AMERICAN ELECTRIC POWER CO INC
Form 424B5
June 10, 2005

The information in this preliminary prospectus supplement is not complete and may be changed without notice. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities nor are they soliciting offers to buy these securities in any state where the offer or sale is not permitted. These securities may not be sold nor may offers to buy be accepted before the prospectus supplement is delivered.

Subject to Completion, Dated June 9, 2005

Prospectus Supplement
(To Prospectus dated June 9, 2005)

$

American Electric Power Company, Inc.

% Senior Notes due August 16, 2007

This is a remarketing of our senior notes due August 16, 2007 (Senior Notes) originally issued in 2002 in connection with our sale of 9.25% Equity Units. Each Equity Unit is comprised of a Senior Note in the principal amount of $50 and a forward purchase contract under which the Equity Unit holder agrees to purchase shares of our common stock on August 16, 2005. The interest rate on the Senior Notes will be reset to % per annum effective on and after June 16, 2005. The Senior Notes will pay interest in arrears on each February 16, May 16, August 16 and November 16, commencing on August 16, 2005. The Senior Notes will mature on August 16, 2007 and do not have the benefit of any sinking fund. The Senior Notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. The Senior Notes will be remarketed in denominations of $50 and integral multiples of $50.

The Senior Notes are redeemable at our option on not less than 30 days' nor more than 60 days' prior written notice, in whole but not in part, upon the occurrence and continuation of a tax event under the circumstances and at the redemption price described in this pricing supplement. See SUPPLEMENTAL DESCRIPTION OF THE REMARKETED SENIOR NOTES - "Tax Event Redemption" in this prospectus supplement.

Investing in the Senior Notes involves risks. See "Risk Factors" on page S-4 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the related prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Senior Note	**Total**
Remarketed offering price (1)	%	$
Remarketing fee to remarketing agents	%	$

Net proceeds (2)	%	$

(1) Plus accrued interest from and including May 16, 2005 to June 16, 2005 at 5.75% and, if settlement occurs after June 16, 2005, additional accrued interest at the rate of %.

(2) We will not receive any proceeds from the remarketing. See “Use of Proceeds.”

We expect that the Senior Notes will be ready for delivery through The Depository Trust Company on or about June 16, 2005.

Joint Remarketing Agents

Citigroup **Morgan Stanley**

June , 2005

TABLE OF CONTENTS

Page

Prospectus Supplement

Prospectus

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this remarketing of the Senior Notes and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which does not apply to the Senior Notes. If the description of the remarketing varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and in the accompanying prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate as of the date on their respective covers. Our business, financial condition, results of operations and prospects may have changed since that date.

SUMMARY INFORMATION

The following information supplements, and should be read together with, the information contained in the accompanying prospectus. You should carefully read this prospectus supplement and the accompanying prospectus as well as the documents they incorporate by reference, before making an investment decision. Unless we state otherwise or the context otherwise requires, references appearing in this prospectus supplement to the "Company", "we", "us" and "our" should be read to refer to American Electric Power Company, Inc. and its subsidiaries.

American Electric Power Company, Inc.

We are one of the largest investor-owned public utility holding companies in the United States. We provide, directly or indirectly, generation, transmission and distribution services to over five million retail customers in eleven states (Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma, Tennessee, Texas, Virginia and West Virginia) through our electric utility operations.

Our portfolio of assets includes:

- 36,000 megawatts of generating capacity, one of the largest complements of generation in the United States;
- 39,000 miles of transmission lines;
- 177,000 miles of distribution lines that support delivery of electricity to our customers' premises; and
- Substantial coal transportation assets (7,065 railcars, 2,230 barges, 53 towboats and one coal handling terminal).

Our principal executive offices are located at 1 Riverside Plaza, Columbus, Ohio, and our telephone number is (614) 716-1000.

Summary of the Remarketing

Issuer	American Electric Power Company, Inc.
Senior Notes	$ aggregate principal amount of % Senior Notes due August 16, 2007.
Maturity Date	The Senior Notes will mature on August 16, 2007.
Interest Rate	The Senior Notes bear interest at the rate of 5.75% to June 16, 2005 and will bear interest at the rate of % per year, effective on and after June 16, 2005.
Interest Payment Dates	The Senior Notes will pay interest in arrears on each February 16, May 16, August 16 and November 16, commencing on August 16, 2005.
Ranking	The Senior Notes will be unsecured and unsubordinated obligations ranking equally with our other outstanding and future unsecured and unsubordinated indebtedness.
Tax Event Redemption	The Senior Notes are redeemable at our option on not less than 30 days' nor more than 60 days' prior written notice, in whole but not in part, upon the occurrence and continuation of a tax event under the circumstances and at the redemption price described under SUPPLEMENTAL DESCRIPTION OF THE REMARKETED SENIOR NOTES - "Tax Event Redemption" in this prospectus supplement.
Use of Proceeds	We will not receive any proceeds from the remarketing of the Senior Notes. For more information, see USE OF PROCEEDS in this prospectus supplement.
Restrictive Covenants	For a discussion of the restrictive covenants relating to the Senior Notes, see "Limitation upon Liens on Stock of Certain Subsidiaries" and "Limitation upon Mergers, Consolidations and Sale of Assets" under SUPPLEMENTAL DESCRIPTION OF THE REMARKETED SENIOR NOTES - "Restrictive Covenants" in this prospectus supplement.

RISK FACTORS

Investing in our securities involves risk. Please see the risk factors described in our Annual Report on Form 10-K, as amended by Form 10-K/A, for the fiscal year ended December 31, 2004, along with disclosure related to the risk factors contained in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, which are incorporated by reference in this prospectus supplement. Before making an investment decision, you should carefully consider these risks as well as other information contained or incorporated by reference in this prospectus. The risks and uncertainties described are those presently known to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations, our financial results and the value of our securities.

USE OF PROCEEDS

We are remarketing $ aggregate principal amount of Senior Notes on behalf of participating holders of our Equity Units issued in June 2002. Each Equity Unit consists of a unit comprised of a Senior Note in the principal amount of $50 and a forward purchase contract under which the Equity Unit holder agrees to purchase shares of our common stock on August 16, 2005 (or earlier under some circumstances). We will not receive any proceeds from the remarketing. The total proceeds of the remarketing, which includes accrued interest, of the Senior Notes will be used to purchase on June 16, 2005 a treasury portfolio that will serve as the substitute collateral for the Senior Note component of the Equity Units to secure Equity Units holders' obligations to us under the forward purchase contracts that are a component of the Equity Units. Any remaining proceeds from the sale of Senior Notes will be remitted to the holders of the Equity Units whose Senior Notes were sold in the remarketing, after deducting a remarketing fee not to exceed 25 basis points of the total proceeds from such remarketing.

SUPPLEMENTAL DESCRIPTION OF THE REMARKETED SENIOR NOTES

The following description of the particular terms of the Senior Notes, which are referred to in the accompanying prospectus as "Senior Notes," supplements and, to the extent it is inconsistent with the description in the accompanying prospectus, replaces the description of the general terms and provisions of the Senior Notes in the prospectus. The Senior Notes will be issued under an indenture dated as of May 1, 2001 between us and The Bank of New York, as trustee, as supplemented and amended, and as to be further supplemented and amended. References in this prospectus supplement to the indenture will mean the indenture as so supplemented. This summary is qualified in its entirety by reference to the indenture.

The trustee will act as our U.S. paying agent, our authenticating agent and registrar, and, if and when such notes are issued in definitive form, our U.S. transfer agent.

Any money that we deposit with the trustee or any paying agent for the payment of principal, premium, if any, or any interest on the Senior Notes that remains unclaimed for two years after the date upon which the principal, premium, if any, and interest are due and payable, will be repaid to us upon our request unless otherwise required by mandatory provisions of any applicable unclaimed property law. After that time, unless otherwise required by mandatory provisions of any applicable unclaimed property law, the holder of Senior Notes will be able to seek any payment to which that holder may be entitled to collect only from us.

General

The Senior Notes are being remarketed in the principal amount of $. We may, without the consent of the holders of the Senior Notes, create and issue additional debt securities under the indenture, ranking equally with the Senior Notes.

The Senior Notes will mature on August 16, 2007. The Senior Notes accrued interest at the rate of 5.75% to June 16, 2005 and will bear interest at the annual rate of % effective on and after June 16, 2005. Interest will be payable in arrears on each February 16, May 16, August 16 and November 16, commencing on August 16, 2005 until the Senior Notes mature on August 16, 2007. The Senior Notes are not redeemable before their stated maturity except as described below.

The amount of interest payable for any period will be computed (1) for any full quarterly period on the basis of a 360-day year of twelve 30-day months, (2) for any period shorter than a full quarterly period, on the basis of a 30-day month and (3) for periods of less than a month, on the basis of the actual number of days elapsed per 30-day month. If any date on which interest is payable on the Senior Notes is not a business day, the payment of the interest payable on that date will be made on the next day that is a business day, without any interest or other payment in respect of the delay, except that, if the business day is in the next calendar year, then the payment will be made on the immediately preceding business day, in each case with the same force and effect as if made on the scheduled payment date.

The Senior Notes will be remarketed in denominations of $50 and integral multiples of $50.

The Senior Notes will not have the benefit of a sinking fund; that is, we will not deposit money on a regular basis into any separate custodial account to repay the Senior Notes.

Payment of the principal and interest on the Senior Notes will rank equally with that of all of our other unsecured and unsubordinated debt. As of June 3, 2005, there existed approximately $1.474 billion principal amount of indebtedness issued under the indenture that would have ranked equally with the Senior Notes. The indenture does not limit the amount of additional senior indebtedness that we or any of our subsidiaries may incur. The Senior Notes will be our exclusive obligations.

Because we are a holding company, the claims of creditors of our subsidiaries will have a priority over our equity rights and the rights of our creditors (including holders of the Senior Notes) to participate in the assets of the subsidiary upon the subsidiary’s liquidation. As of March 31, 2005, our subsidiaries had approximately $10.335 billion principal amount of outstanding long-term debt (including debt due within one year). Since our operations are conducted through subsidiaries, our cash flow and our consequent ability to service debt, including our Senior Notes, are partially dependent upon the earnings of our subsidiaries and the distribution of those earnings to us or upon other payments of funds by those subsidiaries to us. The subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due on the Senior Notes or to make funds available for payments on the Senior Notes, whether by dividends or other payments. In addition, the payment of dividends and the making of advances to us by our subsidiaries may be subject to statutory, regulatory or contractual restrictions, are contingent upon the earnings of those subsidiaries, and are subject to various business considerations.

Any right we have to receive assets of any of our subsidiaries upon their liquidation or reorganization and the resulting right of the holders of the Senior Notes to participate in those assets will be effectively subordinated to the claims of that subsidiary’s creditors, including trade creditors, except to the extent that we are ourselves recognized as a creditor of the subsidiary, in which case our claims would be subordinated to any security interests in the assets of the subsidiary and any indebtedness of the subsidiary senior to the debt held by us.

Tax Event Redemption

If a tax event occurs, we may, at our option, redeem the Senior Notes in whole, but not in part, at any time at a price, which we refer to as the redemption price, equal to, for each Senior Note, the redemption amount referred to below. Installments of interest on Senior Notes that are due and payable on or before a redemption date will be payable to holders of the Senior Notes registered as holders at the close of business on the relevant record dates. If we exercise our option to redeem the Senior Notes, the proceeds of the redemption will be payable in cash to the holders of the Senior Notes.

“Tax event” means the receipt by us of an opinion of nationally recognized independent tax counsel experienced in matters of this kind, which may be Hunton & Williams LLP, to the effect that there is more than an insubstantial risk that interest payable by us on the Senior Notes would not be deductible, in whole or in part, by us for United States federal income tax purposes as a result of (1) any amendment to, change in, or announced proposed change in, the laws, or any regulations under the laws, of the United States or any political subdivision or taxing authority of or in the United States affecting taxation; (2) any amendment to or change in an official interpretation or application of any laws or regulations of this kind by any legislative body, court, governmental agency or regulatory authority; or (3) any interpretation or pronouncement that provides for a position with respect to any laws or regulations that differs from the generally accepted position on the issue date, which amendment, change, or proposed change is effective or which interpretation or pronouncement is announced on or after June 11, 2002.

"Redemption amount" means the principal amount of the Senior Notes plus accrued and unpaid interest, if any.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each registered holder of Senior Notes to be redeemed at its registered address. Unless we default in payment of the redemption price, on and after the redemption date interest will cease to accrue on the Senior Notes. If any Senior Notes are called for redemption, neither we nor the trustee will be required to register the transfer of or exchange the Senior Notes to be redeemed.

Restrictive Covenants

Limitation upon Liens on Stock of Certain Subsidiaries

For so long as any Senior Notes remain outstanding, we will not create or incur or allow any of our subsidiaries to create or incur any pledge or security interest on any of the capital stock of a public utility subsidiary held by us or one of our subsidiaries or a significant subsidiary.

For purposes of this covenant, a public utility subsidiary means, at any particular time, a direct or indirect subsidiary of ours that, as a substantial part of its business, distributes or transmits electric energy to retail or wholesale customers at rates or tariffs that are regulated by either a state or Federal regulatory authority.

For purposes of this covenant, significant subsidiary means, at any particular time, any direct subsidiary of ours whose consolidated gross assets or consolidated gross revenues (having regard to our direct beneficial interest in the shares, or the like, of that subsidiary) represent at least 25% of our consolidated gross assets or our consolidated gross revenues.

Limitation upon Mergers, Consolidations and Sale of Assets

Nothing in the indenture or the Senior Notes prevents us from consolidating or merging with or into, or selling or otherwise disposing of all or substantially all of our property to another entity, provided that (1) we agree to obtain a supplemental indenture pursuant to which the surviving entity or transferee agrees to assume our obligations relating to all outstanding debt securities issued under the indenture and (2) the surviving entity or transferee is organized under the laws of the United States, any state thereof or the District of Columbia.

Defeasance and Discharge

The defeasance provisions of the indenture described under DESCRIPTION OF SENIOR NOTES - "Legal Defeasance" and DESCRIPTION OF SENIOR NOTES - "Covenant Defeasance" in the accompanying prospectus will not apply to the Senior Notes.

Same-day Settlement and Payment

Settlement by purchasers of the Senior Notes will be made in immediately available funds. All payments by us to the depositary of principal and interest will be made in immediately available funds. So long as any Senior Notes are represented by global securities registered in the name of the depositary or its nominee, those Senior Notes will trade in the depositary's Same-Day Funds Settlement System and secondary market trading in those Senior Notes will therefore be required by the depositary to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlement in immediately available funds on trading activity in Senior Notes.

Book-Entry and Settlement

Senior Notes will be issued in the form of one or more global certificates, which we refer to as global securities, registered in the name of DTC or its nominee. Except as provided below, owners of beneficial interests in a global security will not be entitled to receive physical delivery of notes in certificated form and will not be considered the holders of the Senior Notes for any purpose under the indenture, and no global security representing notes will be exchangeable, except for another global security of the same denomination and tenor to be registered in the name of DTC or its nominee or a successor depositary or its nominee. Accordingly, each beneficial owner must rely on the procedures of DTC and if the beneficial owner is not a participant, on the procedures of the participant through which the beneficial owner owns its interest to exercise any rights of a holder under the indenture.

The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of the securities in certificated form. These laws may impair the ability to transfer beneficial interests in a global security.

Certificates for the Senior Notes will be printed and delivered in exchange for beneficial interests in the global securities if:

- DTC notifies us that it is unwilling or unable to continue as a depositary for the global security certificates and no successor depositary has been appointed within 90 days after this notice, or

- DTC at any time ceases to be a clearing agency registered under the Securities Exchange Act and no successor depositary has been appointed within 90 days after we learn that DTC has ceased to be so registered, or

- we determine in our sole discretion that we will no longer have senior debt securities represented by global securities or will permit any of the global security certificates to be exchangeable, subject to the procedures of DTC, or an event of default under the indenture has occurred and is continuing.

Any global note that is exchangeable as described in the preceding sentence will be exchangeable for note certificates registered in the names directed by DTC. We expect that these instructions will be based upon directions received by DTC from its participants with respect to ownership of beneficial interests in the global security certificates.

Trustee

The Bank of New York will serve as the indenture trustee with respect to the Senior Notes. The trustee is one of a number of banks with which we and our subsidiaries maintain ordinary banking and trust relationships.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following discussion of material United States federal income tax consequences is not intended or written by us or our counsel to be used, and it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer. It was written to support the promotion or marketing of the transaction(s) or matter(s) addressed by the following discussion, namely, the remarketing of the Senior Notes. You should seek advice based on your particular circumstances from an independent tax advisor.

The following is a summary of the material United States federal income tax consequences of the purchase, ownership and disposition of the Senior Notes, but does not purport to be a complete analysis of all the potential tax consequences relating thereto. This summary is based upon the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations promulgated thereunder, administrative rulings and judicial decisions as of the date hereof. These authorities may be changed, possibly retroactively, so as to result in United States federal income tax consequences different from those set forth below.

This discussion is limited to holders who purchase Senior Notes in the remarketing and who hold the Senior Notes as capital assets (generally, property held for investment). This discussion also does not address the tax considerations arising under the laws of any foreign, state or local jurisdiction, or under United States federal estate or gift tax laws. In addition, this discussion does not address all tax considerations that may be applicable to a holder's particular circumstances or to holders that may be subject to special tax rules, including, without limitation:

- holders subject to the alternative minimum tax;
- banks, insurance companies, or other financial institutions;
- foreign persons or entities (except to the extent specifically set forth below);
- tax-exempt organizations;
- dealers in securities or commodities;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- partnerships or other entities treated as partnerships for United States federal income tax purposes;
- U.S. holders (as defined below) whose "functional currency" is not the United States dollar;
- holders of Senior Notes that are being remarketed in the remarketing;
- holders that hold Senior Notes as a position in a hedging transaction, "straddle," "conversion transaction" or other risk reduction transaction; or
- persons deemed to sell the Senior Notes under the constructive sale provisions of the Code.

In addition, if a partnership (including any entity treated as a partnership for United States federal income tax purposes) or other pass-through entity holds Senior Notes, the tax treatment of a partner in the partnership or owner of the applicable pass-through entity generally will depend upon the status of the partner or owner and the activities of the partnership or pass-through entity. If you are a partnership or pass-through entity, or a partner or owner of a partnership or other pass-through entity, as applicable, acquiring our Senior Notes, you should consult your tax advisor regarding the tax consequences of the ownership and disposition of Senior Notes.

No statutory, administrative or judicial authority directly addresses the treatment of Senior Notes or instruments similar to Senior Notes for United States federal income tax purposes, and we have not sought any ruling from the IRS with respect to the statements made and conclusions reached herein. As a result, no assurance can be given that the IRS will agree with the tax consequences described herein. Each prospective investor is urged to consult its tax advisor as to the particular tax consequences of purchasing, owning and disposing of the Senior Notes, including the application and effect of United States federal, state, local and foreign tax laws.

Classification of the Senior Notes

Generally, characterization of an obligation as indebtedness for United States federal income tax purposes is made at the time of the issuance of the obligation. Consistent with our belief that the Senior Notes constituted indebtedness for United States federal income tax purposes at the time of the issuance of the Senior Notes, we have treated and will continue to treat the Senior Notes in that manner. It is possible that the IRS will successfully assert that the Senior Notes are not properly treated as indebtedness prior to the remarketing, in which case the tax consequences of the ownership and disposition of the Senior Notes may differ from those described below. By acquiring Senior Notes in the remarketing, you will be deemed to have agreed to treat the Senior Notes as indebtedness for United States federal income tax purposes.

Because of the manner in which the interest rate on the Senior Notes is reset, we have treated and will continue to treat the Senior Notes for United States federal income tax purposes as indebtedness that is subject to the Treasury regulations governing contingent payment debt instruments (the "contingent payment debt regulations"). However, the proper application of the contingent payment debt regulations to the Senior Notes following the remarketing is uncertain in a number of respects, and no assurance can be given that the IRS will not successfully assert that the Senior Notes should be treated differently than as described below. A different treatment of the Senior Notes could materially affect the amount, timing and character of income, gain or loss with respect to an investment in the Senior Notes. Accordingly, you are urged to consult your tax advisor regarding the United States federal income tax consequences of owning the Senior Notes.

The remainder of this discussion assumes that the notes will be treated as contingent payment debt instruments subject to the contingent payment debt regulations for United States federal income tax purposes.

U.S. Holders

The following is a summary of the United States federal income tax consequences that will apply to you if you are a U.S. holder of Senior Notes. Certain consequences to “Non-U.S. holders” of Senior Notes are described under “ - Non-U.S. Holders” below. You are a “U.S. holder” if you are a beneficial owner of Senior Notes, and you are:

· a citizen or resident of the United States as determined for United States federal income tax purposes;

· a corporation (or any entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States or any political subdivision of the United States;

· an estate the income of which is subject to United States federal income taxation regardless of its source; or

· a trust if (1) a court within the United States can exercise primary supervision over the administration of such trust and one or more United States persons have the authority to control all substantial decisions of such trust or (2) the trust has in effect a valid election to be treated as a domestic trust for U.S. federal income tax purposes.

Interest Accruals Based on Comparable Yield and Projected Payment Schedule

Under the contingent payment debt regulations (subject to the discussion below), regardless of your method of accounting for United States federal income tax purposes, you are required to accrue interest income on the Senior Notes on a constant-yield basis at an assumed yield (the “comparable yield”) that was determined at the time of issuance of the Senior Notes, and to take into account any differences between the actual payments you receive at the reset interest rate and the projected schedule of payments we constructed at the time of the original issuance of the Senior Notes, as more fully described below. The comparable yield for the Senior Notes was based on the yield at which we could have issued, at the time of issuance of the Senior Notes, a fixed-rate debt instrument with no contingent payments but with terms otherwise similar to those of the Senior Notes. Solely for purposes of determining the amount of interest income that accrues on the Senior Notes, we were required, at the time of issuance of the Senior Notes, to construct a “projected payment schedule” in respect of the Senior Notes representing a series of payments the amount and timing of which would produce a yield to maturity on the Senior Notes equal to the comparable yield. A difference between the actual amount of a payment and the projected amount of a payment generally is taken into account as an adjustment to interest income.

For United States federal income tax purposes, you generally are required under the contingent payment debt regulations to use the comparable yield and the projected payment schedule in determining interest accruals and adjustments in respect of a Senior Note, unless you timely disclose and justify the use of a different comparable yield and projected payment schedule to the IRS. However, there is uncertainty regarding the manner in which the contingent payment debt regulations apply to the remarketing, including whether there should be a change in the projected payment schedule and the precise mechanics for determining the total amount and timing of the adjustments to the interest accruals. For our own reporting purposes, we intend not to change the original projected payment schedule created at the time of the issuance of the Senior Notes. The following discussion assumes that you will use this original projected payment schedule, as well.

Furthermore, assuming that you report your income in a manner consistent with our position described below, the amount of income that you will recognize in respect of the Senior Notes generally should correspond to the economic accrual of income on the Senior Notes to you and the amount of income you would have recognized on an accrual basis if the Senior Notes were not subject to the contingent payment debt regulations. No assurance can be given that the IRS will agree with the application of the contingent payment debt regulations to the remarketing in the manner described below.

The amount of interest on a Senior Note that accrues in an accrual period is the product of the comparable yield on the Senior Note (adjusted to reflect the length of the accrual period) and the adjusted issue price of the Senior Note. The daily portions of interest in respect of a Senior Note are determined by allocating to each day in an accrual period the ratable portion of interest on the Senior Note that accrues in the accrual period. The initial adjusted issue price of a Senior Note acquired by you in the remarketing will equal $ per $50 principal amount as of the date of the remarketing (the “initial adjusted issue price”). For any accrual period thereafter, the adjusted issue price will be (x) the sum of the initial adjusted issue price of the Senior Note and all interest previously accrued on such Senior Note starting from the remarketing date (disregarding any positive or negative adjustments described below, including the adjustments reflecting the actual reset rate and additional potential adjustments) minus (y) the total amount of the projected payments on the Senior Note for all previous accrual periods starting from the remarketing date.

At the time of the issuance of the Senior Notes, we determined that the comparable yield was 6.70% and the projected payment schedule for the Senior Notes, per $50 principal amount, was $0.52 on August 16, 2002, $0.72 for each subsequent quarter ending on or prior to May 16, 2005, $1.02 for each quarter ending after May 16, 2005, and $51.02 at maturity (which includes the stated principal amount of the Senior Notes as well as the final projected interest payment). Based on the comparable yield of 6.70% and the initial adjusted issue price of $ per $50 principal amount, you will be required (regardless of your accounting method) to accrue interest as the sum of the daily portions of interest on a Senior Note for each day in the taxable year on which you hold the Senior Note, adjusted to reflect the actual reset rate, as discussed below.

Adjustments to Reflect the Actual Reset Rate

Following the remarketing of the Senior Notes, the Senior Notes will be subject to special rules that are applicable to contingent payment debt instruments for which all of the contingent payments have become fixed at the same time. Under these rules, you must take into account positive or negative adjustments to the projected payment schedule in a reasonable manner over the period to which such adjustments relate. Further, you must allocate in a reasonable manner any difference between your purchase price for the Senior Notes and the adjusted issue price of the Senior Notes at the time you purchase such notes in the remarketing to daily portions of original issue discount or projected payments over the remaining term of the Senior Notes. However, there is uncertainty regarding the manner in which these rules should apply to the Senior Notes after the remarketing, including whether the projected payment schedule should be modified and the method for determining the total amount and timing of the adjustments.

Based on the reset rate of %, actual payments on the Senior Notes, per $50 principal amount, will be approximately $ on August 16, 2005 and $ for each quarterly payment date thereafter. Because these payments will differ from the projected quarterly payments of $1.02, you and we will be requDING-BOTTOM: 2px">

1,383,280

TOTAL EXPENSES

16,383,319

9,129,342

INCOME (LOSS) BEFORE INCOME TAXES

1,481,561

(230,395
)
INCOME TAX EXPENSE

4,308,217

-

NET LOSS

(2,826,656
)

(230,395
)
NET LOSS ATTRIBUTABLE TO

NONCONTROLLING INTERESTS

-

(1,277,682
)

NET INCOME (LOSS) ATTRIBUTABLE TO

CONTROLLING INTERESTS

(2,826,656
)

1,047,287

NET INCOME ATTRIBUTABLE TO

REDEEMABLE INTERESTS

-

46,671

NET INCOME (LOSS) ATTRIBUTABLE TO

NONREDEEMABLE CONTROLLING INTERESTS
$(2,826,656) $1,000,616
BASIC AND FULLY DILUTED INCOME (LOSS) PER SHARE
ATTRIBUTABLE TO CONTROLLING INTERESTS $(0.30) $0.12
BASIC AND FULLY DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING

9,468,759

9,000,000

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

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF OPERATIONS - CONTINUED

PROFORMA INFORMATION AS IF THE COMPANY	Year Ended			
		December 31, 2011		December 31, 2010
HAD BEEN A CORPORATION FOR ALL PERIODS (see note 13)				
INCOME (LOSS) BEFORE INCOME TAXES	$	1,481,561	$	(230,395)
INCOME TAX EXPENSE (BENEFIT)		582,253		(90,545)
NET INCOME (LOSS)		899,308		(139,850)
NET LOSS ATTRIBUTABLE TO				
NONCONTROLLING INTERESTS	$	-	$	(775,553)
NET INCOME ATTRIBUTABLE TO				
CONTROLLING INTERESTS	$	899,308	$	635,703
PROFORMA BASIC EARNINGS				
PER SHARE ATTRIBUTABLE TO				
CONTROLLING INTERESTS (see note 1)	$	0.09	$	0.07
PROFORMA BASIC WEIGHTED AVERAGE				
SHARES OUTSTANDING (see note 1)		9,468,759		9,000,000
PROFORMA FULLY DILUTED EARNINGS				
PER SHARE ATTRIBUTABLE TO				
CONTROLLING INTERESTS (see note 1)	$	0.09	$	0.07
PROFORMA FULLY DILUTED WEIGHTED AVERAGE				
SHARES OUTSTANDING (see note 1)	$	9,909,129	$	9,000,000

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

F-3

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Members' Capital Units	Dollars	Common Shares	Common Stock (par)	Additional Paid-in Capital	Accumulated Deficit	Notes Receivable From Related Parties	Total Equity Attributable to Controlling Interest	Non-con Inter
Balance, December 31, 2009	2,144	$3,806,061	-	$-	$-	$-	$(1,761,134)	$2,044,927	$150,5
Net income (loss)	-	1,047,287	-	-	-	-	-	1,047,287	(1,27
Net income allocated to the redeemable members units		(46,671)	-	-	-	-	-	(46,671)	-
Capital contributions	-	-	-	-	-	-	-	-	680,3
Redemption of noncontrolling interest in GWG Life Settlements, LLC	-	(1,830,136)	-	-	-	-	-	(1,830,136)	1,915
Sale of membership interest in Opportunity Bridge Funding, LLC	-	-	-	-	-	-	-	-	(1,468
Advances to related parties	-	-	-	-	-	-	(544,934)	(544,934)	-
Balance, December 31, 2010	2,144	2,976,541	-	-	-	-	(2,306,068)	670,473	-
Net income through June 10	-	4,404,069	-	-	-	-	-	4,404,069	-

Restructuring of redeemable member's interest	100	(509,126)	-	-	-	-	-	(509,126)	-
Conversion from LLC to corporation (see note 1)	(2,244)	(6,871,484)	9,000,000	9,000	6,862,484	-	-	-	-
Net loss June 11 through December 31	-	-	-	-	-	(7,230,723)	-	(7,230,723)	-
Payment of notes receivable by related parties		-	-	-	-	-	2,306,068	2,306,068	-
Common stock dividends		-	-	-	(2,306,068)	-	-	(2,306,068)	-
Issuance of warrants to purchase common stock					13,876			13,876	
Issuance of common stock		-	989,000	989	3,599,011	-	-	3,600,000	-
Balance, December 31, 2011	-	$-	9,989,000	$9,989	$8,169,303	$(7,230,723)	$-	$948,569	$-

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

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31, 2011	Year Ended December 31, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (2,826,656)	$ (230,395)
Adjustments to reconcile net loss to net		
cash flows from operating activities:		
Gain on life settlements	(29,325,019)	(17,227,092)
Recovery of losses on notes receivable from related parties	-	(20,425)
Capitalized interest on notes receivable from related parties	-	(82,435)
Amortization of deferred financing and issuance costs	2,002,512	746,635
Investment banking services	3,595,027	-
Deferred income taxes, net	4,308,217	-
Preferred stock issued for dividends	16,689	-
Convertible, redeemable preferred stock dividends payable	290,454	-
(Increase) decrease in operating assets:		
Due from related parties	-	(2,415)
Death benefits receivable	400,000	(158,302)
Other assets	188,686	(178,465)
Increase (decrease) in operating liabilities:		
Due to related party	150	(610,888)
Accounts payable	(274,779)	(243,777)
Accrued interest	1,219,971	1,601,334
Accrued expenses	143,267	(354,691)
NET CASH FLOWS USED IN		
OPERATING ACTIVITIES	(20,261,481)	(16,760,916)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in life settlements	(11,929,395)	(53,223,996)
Proceeds from settlement of life settlements	1,803,452	0
NET CASH FLOWS USED IN		
INVESTING ACTIVITIES	(10,125,943)	(53,223,996)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from revolving credit facility	22,914,548	32,098,027
Proceeds from issuance of Series I Secured notes payable	11,991,331	43,494,690
Payments for redemption of Series I Secured notes payable	(7,810,398)	(5,780,420)
Proceeds from restricted cash	424,707	532,106
Issuance of common stock	4,973	-
Advances on notes to related parties	-	(462,499)
Issuance of non-controlling interest member capital	-	680,388
Issuance of preferred stock	4,213,862	-
Payments of issuance cost for preferred stock	(1,231,480)	-
Proceeds from notes receivable from related parties	2,306,068	-

Common stock dividends		(2,306,068)		-
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		30,507,543		70,562,292
NET INCREASE IN CASH AND CASH EQUIVALENTS		120,119		577,380
CASH AND CASH EQUIVALENTS				
BEGINNING OF YEAR		1,758,230		1,180,850
END OF YEAR	$	1,878,349	$	1,758,230

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

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CASH FLOWS – CONTINUED

	Year Ended December 31, 2011	Year Ended December 31, 2010
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$ 5,846,000	$ 2,904,000
Income taxes paid	$ -	$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Receivable for maturity of life settlement investment	$ -	$ 241,698
Redemption of non-controlling interest	$ -	$ 1,916,000
Sale of membership interest in Opportunity Bridge Funding, LLC to Insurance Strategies Fund, LLC:		
Prepaid expenses	$ -	$ 16,000
Bridge loans receivable	$ -	$ 3,226,000
Accounts payable	$ -	$ (84,000)
Due to related parties	$ -	$ (1,690,000)
Noncontrolling interest	$ -	$ (1,469,000)
Convertible, redeemable preferred stock:		
Non-cash conversion of Series I secured notes	$ 9,570,000	$ -
Non-cash conversion of accrued interest payable on Series I secured notes	$ 308,000	$ -

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

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

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

Nature of business - GWG Holdings, Inc. (Holdings) (previously GWG Holdings, LLC) and Subsidiaries, located in Minneapolis, Minnesota, facilitates the purchase of life insurance policies for its own investment portfolio through its wholly owned subsidiary, GWG Life Settlements, LLC (GWG Life), and its subsidiaries, GWG DLP Funding, LLC (DLP) and its wholly owned subsidiary, GWG DLP Master Trust (the Trust) prior to its sale on November 1, 2010 as described in note 4; and GWG DLP Funding II, LLC (DLP II) and its wholly owned subsidiary, GWG DLP Master Trust II (the Trust II). Holdings converted from a limited liability company into a corporation effective June 10, 2011 and as a result of this change all member units were converted into common stock. Holdings finances the acquisition of life insurance policies, and pays policy premiums through its line of credit and other debt and equity securities. Holdings earns fees for brokering policies transactions between market participants through its wholly owned subsidiary, GWG Broker Services, LLC (Broker Services). GWG Member, LLC a wholly owned subsidiary formed November 2010 to facilitate the acquisition of policies has not commenced operations as of December 31, 2011. The entities were legally organized in Delaware and are collectively referred herein to as GWG, or the Company.

On July 11, 2011 the Company entered into a Purchase and Sale Agreement with Athena Securities Group, LTD and Athena Structured Funds PLC. Under this agreement, Holdings issued to Athena Securities Group, LTD (Athena) 989,000 shares of common stock, which was equal to 9.9% of the outstanding shares in the Company in exchange for shares equal to 9.9% of the outstanding shares in Athena Structured Funds, PLC (Athena Funds) and cash of $5,000. In accordance with ASC 505-50, the Company recorded the share-based payment transaction with Athena at the fair value of the Company's 989,000 shares of common stock issued as it was the most reliable measurable form of consideration in this exchange (see note 5 for fair value definition and assumptions). In exchange, Athena will endeavor to issue securities outside the United States through Athena Funds, which will be operated with the intent of raising funds to invest in the Company which may be used for the acquisition of life insurance policies. The total value ascribed to the common stock issued to Athena was $3.6 million, of which approximately $3,595,000 has been included in the Consolidated Statement of Operations under the caption "investment banking services." The $5,000 cash paid by Athena, which represents the fair value of the shares of Athena Funds, is included in financing activities of the Consolidated Statement of Cash Flows. To date, Athena Funds has not raised any funds or made any investment in the Company.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of Holdings and its subsidiaries. The Company operates in a single segment. All significant intercompany balances have been eliminated in consolidation.

Insurance Strategies Fund, LLC (ISF), a related party with common ownership to the Company, held a non-controlling interest in both GWG Life and Opportunity Bridge Funding at December 31, 2009. Holdings sold its controlling interest in Opportunity Bridge Funding to ISF (see note 11 for further information on the transactions). The operations of each subsidiary have been consolidated for its period of ownership and ISF's non-controlling interest is included in equity.

GWG Life, through December 31, 2008, sold 100 percent of the investments in life insurance policies acquired to a wholly-owned subsidiary, DLP and the related Trust. DLP was considered a variable interest entity as defined by Financial Accounting Standards Board (FASB) ASC 810-10. Despite a 100 percent equity interest, GWG Life was not the primary beneficiary of DLP, and therefore did not consolidate DLP, but rather accounted for its investment in DLP under the equity method with a carrying value of zero at December 31, 2010. Effective November 1, 2010 DLP sold its portfolio of insurance policies to Life Assets Trust S.A. resulting in a triggering event in which GWG Life was determined to be the primary beneficiary. As of and since the transaction date GWG Life has consolidated DLP. DLP did not have any operations or net assets as of or from November 1, 2010 (immediately subsequent to the transaction) to December 31, 2011. See note 4 regarding the transaction.

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

Use of estimates - The preparation of consolidated financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions. The Company bases its estimates and assumptions on current facts, historical experience, and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected. The most significant estimates with regard to these consolidated financial statements relates to (1) the determination of the assumptions used in estimating the fair value of the investment in life insurance policies, (2) the fair value of the Company's stock issued in connection with the Athena transaction, and (3) the value of deferred tax assets upon conversion to a corporation.

Operating agreement – Prior to the conversion to a corporation in 2011, the Amended and Restated Operating Agreement (Operating Agreement) dated September 29, 2009, specified the members' obligations and rights relating to contributions, income, gains, losses, deductions, credits and distributions. The Company had issued 2,044 Class A units and 200 Class B units to members. The Operating Agreement provided for the allocation of income, losses and distribution to unit holders on a prorata basis for all Class A and Class B members.

One Class B member held a put right to cause the Company to purchase the member's 100 units at fair value. This put option was exercisable five years from the date of the Operating Agreement (March 19, 2013) or at any time at which voting control over the remaining unit holders is relinquished. The Operating Agreement also gave the Company the right to purchase, at fair value, the 100 units held by the Class B member aforementioned. This call right became exercisable on February 10, 2011. The redemption value of the Class B units subject to the put and call provisions have been excluded from member's equity through March 2011 in accordance with the guidance in Accounting Standards Codification 480 "Distinguishing Liabilities from Equity".

The Company's Operating Agreement, with the consent of its unit holders, was amended effective March 31, 2011 to eliminate the put and call option held by the Class B unit holder and the Company, respectively. As a result, the accumulated loss attributable to the Class B units of $509,126 was reclassified as a component of equity.

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

On July 31, 2011 the Company issued a Private Placement Memorandum for the sale of up to 3,333,333 shares of Series A 10% convertible, redeemable preferred stock at an offering price of $7.50 per share (see note 10).

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

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

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

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

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

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

Deposits and initial direct costs advanced on policies to be purchased are recorded as other assets until policy ownership has been transferred to the Company.

Deferred financing and issuance costs – Financing costs incurred to obtain financing under the revolving credit facility have been capitalized and are amortized using the straight-line method over the term of the revolving credit facility. Amortization of deferred financing costs was $233,000 for each of the years ended December 31, 2011 and 2010. The future amortization is $233,000 and $97,000 for the years ending December 31, 2012 and 2013, respectively. The Series I Secured note obligations, as described in note 8, are reported net of issuance costs, sales commissions and other direct expenses, which are amortized using the interest method over the term of the borrowings. The Series A preferred stock, as described in note 10, is reported net of issuance costs, sales commissions, and other direct expenses, which are amortized using the interest method.

Costs for issuance of convertible, redeemable-preferred stock – The Company amortizes costs related to the issuance of convertible, redeemable preferred stock as interest expense over the three year redemption period.

Investments in non-marketable securities – The Company’s investments in non-marketable securities are carried at cost and evaluated for impairment.

Related party income from life insurance policies - Through the date of the sale of DLP’s policy portfolio, GWG Life received origination and servicing fees from DLP as consideration for providing life insurance-related services. These contract servicing fees were recognized as income in the period the services were performed.

Income taxes - The Company was a pass through entity for federal income tax purposes through June 10, 2011. No income tax provision has been included through that date in these consolidated financial statements as income or loss of the Company was required to be reported by the respective members on their income tax returns. Subsequent to the Company’s conversion to a corporation it will file a combined return with the subsidiaries.

As a result of the Company’s change in legal structure from a limited liability company (filing tax returns as a pass through entity) to a corporation effective June 10, 2011, the Company will file and pay taxes based on its reported income.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date enacted.

The Company adopted the accounting guidance on accounting for uncertainty in income taxes effective January 1, 2010. The Company reviews and assesses its tax positions taken or expected to be taken in tax returns, including its previous status as a tax-exempt entity. Based on this assessment the Company determines whether it is more likely than not that the position would be sustained upon examination by tax authorities. The Company's assessment has not identified any significant positions that it believes would not be sustained under examination. The Company recognizes interest and penalties on any unrecognized tax benefits as a component of income tax expense.

The Company files tax returns in the United States (U.S.) federal jurisdiction and in various state jurisdictions. Uncertain tax positions include those related to tax years that remain subject to examination. U.S. tax returns for fiscal years ended December 31, 2008 through 2011 (when filed), remain subject to examination by federal tax authorities. Tax returns for state and local jurisdictions for fiscal years ended December 31, 2008 through 2011 (when filed), remain subject to examination by state and local tax authorities.

Earnings (loss) per share – The Company converted from a limited liability company into a corporation effective June 10, 2011 and as a result of this change all member units were converted into common stock. The earnings (loss) attributable to controlling interests per ownership interest has been restated to reflect the equivalent common stock per share amounts as of the earliest period reported. Basic per share earnings (loss) attributable to controlling non-redeemable interests is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is calculated based on the potential dilutive impact, if any, of the Company's preferred stock and outstanding warrants.

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

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

Recently adopted pronouncements - In December 2009, the FASB issued Accounting Standard Update (ASU) No. 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities", which was effective for the Company beginning January 1, 2010. This ASU amends Subtopic 810-10, for consolidations of variable interest entities to require revised evaluation of whether entities represent variable interest entities, determining the primary beneficiary, ongoing assessments of control over such entities, and additional disclosures for variable interests. The adoption of this pronouncement did not have an impact on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-02, "Accounting and Reporting for Decreases in Ownership of a subsidiary" – a Scope Clarification (Topic 810), which clarifies the scope of Subtopic 810-10 and expands the disclosure requirements related to the accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary or exchanges a group of assets (business) for an equity interest in another entity. The guidance became effective for the reporting period beginning January 1, 2010. The adoption of this new guidance has been applied to the equity transactions involving the Company's subsidiaries in the consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements" ("ASU 2010-06"), which amends the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires additional disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. The guidance also clarifies certain existing disclosure requirements. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). This pronouncement became effective for the Company with the reporting period beginning January 1, 2011. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

In April, 2010, the FASB issued ASU No. 2010-15, "Financial Services – Insurance (Topic 944): How Investments Held through Separate Accounts Affect an Insurer's Analysis of Those Investments", which clarifies that an insurance entity generally should not consider any separate account interests held for the benefit of policy holders in an investment to be the insurer's interests and should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation. The general guidance does not apply in instances where the separate account interests are held for the benefit of a related party policy holder as defined in the Variable Interest Entities Subsection of Codification Topic-810, "Consolidation", Subtopic 810-10, as those Subsections require the consideration of related parties. The guidance became effective for the reporting period beginning January 1, 2011. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS", which amends disclosure requirements related to categorization within the fair value hierarchy. This update results in common principles and requirements for measuring fair value and disclosing information about fair value measurements in accordance with GAAP and International Financial Reporting Standards. The guidance will become effective for the annual period beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

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

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

(2) Restrictions on cash

The Company is required by its lenders to maintain collection and escrow accounts. These accounts are used to fund the acquisition and pay annual premiums of insurance policies and to pay interest and other charges under its revolving credit facility. DZ Bank AG as agent for Autobahn Funding Company, LLC, the lender for the revolving credit facility as described in note 7, authorizes the disbursements from these accounts. The Company also maintains a separate cash account for the deposit of Series I Secured note proceeds as described in note 8. An account control agreement is in place with the Series I Trustee, Lord Securities Corporation, who must authorize disbursements from this account for uses identified in note 8. At December 31, 2011 and 2010 there was a balance of $4,794,000, and $5,219,000 respectively, maintained in these restricted cash accounts.

(3) Investment in life insurance policies

The life insurance policies (level 3 financial instruments) are valued based on inputs that are unobservable and significant to the overall fair value measurement. Changes in the fair value of these instruments are recorded in gain or loss on life insurance policies in our consolidated statements of operations (net of the cash premiums paid on the policies). The fair value is determined on a discounted cash flow basis that incorporates current life expectancy assumptions. Life expectancy reports have been obtained from widely accepted life expectancy providers. The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life insurance policy and our estimate of the risk premium an investor in the policy would require. As a result of management's analysis, discount rates of 13.41%, and 13.36% were applied to the portfolio as of December 31, 2011 and 2010, respectively.

A summary of the Company's life insurance policies, as of December 31, 2011 accounted for under the fair value method, based on remaining life expectancy is as follows:

Years Ending December 31,	Number of Contracts	Estimated Fair Value	Face Value
2012	-	$ -	$ -
2013	-	-	-
2014	1	535,000	1,000,000
2015	5	4,636,000	9,329,000
2016	10	12,930,000	34,835,000
2017	29	24,144,000	71,998,000
Thereafter	130	79,924,000	359,243,000
Totals	175	$ 122,169,000	$ 476,405,000

The Company recognized death benefits of $4,203,000 and 400,000 during 2011 and 2010 respectively, related to policies with an estimated fair value of $1,393,800 and $168,000, respectively. The Company recorded realized gains of $2,810,000 and $232,000 on such policies.

Reconciliation of gain on life settlements:

	Years Ended December 31, 2011	2010
Change in fair value, including realized gains	$ 29,325,000	$ 17,227,000

Premiums and other annual fees	(14,331,000)	(8,800,000)
Policy maturities	2,810,000	232,000
Gain on life settlements, net	$ 17,804,000	$ 8,659,000

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

Years Ending December 31,	
2012	$ 15,299,000
2013	16,020,000
2014	17,090,000
2015	18,443,000
2016	19,865,000
	$ 86,717,000

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

From January 1, 2010 through November 1, 2010, the Company purchased life insurance policies from its affiliate DLP for $20,521,000 which represented DLP's amortized cost of the specific contracts. The amortized costs of these contracts were in excess of their fair value and as a result the Company recorded losses on the purchases of $2,530,000 during 2010.

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

(4) Investment in unconsolidated company

DLP was considered a variable interest entity as defined by FASB ASC Topic 810-10. GWG Life was not the primary beneficiary and therefore did not consolidate DLP despite ownership of all equity interests in DLP. Effective November 1, 2010 an agreement was reached where Life Assets Trust S.A. purchased DLP's portfolio of life insurance policies for the $257,465,000 due on DLP's credit facility. This transaction with Life Assets Trust S.A. included the transfer and assumption of all of DLP's assets and liabilities to Life Assets Trust S.A. as of the date of the transaction. DLP's gain on the sale of the portfolio of policies was recognized by the primary beneficiary, its lender, WestLB AG. Subsequent to the transaction, WestLB AG was no longer the primary beneficiary of DLP. As a result, DLP is presented as a consolidated subsidiary of GWG Life as of and subsequent to the transaction date, as GWG Life holds all equity interest and there are no other variable interests. GWG Life's investment in DLP had a carrying value of $0 at the date of the transaction. DLP did not have any operations or net assets as of or from November 1, 2010 (immediately subsequent to the transaction) to December 31, 2011. See note 1 "Principles of consolidation," and note 3 "Investment in life policies" for additional information regarding DLP.

A summary of the assets and liabilities of DLP on November 1, 2010 (as transferred and assumed) and revenues, expenses and net income for the period January 1, 2010 to November 1, 2010 as follows:

		November 1, 2010
ASSETS		
Cash and cash equivalents	$	100,954
Investment in life settlements		257,245,651
Deferred financing costs		119,050
TOTAL ASSETS	$	257,465,295
LIABILITIES		
Revolving credit facility	$	257,148,907
Accrued interest payable and other accrued expenses		316,388
TOTAL LIABILITIES		257,465,295
MEMBERS' DEFICIT		-
TOTAL LIABILITIES & MEMBERS' DEFICIT	$	257,465,295

		January 1 to November 1, 2010
REVENUE		
Gain on life settlements	$	84,903,535
Interest and other income		8
TOTAL REVENUE		84,903,543
EXPENSES		
Interest expense		5,799,008
Origination and servicing fees paid to Company's member		37,825

Amortization of deferred financing costs		119,050
Legal and professional fees		71,421
Other expenses		290
TOTAL EXPENSES		6,027,594
NET INCOME	$	78,875,949

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

(5) Fair value definition and hierarchy

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

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

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 instruments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

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

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary by types of assets and liabilities and is affected by a wide variety of factors, including, for example, whether the investment is established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by management in determining fair value is greatest for assets and liabilities categorized in Level 3.

Life insurance policies represent financial instruments recorded at fair value on a recurring basis. The following tables reconcile the beginning and ending fair value of the Company's Level 3 investments in life insurance policies for the years ended December 31, 2011 and 2010:

Balance at December 31, 2009	$12,908,000
Purchases	53,224,000
Maturities	(242,000)
Net change in fair value	16,828,000
Balance at December 31, 2010	$82,718,000

Purchases	11,929,000
Maturities	(1,803,000)
Net change in fair value	29,325,000
Balance at December 31, 2011	$122,169,000

The fair value of a portfolio of life insurance policies is based on information available to the Company at the reporting date. Fair value is based upon a discounted cash flow model that incorporates current life expectancy assumptions. Life expectancy reports are obtained from independent, third-party widely accepted life expectancy providers. The life expectancy values of each policy holder, as determined at policy acquisition, are rolled down monthly by the MAPS actuarial software the Company uses for ongoing valuation of its portfolio of life insurance policies. The Company also orders new life expectancy reports from time to time on existing policies already in the portfolio. The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life insurance policy and management's estimate of the risk premium an investor in the individual policies would require.

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

The fair value of life insurance policies is estimated using present value calculations of estimated cash flows based on the data specific to each individual life insurance policy. The following summarizes data utilized in estimating the fair value of the portfolio of life insurance policies:

	Years Ended December 31, 2011	2010
Weighted average age of insured	80.9	80.3
Weighted average life expectancy, months*	93.6	102.0
Average face amount per policy	$ 2,722,315	$ 2,710,310
Fair Value Discount rate	13.41%	13.36%

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

These assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The techniques used in estimating the present value of estimated cash flows are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonable vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value. If the life expectancies were increased or decreased by 4 months on each outstanding policy and the discount factors were increased or decreased by 1% while all other variables are held constant, the fair value of the investment in life insurance policies would increase or (decrease) by the amounts summarized below:

	Change in life expectancy plus 4 months	minus 4 months
Investment in life policies		
December 31, 2011	$ (9,660,000)	$ 9,951,000
December 31, 2010	$ (7,047,000)	$ 7,278,000

	Change in discount rate plus 1%	minus 1%
Investment in life policies		
December 31, 2011	$ (6,665,000)	$ 7,254,000
December 31, 2010	$ (5,283,000)	$ 5,785,000

Carrying value of receivables, prepaid expenses, accounts payable and accrued expenses approximate fair value due to their short term maturities. The estimated fair value of the Company’s Series I Secured notes payable is approximately $49,919,000 based on a weighted average market interest rate of 8.04%. The carrying value of the revolving credit facility reflects interest charged at the commercial paper rate plus an applicable margin. The margin represents our credit risk, and management believes this margin has not changed over time. The overall rate reflects market, and the carrying value of the revolver approximates fair value.

The Company has issued warrants to purchase common stock in connection with the issuance of its preferred stock. These warrants are level 3 instruments and are measured at fair value. The estimated fair value of each warrant as of the date of issuance was $0.14 using the Black-Scholes model and included an assumed life of three years, a risk free interest rate of 0.42% and a volatility rate of 25.25%.

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

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

The fair value of the GWG common stock issued to Athena is considered to be level 3 fair value measurement, as it has been determined using inputs that require a significant degree of judgment by management. Management calculated an enterprise value contemporaneous with entering into the Athena transaction in July 2011. Pursuant to ASC 505-50-25-7, if fully vested, nonforfeitable equity instruments are issued at the date the grantor and grantee enter into an agreement for goods or services (i.e., no specific performance is required by the grantee to retain those equity instruments), then, because of the elimination of any obligation on the part of the counterparty to earn the equity instruments, a measurement date has been reached. Since the shares issued by the Company to Athena as of the date of the agreement with Athena are classified as equity and were not subject to future service or performance requirements, the shares issued are not subject to revaluation in the future. The fair value of Athena Fund's stock received by the Company represents the $5,000 capital contribution to the fund. The fund has had no operations and no significant assets as of December 31, 2011.

The Company performed a valuation of GWG Holdings as of July 11, 2011. The valuation used an equity cost of capital discounted cash flow calculation to determine the value of the Company. The assumptions utilized in the calculation of estimated cash flows include $799 million of debentures sold over a nine-year timeframe and approximately $421 million of borrowing under its line of credit. These funds would be used to acquire additional life insurance policies, pay premiums and service debt. The resulting portfolio of policies would be expected to generate a weighted average internal rate of return of 14.26% and provide an increasing cash flow to equity. Further discounts of 30% and 10% were then applied to the enterprise value due to marketability and minority interest factors.

The Company's valuation of a non-control, non-marketable value for GWG Holdings was $36,786,000. The value of common stock issued to Athena as 9.9% of the aggregate value of the Company's common stock was $3,600,000.

(6) Notes receivable from related parties

Notes receivable from related parties consisted of various unsecured notes receivable totaling $2,306,000 at December 31, 2010. These notes were due from shareholders of the Company, with interest rates ranging from 4.2% to 5%, payable annually and were paid in full in 2011. Interest income from related parties totaled $24,000 and $82,000 during the years ended December 31, 2011 and 2010 respectively. As a part of the Company's compensation plan effective January 1, 2011, interest income earned on these notes were treated as guaranteed payments to the members and are included in employee compensation and benefits in the statement of operations.

On July 27, 2011 the Company paid dividends to the shareholders in the amount of their respective note receivable balances. They immediately repaid their balance due on each note and the related accrued interest in full.

As of December 31, 2011, and 2010, the Company had receivables totaling $5,000,000 due from an affiliate, Opportunity Finance, LLC, that were fully reserved. Opportunity Finance ceased operations in 2008.

(7) Credit facilities

Revolving credit facility – Autobahn Funding Company LLC

On July 15, 2008, DLP II and United Lending entered into a revolving credit facility pursuant to a Credit and Security Agreement (Agreement) with Autobahn Funding Company LLC (Autobahn), providing the Company with a maximum borrowing amount of $100,000,000. Autobahn is a commercial paper conduit that issues commercial paper to investors in order to provide funding to DLP II and United Lending. DZ Bank AG acts as the agent for Autobahn.

The Agreement expires on July 15, 2013. The amount outstanding under this facility as of December 31, 2011 and 2010, was $60,000,000 and $37,085,000, respectively.

The Agreement requires DLP II or United Lending to pay, on a monthly basis, interest at the commercial paper rate plus an applicable margin, as defined in the Agreement. The effective rate was 2.25% and 2.14% at December 31, 2011 and 2010, respectively. The weighted average effective interest rate was 2.17% and 2.21% (excluding the unused line fee) for the years ended December 31, 2011 and 2010, respectively. The Agreement also requires payment of an unused line fee on the amount unused under the revolving credit facility. The note is secured by substantially all of DLP II and United Lending assets which consist primarily of life settlement policies. The Company anticipates making all required principal and interest payments under the Agreement.

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

The Agreement has certain financial and nonfinancial covenants. The Company is in compliance with these covenants at December 31, 2011. In addition, advances under the Agreement are subject to a borrowing base formula, which limits the availability of advances on the borrowing base calculation based on attributes of policies pledged to the facility. Over-concentration of policies by insurance carrier, and over-concentration of policies by insurance carriers with ratings below a AA- rating are the two primary factors with the potential of limiting availability of funds on the facility. Total funds available for borrowing under the borrowing base formula criteria at December 31, 2011 and 2010, were $7,691,000 and $11,063,000 respectively.

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

Lending agreement with affiliate

The Company has established an Investment Agreement with an affiliate Insurance Strategies Fund, LLC (ISF) on September 3, 2009. Under the terms of this agreement, ISF will provide working capital loans to the Company for general working capital needs and expenses. The Company borrowed $850,000 under this agreement during the year ended December 31, 2010. The Company repaid all these loans prior to December 31, 2010 resulting in a zero balance as of December 31, 2010. The Company borrowed $300,000 under this agreement during the year ended December 31, 2011. The Company repaid all these working capital loans prior to December 31, 2011 resulting in a zero balance as of December 31, 2011. The Company paid interest of $5,000 and $58,000 for the years ended December 31, 2011 and 2010 respectively.

(8) Series I Secured notes payable

Series I Secured notes payable have been issued in conjunction with the GWG Series I Secured notes private placement memorandum dated August 25, 2009 (last revised November 15, 2010). On June 14, 2011 the Company closed the offering to additional investors, however, existing investors may elect to continue advancing amounts outstanding. Series I Secured notes have maturity dates ranging from six months to seven years with fixed interest rates varying from 7.0% to 9.55% depending on the term of the note. Interest is payable monthly, quarterly, annually or at maturity depending on the terms of the note. At December 31, 2011 and 2010 the weighted average interest rates of Series I Secured notes were 8.04%, and 7.95% respectively. The notes are secured by assets of GWG Life. The amount outstanding under these Series I Secured notes was $49,332,000 and $53,293,000 at December 31, 2011, and December 31, 2010, respectively. The difference between the amount outstanding on the Series I Secured notes and the carrying amount on the consolidated balance sheet is due to netting of unamortized deferred issuance costs. Amortization of deferred issuance costs was $1,770,000 and $511,000, for the years ended December 31, 2011 and 2010, respectively. Future expected amortization of deferred financing costs is $1,153,000. Overall, interest expense includes financing and issuance costs of $2,003,000 and $744,000 for the years ended December 31, 2011 and 2010.

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

The use of proceeds from the issuances of Series I Secured notes is limited to the following:

1. Payment of commissions of Series I Secured note sales
2. Purchase life insurance policies

3. Pay premiums of life insurance policies
4. Pay principal and interest to Senior Liquidity Provider (DZ Bank)
5. Pay portfolio or note operating fees or costs
6. Pay trustee (Wells Fargo Bank, N.A.)
7. Pay servicer and collateral fees
8. Pay principal and interest on Series I Secured notes
9. Make distributions to equity holders for tax liability related to portfolio
10. Purchase interest rate caps, swaps, or hedging instruments
11. Pay GWG Series I Trustee fees
12. Pay offering expenses

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

Future maturities of Series I Secured notes payable at December 31, 2011 are as follows:

Years Ending December 31,		
2012	$	28,507,000
2013		8,819,000
2014		1,832,000
2015		4,174,000
2016		1,161,000
Thereafter		4,839,000
	$	49,332,000

F-16

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

(9) Renewable secured debentures

The Company has filed with the Securities and Exchange Commission, effective January 2012, to offer the sale of $250,000,000 of secured debentures. Subsequent to the effective date the Company has issued $3,787,000 of these secured debentures.

(10) Convertible, redeemable preferred stock

The Company offered 3,333,333 shares of convertible redeemable preferred stock (Series A preferred stock) for sale to accredited investors through a private placement memorandum effective July 31, 2011. The preferred stock is being sold at an offering price of $7.50 per share. Series A preferred stock has a preferred yield of 10% per annum, and each share shall have the right to convert into 1.5 shares of the Company's common stock until such time as the Company elects to automatically convert the preferred stock to common stock as described below. Preferred shareholders also received three-year warrants to purchase, at an exercise price per share of $6.25, one share of common stock for every twenty shares of Series A preferred stock purchased. The warrants are convertible immediately. In the Certificate of Designation dated July 31, 2011, the Company has agreed to permit preferred shareholders to sell their shares back to the Company for the stated value of $7.50 per share, plus accrued dividends, according to the following schedule:

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

The Company's obligation to redeem preferred shares will terminate upon the Company completing a registration of its common stock with the SEC. The Company may redeem the shares at a price equal to 110% of their liquidation preference ($7.50 per share) at any time after December 15, 2012.

At the election of the Company, the preferred shares may be automatically converted into the common stock of the Company in the event of either (1) a registered offering of the Company's common stock with the SEC aggregating gross proceeds of at least $5.0 million at a price equal to or greater than $5.50 per share of common stock, or (2) the consent of shareholders holding at least a majority of the then-outstanding shares of Series A preferred stock. The Company began issuing Series A preferred stock on September 1, 2011. As of December 31, 2011, the Company had issued 1,881,329 preferred shares resulting in gross consideration of $14,109,000 (including cash proceeds for new notes, conversion of Series I Secured notes and accrued interest on Series I notes, and preferred dividends). The Company incurred issuance costs of $1,448,000 resulting in a net preferred stock capital balance of $12,661,000.

The Company determined the fair value of the warrants attached to the Series A preferred stock was $14,000 at December 31, 2011. The Company may redeem outstanding warrants prior to their expiration, at a price of $0.01 per share upon 30 days written notice to the investors at any time after (i) the Company has completed a registration of its common stock with the SEC and (ii) the volume of weighted average sale price per share of common stock equals or exceeds $7.00 per share for ten consecutive trading days ending on the third business day prior to proper notice of such redemption. Total warrants outstanding at December 31, 2011, was 139,417 with a weighted average remaining life of 2.76 years.

Dividends on the preferred stock may be paid in either cash or additional shares of preferred stock at the election of the holder. The dividends are reported as an expense and included in the caption interest expense in the consolidated statements of operations.

The Company declared and accrued dividends payable of $45,000 as of September 30, 2011. Cash dividends of $27,000 were paid on October 15, 2011, and 2,481 shares of Series A preferred stock were issued as dividends on October 15, 2011, pursuant to a board resolution declaring the dividend. On December 31, 2011, the Company declared and accrued dividends of $290,000. Cash dividends of $181,000 were paid on January 15, 2012, and 15,607 shares of Series A preferred stock were issued as dividends pursuant to a board resolution declaring the dividend on January 15, 2012.

(11) Noncontrolling interest

Opportunity Bridge Funding - The Company's former subsidiary, Opportunity Bridge Funding, issued a preferred membership interest to a related party, Insurance Strategies Fund, LLC. Under the terms of a preferred membership investment certificate and the amended Operating Agreement, the preferred membership investment entitled the preferred membership investors to all of the economic benefits of Opportunity Bridge Funding, LLC during which time the preferred membership was invested. The preferred membership interest in Opportunity Bridge Funding has been reflected as noncontrolling interest in the Company’s consolidated financial statements through December 31, 2009. Effective January 1, 2010, the preferred member of Opportunity Bridge Funding, Insurance Strategies Fund, LLC (a related party controlled by members of the Company) purchased Holding’s membership interest in Opportunity Bridge Funding for $1. Opportunity Bridge Funding was no longer consolidated as of that date. No gain or loss was recognized as a result of the transaction. Net assets and noncontrolling interest of $1,469,000 were deconsolidated.

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

GWG Life - On September 3, 2009 GWG amended and restated its operating agreement authorizing the issuance of non-voting preferred Series I Units (Series I Units) redeemable at the Company's option for an amount equal to the tax basis of the Series I Units at the date of redemption. The Series I Units were entitled to receive all the remaining economic benefits, including cash flow, proceeds and distributions of or from current assets owned or hereafter acquired, directly or indirectly by GWG, including those of DLP and DLPII after amounts to be paid to senior lenders and Series I Secured note holders. Effective September 3, 2009 a related party, Insurance Strategies Fund, LLC (ISF), was issued one Series I Unit. During the period September 3, 2009 through February 28, 2010, ISF made total capital contributions of $1,531,000. During this same period, tax losses of $1,560,000 allocated to ISF's interest in GWG Life reduced its tax basis below zero. In accordance with ASC 810-10-45-20, net income or loss and comprehensive income or loss was attributed to the controlling interest and the non-controlling interest based on the terms of the substantive profit and loss sharing agreement contained in the GWG Life Amended and Restated Operating Agreement dated as of September 30, 2009. The non-controlling interest was attributed its share of losses resulting in a deficit non-controlling interest balance. As a result of these allocations, the non-controlling interest had a member's capital balance of $(1,915,000).

In accordance with the provisions of the GWG Life Amended and Restated Operating Agreement dated as of September 30, 2009, the Company purchased ISF's interest in GWG Life Series I units on March 1, 2010 for no consideration. As the remaining member in GWG Life, Holdings recorded a transfer of ISF's $(1,915,000) non-controlling interest in GWG Life to member's capital and non-redeemable member's interest.

(12) Income taxes

The Company was a pass through entity for federal income tax purposes through June 10, 2011. No income tax provision has been included in these consolidated financial statements through June 10, 2011, as the related income or loss of the Company was required to be reported by the respective members on their income tax returns.

The Company, as provided by Delaware state regulations, changed its legal structure from a limited liability company to a corporation effective June 10, 2011. Subsequent to the conversion, the Company reports its income or loss on its own tax returns and is responsible for any related taxes.

Deferred tax assets and liabilities and the related tax expense were recorded effective the date of the Company's change in tax status, thereby reflecting the income tax effect of temporary differences between the tax bases and financial reporting bases of assets and liabilities. The Company's tax provision for the year ended December 31, 2011, includes income tax expense related to both the entity's conversion and operations for the period June 11, 2011 to December 31, 2011.

The Company did not have any current income taxes for the year ended December 31, 2011. The components of deferred income tax expense for the year ended December 31, 2011, consisted of the following:

Income tax provision:	2011	2010
Deferred:		
Federal	$ 3,620,000	-
State	688,000	-
Total income tax expense (benefit)	$ 4,308,000	$ -

F-18

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

Actual income tax expense differs from the statutory federal income tax expense primarily due to the conversion of the Company from a pass through entity to a taxable corporation during the year ended December 31, 2011. Upon conversion, FASB ASC 740, Income Taxes, required the Company to recognize, through current period income tax expense, an amount equal to the amount of deferred income taxes required to be recorded on the consolidated balance sheet at the date of conversion. On June 11, 2011, the Company recorded deferred tax liabilities of $5,488,000 and deferred tax assets of $2,028,000 as a result of the conversion.

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

		Years Ended December 31, 2011	
Statutory federal income tax	$	504,000	34.0%
State income taxes, net of federal benefit		96,000	6.0%
Non-taxable earnings prior to tax conversion on June 10, 2011		(1,788,000)	(120.7)%
Effect of conversion to corporation		5,483,000	370.1%
Other		13,000	0.9%
Total income tax expense	$	4,308,000	290.8%

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

		Years Ended December 31, 2011		2010
Deferred tax assets :				
Other assets	$	4,000	$	-
Investment in Athena Structured Funds, PLC		1,455,000		-
Note receivable from related party		2,023,000		-
Net operating loss carryforwards		946,000		-
Subtotal		4,428,000		-
Valuation allowance		2,023,000		-
Net deferred tax asset		2,405,000		-
Deferred tax liabilities:				
Investment in life settlements		(6,713,000)		-
Net deferred tax assets	$	(4,308,000)	$	-

At December 31, 2011, the Company had federal and state net operating loss (NOL) carryforwards of $2,337,000 which represent losses incurred since conversion, and expire in 2031. Future utilization of NOL carryforwards is subject to limitation under Section 382 of the Internal Revenue Code. This section generally relates to a more than 50 percent change in ownership over a three-year period. We currently do not believe that any issuance of common stock has resulted in an ownership change under Section 382.

The Company provides for a valuation allowance when it is considered not more likely than not that our deferred tax assets will be realized. At December 31, 2011, based upon all available evidence, the Company established a $2,023,000 valuation allowance against deferred tax assets related to the likelihood of recovering the tax benefit of a capital loss on a note receivable from a related entity. Management believes all other deferred tax assets are recoverable.

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

Under the Company's accounting policies, interest and penalties on unrecognized tax benefits, as well as interest received from favorable tax settlements are recognized as components of income tax expense. At December 31, 2011, the Company has recorded no accrued interest or penalties related to uncertain tax positions.

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

The 2011 tax year, the first year that the Company was taxable as a corporation, once filed, remains open to examination by the Internal Revenue Service and various state taxing jurisdictions. GWG Holdings, LLC tax returns for periods ended December 31, 2008 through June 10, 2011 (date of conversion) remain open to examination by the Internal Revenue Service and various state taxing jurisdictions.

(13) Earnings per share and proforma information

The Company began issuing convertible redeemable preferred stock September, 1, 2011, as described in note 10. The Series A preferred stock is anti-dilutive to the earnings per share calculation at December 31, 2011. The Company has also issued warrants to purchase common stock in conjunction with the sale of convertible preferred stock, as discussed in note 10. The warrants are also anti-dilutive at December 31, 2011 and have not been included in the fully diluted earnings per share calculation.

	Years Ended	
	December 31, 2011	December 31, 2010
Net income (loss) attributable to controlling interests	$ (2,826,656)	$ 1,047,287
Basic weighted average shares outstanding	9,468,759	9,000,000
Basic income (loss) per share attributable to controlling interests	$ (.30)	$ 0.12

The following summarizes the proforma effect on the Company's net income (loss) attributable to controlling interests to reflect a tax expense (benefit) as if it had been a taxable corporate entity for all periods reported:

	Years Ended December 31,	
	2011	2010
Income (loss) before income taxes	$ 1,481,561	$ (230,395)
Income tax expense (benefit)	582,253	(90,545)
Net income (loss)	899,308	(139,850)
Net loss attributable to noncontrolling interests	-	775,553
Net income attributable to controlling interests	899,308	635,703
Net income attributable to redeemable interests	-	46,671
Net income available to nonredeemable controlling interests	$ 899,308	$ 589,032
Basic weighted average shares outstanding	9,468,759	9,000,000

Conversion of preferred stock	440,370	-
Fully diluted weighted average shares outstanding	9,909,129	9,000,000
Basic income per share attributable to controlling interests	$ .09	$ .07
Fully diluted income per share attributable to controlling interests	$ .09	$ .07

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

(14) Commitments

The Company conducts its operations in facilities sublet from a related party. The non-cancelable lease agreement provides for monthly rental payments over the lease term. Rent expensed under this arrangement and other various month-to-month equipment leases was $170,000 and $168,000 during the years ended December 31, 2011 and 2010 respectively. This agreement expires in April 2012; however, the Company entered into a new lease agreement (not with a related party) commencing April 2012 and expiring August 2015 with base monthly rent ranging from $8,000 to $9,000 over the term of the lease. Future minimum lease payments which must be made under these agreements are as follows:

Years Ending December 31,		
2012	$	103,000
2013		114,000
2014		119,000
2015		86,000
Total	$	422,000

(15) Contingencies

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

Contingency matter - An affiliate of the Company is subject to litigation, clawback claims by the bankruptcy trustee for third-party matters in which our affiliates received payments that may have been deemed preference payments. If the affiliate subject to litigation is unsuccessful in defending against these claims, the affiliate is an owner of the Company’s equity, and thus that equity ownership may be sold or transferred to other parties to satisfy such claims.

In addition, the Company invested $1,000,000 in the affiliate, and was repaid in full plus interest of $177,000. This investment amount may also be subject to clawback claims by the bankruptcy court. These matters may also distract management and reduce the time and attention that they are able to devote to the Company’s operations.

(16) Guarantees of secured debentures

Holdings has filed with the Securities and Exchange Commission to offer for sale $250,000,000 of secured debentures as described in note 9. The secured debentures are secured by the assets as described in note 9 of Holdings and a pledge of all the common stock by the largest shareholders. Obligations under the debentures are guaranteed by Holding‘s subsidiary GWG Life. This guarantee involves the grant of a security interest in all the assets of GWG Life. GWG Life is a wholly owned subsidiary of Holdings and the payment of principal and interest on the secured debentures is fully and unconditionally guaranteed by GWG Life. The majority of the Company’s life insurance policies are held by DLP II a wholly owned subsidiary of GWG Life, however, the policies held by DLP II are not collateral for the debenture obligations as such policies are collateral for the credit facility.

The consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantors and issuer because management does not believe that separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of Holdings or GWG Life , the guarantor subsidiary, to obtain funds from its subsidiaries by dividend or loan, except as follows. DLP II is a borrower under a credit agreement with Autobahn, with DZ Bank AG as agent, as described in note 7. The significant majority of insurance policies owned by the Company are subject to a collateral arrangement with DZ Bank AG described in note 2. Under this arrangement, collection and escrow accounts are used to fund purchases and premiums of the insurance policies and to pay interest and other charges under its revolving credit facility. DZ Bank AG and Autobahn must authorize all disbursements from these accounts, including any distributions to GWG Life. Distributions are limited to an amount that would result in the borrowers (GWG DLP Funding II, LLC, GWG Life Settlements, LLC, and GWG Holdings, Inc) realizing an annualized rate of return on the equity funded amount for such assets of not more than 18%, as determined by DZ Bank AG. After such amount is reached, the credit agreement requires that excess funds be used for repayments of borrowings before any additional distributions may be made.

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

The following represents consolidating financial information as of December 31, 2011 and 2010, with respect to the financial position as of December 31, 2011 and 2010 and results of operations and cash flows of Holdings and its subsidiaries for the years then ended. The parent column presents the financial information of Holdings, the primary obligor of the secured debentures. The guarantor subsidiary column presents the financial information of GWG Life, the guarantor subsidiary of the secured debentures, presenting its investment in DLP II under the equity method. The non-guarantor subsidiaries column presents the financial information of all non-guarantor subsidiaries including DLP II.

Consolidating Balance Sheets

December 31, 2011	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
ASSETS					
Cash and cash equivalents	$1,746,456	$131,893	$ -	$-	$1,878,349
Restricted cash	-	822,227	3,972,075	-	4,794,302
Due from related parties	-	2,265	-	-	2,265
Investment in life settlements, at fair value	-	4,876,389	117,292,135	-	122,168,524
Deferred financing costs, net	-	-	329,937	-	329,937
Investment in Athena Strategies Fund, PLC	4,973	-	-	-	4,973
Other assets	29,844	168,081	13,000	-	210,925
Investment in subsidiaries	17,026,465	61,326,724	-	(78,353,189)	-
TOTAL ASSETS	$18,807,738	$67,327,579	$ 121,607,147	$(78,353,189)	$129,389,275
LIABILITIES & MEMBERS' EQUITY (DEFICIT)					
LIABILITIES					
Revolving credit facility	$ -	$ -	$ 60,000,000	$ -	$ 60,000,000
Series I Secured notes payable	-	48,179,271	-	-	48,179,271
Accounts payable	379,457	56,311	-	-	435,768
Accrued expenses					
Interest	-	1,779,796	108,039	-	1,887,835
Other	510,219	450,704	7,416	-	968,339
Deferred taxes, net	4,308,217	-	-	-	4,308,217
TOTAL LIABILITIES	5,197,893	50,466,082	60,115,455	-	115,779,430
CONVERTIBLE, REDEEMABLE PREFERRED STOCK	12,661,276	-	-	-	12,661,276

EQUITY (DEFICIT)					
Member capital		10,427,852	47,620,149	(58,048,001)	-
Common stock	9,989	-	-	-	9,989
Additional paid-in capital	8,169,303	-	-	-	8,169,303
Accumulated deficit	(7,230,723)	6,433,645	13,871,543	(20,305,188)	(7,230,723)
TOTAL EQUITY	948,569	16,861,497	61,491,692	(78,353,189)	948,569
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$18,807,738	$67,327,579	$ 121,607,147	$ (78,353,189)	$ 129,389,275

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

December 31, 2010	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
ASSETS					
Cash and cash equivalents	$-	$1,842	$ 1,568,388	$-	$1,758,230
Restricted cash	-	4,585,069	633,940	-	5,219,009
Due from related parties	-	30,353,176	-	(30,350,761)	2,415
Investment in life settlements	-	3,454,861	79,262,701	-	82,717,562
Deferred financing costs, net	-	-	562,834	-	562,834
Death benefits receivable	-	-	400,000	-	400,000
Other assets	-	79,213	311,495	-	390,708
Investment in subsidiaries	(1,576,667)	14,340,677	-	(12,764,010)	-
TOTAL ASSETS	$(1,576,667)	$53,002,838	$ 82,739,358	$(43,114,771)	$91,050,758
LIABILITIES & MEMBERS' EQUITY (DEFICIT)					
LIABILITIES					
Revolving credit facility	$-	$-	$ 37,085,452	$-	$37,085,452
Series I Secured notes payable	-	51,798,992	-	-	51,798,992
Accounts payable	-	85,547	625,000	-	710,547
Due to related parties	30,000	-	30,320,761	(30,350,761)	-
Accrued expenses					
Interest	-	924,848	50,969	-	975,817
Other	-	283,521	35,082	-	318,603
TOTAL LIABILITIES	30,000	53,092,908	68,117,264	(30,350,761)	90,889,411
REDEEMABLE MEMBER'S INTEREST	(509,126)	-	-	-	(509,126)
EQUITY (DEFICIT)					
Members' capital	(1,097,541)	2,215,998	14,622,094	(12,764,010)	2,976,541
Notes receivable from related parties	-	(2,306,068)	-	-	(2,306,068)
TOTAL EQUITY (DEFICIT)	(1,097,541)	(90,070)	14,622,094	(12,764,010)	670,473
TOTAL LIABILITIES & EQUITY (DEFICIT)	$(1,576,667)	$53,002,838	$ 82,739,358	$(43,114,771)	$91,050,758

Consolidating Statements of Operations

For the year ended December 31, 2011	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated

REVENUE					
Contract servicing fees	$ -	$ 2,429,870	$ -	$ (2,429,870)	$ -
Gain on life settlements, net	-	574,983	17,229,216	-	17,804,199
Interest and other income	3,489	34,806	22,386	-	60,681
TOTAL REVENUE	3,489	3,039,659	17,251,602	(2,429,870)	17,864,880
EXPENSES					
Origination and servicing fees	-	112,500	2,317,370	(2,429,870)	-
Employee compensation and benefits	-	2,081,545	-	-	2,081,545
Legal and professional fees	790,277	363,477	46,383	-	1,200,137
Investment banking services	3,595,027	-	-	-	3,595,027
Interest expense	4,700	6,431,691	1,424,088	-	7,860,479
Other expenses	589,188	1,003,943	53,000	-	1,646,131
TOTAL EXPENSES	4,979,192	9,993,156	3,840,841	(2,429,870)	16,383,319
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN INCOME OF SUBSIDIARY	(4,975,703)	(6,953,497)	13,410,761	-	1,481,561
EQUITY IN INCOME OF SUBSIDIARY	6,457,264	13,527,209	-	(19,984,473)	-
INCOME (LOSS) BEFORE INCOME TAXES	1,481,561	6,573,712	13,410,761	(19,984,473)	1,481,561
INCOME TAX EXPENSE	4,308,217	-	-	-	4,308,217
NET INCOME (LOSS)	$ (2,826,656)	$ 6,573,712	$ 13,410,761	$ (19,984,473)	$ (2,826,656)

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

For the year ended December 31, 2010	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUE					
Contract servicing fees	$ -	$ 6,153,650	$ -	$ (6,010,668)	$ 142,982
Gain on life settlements, net	-	1,003,257	7,655,617	-	8,658,874
Interest and other income	1,268	94,468	1,355	-	97,091
TOTAL REVENUE	1,268	7,251,375	7,656,972	(6,010,668)	8,898,947
EXPENSES					
Origination and servicing fees	-	200,100	5,810,568	(6,010,668)	-
Employee compensation and benefits	9,800	2,220,306	-	-	2,230,106
Legal and professional fees	30,000	957,847	121,166	-	1,109,013
Interest expense	57,166	3,479,806	890,396	-	4,427,368
Recovery of losses on related-party notes	-	(20,425)	-	-	(20,425)
Other expenses	14,758	1,305,521	63,001	-	1,383,280
TOTAL EXPENSES	111,724	8,143,155	6,885,131	(6,010,668)	9,129,342
INCOME (LOSS) BEFORE EQUITY IN LOSS OF SUBSIDIARIES	(110,456)	(891,780)	771,841	-	(230,395)
EQUITY IN LOSS OF SUBSIDIARY	(119,939)	1,033,835	-	(913,896)	-
NET INCOME (LOSS)	(230,395)	142,055	771,841	(913,896)	(230,395)
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-	(1,277,682)	-	-	(1,277,682)
NET INCOME (LOSS) ATTRIBUTABLE TO CONTROLLING INTEREST	(230,395)	1,419,737	771,841	(913,896)	1,047,287
NET INCOME (LOSS) ATTRIBUTABLE TO REDEEMABLE MEMBER'S INTEREST	(134,692)	57,077	34,347	89,939	46,671
NET INCOME (LOSS) AVAILABLE TO NONREDEMABLE MEMBER'S INTERESTS	$ (95,703)	$ 1,362,660	$ 737,494	$ (1,003,835)	$ 1,000,616

Consolidating Statements of Cash Flows

For the year ended December 31, 2011	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	$(2,826,656)	$6,573,713	$ 13,410,761	$(19,984,474)	$ (2,826,656)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:					
(Equity) loss of subsidiaries	(6,457,264)	(13,527,209)	-	19,984,473	-
(Gain) on life settlements	-	(1,037,683)	(28,287,336)	-	(29,325,019)
Amortization of deferred financing and issuance costs	-	1,769,615	232,897	-	2,002,512
Investment banking services	3,595,027	-	-	-	3,595,027
Deferred income taxes, net	4,308,217	-	-	-	4,308,217
Preferred stock issued for dividends	16,689	-	-	-	16,689
Accrued convertible, redeemable preferred stock dividends payable	290,454	-	-	-	290,454
(Increase) decrease in operating assets:					
Due from related parties	2,326,068	(5,464,144)	3,138,076	-	-
Death benefit receivable	-	-	400,000	-	400,000
Other assets	(20,941)	(88,868)	298,495	-	188,686
Increase (decrease) in operating liabilities:					
Due to related party	(549,632)	549,783	-	(1)	150
Accounts payable	379,457	(29,236)	(625,000)	-	(274,779)
Accrued interest	-	1,162,899	57,070	2	1,219,971
Accrued expenses	3,750	167,183	(27,666)	-	143,267
NET CASH FLOWS USED IN OPERATING ACTIVITIES	1,065,169	(9,923,947)	(11,402,703)	-	(20,261,481)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investments in life settlements		(383,845)	(11,545,550)		(11,929,395)
Proceeds from investment in life settlements	-	-	1,803,452	-	1,803,452
NET CASH FLOWS USED IN INVESTING ACTIVITIES	-	(383,845)	(9,742,098)	-	(10,125,943)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net proceeds on revolving credit facility	-	-	22,914,548	-	22,914,548
Proceeds from issuance of Series I Secured notes payable	-	11,991,331	-	-	11,991,331
Payments for redemption of Series I Secured notes payable	-	(7,810,398)	-	-	(7,810,398)
Proceeds (payments) from restricted cash	-	3,762,842	(3,338,135)	-	424,707
Issuance of common stock	4,973	-	-	-	4,973
Issuance of preferred stock	4,213,862	-	-	-	4,213,862

Payments for issuance costs of preferred stock	(1,231,480)	-	-	-	(1,231,480)
Proceeds from notes receivable from related parties	-	2,306,068	-	-	2,306,068
Common stock dividends	(2,306,068)	-	-		(2,306,068)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	681,287	10,249,843	19,576,413	-	30,507,543
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,746,456	(57,949)	(1,568,388)	-	120,119
CASH AND CASH EQUIVALENTS					
BEGINNING OF YEAR	-	189,842	1,568,388	-	1,758,230
END OF YEAR	$ 1,746,456	$ 131,893	$ -	$ -	$ 1,878,349

F-25

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

Consolidating Statements of Cash Flows (continued)

For the year ended December 31, 2010	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiary	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income (loss)	$(230,395)	$142,055	$771,841	$(913,896)	$(230,395)
Adjustments to reconcile net income (loss) to cash:					
(Equity) loss of subsidiaries	(2,998,390)	134,267	-	2,864,123	-
Gain) loss from life settlements	-	(1,003,257)	(16,223,835)	-	(17,227,092)
Recovery of losses on notes receivable from related parties	-	(20,425)	-	-	(20,425)
Capitalized interest on notes receivable from related parties	-	(82,435)	-	-	(82,435)
Amortization of deferred financing costs	-	513,739	232,896	-	746,635
(Increase) decrease in operating assets:					
Due from related parties	(2,415)	-	-	-	(2,415)
Death benefit receivable	-	-	(158,302)	-	(158,302)
Other assets	842,464	(37,166,317)	35,231,492	913,896	(178,465)
Increase (decrease) in operating liabilities:					
Due to related party	(610,888)	-	-	-	(610,888)
Accounts payable	378,223	(27,418)	(594,582)	-	(243,777)
Accrued interest	-	1,525,884	75,450	-	1,601,334
Accrued expenses	2,621,401	(1,630,914)	1,518,945	(2,864,123)	(354,691)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	-	(37,614,821)	20,853,905	-	(16,760,916)
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in life settlements	-	(858,770)	(52,365,226)	-	(53,223,996)
Proceeds from investment in life settlements	-	-	-	-	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	-	(858,770)	(52,365,226)	-	(53,223,996)
CASH FLOWS FROM FINANCING ACTIVITIES					
Net proceeds from revolving credit facility	-	-	32,098,027	-	32,098,027
Proceeds from issuance of Series I Secured notes payable	-	43,494,690	-	-	43,494,690
	-	(5,780,420)	-	-	(5,780,420)

Payments for redemption of Series I Secured notes payable					
Proceeds (payments) from restricted cash	-	532,106	-	-	532,106
Advances on notes to related parties	-	(462,499)	-	-	(462,499)
Issuance of non-controlling interest member capital	-	680,388	-	-	680,388
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	-	38,464,265	32,098,027	-	70,562,292
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-	(9,326)	586,706	-	577,380
CASH AND CASH EQUIVALENTS					
BEGINNING OF THE YEAR	-	199,168	981,682	-	1,180,850
END OF THE YEAR	$-	$189,842	$ 1,568,388	$-	$1,758,230

(17) Concentration

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

Life insurance company	December 2011 %	December 2010 %
Company A	17.43	17.93
Company B	15.06	15.61
Company C	12.53	10.27
Company D	10.09	-

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

State of residence	December 2011 %	December 2010 %
California	31.43	30.00
New York	13.71	12.86
Florida	11.43	10.00

SIGNATURES AND POWER OF ATTORNEY

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on April 27, 2012.

GWG HOLDINGS, INC.

By: /s/ Jon R. Sabes
Chief Executive Officer
Dated: April 27, 2012

KNOW ALL PERSONS BY THESE PRESENTS, that each individual whose signature appears below hereby constitutes and appoints Jon R. Sabes and Paul A. Siegert, each of them, his or her true and lawful attorney-in-fact and agents, with full and several power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign this Special Financial Report on Form 10-K (including any and all amendments), and to file the same, with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary or appropriate to be done, as fully for all intents and purposes as he or she might or could do in person, hereby approving, ratifying and confirming all that said agents and attorneys-in-fact or any of them, or their substitutes, may lawfully do or cause to be done.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jon R. Sabes Jon R. Sabes	Director, Chief Executive Officer (principal executive officer)	April 27, 2012
/s/ Paul A. Siegert Paul A. Siegert	President, Chairman of the Board	April 27, 2012
/s/ Jon Gangelhoff Jon Gangelhoff	Chief Financial Officer (principal financial and accounting officer)	April 27, 2012
/s/ Steven F. Sabes Steven F. Sabes	Director, Chief Operating Officer and Secretary	April 27, 2012
/s/ Laurence Zipkin Laurence Zipkin	Director	April 27, 2012
/s/ Brian Tyrell	Director	April 27, 2012

Brian Tyrell		
/s/ Kenneth Michael Fink	Director	April 27, 2012
Kenneth Michael Fink		

4

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (filed herewith).
31.2	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002 (filed herewith).
32	Certification pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).