as collateral security for our obligations under the debentures. Finally, regardless of the outcome of this litigation, these matters may distract management and reduce the time and attention that they are able to devote to our business.

The loss of the services of our current executives or other key employees, or the failure to attract additional key individuals, would materially adversely affect our business operations and prospects.

Our financial success is dependent to a significant degree upon the efforts of our current executive officers and other key employees. In addition, our revolving credit facility requires Messrs. Jon R. Sabes and Steven F. Sabes to generally remain active within the business. We have entered into employment agreements with Messrs. Jon R. Sabes, Steven F. Sabes, Paul A. Siegert, William B. Acheson, Michael D. Freedman and Jon L. Gangelhoff. Nevertheless, there can be no assurance that these individuals will continue to provide services to us. A voluntary or involuntary termination of employment could have a materially adverse effect on our business operations if we were not able to attract qualified replacements in a timely manner. At present, we do not maintain key-man life insurance policies for any of these individuals. In addition, our success and viability is also dependent to a significant extent upon our ability to attract and retain qualified personnel in all areas of our business, especially our sales, policy acquisition, and financial management team. If we were to lose the members of these service teams, we would need to replace them with qualified individuals in a timely manner or our business operations and prospects could be adversely impacted.

We are an "emerging growth company" and our election to delay adoption of new or revised accounting standards applicable to public companies may result in our financial statements not being comparable to those of some other public companies. As a result of this and other reduced disclosure requirements applicable to emerging growth companies, our securities may be less attractive to investors.

As a public reporting company with less than $1.0 billion in revenue during our last fiscal year, we qualify as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of certain reduced reporting requirements and is relieved of certain other significant requirements that are otherwise generally applicable to public companies. In particular, as an emerging growth company we:

are not required to obtain an attestation and report from our auditors on our management's assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act of 2002;

are not required to provide a detailed narrative disclosure discussing our compensation principles, objectives and elements and analyzing how those elements fit with our principles and objectives (commonly referred to as "compensation discussion and analysis");

are not required to obtain a non-binding advisory vote from our stockholders on executive compensation or golden parachute arrangements (commonly referred to as the "say-on-pay," "say-on-frequency" and "say-on-golden-parachute" votes);

are exempt from certain executive compensation disclosure provisions requiring a pay-for-performance graph and CEO pay ratio disclosure;

may present only two years of audited financial statements and only two years of related Management's Discussion & Analysis of Financial Condition and Results of Operations, or MD&A; and

are eligible to claim longer phase-in periods for the adoption of new or revised financial accounting standards under §107 of the JOBS Act.

We intend to take advantage of all of these reduced reporting requirements and exemptions, including the longer phase-in periods for the adoption of new or revised financial accounting standards under §107 of the JOBS Act. Our election to use the phase-in periods may make it difficult to compare our financial statements to those of non-emerging growth companies and other emerging growth companies that have opted out of the phase-in periods under §107 of the JOBS Act.

Certain of these reduced reporting requirements and exemptions were already available to us due to the fact that we also qualify as a “smaller reporting company” under SEC rules. For instance, smaller reporting companies are not required to obtain an auditor attestation and report regarding management’s assessment of internal control over financial reporting; are not required to provide a compensation discussion and analysis; are not required to provide a pay-for-performance graph or CEO pay ratio disclosure; and may present only two years of audited financial statements and related MD&A disclosure.

Under the JOBS Act, we may take advantage of the above-described reduced reporting requirements and exemptions for up to five years after our initial sale of common equity pursuant to a registration statement declared effective under the Securities Act of 1933, or such earlier time that we no longer meet the definition of an emerging growth company. In this regard, the JOBS Act provides that we would cease to be an “emerging growth company” if we have more than $1.0 billion in annual revenues, have more than $700 million in market value of our common stock held by non-affiliates, or issue more than $1.0 billion in principal amount of non-convertible debt over a three-year period. Furthermore, under current SEC rules we will continue to qualify as a “smaller reporting company” for so long as we have a public float (i.e., the market value of common equity held by non-affiliates) of less than $75 million as of the last business day of our most recently completed second fiscal quarter.

We cannot predict if investors will find our securities less attractive due to our reliance on these exemptions. If investors were to find our securities less attractive as a result of our election, we may have difficulty raising all of the proceeds we seek in our continuous offering of the L Bonds. In addition, the market price of our common stock may suffer.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2. PROPERTIES.

Our principal executive offices are located at 220 South Sixth Street, Suite 1200, Minneapolis, Minnesota 55402. At that location, we lease 11,695 square feet of space for a lease term expiring in August 2015. We believe that these facilities are adequate for our current needs and that suitable additional space will be available as needed.

ITEM 3. LEGAL PROCEEDINGS.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

On September 24, 2014, we consummated an initial public offering of our 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, our common stock was listed on The NASDAQ Capital Market under the ticker symbol "GWGH" effective September 25, 2014. We used the net proceeds from the offering to promote and advertise the opportunities for consumers owning life insurance and investors to profit from participating in the secondary market for life insurance policies, to purchase additional life insurance policies in the secondary market, to pay premiums on our life insurance policy assets, to fund its portfolio operations, and for working capital purposes.

The following table shows the high and low sales for our common stock for the periods indicated, as reported by NASDAQ:

Quarter Ended	High	Low
September 30, 2014	$17.47	$10.25
December 31, 2014	$10.25	$6.05

As of March 13, 2015 we had 133 holders of record of our common stock.

Our Form S-1 registration statement relating to our public offer and sale of "Renewable Secured Debentures" (File Nos. 333-174887 and 333-174887-01) was declared effective by the SEC on January 31, 2012, and our offering of those securities commenced on such date. The debentures – since renamed "L Bonds" – are secured in part by a guarantee from our subsidiary GWG Life and an associated grant of a security interest in substantially all of the assets of GWG Life, which guarantee was also registered as a security under the referenced registration statement. Arque Capital Ltd. served as our managing broker-dealer and underwriter for the offering.

The registration statement covered up to $250 million in principal amount of securities. From January 31, 2012 through December 31, 2014, we sold a total of $207,266,000 in principal amount of securities, and incurred associated underwriting commissions, and expenses paid or payable to underwriters in the amount of $11,535,000 of which $5,653,000 was amortized. As of December 31, 2014 we had $186,377,000 of those previously issued L Bonds outstanding plus $2,288,000 of subscriptions in process, less unamortized selling costs of $5,882,000, resulting in aggregate net proceeds of $182,783,000. None of the payments for offering expenses were directly or indirectly made to our directors or officers (or their associates), our affiliates, or to persons owning 10% or more of any class of our equity securities.

We used the net proceeds from the offering to acquire additional life insurance policies, as indicated below under the "Use of Proceeds" caption in the "Management's Discussion and Analysis of Financial Condition and Results of Operation" section of this report (Item 7). No net proceeds were used for direct or indirect payments to our directors or officers (or their associates), our affiliates, or to persons owning 10% or more of any class of our equity securities.

Unregistered Sales of Securities

In 2014 and 2013, our wholly owned subsidiary, GWG Life, sold $160,000 and $196,000, respectively, in principal amount of Series I Secured Notes in consideration of reinvested interest and commissions payable on account of earlier issued notes. GWG Holdings is a guarantor of GWG Life's obligations under the Series I Secured Notes. The notes were offered and sold solely to accredited investors pursuant to a private placement exemption under Section 4(a)(2) of the Securities Act of 1933, and Regulation D/Rule 506 thereunder. Arque Capital Ltd. was the managing broker-dealer for the offering of the notes.

In 2014 and 2013, we issued 110,584 and 82,606 shares, respectively, of Series A Preferred Stock as in-kind dividends payable on account of the preferred stock. The preferred stock was issued solely to accredited investors in a private placement under Section 4(a)(2) of the Securities Act of 1933, and Regulation D/Rule 506 thereunder.

ITEM 6. SELECTED FINANCIAL DATA.

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion in conjunction with the consolidated financial statements and accompanying notes and the information contained in other sections of this report. This discussion and analysis is based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. The statements in this discussion and analysis concerning expectations regarding our future performance, liquidity and capital resources, as well as other non- historical statements, are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties. Our actual results could differ materially from those suggested or implied by any forward-looking statements. Please see the "Risk Relating to Forward-Looking Statements" section of this form.

Overview

We are engaged in the emerging secondary market for life insurance policies. We acquire life insurance policies in the secondary market from policy owners desiring to sell their policies at a discount to the face value of the insurance benefit. Once we purchase a policy, we continue paying the policy premiums in order to ultimately collect the face value of the insurance benefit. We generally seek to hold the individual policies to maturity, in order to ultimately collect the policy's face value upon the insured's mortality. Our strategy is to build a profitable and large portfolio of policies that is diversified in terms of insurance carriers and the medical conditions of insureds. We believe that diversification among insureds, insurers, and medical conditions will lower our overall risk exposure, and that a larger number of individual policies (diversification in overall number) will provide our portfolio with greater actuarial stability.

In 2014, we recognized $13.9 million of revenue from the receipt of $18.0 million in policy benefits. In addition, we recognized revenue from the change in fair value of our life insurance policies, net of premiums and carrying costs, of $16.5 million. In 2014, interest expense, including amortization of the deferred financing costs and preferred stock dividends, was $26.7 million, and selling, general and administrative expenses were $12.1 million. Income tax benefit in 2014 was $2.4 million. Our net loss in 2014 was $6.0 million.

In 2013, we recognized $12.0 million of revenue from the receipt of $16.6 million in policy benefits. In addition, we recognized revenue from the change in fair value of our life insurance policies, net of premiums and carrying costs, of $17.5 million. In 2013, interest expense, including amortization of the deferred financing costs and preferred stock dividends, was $20.8 million, and selling, general and administrative expenses were $10.3 million. Income tax expense in 2013 was $2.2 million. Our net loss in 2013 was $0.2 million.

To date, we have financed our business principally through the issuance of debt, including debt incurred by our subsidiary DLP Funding II under a senior revolving credit facility provided by Autobahn/DZ Bank, Series I Secured Notes issued by our subsidiary GWG Life and our registered public offerings of L Bonds. See the “Liquidity and Capital Resources” caption below.

Critical Accounting Policies

Critical Accounting Estimates

The preparation of our consolidated financial statements in accordance with the Generally Accepted Accounting Principles (GAAP) requires us to make judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our judgments, estimates, and assumptions on historical experience and on various other factors believed to be reasonable under the circumstances. Actual results could differ materially from these estimates. We evaluate our judgments, estimates, and assumptions on a regular basis and make changes accordingly. We believe that the judgments, estimates, and assumptions involved in the accounting for the valuation of investments in life insurance policies have the greatest potential impact on our consolidated financial statements and accordingly believe these to be our critical accounting estimates. Below we discuss the critical accounting policies associated with these estimates as well as certain other critical accounting policies.

Ownership of Life Insurance Policies—Fair Value Option

Our primary business involves the purchasing and financing of life insurance policies. As such, we account for the purchase of life insurance policies in accordance with Financial Accounting Standards Board’s Accounting Standards Codification (FASB ASC) 325-30, *Investments in Insurance Contracts*, which requires us to use either the investment method or the fair value method. We have elected to account for these life insurance policies as investments using the fair value method.

We initially record our purchase of life insurance policies at the transaction price, which is the amount paid for the policy, inclusive of all fees and costs associated with the acquisition. The fair value of our investment in the portfolio of insurance policies is evaluated at the end of each reporting period. Changes in the fair value of the portfolio of life insurance policies are based on periodic evaluations and are recorded as changes in fair value of life insurance policies in our consolidated and combined statement of operations. The fair value is determined as the net present value of the life insurance portfolio’s future expected cash flows that incorporates current life expectancy estimates and discount rate assumptions.

In addition to reporting our results of operations and financial condition based on the fair value of our life insurance policies as required by GAAP, management also makes calculations and evaluates our financial condition based on the weighted average expected internal rate of return of the policies and other non-GAAP financial measures. See “Non-GAAP Financial Measures” below.

Valuation of Insurance Policies

Unobservable inputs, as discussed below, are a critical component of our estimate for the fair value of our investments in life insurance policies. We currently use a probabilistic method of estimating and valuing the projected cash flows of our portfolio of life insurance policies, which we believe to be the preferred and most prevalent valuation method in the industry. In this regard, the most significant assumptions we make are the life expectancy estimates of the insureds and the discount rate applied to the projected cash flows to be derived from our portfolio.

In determining life expectancy estimates, we generally use actuarial medical reviews from independent medical underwriters. These medical underwriters evaluate the health of the insured by reviewing historical and current medical records. This evaluation is performed to produce an estimate of the insured’s mortality—a life expectancy report. In the case of a small face policy ($1.0 million face value of policy benefits or less), we may use one life expectancy report or estimate life expectancy based on a modified methodology which does not use actuarial medical reviews from independent medical underwriters. The life expectancy estimate represents a range of probabilities for the insured’s mortality against a group of cohorts with the same age, sex and smoking status. These mortality probabilities represent a mathematical curve known as a mortality curve, which is then used to generate a series of expected cash flows from the life insurance policy over the expected lifespan of the insured. A discount rate is used to calculate the net present value of the expected cash flows. The discount rate represents the internal rate of return we expect to earn on investments in a policy or in the portfolio as a whole at the stated fair value. The discount rate used to calculate fair value of our portfolio incorporates the guidance provided by ASC 820, *Fair Value Measurements and Disclosures*. Many of our current underwriting review processes, including our policy of obtaining actuarial medical reviews from independent medical underwriters as described above, are undertaken in satisfaction of obligations under our revolving credit facility. As a result, we may in the future modify our underwriting review processes if permitted under our borrowing arrangements.

The table below provides the discount rate used to estimate the fair value of our portfolio of life insurance policies for the period ending:

December 31, 2014	December 31, 2013
11.43%	11.69%

The change in the discount rate incorporates current information about discount rates applied by other reporting companies owning portfolios of life insurance policies, discount rates observed by us in the life insurance secondary market, market interest rates, the credit exposure to the issuing insurance companies, and our estimate of the risk premium a purchaser would require to receive the future cash flows derived from our portfolio of life insurance policies. Because we use the discount rate to arrive at the fair value of our portfolio, the rate we choose necessarily assumes an orderly and arms-length transaction (i.e., a non-distressed transaction in which neither seller nor buyer is compelled to engage in the transaction).

We engaged a third party, Model Actuarial Pricing Systems (MAPS), to prepare a third-party valuation of our life settlement portfolio. MAPS owns and maintains the portfolio pricing software we use. MAPS processed policy data, future premium data, life expectancy estimate data, and other actuarial information we supplied to calculate a net present value for our portfolio using the specified discount rate of 11.43%. MAPS independently calculated the net present value of our portfolio of 291 policies to be $282.9 million, which is the same fair value estimate we used on the balance sheet as of December 31, 2014, and furnished us with a letter documenting its calculation. A copy of such letter is filed as Exhibit 99.1 to this report.

JOBS Act

On April 5, 2012, the Jumpstart Our Business Startups Act of 2012, or JOBS Act, was enacted. Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933 for complying with new or revised accounting standards. This means that an “emerging growth company” can make an election to delay the adoption of certain accounting standards until those standards would apply to private companies. We have elected to delay such adoption of new or revised accounting standards and, as a result, we may not comply with new or revised accounting standards at the same time as other public reporting companies that are not “emerging growth companies.” This exemption will apply for a period of five years following our first sale of common equity securities under an effective registration statement or until we no longer qualify as an “emerging growth company” as defined under the JOBS Act, whichever is earlier.

Deferred Income Taxes

FASB ASC 740, Income Taxes, requires us to recognize deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is established for any portion of deferred tax assets that is not considered more likely than not to be realized.

We have provided a valuation allowance against the deferred tax asset related to a note receivable, which has been charged-off for financial reporting purposes, because we believe that, when realized for tax purposes, it will result in a capital loss that will not be utilized because we have no expectation of generating a capital gain within the applicable carryforward period. Therefore, we do not believe that it is more likely than not that the deferred tax asset will be realized.

We have also provided a valuation allowance against the deferred tax asset related to a tax basis capital loss generated with respect to our settlement and subsequent disposal