GWG Holdings, Inc.
Form S-1
December 02, 2016

As filed with the Securities and Exchange Commission on December 2, 2016

Registration No. 333-

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM S-1**

**REGISTRATION STATEMENT**

*Under the Securities Act of 1933*

**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 Number) |

220 South Sixth Street, Suite 1200
Minneapolis, Minnesota 55402
Tel: (612) 746-1944
Fax: (612) 746-0445

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Paul D. Chestovich *Copies to:* Dominic Baldini

| | | |
|---|---|---|
| Maslon LLP | GWG Holdings, Inc. | Emerson Equity LLC |
| 3300 Wells Fargo Center | Jon R. Sabes | 155 Bovet Road, Suite 725 |
| | Chief Executive Officer | |
| 90 South Seventh Street | | San Mateo, CA 94402 |
| | 220 South Sixth Street, Suite 1200 | |
| Minneapolis, Minnesota 55402 | Minneapolis, Minnesota 55402 | Tel: (650) 312-0200 |
| Tel: (612) 672-8200 | Tel: (612) 746-1944 | |
| | (Name, address, including zip code, and telephone number, including area code, of agent for service) | |

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the SEC pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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

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

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to Be Registered | Amount to be Registered | Proposed Maximum Offering Price Per Share | Proposed Maximum Aggregate Offering Price[(1)] | Amount of Registration Fee |
|---|---|---|---|---|
| Series 2 Redeemable Preferred Stock, par value $.001 per share | 250,000 | $ 1,000 | $250,000,000 | $ 28,975 |

(1) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(o) under the Securities Act of 1933.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission, of which this prospectus is a part, shall have been declared effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED DECEMBER 2, 2016**

**GWG HOLDINGS, INC.**

**Maximum of 250,000 Shares of Series 2 Redeemable Preferred Stock**

We are offering a maximum of 250,000 shares of our Series 2 Redeemable Preferred Stock, par value $.001 per share. Each share of Series 2 Redeemable Preferred Stock will have an initial stated value of $1,000 per share, which is the price at which the Series 2 Redeemable Preferred Stock will be publicly offered and sold. The Series 2 Redeemable Preferred Stock will not be certificated. The Series 2 Redeemable Preferred Stock ranks senior to our common stock with respect to payment of dividends and distribution of amounts upon our liquidation, dissolution or winding up, and *pari passu* with the rights of our Redeemable Preferred Stock and our Series A Convertible Preferred Stock. Holders of our Series 2 Redeemable Preferred Stock will have no voting rights.

Our common stock trades on The NASDAQ Capital Market under the symbol “GWGH.” Our Series 2 Redeemable Preferred Stock, however, does not trade on any national securities exchange or over-the-counter market.

We are an “emerging growth company” under applicable law and are subject to reduced public company reporting requirements. Please read the disclosures on page 10 of this prospectus for more information. Investing in our securities involves a high degree of risk, including the risk of losing your entire investment. You should carefully read and consider “Risk Factors” included in our most recent Annual Report on Form 10-K and any subsequent Quarterly Reports on Form 10-Q, and those on page 16 of this prospectus and in any applicable prospectus supplement before investing in our securities.

Please read this prospectus before investing and keep it for future reference. We file annual, quarterly and current reports with the SEC. This information will be available free of charge by contacting us at 220 South Sixth Street, Suite 1200, Minneapolis, Minnesota 55402 or by phone at (612) 746-1944 or on our website at *www.gwgh.com*. The SEC also maintains a website at *www.sec.gov* that contains such information.

**Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

| | **Per Share** | **Maximum Offering** |
|---|---|---|
| Public offering price | $1,000 | $250,000,000 |
| Selling commissions[(1)(3)] | $60 | $15,000,000 |
| Additional compensation[(2)(3)] | $20 | $5,000,000 |
| Proceeds, before expenses, to us | $920 | $230,000,000 |

(1) Selling commissions will equal 6.00% of aggregate gross proceeds, and be payable to each soliciting broker-dealer authorized by us and Emerson Equity LLC, the managing broker-dealer or "dealer manager" for this offering.

(2) Additional compensation consists of (i) a non-accountable expense allowance of up to 0.60% of gross offering proceeds, (ii) an accountable expense allowance of up to 0.40% of gross offering proceeds, (iii) a dealer manager fee (payable only to Emerson Equity) of 0.40% of gross offering proceeds for managing and coordinating the offering, (iv) a wholesaling fee (payable only to wholesaling dealers) of 0.50% of gross offering proceeds, and (v) non-cash compensation of up to 0.10% of gross offering proceeds. Aggregate additional compensation will not exceed 2.00% of gross offering proceeds. The dealer manager may reallow up to 0.60% of additional compensation to other soliciting broker-dealers. The amount of the reallowance to any soliciting broker-dealer will be determined by the dealer manager in its sole discretion.

(3) The combined selling commissions and additional compensation for this offering will not exceed 8.00% of the aggregate gross proceeds of this offering. Our dealer manager will repay us any selling commission and additional compensation payments exceeding 8.00% of our aggregate gross offering proceeds if this offering is terminated before reaching the maximum amount of offering proceeds.

The dealer manager for this offering is Emerson Equity LLC. The dealer manager is not required to sell any specific number or dollar amount of securities, but will use its "reasonable best efforts" to sell the securities offered. The minimum permitted purchase is generally $10,000, but we may accept purchases of less than $10,000 in our discretion. We may terminate this offering at any time or may offer Series 2 Redeemable Preferred Stock pursuant to a new registration statement.

We will sell Series 2 Redeemable Preferred Stock through Depository Trust Company, or "DTC," settlement. We will also sell Series 2 Redeemable Preferred Stock through direct settlement with the Company. See "How to Purchase Shares" and "Plan of Distribution" for a description of this settlement method.

EMERSON EQUITY LLC

as Dealer Manager

The date of this prospectus is , 2016

Table of Contents

**TABLE OF CONTENTS**



GWG Holdings, Inc.
220 South Sixth Street, Suite 1200
Minneapolis, MN 55402
Tel: (612) 746-1944
Fax: (612) 746-0445

Table of Contents

## ABOUT THIS PROSPECTUS

We have prepared this prospectus as part of a registration statement that we filed with the SEC for our offering of Series 2 Redeemable Preferred Stock. The registration statement we filed with the SEC includes exhibits that provide more detailed descriptions of the matters discussed in this prospectus and certain information that is incorporated by reference. You should read this prospectus, the related exhibits filed with the SEC, together with additional information described below under "Where You Can Find More Information," and the documents that are incorporated, or deemed to be incorporated, by reference into this prospectus. This prospectus contains summaries of certain other documents, which summaries contain all material terms of the relevant documents and are believed to be accurate, but reference is hereby made to the full text of the actual documents for complete information concerning the rights and obligations of the parties thereto. Such information necessarily incorporates significant assumptions, as well as factual matters. All documents relating to this offering and related documents and agreements, if readily available to us, will be made available to a prospective investor or its representatives upon request.

You should rely only on the information contained in this prospectus. Neither we nor the dealer manager have authorized any other person to provide you with any information different from that contained in this prospectus or information furnished by us upon request as described herein. The information contained in this prospectus is complete and accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or sale of our shares. In this prospectus, we use the term "day" to refer to a calendar day, and we use the term "business day" to refer to any day other than Saturday, Sunday, a legal holiday or a day on which banks in New York City are authorized or required to close.

No information contained herein, nor in any prior, contemporaneous or subsequent communication should be construed by a prospective investor as legal or tax advice. Each prospective investor should consult its, his or her own legal, tax and financial advisors to ascertain the merits and risks of the transactions described herein prior to purchasing the Series 2 Redeemable Preferred Stock. This written communication is not intended to be "written advice," as defined in Circular 230 published by the U.S. Treasury Department.

## INDUSTRY AND MARKET DATA

The industry and market data used throughout this prospectus have been obtained from our own research, surveys or studies conducted by third parties and industry or general publications. Industry publications and surveys generally state that they have obtained information from sources believed to be reliable, but do not guarantee the accuracy and completeness of such information. We believe that each of these studies and publications is reliable.

**HOW TO PURCHASE SHARES**

If, after carefully reading this entire prospectus, obtaining any other information requested and available, and being fully satisfied with the results of pre-investment due-diligence activities, you would like to purchase the Series 2 Redeemable Preferred Stock offered hereby, you may purchase the shares through DTC (Depository Trust Company) settlement or direct settlement with the Company.

For DTC settlement, your broker-dealer must be a participant in the DTC system. In such a case, you can place an order for the purchase of shares through your broker-dealer. A broker-dealer using this service will have an account with DTC in which your funds will be placed to facilitate your purchase in this offering. Orders will be executed by your broker-dealer electronically and you must coordinate with your broker-dealer's registered representative to pay the full purchase price for the shares by the settlement date. Orders may be placed at any time, and the settlement date will be the date on which your purchase is accepted and consummated. You will be credited with ownership of the shares on the settlement date. Your purchase price for the shares purchased in this way will not be held in escrow.

When settling a purchase directly with the Company, you will send your completed and executed Subscription Agreement, together with your subscription amount, to the address listed below. Your subscription amount should be paid through a certified check or personal check payable to the order of "GWG Holdings, Inc.—Subscription Account." In lieu of paying by check, you may wire your subscription amount to the account referenced below.

**Securities Transfer Corp.**
**2591 Dallas Parkway, Suite 102**
**Frisco, TX 75034**

**Wire Instructions**
GWG Holdings, Inc. — Subscription Account
Account:
Routing:
Bank Name: Bell State Bank & Trust

Your broker-dealer or professional will gather and send in the required information on your behalf, and may facilitate your payment of the subscription amount. Once we have received your subscription amount and required documentation, we will either reject or accept your subscription. Once accepted, we will have immediate access to your subscription amount and we will issue you, in book-entry form, the Series 2 Redeemable Preferred Stock you have purchased.

**COVERED SECURITY**

Our Series 2 Redeemable Preferred Stock is a “covered security.” The term “covered security” applies to securities exempt from state registration pursuant to Section 18 of the Securities Act of 1933. Generally, securities listed on national exchanges are the most common type of covered security exempt from state registration. A non-traded security also can be a covered security if it has a seniority greater than or equal to other securities from the same issuer that are listed on a national exchange. Our Series 2 Redeemable Preferred Stock is a covered security because they will be senior to our common stock, which is listed on The NASDAQ Capital Market, and therefore our offering of Series 2 Redeemable Preferred Stock is exempt from state registration.

**FREQUENTLY ASKED QUESTIONS ABOUT THIS OFFERING**

**What is this offering?**

GWG Holdings, Inc. is offering to sell 250,000 shares of Series 2 Redeemable Preferred Stock. This preferred stock will pay a % per annum cumulative dividend, and will be callable at our discretion once it has been outstanding for at least one year. In addition, investors may request redemption of this preferred stock once per calendar quarter, subject, however, to our ultimate discretion as to whether to honor such a request, and further subject to an applicable redemption fee.

**Are there minimum purchase requirements for this offering?**

The shares will sell for $1,000 per share. The minimum purchase is 10 shares and there is no maximum purchase. There is no aggregate minimum number of shares of Series 2 Redeemable Preferred Stock that must be subscribed for, or related proceeds that must be received, before we can accept subscriptions and access investor funds.

**What do you mean by "preferred stock?"**

Preferred stock means that, in the event of the liquidation of our Company, the holder of this stock will receive preferential treatment as compared to holders of certain other stock or equity in the Company. In this case, the holders of this preferred stock would receive payment of accrued and declared but unpaid dividends, plus the stated value of their preferred stock (i.e., the original purchase price), before the holders of junior equity such as our common stock. This preferred stock will also entitle its holders to preferred dividends, meaning that dividends on this stock must be paid prior to dividend payments being made to holders of junior equity such as our common stock. This preferred stock does not, however, have any voting rights. Our Company has earlier issued other series of preferred stock denominated "Redeemable Preferred Stock" and "Series A Convertible Preferred Stock," and with respect to both liquidation and dividend-payment rights, the Series 2 Redeemable Preferred Stock offered hereby will be *pari passu* with that earlier issued Redeemable Preferred Stock and Series A Convertible Preferred Stock.

**Will I be able to receive any of my dividend payments in the form of additional shares of preferred stock?**

Yes, however, we (the Company) will decide whether to issue dividends in the form of cash or additional shares of preferred stock. We do not anticipate that purchasers of the Series 2 Redeemable Preferred Stock will be able to express any preference in this regard, or affect any decision on our part to pay dividends in cash or in stock.

**Are the dividends paid on this stock taxable?**

Yes, the dividends you receive on the preferred stock are taxable in the period in which you receive the dividends. We believe that dividends paid on this stock may be eligible for taxation as "qualified dividend income," which means a tax rate of 15–20% may apply to this income depending on the ordinary income marginal tax bracket in which an investor is taxed. Investors will receive an IRS form 1099-DIV for the tax year in which a dividend is paid. Investors should consult with their own tax advisor regarding tax consequences.

**Is my investment guaranteed?**

No. As with almost any investment, there is a risk of loss. Before you invest in our Series 2 Redeemable Preferred Stock you should read the entire prospectus and understand the risks associated with this investment. In particular, you should carefully read the "Risk Factors" section of this prospectus together with the risk disclosures incorporated into this prospectus by reference. We encourage you to review all of our disclosures about this offering and to ask questions of us and consult with your advisors about any questions you may have regarding this offering.

**Can I resell or transfer my shares after they have been purchased?**

Yes. It will be legally possible to sell or transfer the shares you purchase in this offering since these securities are being offered and sold pursuant to a registration statement and will not therefore be "restricted" under applicable law. We do not, however, expect a public trading market to develop for either the Series 2 Redeemable Preferred Stock in the foreseeable future, if ever. If you wish to transfer your preferred shares held in book-entry form, you should contact us. If you wish to transfer your preferred shares held through DTC, you should contact your broker-dealer.

Table of Contents

**Will it be possible, at some point, to redeem the preferred shares for cash?**

Yes. You will be entitled once per calendar quarter to request redemption of your preferred stock at a redemption price equal to the stated value of such redeemed shares, plus any accrued but unpaid dividends thereon. In some cases, however, a redemption fee may apply. After the fifth anniversary of the issuance of the preferred shares, no redemption fee will apply.

You should understand that we will not be obligated in all cases to honor your redemption request. Our obligation to honor a redemption request will be limited to the extent that we do not have sufficient funds available to fund any such redemption, which is a determination we will make in our sole discretion. Our obligation to honor a redemption request will be further limited by applicable law, any restrictions in our Certificate of Incorporation, and any borrowing agreements to which we or our subsidiaries are a party or are otherwise bound. To the extent we have requests for redemptions that we are unable to satisfy, we will honor those requests promptly after we become able to do so, with all such deferred requests being satisfied on a prorated basis, regardless of the order in which we received those requests. See “Description of Securities Offered.” See also “Risk Factors—You may not be able to redeem your preferred shares when and as you wish.”

**If I have an emergency, can I get any of my money when I need it?**

Preferred stock is an equity investment and we are not obligated to redeem your shares unless and until we call the stock for redemption (please see the discussion immediately above for more detail). You should take this into account before you purchase our preferred stock. You should not count on us redeeming any stock if you have an emergency need for the money. There are, however, certain circumstances—such as upon your death, bankruptcy or total disability—where we will, if legally possible, redeem your shares upon your request. These circumstances are discussed immediately below.

**If I die, will you repurchase my preferred stock?**

Not automatically. The legal representative of your estate will, however, have the right to request that we redeem your preferred shares. If we receive adequate documentation evidencing your death, we will honor this kind of repurchase request without any penalty if we are permitted by applicable law, our Certificate of Incorporation, and our borrowing agreements to do so. In the absence of a repurchase request by your estate, your preferred stock will go to your estate for distribution according to your will or the applicable laws of intestacy, and be paid out when called by us or through your estate’s exercise of a redemption request. The Certificate of Designation for our Series 2 Redeemable Preferred Stock, which governs the rights, preferences and privileges of the preferred shares, contains similar rights to

request redemption in the event of a bankruptcy or your total disability. Please see "Description of Securities Offered" for important details about these rights.

**Will I receive a stock certificate?**

No. Stock certificates will not be issued. Your ownership will be noted as Series 2 Redeemable Preferred Stock in our stock register.

**What if I need proof of ownership of my investment in GWG?**

At your request, we will confirm in writing your investment in our Series 2 Redeemable Preferred Stock.

**Can I convert my preferred stock into shares of common stock?**

No.

**Could my subscription be refused?**

Yes. Your subscription must be approved by us. We have the right to reject any subscription for any reason.

Table of Contents

**What is GWG Holdings, Inc.?**

We are a specialty finance company and a leading purchaser of life insurance policies in the secondary market. We are a holding company, meaning that we hold interests in subsidiaries and the subsidiaries generate income through operations. Through our subsidiaries, we purchase and finance life insurance policies at a discount to the face value of the policy benefit.

The life insurance secondary market has evolved to allow for the purchase and sale of a life insurance policy through a process known as a senior life settlement. A senior life settlement allows a senior consumer to sell an existing life insurance policy to a financial buyer, such as us, for more than its cash surrender value but less than the face value of the policy benefit. There are a number of reasons a senior consumer may seek to sell their life insurance policy, and a financial buyer may seek to purchase a life insurance policy. When we purchase a life insurance policy, we continue paying the policy premiums until we collect the face value of the policy benefit. We expect to profit from the difference between the cost of purchasing, paying the related premiums, and financing the life insurance policy, and the face value of the life insurance policy benefit we ultimately receive upon the insured's mortality.

While our primary wholly owned operating subsidiary began operations in March 2006, we were formed and organized in Delaware in 2008. In September 2014, we consummated an initial public offering of our common stock. In connection with this offering, we started listing our common stock on The NASDAQ Capital Market under the ticker symbol "GWGH." We are based in Minneapolis, Minnesota.

**What does GWG plan on doing with this money?**

The net proceeds from this investment will allow us to grow and diversify our portfolio of life insurance policies, service policies that we now own or acquire in the future, retire debt as it comes due, possibly redeem shares of an earlier issued class of preferred stock entitled "Series A Convertible Preferred Stock," satisfy our working capital needs and possibly engage in strategic activities to expand and grow our business. Our management will have discretion as to the manner in which proceeds will be allocated among these uses. Please see "Use of Proceeds."

**What does it mean to purchase a life insurance policy, and why would someone sell his or her policy, in the secondary market?**

The secondary market for life insurance has developed in response to the large volume of policy lapses and surrenders. Rather than allowing a policy to lapse as worthless, or surrendering a life insurance policy at a fraction of its inherent value, the secondary market—on which life insurance policies are bought and sold—can be a source of significant value to consumers. A life settlement is the sale of an existing life insurance policy to a third party for more than its cash surrender value, but less than the face value of the policy benefit. We have found that, where our services are appropriate, we offer significant value to our senior consumers over the cash surrender value offered by insurance carriers. For example, over our history, we have paid senior consumers approximately $353.6 million more than the cash surrender value offered by the insurance carriers.

**Why should I invest in a company that purchases life insurance policies?**

We seek to build a profitable and large portfolio of life insurance policy assets that are well-diversified in terms of insurance carriers, mortality profiles and the medical conditions of insureds. We seek to own a diversified portfolio of life insurance policies because we believe it lowers our overall risk exposure and provides us with greater actuarial stability, predictability and reliable returns. We believe that for investors, owning a well-diversified portfolio of life insurance policies provides a unique investment opportunity. We believe the potential investment returns from life insurance policies are attractive due to the fact they are not correlated to general economic or financial market conditions and derived from investment grade credits. In addition, Conning Research & Consulting (Conning) estimates that the total market potential for policies that could be sold in the secondary market in 2016 to be as much as $141 billion in face amount. This figure compares to the $1.7 billion in face value of policy benefits that Conning estimates actually sold in the secondary market in 2015. Accordingly, we believe that the secondary market is still emerging and is dramatically underserved. As the senior population ages, Conning believes that the overall market potential for life insurance policies that could be sold in the secondary market will grow to $170 billion in face amount of policies by 2025. We believe that socio-economic and demographic trends support the long-term development and growth of the secondary market for life insurance, and that the secondary market for life insurance represents a significant and expansive market opportunity.

Table of Contents

**What is your business strategy?**

Our business strategy is to purchase a large and well-diversified portfolio of life insurance policy assets at discounts to their face value of the policy benefits sufficient enough to generate profitable returns. In addition, we seek to bring the value of the secondary market for life insurance to a broader senior consumer market. In order to meet our goals, we have spent and intend to continue to spend significant resources: (i) developing a robust operational platform and systems for originating and purchasing life insurance policies; (ii) obtaining requisite licensure to participate in the life insurance secondary market; (iii) developing financing resources, strategies, and capabilities for servicing a large portfolio of life insurance policies; (iv) recruiting and developing a professional management team; and (v) establishing strategic relationships for delivering its services. We are currently focused on investments in universal life insurance policies.

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

**Who might benefit from an investment in our Company?**

An investment in our Company and our preferred stock may be beneficial for you if seek to add to your personal portfolio an investment focused in our industry or that is otherwise not correlated to the financial markets, and are able to hold your investment indefinitely. Our preferred stock will not be an appropriate investment for persons who need or may need immediate liquidity.

**How long will this offering last?**

The offering is a continuous offering. Under SEC rules, the offering under this registration statement will expire after three years from the date of its effectiveness. We may, however, conduct similar or identical offerings during this same time or afterwards. We may also decide to terminate this offering at any time.

**Will I be notified of how my investment is doing?**

We will provide you with periodic updates on our performance through periodic filings we make with the SEC. Such filings will include: (i) three quarterly financial reports; (ii) one annual report; (iii) supplements and amendments to this offering, as appropriate; and (iv) such other reports as required under Sections 13 and 15(d) of the Securities Exchange Act of 1934. Such information is also available on our corporate website at *www.gwgh.com.*

**Who can help answer my questions about the offering?**

If you have more questions about the offering, you should contact a registered representative of your broker-dealer or other investment professional, or else contact:

GWG Holdings, Inc.
220 South Sixth Street, Suite 1200
Minneapolis, MN 55402
(612) 746-1944

Table of Contents

**PROSPECTUS SUMMARY**

*This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. To understand this offering fully, you should carefully read the entire prospectus, including the section entitled "Risk Factors," and the documents that are incorporated, or deemed to be incorporated, by reference into this prospectus, before making a decision to invest in our preferred stock. Unless otherwise noted or unless the context otherwise requires, the terms "we," "us," "our," the "Company" and "GWG" refer to G Holdings, Inc. together with its wholly owned subsidiaries. In instances where we refer specifically to "GWG Holdings" or "GWG Holdings, Inc.," or where we refer to a specific subsidiary of ours by name, we are referring only to that specific legal entity.*

**Our Company**

We are a specialty finance company and a leading purchaser of life insurance assets in the secondary market, committed to finding new ways of disrupting the life insurance and related industries through innovative business processes, technology applications and financing. Presently, we focus on creating opportunities for consumers to obtain significant value for their life insurance policies as compared to the traditional options offered by insurance companies. As part of our business, we also create opportunities for investors to participate in alternative asset classes, such as life insurance, not correlated to traditional financial markets. In so doing, we enable investors to take advantage of financial opportunities historically dominated by banks.

The life insurance secondary market provides consumers with the opportunity to sell their life insurance policies to financial buyers for a market value, rather than the surrender value offered by insurance carriers. When a life insurance policy is sold, the purchase price will exceed the surrender value, but will be at a discount to the face value of the policy benefit. Since inception, we have purchased approximately $2.2 billion in face value of policy benefits from consumers for over $379.7 million, an amount that exceeded surrender value of those policies by over $353.6 million. Consumers sell their life insurance in the secondary market for a number of reasons, such as no longer needing or wanting the coverage, no longer being able to afford the premiums, or just wanting to maximize their life insurance investment. We believe that, for consumers 65 years or older and owning life insurance, we provide a financial opportunity that is far more valuable than surrendering a policy for a fraction of its market value or allowing it to lapse as worthless.

The potential secondary market for life insurance is large. According to the American Council of Life Insurers Fact Book 2016 (ACLI), individuals owned over $12.3 trillion in face value of life insurance policies in the United States in 2015. This figure includes all types of policies, including term and permanent insurance known as whole life and universal life. The ACLI reports that the lapse and surrender rate of individual life insurance policies for 2015 was 5.4%, amounting to $638.5 billion in face value of policy benefits lapsed and surrendered in 2015 alone. These figures

do not include group-owned life insurance, such as employer-provided life insurance, the market for which totaled over $8.4 trillion of face value of life insurance policies in the United States in 2015. Group-owned life insurance exhibits similar lapse and surrender rates to consumer owned life insurance according to the ACLI.

Research by Conning Research & Consulting (Conning) reports that the annual net market potential for life insurance policy benefits sold in the secondary market exceeds $141 billion in 2016. Of that market potential, Conning estimates that investors purchased approximately $1.7 billion in face value of life insurance assets in 2015, indicating that the market is dramatically underserved. With an aging demographic in the United States, Conning expects the net market potential to grow to an annual $170 billion in face value of life insurance benefits by 2025. We share the belief that the life insurance secondary market represents both a dramatically underserved market and significant long-term growth opportunity.

Our business model is to earn a net profit between the yield generated by the assets we own and the costs we incur to originate and finance those assets. We believe that we are uniquely positioned to acquire life insurance assets directly from consumers needing our services, and to finance our portfolio’s growth by providing investors with the opportunity to participate in the yield we generate from our assets. We further believe that we are well positioned to fill the vacuum created by the widespread disappearance of bank-driven finance in certain other alternative asset classes.

Table of Contents

To participate and compete in our growing market, we have spent and intend to continue spending significant resources: (i) recruiting and developing a professional management team; and (ii) establishing strategic relationships for delivering the services we provide; (iii) creating opportunities for investors to participate in the yield generated by alternative assets we own; and (iv) developing a robust operational platform and systems for originating and purchasing life insurance policies and other alternative assets.

In this latter regard, we have developed what we believe to be an efficient, cost-effective, and reliable method of underwriting and purchasing small face policies (i.e., policies with a face value benefit of $1,000,000 or less). We expect to refine this process over time and, to the extent possible, use new technologies to enhance this process and our overall business. To that end, we have recently exercised an option to exclusively license a “DNA Methylation Based Predictor of Mortality” technology from the University of California, Los Angeles (UCLA), discovered by Dr. Steven Horvath. We intend to commercialize the use of this technology to estimate individual lifespans greater precision, and to explore how this technology may be used in primary life insurance, long-term care, and annuity businesses.

We have dedicated ourselves to finding new ways of disrupting the life insurance industry, both as it relates to traditional life insurance policies and otherwise. Today, we are seeking to provide consumers additional value for their life insurance by upsetting the status quo of high policy lapse rates and low surrender values that life insurance carriers have enjoyed for years. In the future, we hope to do so the same and more.

**Portfolio Information**

Our portfolio of life insurance policies, owned by our wholly owned subsidiaries as of September 30, 2016, is summarized below:

| | | |
|---|---|---|
| Total portfolio face value of contract benefits | $1,272,078,000 | |
| Average face value per contract | $2,035,000 | |
| Average face value per insured life | $2,263,000 | |
| Weighted average age of insured (yrs.)* | 81.8 | |
| Weighted average life expectancy estimate (yrs.)* | 6.8 | |
| Total number of contracts | 625 | |
| Number of unique lives | 562 | |
| Demographics | 73% Males; 27% Females | |
| Number of smokers | 24 | |
| Largest contract as % of total portfolio | 0.79 | % |
| Average contract as % of total portfolio | 0.16 | % |
| Average annual premium as % of face value | 3.33 | % |

* averages presented in the table are weighted averages.

**Corporate Organization**

Our business was originally organized in February 2006. We added our current parent holding company, GWG Holdings Inc., in March 2008, and in September 2014 we consummated an initial public offering of our common stock on The NASDAQ Capital Market, where our stock trades under the ticker symbol “GWGH.”

GWG Holdings, Inc. (GWG Holdings) conducts its life insurance related business through a wholly owned subsidiary, GWG Life, LLC (GWG Life), and GWG Life’s wholly owned subsidiaries, GWG Trust, GWG DLP Funding III, LLC, and GWG DLP Funding IV, LLC. All of these entities are legally organized in Delaware.

Our principal executive offices are located at 220 South Sixth Street, Suite 1200, Minneapolis, Minnesota 55402 and our telephone number at that address is (612) 746-1944. Our website address is www.gwgh.com. The information on or accessible through our website is not part of this prospectus. Our corporate structure, including our principal subsidiaries, is as follows:

Table of Contents

7

Table of Contents

**“Emerging Growth Company” Status**

As a public reporting company with less than $1 billion in revenue during our last fiscal year, we qualify as an “emerging growth company” under the Jumpstart our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of certain reduced reporting requirements and is relieved of certain other requirements otherwise generally applicable to public companies. In particular, as an emerging growth company we:

- are not required to obtain an attestation and report from our auditors on our management’s assessment of our internal control over financial reporting under the Sarbanes-Oxley Act of 2002;
- are not required to provide a detailed narrative disclosure discussing our compensation principles and objectives and analyzing how our compensation elements fit with our principles and objectives (commonly referred to as “compensation discussion and analysis”);
- are not required to obtain a non-binding advisory vote from our stockholders on executive compensation or golden parachute arrangements (commonly referred to as the “say-on-pay,” “say-on-frequency” and “say-on-golden-parachute” votes);
- are exempt from certain executive compensation disclosure provisions requiring a pay-for-performance graph and CEO pay ratio disclosure;
- may present only two years of audited financial statements and only two years of related Management’s Discussion & Analysis of Financial Condition and Results of Operations, or MD&A; and
- are eligible to claim longer phase-in periods for the adoption of new or revised financial accounting standards under §107 of the JOBS Act.

We intend to take advantage of all of these reduced reporting requirements and exemptions, including the longer phase-in periods for the adoption of new or revised financial accounting standards. Our election to use the phase-in periods is irrevocable and may make it difficult to compare our financial statements to companies that are either ineligible for, or have opted out of, the longer phase-in periods.

Under the JOBS Act, we may take advantage of the above-described reduced reporting requirements and exemptions for up to five years after our initial sale of common equity pursuant to a registration statement declared effective under the Securities Act of 1933 (which occurred in September 2014), or such earlier time that we no longer meet the definition of an emerging growth company. In this regard, the JOBS Act provides that we would cease to be an “emerging growth company” if we have more than $1 billion in annual revenues, have more than $700 million in market value of our common stock held by non-affiliates, or issue more than $1 billion in principal amount of non-convertible debt over a three-year period.

It should be noted that certain reduced reporting requirements and exemptions were already available to us due to the fact that we also qualify as a “smaller reporting company” under SEC rules, and our claim to those reduced reporting requirements and exemptions will not be affected by the loss of our status as an “emerging growth company.” In this regard, we will continue to qualify as a “smaller reporting company” for so long as we have a public float (i.e., the market value of common equity held by non-affiliates) of less than $75 million as of the last business day of our most recently completed second fiscal quarter.

Table of Contents

**The Offering**

| | |
|---|---|
| **Issuer** | GWG Holdings, Inc. |
| **Method of Purchase** | Investors may pay cash or exchange their outstanding debt securities issued by the Company in satisfaction of the aggregate purchase price for the Series 2 Redeemable Preferred Stock. |
| **Minimum Investment** | The minimum investment amount is generally $10,000, but we may accept purchases of less than $10,000 in our discretion. |
| **Offering Price** | $1,000 per share of Series 2 Redeemable Preferred Stock. |
| **Series 2 Redeemable Preferred Stock** | A maximum of 250,000 shares of Series 2 Redeemable Preferred Stock is being offered on a continuous basis. |

*Ranking*. The Series 2 Redeemable Preferred Stock ranks senior to our common stock, *pari passu* with our Series A Convertible Preferred Stock and our earlier issued Redeemable Preferred Stock, and senior to or *pari passu* with all other classes and series of our preferred stock, with respect to the payment of dividends and rights upon liquidation, dissolution or winding up.

"*Pari passu*" means that in determining priority of payment in respect of entitlement to dividends and distributions upon our liquidation, winding-up or dissolution, the holders of our Series 2 Redeemable Preferred Stock, together with the holders of any other class of "*pari passu*" equity, will be treated equally and without preference.

*Stated Value*. Each share of Series 2 Redeemable Preferred Stock will have an initial "stated value" of $1,000, subject to appropriate adjustment upon certain events such as recapitalizations, stock dividends, stock splits, stock combinations, and reclassifications, as set forth in the Certificate of Designation for the Series 2 Redeemable Preferred Stock.

*Dividends*. Holders of Series 2 Redeemable Preferred Stock are entitled to receive, when and as declared by our Board of Directors out of legally available funds, cumulative cash dividends on each share of Redeemable Preferred Stock at an annual rate of % of the stated value of such share. Dividends are payable monthly. Dividends on each share of Series 2 Redeemable Preferred Stock will begin accruing on, and will be cumulative from, the date of issuance and regardless of whether our Board of Directors declares and pays such dividends.

In the event that our Certificate of Incorporation, provisions of Delaware law or our borrowing agreements prohibit us from paying dividends in cash, and if we do not pay dividends in the form of preferred stock as described below, unpaid dividends will cumulate.

At our option, we may pay dividends in the form of duly authorized, validly issued, fully paid and non-assessable shares of the Series 2 Redeemable Preferred Stock. Any preferred stock we issue in satisfaction of our dividend-payment obligations will be valued at the stated value of such shares.

No commissions or additional compensation will be payable on preferred shares issued in satisfaction of our dividend-payment obligations.

9

Table of Contents

*Voting Rights*. The Series 2 Redeemable Preferred Stock has no voting rights.

*Redemption Request at the Option of a Holder*. Once per calendar quarter, a holder will have the opportunity to request that we redeem such holder's Series 2 Redeemable Preferred Stock at a redemption price equal to the stated value of such redeemed shares, plus any accrued but unpaid dividends thereon, less the applicable redemption fee (if any). As a percentage of the aggregate redemption price of a holder's shares to be redeemed, the redemption fee shall be:

13% if the redemption is requested on or before the first anniversary of the original issuance of such shares.

10% if the redemption is requested after the first anniversary and on or before the third anniversary of the original issuance of such shares.

5% if the redemption is requested after the third anniversary and on or before the fourth anniversary of the original issuance of such shares.

3% if the redemption is requested after the fourth anniversary and on or before the fifth anniversary of the original issuance of such shares.

After the fifth anniversary of the date of original issuance of shares to be redeemed, no redemption fee shall be subtracted from the redemption price.

*Optional Repurchase Upon Death, Disability or Bankruptcy of a Holder*. Subject to certain restrictions and conditions, we will also redeem shares of Series 2 Redeemable Preferred Stock of a holder who is a natural person (including an individual beneficial holder who holds our preferred shares through a custodian or nominee, such as a broker-dealer) upon his or her death, total disability or bankruptcy, within 60 days of our receipt of a written request from the holder or the holder's estate at a redemption price equal to the stated value, plus accrued and unpaid dividends thereon.

A "total disability" means a determination by a physician approved by us that a holder, who was gainfully employed and working on a full-time basis as of the date on which his or her Series 2 Redeemable Preferred Stock was purchased, has been unable to work on a full-time basis for at least 24 consecutive months. In this regard, the Certificate of Designation for the Series 2 Redeemable Preferred Stock defines working "on a full-time basis" to mean working at least 40 hours per week.

*Optional Redemption by the Company*. After one year from the date of original issuance of shares of Series 2 Redeemable Preferred Stock, we will have the right (but not the obligation) to call and redeem such preferred shares at 100% of their stated value, plus any accrued but unpaid dividends thereon.

*Restrictions on Redemption and Repurchase*. We will not be obligated in all cases to redeem shares of Series 2 Redeemable Preferred Stock, whether upon a redemption request by a holder, at the option of the Company, or upon the death, total disability or bankruptcy of a holder. In particular, we will not redeem or repurchase any preferred shares if we are restricted by applicable law or our Certificate of Incorporation from making such redemption or to the extent any such redemption would cause or constitute a default under any borrowing agreements to which we or any of our subsidiaries are a party or otherwise bound. In addition, we will have no obligation to redeem preferred shares upon a redemption request made by a holder if we do not have sufficient funds available to fund that redemption. In this regard, we will have discretion under the Certificate of Designation for the Series 2 Redeemable Preferred Stock to determine whether we are in possession of "sufficient funds" to fund a redemption request. To the extent we have requests for redemptions that we are unable to satisfy, we will honor these redemptions promptly after we become able to do so, with all such deferred requests being satisfied on a prorated basis, regardless of the order in which we received the requests.

Table of Contents

*Liquidation Preference*. Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, and before any distribution or payment shall be made to holders of our common stock or any other class or series of capital stock ranking junior to our shares of Series 2 Redeemable Preferred Stock, the holders of these preferred shares will be entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference equal to the stated value per share, plus accrued but unpaid dividends thereon.

As of December 2, 2016, there were:

**Capital stock outstanding before this offering**

2,644,570 shares of Series A Convertible Preferred Stock outstanding;

59,349 shares of Redeemable Preferred Stock outstanding; and

5,980,190 shares of common stock outstanding (this number excludes shares of common stock issuable upon the conversion of our outstanding Series A Convertible Preferred Stock, shares of common stock issuable upon the conversion of outstanding Redeemable Preferred Stock, the exercise of outstanding warrants and options, and shares of common stock reserved for future issuance under our equity incentive plan).

Assuming all 250,000 shares of Series 2 Redeemable Preferred Stock offered hereby are sold, after the conclusion of this offering we will have:

**Capital stock outstanding after this offering**

2,644,570 shares of Series A Convertible Preferred Stock outstanding;

59,349 shares of Redeemable Preferred Stock outstanding;

250,000 shares of Series 2 Redeemable Preferred Stock outstanding; and

5,980,190 shares of common stock outstanding (this number excludes shares of common stock issuable upon the conversion of our outstanding Series A Convertible Preferred Stock, shares of common stock issuable upon the conversion of outstanding Redeemable Preferred Stock, the exercise of outstanding warrants and options, and shares of common stock reserved for future issuance under our equity incentive plan).

**Use of Proceeds** If all the shares offered hereby are sold for cash, we would expect to receive up to approximately $229,635,000 of net proceeds from this offering after deducting estimated offering expenses, including selling commissions and additional compensation, and our own offering-related expenses. There is no aggregate minimum amount of preferred shares that must be sold before we access investor funds.

We intend to use a majority of the net cash proceeds from this offering to acquire additional life insurance policy assets. We intend to use the remaining net proceeds from this offering for certain other business expenditures, including without limitation to make payments of premiums on life insurance policy assets we own, possibly to redeem shares of Series A Convertible Preferred Stock, to repay principal and interest on debt as it becomes due, to make strategic acquisitions of other yield-bearing assets, to develop and commercialize certain technologies we may license, and for general working capital purposes. See “Use of Proceeds” for additional information.

11

Table of Contents

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|---|---|
| **No Market for Redeemable Preferred Stock; Transferability** | There is no existing public trading market for the Series 2 Redeemable Preferred Stock and we do not anticipate that a secondary market for the stock will develop. We do not intend to apply for listing of the Series 2 Redeemable Preferred Stock on any securities exchange or for quotation of the Series 2 Redeemable Preferred Stock in any automated dealer quotation system or other over-the-counter market. Nevertheless, you will be able to freely transfer or pledge your Series 2 Redeemable Preferred Stock. |
| **Tax Matters** | Dividends received by individual holders of Series 2 Redeemable Preferred Stock will generally be subject to a tax rate of 15% to 20% if such dividends are treated as "qualified dividend income" for U.S. federal income tax purposes, depending on the ordinary income tax bracket of the individual holder. The treatment of dividends received as qualified dividends is limited under certain circumstances. Please see "Material Federal Income Tax Considerations." |
| **Covered Security** | Our Redeemable Convertible Stock is a "covered security." The term "covered security" applies to securities exempt from state registration pursuant to Section 18 of the Securities Act of 1933. Generally, securities listed on national exchanges are the most common type of covered security exempt from state registration. A non-traded security also can be a covered security if it has a seniority greater than or equal to other securities from the same issuer that are listed on a national exchange. Our Series 2 Redeemable Preferred Stock is a covered security because they will be senior to our common stock, which is listed on The NASDAQ Capital Market, and therefore our offering of Series 2 Redeemable Preferred Stock is exempt from state registration. |
| **Risk Factors** | An investment in the shares offered hereby involves significant risks, including the risk of losing your entire investment. For a summary of risks relating to this offering and our Company and business, please see "Risk Factors," page 14. |

Table of Contents

**RISK RELATING TO FORWARD-LOOKING STATEMENTS**

Certain matters discussed in this prospectus contain forward-looking statements. These forward-looking statements are subject to risks, uncertainties and assumptions about our operations and the investments we make, including, among other things, factors discussed under the heading “Risk Factors” in this prospectus and the following:

changes in the secondary market for life insurance;

our limited operating history;

the valuation of assets reflected on our financial statements;

the reliability of assumptions underlying our actuarial models, including our life expectancy estimates;

our reliance on debt financing;

risks relating to the validity and enforceability of the life insurance policies we purchase;

our reliance on information provided and obtained by third parties;

federal, state and FINRA regulatory matters;

competition in the secondary market of life insurance;

the relative illiquidity of life insurance policies;

our ability to satisfy our debt obligations if we were to sell our entire portfolio of life insurance policies;

life insurance company credit exposure;

general economic outlook, including prevailing interest rates;

performance of our investments in life insurance policies;

financing requirements;

litigation risks;

restrictive covenants contained in borrowing agreements; and

our ability to make cash distributions in satisfaction of dividend obligations and redemption requests.

Forward-looking statements can be identified by the use of words like “believes,” “could,” “possibly,” “probably,” “anticipates” “estimates,” “projects,” “expects,” “may,” “will,” “should,” “seek,” “intend,” “plan,” “expect,” or “consider” or the negative of expressions or other variations, or by discussions of strategy that involve risks and uncertainties. All forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual transactions, results, performance or achievements to be materially different from any future transactions, results, performance or achievements expressed or implied by such forward-looking statements.

We base these forward-looking statements on current expectations and projections about future events and the information currently available to us. Although we believe that the assumptions for these forward-looking statements are reasonable, any of the assumptions could prove to be inaccurate. Consequently, no representation or warranty can be given that the estimates, opinions, or assumptions made in or referenced by this prospectus will prove to be accurate. Some of the risks, uncertainties and assumptions are identified in the discussion entitled “Risk Factors” in this prospectus. We caution you that the forward-looking statements in this prospectus are only estimates and predictions, or statements or current intent. Actual results or outcomes, or actions that we ultimately undertake, could differ materially from those anticipated in the forward-looking statements due to risks, uncertainties or actual events differing from the assumptions underlying these statements.

Table of Contents

## RISK FACTORS

*An investment in our securities involves a high degree of risk. Before purchasing the securities offered by this prospectus, you should carefully consider the risks, uncertainties and additional information (i) set forth in our most recent Annual Report on Form 10-K filed with the SEC on March 22, 2016, our Quarterly Reports on Form 10-Q filed on with the SEC on November 10, August 12, and May 13, 2016, Current Reports on Form 8-K filed with the SEC on April 28, August 16, August 19, September 19, November 8, 2016, and our definitive proxy statement filed with the SEC on March 4, 2016, all which are incorporated by reference into this prospectus, and (ii) contained herein or in any applicable prospectus supplement. For a description of these reports and documents, and information about where you can find them, see "Where You Can Find More Information" and "Incorporation of Certain Documents By Reference." The risks and uncertainties in this prospectus and in the documents incorporated, or deemed to be incorporated, by reference in this prospectus are those that we currently believe may materially impact the Company. Additional risks not presently known or are currently deemed immaterial could also materially and adversely affect our financial condition, results of operations, business and prospects.*

**There is no public market for our Series 2 Redeemable Preferred Stock and we do not expect one to develop.**

There is no public market for our Series 2 Redeemable Preferred Stock offered in this offering, and we currently have no plan to list this stock on a securities exchange or to include these shares for quotation on any automated quotation system or other over-the-counter market. If you are able to sell the Series 2 Redeemable Preferred Stock, you may only be able to sell them at a substantial discount from the price you paid. Therefore, you should purchase the stock only as a long-term investment. Holders of shares of Series 2 Redeemable Preferred Stock may request that we redeem their shares, with the redemption price payable in cash. Nevertheless, we will have no obligation to redeem preferred shares upon a redemption request made by a holder if we do not have sufficient funds available to fund that redemption and, in this regard, the Certificate of Designation for the Series 2 Redeemable Preferred Stock provides us with ultimate discretion to determine whether we are in possession of "sufficient funds" to fund a redemption request.

**We will be required to terminate this offering if our common stock is no longer listed on The NASDAQ Capital Market or another national securities exchange.**

The Series 2 Redeemable Preferred Stock is a "covered security" and therefore is not subject to registration under the state securities (i.e., blue sky), regulations in the various states in which it may be sold due to its seniority to our common stock, which is listed on The NASDAQ Capital Market. If our common stock is no longer listed on The NASDAQ Capital Market or another national securities exchange, we will be required to register this offering in any state in which we subsequently offer the Series 2 Redeemable Preferred Stock. This would almost certainly require the termination of this offering and could result in our raising an amount of gross proceeds that is substantially less than the amount of the gross proceeds we expect to raise if the maximum offering is sold. This would reduce our ability to

make additional investments and limit the diversification of our portfolio and meet the other business goals we seek with the proceeds of this offering.

You may not be able to redeem your shares of Series 2 Redeemable Preferred Stock when and as you wish.

You will be entitled periodically to request redemption of all or a portion of your Series 2 Redeemable Preferred Stock. Nevertheless, there is no assurance that we will be able, or willing, to redeem those shares as you may request. The Certificate of Designation for the Series 2 Redeemable Preferred Stock contains limitations on our ability to redeem preferred shares upon a redemption request, and also provides us with discretion to decline those requests. For example, if either our Certificate of Incorporation or applicable law prohibits us from using funds to redeem your preferred shares when requested, we will not be under any obligation to redeem those shares. Similarly, if we or any of our subsidiaries are parties to (or otherwise bound by) an agreement under which we or they have borrowed money, and the consummation of a redemption request would trigger a breach of the borrowing agreement, then we will not be under any obligation to redeem those shares as requested. Finally, and importantly, the Certificate of Designation for the Series 2 Redeemable Preferred Stock provides us with the right to decline a redemption request in the event we determine that we do not have sufficient funds to fund a redemption request. In this regard, the Certificate of Designation grants us, the Company, with the discretion to determine whether or not we have “sufficient funds” to fund a redemption.

All of these provisions discussed above are in the nature of restrictions and limitations on an investor’s ability to complete a redemption of his, her or its investment in our Series 2 Redeemable Preferred Stock, and none of these restrictions and limitations (or the determinations upon which they are based) will be within your control. These provisions together create the risk that you, if you invest in these preferred shares, may not be able to redeem your preferred stock when and as you wish. As such, we believe that a purchase of shares in this offering is suitable only for investors who will have no need for immediate liquidity in their investment.

Table of Contents

**We will be able to call your shares of Series 2 Redeemable Preferred Stock for redemption under certain circumstances without your consent.**

We will have the ability to call the outstanding shares of Series 2 Redeemable Preferred Stock after one year from the date of original issuance of those shares. At that time, we will have the right to redeem, at our option, the outstanding shares of Series 2 Redeemable Preferred Stock, in whole or in part, at 100% of the stated value per share, plus any accrued and unpaid dividends.

**Our limited operating history makes it difficult for you to evaluate our likely performance and this investment.**

We are a company with a limited history, which makes it difficult to accurately forecast our earnings and cash flows. During the nine months ended September 30, 2016, we incurred a net loss of $2.6 million. During the year ended December 31, 2015, we incurred a net loss of $6.0 million, and in the year ended December 31, 2014, we incurred a net loss of $6.1 million. Our lack of a significant history and the evolving nature of the market in which we operate make it likely that there are risks inherent in our business that are yet to be recognized by us or others, or not fully appreciated, and that could result in us earning less than we anticipate or even suffering further anticipated or unanticipated losses. As a result of the foregoing, an investment in our securities necessarily involves uncertainty about the stability of our earnings, cash flows and, ultimately, our ability to service and repay our debt and meet our other obligations. Moreover, we have limited income, cash flow, funds from operations and cash available for distribution from which we can make dividend distributions to holders of the Series 2 Redeemable Preferred Stock.

You should consider our prospects in light of the risks, uncertainties and difficulties frequently encountered by companies like ours that do not have a substantial operating history, many of which may be beyond our control.

**We depend upon cash distributions from our subsidiaries, and contractual restrictions on distributions to us or adverse events at one of our operating subsidiaries could materially and adversely affect our ability to pay our debts and to continue to operate our business, which may harm our financial position and cash flow and potentially impact our ability to pay dividends on or satisfy redemptions for the Series 2 Redeemable Preferred Stock.**

As its name suggests, GWG Holdings, Inc. is a holding company. As a holding company, we conduct our operations through our operating subsidiaries, and our only significant assets are the capital stock of our subsidiaries. Accordingly, our ability to meet our cash obligations, including our obligations under the Series 2 Redeemable Preferred Stock, depends in material part upon the ability of our subsidiaries to make cash distributions to us. In this regard, the ability of our subsidiaries to make distributions to us is, and will continue to be, restricted by certain

negative covenants in the agreement governing our revolving credit facilities.

If any of these contractual limitations were to materially impede the flow of cash to us, such fact would materially and adversely affect our ability to pay cash dividends on or redeem the Series 2 Redeemable Preferred Stock. In addition, any adverse event at the subsidiary level, such as a declaration of bankruptcy, liquidation or reorganization or an event of default under our revolving credit facility, could materially and adversely affect the ability of our subsidiaries to make cash distributions to us. Just as with a material contractual impediment to cash flow, any such subsidiary corporate event would materially and adversely affect our ability to service and repay our debt and to pay cash dividends on or redeem the Series 2 Redeemable Preferred Stock, and could negatively impact our ability to continue operations.

**We cannot guarantee we will be able to make cash distributions in satisfaction of dividend obligations.**

Holders of Series 2 Redeemable Preferred Stock are entitled to receive, when, and as authorized by our Board of Directors and declared by us out of legally available funds, cumulative cash dividends on each share of preferred stock at an annual rate of % of the stated value. We expect to pay dividends on the Series 2 Redeemable Preferred Stock monthly. Nevertheless, provisions of Delaware law, our Certificate of Incorporation, or our borrowing agreements, may prohibit us from doing so. If our Board of Directors does not declare and pay cash dividends, and if they do not choose to satisfy our dividend-payment obligations by issuing additional shares of preferred stock, then unpaid dividends will cumulate.

Table of Contents

**We established the offering price for the preferred stock pursuant to negotiations among us and our dealer manager and, as a result, the actual value of your investment may be substantially less than what you pay.**

The selling price of the Series 2 Redeemable Preferred Stock has been determined pursuant to negotiations among us and the dealer manager, based upon the following primary factors: the economic conditions in and future prospects for the industry in which we compete; our prospects for future earnings; an assessment of our management; the present state of our development; the prevailing conditions of the equity securities markets at the time of this offering; and current market valuations of public companies considered comparable to our company. Because the offering price is not based upon any independent valuation, the offering price is not indicative of the proceeds that you would receive upon a sale of those securities or our Company.

**The Series 2 Redeemable Preferred Stock will be subordinate in right of payment to any corporate-level debt that we incur, and your interests could be diluted by the issuance of additional preferred stock and by other transactions.**

The Series 2 Redeemable Preferred Stock will be subordinate in right of payment to any corporate-level debt that we incur. The credit agreement for one of our credit facilities includes, and future debt we incur may include, restrictions on our ability to pay cash dividends on our preferred stock, including the Series 2 Redeemable Preferred Stock. The issuance of additional preferred stock on a parity with or senior to the Series 2 Redeemable Preferred Stock would dilute the interests of the holders of the Series 2 Redeemable Preferred Stock, and any issuance of preferred stock senior to the Series 2 Redeemable Preferred Stock or of additional indebtedness could affect our ability to pay cash dividends on, redeem or ultimately pay the liquidation preference on the Series 2 Redeemable Preferred Stock. The Series 2 Redeemable Preferred Stock does not contain any provision affording the holders of the Series 2 Redeemable Preferred Stock protection in the event of a highly leveraged or other transaction, including a merger or the sale, lease or conveyance of all or substantially all of our assets or business, that might adversely affect the holders of the Series 2 Redeemable Preferred Stock.

**Our ability to redeem shares of Series 2 Redeemable Preferred Stock may be limited by Delaware law.**

Under Delaware law, a corporation may redeem stock as long as, after giving effect to the redemption, the corporation is able to pay its debts as they become due in the usual course (the equity solvency test) and its total assets exceed the sum of its total liabilities plus, unless its charter permits otherwise, the amount that would be needed, if the corporation were to be dissolved at the time of the redemption, to satisfy the preferential rights upon dissolution of stockholders when preferential rights on dissolution are superior to those whose stock is being redeemed (the balance sheet solvency test). If we were insolvent at any time a redemption of shares of Series 2 Redeemable Preferred Stock is requested or otherwise required to be made, we would not be able to effect such redemption.

**We have no obligation to contribute to a sinking fund to retire the Series 2 Redeemable Preferred Stock, nor is the Series 2 Redeemable Preferred Stock guaranteed by any governmental agency.**

We have no obligation to contribute funds to a sinking fund with respect to the Series 2 Redeemable Preferred Stock, and our obligations under the preferred stock are not guaranteed by any depositary institution. Further, no governmental entity insures or guarantees payment on the Series 2 Redeemable Preferred Stock if we do not have enough funds to make principal or interest payments.

**Actual results from our life insurance portfolio may not match our expected results, which could adversely affect our ability to make distributions.**

Our business model relies on achieving actual results from our portfolio of life insurance assets that are profitable. In this regard, we expect to receive cash flows from our investments in life insurance policy assets over time. We believe that the larger the portfolio we own, the greater the likelihood that we will receive cash flows that better meet our expectations. To our knowledge, rating agencies generally suggest that portfolios of life insurance policies be diversified enough to achieve actuarial stability in receiving expected cash flows from underlying mortalities. For instance, in a study published in 2012, A.M. Best concluded that at least 300 lives are necessary to narrow the band of cash flow volatility and achieve actuarial stability, while Standard & Poor’s has indicated that stability is unlikely to be achieved with a pool of less than 1,000 lives. As of September 30, 2016, we owned life insurance policies covering 562 lives. Accordingly, while there is a risk with a portfolio of any size that actual cash flows may be less predictable than expected, we believe that the risk is higher when our current portfolio is smaller than rating agency recommendations.

Table of Contents

Although we plan to expand the number of life insurance policies we own using proceeds raised from this offering, we may be unable to meet this goal if sufficient financing from capital sources is not available or is available only on unfavorable or unacceptable terms. Furthermore, even if our portfolio reaches the size we desire, we still may experience differences between our expected cash flows and our actual cash flow. Any resulting reduction in our revenues and net income could cause a resulting decrease in our cash available for distributions.

Cost-of-insurance (premium) increases could materially and adversely affect our financial condition and our profitability.

We are subject to the risk of increased cost-of-insurance (COI) charges (i.e., premium charges) for the universal life insurance policies we own in our portfolio. Approximately 10% of the policies in our portfolio have premium levels that are guaranteed, under the terms of the policy, to keep the policy's death benefit in force even in a situation where the policy's cash account has been wholly depleted. We fund the remaining 90% of our policies to pay "non-guaranteed COI charges," and therefore we are subject to the risk that the insurer could increase the COI charges for the policy. In all cases, the amount or rate of increase is subject to limits set forth in the insurance policy. Because very few of the policies we own have significant cash account value balances, any COI increase will require us to use more cash to satisfy the minimum premium amount required to keep the policy in force.

A COI increase can be expected to impair the value of the affected policy because extra expense (additional premium amounts) will be required to keep the policy in force, and such extra expense will diminish the economic value (return) of the policy upon the mortality of the insured. As a result, any widespread COI increases in policies owned in our portfolio would likely have a material and adverse effect on the value of our portfolio, which in turn would materially and adversely affect our financial condition and our profitability.

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

Our offer and sale of preferred stock and our L Bond offering are principal means by which we intend to raise funds needed to meet our goal of growing a larger and more statistically diverse portfolio likely to meet our cash flow projections. While we plan to continue financing our business, if we are unable to continue to do so for any reason we may be unable to meet our goal. In addition, if actual cash flows from our portfolio of life insurance policies do not occur as our actuarial projections have forecasted, we could be forced to sell our investments in life insurance policies in order to service or satisfy our debt-related obligations. If we are forced to sell investments in life insurance policies or our entire portfolio, we may be unable to sell them at prices we believe are appropriate, and may not be able to sell them at prices that approximate the discount rate we have applied to value our portfolio, particularly if our sale of policies occurs at a time when we are (or are perceived to be) in distress. In any such event, our business and the value

of our securities, including our Series 2 Redeemable Preferred Stock, may be materially and adversely impacted.

***Accuracy of the life expectancy estimates and mortality curves we use for small face contracts could have a material and adverse effect on our results of operation and financial condition.***

As of September 30, 2016, we owned 306 “small face” life insurance policies (i.e., a contract with $1 million in face value benefits or less) having $164 million in face value of insurance benefits. The underwriting processes and mortality curves we use to evaluate, price and purchase small face contracts may be different from, and, as a result, may not be as reliable as, the processes we use for life insurance contracts with larger face values of benefits. While we obtain life expectancy reports from third-party evaluators based on medical evidence, the processes used to develop these life expectancy reports are less extensive than traditional methods. Although we have professional actuarial guidance in the use and application of mortality curves to price and value small face contracts, the application of these mortality curves may not be as reliable as or more subject to adjustment than the processes we use for larger face value of benefits. As the face value of our small face contracts increases relative to the size of our total portfolio, the accuracy with which we have estimated life expectancies and mortality curves for these contracts will become increasingly material to our business. Any shortcomings in the processes we have used to evaluate, price, purchase and value the small face contracts we own could have a material and adverse effect on our results of operation and financial condition. Any such outcomes would likely have a negative and possibly material effect on the price of our common stock and our ability to satisfy our debts.

Table of Contents

***We may in the future rely, in part, on new and unproven technology as part of our underwriting processes. If the mortality predictions we obtain through use of this technology proves inaccurate, our results of operation and financial condition could be materially and adversely affected.***

We recently exercised our option to license, on an exclusive basis, new technology that we believe may be applied to assist us with the mortality predictions in the course of underwriting and valuing life insurance contracts. This technology, however, has not yet been commercially applied in the manner we envision, and it is possible that we will be unable to elicit more accurate mortality predictions through its use. It is also possible that the mortality predictions we obtain through the use of this technology will prove inaccurate, and perhaps materially so. In such a case, our failure to accurately forecast mortalities could have a material and adverse effect on our results of operation and financial condition, which could in turn materially and negatively affect the price of our common stock and our ability to satisfy our debts.

***The technology we license may subject us to claims of infringement or invalidity from third parties, and the magnitude of this risk to our business generally rises if and as we become more successful in employing and relying on the technology. Any such claims would be complex and costly, and adverse outcomes could undermine the competitive advantages we seek.***

Our reliance on technology will subject us to the risk that other parties may assert, rightly or wrongly, that our intellectual property rights are invalid or violate the rights of those parties, as well as the risk that our intellectual property rights will be infringed upon by third parties. Any outcome that invalidates our intellectual property rights or that otherwise diminishes the competitive advantages obtained, at least in part, through the use of those rights could have a material and adverse effect on our competitive position and our prospects.

**We cannot know the tax implications of an investment in the Series 2 Redeemable Preferred Stock.**

The section of this prospectus entitled “Material Federal Income Tax Considerations” sets forth a summary of federal income tax consequences to the purchasers of the Series 2 Redeemable Preferred Stock. No information is provided concerning tax consequences under any other federal, state, local or foreign laws that may apply to the purchasers of the preferred stock. Prospective investors or their representatives should read that section very carefully in order to properly evaluate the federal income tax risks of an investment in the Series 2 Redeemable Preferred Stock. Each prospective investor should consult his personal counsel, accountant and other business advisors as to the federal, state, local and foreign tax consequences of an investment in this offering.

**USE OF PROCEEDS**

Assuming we sell the maximum number of preferred shares in this offering, for cash, at the public offering price of $1,000 per share, we expect to receive up to approximately $229,635,000 of net cash proceeds from this offering after paying selling commissions, dealer manager fees, and our own estimated offering expenses. More specifically, if all preferred shares offered hereby are sold, we would pay $15,000,000 in selling commissions, up to $5,000,000 in additional compensation, and an estimated $365,000 in our own offering-related expenses consisting of legal, accounting, printing, mailing, registration, qualification and associated securities offering filing costs and expenses. Additional compensation consists of (i) a non-accountable expense allowance of up to 0.60% of gross offering proceeds, (ii) an accountable expense allowance of up to 0.40% of gross offering proceeds, (iii) a dealer manager fee (payable only to Emerson Equity) of 0.40% of gross offering proceeds for managing and coordinating the offering, (iv) a wholesaling fee (payable only to wholesaling dealers) of 0.50% of gross offering proceeds, and (v) non-cash compensation of up to 0.10% of gross offering proceeds. Aggregate additional underwriting compensation will not exceed 2.0% of gross offering proceeds. The dealer manager may reallow up to 0.60% of additional compensation to soliciting broker-dealers. The amount of the reallowance to any soliciting broker-dealer will be determined by the dealer manager in its sole discretion.

Table of Contents

The maximum amount of commissions, fees, non-cash compensation, if any, and reimbursements payable to FINRA selling members is 8.0% of the gross proceeds of preferred shares sold. If all of the preferred shares were sold for cash and the maximum commissions, fees, non-cash compensation and reimbursements were paid, we estimate that the net cash proceeds to us, after paying our own estimated offering and related expenses, would be approximately $229,635,000. Nevertheless, because we do not know the total amount of preferred shares that will be ultimately sold, we are unable to accurately forecast the total net proceeds that will be generated by this offering.

There is no minimum amount of preferred shares that must be sold before we access investor funds.

Our goal is to use a majority of the net proceeds from the sale of preferred shares to purchase additional life insurance policy assets in the secondary market. The precise amount of proceeds we apply towards purchasing additional life insurance policy assets will depend, among other things, on the amount of net proceeds that we receive from the sale of shares being offered, the existence and timing of opportunities to expand our portfolio of insurance policy assets or acquire other yield-bearing assets, our cash needs for certain other expenditures (summarized below) we anticipate incurring in connection with our business, and the availability of other sources of cash (e.g., our revolving credit facilities). These certain other expenditures include:

servicing of life insurance assets;

potentially calling and redeeming our outstanding Series A Convertible Preferred Stock;

paying principal at maturity, interest and fees to our lenders, including under our revolving credit facility, the Series I Secured Notes, and the L Bonds; and paying fees and expenses of the trustees of certain trusts and the securities intermediary associated with our financing arrangements, and fees and expenses related to the securities offered hereby;

acquiring other yield-bearing assets;

developing of technologies we have licensed, and commercial deployment of those technologies; and

general working capital purposes

As indicated above, the extent to which we will use proceeds from this offering for these other purposes, and the amounts and timing of such expenditures will depend on a variety of factors. In sum, our management will have significant discretion over the ultimate manner in which net proceeds from this offering will be applied. Net offering

proceeds not immediately applied to the uses summarized above will be invested in short-term investments such as money market funds, commercial paper, U.S. Treasury Bills and similar securities investments pending their use. We may also purchase interest rate hedges to lock in our cost of capital, or longevity hedges to lock in our expected return from our portfolio.

As indicated above, we may use some of the net proceeds from this offering to pay premiums on life insurance assets we own and servicing costs. Our aggregate premium obligations over the next five and one-half years for life insurance assets that we own as of September 30, 2016, together with anticipated servicing costs, are set forth in the table below. These obligations do not take into account the expectation of mortality over the periods presented.

| **Years Ending December 31** | **Premiums** |
|---|---|
| Three months ending December 31, 2016 | $10,637,000 |
| 2017 | 43,905,000 |
| 2018 | 47,597,000 |
| 2019 | 51,563,000 |
| 2020 | 57,383,000 |
| 2021 | 63,972,000 |
| Total | $275,057,000 |

Also as indicated above, we may use some of the net proceeds from this offering to pay principal amounts owing under our Series I Secured Notes or L Bonds when such amounts become due and payable, or to call and redeem shares of Series A Convertible Preferred Stock. The amount of such securities that we would repay with proceeds of this offering will depend, in part, on whether the holders of the debt securities elect repayment rather than renewal of such securities, as well as whether we perceive higher returns to be available to us for other uses of our proceeds or if elect to use other sources of repayment. We believe it is most likely that such payments, if any, would relate to debt securities that mature within the first three years after the initial effective date of the registration statement of which this prospectus is a part.

At September 30, 2016 and December 31, 2015, the weighted-average interest rate of Series I Secured Notes was 8.63% and 8.47%, respectively. The principal amount outstanding under these Series I Secured Notes was $17,830,000 and $23,578,000 at September 30, 2016 and December 31, 2015, respectively. At September 30, 2016 and December 31, 2015, the weighted-average interest rate of L Bonds was 7.16% and 7.18%, respectively. The principal amount outstanding under these L Bonds was $384,586,000 and $282,171,000 at September 30, 2016 and December 31, 2015, respectively. At September 30, 2016 and December 31, 2015, we had 2,650,000 and 2,782,000 shares, respectively, of Series A Convertible Preferred Stock outstanding, with related liquidation preference amounts of $19,872,000 and $20,863,000, respectively.

Table of Contents

## BUSINESS

### Overview

GWG Holdings, Inc. is a specialty finance company and a leading purchaser of life insurance assets in the secondary market, committed to finding new ways of disrupting the life insurance and related industries through innovative business processes, technology applications and financing. Presently, we focus on creating opportunities for consumers to obtain significant value for their life insurance policies as compared to the traditional options offered by insurance companies. As part of our business, we also create opportunities for investors to participate in alternative asset classes, such as life insurance, not correlated to traditional financial markets. In so doing, we enable investors to take advantage of financial opportunities historically dominated by banks.

The life insurance secondary market provides consumers with the opportunity to sell their life insurance policies to financial buyers for a market value, rather than the surrender value offered by insurance carriers. When a life insurance policy is sold, the purchase price will exceed the surrender value, but will be at a discount to the face value of the policy benefit. Since inception, we have purchased approximately $2.2 billion in face value of policy benefits from consumers for over $379.7 million, an amount that exceeded their surrender value by over $353.6 million. Consumers choose to sell their life insurance in the secondary market for a number of reasons, such as no longer needing or wanting the coverage, no longer being able to afford the premiums, or just wanting to maximize their life insurance investment. We believe that, for consumers 65 years or older and owning life insurance, we provide a unique financial opportunity that is far more valuable than surrendering a policy for a fraction of its market value or allowing it to lapse as worthless.

Market researchers believe that the market opportunity in the life insurance secondary market is significant, with the annual net market potential of $141 billion in face value of policy benefits in 2016. To seize this opportunity, we have built a robust operational platform to offer consumers options based on the market value of their life insurance that include: (i) selling the entire policy benefit for cash, or (ii) selling a portion of the policy benefit and retaining a portion of the benefit with no future premium obligation. When we purchase a life insurance policy, we expect to continue paying the premiums for that policy until the policy benefit is paid upon the mortality of the insured.

The life insurance secondary market provides buyers of life insurance policies with the opportunity to purchase an alternative asset that potentially generates attractive investment returns not correlated to traditional financial markets. When a buyer acquires a life insurance asset in the secondary market, that buyer acquires a financial obligation of an insurance carrier to pay the face value of the insurance policy benefit. The potential yield generated from a portfolio of life insurance assets equals the difference between the purchase price of the life insurance assets, plus the premiums and financing costs to maintain those assets, and the face value of the policy benefits received. As of September 30, 2016, our total investment in our portfolio of life insurance assets, including the purchase price and attendant

premiums and financing costs, was $460 million, and the total face value of life insurance policy benefits of our portfolio was $1.272 billion.

We seek to build a profitable and large portfolio of life insurance assets that are well diversified in terms of insurance companies and insureds. We believe that diversification is a key risk mitigation strategy to provide consistent cash flows and reliable investment returns from our portfolio of life insurance assets. To grow our portfolio and achieve the diversification we seek, we offer investors the opportunity to participate in the yield potentially generated by our portfolio of life insurance assets through a variety of financings and securities offerings. We chose to finance our business in this manner after the 2008 credit crisis, during which banks largely ceased financing alternative asset classes as a result of the regulatory response to the financial crisis. We believe we are well positioned to continue providing investors with yield participation opportunities from alternative asset classes once dominated by the banking sector.

Table of Contents

We have dedicated ourselves to finding new ways of disrupting the life insurance industry, both as it relates to traditional life insurance policies and otherwise. Today, we are seeking to provide consumers additional value for their life insurance by upsetting the status quo of high policy lapse rates and low surrender values that life insurance carriers have enjoyed for years. In the future, we hope to do so the same and more. We are excited, for example, that new technology we are exclusively licensing from the University of California, Los Angeles (UCLA) ("DNA Methylation Based Predictor of Mortality") will permit us to reimagine the way in which risk is assessed, selected and priced in the life insurance industry, and possibly also the long-term care and annuity industries.

Our business was originally organized in February 2006. We added our current parent holding company, GWG Holdings Inc., in March 2008, and in September 2014 we consummated an initial public offering of our common stock on The NASDAQ Capital Market, where our stock trades under the ticker symbol "GWGH."

GWG Holdings, Inc. (GWG Holdings) conducts its life insurance related business through a wholly owned subsidiary, GWG Life, LLC (GWG Life), and GWG Life's wholly-owned subsidiaries, GWG Trust, GWG DLP Funding III, LLC, and GWG DLP Funding IV, LLC. In addition, we conduct certain merchant cash advance activities through GWG MCA Capital, LLC. All of these entities are legally organized in Delaware. Unless the context otherwise requires or we specifically so indicate, all references in this prospectus to "we", "us", "our", "our Company", "GWG", or the "Company" refer to these entities collectively. Our headquarters are based in Minneapolis, Minnesota.

**Markets**

***Consumers Owning Life Insurance***

The potential secondary market for life insurance is large. According to the American Council of Life Insurers Fact Book 2015 (ACLI), individuals owned over $11.0 trillion in face value of life insurance policy benefits in the United States in 2014. This figure includes all types of policies, including term and permanent insurance known as whole life and universal life. The ACLI reports that the lapse and surrender rate of 5.3% for individual life insurance policies, amounting to over $602 billion in face value of policy benefits lapsed and surrendered in 2014 alone. These figures do not include group-owned life insurance, such as employer-provided life insurance, the market for which totaled over $8.2 trillion of face value of life insurance policy benefits in the United States in 2014. Group-owned life insurance exhibits similar lapse and surrender rates to consumer-owned life insurance according to the ACLI. Owners of life insurance lapse or surrender their policies for a variety of reasons, including: (i) the insurance coverage is no longer needed; (ii) the internal cash value of the policy is substantially less than was projected due to unrealistic assumptions made about the insurance policy's earnings when the policy was originally purchased; (iii) the insurance premiums are no longer affordable for the policy owner for a variety of reasons; or (iv) there is a desire to maximize the insurance policy's investment value in the secondary market.

The life insurance secondary market has developed in response to the large volume of policy lapses and surrenders and inadequate value offered to consumers by the insurance carriers. According to testimony by Gottlieb & Smetters, it is estimated that nearly 88% of all universal life insurance policies in the United States do not result in the payment of a benefit claim. Rather than allowing a policy to lapse as worthless, or surrendering a life insurance policy at a fraction of its market value, the secondary market can be a source of significant value to consumers. Without the secondary market, insurance carriers maintain monopsony power over consumers who no longer desire to pay the premiums for their life insurance coverage. To illustrate the significance of this value, since our inception we have paid consumers $379.7 million for their life insurance policies as compared to the $26.1 million of cash surrender value offered by insurance carriers for these same policies. The development of a vibrant life insurance secondary market provides consumers with greater flexibility and options for the life insurance assets they own and maintain.

The life insurance secondary market is geared towards consumers, 65 years and older, who own life insurance and are addressing their post-retirement financial options. These consumers represent the fastest growing demographic segment in the United States according to the U.S. Census Bureau. And as these consumers age, they and their families will be faced with a variety of financial needs that can benefit from the value-added options our market offers.

Table of Contents

Research by Conning Research & Consulting (Conning) reports that the annual net market potential for life insurance policy benefits sold in the secondary market exceeds $141 billion in 2016. Of that market potential, Conning estimates that investors purchased approximately $1.7 billion in face value of life insurance assets in 2015, indicating that the market is dramatically underserved. And with an aging demographic in the United States, Conning expects the net market potential to grow to an annual $170 billion in face value of life insurance benefits by 2025. We share the belief that the life insurance secondary market represents a both a dramatically underserved market and significant long-term growth opportunity. We further believe that GWG is well positioned to address the market need.

***Investors Seeking Alternative Assets***

Since the credit crisis of 2008, the flow of capital to a variety of alternative asset classes has undergone a structural shift. Alternative assets, broadly defined, are any non-traditional asset with potential economic value that would not be found in a standard investment portfolio. An asset is generally considered “alternative” if it has some or all of the following characteristics: a limited investment history, not commonly found in portfolios, an illiquid market, different performance characteristics, and requires specialized skill to originate and service the asset. Definitions of traditional assets today extend well beyond stocks and bonds, and can include a variety of assets which may have been better classified as “alternative” a decade ago, i.e., real estate, commodities or natural resources. Thus what is an alternative asset today may largely be considered tomorrow’s mainstream investment asset.

Once dominated by banks, alternative asset markets are in many cases no longer viable for banks to finance due to vast new regulation effected since the crisis, regulation that has in effect reshaped the way in which banks participate in many parts of the economy. At the same time, an increasing number of investors are now turning to alternative asset classes as a means to diversify their investment portfolio to manage risk and volatility, and to obtain greater returns in the low interest rate environment that has persisted since 2008. In fact, according to research published by Goldman Sachs, a significant shift by retail investors in their investments from an average of 4% allocation in alternative asset investments to the 20% allocation favored by institutional investors is expected over the next five to ten years (see Goldman Sachs, Retail Liquid Alternatives: The Next Frontier (2013)).

The trend of investors seeking access and exposure to alternative investment products is expected to continue as traditional bank sources of capital for these assets continues to retreat and alternative investment product offering innovations occur within the regulated securities markets. Researchers at McKinsey report that U.S. individual investors are expected to be a primary driver of growth in alternative asset investments. McKinsey reports that high net-worth individuals and the mass affluent are increasingly looking to hedge downside risk, protect principal, manage volatility, and generate income — the same reasons institutional investors have favored larger allocations to alternative asset investment classes.

**Our Business Model**

Our business model is to earn a net profit between the yield generated by the assets we own and the costs we incur to originate and finance those assets. We believe that we are uniquely positioned to acquire life insurance assets directly from consumers needing our services, and to finance our portfolio's growth by providing investors with the opportunity to participate in the yield we generate from our assets. We further believe that we are well positioned to fill the vacuum created by the widespread disappearance of bank-driven finance in certain other alternative asset classes.

To participate and compete in our growing market, we have spent and intend to continue spending significant resources: (i) recruiting and developing a professional management team; and (ii) establishing strategic relationships for delivering the services we provide; (iii) creating opportunities for investors to participate in the yield generated by alternative assets we own; and (iv) developing a robust operational platform and systems for originating and purchasing life insurance policies and other alternative assets, including an innovative approach designed to make the acquisition of small face insurance policies more efficient and cost-effective.

Table of Contents

***Originating Life Insurance Assets***

We generally purchase life insurance assets directly from policy owners who purchased their life insurance in the primary market. Historically, we have purchased life insurance policies in the secondary market through a network of specialized brokers who assist consumers and financial professionals in accessing the secondary market. We maintain membership affiliations and representation within key industry groups, such as the Life Insurance Settlement Association. We typically attend and sponsor trade events where we maintain contacts and visibility among professionals who submit life insurance policies for our potential purchase.

A key strategic initiative of ours has been to expand our origination capabilities by marketing directly to consumers and financial professionals. Most recently, we focused these marketing efforts towards financial professionals, namely financial advisors and life insurance agents, through our "Appointed Agent Program." Our Appointed Agent Program is designed to empower financial professionals to bring the life insurance secondary market's value proposition to their respective markets. Our Appointed Agent Program emphasizes education, training, regulatory compliance, and marketing support. In the fourth quarter of 2015, we initiated a new marketing effort focused on recruiting life insurance professionals to source life insurance policies directly through our Appointed Agent Program. We expect to continue allocating considerable resources towards developing our direct origination channels, primarily by outreach and relationship building with financial advisors (who may also sell our investment securities), life insurance agents, and consumers.

***Underwriting and Purchasing Life Insurance Assets***

We focus on purchasing high quality life insurance assets through our origination practices and underwriting procedures. These practices and procedures strive to meet published guidelines and methodologies for rated securitizations of life insurance portfolios. At the same time, we are looking for innovative value-added tools, services, and methodologies to improve both the accuracy and efficiency with which we acquire life insurance assets.

Our underwriting procedures consist of a careful review and analysis of available materials and information related to a life insurance policy and the insured. The goal of our underwriting procedures is to make an informed purchasing decision. We typically purchase life insurance policies from insureds who are 65 years or older and whose life expectancies are less than 120 months (ten years). The life expectancies we use are estimates, stated in months, which indicate the 50% probability of an individual's mortality (meaning actuarial analysis predicts half of the individuals with similar age, sex, and medical conditions will experience mortality before that number of months, and half will experience mortality after that number of months). Life expectancies are based on actuarial tables that predict statistical probability of individual mortality.

We obtain life expectancies from independent third-party medical-actuarial underwriting firms, unless the life insurance policy benefit has a face value of $1,000,000 or less (which we generally refer to as a “small face policy”). When we obtain life expectancies from independent third-party medical-actuarial firms, we receive a medical underwriter’s report summarizing the health of the insured based on a review of the insured’s historical medical records. For all life insurance policies we purchase, other than small face policies, we average two life expectancies from two independent medical-actuarial underwriting firms to form the life expectancy we use to price and value our life insurance assets. In some cases, we may obtain more than two life expectancy estimates. In those cases, we average the two life expectancy estimates that we believe are the most reliable of those we have received, based on our own analyses and conclusions. In this regard, the two life expectancy estimates we ultimately choose to average may not always be the most conservative. For small face policies, we use modified procedures to estimate a life expectancy that may, or may not, use life expectancies from independent third-party medical-actuarial underwriting firms. If in the future we believe our business model will benefit from changes in our underwriting process and if such revisions are permitted under our borrowing covenants, we may change our underwriting processes and policies.

Table of Contents

Our success with our Appointed Agent Program, and in designing and implementing underwriting procedures, has presented us with the opportunity to purchase a greater number of small face life insurance policies. We believe this opportunity is meaningful since the majority of life insurance policies outstanding are small face policies, and policy diversification is critical in obtaining normalized actuarial performance. Historically, however, small face policies have not been available to purchasers of life insurance contracts because the secondary market industry participants have significantly relied on life settlement brokers who are paid a commission determined as a percentage of the face value benefit of the purchased policy, to present purchase opportunities. Not surprisingly, because larger commissions are associated with larger face value life insurance contracts, brokers have focused on larger contracts and the industry has developed origination practices and underwriting procedures to accommodate such practices. As a result, the industry's traditional approaches to underwriting and purchasing life insurance assets are ill suited for small face policies. For example, procuring complete medical records, two separate life expectancy reports, and engaging in related activities, can be time consuming and expensive, and these same costs cannot be justified when purchasing smaller life insurance assets. In sum, our method is focused on obtaining enough medical information to generate reliable life expectancy estimates, and thereby make informed purchase decisions. Our streamlined procedures have made it possible to complete a preliminary underwriting in a number of days (as opposed to weeks), and complete the entire purchasing process in a number of weeks (as opposed to months).

We expect to further refine our underwriting processes for large- and small-face policies over time and, to the extent possible, use new technologies to enhance this process and our overall business. In 2015 we begin an initiative to re-examine the way in which we approached underwriting. Our initiative included a review of new advanced medical technologies capable of predicting aging and related mortality more accurately than traditional methods. One of these technologies uses new developments in the examination of telomere length, gene expression, and protein expression, and was pioneered by Dr. Steven Horvath, Professor of Human Genetics and Biostatistics at the University of California, Los Angeles (UCLA). Dr. Horvath is a recognized expert on aging who has focused his research on the root causes of aging encoded in the DNA molecule.

In 2013, Dr. Horvath reported that human cells have an internal "biological age" and "biological clock" at the DNA molecular level that is indicative of the aging process. The research was hailed as ground-breaking and featured in the scientific journal of Nature. The study of chemical modifications to the DNA molecule that reveal aging, among other things, is now a cutting edge science known as epigenetics. Epigenetics is the study of how the DNA molecule's instructions are translated into the production of proteins that make us who we are. In other words, while scientists unraveled the sequence of our DNA molecular code in 2003, in many ways only now are they beginning to understand how that code translates into our individual makeup. Dr. Horvath's epigenetic research has focused on methylation sites on our DNA (there are 28 million methylation sites on the human DNA molecule) in order to study the genetic and epigenetic determinants of aging and mortality.

In 2016, Dr. Horvath reported that, having completed a statistical analysis of over 13,000 individual DNA samples, he was able to identify a specific set of DNA methylation-based bio-markers that could be used to predict individual risk of all-cause mortality. The implications of the discovery are both simple and profound—individual lifespans can now be estimated with significantly greater precision across large groups of people. We are working to apply this technology to our actuarial underwriting methodology with potentially revolutionary results permitting us to better assess, select

and price risk for the life insurance industry, and possibly also the long-term care, and annuity industries.

Finally, we believe we can continue to improve our service offerings by adopting a multivariate analysis approach to our life expectancy underwriting—in particular for small face policies. Multivariate analysis refers to a technique used to analyze data that arises from more than one variable. The goal of our multivariate underwriting is to augment traditional life expectancy underwriting by either filling gaps, or including new information, shown to be relevant to life expectancy. An example of this approach would be to account for socio-economic factors, such as income levels, in the calculation of life expectancies, which as The Brookings Institute has recently published, has a bearing upon life expectancies. Another example of this approach would be to apply advanced medical testing technologies to our life expectancy calculations, such as genomic testing, that have shown to statistically predict mortality among individuals. These efforts are ongoing and take time to develop and implement. Nevertheless, over time, we believe they hold promise to improve the value of the services we offer.

Table of Contents

***Value Proposition — Life Insurance as an Alternative Asset***

We realize profits from the life insurance assets we own by earning a spread between the investment cost of our life insurance assets and the face value of the policy benefits we receive. Accordingly, if we originate and purchase life insurance assets in the secondary market, and make all the attendant premium payments to maintain those assets in order to receive the policy benefits, the most significant risk factors (among others that we discuss in the "Risk Factors" section of this prospectus) in the performance of those assets are: (i) the predictability of mortality, or longevity risk; and (ii) the creditworthiness of the issuing life insurance company, or credit risk. We believe the value proposition of our investments in the alternative asset of life insurance is our ability to obtain superior risk-adjusted returns.

Longevity Risk. We believe actuarial mortality is the single largest variable affecting the returns on our investments in life insurance assets and impacting the portfolio's performance over time. Accurately predicting a specific individual's mortality date is impossible, and the best an actuary can do is provide a set of probabilities of survival over time. Nevertheless, predicting mortality among a group of similarly situated individuals is less difficult—in fact, the larger the group, the more accurate actuarial prediction tends to become. The statistical mathematical concept stating that the results of random events tend to become very predictable as the number of events becomes large is the "Central Limit Theorem" (or more commonly known as the "Law of Large Numbers"). "Mean regression" is another statistical mathematical concept used to describe that, on average, observations (in this case, the actual mortality of insureds) tend to cluster around the mean observation (i.e., our estimate of mortality of insureds as described further under "Value Proposition" below). These statistical mathematical concepts are the basis for many business models, ranging from all types of insurance to the lottery. Insurance carriers, for example, can be very certain of the number of insurance claims to expect when they have spread their risk over a large book of diversified policies. In this way, insurance carriers can price a large number of insurance policies of any type to collect premiums slightly above the level of expected claims, and thereby expect to earn a surplus or profit. Similarly, a lottery can depend on an expected amount of earnings equal to the small advantage built into the odds of the games.

The implications for our business model are two-fold. First, as we accumulate larger numbers of life insurance policies, we should expect our results to increasingly correlate with our expectations. Second, over the long run, we should expect that the actual cash flows will converge with the forecasted cash flows from our portfolio of life insurance assets, and the actual return on our portfolio of life insurance assets will converge with our expected return. Although medical advances and life expectancy changes may significantly impact the longevity risk we face and our understanding of that risk, these concepts nevertheless serve as guiding principles as we seek to build, manage, and forecast the performance of our portfolio of life insurance assets.

These expectations are affirmed in research published by A.M. Best and others, illustrating that as the number of insured lives increase within a portfolio of life insurance policies, there is a corresponding decrease in the standard deviation of the mortality events within the portfolio—i.e., longevity risk decreases as the number of insureds increases. Standard & Poor's indicates that 1,000 insured lives are required to reach statistical "significance" (where the relationship, in this context, between mortality projections and actual mortality events is not random). A.M. Best

concludes that a portfolio of at least 300 insured lives is statistically significant. Our current portfolio covers 625 insured lives and we believe that both the predictability and actual performance will continue to improve with additional size and diversification. Accordingly, we continue to seek to grow the size and diversification of the portfolio in order to further mitigate risk and improve our profitability.

Credit Risk. We rely on the payment of policy benefit claims by life insurance companies as our most significant source of revenue collection. The life insurance assets we own represent obligations of third-party life insurance companies to pay the benefit amount under the relevant policy upon the mortality of the insured. As a result, we manage this credit risk exposure by generally purchasing policies issued by insurance companies with investment-grade ratings from Standard & Poor's, and diversifying our portfolio among a number of insurance companies.

Table of Contents

Approximately 97.0% of life insurance assets in our portfolio were issued by insurance companies with investment-grade credit ratings from Standard & Poor's, as of September 30, 2016. Our largest life insurance company credit exposures and their respective Standard & Poor's credit rating of their respective financial strength and claims paying ability is set forth below:

| Rank | Contract Benefits | Percentage of Contract Benefit Amount | Insurance Company | Ins. Co. S&P Rating |
|---|---|---|---|---|
| 1 | $182,494,000 | 14.3 % | AXA Equitable Life Insurance Company | A+ |
| 2 | $165,255,000 | 13.0 % | John Hancock Life Insurance Company (U.S.A.) | AA- |
| 3 | $145,721,000 | 11.5 % | Lincoln National Life Insurance Company | AA- |
| 4 | $129,116,000 | 10.1 % | Transamerica Life Insurance Company | AA- |
| 5 | $89,806,000 | 7.1 % | Metropolitan Life Insurance Company | A+ |
| 6 | $57,250,000 | 4.5 % | Massachusetts Mutual Life Insurance Company | AA+ |
| 7 | $50,975,000 | 4.0 % | American General Life Insurance Company | A+ |
| 8 | $48,095,000 | 3.8 % | Pacific Life Insurance Company | A+ |
| 9 | $45,300,000 | 3.6 % | Reliastar Life Insurance Company | A |
| 10 | $44,990,000 | 3.5 % | West Coast Life Insurance Company | AA- |
| | 959,002,000 | 75.4 % | | |

The yield to maturity on bonds issued by life insurance carriers reflects, among other things, the credit risk (risk of default) of such insurance carrier. We follow the yields on certain publicly traded life insurance company bonds since this information is part of the data we consider when valuing our portfolio of life insurance policies for our financial statements.

| Name of Bond | Maturity | YTM | Duration (Years) | **Bond S&P Rating** |
|---|---|---|---|---|
| AXA 7.125% | 12/15/2020 | 1.54 % | 4.2 | BBB |
| Manulife Finl 4.15% | 3/4/2026 | 2.83 % | 9.4 | A |
| Lincoln National Corp Ind 3.35% | 3/9/2025 | 3.05 % | 8.7 | A- |
| Amer Intl Grp 4.875% | 6/1/2022 | 2.48 % | 5.7 | A- |
| Protective Life 7.375% | 10/15/2019 | 2.18 % | 3.0 | A- |
| Metro Life Gbl Fd1 4.75% | 9/17/2021 | 3.01 % | 5.0 | AA- |
| Prudential Finl Inc Mtns Book 4.5% | 5/15/2024 | 2.97 % | 7.9 | A |
| Average yield on insurance bonds | | 2.58 % | 6.3 | |

The table above indicates the current yields to maturity (YTM) for the senior bonds of selected life insurance carriers with durations, on average, that our similar to our life insurance portfolio. The average yield to maturity of these bonds was 3.02%, which we believe reflects, in part, the financial market's judgment that credit risk is low with regard

to these carriers' financial obligations. It should be noted that the obligations of life insurance carriers to pay life insurance policy benefits ranks senior to all of their other obligations. This "super senior" priority is not reflected in the yield to maturity in the table and, if considered, would result in a lower yield to maturity all else being equal. As such, as long as the respective premium payments have been made, it is highly likely that the owner of the insurance policy will collect the insurance policy benefit upon the mortality of the insured.

Value Proposition. We define the value proposition presented by our portfolio of life insurance assets as our ability to earn superior risk-adjusted returns. At any time, we calculate our returns from our life insurance assets based upon (i) our historical results and (ii) the future cash flows we expect to realize from our statistical forecasts. To forecast our expected future cash flows, we use the probabilistic method of analysis. The actuarial software we use to produce our expected future cash flows and conduct our probabilistic analysis was developed by the actuarial firm Milliman and is now owned by Modeling Actuarial Pricing Systems, Inc. ("MAPS"). The expected future cash flow forecasts derived from this probabilistic analysis, in relation to our investment cost basis, provides us with an expected internal rate of return on our portfolio. As of September 30, 2016, the expected internal rate of return on our portfolio of life insurance assets was 11.65%.

Table of Contents

We seek to further enhance our understanding of our expected future cash flow forecast by applying a stochastic analysis, sometimes referred to as a "Monte Carlo simulation," to provide us with a greater understanding of the variability of our future cash flow projections. The stochastic analysis we perform is built within the MAPS actuarial software and provides internal rate of return calculations for different statistical confidence intervals. The results of our stochastic analysis, in which we run 10,000 random mortality scenarios, demonstrates that the scenario ranking at the 50th percentile of all 10,000 results generates an internal rate of return of 11.65% which is equal to our expected internal rate of return of 11.65%. The stochastic analysis results also reveal that our portfolio is expected to generate an internal rate of return of 11.06% or better in 75% of all generated scenarios; and an internal rate of return of 10.57% or better in 90% of all generated scenarios. As the portfolio continues to grow, all else equal, the percentage of observations that result in an internal rate of return at or very near 11.65% (currently our median, or 50th percentile, internal rate of return expectation) will increase, thereby lowering future cash flow volatility and potentially justifying our use of lower discount rates to value our portfolio.

In sum, we believe our statistical analyses show that, if we can continue to grow and maintain our investments in life insurance assets, then, in the absence of significantly disruptive events negatively affecting our most significant risks, including but not limited to longevity and credit risk, and interest rate and financing risk, those investments will prove to be dependably profitable for our company and provide us with the means to generate attractive returns for our investors.

**Portfolio Information**

Our portfolio of life insurance policies, owned by our wholly owned subsidiaries as of September 30, 2016, is summarized below:

| | | |
|---|---|---|
| Total portfolio face value of contract benefits | $1,272,078,000 | |
| Average face value per contract | $2,035,000 | |
| Average face value per insured life | $2,263,000 | |
| Weighted average age of insured (yrs.)* | 81.8 | |
| Weighted average life expectancy estimate (yrs.)* | 6.8 | |
| Total number of contracts | 625 | |
| Number of unique lives | 562 | |
| Demographics | 73% Males; 27% Females | |
| Number of smokers | 24 | |
| Largest contract as % of total portfolio | 0.79 | % |
| Average contract as % of total portfolio | 0.16 | % |
| Average annual premium as % of face value | 3.33 | % |

Our portfolio of life insurance policies, owned by our wholly owned subsidiaries as of September 30, 2016, organized by the insured's current age and the associated policy benefits, is summarized below:

| Min Age | Max Age | Contracts | Contract Benefits | **Wtd. Avg.** Life Expectancy (yrs.) | Percentage of Total Number of Contracts | Contract Benefits |
|---|---|---|---|---|---|---|
| 90 | 96 | 55 | $105,815,000 | 2.4 | 8.8 % | 8.3 % |
| 85 | 89 | 155 | $331,989,000 | 4.8 | 24.8 % | 26.1 % |
| 80 | 84 | 152 | $385,904,000 | 6.7 | 24.3 % | 30.3 % |
| 75 | 79 | 115 | $251,466,000 | 9.2 | 18.4 % | 19.8 % |
| 70 | 74 | 87 | $120,791,000 | 9.8 | 13.9 % | 9.5 % |
| 65 | 69 | 61 | $76,113,000 | 10.1 | 9.8 % | 6.0 % |
| Total | | 625 | $1,272,078,000 | 6.8 | 100.0% | 100.0 % |

Table of Contents

Our portfolio of life insurance policies, owned by our wholly owned subsidiaries as of September 30, 2016, organized by the insured's estimated life expectancy estimates and associated policy benefits, is summarized below:

| Min LE (Months) | Max LE (Months) | Contracts | Contract Benefits | Percentage of Total Number of Contracts | Contract Benefits |
|---|---|---|---|---|---|
| 6 | 47 | 160 | $275,036,000 | 25.6 % | 21.6 % |
| 48 | 71 | 145 | 300,501,000 | 23.2 % | 23.6 % |
| 72 | 95 | 112 | 249,118,000 | 17.9 % | 19.6 % |
| 96 | 119 | 97 | 223,012,000 | 15.5 % | 17.6 % |
| 120 | 143 | 63 | 134,822,000 | 10.1 % | 10.6 % |
| 144 | 202 | 48 | 89,589,000 | 7.7 % | 7.0 % |
| Total | | 625 | $1,272,078,000 | 100.0% | 100.0 % |

We track concentrations of pre-existing medical conditions among insured individuals within our portfolio based on information contained in life expectancy reports. We track these medical conditions within the following ten primary disease categories: (1) cancer, (2) cardiovascular, (3) cerebrovascular, (4) dementia, (5) diabetes, (6) multiple, (7) neurological disorders, (8) no disease, (9) other, and (10) respiratory diseases. Our primary disease categories are summary generalizations based on the ICD-9 codes we track on each insured individuals within our portfolio. ICD-9 codes, published by the World Health Organization, are used worldwide for medical diagnoses and treatment systems, as well as morbidity and mortality statistics. Currently, the only primary disease category within our portfolio that represents a concentration of over 10% is cardiovascular, which constitutes 21.93% of the face amount of insured benefits of our portfolio as at September 30, 2016.

The complete detail of our portfolio of life insurance policies, owned by our wholly owned subsidiaries as of September 30, 2016, organized by the current age of the insured and the associated policy benefits, sex, estimated life expectancy, issuing insurance carrier, and the credit rating of the issuing insurance carrier, is set forth below.

Table of Contents

**Life Insurance Portfolio Detail**
**(as of September 30, 2016)**

| | Face Amount | Gender | **Age (ALB)[1]** | **LE (mo.)[2]** | Insurance Company | S&P Rating |
|---|---|---|---|---|---|---|
| 1 | $1,100,000 | Male | 96 | 17 | Reliastar Life Insurance Company | A |
| 2 | $184,000 | Male | 95 | 38 | Reliastar Life Insurance Company | A |
| 3 | $219,000 | Male | 95 | 38 | Reliastar Life Insurance Company | A |
| 4 | $8,000,000 | Female | 95 | 14 | Massachusetts Mutual Life Insurance Company | AA+ |
| 5 | $4,000,000 | Male | 95 | 25 | Metropolitan Life Insurance Company | A+ |
| 6 | $1,500,000 | Female | 95 | 24 | Accordia Life and Annuity Company | A- |
| 7 | $3,200,000 | Male | 95 | 15 | West Coast Life Insurance Company | AA- |
| 8 | $1,000,000 | Female | 94 | 22 | Transamerica Life Insurance Company | AA- |
| 9 | $250,000 | Male | 94 | 23 | North American Company for Life and Health Insurance | A+ |
| 10 | $264,000 | Female | 94 | 11 | Lincoln Benefit Life Company | BBB+ |
| 11 | $125,000 | Female | 94 | 6 | Lincoln National Life Insurance Company | AA- |
| 12 | $3,500,000 | Male | 93 | 29 | Reliastar Life Insurance Company | A |
| 13 | $500,000 | Male | 93 | 7 | John Hancock Life Insurance Company (U.S.A.) | AA- |
| 14 | $2,000,000 | Female | 93 | 7 | Pruco Life Insurance Company | AA- |
| 15 | $500,000 | Female | 93 | 41 | Sun Life Assurance Company of Canada (U.S.) | AA- |
| 16 | $250,000 | Male | 93 | 7 | Transamerica Life Insurance Company | AA- |

**Borrowing arrangements** Under a revolving, committed, uncollateralized credit agreement with a major financial institution, we can borrow up to $100.0 million in the U.S. This credit facility is guaranteed by Novartis AG under a November 1994 Investment Agreement, provides various interest rate options and matures in February 2006. There were no borrowings outstanding under this credit facility at June 30, 2003 and December 31, 2002. In December 1999, Chiron and Novartis amended the November 1994 Investment Agreement to reduce the maximum amount of our obligations that Novartis would guarantee from $725.0 million to $702.5 million.

We also have various credit facilities available outside the U.S. There were no outstanding borrowings under these facilities at June 30, 2003. Borrowings under these facilities totaled $0.1 million at December 31, 2002. One facility is maintained for our 51%-owned Indian subsidiary, and allows for total borrowings of 200 million Indian Rupee ($4.3 million at June 30, 2003). There were no outstanding borrowings under this facility at June 30, 2003. At December 31, 2002, $0.1 million was outstanding under this facility. Our Italian subsidiary also has various facilities, related to its receivables, which allow for total borrowings of 10.9 million Euro ($12.4 million at June 30, 2003). There were no outstanding borrowings under these facilities at June 30, 2003 and December 31, 2002.

**Capital Lease** In July 2003, we entered into a new six-year lease to rent a research and development facility in Emeryville, California following the expiration of our existing lease. Effective July 1, 2003, we accounted for this new lease as a capital lease and, as a result, recorded the leased facility and the corresponding liability on our balance sheet. The amount recorded on our balance sheet for the leased facility is $157.5 million. At the inception of the lease, the future minimum lease payments, exclusive of a residual value guarantee, are approximately $15.7 million over the lease term. The interest payments represent variable-rate interest payments indexed to a three-month London interbank offered rate plus 40 basis points. The lease provides a $156.0 million residual value guarantee from us to the lessors in the event of property value declines. Consequently, our maximum payment obligation is $156.0 million upon termination of the lease on or before July 1, 2009. On or before July 1, 2009, we can choose to either purchase the facility from the lessors or sell the facility to a third party. This option accelerates if we default on our lease payments or in the event of other defined events. As of July 1, 2003, Novartis AG had guaranteed (under provisions of the Investment Agreement) payments on this lease commitment, including payment of the residual value guarantee, to a maximum of $173.3 million.

**Factors That May Affect Future Results**

As a global pharmaceutical company, we are engaged in a rapidly evolving and often unpredictable business. The forward-looking statements contained in this 10-Q and in other periodic reports, press releases and other statements issued by us from time to time reflect our current beliefs and expectations concerning objectives, plans, strategies, future performance and other future events. The following discussion highlights some of the factors, many of which are beyond our control, which could cause actual results to differ.

*If our focus on the research and development of emerging technologies does not ultimately result in the creation of commercial products, our business could be adversely affected.*

We focus our research and development activities on areas in which we have particular strengths and on technologies that appear promising. These technologies often are on the "cutting edge" of modern science. As a result, the outcome of any research or development program is highly uncertain. Only a very small fraction of these programs ultimately result in commercial products or even product candidates. Product candidates that initially appear promising often fail to yield successful products. In many cases, preclinical or clinical studies will show that a product candidate is not efficacious (that is, it lacks the intended therapeutic or prophylactic effect), or that it raises safety concerns or has other side effects, which outweigh the intended benefit. Success in preclinical or early clinical trials (which



generally focus on safety issues) may not translate into success in large-scale clinical trials (which are designed to show efficacy), often for reasons that are not fully understood. Further, success in clinical trials will likely lead to increased investment, adversely affecting short-term profitability, to bring such products to market. And even after a product is approved and launched, general usage or post-marketing studies may identify safety or other previously unknown problems with the product which may result in regulatory approvals being suspended, limited to narrow indications or revoked, or which may otherwise prevent successful commercialization.

*We collaborate with third parties to develop and commercialize new products; conflicts with or decisions by these third parties could harm our business.*

An important part of our business strategy depends upon collaborations with third parties, including research collaborations and joint efforts to develop and commercialize new products. As circumstances change, Chiron and our corporate partners may develop conflicting priorities or other conflicts of interest. We may experience significant delays and incur significant expenses in resolving these conflicts and may not be able to resolve these matters on acceptable terms. Even without conflicts of interest, we may disagree with our corporate partners as to how best to realize the value associated with a current product or a product in development. In some cases, the corporate partner may have responsibility for formulating and implementing key strategic or operational plans. In addition, merger and acquisition activity within the pharmaceutical and biotechnology industries may affect our corporate partners, causing them to reprioritize their efforts related to research collaborations and other joint efforts with us. Decisions by corporate partners on key clinical, regulatory, marketing (including pricing), inventory management and other issues may prevent successful commercialization of the product or otherwise impact our profitability.

*If we fail to obtain or maintain the regulatory approvals we need to market our products, our business will suffer.*

We must obtain and maintain regulatory approval in order to market most of our products. Generally, these approvals are on a product-by-product and country-by-country basis. In the case of therapeutic products, a separate approval is required for each therapeutic indication. See Part I, Item 1. "Business-Government Regulation" in our Annual Report on Form 10-K for the year ended December 31, 2002. Product candidates that appear promising based on early, and even large-scale, clinical trials may not receive regulatory approval. The results of clinical trials often are susceptible to varying interpretations that may delay, limit or prevent approval or result in the need for post-marketing studies. In addition, regulations may be amended from time to time. Revised regulations may require us to reformulate products on a country or regional basis, obtain additional regulatory approvals, or accept additional risks that our products will not maintain market acceptance or be eligible for third party insurance coverage. Increased regulatory scrutiny and restrictions regarding marketing practices for products, including those products that are subject to government reimbursement, may impact the sales of such products. There is no guarantee that we will be able to satisfy these new regulatory requirements and may suffer a loss of revenue as a result.

*Our products are complex and difficult to manufacture on a large-scale basis, which could cause us to delay product launches, experience shortages of products or prevent us from offering products on a volume basis.*

Most of our products are biologics. Manufacturing biologic products is complex. Unlike chemical pharmaceuticals, a biologic product generally cannot be sufficiently characterized (in terms of its physical and chemical properties) to rely on assaying of the finished product alone to ensure that the product will perform in the intended manner. Accordingly, it is essential to be able to both validate and control the

manufacturing process, that is, to show that the process works and that the product is made strictly and consistently in compliance with that process. Slight deviations anywhere in the



manufacturing process, including quality control, labeling and packaging, may result in unacceptable changes in the products that may result in lot failures or product recalls, or liability to a third party to the extent we are contract manufacturing products in our facilities for such third party. Manufacturing processes which are used to produce the smaller quantities of material needed for research and development purposes may not be successfully scaled up to allow production of commercial quantities at reasonable cost or at all. All of these difficulties are compounded when dealing with novel biologic products that require novel manufacturing processes. Additionally, manufacturing is subject to extensive government regulation. Even minor changes in the manufacturing process require regulatory approval, which, in turn, may require further clinical studies. For some of our products we rely on others to supply raw materials and to manufacture those products according to regulatory requirements.

In addition, any prolonged interruption in our operations or those of our partners could result in our inability to satisfy the product demands of our customers. A number of factors could cause interruptions, including equipment malfunctions or failures, interruptions due to labor actions, damage to a facility due to natural disasters, such as an earthquake, suspension of power supplied to these facilities arising out of regional power shortages or terrorist activities and armed conflict, including as a result of the disruption of operations of our subsidiaries and our customers, suppliers, distributors, couriers, collaborative partners, licensees and clinical trial sites.

*Our mishandling of hazardous materials could result in substantial costs and harm to our business.*

In connection with our research and manufacturing activities, we utilize some hazardous materials. Great care is taken to ensure we have appropriate procedures and permits in place for storing and handling such hazardous materials. We could be subject to loss of our permits, government fines or penalties and/or other adverse governmental action if such hazardous materials are stored, handled or released into the environment in violation of law or any permit. A substantial fine or penalty, the payment of significant environmental remediation costs or the loss of a permit or other authorization to operate or engage in our ordinary course of business could result in material, unanticipated expenses and the possible inability to satisfy customer demand.

*If any of our third party suppliers or manufacturers cannot adequately meet our needs, our business could be adversely affected.*

We use raw materials and other supplies that generally are available from multiple commercial sources. Certain manufacturing processes, however, use materials that are available from sole sources, or that are in short supply, or are difficult for the supplier to produce and certify in accordance with our specifications. From time to time, concerns are raised with respect to potential contamination of biological materials that are supplied to us. These concerns can further tighten market conditions for materials that may be in short supply or available from limited sources. Moreover, regulatory approvals to market our products may be conditioned upon obtaining certain materials from specified sources. Our ability to substitute material from an alternate source may be delayed pending regulatory approval of such alternate source. Although we work to mitigate the risks associated with relying on sole suppliers, there is a possibility that material shortages could impact production.

We purchase bulk powdered tobramycin, the primary basic raw material in TOBI®, from two of the principal worldwide suppliers of the drug. We anticipate that either one of these suppliers alone will be able to supply sufficient quantities to meet current needs; however, there can be no assurance that these suppliers will be able to meet future demand in a timely and cost-effective manner. As a result, our operations could be adversely affected by an interruption or reduction in the supply of bulk powdered tobramycin.



We have entered into contracts with third parties for the production and packaging of TOBI®. Over time, we can use alternative production and packaging sources. However, if the contracted third parties become unable to produce or package sufficient quantities of TOBI® due to work stoppages or other factors, our operations could be disrupted until alternative sources are secured.

In connection with the production of its flu vaccine product, PowderJect must purchase large quantities of chicken eggs. Currently, PowderJect purchases those eggs and incubation services from a single supplier and, pursuant to the contract with that supplier, PowderJect is required to make specified minimum purchases from that supplier through 2007. All of the chickens that produce those eggs are located in the United Kingdom. If PowderJect's supplier were to fail to supply eggs in sufficient quantities or quality, including as a result of any health or other issues related to the chickens, PowderJect's business would be materially adversely affected.

We are a key provider for the blood screening field of nucleic acid testing and immunodiagnostics. In nucleic acid testing, we rely on our collaborative partner, Gen-Probe, to manufacture the Procleix® HIV-1/ HCV Assay. We currently source the related instrument system from third party suppliers. Currently, Gen-Probe is the only manufacturer of nucleic acid testing products using Transcription-Mediated Amplification technology. In immunodiagnostics, under the Ortho-Clinical Diagnostics, Inc. contract, we manufacture bulk reagents and antigens and confirmatory test kits sold in the clinical diagnostics and blood screening fields. While we and our partners work to mitigate the risks associated with being a key provider, there can be no assurance that our partner, Gen-Probe, will be able to provide sufficient quantities of the Procleix® HIV-1/ HCV Assay or that we will be able to manufacture sufficient bulk reagents and antigens and confirmatory test kits for immunodiagnostic products. Our difficulties or delays or those of our partners' could cause a public health concern for the blood supply, as well as increase costs and cause loss of revenue or market share.

*If we cannot obtain necessary licenses to third party patents for the manufacture or sale of our products, we may have to withdraw from the market or delay the introduction of the affected product.*

Third parties, including competitors, have patents and patent applications in the U.S. and other significant markets that may be useful or necessary for the manufacture, use or sale of certain products and products in development by us and our corporate partners. It is likely that third parties will obtain these patents in the future. Certain of these patents may be broad enough to prevent or delay us and our corporate partners from manufacturing or marketing products important to our current and future business. We cannot accurately predict the scope, validity and enforceability of these patents, if granted, the extent to which we may wish or need to obtain licenses to these patents, and the cost and availability of these licenses. If we do not or cannot obtain these licenses, products may be withdrawn from the market or delays could be encountered in market introduction while an attempt is made to design around these patents, or we could find that the development, manufacture or sale of such products is foreclosed. We could also incur substantial costs in licensing or challenging the validity and scope of these patents.

*Because most of our products are based on technologies that are unfamiliar to the healthcare community, they may not be accepted by healthcare providers and patients, which could harm our business.*

We may experience difficulties in launching new products, many of which are novel products based on technologies that are unfamiliar to the healthcare community. We have no assurance that healthcare providers and patients will accept such products. In addition, government agencies, as well as private organizations involved in healthcare, from time to time publish guidelines or recommendations to healthcare providers and patients. Such guidelines or recommendations can be very influential and may adversely affect the usage of our products directly (for example, by recommending a decreased dosage of our product in conjunction with a concomitant therapy or a government entity withdrawing it's



recommendation to screen blood donations for certain viruses) or indirectly (for example, by recommending a competitive product over our product).

*If we are unable to avoid significant exposure to product liability claims, our business could be harmed.*

We are exposed to product liability and other claims in the event that the use of our products is alleged to have resulted in adverse effects. While we will continue to take precautions, we may not avoid significant product liability exposure. Although we maintain product liability insurance, there is no guarantee that this coverage will be sufficient. It is not feasible to obtain adequate insurance coverage for certain products and we are self-insured in relation to these products. If we are sued for any injury caused by our products, we could suffer a significant financial loss.

As we are a key provider for the blood screening field of nucleic acid testing and immunodiagnostics, we may have product liability in addition to contract exposure, in the event that our difficulties or delays or those of our partners could cause a public health concern for the blood supply.

*If we are unable to successfully compete in the highly competitive healthcare industry, our business could be harmed.*

We operate in a highly competitive environment, and the competition is expected to increase. Competitors include large pharmaceutical, chemical and blood testing companies, and biotechnology companies. Some of these competitors, particularly large pharmaceutical and blood testing companies, have greater resources than ours. Accordingly, even if we are successful in launching a product, we may find that a competitive product dominates the market for any number of reasons, including:

the possibility that the competitor may have launched its product first;

the competitor may have greater access to certain raw materials;

the competitor may have more efficient manufacturing processes;

the competitor may adapt more quickly to technological change;

the competitor may have greater marketing capabilities; or

the competitive product may have therapeutic or other advantages.

The technologies applied by our competitors and us are rapidly evolving, and new developments frequently result in price competition and product obsolescence. In addition, we may be impacted by competition from generic forms of our products or substitute products. Specific to one product, TOBI®, a generic form of this product may be available from our competitors, which may cause loss of revenue or market share. In December 2002, the U.S. Food and Drug Administration tentatively approved an abbreviated new drug application for an inhaled tobramycin for sale in the U.S. following expiration of the orphan drug status of TOBI® in December 2004. We have a patent in the U.S. covering the formulation of TOBI® that extends until 2014. We have therefore filed a suit claiming that this new generic form of tobramycin violates our patent. If our patent is found invalid or if this new product is found not to infringe upon our patent, sales of TOBI® could be adversely affected.

*Our patents may not prevent competition or generate revenues.*

We seek to obtain patents on many of our inventions. Without the protection of patents, competitors may be able to use our inventions to manufacture and market competing products without being required to undertake the lengthy and expensive development efforts made by us and without having to pay royalties or otherwise compensate us for the use of the invention. We have no assurance that patents and patent applications owned or licensed to us will provide substantial protection.



Important legal questions remain to be resolved as to the extent and scope of available patent protection for biotechnology products and processes in the U.S. and other important markets. We do not know how many of our pending patent applications will be granted, or the effective coverage of those that are granted. In the U.S. and other important markets, the issuance of a patent is neither conclusive as to its validity nor the enforceable scope of its claims. We have engaged in significant litigation to determine the scope and validity of certain of our patents and expect to continue to do so. An adverse outcome of litigation could result in the reduction or loss of royalty revenues. Engaging in patent litigation against one party may place significant royalty revenues received or to be received from other parties at risk. Even if we are successful in obtaining and defending patents, there can be no assurance that these patents will provide substantial protection. The length of time necessary to resolve patent litigation successfully may allow infringers to gain significant market advantage. Third parties may be able to design around the patents and develop competitive products that do not use the inventions covered by our patents. Many countries, including certain countries in Europe, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties (for example, the third party's product is needed to meet a threat to public health or safety in that country, or the patent owner has failed to "work" the invention in that country, or the third party has patented improvements). In addition, most countries limit the enforceability of patents against government agencies or government contractors. In these countries, the patent owner may be limited to monetary relief and may be unable to enjoin infringement, which could materially diminish the value of the patent. In addition, royalty revenues will decline as patents expire.

*Sales of our products may be adversely affected by the availability and amount of reimbursement to the user of our products from third parties, such as the government and insurance companies.*

In the U.S. and other significant markets, sales of our products may be affected by the availability of reimbursement from the government or other third parties, such as insurance companies. It is difficult to predict the reimbursement status of newly approved, novel biotechnology products, and current reimbursement policies for existing products may change. In certain foreign markets, governments have issued regulations relating to the pricing and profitability of pharmaceutical companies. There have been proposals in the U.S. (at both the federal and state level) to implement such controls. Certain of our products could be subject to re-importation from other countries. The growth of managed care in the U.S. also has placed pressure on the pricing of healthcare products. These pressures can be expected to continue.

*If our efforts to integrate acquired or licensed businesses or technologies into our business are not successful, our business could be harmed.*

As part of our business strategy, we expect to continue to grow our business through in-licensing, collaborations or acquisitions of products or companies. For example, we are currently in the process of completing our acquisition of PowderJect. The failure to adequately address the financial, operational or legal risks raised by such transactions, including our acquisition of PowderJect, could harm our business. Financial aspects related to these transactions may alter our financial position, reported operating results or stock price, and include:

use of cash resources;

potentially dilutive issuances of equity securities;

the incurrence of debt and contingent liabilities, impairment losses or restructuring charges;

large write-offs and difficulties in assessment of the relative percentages of in-process research and development expense that can be immediately written off as compared to the amount which must be amortized over the appropriate life of the asset; and

amortization expenses related to other intangible assets.



Operational risks that could harm our existing operations or prevent realization of anticipated benefits from such transactions include:

difficulties in assimilating the operations, products, technology, information systems or personnel of the acquired company;

diversion of management's attention from other business concerns;

inability to maintain uniform standards, controls, procedures and policies;

the assumption of known and unknown liabilities of the acquired company, including intellectual property claims; and

subsequent loss of key personnel of the acquired company.

Legal risks may include requirements to obtain the consent of our stockholders or a third party, or the approval of various regulatory authorities.

If such efforts to integrate acquired or licensed businesses or technologies into our business are not successful, our business could be harmed.

*If we cannot initiate and maintain revenue-generating relationships with third parties, we may not be able to grow our revenues in the near to medium term.*

Many products in our current pipeline are in relatively early stages of research or development. Our ability to grow earnings in the near- to medium-term may depend, in part, on our ability to initiate and maintain other revenue generating relationships with third parties, such as licenses to certain of our technologies, and on our ability to identify and successfully acquire rights to later-stage products from third parties. We have no assurance that we will establish such other sources of revenue.

*Fluctuations in interest rates and foreign currency exchange rates could harm our business.*

We have significant cash balances and investments. Our financial results, therefore, are sensitive to interest rate fluctuations. In addition, we sell products in many countries throughout the world, and our financial results could be significantly affected by fluctuations in foreign currency exchange rates or by weak economic conditions in foreign markets.

*Our relationship with Novartis AG could limit our ability to enter into transactions, pursue opportunities in conflict with Novartis and cause the price of our common stock to decline.*

We have an alliance with Novartis AG, a life sciences company headquartered in Basel, Switzerland. Under a series of agreements between Chiron and Novartis, and as a result of subsequent stock issuances by Chiron, Novartis' ownership interest in Chiron was approximately 43% as of June 30, 2003. The Governance Agreement between Chiron and Novartis contains provisions that require the approval of Novartis before we enter into certain corporate transactions. These transactions generally include significant debt or equity issuances, debt or equity repurchases, most mergers and acquisitions, the payment of cash dividends, amendments to Chiron's certificate of incorporation or by-laws, and other transactions that would adversely impact the rights of Novartis, or discriminate against Novartis, as a Chiron stockholder. In addition, a majority of the independent directors must approve any material transactions between Chiron and Novartis. These provisions may limit our ability to enter into transactions with third parties otherwise viewed as beneficial to Chiron. All of our shares owned by Novartis are eligible for sale in the public market subject to compliance with the applicable securities laws. We have agreed that, upon Novartis' request, we will file one or more registration statements under the Securities Act in order to permit Novartis to offer and sell shares of our common stock. Sales of a substantial number of shares of our common stock by Novartis in the public market could adversely affect the market price of our common stock. For more information on our relationship with



Novartis, see Note 9 "Related Party Transactions," in our Annual Report on Form 10-K for the year ended December 31, 2002.

*Volatility of our stock price could negatively impact our profitability.*

The price of our stock, like that of other pharmaceutical companies, is subject to significant volatility. Any number of events, both internal and external to us, may affect our stock price. These include, without limitation:

fluctuations in earnings from period to period;

results of clinical trials conducted by us or by our competitors;

announcements by us or our competitors regarding product development efforts, including the status of regulatory approval applications;

the outcome of legal proceedings, including claims filed by us against third parties to enforce our patents and claims filed by third parties against us relating to patents held by the third parties;

the launch of competing products;

the resolution of (or failure to resolve) disputes with corporate partners;

corporate restructuring by us;

the sale of a substantial number of shares held by our existing stockholders;

licensing activities by us; and

the acquisition or sale by us of products, products in development or businesses.

In connection with our research and development collaborations, from time to time we may invest in equity securities of our corporate partners. The price of these securities also is subject to significant volatility and may be affected by, among other things, the types of events that affect our stock. Changes in the market price of these securities may impact our profitability.

*We are subject to taxation in a number of jurisdictions and changes to the corporate tax rate and laws of any of these jurisdictions could increase the amount of corporate taxes we have to pay.*

We pay taxes principally in the U.S., Germany, Italy and The Netherlands. All of these jurisdictions have in the past and may in the future make changes to their corporate tax rates and other tax laws, which could increase our future tax provision. We have negotiated a number of rulings regarding income and other taxes that are subject to periodic review and renewal. If such rulings are not renewed or are substantially modified, income taxes payable in particular jurisdictions could increase. While we believe that all material tax liabilities are reflected properly in our balance sheet, we are presently under audit in several jurisdictions and may be subject to further audits in the future, and we have no assurance that we will prevail in all cases in the event the taxing authorities disagree with our interpretations of the tax law. In addition, we have assumed liabilities for all income taxes incurred prior to the sales of our former subsidiaries, Chiron Vision (subject to certain limitations) and Chiron Diagnostics. Future levels of research and development spending, capital investment and export sales will impact our entitlement to related tax credits and benefits which have the effect of lowering our effective tax rate.



*Volatility of earnings could negatively impact our business.*

Our operating results may vary considerably from quarter to quarter. Any number of factors may affect our quarterly operating results. These factors include, but are not limited to the following:

inventory management practices, including wholesale ordering patterns;

the level of pre-clinical and clinical trial-related activities;

seasonality of certain vaccine products;

the tender driven nature of certain vaccine products, in particular Menjugate ;

the nature of our collaborative, royalty and license arrangements and other revenue sources;

foreign currency exchange rate fluctuations; and

the level of product reserves due to various issues, including seasonality patterns, excess and obsolete inventory, and production yields.

Our results in any one quarter are not necessarily indicative of results to be expected for a full year.

*Revisions to accounting standards, financial reporting and corporate governance requirements and tax laws could result in changes to our standard practices and could require a significant expenditure of time, attention and resources, especially by senior management.*

We must follow accounting standards, financial reporting and corporate governance requirements and tax laws set by the governing bodies and lawmakers in the U.S. and other countries where we do business. From time to time, these governing bodies and lawmakers implement new and revised rules and laws. These new and revised accounting standards, financial reporting and corporate governance requirements and tax laws

may require changes to our financial statements, the composition of our board of directors, the composition, the responsibility and manner of operation of various board-level committees, the information filed by us with the governing bodies and enforcement of tax laws against us. Implementing changes required by such new standards, requirements or laws likely will require a significant expenditure of time, attention and resources, especially by our senior management. It is impossible to predict the impact, if any, on Chiron of future changes to accounting standards, financial reporting and corporate governance requirements and tax laws. In addition, it is possible that the application of certain current accounting standards may change due to environmental factors, which may necessitate a change in our standard practice related to these accounting standards.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Market risk management** Our cash flow and earnings are subject to fluctuations due to changes in foreign currency exchange rates, interest rates, the fair value of equity securities held and our stock price. We attempt to limit our exposure to some or all of these market risks through the use of various financial instruments. There were no significant changes in our market risk exposures during the first half of 2003. These activities are discussed in further detail in Part II, Item 7A., "Quantitative and Qualitative Disclosures About Market Risk" of our Annual Report on Form 10-K for the year ended December 31, 2002.

**Item 4. Controls and Procedures**

(a) **Evaluation of disclosure controls and procedures** As of the end of the period covered by this report, Chiron carried out an evaluation under the supervision and with the participation of Chiron's management, including Chiron's CEO and CFO, of the effectiveness of the design and operation of Chiron's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e)



or 15d-15(e). Based on that evaluation, Chiron's management, including the CEO and CFO, concluded that Chiron's disclosure controls and procedures were effective in timely alerting them to material information relating to Chiron required to be included in Chiron's periodic SEC filings.

(b) **Changes in internal controls** There have been no significant changes in Chiron's internal controls over financial reporting or in other factors that could significantly affect internal controls over financial reporting during the most recent fiscal quarter.

(c) **Limitations on the effectiveness of controls** It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.



**PART II**

**Item 1. Legal Proceedings**

We are party to certain lawsuits and legal proceedings, which are described in Part I, Item 3. "Legal Proceedings" of our Annual Report on Form 10-K for the year ended December 31, 2002. The following is a description of material developments during the period covered by this Quarterly Report and should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2002.

*Average Wholesale Pricing*

In December 2001, Citizens for Consumer Justice and 13 other named plaintiffs filed a class action lawsuit in the United States District Court for the District of Massachusetts against 29 biotechnology and pharmaceutical companies, including Chiron, in connection with setting average wholesale prices for various products, including DepoCyt®, which are reimbursed by Medicare. Plaintiffs alleged that defendants

violated federal antitrust and racketeering laws by devising and implementing a fraudulent pricing scheme against Medicare and Medicaid beneficiaries, and sought declaratory relief, as well as compensatory and punitive damages. In March 2002, Plaintiffs filed an amended complaint that eliminated the antitrust allegations and changed the subject drug from DepoCyt® to Mitomycin®, a generic oncology drug sold by the Cetus-Ben Venue Therapeutics partnership. In September 2002, plaintiffs filed a Master Consolidated Class Action Complaint, which did not name Chiron as a defendant.

In February 2002, the State of Montana through its Attorney General filed a complaint in the First Judicial District Court in Lewis and Clark County against 18 biotechnology and pharmaceutical companies, including Chiron, in connection with setting average wholesale prices for various products, including DepoCyt®, that are reimbursed by Medicare and Medicaid. The Attorney General alleged that the Defendants violated Montana state and common laws on unfair trade practices and consumer protection, deceptive trade practices, Medicaid fraud, breach of contract and false claims, and seeks both compensatory and punitive damages.

In March 2002, the State of Nevada through its Attorney General filed a complaint in the Second Judicial District Court in Washoe County against 10 biotechnology and pharmaceutical companies, including Chiron, concerning setting average wholesale prices for various products, including DepoCyt®, that are reimbursed by Medicare and Medicaid. The Attorney General alleged that Defendants violated Nevada state and common laws on unfair and deceptive trade practices and consumer protection, Medicaid fraud, racketeering, and seeks both compensatory and punitive damages.

Between July and September 2002, three separate class action lawsuits were filed in two California Superior Courts against Chiron, Cetus Oncology, and numerous other biotechnology and pharmaceutical companies. Plaintiff's claims are based upon alleged violations of the California Business and Professions Codes. These matters seek compensatory and punitive damages, plus injunctive relief, against Chiron in connection with setting the average wholesale prices for various oncology drugs, including DepoCyt®.

In October 2002 and February 2003, the Montana, Nevada and California actions were coordinated and consolidated to the In re Pharmaceutical Industry Average Wholesale Price Litigation pre-trial proceedings. In August 2003, the States of Montana and Nevada both filed amended complaints, which did not name Chiron as a defendant.

In January 2003, the County of Suffolk filed a complaint in the United States District Court for the Eastern District of New York against 29 biotechnology and pharmaceutical companies, including Chiron, in connection with setting average wholesale prices for various products, including TOBI®,



which are reimbursed by Medicaid. Plaintiffs allege that defendants violated federal racketeering laws, federal and state laws on Medicaid fraud, and state laws on unfair trade practice, breach of contract, fraud and unjust enrichment by devising and implementing a fraudulent pricing scheme against Medicaid beneficiaries, and seeks declaratory relief, as well as compensatory and punitive damages. In August 2003, plaintiffs filed an Amended Complaint, which did not name Chiron as a defendant.

Currently, the California actions are the only remaining matters pending in the In re Pharmaceutical Industry Average Wholesale Price Litigation pre-trial proceedings which name Chiron as a party defendant.

It is not known when nor on what basis these matters will be resolved.

*F. Hoffmann-La Roche Ltd. and Roche Molecular Systems, Inc. HIV*

On March 11, 2003, the U.S. Patent and Trademark Office issued Chiron's U.S. Patent No. 6,531,276 (addressed to Methods For Detecting Human Immunodeficiency Virus Nucleic Acid) (the "'276 Patent"). Chiron has concluded that under an October 2000 HIV Probe License Agreement (the "Roche HIV Agreement") between Chiron, F. Hoffmann-La Roche Ltd. and Roche Molecular Systems (collectively, "Roche"), Roche is obligated to pay certain licensing fees and ongoing royalties for the sale of certain Roche HIV nucleic acid tests which infringe the '276 Patent. Roche disputes these obligations on a variety of grounds including non-infringement. Roche further contests the rate at which royalties must be paid if in fact its products are covered by the Roche HIV Agreement. In April 2003, the parties initiated alternative dispute resolution procedures (the "ADR procedures"), mandated by the Roche HIV agreement, to address these and, potentially other, disputes. The parties have been unable to resolve the matter, and in July 2003, Chiron initiated the final meet and confer process required under the ADR procedures. If this process fails to produce a resolution, the matter will be decided in a formal arbitration conducted under the rules of the CPR Institute for Dispute Resolution.

It is not known when nor on what basis this matter will be resolved.

*F. Hoffmann-La Roche A.G. HCV*

Chiron initiated an action in July 2000 against Roche Diagnostics GmbH in the German Federal Court ("Landgericht") in Dusseldorf, asserting that Roche's manufacture and sale of hepatitis C virus immunoassay products infringe Chiron's German Patent Nos. DD 298 527, DD 298 524, DD 287 104, DD 297 446 (collectively, the "German patents") and Chiron's European Patent No. EP 0 450 931 (the "'931 patent"). The Landgericht subsequently separated the matter into individual actions and then stayed oral hearings pending results of the nullity proceedings initiated by Roche in December 2000 in the German Federal Patent court ("Bundespatentgericht") against the same patents. In August 2002, the Bundespatentgericht upheld the validity of the German patents, but nullified the German portion of the '931 patent. In November 2002, Chiron filed appeals in the Federal Supreme Court to the nullity decisions with respect to the '931 and '527 patents, and Roche likewise appealed the nullity decisions regarding the German patents. In July 2003, the Landgericht determined that Roche's HCV immunoassay kits containing a certain antigen infringe Chiron's '524 patent. Accordingly, the Landgericht granted Chiron the right to enjoin Roche from the import, use, possession and sale of such kits in Germany, and ordered Roche to provide information about its commercial activities related to such kits since 1998 and to destroy any such kits in its possession in Germany. This judgment is subject to appeal. Furthermore, the Landgericht has stayed proceedings based on the '104, '527 and '931 patents pending the appeal of the Bundespatentgericht's judgment in the respective nullity suits.

In January 1997, Chiron and Ortho-Clinical Diagnostics, Inc. filed suit against F. Hoffmann-La Roche AG in the Regional Court of Dusseldorf, Germany, asserting that Roche's manufacture and sale of hepatitis C virus immunoassay products infringed Chiron's EP 0 318 216 (the "'216 patent"). The



suit sought damages and injunctive relief. In April 1999, the Court granted Chiron's application and entered an injunction. In September 1999, Roche appealed the decision to the Court of Appeals in Dusseldorf. Following withdrawal of certain claims from the '216 patent, Chiron rescinded the injunction and substituted the aforementioned '931 and German patents in the appellate proceeding. Oral hearings before the Court of Appeals on the German patents were held in May 2003, and the Court is expected to render judgment in September 2003. Oral hearings on the '931 patent are stayed pending the appeal of the Bundespatentgericht's judgment in the '931 nullity suit.

It is not known when nor on what basis these matters will be resolved.

*German Red Cross Donation Service and Working Society of Physicians*

In October 2001, the German Red Cross Donation Service and Working Society of Physicians brought a complaint against Chiron and Roche before the Commission of the European Communities (the "Commission"). These matters generally alleged that Chiron and Roche have engaged in certain anticompetitive actions that violate Articles 81 and 82 of the Treaty Establishing the European Community (the "EC Treaty") in connection with HIV and hepatitis C virus nucleic acid tests in blood screening. The complainants sought a determination that Roche pricing for its blood screening kits based upon the number of donations tested is unreasonable and should be prohibited through interim measures to be ordered by the Commission prior to final resolution of the action. Chiron filed its initial response with the Commission in January 2002. In February 2002, the Sanquin Blood Services Foundation in The Netherlands also filed a complaint against Chiron and Roche before the Commission. The Sanquin complaint, filed in support of the German complaint, similarly alleged anticompetitive practices in violation of Articles 81 and 82 of the EC Treaty. The National Blood Authority of England also filed a related complaint with the Commission against Chiron and Roche in February 2002. The National Blood Authority complaint focused exclusively on hepatitis C virus licensing. Chiron was also informed that blood banking entities from Finland and Luxembourg filed similar complaints with the Commission.

In July 2002, the Directorate General for Competition provided its provisional assessment concerning both the October 2000 hepatitis C virus and HIV nucleic acid testing licensing agreements for clinical diagnostics and the May 2001 hepatitis C virus and HIV nucleic acid testing licensing agreements for blood screening between Chiron and Roche which had been notified to the European Commission in May 2001 and September 2001, respectively, and the complaints referenced above. The provisional assessment indicated that certain field of use restrictions and most favored nation license provisions appeared to give rise to competition restrictions incompatible with Article 81(1) of the EC Treaty, and were unlikely to qualify for exemption under Article 81(3) of the EC Treaty. The provisional assessment did not indicate that the per donation pricing was incompatible with the EC Treaty.

In July 2003, the European Commission accepted a joint settlement proposal made by Chiron and Roche, thereby resolving all related complaints. As part of the settlement, Chiron and Roche agreed to modify certain terms of their agreements under which Roche has licensed Chiron's hepatitis C virus and HIV-1 intellectual property for use in nucleic acid testing products in Europe. In resolving their inquiry, the European Commission concluded that the modified agreements satisfy the criteria for an individual exemption under Article 81(3) of the Treaty. Additionally, Chiron will extend a time-limited license offer to blood banks using "home brew" testing throughout Europe, allowing them to continue to use their own "in-house" technology to screen their own donations and the donations of other blood banks. As part of this offer,

Chiron will provide relief from liability for past infringements to all blood banks that choose to take such a license.



*Laboratory Corporation of America Holdings*

In April 2003, Chiron filed a complaint in the United States District Court for the Northern District of California against Laboratory Corporation of America Holdings ("LabCorp Holdings"), Laboratory Corporation of America ("LabCorp") and National Genetics Institute ("NGI") (collectively, the "Defendants"), seeking damages and an injunction against Defendants' manufacture, use and sale of the UltraQual HCV RT-PCR assay and HCV SUPERQUANT assay for infringing Chiron's U.S. Patent No. 6,074,816 (the "'816 patent"). The Defendants also filed a complaint in the United States District Court for the District of Delaware against Chiron seeking a declaratory judgment that Defendants infringe neither the '816 patent, nor U.S. Patent Nos. 5,712,088, 5,863,719, 6,074,816, and 5,714,596 (collectively, the "Chiron Hepatitis C virus-related patents"), and that the Chiron Hepatitis C virus-related patents are invalid. In August 2003, the Delaware Court granted Defendants' motion to enjoin Chiron from proceeding with the California action and compel Chiron to seek dismissal of that action. This decision is subject to appeal.

In August 2003, Chiron filed a complaint in the United States District Court for the Northern District of California against Laboratory Corporation of America Holdings, Laboratory Corporation of America and National Genetics Institute (collectively, the "Defendants"), seeking damages and an injunction against Defendants manufacture, use and sale of certain HIV assays for infringing Chiron's U.S. Patent No. 6,531,276 (the "'276 patent")("Methods for Detecting Human Immunodeficiency Virus Nucleic Acid").

It is not known when nor on what basis these matters will be resolved.

*Roxane Laboratories, Inc.*

In June 2003, Chiron and Children's Hospital and Regional Medical Center (collectively, the "Plaintiffs"), filed a complaint in the United States District Court for the District of Delaware against Roxane Laboratories, Inc. ("Roxane") seeking damages and an injunction against Roxane's manufacture, use and sale or importation of an alleged generic version of Chiron's tobramycin solution for inhalation (TOBI®) described in Roxane's Abbreviated New Drug Application No. 65-105, for infringing Chiron's U.S. Patent No. 5,508,269 (the "'269 patent")("Aminoglycoside Formulation for Aerosolization"). Plaintiffs also seek a judgment providing that the effective date of any U.S. Food and Drug Administration approval for Roxane to make, use, sell or import said generic be no earlier than the date on which the '269 patent expires. In August 2003, Roxane filed a counterclaim seeking to invalidate the '269 patent, and a declaration of non-infringement.

It is not known when nor on what basis this matter will be resolved.

*Sorin Biomedica/Snia*

In June 1994, Sorin Biomedica S.p.A. ("Sorin") filed a lawsuit with the Court of Milan, Italy against Chiron and Ortho Diagnostic Systems S.p.A. seeking a declaration of nullity and non-infringement of the Italian counterpart to Chiron's European Patent 0 318 216 (the "'216 patent") claiming hepatitis C virus immunodiagnostic technology. Chiron denied Sorin's allegations and filed a counterclaim seeking a declaration of infringement. In February 1997, the Court enjoined Sorin from manufacturing or selling hepatitis C virus immunoassay kits in Italy. After Sorin made further objections, the Court ruled in October 1999 that certain '216 patent claims were valid and that Sorin's hepatitis C virus immunoassay infringed the '216 patent. In June 2000, the European Patent Office Technical Board Of Appeals upheld the validity of the '216 patent in an amended form which deleted claims that Chiron alleged to have been infringed by Sorin. In December 2000, Snia S.p.A., Sorin's parent company, filed an appeal in the Court of Milan asking the Court to declare the Italian portion of the '216 patent null and void and to award Snia damages. In March 2001, Chiron denied Snia's allegations and asked the Court to dismiss the case. In May 2002, the Court of Appeal of Milan



declared that Snia's claims were inadmissible and dismissed Snia's appeal. In July 2003, Snia filed an appeal before the Supreme Court.

In January 2002, Chiron filed a complaint against Snia in the Court of Milan asserting that Snia's manufacture and sale of certain hepatitis C virus immunodiagnostics infringe the '931 patent. Chiron seeks a declaration of infringement based on the '931 patent, as well as damages.

Trial is currently scheduled for December 1, 2004.

It is not known when nor on what basis these matters will be resolved.

*Sysmex Corporation*

In March 2001, Chiron filed a complaint and petition for preliminary injunction with the Osaka District Court in Japan against Sysmex Corporation ("Sysmex") seeking damages and an injunction against Sysmex's manufacture and sale of the Ranream HCV II Ex kit for infringing Chiron's Japanese Patent No. 2733138 (the "'138 patent") claiming hepatitis C virus immunodiagnostic technology. Sysmex denied the infringement allegations and filed two invalidation appeals with the Japanese Patent Office Board of Appeals against the '138 patent. In February 2003, the Japanese Patent Office Board of Appeals, ruling on one of the invalidation appeals, found that the '138 patent was invalid. In May 2003, Chiron filed an appeal of the invalidation judgment before the Tokyo High Court. Furthermore, the second invalidation appeal has been stayed pending Chiron's appeal to the Tokyo High Court.

It is not known when nor on what basis these matters will be resolved.

**Item 4. Submission of Matters to a Vote of Security Holders**

(a)

Chiron held its Annual Meeting of Stockholders on May 15, 2003.

(b)

Omitted pursuant to Instruction 3 to Item 4 of Form 10-Q.

(c)

The two matters voted upon at the meeting were: (i) election of six directors to hold office for the terms indicated; and (ii) ratification of the appointment of Ernst & Young LLP as Chiron's independent auditors for the year ending December 31, 2003. Two recently-appointed directors, Mr. J. Richard Fredericks and Mr. Howard H. Pien, were nominated for election to hold office for a two-year term expiring in 2005. The remaining four directors, Dr. Raymund Breu, Ms. Denise O'Leary, Mr. Seán Lance and Dr. Pieter Strijkert were currently serving as directors and were nominated for election to the Board for a three-year term expiring in 2006.

(i) The following votes were cast for or were withheld with respect to each of the nominees for director:

| DIRECTORS | FOR | WITHHELD |
|---|---|---|
| Class of 2005 | | |
| J. Richard Fredericks | 166,099,732 | 1,490,167 |
| Howard H. Pien | 165,301,325 | 2,288,574 |
| | | |
| Class of 2006 | | |
| Raymund Breu | 160,906,114 | 6,683,785 |
| Seán P. Lance | 165,616,588 | 1,973,311 |
| Denise M. O'Leary | 164,553,029 | 3,036,870 |
| Pieter J. Strijkert | 161,432,140 | 6,157,759 |

All nominees were declared to have been elected as directors to hold their respective offices until the Annual Meeting of Stockholders in the years 2005 and 2006 as noted above. No abstentions or broker non-votes were cast for the election of directors.



The following directors shall continue in office after Chiron's Annual Meeting of Stockholders held on May 15, 2003: Vaughn D. Bryson, Pierre E. Douaze and Edward E. Penhoet shall continue in office until the Annual Meeting of Stockholders in the year 2004; and Lewis W. Coleman, Paul L. Herrling and William J. Rutter until the Annual Meeting of Stockholders in the year 2005.

(ii) With respect to the proposal to ratify the appointment of Ernst & Young LLP as Chiron's independent auditors, 163,368,164 votes were cast for the proposal, 3,279,821 votes were cast against the proposal, and 941,914 votes abstained. No broker non-votes were cast in connection with the proposal. The selection of Ernst & Young LLP as the Chiron's independent auditors for the year ending December 31, 2003 was declared to have been ratified.

**Item 6. Exhibits and Reports on Form 8-K**

(a)

Exhibits

| Exhibit Number | Exhibit |
|---|---|
| 3.01 | Restated Certificate of Incorporation of Chiron, as filed with the Office of the Secretary of State of Delaware on August 17, 1987, incorporated by reference to Exhibit 3.01 of Chiron's report on Form 10-K for fiscal year 1996. |
| 3.02 | Certificate of Amendment of Restated Certificate of Incorporation of Chiron, as filed with the Office of the Secretary of State of Delaware on December 12, 1991, incorporated by reference to Exhibit 3.02 of Chiron's report on Form 10-K for fiscal year 1996. |
| 3.03 | Certificate of Amendment of Restated Certificate of Incorporation of Chiron, as filed with the Office of the Secretary of State of Delaware on May 22, 1996, incorporated by reference to Exhibit 3.04 of Chiron's report on Form 10-Q for the period ended June 30, 1996. |
| 3.04 | Bylaws of Chiron, as amended, incorporated by reference to Exhibit 3.04 to Chiron's report on Form 10-K for fiscal year 2000. |
| 4.01 | Indenture between Chiron and State Street Bank and Trust Company, dated as of June 12, 2001, incorporated by reference to Exhibit 4.01 of Chiron's report on Form 10-Q for the period ended June 30, 2001. |
| 4.02 | Registration Rights Agreement between Chiron and Merrill Lynch & Co., Inc., and Merrill Lynch, Pierce, Fenner & Smith, Incorporated, incorporated by reference to Exhibit 4.02 of Chiron's report on Form 10-Q for the period ended June 30, 2001. |
| 4.03 | Form of Liquid Yield Option Note due 2031 (Zero Coupon Senior) (included as exhibits A-1 and A-2 to the Indenture filed as Exhibit 4.01 above), incorporated by reference to Exhibit 4.03 of Chiron's report on Form 10-Q for the period ended June 30, 2001. |
| 4.04 | Reserved. |
| 10.004 | Second Amendment between BNP Paribas Leasing Corporation, a Delaware corporation (as successor in interest to BNP Leasing Corporation) ("BNPLC"), and Chiron, dated July 1, 2003. |
| 10.102 | Amended and Restated Revolving Credit Agreement, dated as of August 13, 2002 (the "Credit Agreement"), by and between Chiron and Bank of America, N.A. (the "Bank"), and exhibits thereto, incorporated by reference to Exhibit 10.102 of Chiron's report on Form 10-Q for September 30, 2002. |



| | |
|---|---|
| 10.212 | Contract Manufacturing Agreement dated as of June 12, 2003 between Chiron S.r.l., Chiron |

| | |
|---|---|
| | Behring GmbH & Co., and SynCo Bio Partners B.V. (We have omitted certain information from the Agreement and filed it separately with the Securities and Exchange Commission pursuant to our request for confidential treatment under Rule 24b-2. We have identified the omitted confidential information by the following statement: "Confidential Treatment Requested".) |
| 10.213 | FDA Compliance Agreement dated as of June 12, 2003 between Chiron S.r.l, Chiron Behring GmbH & Co and SynCo Bio Partners B.V. (We have omitted certain information from the Agreement and filed it separately with the Securities and Exchange Commission pursuant to our request for confidential treatment under Rule 24b-2. We have identified the omitted confidential information by the following statement: "Confidential Treatment Requested".) |
| 10.321 | Blood Screening HCV Probe License Agreement European Union dated effective as of July 1, 2003, between Chiron, F. Hoffmann-La Roche Ltd., and Roche Molecular Systems, Inc. (We have omitted certain information from the Agreement and filed it separately with the Securities and Exchange Commission pursuant to our request for confidential treatment under Rule 24b-2. We have identified the omitted confidential information by the following statement: "Confidential Treatment Requested".) |
| 10.322 | Blood Screening HIV Probe License Agreement European Union dated effective as of July 1, 2003, between Chiron, F. Hoffmann-La Roche Ltd., and Roche Molecular Systems, Inc. (We have omitted certain information from the Agreement and filed it separately with the Securities and Exchange Commission pursuant to our request for confidential treatment under Rule 24b-2. We have identified the omitted confidential information by the following statement: "Confidential Treatment Requested".) |
| 10.323 | HCV Probe License and Option Agreement European Union dated effective as of July 1, 2003, between Chiron, F. Hoffmann-La Roche Ltd., and Roche Molecular Systems, Inc. (We have omitted certain information from the Agreement and filed it separately with the Securities and Exchange Commission pursuant to our request for confidential treatment under Rule 24b-2. We have identified the omitted confidential information by the following statement: "Confidential Treatment Requested".) |
| 10.324 | HIV Probe License and Option Agreement European Union dated effective as of July 1, 2003, between Chiron, F. Hoffmann-La Roche Ltd., and Roche Molecular Systems, Inc. (We have omitted certain information from the Agreement and filed it separately with the Securities and Exchange Commission pursuant to our request for confidential treatment under Rule 24b-2. We have identified the omitted confidential information by the following statement: "Confidential Treatment Requested".) |
| 10.501 | Chiron 1991 Stock Option Plan, as amended August 14, 1993, April 11, 1994, February 24, 1995, March 8, 1996, February 28, 1997, August 7, 1998, August 20, 1999, February 25, 2000, September 21, 2000, February 16, 2001 and June 30 2003. * |
| 10.518 | Nominating and Corporate Governance Committee Charter. |
| 10.528 | Amendment dated May 16, 2003 to Governance Agreement dated as of November 20, 1994, between Chiron and Novartis AG as successor-in-interest to Ciba-Gigy Limited. |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended. |



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| 31.2 | Certification of the Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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* Management contract, compensatory plan or arrangement.

**(b)**

**Reports on Form 8-K**

On April 23, 2003, Chiron filed a Current Report on Form 8-K, furnishing under Item 9, Chiron's preliminary results for its first quarter ended March 31, 2003, via a press release.

On May 19, 2003, Chiron filed a Current Report on Form 8-K, reporting under Item 5, that its indirect wholly-owned subsidiary, Chiron UK-1 Limited, had announced a cash tender offer to acquire all of the issued and to be issued share capital of PowderJect Pharmaceuticals plc for 550 pence per share subject to certain conditions.



**CHIRON CORPORATION**

**June 30, 2003**

**SIGNATURES**

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

CHIRON CORPORATION

DATE: August 12, 2003 BY: /s/ HOWARD H. PIEN

Howard H. Pien
President and Chief Executive Officer

DATE: August 12, 2003 BY: /s/ DAVID V. SMITH

David V. Smith
Vice President, Finance and Acting Chief Financial Officer



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