GWG Holdings, Inc.
Form 10-Q
May 09, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013

or

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934
For the transition period from _________ to ________

Commission File Number: None

GWG HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	26-2222607
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

220 South Sixth Street, Suite 1200
Minneapolis, MN 55402
(Address of principal executive offices, including zip code)

(612) 746-1944
(Registrant's telephone number, including area code)

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

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

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

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

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

As of May 13, 2013, GWG Holdings, Inc. had 9,989,000 shares of common stock outstanding.

GWG HOLDINGS, INC.

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for the Quarter Ended March 31, 2013

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GWG HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2013 (unaudited)	December 31, 2012
A S S E T S		
Cash and cash equivalents	$34,551,582	$27,497,044
Restricted cash	6,624,200	2,093,092
Investment in life settlements, at fair value	185,020,047	164,317,183
Other assets	2,776,687	4,040,716
TOTAL ASSETS	$228,972,516	$197,948,035
L I A B I L I T I E S & S T O C K H O L D E R S' E Q U I T Y (D E F I C I T)		
LIABILITIES		
Revolving credit facility	$79,000,000	$71,000,000
Series I Secured notes payable	36,673,727	37,844,711
Renewable secured debentures	77,759,488	55,718,950
Interest payable	5,213,337	3,477,320
Accounts payable and accrued expenses	1,652,427	1,761,558
Deferred taxes, net	6,065,281	5,501,407
TOTAL LIABILITIES	206,364,260	175,303,946
CONVERTIBLE, REDEEMABLE PREFERRED STOCK		
(par value $0.001; shares authorized 40,000,000; shares issued and outstanding 3,348,143 and 3,361,076; liquidation preference of $25,111,000 and $25,208,000, respectively)	24,060,674	23,905,878
STOCKHOLDERS' EQUITY		
Common stock (par value $0.001: shares authorized 210,000,000; shares issued and outstanding is 9,989,000 on both March 31, 2013 and December 31, 2012)	9,989	9,989
Additional paid-in capital	6,714,081	6,971,844
Accumulated deficit	(8,176,488)	(8,243,622)
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(1,452,418)	(1,261,789)
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)	$228,972,516	$197,948,035

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

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
REVENUE		
Gain on life settlements, net	$8,340,356	$601,768
Interest and other income	167,670	1,332
TOTAL REVENUE	8,508,026	603,100
EXPENSES		
Employee compensation and benefits	1,937,420	533,745
Legal and professional fees	437,290	364,225
Interest expense	4,467,215	2,438,414
Other expenses	1,033,144	558,993
TOTAL EXPENSES	7,875,069	3,895,377
INCOME (LOSS) BEFORE INCOME TAXES	632,957	(3,292,277)
INCOME TAX EXPENSE (BENEFIT)	565,823	(1,139,448)
NET INCOME (LOSS)	67,134	(2,152,829)
Accretion of preferred stock to liquidation value	(257,763)	(340,201)
LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(190,629)	$(2,493,030)
NET INCOME (LOSS) PER COMMON SHARE (BASIC AND DILUTED)		
Net income (loss)	$0.01	$(0.22)
Accretion of preferred stock to liquidation value	(0.03)	(0.03)
Net loss per share attributable to common shareholders	$(0.02)	$(0.25)
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic and diluted	9,989,000	9,989,000

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

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$67,134	$(2,152,829)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Gain on life settlements	(11,494,725)	(4,791,058)
Amortization of deferred financing and issuance costs	1,093,747	567,160
Deferred income taxes	563,874	(1,139,448)
Convertible, redeemable preferred stock dividends payable	83,702	126,075
(Increase) decrease in operating assets:		
Other assets	551,174	(267,904)
Increase in operating liabilities:		
Accounts payable and other accrued expenses	1,290,756	557,682
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(7,844,338)	(7,100,322)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in life settlements	(9,913,049)	(1,153,260)
Proceeds from settlement of life settlements	1,490,000	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(8,423,049)	(1,153,260)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from revolving credit facility	8,000,000	2,500,000
Proceeds from issuance of Series I Secured notes payable	-	50,000
Payments for redemption of Series I Secured notes payable	(1,507,824)	(1,550,537)
Proceeds from issuance of renewable secured debentures	23,850,794	3,061,873
Payments for issuance and redemptions of renewable secured debentures	(2,303,268)	-
Proceeds from restricted cash	(4,531,108)	3,224,838
Issuance (redemptions) of preferred stock	(186,669)	4,436,465
Payments of issuance cost for preferred stock	-	(798,640)
NET CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	23,321,925	10,923,999
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,054,538	2,670,417
CASH AND CASH EQUIVALENTS		
BEGINNING OF PERIOD	27,497,044	1,878,349
END OF PERIOD	$34,551,582	$4,548,766

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

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

	Three Months Ended	
	March 31, 2013	March 31, 2012
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$3,298,000	$1,149,000
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Series I secured notes:		
Non-cash conversion of accrued interest payable to principal	$61,000	$37,000
Renewable secured debentures:		
Non-cash conversion of accrued interest and commissions payable to principal	$41,400	-
Convertible, redeemable preferred stock:		
Non-cash accretion of convertible, redeemable preferred stock to redemption value	$258,000	$340,000
Non-cash conversion of dividends payable	$84,000	$112,000
Non-cash conversion of Series I secured notes	$-	$3,090,000
Non-cash conversion of accrued interest payable on Series I secured notes	$-	$4,000

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

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

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

Nature of business - GWG Holdings, Inc. (Holdings) (previously GWG Holdings, LLC) and Subsidiaries, located in Minneapolis, Minnesota, facilitates the purchase of life insurance policies for its own investment portfolio through its wholly owned subsidiary, GWG Life Settlements, LLC (GWG Life), and its subsidiaries, GWG Trust, LLC (Trust), GWG DLP Funding II, LLC (DLP II) and its wholly owned subsidiary, GWG DLP Master Trust II (the Trust II). Holdings converted from a limited liability company into a corporation effective June 10, 2011 and as a result of this change all member units were converted into common stock. Holdings finances the acquisition of life insurance policies, and pays policy premiums, through funds available on its line of credit and the issuance of debt and equity securities. GWG Member, LLC a wholly owned subsidiary formed November 2010 to facilitate the acquisition of policies, has not commenced operations as of March 31, 2013. The entities were legally organized in Delaware and are collectively referred herein to as GWG, or the Company.

Basis of presentation - The condensed consolidated balance sheet as of March 31, 2013, the condensed consolidated statements of operations for the three months ended March 31, 2013 and 2012, and the condensed consolidated statements of cash flows for the three months ended March 31, 2013 and 2012, and the related information presented in these notes, have been prepared by management in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, without audit. To the extent that information and notes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements are contained in or are consistent with the consolidated audited financial statements in the Company’s Form 10-K for the year ended December 31, 2012, such information and notes have not been duplicated herein . In the opinion of management, all adjustments considered necessary for a fair presentation of results have been included. The condensed consolidated balance sheet at December 31, 2012 was derived from the audited consolidated financial statements as of that date. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Use of estimates - The preparation of consolidated financial statements in conformity with U.S. 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, and (2) the value of deferred tax assets.

GWG HOLDINGS, INC. AND SUBSIDIARIES
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(unaudited)

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 (Series A preferred stock) at an offering price of $7.50 per share (see note 9).

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

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

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

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

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

Deposits and initial direct costs advanced on unsettled policy acquisitions are recorded as other assets until policy ownership has been transferred to the Company. Such deposits and direct cost advances were $0 and $785,000 at March 31, 2013 and December 31, 2012, respectively.

Deferred financing and issuance costs – Financing costs incurred to obtain financing under the revolving credit facility, as described in note 6, 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 $187,000 and $58,000 for the three months ended March 31, 2013 and 2012 respectively. The future amortization is $268,000 and $358,000 for the nine months ending December 31, 2013 and the year ending December 31, 2014, respectively. The Series I Secured notes payable, as described in note 7, are reported net of issuance costs, sales commissions and other direct expenses, which are amortized using the interest method over the term of each respective borrowing. The Renewable Secured Debentures, as described in note 8, are reported net of issuance costs, sales commissions and other direct expenses, which are amortized using the interest method over the term of each respective borrowing. The Series A preferred stock, as described in note 9, is reported net of issuance costs, sales commissions, including the fair value of warrants issued, and other direct expenses, which are amortized using the interest method as interest expense over the three-year redemption period.

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

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

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

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

(2) Restrictions on cash

The Company is required by its lenders to maintain collection and escrow accounts. These accounts are used to fund the acquisition, pay annual premiums of insurance policies, pay interest and other charges under the revolving credit facility, and collect policy benefits. DZ Bank AG, as agent for Autobahn Funding Company, LLC, the lender for the revolving credit facility as described in note 6, authorizes the disbursements from these accounts. At March 31, 2013 and December 31, 2012 there was a balance of $6,624,000, and $2,093,000, respectively, maintained in these restricted cash accounts.

(3) Investment in life insurance policies

The life insurance policies (Level 3 fair value measurements) are valued based on unobservable inputs that are significant to the overall fair value measurement. Changes in the fair value of these instruments are recorded in gain or loss on life insurance policies in the consolidated statements of operations (net of the cash premiums paid on the policies). The fair value is determined on a discounted cash flow basis that incorporates life expectancy assumptions. Life expectancy reports have been obtained from widely accepted life expectancy providers. The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life insurance policy and our estimate of the risk premium an investor in the policy would require. As a result of management's analysis, discount rates of 12.12% and 12.08% were applied to the portfolio as of March 31, 2013 and December 31, 2012, respectively.

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

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

	As of March 31, 2013			As of December 31, 2012		
Years Ending December 31,	Number of Contracts	Estimated Fair Value	Face Value	Number of Contracts	Estimated Fair Value	Face Value
2013	-	$ -	$ -	-	$ -	$ -
2014	-	-	-	-	-	-
2015	2	1,206,000	2,000,000	2	1,163,000	2,000,000
2016	12	10,246,000	19,329,000	13	11,608,000	22,229,000
2017	18	22,997,000	54,673,000	17	21,155,000	53,439,000
2018	34	32,675,000	84,038,000	31	28,252,000	75,668,000
2019	36	29,535,000	89,158,000	35	26,947,000	84,579,000
Thereafter	133	88,361,000	390,557,000	113	75,192,000	334,331,000
Totals	235	$ 185,020,000	$ 639,755,000	211	$ 164,317,000	$ 572,246,000

The Company recognized death benefits of $4,000,000 and $0 during the three-month periods ended March 31, 2013 and 2012, respectively, related to policies with a carrying value of $1,490,000 and $0, respectively. The Company recorded realized gains of $2,510,000 and $0 on such policies. Subsequent to March 31, 2013, one policy with a death benefit of $1,600,000 has matured.

Reconciliation of gain on life settlements:

Three Months Ended:	March 31, 2013	March 31, 2012
Change in fair value	$ 11,495,000	$ 4,791,000
Premiums and other annual fees	(5,665,000)	(4,189,000)
Policy maturities	2,510,000	-
Gain on life settlements, net	$ 8,340,000	$ 602,000

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,	
Nine months ending December 31, 2013	$ 15,664,000
2014	21,048,000
2015	22,786,000
2016	24,936,000
2017	27,334,000
	$ 111,768,000

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

GWG HOLDINGS, INC. AND SUBSIDIARIES
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(4) Fair value definition and hierarchy

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

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

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

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

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

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

Level 3 Valuation Process

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

Life insurance policies represent financial instruments recorded at fair value on a recurring basis. The following table reconciles the beginning and ending fair value of the Company's Level 3 investments in life insurance policies for the three month periods ending March 31, as follows:

	2013	2012
Beginning balance	$ 164,317,000	$ 122,169,000
Purchases	10,698,000	1,152,000
Maturities (cost basis)	(1,490,000)	-
Gross unrealized gains	11,616,000	4,791,000
Gross unrealized losses	(121,000)	-
Ending balance	$ 185,020,000	$ 128,112,000

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

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

On January 22, 2013, one of the independent medical actuarial underwriting firms we utilize, 21st Services, announced advancements in its underwriting methodology, resulting in revised estimated life expectancy mortality tables for life settlement transactions. We have been advised by 21st Services that the changes are very granular and relate to both specific medical conditions and lifestyles of insureds. These changes are the result of the application of additional medical information that has been gathered by 21st Services over a period of time, and which has now been applied to the inputs and methodologies used to develop the actuarial life expectancies. While we do not believe these revised methodologies indicate the previous estimated life expectancies were inaccurate, we believe the revised methodologies provide additional information that should be considered in updating our estimate of the life expectancies of the insureds within our portfolio of life settlement contracts as of March 31, 2013 and December 31, 2012. Based upon our evaluation and analysis of data made available by 21st Services, as well as information regarding the insureds within our portfolio, we have estimated the impact of the changes in 21st Services' methodologies for determining life expectancies on a policy-by-policy basis within our portfolio as of March 31, 2013 and December 31, 2012 and applied such changes to the life expectancy inputs used to estimate fair value. We have adjusted the original life expectancies provided by 21st Services based on four factors, the impact of each analyzed individually for each insured in the GWG portfolio. The four factors are gender, anti-selection, age, and primary impairment. While the analysis and adjustments were applied on an individual policy basis, the result was an average overall increase in the original life expectancy estimates of 8.67%. We have a standard practice of obtaining two third-party life expectancy estimates for each policy in our portfolio. As a result, the effective change in life expectancy on the portfolio was an average of approximately 4.33%, which resulted in an aggregate decrease in the fair value of our life settlements portfolio of $12.4 million as of December 31, 2012. Life expectancy reports by their very nature are estimates. Due to the estimating changes made by 21st Services, and because refinement in estimating methods is on-going, we plan to obtain new life expectancy reports for all policies purchased where we used a life expectancy report from 21st Services. As part of our on-going process to maintain current information regarding the insureds included in our portfolio, we are updating the life expectancy estimates as new information becomes available.

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

	As of March 31, 2013	As of December 31, 2012
Weighted average age of insured	81.5	81.3
Weighted average life expectancy, months*	91.5	91.6

Average face amount per policy	$ 2,722,363	$ 2,712,063
Discount rate	12.12%	12.08%

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

GWG HOLDINGS, INC. AND SUBSIDIARIES
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(unaudited)

These assumptions are, by their nature, inherently uncertain and the effect of changes in estimates may be significant. The techniques used in estimating the present value of estimated cash flows are derived from valuation techniques generally used in the industry that include inputs for the asset that are not based on observable market data. The extent to which the fair value could reasonable vary in the near term has been quantified by evaluating the effect of changes in significant underlying assumptions used to estimate the fair value. If the life expectancies were increased or decreased by 4 and 8 months on each outstanding policy and the discount factors were increased or decreased by 1% and 2%, while all other variables are held constant, the fair value of the investment in life insurance policies would increase or (decrease) by the amounts summarized below:

	Change in life expectancy			
	plus 8 months	minus 8 months	plus 4 months	minus 4 months
March 31, 2013	$(27,100,000)	$28,448,000	$(13,719,000)	$14,055,000
December 31, 2012	$(24,072,000)	$25,268,000	$(12,185,000)	$12,484,000

	Change in discount rate			
	plus 2%	minus 2%	plus 1%	minus 1%
March 31, 2013	$(18,640,000)	$22,125,000	$(9,709,000)	$10,577,000
December 31, 2012	$(16,811,000)	$19,978,000	$(8,759,000)	$9,547,000

Carrying value of receivables, prepaid expenses, accounts payable and accrued expenses approximate fair value due to their short term maturities and low credit risk. The estimated fair value of the Company's Series I Secured notes payable is approximately $37,900,000 based on a weighted average market interest rate of 7.41% based on an income approach. The Company began issuing Renewable Secured Debentures in the first quarter of 2012. The current interest rates on the Renewable Secured Debentures approximate market rates. The carrying value of the Renewable Secured Debentures approximates fair value. The carrying value of the revolving credit facility reflects interest charged at the commercial paper rate plus an applicable margin. The margin represents our credit risk, and the strength of the portfolio of life insurance policies collateralizing the debt. Management believes this margin has not changed over time. The overall rate reflects market, and the carrying value of the revolver approximates fair value. All of the financial instruments are level 3 fair value measurements.

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

Month issued	Warrants issued	Fair value per share	Risk free rate	Volatility	Term
December 2011	137,874	$ 0.11	0.42%	25.25%	3 years
March 2012	76,260	$ 0.26	0.38%	36.20%	3 years
June 2012	323,681	$ 0.58	0.41%	47.36%	3 years
July 2012	289,093	$ 0.58	0.41%	47.36%	3 years

September 2012	5,000	$	0.36	0.31%	40.49%	3 years
	831,908					