UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended September 30, 2016

OR

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

Commission File No. 001-35210

HC2 HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**54-1708481**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

450 Park Avenue, 30th Floor	
New York, NY	**10022**
(Address of principal executive offices)	**(Zip Code)**

(212) 235-2690
(Registrant's telephone number, including area code)

Former name or former address, if changed since last report

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

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

Indicate by check mark 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	☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Outstanding as of October 31, 2016**
Common Stock, $0.001 par value	41,818,944

HC2 HOLDINGS, INC.
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HC2 HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Services revenue	$ 245,064	$ 151,933	$ 624,545	$ 373,492
Sales revenue	133,474	125,534	379,729	386,765
Life, accident and health earned premiums, net	19,967	—	59,939	—
Net investment income	14,799	—	42,585	—
Net realized losses on investments	(220)	—	(2,677)	—
Net revenue	413,084	277,467	1,104,121	760,257
Operating expenses				
Cost of revenue - services	225,876	138,099	583,942	334,608
Cost of revenue - sales	107,984	102,395	308,951	324,820
Policy benefits, changes in reserves, and commissions	29,689	—	92,784	—
Selling, general and administrative	36,902	28,810	107,493	77,818
Depreciation and amortization	5,961	6,267	18,163	17,768
Gain on sale or disposal of assets	(23)	(1,106)	(973)	(135)
Lease termination costs	(159)	1,124	179	1,124
Total operating expenses	406,230	275,589	1,110,539	756,003
Income (loss) from operations	6,854	1,878	(6,418)	4,254
Interest expense	(10,719)	(10,383)	(31,614)	(29,208)
Other income (expense), net	(3,203)	1,193	(4,220)	(1,378)
Income from equity investees	335	918	3,153	427
Loss from continuing operations before income taxes	(6,733)	(6,394)	(39,099)	(25,905)
Income tax benefit (expense)	1,334	(1,504)	3,649	1,832
Loss from continuing operations	(5,399)	(7,898)	(35,450)	(24,073)
Loss from discontinued operations	—	(24)	—	(44)
Net loss	(5,399)	(7,922)	(35,450)	(24,117)
Less: Net (income) loss attributable to noncontrolling interest and redeemable noncontrolling interest	841	(65)	2,365	(8)
Net loss attributable to HC2 Holdings, Inc.	(4,558)	(7,987)	(33,085)	(24,125)
Less: Preferred stock and deemed dividends	2,948	1,035	5,061	3,212
Net loss attributable to common stock and participating preferred stockholders	$ (7,506)	$ (9,022)	$ (38,146)	$ (27,337)
Basic loss per common share:				
Loss from continuing operations	$ (0.20)	$ (0.35)	$ (1.07)	$ (1.09)
Loss from discontinued operations	—	—	—	—
Basic and diluted loss per common share	$ (0.20)	$ (0.35)	$ (1.07)	$ (1.09)
Diluted loss per common share:				
Loss from continuing operations	$ (0.20)	$ (0.35)	$ (1.07)	$ (1.09)
Loss from discontinued operations	—	—	—	—
Net loss attributable to common stock and participating preferred stockholders	$ (0.20)	$ (0.35)	$ (1.07)	$ (1.09)
Weighted average common shares outstanding:				
Basic	36,627	25,592	35,808	25,093
Diluted	36,627	25,592	35,808	25,093

See accompanying notes to Condensed Consolidated Financial Statements.

HC2 HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	**2015**	**2016**	**2015**
Net loss	$ (5,399)	$ (7,922)	$ (35,450)	$ (24,117)
Other comprehensive income (loss)				
Foreign currency translation adjustment	672	(5,275)	1,335	(7,147)
Unrealized gain (loss) on available-for-sale securities, net of tax	8,972	(2,008)	71,261	(4,186)
Less: Comprehensive (income) loss attributable to the noncontrolling interest and redeemable noncontrolling interest	841	(65)	2,365	(8)
Comprehensive income (loss) attributable to HC2 Holdings, Inc.	$ 5,086	$ (15,270)	$ 39,511	$ (35,458)

See accompanying notes to Condensed Consolidated Financial Statements.

HC2 HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)
(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Investments:		
Fixed maturity securities, available-for-sale at fair value	$ 1,331,677	$ 1,231,841
Equity securities, available-for-sale at fair value	56,506	49,682
Mortgage loans	8,939	1,252
Policy loans	18,228	18,476
Other invested assets	60,870	53,119
Total investments	1,476,220	1,354,370
Cash and cash equivalents	121,321	158,624
Restricted cash	791	538
Accounts receivable (net of allowance for doubtful accounts of $3,033 and $794 at September 30, 2016 and December 31, 2015, respectively)	272,738	210,853
Costs and recognized earnings in excess of billings on uncompleted contracts	17,091	39,310
Inventory	8,973	12,120
Recoverable from reinsurers	525,599	522,562
Accrued investment income	15,751	15,300
Deferred tax asset	43,555	52,511
Property, plant and equipment, net	244,176	214,466
Goodwill	86,025	61,178
Intangibles, net	39,144	29,409
Other assets	35,520	65,206
Assets held for sale	1,093	6,065
Total assets	$ 2,887,997	$ 2,742,512
Liabilities, temporary equity and stockholders' equity		
Life, accident and health reserves	$ 1,637,501	$ 1,591,937
Annuity reserves	254,250	260,853
Value of business acquired	48,512	50,761
Accounts payable and other current liabilities	232,149	225,389
Billings in excess of costs and recognized earnings on uncompleted contracts	51,241	21,201
Deferred tax liability	12,807	4,281
Long-term obligations	396,688	371,876
Pension liability	20,744	25,156
Other liabilities	12,042	17,793
Total liabilities	2,665,934	2,569,247
Commitments and contingencies		
Temporary equity:		
Preferred stock, $.001 par value - 20,000,000 shares authorized; Series A - 27,308 and 29,172 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively; Series A-1 - 1,000 and 10,000 shares issued and outstanding at September 30, 2016 and December 31, 2015; Series A-2 - 14,000 shares issued and outstanding at September 30, 2016 and December 31, 2015	41,659	52,619
Redeemable noncontrolling interest	1,993	3,122
Total temporary equity	43,652	55,741
Stockholders' equity:		
Common stock, $.001 par value - 80,000,000 shares authorized; 38,263,606 and 35,281,375 shares issued and 38,031,325 and 35,249,749 shares outstanding at September 30, 2016 and December 31, 2015, respectively	38	35
Additional paid-in capital	228,842	209,477
Accumulated deficit	(112,814)	(79,729)
Treasury stock, at cost	(1,262)	(378)
Accumulated other comprehensive gain (loss)	37,221	(35,375)
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	152,025	94,030
Noncontrolling interest	26,386	23,494
Total stockholders' equity	178,411	117,524
Total liabilities, temporary equity and stockholders' equity	$ 2,887,997	$ 2,742,512

See accompanying notes to Condensed Consolidated Financial Statements.

HC2 HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in thousands)
(Unaudited)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
	Shares	Amount						
Balance as of December 31, 2014	23,813	$ 24	$ 141,948	$ (378)	$ (44,164)	$ (18,243)	$ 25,208	$ 104,395
Share-based compensation expense	—	—	7,402	—	—	—	—	7,402
Dividend paid to noncontrolling interest	—	—	—	—	—	—	(1,038)	(1,038)
Preferred stock dividends and accretion	—	—	(3,212)	—	—	—	—	(3,212)
Amortization of issuance costs and beneficial conversion feature	—	—	(375)	—	—	—	—	(375)
Issuance of Common Stock	5	—	—	—	—	—	—	—
Issuance of restricted stock	1,539	2	—	—	—	—	—	2
Conversion of Preferred Stock	235	—	1,000	—	—	—	—	1,000
Acquisition of controlling interest	—	—	—	—	—	—	(822)	(822)
Excess book value over fair value of purchased noncontrolling interest	—	—	43	—	—	—	(43)	—
Excess of fair value of net assets over purchase price of acquired company	—	—	182	—	—	—	—	182
Net loss	—	—	—	—	(24,125)	—	8	(24,117)
Foreign currency translation adjustment	—	—	—	—	—	(7,147)	—	(7,147)
Unrealized loss on available-for-sale securities, net of tax	—	—	—	—	—	(4,186)	—	(4,186)
Balance as of September 30, 2015	25,592	$ 26	$ 146,988	$ (378)	$ (68,289)	$ (29,576)	$ 23,313	$ 72,084

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
	Shares	Amount						
Balance as of December 31, 2015	35,250	$ 35	$ 209,477	$ (378)	$ (79,729)	$ (35,375)	$ 23,494	$ 117,524
Share-based compensation expense	—	—	6,667	—	—	—	—	6,667
Fair value adjustment of Redeemable noncontrolling interest	—	—	(99)	—	—	—	—	(99)
Exercise of Warrants and Stock Options	2	—	—	—	—	—	—	—
Shares withheld to satisfy tax withholdings	(201)	—	—	(884)	—	—	—	(884)
Preferred stock dividend and accretion	—	—	(2,386)	—	—	—	—	(2,386)
Amortization of issuance costs and beneficial conversion feature	—	—	(309)	—	—	—	—	(309)
Issuance of common stock	65	—	—	—	—	—	—	—
Issuance of restricted stock	199	—	—	—	—	—	—	—
Conversion of Preferred Stock	2,564	3	10,850	—	—	—	—	10,853
Deemed dividend to induce conversion of Preferred Stock	152	—	(1,490)	—	—	—	—	(1,490)
Acquisition of controlling interests	—	—		—	—	—	2,161	2,161
Sale of controlling interest	—	—	—	—	—	—	8,000	8,000
Excess fair value over book value of noncontrolling interest sold	—	—	6,132	—	—	—	(6,132)	—
Net loss	—	—	—	—	(33,085)	—	(2,365)	(35,450)
Net income attributable to redeemable noncontrolling interest	—	—	—	—	—	—	1,228	1,228
Foreign currency translation adjustment	—	—	—	—	—	1,335	—	1,335
Unrealized gain on available-for-sale securities, net of tax	—	—	—	—	—	71,261	—	71,261
Balance as of September 30, 2016	38,031	$ 38	$ 228,842	$ (1,262)	$ (112,814)	$ 37,221	$ 26,386	$ 178,411

See accompanying notes to Condensed Consolidated Financial Statements.

HC2 HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2016	**2015**
Cash flows from operating activities:		
Net loss	$ (35,450)	$ (24,117)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for doubtful accounts receivable	827	325
Share-based compensation expense	6,667	7,402
Depreciation and amortization	19,602	23,503
Amortization of deferred financing costs and debt discount	1,530	1,246
Amortization of fixed maturities discount/premium	8,966	—
(Gain) loss on sale or disposal of assets	251	(135)
Net realized (gains) losses on investments	2,519	(431)
Impairment of investments	4,321	—
Equity investment (income) loss	(3,153)	(427)
Lease termination costs	179	1,124
Deferred income taxes	(18,940)	(5,957)
Receipt of dividends from equity investees	7,214	2,448
Annuity benefits	6,737	—
All other operating activities	(224)	315
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(56,463)	(36,099)
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	22,219	(9,253)
(Increase) decrease in inventory	3,518	455
(Increase) decrease in other assets	26,725	(3,316)
Increase (decrease) in life, accident and health reserves	41,942	—
Increase (decrease) in accounts payable, current and other liabilities	(12,625)	42,364
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	30,040	(21,933)
Increase (decrease) in pension liability	(1,423)	(8,665)
Net cash provided by (used in) operating activities	54,979	(31,151)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(21,689)	(16,751)
Sale of property and equipment	511	4,994
Purchase of investments	(179,291)	(41,710)
Sale of investments	72,188	6,876
Sale of assets held for sale	5,900	1,479
Cash paid for business acquisitions, net of cash acquired	(10,871)	(568)
Maturities and redemptions of fixed maturity securities	53,663	—
Change in restricted cash	(253)	(727)
All other investing activities	(230)	—
Net cash used in investing activities	(80,072)	(46,407)
Cash flows from financing activities:		
Proceeds from long-term obligations	11,672	54,963
Principal payments on long-term obligations	(11,441)	(8,473)
Payment of deferred financing costs	—	(1,137)
Annuity receipts	2,522	—
Annuity surrenders	(15,562)	—

Proceeds from issuance of common stock of subsidiary		8,000		
Proceeds from sale of preferred stock, net		—		14,033
Purchase of noncontrolling interest		(2,163)		(239)
Payment of withholdings related to net settlements		(884)		—
Payment of dividends		(3,007)		(3,855)
Net cash provided by (used in) financing activities		(10,863)		55,292
Effect of currency exchange rate changes on cash and cash equivalents		(1,347)		(4,646)
Net change in cash and cash equivalents		(37,303)		(26,912)
Cash and cash equivalents, beginning of period		158,624		107,978
Cash and cash equivalents, end of period	$	121,321	$	81,066
Supplemental cash flow information:				
Cash paid for interest	$	21,491	$	21,445
Cash paid for taxes	$	13,469	$	1,701
Non-cash investing and financing activities:				
Purchases of property, plant and equipment under financing arrangements	$	—	$	1,808
Property, plant and equipment included in accounts payable	$	1,542	$	1,521
Fair value of contingent asset assumed in other acquisitions	$	2,992	$	—
Fair value of deferred liability assumed in other acquisitions	$	2,589	$	—
Debt assumed in other acquisitions	$	20,813	$	—
Deemed dividend from conversion of preferred stock	$	1,490	$	—
Conversion of preferred stock	$	10,853	$	1,000

See accompanying notes to Condensed Consolidated Financial Statements.

1. Organization and Business

HC2 Holdings, Inc. (“HC2” and, together with its subsidiaries, the “Company”, “we”, "us" and “our”) is a diversified holding company which seeks to acquire and grow attractive businesses that the Company believes can generate long-term sustainable free cash flow and attractive returns. While the Company generally intends to acquire controlling equity interests in its operating subsidiaries, the Company also invests to a more limited extent in a variety of debt instruments or noncontrolling equity interest positions. HC2's common stock trades on the NYSE MKT LLC under the symbol “HCHC”.

The Company currently has seven reportable segments based on management’s organization of the enterprise - Manufacturing, Marine Services, Insurance, Utilities, Telecommunications, Life Sciences, and Other which includes operations that do not meet the separately reportable segment thresholds.

1. Our Manufacturing segment includes DBM Global Inc. (“DBM Global”, f/k/a Schuff International, Inc.) and its wholly-owned subsidiaries. DBM Global offers integrated steel construction services from a single source and professional services that include design-assist, design-build, engineering, building information modeling participation, 3D steel modeling / detailing, fabrication, advanced field erection, project management and state-of-the-art steel management systems. Major market segments for DBM Global include commercial, healthcare, convention centers, stadiums, gaming and hospitality, mixed use and retail, industrial, public works, bridges, transportation, and international projects. Headquartered in Phoenix, Arizona, DBM Global has operations in Arizona, California, Georgia, Kansas, and Texas, with construction projects primarily located in the aforementioned states, in addition to international construction projects in select markets, primarily Panama, through its Panamanian joint venture Schuff Hopsa Engineering. The Company maintains a 92% controlling interest in DBM Global.

2. Our Marine Services segment includes Global Marine Systems Limited ("GMSL"). GMSL is a leading provider of engineering and underwater services on submarine cables. The Company maintains a 95% equity interest in GMSL.

3. Our Insurance segment includes United Teacher Associates Insurance Company ("UTA") and Continental General Insurance Company ("CGI", and together with UTA, the "Insurance Companies"). The Insurance Companies provide long-term care, life and annuity coverage that help protect policy and certificate holders from the financial hardships associated with illness, injury, loss of life, or income continuation. The Company owns 100% of the Insurance Companies.

4. Our Utilities segment includes American Natural Gas ("ANG"). Headquartered in the Northeast, ANG is a premier distributor of natural gas motor fuel. ANG designs, builds, owns, acquires, operates and maintains compressed natural gas fueling stations for transportation vehicles. The Company maintains effective control of, and a 49.99% ownership interest in ANG.

5. Our Telecommunications segment includes PTGi International Carrier Services, ("ICS"). ICS operates a telecommunications business including a network of direct routes and provides premium voice communication services for national telecom operators, mobile operators, wholesale carriers, prepaid operators, Voice over Internet Protocol ("VOIP") service operators and Internet service providers from our International Carrier Services business unit. ICS provides a quality service via direct routes and by forming strong relationships with carefully selected partners. The Company owns 100% of ICS.

6. Our Life Sciences segment includes Pansend Life Sciences, LLC (“Pansend”). Pansend owns a (i) 77% interest in Genovel Orthopedics, Inc., which seeks to develop products to treat early osteoarthritis of the knee, (ii) 61% interest in R2 Dermatology Incorporated (f/k/a GemDerm Aesthetics, Inc.), which develops skin lightening technology, and (iii) 80% interest in BeneVir Biopharm, Inc. ("BeneVir"), which focuses on immunotherapy for the treatment of solid tumors. Pansend also invests in other early stage or developmental stage healthcare companies.

7. In our Other segment, we invest in and grow developmental stage companies that we believe have significant growth potential. Among the businesses included in this segment are the Company's 56% ownership interest in DMi, Inc. ("DMi"), which owns licenses to create and distribute NASCAR® video games, and the Company's 72% interest in NerVve Technologies Inc. ("NerVve"), which provides analytics on broadcast TV, digital and social media online platforms.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial reporting and Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the Company's nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the calendar year ending December 31, 2016. The financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's most recently filed Annual Report on Form 10-K.

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries and all other subsidiaries over which the Company exerts control. All intercompany profits, transactions and balances have been eliminated in consolidation. As of September 30, 2016, the Company has a 100% interest in the Insurance Companies, a 100% interest in ICS, a 95% interest in GMSL, a 92% interest in DBM Global, a 56% interest in DMi, a 72% interest in NerVve, and board control of, and a 49.99% interest in ANG. Because the Company controls the operations of ANG through its control of the board, the assets, liabilities, revenues and expenses of ANG are included in our Condensed Consolidated Financial Statements. Through its subsidiary, Pansend, the Company has a 77% interest in Genovel Orthopedics, Inc., a 61% interest in R2 Dermatology and an 80% interest in BeneVir. The results of each of these entities are consolidated with the Company's results from and after their respective acquisition dates based on guidance from the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, "Consolidation" ("ASC 810"). The remaining interests not owned by the Company are presented as a noncontrolling interest component of total equity. DBM Global uses a 4-4-5 week quarterly cycle, which for the third quarter of 2016 ended on October 1, 2016.

Reclassification

Certain previous year amounts have been reclassified to conform with current year presentations related to the reporting of new financial statement line items.

Adjustments

During the second quarter of 2016, the Company identified an immaterial error in its calculation of depreciation expense for the twelve months ended December 31, 2015 and 2014 and the three months ended March 31, 2016 related to purchase accounting associated with the acquisition of DBM Global in May of 2014. This resulted in an excess depreciation expense being recorded in each of the periods noted. In addition, certain gains and losses on assets that were disposed of by DBM Global were incorrectly recorded during the same periods as a result of these adjustments. The net impact of these adjustments to net income would have been an increase of $0.7 million and a decrease of $0.2 million for the twelve months ended December 31, 2015 and 2014, respectively, and an increase of $0.8 million for the three months ended March 31, 2016.

The Company determined to correct the cumulative effect of these adjustments in the second quarter of 2016, which resulted in a net adjustment to net income (loss) attributable to common and participating preferred stockholders for the nine months ended September 30, 2016 of $1.3 million. Excluding this adjustment, net loss attributable to common and participating preferred stockholders would have been $39.4 million or $1.10 per fully diluted share for the nine months ended September 30, 2016, instead of the $38.1 million recorded.

Newly Adopted Accounting Principles

In September 2015, the FASB issued Accounting Standards Update ("ASU") 2015-16, "Business Combination Topic No. 805: Simplifying the Accounting for Measurement - Period Adjustments", which requires adjustments to provisional amounts that are identified during the measurement period to be recognized in the reporting period in which the adjustment amounts are determined.

This includes any effect on earnings of changes in depreciation, amortization, or other income effects as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. On January 1, 2016, the Company adopted this update, which did not have a material impact on the Condensed Consolidated Financial Statements.

In August 2015, the FASB issued ASU 2015-15, "Interest - Imputation of Interest Subtopic No. 835-30: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements," which codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line-of-credit arrangements as assets, rather than as a direct offset to the liability as is required now under ASU 2015-03. On January 1, 2016, the Company adopted this update, which did not have a material impact on the Condensed Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-12, "(Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, and (Part III) Measurement Date Practical Expedient". Part I of this ASU is related to one area of several potential simplifications for employee benefit plans and designates contract value as the only required measure for fully benefit-responsive investment contracts, which maintains the relevant information while reducing the cost and complexity of reporting for fully benefit responsive investment contracts. On January 1, 2016, the Company adopted this update, which did not have a material impact on the Condensed Consolidated Financial Statements.

In May 2015, the FASB has issued ASU 2015-9, "Disclosures About Short-Duration Contracts". This ASU requires insurance entities to disclose for annual reporting periods certain information in respect of liability for unpaid claims and claim adjustment expenses. On January 1, 2016, the Company adopted this update, which did not have a material impact on the Condensed Consolidated Financial Statements.

In May 2015, the FASB issued ASU 2015-8, "Business Combinations Topic No. 805: Pushdown Accounting-Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115 (SEC Update)," which rescinds certain SEC guidance in order to conform with ASU 2014-17, "Pushdown Accounting" ("ASU 2014-17"). ASU 2014-17 was issued in November 2014 and provides a reporting entity that is a business or nonprofit activity (an "acquiree") the option to apply pushdown accounting to its separate financial statements when an acquirer obtains control of the acquiree. On January 1, 2016, the Company adopted this update, which did not have a material impact on the Condensed Consolidated Financial Statements.

In May 2015, the FASB issued ASU 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)". The amendments in this ASU remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. On January 1, 2016, the Company adopted this update, which did not have a material impact on the Condensed Consolidated Financial Statements.

In February 2015, the FASB issued ASU 2015-2, "Amendments to the Consolidation Analysis", which amends the consolidation requirements in ASC 810 and significantly changes the consolidation analysis required under U.S. GAAP relating to whether or not to consolidate certain legal entities. On January 1, 2016, the Company adopted this update, which did not have a material impact on the Condensed Consolidated Financial Statements.

In January 2015, the FASB issued ASU 2015-1, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items", which eliminates from U.S. GAAP the concept of an extraordinary item. Under the ASU, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. On January 1, 2016, the Company adopted this update, which did not have a material impact on the Condensed Consolidated Financial Statements.

New Accounting Pronouncements

In August, 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)" ("ASU 2016-15"). The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under FASB ASC 230, "Statement of Cash Flows." The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption during an interim period. The Company

has not yet adopted this update and is currently evaluating the impact of ASU 2016-15 on its Condensed Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses" (Topic 326)" ("ASU-2016-13"), which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, ASU 2016-13 eliminates the probable initial recognition threshold in current U.S. GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available-for-sale debt securities, credit losses should be measured in a manner similar to current U.S. GAAP, however ASU 2016-13 will require that credit losses be presented as an allowance rather than as a write-down. For public business entities that file reports with the SEC, the amendments in the ASU are effective for fiscal years beginning after December 15, 2019. The Company has not yet adopted this update and is currently evaluating the impact of ASU 2016-13 on its Condensed Consolidated Financial Statements.

In May 2016, the FASB issued ASU 2016-12, "Revenue From Contracts With Customers" "(Topic 606)" ("ASU 2016-12"), which addresses narrow-scope improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition. Additionally, the amendments in this update provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements for ASU 2016-12 (and any other Topic amended by ASU 2014-09). "Revenue from Contracts with Customers (Topic 606), Section A - Summary and Amendments that Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs - Contracts with Customers (Subtopic 340-40)" ("ASU 2014-09"). ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. The Company has not yet adopted this update and is currently evaluating the impact of ASU 2016-12 on its Condensed Consolidated Financial Statements.

In April 2016, the FASB issued ASU 2016-10, "Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing" ("ASU 2016-10"), which clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. Further, this update includes targeted improvements based on input the Board received from the Transition Resource Group for Revenue Recognition and other stakeholders. ASU 2016-10seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. The Company has not yet adopted ASU 2016-10 and is currently evaluating the impact the update would have on its Condensed Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" "(Topic 718)" ("ASU 2016-09"), which introduces targeted amendments intended to simplify accounting for stock compensation. Specifically, ASU 2016-09 requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. Early adoption is permitted. The Company has not yet adopted this update and is currently evaluating the update would have on its Condensed Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-08, "Principal versus Agent Considerations" (Topic 606), which updates the new revenue standard by clarifying the principal versus agent implementation guidance. Early adoption is permitted. The Company's effective date for adoption is January 1, 2018. The Company has not yet adopted this update and is currently evaluating the impact of ASU 2016-08 on its Condensed Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-07, "Simplifying the Transition to the Equity Method of Accounting" "(Topic 323)" ("ASU 2016-07"), which requires an investor to initially apply the equity method of accounting from the date such investor qualifies for that method (i.e., the date such investor obtains significant influence over the operating and financial policies of an investee). The ASU eliminates the previous requirement to retroactively adjust the investment and record a cumulative catch up for the periods that the investment had been held, but did not qualify for the equity method of accounting. Early adoption is permitted. The Company's effective date for adoption is January 1, 2017. The Company has not yet adopted this update and is currently evaluating the impact of ASU 2016-07 on its Condensed Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-06, "Contingent Put and Call Options in Debt Instruments" "(Topic 815)" ("ASU 2016-06"), which addresses how an entity should assess whether contingent call or put options that can accelerate the payment of debt instruments are clearly and closely related to their debt hosts. This assessment is necessary to determine if the option(s) must be separately accounted for as a derivative. ASU 2016-06 clarifies that an entity is required to assess the embedded call or put options in accordance with a specific four-step decision sequence. This means that entities are not also required to assess whether the contingency for exercising the option(s) is indexed to interest rates or credit risk. For example, when evaluating debt instruments that may be put upon a change in control, the event triggering the change in control is not relevant to the assessment. Only the resulting settlement of debt is subject to the four-step decision sequence. Early adoption is permitted. The Company's effective date for adoption is January 1, 2017. The Company has not yet adopted ASU 2016-06 and is currently evaluating the impact the update would have on its Condensed Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, "Leases" "(Topic 842)" ("ASU 2016-02"), which applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. ASU 2016-02 requires a lessor to classify leases as either sales-type, direct financing or operating, similar to existing U.S. GAAP requirements. Classification depends on the same five criteria used by lessees as well as certain additional factors. The new standard addresses other considerations including identification of a lease, separating lease and nonlease components of a contract, sale and leaseback transactions, modifications, combining contracts, reassessment of the lease term, and remeasurement of lease payments. Early adoption is permitted. The Company’s effective date for adoption is January 1, 2019. The Company has not yet adopted ASU 2016-02 and is currently evaluating the impact the update would have on its Condensed Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" "(Subtopic 825-10)" ("ASU 2016-01") which, among other things, requires all equity securities currently classified as “available for sale” to be reported at fair value, with holding gains and losses recognized in net income instead of accumulated other comprehensive income ("AOCI"). Certain provisions of ASU 2016-01 are eligible for early adoption. The Company’s effective date for adoption is January 1, 2018. The Company has not yet adopted ASU 2016-01 and is currently evaluating the impact the update would have on its Condensed Consolidated Financial Statements.

3. Business Combinations

The Company’s acquisitions were accounted for using the acquisition method of accounting, which requires, among other things, that assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date. Estimates of fair value included in the Condensed Consolidated Financial Statements, in conformity with ASC 820, “Fair Value Measurements and Disclosures”, represent the Company’s best estimates and valuations developed, when needed, with the assistance of independent appraisers or, where such valuations have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The following estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially.

Any changes to the initial estimates of the fair value of the assets and liabilities will be recorded as adjustments to those assets and liabilities, and residual amounts will be allocated to goodwill. In accordance with ASC 805 “Business Combinations,” if additional information is obtained about the initial estimates of the fair value of the assets acquired and liabilities assumed within the measurement period (not to exceed one year from the date of acquisition), including finalization of asset appraisals, the Company will refine its estimates of fair value to allocate the purchase price more accurately.

Insurance Segment

On December 24, 2015, the Company completed the acquisitions of 100% of the interest in each of the Insurance Companies as well as all assets owned by the sellers of the Insurance Companies and their affiliates (the "Seller Parties") that are used exclusively or primarily in the business of the Insurance Companies, subject to certain exceptions. The operations of the Insurance Companies form the basis of our Insurance segment, and we plan to leverage their existing platform and industry expertise to identify strategic growth opportunities for managing closed blocks of long-term care businesses.

The aggregate consideration paid in connection with the acquisition of the Insurance Companies and related transactions and agreements was valued at $18.7 million, consisting of $7.1 million of cash, $2.0 million in aggregate principal amount of the Company's 11.0% Senior Secured Notes due 2019, 1,007,422 shares of the Company's common stock and five-year warrants to purchase 2,000,000 shares of the Company's common stock at an exercise price of $7.08 per share (subject to customary adjustments for stock splits or similar transactions) exercisable on or after February 3, 2016 (the "Warrants").

Purchase Price Allocation

The preliminary fair values of identified assets acquired, liabilities assumed, residual goodwill and consideration transferred are summarized as follows (in thousands):

Fair value of consideration transferred		
Cash	$	7,146
Company's Senior Secured Notes		1,879
Company's common stock		5,380
2016 Warrants		4,332
Total fair value of consideration transferred	$	18,737

Purchase price allocation		
Fixed maturities, available for sale at fair value	$	1,230,038
Equity securities, available for sale at fair value		35,697
Mortgage loans		1,252
Policy loans		18,354
Other investments		183
Cash and cash equivalents		48,525
Recoverable from reinsurers		522,790
Accrued investment income		14,417
Goodwill		46,613
Intangibles		4,850
Other assets		12,869
Total assets acquired		1,935,588
Life, accident and health reserves		(1,592,722)
Annuity reserves		(259,675)
Value of business acquired		(51,584)
Deferred tax liability		(1,704)
Other liabilities		(11,166)
Total liabilities assumed		(1,916,851)
Total net assets acquired	$	18,737

The values of intangibles, life, accident and health reserves, annuity reserves, and value of business acquired are estimates and might change.

The acquisition of the Insurance Companies resulted in the recording of goodwill of approximately $46.6 million. Goodwill consists of the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The Insurance Companies were recognized as a new stand-alone reporting unit. Goodwill is not amortized and is not deductible for tax purposes.

The Value of Business Acquired ("VOBA")

The VOBA was derived using a "Becker-ized" Present Value of Distributable Earnings ("PVDE") method. The PVDE was derived using the statutory after tax profits. The VOBA was valued at $51.6 million and is amortized over the anticipated remaining

future lifetime of the acquired long-term care blocks of business. VOBA is amortized in relation to the projected future premium of the acquired long-term care blocks of business.

Recoverable from Reinsurers

The recoverable from reinsurers balance represents amounts recoverable from third parties. U.S. GAAP requires insurance reserves and recoverable from reinsurers balances to be presented on a gross basis, as opposed to U.S. statutory accounting principles, where reserves are presented net of reinsurance. Accordingly, the Company grossed up the fair value of the net insurance contract liability for the amount of reinsurance of approximately $515.9 million, to arrive at a gross insurance liability, and recognized an offsetting recoverable from reinsurers amount of approximately $515.9 million. As part of this process, management analyzed reinsurance counterparty credit risk and considers it to have an immaterial impact on the reinsurance fair value gross-up. To mitigate this risk substantially all reinsurance is ceded to companies with investment grade S&P ratings.

Amounts recoverable from reinsurers were estimated in a manner consistent with the liability associated with the reinsured policies and were an estimate of the recoverable from reinsurers amount in respect of each of paid and unpaid losses, including an estimate for losses incurred but not reported. Recoverable from reinsurers represents expected cash inflows from reinsurers for liabilities ceded and therefore incorporate uncertainties as to the timing and amount of claim payments. Recoverable from reinsurers includes the balances due from reinsurers under the terms of the reinsurance agreements for these ceded balances as well as settlement amounts currently due.

Contingent Liability

Pursuant to the agreements governing the acquisition of the Insurance Companies, the Company also agreed to pay to the Seller Parties, on an annual basis with respect to the years 2015 through 2019, the amount, if any, by which the Insurance Companies' cash flow testing and premium deficiency reserves decrease from the amount of such reserves as of December 31, 2014. Such payments are capped at $13.0 million in the aggregate. The balance is calculated based on the fluctuation of the statutory cash flow testing and premium deficiency reserves annually following each of the Insurance Companies' filing with its applicable insurance regulator of its annual statutory financial statements for each calendar year ending December 31 through and including December 31, 2019. Based on the 2015 statutory statements, the Company does not have a payment due. Further, the Company's current estimate is that the obligation will not be incurred through the calendar year ending December 31, 2019. This expectation is primarily driven by the following factors: (i) reduced confidence that treasury rates will increase to historical averages over the near term; (ii) uncertainty around future operating expenses historically performed by the Seller Parties; and (iii) the increase in the premium deficiency reserve as reported at December 31, 2015 of approximately $8.0 million (because the balance is cumulative over the period, a decrease of approximately $8.0 million would be required before there would be any obligation to the Seller Parties under the earn-out). The Company will perform this assessment at each reporting period through December 31, 2019 or until the $13.0 million is paid in full.

Control Level Risk-Based Capital

In connection with the consummation of the acquisition of the Insurance Companies, the Company agreed with the statutory regulator of CGI, the Ohio Department of Insurance ("ODOI"), that for five years following the closing of the transaction, the Company will contribute to CGI cash or marketable securities acceptable to the ODOI to the extent required for CGI's total adjusted capital to be not less than 400% of CGI's authorized control level risk-based capital (each as defined under Ohio law and reported in CGI's statutory statements filed with the ODOI). Similarly, the Company has agreed with the statutory regulator of UTA, the Texas Department of Insurance ("TDOI"), that, for five years following the closing of the transaction, the Company will contribute to UTA cash or other admitted assets acceptable to the TDOI to the extent required for UTA's total adjusted capital to be not less than 400% of UTA's authorized control level risk-based capital (each as defined under Texas law and reported in UTA's statutory statements filed with the TDOI).

In connection with the consummation of the acquisition of the Insurance Companies, each of the Insurance Companies also entered into a capital maintenance agreement with Great American Financial Resources, Inc. ("GAFRI" and each such agreement, a "Capital Maintenance Agreement," and collectively, the "Capital Maintenance Agreements"). Under each Capital Maintenance Agreement, if the applicable Insurance Company's total adjusted capital reported in its annual statutory financial statements is less than 400% of its authorized control level risk-based capital, GAFRI will pay cash or assets to the applicable Insurance Company, as required, to eliminate such shortfall (after giving effect to any capital contributions made by the Company or its affiliates since the date of the relevant annual statutory financial statements). GAFRI's obligation to make such payments is capped at $25.0

million under the Capital Maintenance Agreement with UTA and $10.0 million under the Capital Maintenance Agreement with CGI. Each of the Capital Maintenance Agreements will remain in effect from January 1, 2016 to January 1, 2021, or until payments by GAFRI thereunder equal the maximum amount payable under the applicable agreement. The Company will indemnify GAFRI for the amount of any payments made by it under the Capital Maintenance Agreements.

Other

Transaction costs incurred in connection with the acquisition of the Insurance Companies were $0.0 and $0.5 million during the three and nine months ended September 30, 2016 and were included within Selling, general and administrative expenses. The Company recorded net revenue of $34.5 million and $99.8 million and net loss of $2.0 million and $12.6 million from the Insurance Companies for the three and nine months ended September 30, 2016.

Pro Forma Adjusted Summary

The results of operations for the Insurance Companies have been included in the Condensed Consolidated Financial Statements subsequent to their acquisition date.

The following schedule presents unaudited consolidated pro forma results of operations data as if the acquisition of the Insurance Companies had occurred on January 1, 2015. This information neither purports to be indicative of the actual results that would have occurred if those acquisitions had actually been completed on the date indicated, nor is it necessarily indicative of the future operating results or the financial position of the combined company (in thousands, except per share amounts):

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
Net revenue	$ 315,371	$ 876,697
Net loss from continuing operations	$ (7,119)	$ (22,451)
Loss from discontinued operations	(24)	(44)
Net loss attributable to HC2	$ (7,143)	$ (22,495)
Per share amounts:		
Loss from continuing operations	$ (0.28)	$ (0.89)
Loss from discontinued operations	$ —	$ —
Net loss attributable to HC2	$ (0.28)	$ (0.90)

Other Acquisitions

During the nine months ended September 30, 2016, we purchased three fueling stations, completed the acquisition of additional interests in and thereby control of NerVve and BeneVir, and acquired a 60% controlling interest in CWind Limited ("CWind") with an obligation to purchase the remaining 40% in equal amounts on September 30, 2016 and September 30, 2017 (based on agreed financial targets). The total consideration transferred for these acquisitions was $21.9 million including $13.7 million in cash. The results of each of the companies acquired have been reported in our results of operations from the date of acquisition.

We have preliminarily allocated the purchase price of these acquired businesses to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. We are in the process of completing the valuation of identifiable intangible assets, fixed assets and debt; therefore, the fair values set forth below are subject to adjustment upon finalization of the valuations. The amounts in respect of these potential adjustments could be significant. We expect to complete the purchase price allocation for fiscal year 2016 acquisitions during fiscal year 2017.

The following table summarizes the preliminary allocation of the purchase price to the fair value of identifiable assets acquired and liabilities assumed for the fiscal year 2016 acquisitions at the date of acquisition, in accordance with the acquisition method of accounting:

	Total
Consideration	
Cash	$ 13,671
Convertible notes	2,915
Promissory note	1,128
Fair value of previously held interest	4,610
Contingent asset	(2,992)
Deferred consideration	2,589
Total fair value of consideration transferred	$ 21,921
Purchase price allocation	
Cash and cash equivalents	$ 2,966
Accounts receivable	6,400
Inventory	528
Property, plant and equipment, net	32,439
Goodwill	7,242
Intangibles	12,557
Other assets	2,335
Total assets acquired	64,467
Accounts payable and other current liabilities	(11,180)
Deferred tax liability	(5,494)
Long-term obligations	(20,813)
Other liabilities	(15)
Noncontrolling interest	(815)
Total liabilities assumed	(38,317)
Enterprise value	26,150
Less fair value of noncontrolling interest	3,889
Bargain purchase gain	340
Purchase price attributable to controlling interest	$ 21,921

4. Investments

Fixed Maturity and Equity Securities Available-for-Sale

The following tables provide information relating to investments in fixed maturity and equity securities as of September 30, 2016 and December 31, 2015 (in thousands):

September 30, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Fixed maturity securities				
U.S. Government and government agencies	$ 16,081	$ 834	$ —	$ 16,915
States, municipalities and political subdivisions	375,661	25,988	(36)	401,613
Foreign government	6,392	—	(113)	6,279
Residential mortgage-backed securities	141,837	2,192	(550)	143,479
Commercial mortgage-backed securities	59,114	1,113	(78)	60,149
Asset-backed securities	68,865	1,912	(261)	70,516
Corporate and other	587,499	48,194	(2,967)	632,726
Total fixed maturity securities	$ 1,255,449	$ 80,233	$ (4,005)	$ 1,331,677
Equity securities				
Common stocks	$ 17,485	$ 2,402	$ (393)	$ 19,494
Perpetual preferred stocks	36,752	734	(474)	37,012
Total equity securities	$ 54,237	$ 3,136	$ (867)	$ 56,506

December 31, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Fixed maturity securities				
U.S. Government and government agencies	$ 17,131	$ 1	$ (49)	$ 17,083
States, municipalities and political subdivisions	387,427	60	(1,227)	386,260
Foreign government	6,426	3	—	6,429
Residential mortgage-backed securities	166,324	579	(588)	166,315
Commercial mortgage-backed securities	74,898	233	(96)	75,035
Asset-backed securities	34,396	106	(51)	34,451
Corporate and other	553,487	318	(7,537)	546,268
Total fixed maturity securities	$ 1,240,089	$ 1,300	$ (9,548)	$ 1,231,841
Equity securities				
Common stocks	$ 19,935	$ 1	$ (1,311)	$ 18,625
Perpetual preferred stocks	30,901	162	(6)	31,057
Total equity securities	$ 50,836	$ 163	$ (1,317)	$ 49,682

The Company has investments in mortgage-backed securities ("MBS") that contain embedded derivatives (primarily interest-only MBS) that do not qualify for hedge accounting. The Company recorded the change in the fair value of these securities within Net realized losses on investments. These investments had a fair value of $15.0 million and $21.0 million as of September 30, 2016 and December 31, 2015, respectively. The change in fair value related to these securities resulted in a net loss of approximately $0.1 million and $2.4 million for the three and nine months ended September 30, 2016, respectively, and $0 for each of the three and nine months ended September 30, 2015.

Maturities of Fixed Maturity Securities Available-for-Sale

The amortized cost and fair value of fixed maturity securities available-for-sale as of September 30, 2016 are shown by contractual maturity in the table below (in thousands). Actual maturities can differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset and mortgage-backed securities are shown separately in the table below, as they are not due at a single maturity date:

	Amortized Cost	Fair Value
Corporate, Municipal, U.S. Government and Other securities		
Due in one year or less	$ 40,777	$ 38,312
Due after one year through five years	115,932	120,562
Due after five years through ten years	141,642	148,033
Due after ten years	687,282	750,626
Subtotal	985,633	1,057,533
Mortgage-backed securities	200,951	203,628
Asset-backed securities	68,865	70,516
Total	$ 1,255,449	$ 1,331,677

Corporate Fixed Maturity Securities

The tables below show the major industry types of the Company’s corporate and other fixed maturity securities as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			December 31, 2015		
	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
Finance, insurance, and real estate	$ 210,441	$ 216,550	34.2%	$ 223,144	$ 217,377	39.8%
Transportation, communication and other services	166,645	181,405	28.7%	156,022	155,175	28.4%
Manufacturing	118,492	129,738	20.5%	95,138	94,792	17.4%
Other	91,921	105,033	16.6%	79,183	78,924	14.4%
Total	$ 587,499	$ 632,726	100.0%	$ 553,487	$ 546,268	100.0%

Other-Than-Temporary Impairments - Fixed Maturity and Equity Securities

A portion of certain other-than-temporary impairment ("OTTI") losses on fixed maturity securities is recognized in AOCI. For these securities the net amount recognized in the Condensed Consolidated Statements of Operations ("credit loss impairments") represents the difference between the amortized cost of the securities and the net present value of their projected future cash flows discounted at the effective interest rate implicit in such securities prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The Company recorded a $1.5 million and $2.6 million impairment related to two fixed maturity securities for the three and nine months ended September 30, 2016, respectively. The Company reported a $2.5 million impairment within Other income (expense), net and a $0.2 million impairment within Net realized losses on investments. The Company did not record any impairments on fixed maturity or equity securities during the three and nine months ended September 30, 2015.

Unrealized Losses for Fixed Maturity and Equity Securities Available-for-Sale

The following table presents the total unrealized losses for the 117 and 528 fixed maturity and equity securities held by the Company as of September 30, 2016 and December 31, 2015, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (in thousands):

	September 30, 2016		December 31, 2015	
	Unrealized Losses	% of Total	Unrealized Losses	% of Total
Fixed maturity and equity securities				
Less than 20%	$ (1,965)	40.3%	$ (5,667)	52.2%
20% or more for less than six months	(337)	6.9%	—	—%
20% or more for six months or greater	(2,570)	52.8%	(5,198)	47.8%
Total	$ (4,872)	100.0%	$ (10,865)	100.0%

The determination of whether unrealized losses are "other-than-temporary" requires judgment based on subjective as well as objective factors. Factors considered and resources used by management include (i) whether the unrealized loss is credit-driven or a result of changes in market interest rates, (ii) the extent to which fair value is less than cost basis, (iii) cash flow projections received from independent sources, (iv) historical operating, balance sheet and cash flow data contained in issuer SEC filings and news releases, (v) near-term prospects for improvement in the issuer and/or its industry, (vi) third party research and communications with industry specialists, (vii) financial models and forecasts, (viii) the continuity of dividend payments, maintenance of investment grade ratings and hybrid nature of certain investments, (ix) discussions with issuer management, and (x) ability and intent to hold the investment for a period of time sufficient to allow for anticipated recovery in fair value.

The Company analyzes its MBS for other-than-temporary impairment each quarter based upon expected future cash flows. Management estimates expected future cash flows based upon its knowledge of the MBS market, cash flow projections (which reflect loan-to-collateral values, subordination, vintage and geographic concentration) received from independent sources, implied cash flows inherent in security ratings and analysis of historical payment data.

The Company believes it will recover its cost basis in the non-impaired securities with unrealized losses and that the Company has the ability to hold the securities until they recover in value. The Company neither intends to sell nor does it expect to be required to sell the securities with unrealized losses as of September 30, 2016 and December 31, 2015, respectively. However, unforeseen

facts and circumstances may cause the Company to sell fixed maturity and equity securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality and liquidity guidelines.

The following tables present the estimated fair values and gross unrealized losses for the 117 and 528 fixed maturity and equity securities held by the Company that have estimated fair values below amortized cost as of September 30, 2016 and December 31, 2015, respectively. The Company does not have any OTTI losses reported in AOCI. These investments are presented by investment category and the length of time the related fair value has remained below amortized cost (in thousands):

	Less than 12 months		12 months of greater		Total	
September 30, 2016	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities						
U.S. Government and government agencies	$ 131	$ —	$ —	$ —	$ 131	$ —
States, municipalities and political subdivisions	7,080	(36)	—	—	7,080	(36)
Foreign government	6,279	(113)	—	—	6,279	(113)
Residential mortgage-backed securities	47,909	(550)	—	—	47,909	(550)
Commercial mortgage-backed securities	10,703	(78)	—	—	10,703	(78)
Asset-backed securities	17,939	(261)	—	—	17,939	(261)
Corporate and other	40,389	(396)	5,040	(2,571)	45,429	(2,967)
Total fixed maturity securities	$ 130,430	$ (1,434)	$ 5,040	$ (2,571)	$ 135,470	$ (4,005)
Equity securities						
Common stocks	$ 5,515	$ (393)	$ —	$ —	$ 5,515	$ (393)
Perpetual preferred stocks	11,520	(474)	—	—	11,520	(474)
Total equity securities	$ 17,035	$ (867)	$ —	$ —	$ 17,035	$ (867)

	Less than 12 months		12 months of greater		Total	
December 31, 2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities						
U.S. Government and government agencies	$ 15,409	$ (49)	$ —	$ —	$ 15,409	$ (49)
States, municipalities and political subdivisions	294,105	(1,227)	—	—	294,105	(1,227)
Residential mortgage-backed securities	77,695	(588)	—	—	77,695	(588)
Commercial mortgage-backed securities	44,618	(96)	—	—	44,618	(96)
Asset-backed securities	22,550	(51)	—	—	22,550	(51)
Corporate and other	466,293	(7,537)	—	—	466,293	(7,537)
Total fixed maturity securities	$ 920,670	$ (9,548)	$ —	$ —	$ 920,670	$ (9,548)
Equity securities						
Common stocks	$ 13,657	$ (1,311)	$ —	$ —	$ 13,657	$ (1,311)
Perpetual preferred stocks	7,378	(6)	—	—	7,378	(6)
Total equity securities	$ 21,035	$ (1,317)	$ —	$ —	$ 21,035	$ (1,317)

At September 30, 2016, investment grade fixed maturity securities (as determined by nationally recognized rating agencies) represented approximately 13.0% of the gross unrealized loss and 52.5% of the fair value. At December 31, 2015, investment grade fixed maturity securities represented approximately 33.2% of the gross unrealized loss and 88.3% of the fair value.

Certain risks are inherent in connection with fixed maturity securities, including loss upon default, price volatility in reaction to changes in interest rates, and general market factors and risks associated with reinvestment of proceeds due to prepayments or redemptions in a period of declining interest rates.

Other Invested Assets

Other invested assets represent approximately 4.1% and 3.9% of the Company's total investments as of September 30, 2016 and December 31, 2015, respectively. Carrying values of other invested assets as of September 30, 2016 and December 31, 2015 are as follows (in thousands):

	September 30, 2016		December 31, 2015	
	Cost Method	Equity Method	Cost Method	Equity Method
Common Equity	$ 138	$ 1,382	$ 249	$ 6,475
Preferred Equity	2,484	10,763	1,655	7,522
Warrants	3,097	—	3,880	—
Limited Partnerships	—	1,141	—	1,171
Joint Ventures	—	37,153	—	27,324
Total	$ 5,719	$ 50,439	$ 5,784	$ 42,492

Additionally, as of September 30, 2016 and December 31, 2015, other invested assets include common stock purchase warrants and call options accounted for under ASC 815, "Derivatives and Hedging" ("ASC 815") (in thousands):

September 30, 2016	Cost	Gains	Losses	Fair Value
Warrants	$ 6,332	$ 280	$ (2,130)	$ 4,482
Call Options	230	—	—	230
Total	$ 6,562	$ 280	$ (2,130)	$ 4,712

December 31, 2015	Cost	Gains	Losses	Fair Value
Warrants	$ 6,383	$ 428	$ (2,600)	$ 4,211
Call Options	1,680	—	(1,048)	632
Total	$ 8,063	$ 428	$ (3,648)	$ 4,843

Net Investment Income

For the three and nine months ended September 30, 2016, the major sources of net investment income in the accompanying Condensed Consolidated Statements of Operations were as follows (in thousands):

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Fixed maturity securities, available-for-sale at fair value	$ 14,033	$ 40,388
Equity securities, available-for-sale at fair value	430	1,526
Mortgage loans	120	155
Policy loans	312	876
Other invested assets	129	302
Gross investment income	15,024	43,247
External investment expense	(225)	(662)
Net investment income	$ 14,799	$ 42,585

Net Realized Gains (Losses) on Investments

For the three and nine months ended September 30, 2016, the major sources of net realized gains (losses) on investments in the accompanying Condensed Consolidated Statements of Operations were as follows (in thousands):

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Realized gains on fixed maturity securities	$ 455	$ 1,663
Realized losses on fixed maturity securities	—	(2,338)
Realized gains on equity securities	154	438
Realized losses on equity securities	—	(352)
Net realized gains (losses) on derivative instruments	(829)	(1,925)
Impairment loss	—	(163)
Net realized gains (losses)	$ (220)	$ (2,677)

5. Fair Value of Financial Instruments

Assets by Hierarchy Level

Assets and liabilities measured at fair value on a recurring basis at September 30, 2016 and December 31, 2015 are summarized below (in thousands):

September 30, 2016		Fair Value Measurement Using:		
	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturity securities				
U.S. Government and government agencies	$ 16,915	$ 5,337	$ 11,546	$ 32
States, municipalities and political subdivisions	401,613	—	395,644	5,969
Foreign government	6,279	—	6,279	—
Residential mortgage-backed securities	143,479	—	83,479	60,000
Commercial mortgage-backed securities	60,149	—	9,870	50,279
Asset-backed securities	70,516	—	3,772	66,744
Corporate and other	632,726	2,192	609,646	20,888
Total fixed maturity securities	1,331,677	7,529	1,120,236	203,912
Equity securities				
Common stocks	19,494	14,668	—	4,826
Perpetual preferred stocks	37,012	9,984	27,028	—
Total equity securities	56,506	24,652	27,028	4,826
Derivatives	4,712	—	—	4,712
Contingent asset	2,724	—	—	2,724
Total assets accounted for at fair value	$ 1,395,619	$ 32,181	$ 1,147,264	$ 216,174
Liabilities				
Warrant liability	$ 3,511	$ —	$ —	$ 3,511
Deferred consideration	748	—	—	748
Other	1,490	—	—	1,490
Total liabilities accounted for at fair value	$ 5,749	$ —	$ —	$ 5,749

December 31, 2015		Fair Value Measurement Using:		
	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturity securities				
U.S. Government and government agencies	$ 17,083	$ 5,753	$ 11,257	$ 73
States, municipalities and political subdivisions	386,260	—	380,601	5,659
Foreign government	6,429	—	6,429	—
Residential mortgage-backed securities	166,315	—	87,296	79,019

Commercial mortgage-backed securities	75,035	—	14,510	60,525
Asset-backed securities	34,451	—	6,798	27,653
Corporate and other	546,268	7,090	525,234	13,944
Total fixed maturity securities	1,231,841	12,843	1,032,125	186,873
Equity securities				
Common stocks	18,625	13,693	—	4,932
Perpetual preferred stocks	31,057	10,271	20,786	—
Total equity securities	49,682	23,964	20,786	4,932
Derivatives	4,843	632	—	4,211
Total assets accounted for at fair value	$ 1,286,366	$ 37,439	$ 1,052,911	$ 196,016
Liabilities				
Warrant liability	$ 4,332	$ —	$ —	$ 4,332
Total liabilities accounted for at fair value	$ 4,332	$ —	$ —	$ 4,332

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. The Company transferred $1.1 million corporate and other bonds and $0.5 million preferred stock from Level 1 into Level 2 during the nine months ended September 30, 2016, reflecting the level of market activity in these instruments. There were no transfers between Level 1 and Level 2 for the three months ended September 30, 2016 and the three and nine months ended September 30, 2015.

Availability of secondary market activity and consistency of pricing from third-party sources impacts the Company's ability to classify securities as Level 2 or Level 3. The Company’s assessment resulted in a net transfer out of Level 3 of $0.6 million and transfer into Level 3 of $2.4 million during the three and nine months ended September 30, 2016, respectively. There were no transfers into or out of Level 3 for the three and nine months ended September 30, 2015.

The methods and assumptions the Company uses to estimate the fair value of assets and liabilities measured at fair value on a recurring basis are summarized below:

Fixed Maturity Securities - The fair values of the Company’s publicly-traded fixed maturity securities are generally based on prices obtained from independent pricing services. Prices from pricing services are sourced from multiple vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. In some cases, the Company receives prices from multiple pricing services for each security, but ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs.

If the Company ultimately concludes that pricing information received from the independent pricing service is not reflective of market activity, non-binding broker quotes are used, if available. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may override the information from the pricing service or broker with an internally developed valuation; however, this occurs infrequently. Internally developed valuations or non-binding broker quotes are also used to determine fair value in circumstances where vendor pricing is not available. These estimates may use significant unobservable inputs, which reflect the Company’s assumptions about the inputs that market participants would use in pricing the asset. Pricing service overrides, internally developed valuations and non-binding broker quotes are generally based on significant unobservable inputs and are reflected as Level 3 in the valuation hierarchy.

The inputs used in the valuation of corporate and government securities include, but are not limited to, standard market observable inputs which are derived from, or corroborated by, market observable data including market yield curve, duration, call provisions, observable prices and spreads for similar publicly traded or privately traded issues that incorporate the credit quality and industry sector of the issuer.

For structured securities, valuation is based primarily on matrix pricing or other similar techniques using standard market inputs including spreads for actively traded securities, spreads off benchmark yields, expected prepayment speeds and volumes, current and forecasted loss severity, rating, weighted average coupon, weighted average maturity, average delinquency rates, geographic region, debt-service coverage ratios and issuance-specific information including, but not limited to: collateral type, payment terms of the underlying assets, payment priority within the tranche, structure of the security, deal performance and vintage of loans.

When observable inputs are not available, the market standard valuation techniques for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value but that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs are sometimes based in large part on management judgment or estimation, and cannot be supported by reference to market activity. Even though unobservable, these inputs are based on assumptions deemed appropriate given the circumstances and are believed to be consistent with what other market participants would use when pricing such securities.

The fair values of private placement securities are primarily determined using a discounted cash flow model. In certain cases these models primarily use observable inputs with a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, taking into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Generally, these securities have been reflected within Level 3. For certain private fixed maturities, the discounted cash flow model may also incorporate significant unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the security. To the extent management determines that such unobservable inputs are not significant to the price of a security, a Level 2 classification is made. Otherwise, a Level 3 classification is used.

Equity Securities. The balance consists principally of common and preferred stock of publicly and privately traded companies. The fair values of publicly traded equity securities are primarily based on quoted market prices in active markets and are classified within Level 1 in the fair value hierarchy. The fair values of preferred equity securities, for which quoted market prices are not readily available, are based on prices obtained from independent pricing services and these securities are generally classified within Level 2 in the fair value hierarchy. The fair value of common stock of privately held companies was determined using unobservable market inputs, including volatility and underlying security values and was classified as Level 3.

Cash Equivalents. The balance consists of money market instruments, which are generally valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. Various time deposits carried as cash equivalents are not measured at estimated fair value and therefore are excluded from the tables presented.

Derivatives. The balance consists of common stock purchase warrants and call options. The fair values of the call options are primarily based on quoted market prices in active markets and are classified within Level 1 in the fair value hierarchy. Depending on the terms, the common stock warrants were valued using either Black-Scholes analysis or Monte Carlo Simulation. Fair value was determined using unobservable market inputs, including volatility and underlying security values, therefore the common stock purchase warrants were classified as Level 3.

Warrant Liability. The balance consists of the Warrants issued in connection with the acquisition of the Insurance Companies and recorded within other liabilities on the Condensed Consolidated Balance Sheets. Fair value was determined using the Monte Carlo Simulation because the adjustments for exercise price and warrant shares represent path dependent features; the exercise price from prior periods needs to be known to determine whether a subsequent sale of shares occurs at a price that is lower than the then current exercise price. The analysis entails a Geometric Brownian Motion based simulation of 100 unique price paths of the Company's stock for each combination of assumptions. Fair value was determined using unobservable market inputs, including volatility, and a range of assumptions regarding a possibility of an equity capital raise each year and the expected size of future equity capital raises. The present value of a given simulated scenario was based on intrinsic value at expiration discounted to the valuation date, taking into account any adjustments to the exercise price or warrant shares issuable. The average present value across all 100 independent price paths represents the estimate of fair value for each combination of assumptions. Therefore, the warrant liability was classified as Level 3.

Level 3 Measurements and Transfers

Changes in balances of Level 3 financial assets carried at fair value during the three and nine months ended September 30, 2016 and 2015 are presented below (in thousands):

		Total realized/unrealized gains (losses) included in						
	Balance at June 30, 2016	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at September 30, 2016
Assets								
Fixed maturity securities								
U.S. Government and government agencies	$ 58	$ —	$ —	$ —	$ (26)	$ —	$ —	$ 32
States, municipalities and political subdivisions	5,864	102	3	—	—	—	—	5,969
Residential mortgage-backed securities	62,289	(422)	525	—	(2,973)	8,686	(8,105)	60,000
Commercial mortgage-backed securities	57,563	(269)	(19)	—	(7,378)	2,629	(2,247)	50,279
Asset-backed securities	54,217	85	1,454	10,337	(720)	1,387	(16)	66,744
Corporate and other	16,661	(108)	550	7,899	(1,145)	—	(2,969)	20,888
Total fixed maturity securities	196,652	(612)	2,513	18,236	(12,242)	12,702	(13,337)	203,912
Equity securities								
Common stocks	4,826	—	—	—	—	—	—	4,826
Total equity securities	4,826	—	—	—	—	—	—	4,826
Derivatives	5,318	(94)	(694)	230	(48)	—	—	4,712
Contingent asset	2,813	(89)	—	—	—	—	—	2,724
Total financial assets	$ 209,609	$ (795)	$ 1,819	$ 18,466	$ (12,290)	$ 12,702	$ (13,337)	$ 216,174

		Total realized/unrealized (gains) losses included in						
	Balance at June 30, 2016	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at September 30, 2016
Liabilities								
Warrant liability	$ 2,772	$ 739	$ —	$ —	$ —	$ —	$ —	$ 3,511
Deferred consideration	2,218	(1,470)	—	—	—	—	—	748
Other	—	—	—	1,490	—	—	—	1,490
Total financial liabilities	$ 4,990	$ (731)	$ —	$ 1,490	$ —	$ —	$ —	$ 5,749

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2015	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at September 30, 2016
Assets								
Fixed maturity securities								
U.S. Government and government agencies	$ 73	$ —	$ 2	$ —	$ (43)	$ —	$ —	$ 32
States, municipalities and political subdivisions	5,659	302	8	—	—	—	—	5,969
Residential mortgage-backed securities	79,019	(2,105)	910	—	(10,988)	16,569	(23,405)	60,000
Commercial mortgage-backed securities	60,525	(760)	920	—	(12,394)	9,779	(7,791)	50,279
Asset-backed securities	27,653	140	2,176	43,405	(14,742)	13,808	(5,696)	66,744

Corporate and other	13,944	50	479	8,499	(1,206)	2,091	(2,969)	20,888
Total fixed maturity securities	186,873	(2,373)	4,495	51,904	(39,373)	42,247	(39,861)	203,912
Equity securities								
Common stocks	4,932	—	(106)	—	—	—	—	4,826
Total equity securities	4,932	—	(106)	—	—	—	—	4,826
Derivatives	4,211	(1,119)	1,438	230	(48)	—	—	4,712
Contingent asset	—	(268)	—	2,992	—	—	—	2,724
Total financial assets	$ 196,016	$ (3,760)	$ 5,827	$ 55,126	$ (39,421)	$ 42,247	$ (39,861)	$ 216,174

		Total realized/unrealized (gains) losses included in						
	Balance at December 31, 2015	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at September 30, 2016
Liabilities								
Warrant liability	$ 4,332	$ (821)	$ —	$ —	$ —	$ —	$ —	$ 3,511
Deferred consideration	—	(1,841)	—	2,589	—	—	—	748
Other	—	—	—	1,490	—	—	—	1,490
Total financial liabilities	$ 4,332	$ (2,662)	$ —	$ 4,079	$ —	$ —	$ —	$ 5,749

		Total realized/unrealized gains (losses) included in						
	Balance at June 30, 2015	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at September 30, 2015
Assets								
Fixed maturity securities								
Corporate and other	$ 13,265	$ 123	$ (1,542)	$ —	$ (4,684)	$ —	$ —	$ 7,162
Total fixed maturity securities	13,265	123	(1,542)	—	(4,684)	—	—	7,162
Derivatives	295	317	—	—	—	—	—	612
Total financial assets	$ 13,560	$ 440	$ (1,542)	$ —	$ (4,684)	$ —	$ —	$ 7,774

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2014	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at September 30, 2015
Assets								
Fixed maturity securities								
Corporate and other	$ 250	$ 123	$ (1,542)	$ 13,015	$ (4,684)	$ —	$ —	$ 7,162
Total fixed maturity securities	250	123	(1,542)	13,015	(4,684)	—	—	7,162
Derivatives	—	317	—	295	—	—	—	612
Total financial assets	$ 250	$ 440	$ (1,542)	$ 13,310	$ (4,684)	$ —	$ —	$ 7,774

Since internally developed Level 3 asset fair values represent less than 1% of the Company's total assets, any justifiable changes in unobservable inputs used to determine internally developed fair values would not have a material impact on the Company's financial position.

Fair Value of Financial Instruments Not Measured at Fair Value

The Company is required by general accounting principles for *Fair Value Measurements and Disclosures* to disclose the fair value of certain financial instruments including those that are not carried at fair value. The following table presents the carrying amounts and estimated fair values of the Company's financial instruments, which were not measured at fair value on a recurring basis, at September 30, 2016 and December 31, 2015, respectively. This table excludes carrying amounts reported in the Condensed

Consolidated Balance Sheets for cash, accounts receivable, costs and recognized earnings in excess of billings, accounts payable, accrued expenses, billings in excess of costs and recognized earnings, and other current assets and liabilities approximate fair value due to relatively short periods to maturity (in thousands):

September 30, 2016			Fair Value Measurement Using:		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Assets					
Mortgage loans	$ 8,939	$ 8,940	$ —	$ —	$ 8,940
Policy loans	18,228	18,228	—	18,228	—
Other invested assets	5,719	5,591	—	—	5,591
Total assets not accounted for at fair value	$ 32,886	$ 32,759	$ —	$ 18,228	$ 14,531
Liabilities					
Annuity benefits accumulated (1)	$ 254,250	$ 252,306	$ —	$ —	$ 252,306
Long-term obligations (2)	343,906	340,544	—	340,544	—
Total liabilities not accounted for at fair value	$ 598,156	$ 592,850	$ —	$ 340,544	$ 252,306

December 31, 2015			Fair Value Measurement Using:		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Assets					
Mortgage loans	$ 1,252	$ 1,252	$ —	$ —	$ 1,252
Policy loans	18,476	18,476	—	18,476	—
Other invested assets	5,784	3,434	—	—	3,434
Total assets not accounted for at fair value	$ 25,512	$ 23,162	$ —	$ 18,476	$ 4,686
Liabilities					
Annuity benefits accumulated (1)	$ 257,454	$ 258,847	$ —	$ —	$ 258,847
Long-term obligations (2)	319,180	310,307	—	310,307	—
Total liabilities not accounted for at fair value	$ 576,634	$ 569,154	$ —	$ 310,307	$ 258,847

(1) Excludes life contingent annuities in the payout phase.
(2) Excludes certain lease obligations accounted for under ASC 840, "Leases".

Mortgage Loans on Real Estate. The fair value of mortgage loans on real estate is estimated by discounting cash flows, both principal and interest, using current interest rates for mortgage loans with similar credit ratings and similar remaining maturities. As such, inputs include current treasury yields and spreads, which are based on the credit rating and average life of the loan, corresponding to the market spreads. The valuation of mortgage loans on real estate is considered Level 3 in the fair value hierarchy.

Policy Loans. The policy loans are reported at the unpaid principal balance and carry a fixed interest rate. The Company determined that the carrying value approximates fair value because (i) policy loans present no credit risk as the amount of the loan cannot exceed the obligation due upon the death of the insured or surrender of the underlying policy; (ii) there is no active market for policy loans (i.e., there is no commonly available exit price to determine the fair value of policy loans in the open market); (iii) policy loans are intricately linked to the underlying policy liability and, in many cases, policy loan balances are recovered through offsetting the loan balance against the benefits paid under the policy; and (iv) policy loans can be repaid by policyholders at any time, and this prepayment uncertainty reduces the potential impact of a difference between amortized cost (carrying value) and fair value. The valuation of policy loans is considered Level 2 in the fair value hierarchy.

Other Invested Assets. The balance primarily includes common stock purchase warrants. The fair values were derived using Black-Scholes analysis using unobservable market inputs, including volatility and underlying security values; therefore, the common stock purchase warrants were classified as Level 3.

Annuity Benefits Accumulated. The fair value of annuity benefits was determined using the surrender values of the annuities and classified as Level 3.

Long-term Obligations. The fair value of the Company’s long-term obligations was determined using Bloomberg Valuation Service BVAL. The methodology combines direct market observations from contributed sources with quantitative pricing models to generate evaluated prices and classified as Level 2.

6. Accounts Receivable

Accounts receivable consist of the following (in thousands):

	September 30, 2016	December 31, 2015
Contract receivables:		
Contracts in progress	$ 148,536	$ 103,178
Unbilled retentions	39,128	31,195
Trade receivables	87,891	77,084
Other receivables	216	190
Allowance for doubtful accounts	(3,033)	(794)
	$ 272,738	$ 210,853

7. Contracts in Progress

Costs and recognized earnings in excess of billings on uncompleted contracts and billings in excess of costs and recognized earnings on uncompleted contracts consist of the following (in thousands):

	September 30, 2016	December 31, 2015
Costs incurred on contracts in progress	$ 606,809	$ 597,656
Estimated earnings	125,377	99,985
	732,186	697,641
Less progress billings	766,336	679,532
	$ (34,150)	$ 18,109
The above is included in the accompanying Condensed Consolidated Balance Sheet under the following captions:		
Costs and recognized earnings in excess of billings on uncompleted contracts	$ 17,091	$ 39,310
Billings in excess of costs and recognized earnings on uncompleted contracts	51,241	21,201
	$ (34,150)	$ 18,109

8. Inventory

Inventory consists of the following (in thousands):

	September 30, 2016	December 31, 2015
Raw materials	$ 8,514	$ 10,485
Work in process	235	1,289
Finished goods	224	346
	$ 8,973	$ 12,120

9. Recoverable from Reinsurers

The following table presents information for the Company's recoverable from reinsurers assets as of September 30, 2016 and December 31, 2015 (in thousands):

		September 30, 2016		December 31, 2015	
Reinsurer	A.M. Best Rating	Amount	% of Total	Amount	% of Total
Loyal American Life Insurance Co (Cigna)	A-	$ 138,393	26.3%	$ 133,646	25.5%
Great American Life Insurance Co	A	46,939	8.9%	44,748	8.6%
Hannover Life Reassurance Co	A+	340,172	64.8%	344,168	65.9%
Other	A-	95	—%	—	—%
Total		$ 525,599	100.0%	$ 522,562	100.0%

10. Goodwill and Other Intangible Assets

Goodwill

The changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2016 are as follows (in thousands):

	Manufacturing	Marine Services	Telecom	Utilities	Insurance	Life Sciences	Other	Total
Balance as of December 31, 2015	$ 24,490	$ 1,134	$ 3,378	$ 1,374	$ 29,021	$ —	$ 1,781	$ 61,178
Acquisition of business	—	1,528	—	1,257	17,592	3,633	824	24,834
Other	—	—	—	—	—	—	13	13
Balance as of September 30, 2016	$ 24,490	$ 2,662	$ 3,378	$ 2,631	$ 46,613	$ 3,633	$ 2,618	$ 86,025

Indefinite-lived Intangible Assets

The acquisition of the Insurance Companies resulted in the acquisition of state licenses, which are indefinite-lived intangible assets not subject to amortization valued at $4.8 million as of September 30, 2016. In addition, the acquisition of BeneVir resulted in the recording of an in-process research and development intangible asset not subject to amortization valued at $6.4 million.

Amortizable Intangible Assets

Intangible assets subject to amortization consisted of the following (in thousands):

	Manufacturing	Marine Services	Utilities	Life Sciences	Other	Corporate	Total
Trade names							
Balance as of December 31, 2015	$ 4,005	$ 601	$ 5,407	$ —	$ —	$ —	$ 10,013
Amortization	(224)	(243)	(473)	—	—	—	(940)
Acquisition of business	—	2,626	—	—	—	—	2,626
Balance as of September 30, 2016	$ 3,781	$ 2,984	$ 4,934	$ —	$ —	$ —	$ 11,699
Customer relationships							
Balance as of December 31, 2015	$ —	$ 6,794	$ 4,444	$ —	$ —	$ —	$ 11,238
Amortization	—	(350)	(355)	—	—	—	(705)
Acquisition of business	—	—	2,325	—	—	—	2,325
Balance as of September 30, 2016	$ —	$ 6,444	$ 6,414	$ —	$ —	$ —	$ 12,858
Developed technology							
Balance as of December 31, 2015	$ —	$ 810	$ —	$ —	$ 2,279	$ —	$ 3,089
Amortization	—	(208)	—	—	(957)	—	(1,165)
Balance as of September 30, 2016	$ —	$ 602	$ —	$ —	$ 1,322	$ —	$ 1,924
Other							
Balance as of December 31, 2015	$ —	$ —	$ 20	$ 177	$ —	$ 22	$ 219
Amortization	—	—	—	(3)	(21)	(4)	(28)
Acquisition of business	—	—	68	48	1,214	—	1,330
Balance as of September 30, 2016	$ —	$ —	$ 88	$ 222	$ 1,193	$ 18	$ 1,521
Total amortizable intangible assets							
Balance as of December 31, 2015	$ 4,005	$ 8,205	$ 9,871	$ 177	$ 2,279	$ 22	$ 24,559
Amortization	(224)	(801)	(828)	(3)	(978)	(4)	(2,838)
Acquisition of business	—	2,626	2,393	48	1,214	—	6,281
Balance as of September 30, 2016	$ 3,781	$ 10,030	$ 11,436	$ 222	$ 2,515	$ 18	$ 28,002

11. Life, Accident and Health Reserves

Life, accident and health reserves consist of the following (in thousands):

	September 30, 2016	December 31, 2015
Long-term care insurance reserves	$ 1,396,446	$ 1,354,151
Traditional life insurance reserves	103,131	104,450
Other accident and health insurance reserves	137,924	133,336
Total life, accident and health reserves	$ 1,637,501	$ 1,591,937

12. Long-Term Obligations

Long-term debt consists of the following (in thousands):

	September 30, 2016	December 31, 2015
HC2		
11.0% Senior Secured Notes, due in 2019	$ 307,000	$ 307,000
GMSL		
Notes payable and revolving lines of credit, various maturity dates	20,765	—
LIBOR plus 3.65% Notes, due in 2019	3,025	5,260
Obligations under capital leases	52,782	52,697
DBM Global		
LIBOR plus 4.0% Notes, due in 2018 and 2019	10,114	14,378
Line of Credit	1,900	1,600
ANG		
5.5% Term Loan, due in 2018	541	660
LIBOR plus 3.0% Notes, due in 2023	3,500	—
4.36% Notes, due in 2022	2,500	—
4.25% Seller Note, due in 2022	2,919	—
Other	81	19
Total	405,127	381,614
Unamortized issuance discounts on debt, net of premiums	(8,439)	(9,738)
Total long-term obligations	$ 396,688	$ 371,876

Aggregate capital lease and debt payments are as follows (in thousands):

	Capital Leases	Debt	Total
2016	$ 1,718	$ 25,025	$ 26,743
2017	6,848	47,068	53,916
2018	9,981	43,703	53,684
2019	9,849	348,041	357,890
2020	9,855	4,369	14,224
Thereafter	27,615	7,753	35,368
Total minimum principal & interest payments	65,866	475,959	541,825
Less: Amount representing interest	(13,084)	(123,614)	(136,698)
	$ 52,782	$ 352,345	$ 405,127

11.0% Senior Secured Notes due 2019

On November 20, 2014, the Company issued $250.0 million in aggregate principal amount of 11.0% Senior Secured Notes due 2019 (the “November 2014 Notes”). The November 2014 Notes were issued at a price of 99.05% of principal amount, which

resulted in a discount of $2.4 million. The net proceeds from the issuance of the November 2014 Notes were used to repay a senior secured credit facility, which had provided for a twelve month, floating interest rate term loan of $214 million and a delayed draw term loan of $36 million, entered into in connection with the Company's acquisition of GMSL. On March 26, 2015, the Company issued an additional $50.0 million in aggregate principal amount of 11.0% Senior Secured Notes due 2019 (the "March 2015 Notes"). The March 2015 Notes were issued at a price of 100.5% of principal amount, plus accrued interest from November 20, 2014, which resulted in a premium of $0.3 million. On August 5, 2015, the Company issued an additional $5.0 million aggregate principal amount of its 11.0% Senior Secured Notes due 2019 (the "August 2015 Notes"). The August 2015 Notes were issued in consideration for a release of claims by holders of the Preferred Stock discussed below (see Note 17 - Equity for additional information). On December 24, 2015, the Company issued an additional $2.0 million aggregate principal amount of its 11% Senior Secured Notes due 2019 (the "December 2015 Notes"). All of the 11.0% Senior Secured Notes due 2019 (collectively, the "11.0% Notes") were issued under an indenture dated November 20, 2014, by and among HC2, the guarantors party thereto and U.S. Bank National Association, a national banking association ("U.S. Bank"), as trustee (the "11.0% Notes Indenture").

Maturity and Interest. The 11.0% Notes mature on December 1, 2019. The 11.0% Notes accrue interest at a rate of 11.0% per year. Interest on the 11.0% Notes is paid semi-annually on December 1st and June 1st of each year.

Ranking. The 11.0% Notes and the guarantees thereof are HC2's and certain of its direct and indirect domestic subsidiaries' (the "Subsidiary Guarantors") general senior secured obligations. The 11.0% Notes and the guarantees thereof rank: (i) senior in right of payment to all of HC2's and the Subsidiary Guarantors' future subordinated debt; (ii) equal in right of payment with all of HC2's and the Subsidiary Guarantors' existing and future senior debt and effectively senior to all of the Company's unsecured debt to the extent of the value of the collateral; and (iii) effectively subordinated to all liabilities of its non-guarantor subsidiaries.

Collateral. The 11.0% Notes and the guarantees thereof are collateralized on a first-priority basis by substantially all of HC2's assets and the assets of the Subsidiary Guarantors (except for certain "Excluded Assets," and subject to certain "Permitted Liens," each as defined in the 11.0% Notes Indenture). The 11.0% Notes Indenture permits the Company, under specified circumstances, to incur additional debt that could equally and ratably share in the collateral. The amount of such debt is limited by the covenants contained in the 11.0% Notes Indenture.

Certain Covenants. The 11.0% Notes Indenture contains covenants limiting, among other things, the ability of HC2 and, in certain cases, HC2's subsidiaries, to incur additional indebtedness or issue certain types of redeemable equity interests; create liens; engage in sale-leaseback transactions; pay dividends; make distributions in respect of capital stock and make certain other restricted payments; sell assets; engage in transactions with affiliates; or consolidate or merge with, or sell substantially all of its assets to, another person. These covenants are subject to a number of important exceptions and qualifications. HC2 is also required to maintain compliance with certain financial tests, including minimum liquidity and collateral coverage ratios. As of September 30, 2016, HC2 was in compliance with these covenants.

Redemption Premiums. The Company may redeem the 11.0% Notes at a redemption price equal to 100.0% of the principal amount of the 11.0% Notes plus a make-whole premium if the 11.0% Notes are redeemed before December 1, 2016. The make-whole premium is the greater of (i) 1% of principal amount or (ii) the excess of the present value of the redemption price at December 1, 2016 plus all required interest payments through December 1, 2016 over the principal amount. On or after December 1, 2016 and until November 30, 2017, the Company may redeem the 11.0% Notes at a redemption price equal to 108.25% and on or after December 1, 2017 until November 30, 2018 at a redemption price equal to 105.50% of the principal amount plus accrued and unpaid interest. Beginning December 1, 2018, the Company may redeem the 11.0% Notes at a redemption price equal to 100.00% plus accrued and unpaid interest. The Company is required to make an offer to purchase the 11.0% Notes upon a change of control at a purchase price equal to 101% of the principal amount of the 11.0% Notes on the date of purchase plus accrued and unpaid interest.

DBM Global Credit Facilities

DBM Global entered into a Credit and Security Agreement ("DBM Global Facility") with Wells Fargo Credit, Inc. ("Wells Fargo"), pursuant to which Wells Fargo initially agreed to advance up to a maximum amount of $50.0 million to DBM Global, including up to $5.0 million of letters of credit.

On January 23, 2015, DBM Global entered into an amendment to the DBM Global Facility, pursuant to which Wells Fargo agreed to increase the maximum amount of the DBM Global Facility that could be used to issue letters of credit from $5.0 million to $14.5 million.

The DBM Global Facility has a floating interest rate of LIBOR plus 3.0% (3.63% at September 30, 2016) and requires monthly interest payments. As of September 30, 2016 and December 31, 2015, DBM Global had $3.9 million in outstanding letters of credit issued under the facility, of which $0 have been drawn. The DBM Global Facility is secured by a first priority, perfected security interest in all of DBM Global's and its present and future subsidiaries' assets, excluding real estate, and a second priority, perfected security interest in all of DBM Global's real estate. The security agreements pursuant to which DBM Global's assets are pledged prohibit any further pledge of such assets without the written consent of the bank. The DBM Global Facility contains various restrictive covenants. At September 30, 2016, DBM Global was in compliance with these covenants.

On May 6, 2014, DBM Global entered into an amendment to the DBM Global Facility, pursuant to which Wells Fargo extended the maturity date of the DBM Global Facility to April 30, 2019, lowered the interest rate charged in connection with borrowings under the DBM Global Facility and allowed for the issuance of additional loans in the form of notes totaling up to $5.0 million, secured by its real estate as a separate tranche under the DBM Global Facility ("Real Estate Term Advance"). At September 30, 2016 and December 31, 2015, DBM Global had borrowed $3.5 million and $4.0 million, respectively, under the Real Estate Term Advance. The Real Estate Term Advance has a five year amortization period requiring monthly principal payments and a final balloon payment at maturity. The Real Estate Term Advance has a floating interest rate of LIBOR plus 4.0% and requires monthly interest payments.

On October 21, 2014, DBM Global further amended the DBM Global Facility to allow for the issuance of additional loans in the form of notes of up to $10.0 million, secured by its machinery and equipment ("Real Estate (2) Term Advance (M&E)") and the issuance of a note payable of up to $5.0 million, secured by its real estate ("Real Estate (2) Term Advance (Working Capital)"), each as separate tranches of debt under the DBM Global Facility. The Real Estate (2) Term Advance (M&E) and Real Estate (2) Term Advance (Working Capital) have a five year amortization period requiring monthly principal payments and a final balloon payment at maturity. The Real Estate (2) Term Advance (M&E) and Real Estate (2) Term Advance (Working Capital) have a floating interest rate of LIBOR plus 4.0% and require monthly interest payments. At September 30, 2016 and December 31, 2015, there was $6.6 million and $8.1 million, respectively, outstanding under the Real Estate (2) Term Advance (M&E) and $0.0 million and $2.2 million, respectively, outstanding under the Real Estate (2) Term Advance (Working Capital).

Schuff Hopsa Engineering, Inc. ("SHE"), a joint venture which DBM Global consolidates, has a Line of Credit Agreement ("International LOC") with Banco General, S.A. ("Banco General") in Panama pursuant to which Banco General agreed to advance up to a maximum amount of $3.5 million to SHE. The line of credit is secured by a first priority, perfected security interest in SHE's property and plant. The interest rate is 5.25% plus 1.0% of the special interest compensation fund. The International LOC contains covenants that, among other things, limit SHE's ability to incur additional indebtedness, change its business, merge, consolidate or dissolve and sell, lease, exchange or otherwise dispose of its assets, without prior written notice.

At September 30, 2016, SHE had $1.9 million in borrowings and no outstanding letters of credit issued under its International LOC. There was $1.6 million available under the International LOC at September 30, 2016.

GMSL Credit Facility

GMSL established a $20.0 million term loan with DVB Bank in January 2014 (the "GMSL Facility"). The GMSL Facility has a 4.5 year term and bears interest at the rate of USD LIBOR plus 3.65% rate. As of September 30, 2016 and December 31, 2015, $3.0 million and $5.3 million, respectively, remained outstanding under the GMSL Facility. The GMSL Facility contains various restrictive covenants. At September 30, 2016, GMSL was in compliance with these covenants.

CWind Credit Facilities

GMSL acquired CWind in February 2016 and assumed liability for all of CWind's outstanding loans. CWind currently maintains 14 notes payable related to its vessels, with maturities ranging between 2018 and 2024 and interest rates varying between 5.25% and 10.0%. The initial aggregate principle amount outstanding under all 14 notes was GBP 18.1 million. As of September 30, 2016, the outstanding aggregate principal amount of the notes was GBP 15.0 million. CWind also has a note payable related to a series of sundry assets, bearing an annual interest rate of 15.3% and maturing in 2018 with a principal of GBP 0.2 million and an outstanding debt balance of GBP 0.15 million as of September 30, 2016.

CWind also has two revolving lines of credit, one based in the UK with a capacity of GBP 3.0 million and an interest rate of 2.65% over Barclays' Base Rate of 0.5% and one based in Germany with a capacity of EUR 3.0 million and an interest rate of

2.0% over Barclays' Base Rate of 0.5%. As of September 30, 2016 CWind had borrowings outstanding under the UK and German lines of credit of GBP 0.2 million and EUR 0.6 million, respectively.

GMSL Capital Leases

GMSL is a party to two leases to finance the use of two vessels: the Innovator (the “Innovator Lease”) and the Cable Retriever (the “Cable Lease,” and together with the Innovator Lease, the “GMSL Leases”). The Innovator Lease was restructured effective May 31, 2016, extending the lease to 2025. The principal amount thereunder bears interest at the rate of approximately 10.4%. The Cable Lease expires in 2023. The principal amount thereunder bears interest at the rate of approximately 4.0%.

As of September 30, 2016 and December 31, 2015, $52.8 million and $52.7 million, respectively, in aggregate principal amount remained outstanding under the GMSL Leases.

ANG Term Loan

ANG established a term loan with Signature Financial in October 2013. This term loan has a five year term and bears interest at the rate of 5.5% per annum. As of September 30, 2016 and December 31, 2015, $0.5 million and $0.7 million, respectively, remained outstanding under this term loan.

On June 13, 2016, ANG entered into a seven year delayed draw term note for $6.5 million with Pioneer Savings Bank (“Pioneer”). The note includes an interest only provision for the first year and will mature on July 1, 2023. The interest rate on this loan is LIBOR plus 3.0% for the first year and a fixed rate of 4.3% thereafter. The agreement with Pioneer also includes a revolving demand note for $1.0 million with an annual renewal provision and interest at monthly LIBOR plus 3.0%. As of September 30, 2016, ANG borrowed $3.5 million of aggregate principal under the delayed draw term note.

On August 5, 2016, ANG entered into a six year seller note for $3.0 million with the seller of a station, maturing on February 1, 2022. The interest rate on this loan is a fixed rate of 4.25%. Interest was pre-paid for the first month of the loan. As of September 30, 2016, the outstanding principal balance was $2.9 million.

On September 19, 2016, ANG entered into a delayed draw term note for $2.5 million, maturing on October 1, 2022. The note includes an interest only provision for the first month of the loan. The interest rate on this loan is a fixed rate of 4.3%.

13. Income Taxes

Income Tax Benefit

Income tax was a benefit of $1.3 million and an expense of $1.5 million for the three months ended September 30, 2016 and 2015, and a benefit of $3.6 million and a benefit of $1.8 million for the nine months ended September 30, 2016 and 2015.

The Company used the Annual Effective Tax Rate (“ETR”) approach of ASC 740-270 (formerly FIN 18), "Interim Reporting," to calculate its 2016 interim tax provision.

NOL Limitation

The Company has an estimated NOL carryforward for U.S. federal tax purposes in the amount of $80.7 million. In the first quarter of 2014, substantial acquisitions of the Company's stock were reported by new beneficial owners of 5.0% or more of the Company’s common stock on Schedule 13D filings made with the SEC. On May 29, 2014, the Company issued 30,000 shares of Series A Convertible Participating Preferred Stock of the Company (the “Series A Preferred Stock”) and 1,500,000 shares of common stock to finance the acquisition of DBM Global. During the second quarter of 2014 the Company completed a Section 382 review. The conclusions of this review indicate that an ownership change had occurred as of May 29, 2014. The Company’s annual Section 382 base limit following the ownership change is estimated to be $2.3 million per year. On November 4, 2015, HC2 issued 8,452,500 shares of its stock in a primary offering which the Company believes resulted in a Section 382 ownership change resulting in an additional annual limitation to cumulative carryforward. NOLs of approximately $77.7 million are subject to this new limitation. The Company does not believe that any NOLs will expire as a result of the November 2015 ownership change.

Unrecognized Tax Benefits

The Company follows the provision of ASC 740-10, “Income Taxes”, which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. The Company is subject to challenge from various taxing authorities relative to certain tax planning strategies, including certain intercompany transactions as well as regulatory taxes. The amount of unrecognized tax benefits may change in the next 12 months; however, the Company does not expect any such change to have a significant impact on the results of operations or the financial position of the Company.

Examinations

The Company conducts business globally, and as a result, the Company or one or more of its subsidiaries files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world. The open tax years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as they relate to the amount, character, timing or inclusion of revenue and expenses or the applicability of income tax credits for the relevant tax period. Given the nature of tax audits there is a risk that disputes may arise. Tax years 2002 - 2015 remain open for examination.

14. Commitments and Contingencies

Litigation

The Company is subject to claims and legal proceedings that arise in the ordinary course of business. Such matters are inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to the Company or that the resolution of any such matter will not have a material adverse effect upon the Company’s Condensed Consolidated Financial Statements. The Company does not believe that any of such pending claims and legal proceedings will have a material adverse effect on its Condensed Consolidated Financial Statements. The Company records a liability in its Condensed Consolidated Financial Statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. The Company reviews these estimates each accounting period as additional information is known and adjusts the loss provision when appropriate. If a matter is both probable to result in a liability and the amounts of loss can be reasonably estimated, the Company estimates and discloses the possible loss or range of loss to the extent necessary for the Condensed Consolidated Financial Statements not to be misleading. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in its Condensed Consolidated Financial Statements.

On July 16, 2013, Plaintiffs Xplornet Communications Inc. and Xplornet Broadband, Inc. (“Xplornet”) initiated an action against Inukshuk Wireless Inc. (“Inukshuk”), Globility Communications Corporation (“Globility”), MIPPS Inc., Primus Telecommunications Canada Inc. ("PTCI") and Primus Telecommunications Group, Incorporated (n/k/a HC2). Xplornet alleges that it entered into an agreement to acquire certain licenses for radio spectrum in Canada from Globility but that Globility breached the letter of intent by selling the licenses to Inukshuk. Xplornet also alleges similar claims against Inukshuk, and seeks damages from all defendants in the amount of $50 million. On January 29, 2014, Globility, MIPPS Inc., and PTCI, demanded indemnification pursuant to the Equity Purchase Agreement among PTUS, Inc., PTCAN, Inc., the Company (f/k/a Primus Telecommunications Group, Incorporated), Primus Telecommunications Holding, Inc., Lingo Holdings, Inc., and Primus Telecommunications International, Inc., dated as of May 10, 2013. On February 14, 2014, the Company assumed the defense of this litigation, while reserving all of its rights under the Equity Purchase Agreement. Inukshuk filed a cross claim against Globility, MIPPS, PTCI, and the Company. Inukshuk asserts that if Inukshuk is found liable to Xplornet, then Inukshuk is entitled to contribution and indemnity, compensatory damages, interest, and costs from the Company. The Company and Inukshuk have moved for summary judgment against Xplornet, arguing that there was no agreement between Globility and Xplornet to acquire the licenses at issue.

On January 19, 2016, PTCI sought and obtained an order under the Companies’ Creditors Arrangement Act (the “CCAA”) from the Ontario Superior Court of Justice. PTCI received an Initial Order staying all proceedings against PTCI until February 26, 2016 - which it has moved to extend through September 2016. On February 25, 2016, the Ontario Superior Court of Justice extended the stay of proceedings until September 19, 2016. PTCI has advised the Company that this stays all proceedings against PTCI, Globility, and MIPPS, except against the Company.

In October 2016, the Company settled the matter. On November 8, 2016, the Court entered a consent order dismissing this action.

On November 6, 2014, a putative stockholder class action complaint challenging the tender offer by which HC2 acquired approximately 721,000 of the issued and outstanding common shares of DBM Global was filed in the Court of Chancery of the State of Delaware, captioned *Mark Jacobs v. Philip A. Falcone, Keith M. Hladek, Paul Voigt, Michael R. Hill, Rustin Roach, D. Ronald Yagoda, Phillip O. Elbert, HC2 Holdings, Inc., and Schuff International, Inc.*, Civil Action No. 10323 (the "Complaint"). On November 17, 2014, a second lawsuit was filed in the Court of Chancery of the State of Delaware, captioned *Arlen Diercks v. Schuff International, Inc. Philip A. Falcone, Keith M. Hladek, Paul Voigt, Michael R. Hill, Rustin Roach, D. Ronald Yagoda, Phillip O. Elbert, HC2 Holdings, Inc.*, Civil Action No. 10359. On February 19, 2015, the court consolidated the actions (now designated as Schuff International, Inc. Stockholders Litigation) and appointed lead plaintiff and counsel. The currently operative complaint is the Complaint filed by Mark Jacobs. The Complaint alleges, among other things, that in connection with the tender offer, the individual members of the DBM Global's Board of Directors and HC2, the now-controlling stockholder of DBM Global, breached their fiduciary duties to members of the plaintiff class. The Complaint also purports to challenge a potential short-form merger based upon plaintiff's expectation that the Company would cash out the remaining public stockholders of DBM Global following the completion of the tender offer. The Complaint seeks rescission of the tender offer and/or compensatory damages, as well as attorney's fees and other relief. The defendants filed answers to the Complaint on July 30, 2015. The litigation is currently in the discovery phase, and fact discovery is scheduled to be completed on March 27, 2017. Trial is scheduled for March 12-15, 2018. We believe that the allegations and claims set forth in the Complaint are without merit and intend to defend our interests vigorously.

Tax Matters

Currently, the Canada Revenue Agency ("CRA") is auditing a subsidiary previously held by the Company. The Company intends to cooperate in audit matters. To date, CRA has not proposed any specific adjustments and the audit is ongoing.

15. Employee Retirement Plans

The following table presents the components of net periodic benefit cost for the three and nine months ended September 30, 2016 and 2015, respectively (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Service cost - benefits earning during the period	$ 17	$ 15	$ 52	$ 46
Interest cost on projected benefit obligation	1,878	1,833	5,633	5,498
Expected return on assets	(1,991)	(1,877)	(5,974)	(5,630)
Actuarial gain	—	128	—	384
Foreign currency gain (loss)	3	(3)	9	(9)
Net periodic benefit cost/(income)	$ (93)	$ 96	(280)	$ 289

The Company previously disclosed in its financial statements for the year ended December 31, 2015 that it expected to contribute $7.2 million to its pension plans in 2016. As of September 30, 2016, $1.4 million contributions have been made. Due to current funding levels, the Company does not anticipate contributing further funds to its pension plans in 2016.

16. Share-Based Compensation

On April 11, 2014, HC2's board of directors adopted the HC2 Holdings, Inc. 2014 Omnibus Equity Award Plan (the "Omnibus Plan"), which was approved by our stockholders at the annual meeting of stockholders held on June 12, 2014. The Omnibus Plan provides that no further awards will be granted pursuant to the Company's Management Compensation Plan, as amended (the "Prior Plan"). However, awards that had been previously granted pursuant to the Prior Plan will continue to be subject to and governed by the terms of the Prior Plan.

The Compensation Committee of HC2's board of directors administers HC2's Omnibus Plan and the Prior Plan and has broad authority to administer, construe and interpret the plans.

The Omnibus Plan provides for the grant of awards of non-qualified stock options, incentive (qualified) stock options, stock appreciation rights, restricted stock awards, restricted stock units, other stock based awards, performance compensation awards (including cash bonus awards) or any combination of the foregoing. The Company typically issues new shares of common stock

upon the exercise of stock options, as opposed to using treasury shares. The Omnibus Plan authorizes the issuance of up to 5,000,000 shares of the Company's common stock, subject to adjustment as provided in the Omnibus Plan.

The Company follows guidance which addresses the accounting for share-based payment transactions whereby an entity receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. The guidance generally requires that such transactions be accounted for using a fair-value based method and share-based compensation expense be recorded, based on the grant date fair value, estimated in accordance with the guidance, for all new and unvested stock awards that are ultimately expected to vest as the requisite service is rendered.

The Company granted 1,506,848 and 1,406,681 options during the nine months ended September 30, 2016 and 2015, respectively. Of the total options granted during the nine months ended September 30, 2016 and 2015, 6,848 and 885,173, respectively, of such options were granted to Philip Falcone, pursuant to a standalone option agreement entered in connection with Mr. Falcone's appointment as Chairman, President and Chief Executive Officer of the Company, and not pursuant to the Omnibus Plan. The anti-dilution protection provision contained in such standalone option agreement was canceled in April 2016 and replaced with an award consisting solely of 1,500,000 premium stock options issued under the Omnibus Plan. The weighted average fair value at date of grant for options granted during the nine months ended September 30, 2016 and 2015 was $1.09 and $1.55, respectively, per option. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions shown as a weighted average for the year:

	Nine Months Ended September 30,	
	2016	2015
Expected option life (in years)	4.70 - 6.00	5.38
Risk-free interest rate	1.27% - 1.35%	1.49% - 1.68%
Expected volatility	39.58% - 55.58%	36.29% - 40.50%
Dividend yield	—%	—%

Total share-based compensation expense recognized by the Company and its subsidiaries under all equity compensation arrangements during the three months ended September 30, 2016 and 2015 was $1.8 million and $2.3 million, respectively. Total share-based compensation expense recognized by the Company and its subsidiaries under all equity compensation arrangements during the nine months ended September 30, 2016 and 2015 was $6.7 million and $7.4 million, respectively. Most of the Company's stock awards vest ratably during the vesting period. The Company recognizes compensation expense for equity awards, reduced by estimated forfeitures, using the straight-line basis.

Restricted Stock and Restricted Stock Units

A summary of the Company's restricted stock and restricted stock unit activity for the nine months ended September 30, 2016 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested - December 31, 2015	790,688	$ 8.14
Granted	295,899	$ 3.89
Vested	(882,918)	$ 7.14
Forfeitures	(16,611)	$ 5.03
Unvested - September 30, 2016	187,058	$ 6.44

As of September 30, 2016, the unvested restricted stock represented $0.5 million of compensation expense that is expected to be recognized over the weighted average remaining vesting period of 1.1 years. The number of shares of unvested restricted stock expected to vest is 185,189.

Stock Options

A summary of the Company's stock option activity and respective weighted average exercise price during the nine months ended September 30, 2016 is as follows:

	Shares	Weighted Average Exercise Price	
Outstanding - December 31, 2015	5,361,285	$	5.48
Granted	1,506,848	$	10.49
Exercised	(2,000)	$	4.06
Forfeitures	(2,800)	$	4.06
Outstanding - September 30, 2016	6,863,333	$	6.58
Eligible for exercise	3,950,750	$	5.33

As of September 30, 2016, intrinsic value and average remaining life of the Company's outstanding and exercisable options were $3.2 million and $2.4 million and 8.29 and 7.88 years, respectively.

As of September 30, 2016, the Company had 2,912,583 unvested stock options outstanding, of which $2.8 million of compensation expense is expected to be recognized over the weighted average remaining vesting period of 1.82 years. The number of unvested stock options expected to vest is 2,912,583 shares, with a weighted average remaining life of 8.84 years, a weighted average exercise price of $8.27, and an intrinsic value of $0.8 million.

17. Equity

Preferred and Common Stock

At September 30, 2016 and December 31, 2015, there were 38,031,325 and 35,249,749 shares of common stock outstanding, respectively. At September 30, 2016 and December 31, 2015, there were 42,308 and 53,172 shares of the Company's Preferred Stock outstanding.

On May 29, 2014, the Company issued 30,000 shares of Series A Preferred Stock and 1,500,000 shares of common stock, the proceeds of which were used to pay for a portion of the purchase price related to the acquisition of DBM Global. Each share of Series A Preferred Stock is convertible into the Company's common stock at a conversion price of $4.25. On September 22, 2014, the Company issued 11,000 shares of Series A-1 Convertible Participating Preferred Stock of the Company (the “Series A-1 Preferred Stock”). Each share of Series A-1 Preferred Stock is convertible into the Company's common stock at a conversion price of $4.25. On January 5, 2015, the Company issued 14,000 shares of Series A-2 Convertible Participating Preferred Stock of the Company (the "Series A-2 Preferred Stock" and together with the Series A Preferred Stock and Series A-1 Preferred Stock, the “Preferred Stock”). Each share of Series A-2 Preferred Stock is convertible into the Company's common stock at a conversion price of $7.85. The Company has amended the certificates of designation governing the Series A-1 Preferred Stock to reflect the issuance of the Series A-2 Preferred Stock as a class of preferred stock which ranks at parity with the Series A Preferred Stock and Series A-1 Preferred Stock and to make certain other technical and administrative changes to conform the terms of the Series A-1 Preferred Stock to those of the Series A-2 Preferred Stock.

The conversion prices for the Preferred Stock are subject to adjustments for dividends, certain distributions, stock splits, combinations, reclassifications, reorganizations, mergers, recapitalizations and similar events. The Preferred Stock accrues a cumulative quarterly cash dividend at an annualized rate of 7.5% of the accreted value thereof. In addition, the accreted value of the Preferred Stock accretes quarterly at an annualized rate of 4.0% that will be reduced to 2.0% or 0.0% if the Company achieves specified rates of growth measured by increases in its net asset value.

Each share of Series A Preferred Stock may be converted by the holder into common stock at any time based on the then-applicable conversion price. On the seventh anniversary of the issue date of the Series A Preferred Stock, holders of the Series A Preferred Stock are entitled to cause the Company to redeem the Series A Preferred Stock at the accreted value per share plus accrued but unpaid dividends. Each share of Series A Preferred Stock that is not so redeemed will be automatically converted into shares of common stock at the conversion price then in effect. Upon a change of control, holders of the Series A Preferred Stock shall be entitled to cause the Company to redeem their Series A Preferred Stock at a price per share equal to the greater of (i) the accrued value of the Series A Preferred Stock, which amount would be multiplied by 150% in the event of a change of control

occurring on or prior to the third anniversary of the issue date of the Series A Preferred Stock plus any accrued but unpaid dividends and (ii) the value that would be received if the share of Series A Preferred Stock were converted into common stock immediately prior to the change of control.

Certain certificates of amendment related to the Company's Series A Preferred Stock (the "Prior Amendments") did not become effective because they were filed without proper authorization of the stockholders of the Company. The holders of the Series A Preferred Stock agreed to release all claims against the Company relating to the ineffectiveness of the Prior Amendments, including the fact that the conversion price of the Series A Preferred Stock remains at $4.25. As payment for the release of claims, the Company issued $5.0 million aggregate principal amount of the 11.0% Notes to the holders of the Series A Preferred Stock. The Company recorded this payment to other income (expense), net in August 2015.

At any time after the third anniversary of the issue date of the Series A Preferred Stock, the Company may redeem the Series A Preferred Stock, in whole but not in part, at a price per share generally equal to 150% of the accrued value per share plus accrued but unpaid dividends. After the third anniversary of the issue date of the Series A Preferred Stock, the Company may force conversion of the Series A Preferred Stock into common stock if the common stock's thirty-day volume-weighted average price ("VWAP") exceeds 150% of the then-applicable conversion price and the common stock's daily VWAP exceeds 150% of the then-applicable conversion price for at least twenty trading days out of the thirty trading day period used to calculate the thirty-day VWAP.

During the nine months ended September 30, 2016, 1,864 and 9,000 shares of Series A and A-1 Preferred Stock were converted into 444,550 and 2,119,764 shares of the Company's common stock, respectively, in private exchange transactions. During the nine months ended September 30, 2015, 1,000 shares of Series A-1 Preferred Stock were converted into 235,526 shares of common stock in private exchange transactions. We refer to these transactions as the "Preferred Share Conversions".

In their Preferred Share conversions conjunction consummated during the nine months ended September 30, 2016, the Company issued 15,318 and 136,149 shares of its Common Stock (the "Conversion Share Consideration") to Corrib Master Fund, Ltd ("Corrib") and Luxor Capital Group, LLP ("Luxor"), respectively. The fair value of the Conversion Share Consideration was $0.7 million on the date of the issuance.

The Company also agreed to provide the following two forms of additional consideration for as long as the Preferred Stock remained entitled to receive dividend payments (the "Additional Share Consideration").

In addition, the Company agreed that in the event that Corrib and Luxor would have been entitled to any Participating Dividends payable, had they not converted the Preferred Stock (as defined in the respective Series A and Series A-1 Certificate of Designation), after the date of their Preferred Share conversion, then the Company will issue to Corrib and Luxor, on the date such Participating Dividends become payable by the Company, in a transaction exempt from the registration requirements of the Securities Act the number of shares of common stock equal to (a) the value of the Participating Dividends Corrib or Luxor would have received pursuant to Sections (2)(c) and (2)(d) of the respective Series A and Series A-1 Certificate of Designation, divided by (b) the Thirty Day VWAP (as defined in the respective Series A and Series A-1 Certificate of Designation) for the period ending two business days prior to the underlying event or transaction that would have entitled Corrib or Luxor to such Participating Dividend had Corrib's or Luxor's Preferred Stock remain unconverted.

Further, the Company agreed that it will issue to Corrib and Luxor, on each quarterly anniversary of May 29, 2017 (or, if later, the date on which the corresponding dividend payment is made to the holders of the outstanding Preferred Stock), through and until the Maturity Date (as defined in the respective Series A and Series A-1 Certificate of Designation), in a transaction exempt from the registration requirements of the Securities Act the number of shares of common stock equal to (a) 1.875% the Accrued Value (as defined in the respective Series A and Series A-1 Certificate of Designation) of Corrib's or Luxor's Preferred Stock as of the Closing Date (as defined in applicable Voluntary Conversion Agreements) divided by (b) the Thirty Day VWAP (as defined in the respective Series A and Series A-1 Certificate of Designation) for the period ending two business days prior to the applicable Dividend Payment Date (as defined in the respective Series A and Series A-1 Certificate of Designation).

The Additional Share Consideration was valued by the Company at $1.5 million and recorded within other liabilities.

Dividends

During 2016, HC2's board of directors declared cash dividends with respect to HC2's issued and outstanding Preferred Stock, as presented in the following table (Total Dividend amount presented in thousands):

Declaration Date and Holders of Record Date	March 31, 2016	June 30, 2016	September 30, 2016
Payment/Accrual Date	April 15, 2016	July 15, 2016	October 15, 2016
Total Dividend	$ 988	$ 988	$ 800

18. Related Parties

HC2

In January 2015, the Company entered into a services agreement (the “Services Agreement”) with Harbinger Capital Partners with respect to the provision of shared services that may include providing office space and operational support and each party making available their respective employees to provide services as reasonably requested by the other party, subject to any limitations contained in applicable employment agreements and the terms of the Services Agreement. The Company recognized $1.2 million and $0.8 million of expenses under the Services Agreement for the three months ended September 30, 2016 and 2015, respectively. The Company recognized $2.7 million and $1.1 million of expenses under the Services Agreement for the nine months ended September 30, 2016 and 2015, respectively.

In April 2015, the Company purchased a $16.1 million convertible debenture of Gaming Nation, Inc. ("Gaming Nation"). On February 22, 2016, Gaming Nation purchased 41,204 shares of the common stock of DMi, which at the time was a wholly-owned subsidiary of the Company. The purchase price paid by Gaming Nation for the shares was $4.0 million. As part of the investment, Gaming Nation was given the right to designate one member of the DMi board of directors, and the number of directors was increased to five in connection with the investment.

GMSL

The parent company of GMSL, Global Marine Holdings, LLC, incurred management fees of $0.2 million and $0.1 million for the three months ended September 30, 2016 and 2015, respectively. Global Marine Holdings, LLC incurred management fees of $0.5 million and $0.4 million for the nine months ended September 30, 2016 and 2015, respectively.

GMSL has investments in various entities upon which it exercises significant influence. A summary of transactions with such entities during the three and nine months ended September 30, 2016 and 2015 and balances outstanding at September 30, 2016 and December 31, 2015 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenue	$ 14,409	$ 3,020	$ 25,904	$ 17,507
Operating expenses	$ 945	$ 917	$ 3,102	$ 2,885
Interest expense	$ 377	$ 391	$ 1,130	$ 1,214
Dividends received	$ —	$ 2,440	$ 418	$ 2,440

	September 30, 2016	December 31, 2015
Accounts receivable	$ 8,020	$ 5,058
Long-term debt	$ 37,417	$ 37,627
Accounts payable	$ 239	$ 9

19. Operating Segment and Related Information

The Company currently has two primary reportable geographic segments - United States and United Kingdom; and Other. The Company has seven reportable operating segments based on management’s organization of the enterprise - Manufacturing, Marine Services, Insurance, Telecommunications, Utilities, Life Sciences, Other, and a non-operating Corporate segment. Net revenue and long-lived assets by geographic segment is reported on the basis of where the entity is domiciled. All inter-segment revenues are eliminated. The Company has no single customer representing greater than 10% of its revenues.

Summary information with respect to the Company’s geographic and operating segments is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Revenue by Geographic Region				
United States	$ 272,395	$ 173,348	$ 768,849	$ 494,511
United Kingdom	139,981	101,327	332,318	254,396
Other	708	2,792	2,954	11,350
Total	$ 413,084	$ 277,467	$ 1,104,121	$ 760,257
Net Revenue by Segment				
Manufacturing	$ 129,551	$ 122,932	$ 372,964	$ 380,783
Marine Services	50,653	35,062	116,298	105,939
Insurance	34,546	—	99,847	—
Telecommunications	194,411	116,872	508,248	267,554
Utilities	1,664	1,841	4,151	4,432
Other	2,259	760	2,613	1,549
Total	$ 413,084	$ 277,467	$ 1,104,121	$ 760,257
Depreciation and Amortization				
Manufacturing	$ 431	$ 513	$ 1,263	$ 1,490
Marine Services	5,554	4,759	16,793	14,129
Insurance (1)	(1,162)	—	(2,902)	—
Telecommunications	144	98	389	294
Utilities	582	411	1,479	1,206
Life Sciences	32	6	87	8
Other	380	480	1,054	641
Total	$ 5,961	$ 6,267	$ 18,163	$ 17,768
Income (Loss) from Operations				
Manufacturing	$ 12,339	$ 12,995	$ 35,421	$ 30,256
Marine Services	4,794	3,588	(214)	10,501
Insurance	(338)	(160)	(5,916)	(290)
Telecommunications	2,218	(523)	3,434	(612)
Utilities	149	(164)	59	(638)
Life Sciences	(2,538)	(1,811)	(7,282)	(4,736)
Other	(2,318)	(1,652)	(6,583)	(3,501)
Non-operating Corporate	(7,452)	(10,395)	(25,337)	(26,726)
Total	$ 6,854	$ 1,878	$ (6,418)	$ 4,254
Capital Expenditures (2)				
Manufacturing	$ 1,506	$ 1,276	$ 5,317	$ 3,124
Marine Services	5,682	816	9,480	10,188
Telecommunications	254	205	574	215
Utilities	103	1,184	5,420	2,842
Life Sciences	14	204	144	230
Other	27	152	38	152
Non-operating Corporate	214	—	219	—
Total	$ 7,800	$ 3,837	$ 21,192	$ 16,751

(1) Balance represents amortization of negative VOBA, which increases net income.
(2) The above capital expenditures exclude assets acquired under terms of capital lease and vendor financing obligations.

	September 30, 2016	December 31, 2015
Investments		
Marine Services	$ 37,154	$ 27,324
Insurance	1,466,550	1,314,448
Life Sciences	13,866	4,888
Other	7,349	22,395
Eliminations	(48,699)	(14,685)
Total	$ 1,476,220	$ 1,354,370
Property, Plant and Equipment, net		
United States	$ 93,461	$ 82,540
United Kingdom	146,001	126,921
Other	4,714	5,005
Total	$ 244,176	$ 214,466
Total Assets		
Manufacturing	$ 306,957	$ 268,242
Marine Services	277,975	249,003
Insurance	2,083,877	1,965,059
Telecommunications	97,888	114,633
Utilities	39,738	31,462
Life Sciences	30,180	16,494
Other	21,983	34,339
Non-operating Corporate	78,098	77,965
Eliminations	(48,699)	(14,685)
Total	$ 2,887,997	$ 2,742,512

20. Backlog

DBM Global’s backlog was $318.2 million, with $243.8 million under contracts or purchase orders and $74.4 million under letters of intent at September 30, 2016. DBM Global’s backlog increases as contract commitments, letters of intent, notices to proceed and purchase orders are obtained, decreases as revenues are recognized, and increases or decreases to reflect modifications in the work to be performed under the contracts, notices to proceed, letters of intent or purchase orders. DBM Global’s backlog can be significantly affected by the receipt and loss of individual contracts. Approximately $159.8 million, representing 50.2% of DBM Global’s backlog at September 30, 2016, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these large contracts or other commitments were terminated or their scope reduced, DBM Global’s backlog could decrease substantially.

21. Basic and Diluted Loss Per Common Share

Earnings per share ("EPS") is calculated using the two class method, which allocates earnings among common stock and participating securities to calculate EPS when an entity's capital structure includes either two or more classes of common stock or common stock and participating securities. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities. As such, unvested restricted stock of the Company are considered participating securities. The dilutive effect of options and their equivalents (including non-vested stock issued under stock-based compensation plans), is computed using the “treasury” method.

The following table presents a reconciliation of net income (loss) used in basic and diluted EPS calculations (in thousands, except share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Loss from continuing operations attributable to common stock and participating preferred stockholders	$ (7,506)	$ (8,998)	$ (38,146)	$ (27,293)
Loss from discontinued operations	—	(24)	—	(44)
Net Loss attributable to common stock and participating preferred stockholders	$ (7,506)	$ (9,022)	$ (38,146)	$ (27,337)
Earnings allocable to common shares:				
Participating shares at end of period:				
Common stock outstanding	36,627	25,592	35,808	25,093
Numerator for basic and diluted earnings per share				
Percentage of income (loss) allocated to:				
Common Stock	100%	100%	100%	100%
Preferred Stock	—%	—%	—%	—%
Loss attributable to common shares - basic and diluted				
Loss from continuing operations	$ (7,506)	$ (8,998)	$ (38,146)	$ (27,293)
Loss from discontinued operations	—	(24)	—	(44)
Net Loss	$ (7,506)	$ (9,022)	$ (38,146)	$ (27,337)
Denominator for basic and diluted earnings per share				
Weighted average common shares outstanding - basic and diluted	36,627	25,592	35,808	25,093
Basic and Diluted earnings per share				
Net loss attributable to common stock and participating preferred stockholders - basic and diluted	$ (0.20)	$ (0.35)	$ (1.07)	$ (1.09)

22. Subsequent Events

ASC 855, "Subsequent Events" ("ASC 855"), establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC 855 requires the Company to evaluate events that occur after the balance date through the date on which Company's financial statements are issued, and to determine whether adjustments to or additional disclosures in the financial statements are necessary. The Company has evaluated subsequent events through the date these financial statements were issued.

On October 5, 2016, R2 Dermatology, a portfolio company within the Company's subsidiary Pansend, received notification from the United States Food and Drug Administration of market clearance of R2 Dermatology's initial device, the R2 Dermal Cooling System. The R2 Dermal Cooling System is a cryosurgical instrument intended for use in dermatologic procedures for the removal of benign lesions of the skin.

On October 7, 2016, the Company entered into an agreement with Hudson Bay Absolute Return Credit Opportunities Master Fund, LTD. ("Hudson") to convert and exchange all of Hudson's 12,500 shares of the Company's Series A Convertible Participating Preferred Stock into a total of 3,751,838 shares of the Company's common stock.

On October 11, 2016, the Company announced that its operating subsidiary DBM Global had entered into an agreement to acquire the detailing and Building Information Modeling ("BIM") management business of PDC Global Pty Ltd. ("PDC"), a highly

experienced global engineering design, detailing and 3D BIM management company. DBM Global also announced that it has entered into a purchase agreement to acquire BDS VirCon, a leading global steel and rebar detailing and BIM firm.

On November 1, 2016, GMSL executed a new sale and purchase agreement through which it completed the renegotiation of the deferred purchase obligation to purchase the outstanding 40% minority interest of CWind.

Item 2. Management's Discussion and Analysis Of Financial Condition and Results Of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with the information in our unaudited Condensed Consolidated Financial Statements and the notes thereto included herein, as well as our audited consolidated financial statements and the notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2015. Some of the information contained in this discussion and analysis includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section in our Annual Report on Form 10-K for the year ended December 31, 2015 as well as the section below entitled "—Special Note Regarding Forward-Looking Statements" for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Unless the context otherwise requires, in this Quarterly Report on Form 10-Q, "HC2" means HC2 Holdings, Inc. without its subsidiaries, and the "Company," "we," "us," and "our," mean HC2 together with its subsidiaries. "U.S. GAAP" means accounting principles accepted in the United States of America.

Overview

We are a diversified holding company with principal operations conducted through seven reportable segments. These segments include Manufacturing, Marine Services, Insurance, Utilities, Telecommunications, Life Sciences, and Other. Refer to Note 1. Organization and Business to our unaudited financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information.

Seasonality

Other than as described below our businesses are not materially affected by seasonality.

Marine Services

Net revenue within our Marine Services segment can fluctuate depending on the season. Revenues are relatively stable for our maintenance business as the core driver is the annual contractual obligation. However, this is not the case with our installation business (other than for long-term charter arrangements), in which revenues show a degree of seasonality. Revenues in the installation business are driven by our customers' need for new cable installations. Generally, weather downtime, and the additional costs related to downtime, is a significant factor in customers determining their installation schedules, and most installations are therefore scheduled for the warmer months. As a result, installation revenues are generally lower towards the end of the fourth quarter and throughout the first quarter, as most business is concentrated in the northern hemisphere.

Telecommunications

Net revenue within the wholesale telecommunications business can fluctuate throughout the year due to seasonal events. The first quarter of the year is typically the softest quarter, increasing through the remainder of the year as religious holidays along with typical end of year revenue increases are realized. While seasonality is a factor, the wholesale telecommunications business relies heavily on its sales efforts and customers relationships to drive sales and net margin throughout the year.

Recent Developments

Acquisitions

On February 3, 2016, GMSL acquired a majority interest in CWind, a leading offshore renewables specialist. CWind operates a 16 vessel fleet that supports wind farm owners and operators, including transportation to and maintenance of offshore wind farms. The purchase of CWind demonstrates GMSL's continued commitment to the offshore renewable sector and adds a diverse

range of construction and operating and maintenance services to its current capabilities. Refer to Note 3. Business Combinations to our unaudited Condensed Consolidated Financial Statements financial statements included elsewhere in this quarterly report on Form 10-Q for additional information.

On October 11, 2016, HC2 announced that its operating subsidiary DBM Global had entered into an agreement to acquire the detailing and BIM management business of PDC, a highly experienced global engineering design, detailing and 3D BIM management company. DBM Global also announced that it had entered into a sales purchase agreement to acquire BDS VirCon, a leading global steel and rebar detailing and BIM firm.

On November 1, 2016, GMSL executed a new sale and purchase agreement through which it completed the renegotiation of the deferred purchase obligation to purchase the outstanding 40% minority interest of CWind.

Preferred Shares Conversions

On August 2, 2016 the Company entered into an agreement with affiliates of Luxor Capital Partners, LP ("Luxor") to convert Luxor's 9,000 shares of Series A-1 Preferred Stock into 2,119,765 shares of the Company's common stock as well as an agreement with Corrib Master Fund, Ltd. ("Corrib") to convert Corrib's 1,000 shares of Series A Preferred Stock into 238,492 shares of the Company's common stock. In consideration for Luxor and Corrib agreeing to convert their Preferred Stock and forgoing certain dividends they would have otherwise been entitled to receive had they not converted their Preferred Stock, HC2 issued an additional 136,149 and 15,318 shares of the Company's common stock to Luxor and Corrib respectively. Under the Certification of Designation for the Series A and A-1 Preferred Stock, the Company has the ability to force convert the preferred holders under certain conditions beginning May 2017. To the extent such conditions are not met after May 2017, the Company will be required to issue additional shares to Luxor and Corrib in the future with a value equal to the dividends they would have received had they not converted their shares of Preferred Stock until such conditions are met.

On October 7, 2016, the Company entered into an agreement with Hudson Bay Absolute Return Credit Opportunities Master Fund, LTD. ("Hudson") to convert 12,499 shares of Hudson's 12,500 shares of the Company's Series A Preferred Stock into a total of 2,980,912 shares of the Company's common stock. In exchange for their voluntary conversion, the Company issued 770,926 shares of the Company's common stock in exchange for Hudson's last remaining share of the Company's Preferred Stock.

As a result of these conversions, the current cumulative outstanding accrued value of all outstanding series of the Company's Preferred Stock was reduced from $42.7 million as of September 30, 2016 to $30.0 million on October 7, 2016, which is currently convertible into 5.6 million shares of the Company's common stock.

Results of Operations

Results of operations for the three and nine months ended September 30, 2016 as compared to the three and nine months ended September 30, 2015

Presented below is a table that summarizes our results of operations and a comparison of the change between the periods presented (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Net revenue:						
Manufacturing	$ 129,551	$ 122,932	$ 6,619	$ 372,964	$ 380,783	$ (7,819)
Marine Services	50,653	35,062	15,591	116,298	105,939	10,359
Insurance	34,546	—	34,546	99,847	—	99,847
Telecommunications	194,411	116,872	77,539	508,248	267,554	240,694
Utilities	1,664	1,841	(177)	4,151	4,432	(281)
Other	2,259	760	1,499	2,613	1,549	1,064
Total net revenue	$ 413,084	$ 277,467	$ 135,617	$ 1,104,121	$ 760,257	$ 343,864
Income (loss) from operations:						
Manufacturing	$ 12,339	$ 12,995	$ (656)	$ 35,421	$ 30,256	$ 5,165

Marine Services	4,794	3,588	1,206	(214)	10,501	(10,715)
Insurance	(338)	(160)	(178)	(5,916)	(290)	(5,626)
Telecommunications	2,218	(523)	2,741	3,434	(612)	4,046
Utilities	149	(164)	313	59	(638)	697
Life Sciences	(2,538)	(1,811)	(727)	(7,282)	(4,736)	(2,546)
Other	(2,318)	(1,652)	(666)	(6,583)	(3,501)	(3,082)
Non-operating Corporate	(7,452)	(10,395)	2,943	(25,337)	(26,726)	1,389
Total income (loss) from operations	6,854	1,878	4,976	(6,418)	4,254	(10,672)
Interest expense	(10,719)	(10,383)	(336)	(31,614)	(29,208)	(2,406)
Other income (expense), net	(3,203)	1,193	(4,396)	(4,220)	(1,378)	(2,842)
Income from equity investees	335	918	(583)	3,153	427	2,726
Loss from continuing operations before income taxes	(6,733)	(6,394)	(339)	(39,099)	(25,905)	(13,194)
Income tax benefit (expense)	1,334	(1,504)	2,838	3,649	1,832	1,817
Loss from continuing operations	(5,399)	(7,898)	2,499	(35,450)	(24,073)	(11,377)
Loss from discontinued operations	—	(24)	24	—	(44)	44
Net loss	(5,399)	(7,922)	2,523	(35,450)	(24,117)	(11,333)
Less: Net (income) loss attributable to noncontrolling interest	841	(65)	906	2,365	(8)	2,373
Net loss attributable to HC2 Holdings, Inc.	(4,558)	(7,987)	3,429	(33,085)	(24,125)	(8,960)
Less: Preferred stock and deemed dividends	2,948	1,035	1,913	5,061	3,212	1,849
Net loss attributable to common stock and participating preferred stockholders	$ (7,506)	$ (9,022)	$ 1,516	$ (38,146)	$ (27,337)	$ (10,809)

Three months ended September 30, 2016 compared with three months ended September 30, 2015

Net revenue: Net revenue for the three months ended September 30, 2016 increased by $135.6 million, or 48.9%, to $413.1 million from $277.5 million for the three months ended September 30, 2015. This increase was due primarily to growth in the Telecommunications segment of $77.5 million as a result of growth in wholesale traffic volumes, added contribution from the acquisition of the Insurance Companies, which were acquired in December 2015, and growth in our Marine Services segment from higher maintenance and installation revenues.

Income (loss) from operations: Income from operations for the three months ended September 30, 2016 increased $5.0 million, to $6.9 million, from $1.9 million for the three months ended September 30, 2015. The increase in income from operations was primarily driven by our Telecommunications and Marine Services segments as a result of increased revenues and a decreased loss at our Non-operating Corporate segment as a result of reduced acquisition-related costs and lower stock compensation expense. The increased income from operations was partially offset by an increase in losses from our Other segment attributed to results from DMi, Inc. and our Life Sciences segment as a result of increased costs associated with our early stage companies.

Interest expense: Interest expense increased $0.3 million, or 3.2%, to $10.7 million from $10.4 million for the three months ended September 30, 2016 and 2015. The increase was due to additional debt assumed as a result of the CWind acquisition.

Other income (expense), net: Other income (expense), net decreased $4.4 million to an expense of $3.2 million from income of $1.2 million for the three months ended September 30, 2016 and 2015, respectively. The decrease was primarily driven by impairment related to one fixed maturity security and a decrease in foreign currency translation gains to the comparable period.

Income (loss) from equity investees: Income from equity investees decreased $0.6 million to $0.3 million from $0.9 million for the three months ended September 30, 2016 and 2015, respectively. The decrease in income from equity investees was driven by an increase in losses from our equity investment in Medibeacon in our Life Sciences segment, as well as from a decrease in joint venture income from our Marine Services segment.

Income tax benefit (expense): Income tax benefit increased $2.8 million to $1.3 million from $1.5 million of tax expense for the three months ended September 30, 2016 and 2015, respectively. The benefit recorded in the three months ended September

30, 2016 relates to losses generated for which we expect to obtain benefits in the future. The tax benefit associated with losses generated by certain businesses that do not qualify to be included in the Company's U.S. consolidated income tax return may be reduced by a valuation allowance if the facts indicate it is more-likely-than-not that the losses will not be utilized prior to expiration. The expense recorded for the three months ended September 30, 2015 resulted primarily from the projected expense as calculated under ASC 740 without applying a valuation allowance.

Preferred stock dividends: Preferred stock dividends were $2.9 million and $1.0 million for the three months ended September 30, 2016 and 2015, respectively. The increase is due to inducements in the form of common stock (fully described in Recent Developments) to certain preferred shareholders for the conversion of their Preferred Stock into the Company's common stock. Excluding these inducements the amount of Preferred Stock dividends was $0.8 million, or $0.2 million lower than the three months ended September 30, 2015.

Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

Net revenue: Net revenue increased by $343.9 million, or 45.2%, to $1.1 billion from $760.3 million for the nine months ended September 30, 2016 and 2015, respectively. This increase was due primarily to our Telecommunications segment, as a result of growth in wholesale traffic volumes, the addition of revenues associated with our Insurance Companies which were acquired in December 2015, and an increase in revenue in our Marine Services segment driven by increased maintenance and installation revenues. These increases were partially offset by a decrease in our Manufacturing segment driven by large projects which were fully engaged in 2015 but having been completed or near completion in the current period, and a decrease in comparable project revenues when compared to the same period last year.

Income (loss) from operations: Income (loss) from operations decreased $10.7 million to a loss of $6.4 million for the nine months ended September 30, 2016 from a profit of $4.3 million for the nine months ended September 30, 2015. The decrease was due primarily to a decrease in profit in our Marine Services segment in the first half of 2016 and a loss in our Insurance segment which was acquired in December 2015, and were partially offset by improved operating profit at Manufacturing and Telecommunications segments.

Interest expense: Interest expense increased $2.4 million, or 8.2%, to $31.6 million from $29.2 million for the nine months ended September 30, 2016 and 2015, respectively. The increase was primarily due to the increase in our 11% Notes Indenture when compared to the same period last year and additional debt assumed as a result of the CWind acquisition.

Other income (expense), net: Other income (expense), net decreased $2.8 million to an expense of $4.2 million from an expense of $1.4 million for the nine months ended September 30, 2016 and 2015, respectively. The decrease was driven by impairment related to certain fixed maturity securities and a decrease in foreign currency translation gains to the comparable period.

Income (loss) from equity investees: Income (loss) from equity investees increased $2.7 million to income of $3.2 million from income of $0.4 million for the nine months ended September 30, 2016 and 2015, respectively. The increase in income was driven by growth in joint venture income in our Marine Services segment, principally from its 49% interest in HMN, which has increased its income through sustained growth over the last year. The remainder of the increase is due primarily to a reduction in our share of losses recognized from our Novatel Wireless investment.

Income tax benefit (expense): Income tax benefit increased $1.8 million to a benefit of $3.6 million from a benefit of $1.8 million for the nine months ended September 30, 2016 and 2015, respectively. The benefit recorded in both periods relate to losses generated for which we expect to obtain benefits in the future. The tax benefit associated with losses generated by certain businesses that do not qualify to be included in the U.S. consolidated income tax return may be reduced by a valuation allowance if the facts indicate it is more-likely-than-not that the losses will not be utilized prior to expiration. During the nine months ended September 30, 2016, a valuation allowance was recorded against the net deferred tax assets of the Insurance Companies. The Insurance Companies are currently ineligible to be included in the Company's U.S. consolidated income tax return.

Preferred stock dividends: Preferred stock dividends were $5.1 million and $3.2 million for the nine months ended September 30, 2016 and 2015, respectively. The increase is a result of inducements to certain preferred shareholders for the conversion of their Preferred Stock into the Company's common stock.

Segment Results of Operations

Manufacturing

Presented below is a table that summarizes the results of operations of our Manufacturing segment and compares the amount of the change between the periods presented (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Net revenue	$ 129,551	$ 122,932	$ 6,619	$ 372,964	$ 380,783	$ (7,819)
Cost of revenue	105,246	99,903	5,343	302,993	319,447	(16,454)
Selling, general and administrative expenses	11,558	10,510	1,048	34,251	29,658	4,593
Depreciation and amortization	431	513	(82)	1,262	1,491	(229)
Other operating (income) expense	(23)	(989)	966	(963)	(69)	(894)
Income from operations	$ 12,339	$ 12,995	$ (656)	$ 35,421	$ 30,256	$ 5,165

Three months ended September 30, 2016 compared with three months ended September 30, 2015

Net revenue: Net revenue from our Manufacturing segment for the three months ended September 30, 2016 increased $6.6 million, or 5.4%, to $129.6 million from $122.9 million for the three months ended September 30, 2015. The increase was largely driven by increased project work in the Southeast and Midwest regions.

Cost of revenue: Cost of revenue from our Manufacturing segment for the three months ended September 30, 2016 increased $5.3 million, or 5.3%, to $105.2 million from $99.9 million for the three months ended September 30, 2015. The increase was primarily due to the increase in revenues.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Manufacturing segment for the three months ended September 30, 2016 increased $1.0 million, or 10.0%, to $11.6 million from $10.5 million for the three months ended September 30, 2015. The increase was due primarily to additional employee-related costs, and higher bonus expense due to the segment's improved financial performance.

Depreciation and amortization: Depreciation and amortization from our Manufacturing segment for the three months ended September 30, 2016 decreased $0.1 million, to $0.4 million from $0.5 million for the three months ended September 30, 2015.

Other operating (income) expense: Other operating (income) expense from our Manufacturing segment for the three months ended September 30, 2016 decreased $1.0 million, from income of $1.0 million for the three months ended September 30, 2015. The decrease was the result of a gain on sale of a parcel of land held for sale during the three months ended September 30, 2015 without a corresponding gain in the comparable current period.

Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

Net revenue: Net revenue from our Manufacturing segment for the nine months ended September 30, 2016 decreased $7.8 million, or 2.1%, to $373.0 million from $380.8 million for the nine months ended September 30, 2015. The decrease was driven by large projects which were fully engaged and nearing completion in 2015 that were not present for the comparable period in the nine months ended September 30, 2016.

Cost of revenue: Cost of revenue from our Manufacturing segment for the nine months ended September 30, 2016 decreased $16.5 million, or 5.2%, to $303.0 million from $319.4 million for the nine months ended September 30, 2015. The decrease was driven by the decrease in revenues noted above, in addition to higher margins driven by DBM Global's continued focus on more complex projects.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Manufacturing segment for the nine months ended September 30, 2016 increased $4.6 million, or 15.5%, to $34.3 million from $29.7 million for the nine months ended September 30, 2015. The increase was due primarily to additional employee-related costs, and higher bonus expense due to the segment's improved financial performance.

Depreciation and amortization: Depreciation and amortization from our Manufacturing segment for the nine months ended September 30, 2016 decreased $0.2 million, to $1.3 million from $1.5 million for the nine months ended September 30, 2015.

Other operating (income) expense: Other operating (income) expense from our Manufacturing segment for the nine months ended September 30, 2016 increased $0.9 million, to income of $1.0 million from income of $0.1 million for the nine months ended September 30, 2015. The increase was primarily driven by a gain on disposal of assets held for sale in the current year when compared to the nine months ended September 30, 2015.

Marine Services

Presented below is a table that summarizes the results of operations of our Marine Services segment and compares the amount of the change between the periods presented (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Net revenue	$ 50,653	$ 35,062	$ 15,591	$ 116,298	$ 105,939	$ 10,359
Cost of revenue	35,616	23,727	11,889	85,383	72,853	12,530
Selling, general and administrative expenses	4,690	3,106	1,584	14,345	8,572	5,773
Depreciation and amortization	5,553	4,758	795	16,794	14,130	2,664
Other operating (income) expense	—	(117)	117	(10)	(117)	107
Income (loss) from operations	$ 4,794	$ 3,588	$ 1,206	$ (214)	$ 10,501	$ (10,715)

Three months ended September 30, 2016 compared with three months ended September 30, 2015

Net revenue: Net revenue from our Marine Services segment for the three months ended September 30, 2016 increased $15.6 million, or 44.5%, to $50.7 million from $35.1 million for the three months ended September 30, 2015. The increase was primarily attributable to higher maintenance revenues which were largely driven by the addition of CWind, as well as from higher installation revenues driven by projects in the telecom and offshore power markets.

Cost of revenue: Cost of revenue from our Marine Services segment for the three months ended September 30, 2016 increased $11.9 million, or 50.1%, to $35.6 million from $23.7 million for the three months ended September 30, 2015. The increase was largely driven by the increase in net revenue and the addition of CWind which were offset in part by a $1.5 million improvement in estimated costs recognized in the first quarter of 2016 on a telecommunications installation project off the northeastern coast of Russia.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Marine Services segment for the three months ended September 30, 2016 increased $1.6 million, or 51.0%, to $4.7 million from $3.1 million for the three months ended September 30, 2015. The increase was due primarily to the addition of selling, general and administrative costs of CWind that were not present in the 2015 comparable period.

Depreciation and amortization: Depreciation and amortization from our Marine Services segment for the three months ended September 30, 2016 increased $0.8 million, or 16.7%, to $5.6 million from $4.8 million for the three months ended September 30, 2015. The increase was due primarily to the acquired CWind assets that were not present in the 2015 comparable period.

Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

Net revenue: Net revenue from our Marine Services segment for the nine months ended September 30, 2016 increased $10.4 million, or 9.8%, to $116.3 million from $105.9 million for the nine months ended September 30, 2015. The increase is attributable

to increased maintenance revenues mainly attributable to the addition of CWind which were partially offset by lower installation revenues of $12.4 million.

Cost of revenue: Cost of revenue from our Marine Services segment for the nine months ended September 30, 2016 increased $12.5 million, or 17.2%, to $85.4 million from $72.9 million for the nine months ended September 30, 2015. The increase in costs of revenue was due to higher maintenance revenues, $4.0 million of costs recognized for a loss on a telecommunications installation project off the northeastern coast of Russia which resulted from administrative delays by the customer and adverse weather conditions arriving earlier in the season, and the results from the acquisition of CWind. These increases were offset by a reduction of installation project costs due to lower revenues.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Marine Services segment for the nine months ended September 30, 2016 increased $5.8 million, or 67.3%, to $14.3 million from $8.6 million for the nine months ended September 30, 2015. The increase was due primarily to the addition of selling, general and administrative costs of CWind that were not present in the 2015 comparable period.

Depreciation and amortization: Depreciation and amortization from our Marine Services segment for the nine months ended September 30, 2016 increased $2.7 million, or 18.9%, to $16.8 million from $14.1 million for the nine months ended September 30, 2015. The increase was due primarily to the acquired CWind assets that were not present in the 2015 comparable period.

Insurance

Presented below is a table that summarizes the results of operations of our Insurance segment and describes the activity for the three and nine months ended September 30, 2016 (in thousands):

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Life, accident and health earned premiums, net	$ 19,967	$ 59,939
Net investment income	14,799	42,585
Net realized losses on investments	(220)	(2,677)
Net revenue	34,546	99,847
Policy benefits, changes in reserves, and commissions	29,689	92,784
Selling, general and administrative expenses	6,356	15,881
Depreciation and amortization	(1,161)	(2,901)
Loss from operations	$ (338)	$ (5,917)

Three and nine months ended September 30, 2016

Life, accident and health earned premiums, net: Life, accident and health earned premiums, net were $20.0 million and $59.9 million for the three and nine months ended September 30, 2016, respectively, and consisted primarily of premiums earned on long-term care insurance policies totaling $17.8 million and $53.3 million for the three and nine months ended September 30, 2016, respectively.

Net investment income: Net investment income consists primarily of interest income and dividends earned from investments in fixed maturity and equity securities, respectively. The balance of $14.8 million and $42.6 million for the three and nine months ended September 30, 2016, respectively, was primarily driven by interest income, net of amortization of the discount or premium, of $14.0 million and $40.4 million for the three and nine months ended September 30, 2016, respectively. Dividends totaled $0.4 million and $1.5 million for the three and nine months ended September 30, 2016, respectively.

Net realized losses on investments: Realized losses on investments of $0.2 million and $2.7 million for the three and nine months ended September 30, 2016, respectively, resulted primarily from sales of low yield fixed maturity securities, fixed maturity securities with a risk of credit downgrades, and mark to market adjustments on certain interest only bonds and warrants accounted for under ASC 815. Sales resulted in net realized gains of $0.6 million and net realized losses of $0.6 million for the three and nine months ended September 30, 2016, respectively. Changes in fair value of securities resulted in net realized losses of $0.8 million and $1.9 million for the three and nine months ended September 30, 2016, respectively.

Policy benefits, changes in reserves, and commissions: Policy benefits, changes in reserves, and commissions for the three and nine months ended September 30, 2016, were $29.7 million and $92.8 million, respectively, which consisted of benefit expenses and reserve changes for long-term care, life and annuity policies plus renewal commissions paid to agents. The reserve was increased during the periods due primarily to the interest earned on the beginning reserve balances plus premiums received during the three and nine month periods exceeding benefits paid out during the periods.

Selling, general and administrative expenses: Selling, general and administrative expenses for the three and nine months ended September 30, 2016 of $6.4 million and $15.9 million, respectively, were primarily the result of (i) salaries and benefits of $2.8 million and $7.2 million, (ii) post-acquisition transaction services provided by the Seller Parties of $1.2 million and $3.6 million, (iii) accounting, actuarial, and tax consulting services of $1.4 million and $3.9 million, and (iv) premium taxes of $0.5 million and $1.6 million, all respectively.

Depreciation and amortization: Depreciation and amortization for the three and nine months ended September 30, 2016 was $1.2 million and $2.9 million, respectively, largely driven by the amortization of VOBA, a liability established in purchase accounting.

Telecommunications

Presented below is a table that summarizes the results of operations of our Telecommunications segment and compares the amount of the change between the periods presented (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Net revenue	$ 194,411	$ 116,872	$ 77,539	$ 508,248	$ 267,554	$ 240,694
Cost of revenue	190,260	114,373	75,887	498,558	261,756	236,802
Selling, general and administrative expenses	1,947	1,801	146	5,687	4,942	745
Depreciation and amortization	145	97	48	390	294	96
Other operating (income) expense	(159)	1,124	(1,283)	179	1,174	(995)
Income (loss) from operations	$ 2,218	$ (523)	$ 2,741	$ 3,434	$ (612)	$ 4,046

Three months ended September 30, 2016 compared with three months ended September 30, 2015

Net revenue: Net revenue from our Telecommunications segment for the three months ended September 30, 2016 increased $77.5 million, or 66.3%, to $194.4 million from $116.9 million for the three months ended September 30, 2015. The increase was due primarily to growth in wholesale traffic volumes in part delivered by the changing regulatory environment throughout the European market combined with the religious holidays in the Middle East region. The changing customer base has included a shift in sales focus towards larger telecommunications carriers with higher volume opportunity and lower credit risk.

Cost of revenue: Cost of revenue from our Telecommunications segment for the three months ended September 30, 2016 increased $75.9 million, to $190.3 million, or 66.4%, from $114.4 million for the three months ended September 30, 2015. The increase was directly correlated to the increase in net revenue.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Telecommunications segment for the three months ended September 30, 2016 increased $0.1 million, or 8.1%, to $1.9 million from $1.8 million for the three months ended September 30, 2015. The increase was due primarily to an increase in salaries and benefits related to increased headcount as well as travel and entertainment expense to support the increase in revenue.

Depreciation and amortization: Depreciation and amortization from our Telecommunications segment for each of the three months ended September 30, 2016 and 2015 was essentially unchanged.

Other operating (income) expense: Other operating expense from our Telecommunications segment for the three months ended September 30, 2016 decreased $1.3 million to income of $0.2 million from expense of $1.1 million for the three months ended September 30, 2015. This decrease is attributable to a lease impairment on a legacy switch site recorded in fiscal year 2015

when compared to the corresponding period for 2016.

Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

Net revenue: Net revenue from our Telecommunications segment for the nine months ended September 30, 2016 increased $240.7 million, to $508.2 million, or 90.0%, from $267.6 million for the nine months ended September 30, 2015. The increase was due primarily to growth in wholesale traffic volumes in part delivered by the changing regulatory environment throughout the European market combined with the religious holidays in the Middle East region. The changing customer base has included a shift in sales focus towards larger telecom carriers with higher volume opportunity and lower credit risk.

Cost of revenue: Cost of revenue from our Telecommunications segment for the nine months ended September 30, 2016 increased $236.8 million, or 90.5%, to $498.6 million from $261.8 million for the nine months ended September 30, 2015. The increase is directly correlated to the growth in net revenue.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Telecommunications segment for the nine months ended September 30, 2016 increased $0.7 million, or 15.1%, to $5.7 million from $4.9 million for the nine months ended September 30, 2015. The increase was due primarily to an increase in salaries and benefits due to increased headcount as well as travel and entertainment expense to support the increase in revenue. This was offset by a decrease in rent expense when compared to the corresponding period for 2015.

Depreciation and amortization: Depreciation and amortization from our Telecommunications segment for each of nine months ended September 30, 2016 and 2015 was essentially unchanged.

Other operating (income) expense: Other operating expense from our Telecommunications segment for the nine months ended September 30, 2016 decreased $1.0 million to expense of $0.2 million from expense of $1.2 million for the nine months ended September 30, 2015. This decrease is attributable to a lease impairment on a legacy switch site recorded in fiscal year 2015 when compared to the corresponding period for 2016.

Utilities

Presented below is a table that summarizes the results of operations of our Utilities segment and compares the amount of the change between the periods presented (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Net revenue	$ 1,664	$ 1,841	$ (177)	$ 4,151	$ 4,432	$ (281)
Cost of revenue	635	1,102	(467)	1,570	2,599	(1,029)
Selling, general and administrative expenses	299	492	(193)	1,042	1,265	(223)
Depreciation and amortization	581	411	170	1,480	1,206	274
Income (loss) from operations	$ 149	$ (164)	$ 313	$ 59	$ (638)	$ 697

Three and nine months ended September 30, 2016 compared with the three and nine months ended September 30, 2015

Net revenue: Net revenue from our Utilities segment for the three and nine months ended September 30, 2016 and 2015 decreased $0.2 million or 10% and $0.3 million or 6%, respectively. These decreases were driven by a decrease in design and build project revenue, which was largely offset by the growth in the Own, Operate and Maintain ("OOM") business due to an increase in the number of fueling stations.

Cost of revenue: Cost of revenue from our Utilities segment for the three and nine months ended September 30, 2016 decreased $0.5 million and $1.0 million, respectively. The decrease was due primarily to the reduction in design and build project revenue, which typically generates higher cost of revenue and lower margin than recurring revenue generated through compressed natural gas sales from our OOM business.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Utilities segment for the three and nine months ended September 30, 2016 and 2015 both decreased $0.2 million driven by lower salary costs.

Depreciation and amortization: Depreciation and amortization from our Utilities segment for the three and nine months ended September 30, 2016 and 2015 increased $0.2 million, or 41%, and $0.3 million, or 23%, respectively, driven by depreciation of new fueling stations which came online in 2016.

Life Sciences

Presented below is a table that summarizes the results of operations of our Life Sciences segment and compares the amount of the change between the periods presented (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Selling, general and administrative expenses	$ 2,506	$ 1,804	$ 702	$ 7,195	$ 4,728	$ 2,467
Depreciation and amortization	32	7	25	87	8	79
Loss from operations	$ (2,538)	$ (1,811)	$ (727)	$ (7,282)	$ (4,736)	$ (2,546)

Three and nine months ended September 30, 2016 compared with the three and nine months ended September 30, 2015

Selling, general and administrative expenses: Selling, general and administrative expenses from our Life Sciences segment for the three and nine months ended September 30, 2016 and 2015 increased $0.7 million and $2.5 million, respectively. The increases were primarily due to additional investment in BeneVir in the first quarter of 2016, which we began to consolidate on February 1, 2016, and additional headcount and research and development expenses associated with our early stage companies.

Depreciation and amortization: Depreciation and amortization from our Life Sciences segment for the three and nine months ended September 30, 2016 and 2015 both increased primarily to the consolidation of BeneVir.

Other

Presented below is a table that summarizes the results of operations of our Other segment and compares the amount of the change between the periods presented (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Net revenue	$ 2,259	$ 761	$ 1,498	$ 2,613	$ 1,550	$ 1,063
Cost of revenue	2,103	1,390	713	4,388	2,773	1,615
Selling, general and administrative expenses	2,096	543	1,553	3,756	1,636	2,120
Depreciation and amortization	378	480	(102)	1,052	642	410
Loss from operations	$ (2,318)	$ (1,652)	$ (666)	$ (6,583)	$ (3,501)	$ (3,082)

Three months ended September 30, 2016 compared with three months ended September 30, 2015

Net revenue. Net revenue from our Other segment for the three months ended September 30, 2016 increased $1.5 million, to $2.3 million from $0.8 million for the three months ended September 30, 2015. The increase was due primarily to the release of NASCAR® Heat Evolution game by DMi in September 2016 with higher initial game sales than company sales during the same period in 2015.

Cost of revenue. Cost of revenue from our Other segment for the three months ended September 30, 2016 increased $0.7 million, to $2.1 million from $1.4 million for the three months ended September 30, 2015. The increase was driven by an increase in cost of revenue associated with the sales of NASCAR® Heat Evolution in September 2016.

Selling, general and administrative expenses. Selling, general and administrative expenses from our Other segment for the three months ended September 30, 2016 increased $1.6 million, to $2.1 million from $0.5 million for the three months ended

September 30, 2015. The increase was due to compensation, marketing and advertising expenses associated with the release of console and PC versions of NASCAR® Heat Evolution in September 2016.

Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

Net revenue. Net revenue from our Other segment for the nine months ended September 30, 2016 increased $1.1 million, to $2.6 million from $1.6 million for the nine months ended September 30, 2015. The increase was primarily driven by the release of the NASCAR® Heat Evolution game which was released in September 2016.

Cost of revenue. Cost of revenue from our Other segment for the nine months ended September 30, 2016 increased $1.6 million, to $4.4 million from $2.8 million for the nine months ended September 30, 2015. The increase was primarily driven by an increase in royalties, disc manufacturing, and game development costs related to NASCAR® Heat Evolution which was released in September 2016.

Selling, general and administrative expenses. Selling, general and administrative expenses from our Other segment for the nine months ended September 30, 2016 increased $2.1 million, to $3.8 million from $1.6 million for the nine months ended September 30, 2015. The increase was due to compensation, marketing and advertising expenses associated with the release of console and PC versions of the NASCAR® Heat Evolution game in September 2016.

Non-operating Corporate

Presented below is a table that summarizes the results of operations of our Non-operating Corporate segment and compares the amount of the change between the periods presented (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Selling, general and administrative expenses	$ 7,452	$ 10,395	$ (2,943)	$ 25,337	$ 26,726	$ (1,389)
Loss from operations	$ (7,452)	$ (10,395)	$ 2,943	$ (25,337)	$ (26,726)	$ 1,389

Three and nine months ended September 30, 2016 compared with three and nine months ended September 30, 2015

Selling, general and administrative expenses. Selling, general and administrative expenses from our Non-operating Corporate segment for the three and nine months ended September 30, 2016 and 2015 decreased $2.9 million and $1.4 million, respectively. The decreases were primarily attributable to decreases in both acquisition related expenses and share-based compensation, partially offset by an increase in headcount, overhead, and consulting fees to support growth in the business.

Income (loss) from Equity Investments

Presented below is a table that summarizes the income (loss) from equity investments within our Marine Services, Life Sciences, and Other segments and compares the amount of the change between the periods presented (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Marine Services	$ 3,778	$ 4,012	$ (234)	$ 11,240	$ 8,998	$ 2,242
Life Sciences	(520)	(215)	(305)	(1,235)	(507)	(728)
Other and eliminations	(2,923)	(2,879)	(44)	(6,852)	(8,063)	1,211
Income (loss) from equity investments	$ 335	$ 918	$ (583)	$ 3,153	$ 428	$ 2,725

Three months ended September 30, 2016 compared with three months ended September 30, 2015

Marine Services. Income from equity investments from our Marine Services segment for the three months ended September 30, 2016 decreased $0.2 million, or 5.8%, to $3.8 million from $4.0 million for the three months ended September 30, 2015. This was driven by the performance of GMSL's joint venture investments.

Life Sciences. Loss from equity investments from our Life Sciences segment for the three months ended September 30, 2016

increased $0.3 million to $0.5 million from $0.2 million for the three months ended September 30, 2015. The increase in loss was due to loss in our equity investment in Medibeacon.

Other and eliminations. Loss from equity investments from our Other segment for the three months ended September 30, 2016 and 2015 remained consistent. Increased equity losses from Novatel Wireless, Inc. were offset by a reduction in equity losses related to NerVve, prior to its consolidation on August 17, 2016.

Nine months ended September 30, 2016 compared with nine months ended September 30, 2015

Marine Services. Income from equity investments from our Marine Services segment for the nine months ended September 30, 2016 increased $2.2 million, 24.9%, to $11.2 million from $9.0 million for the nine months ended September 30, 2015. The increase in income was due to growth in GMSL's joint venture income, specifically driven by HMN which has increased its income through sustained growth over the last year.

Life Sciences. Loss from equity investments from our Life Sciences segment for the nine months ended September 30, 2016 increased $0.7 million, or 143.6%, to $1.2 million from $0.5 million for the nine months ended September 30, 2015. The increase was due to our equity investment in Medibeacon.

Other and eliminations. Loss from equity investments from our Other segment for the nine months ended September 30, 2016 decreased $1.2 million, or 15.0%, to $6.9 million from $8.1 million for the nine months ended September 30, 2015. A decrease in equity losses of $1.4 million related to NerVve, prior to its consolidation on August 17, 2016, was offset by an increase in equity loss from Novatel Wireless, Inc. of $0.4 million over the same period in the prior year.

Explanation of Use of Non-U.S. GAAP Financial Measures

In addition to the results of operations presented in accordance with U.S. GAAP, management uses, and this Quarterly Report on Form 10-Q contains or references, certain non-U.S. GAAP financial measures, such as Adjusted EBITDA and Adjusted Operating Income for the Insurance segment.

Adjusted EBITDA

Adjusted EBITDA is not a measurement recognized under U.S. GAAP. In addition, other companies may define Adjusted EBITDA differently than we do, which could limit its usefulness. Management believes that Adjusted EBITDA is meaningful to gaining an understanding of our results as it is frequently used by the financial community to provide insight into an organization's operating trends and facilitates comparisons between peer companies, because interest, taxes, depreciation, amortization and the other items listed in the definition of Adjusted EBITDA below can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA can also be a useful measure of a company's ability to service debt. However, while management believes Adjusted EBITDA is useful as supplemental information, the presentation of Adjusted EBITDA is not intended to replace our U.S. GAAP financial results. Adjusted EBITDA does not include the results of our Insurance segment.

Using Adjusted EBITDA as a performance measure has inherent limitations as an analytical tool as compared to net income (loss) or other U.S. GAAP financial measures, as this non-GAAP measure excludes certain items, including items that are recurring in nature, which may be meaningful to investors. As a result of the exclusions, Adjusted EBITDA should not be considered in isolation and does not purport to be an alternative to net income (loss) or other U.S. GAAP financial measures as a measure of our operating performance.

The calculation of Adjusted EBITDA, as defined by us, consists of Net income (loss) as adjusted for depreciation and amortization; (gain) loss on sale or disposal of assets; lease termination costs; (gain) loss on early extinguishment or restructuring of debt; interest expense; other (income) expense, net; foreign currency transaction (gain) loss; income tax (benefit) expense; (gain) loss from discontinued operations; noncontrolling interest; share-based compensation expense; acquisition and nonrecurring items; and other costs.

Three months ended September 30, 2016 compared with the three months ended September 30, 2015

Our Adjusted EBITDA was $18.2 million and $14.2 million for the three months ended September 30, 2016 and 2015, respectively. The overall increase is attributed to an increase in our Marine Services segment of $3.9 million for the three months ended September 30, 2016, driven by higher maintenance and installation revenues when compared to the same period in 2015,

as well as by an increase in our Telecommunications segment of $1.4 million for the three months ended September 30, 2016 due to growth in wholesale traffic volumes when compared to the same period in 2015.

	Three Months Ended September 30, 2016							
	Manufacturing	Marine Services	Telecom	Utilities	Life Sciences	Other and Eliminations	Non-operating Corporate	HC2**
Net loss attributable to HC2 Holdings, Inc.	$ 6,962	$ 8,696	$ 1,796	$ 27	$ (2,285)	$ (8,160)	$ (9,404)	$ (2,368)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:								
Depreciation and amortization *	431	5,225	144	582	32	380	4	6,798
Depreciation and amortization (included in cost of revenue)	1,321	—	—	—	—	—	—	1,321
Gain on sale or disposal of assets	(23)	—	—	—	—	—	—	(23)
Lease termination costs	—	—	(159)	—	—	—	—	(159)
Interest expense	304	1,328	—	119	—	—	8,969	10,720
Other (income) expense, net	(12)	(2,013)	422	(24)	(2)	3,892	835	3,098
Foreign currency (gain) loss (included in cost of revenue)	—	(283)	—	—	—	—	—	(283)
Income tax (benefit) expense	4,672	96	—	—	—	—	(7,851)	(3,083)
Noncontrolling interest	411	465	—	27	(770)	(974)	—	(841)
Share-based compensation expense	—	546	—	3	128	37	1,088	1,802
Acquisition and nonrecurring items	429	—	—	—	—	—	821	1,250
Adjusted EBITDA	$ 14,495	$ 14,060	$ 2,203	$ 734	$ (2,897)	$ (4,825)	$ (5,538)	$ 18,232

	Three Months Ended September 30, 2015							
	Manufacturing	Marine Services	Telecom	Utilities	Life Sciences	Other and Eliminations	Non-operating Corporate	HC2**
Net loss attributable to HC2 Holdings, Inc.	$ 7,116	$ 7,356	$ (362)	$ (82)	$ (1,575)	$ 1,525	$ (21,804)	$ (7,826)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:								
Depreciation and amortization *	513	4,376	98	411	6	480	—	5,884
Depreciation and amortization (included in cost of revenue)	1,928	—	—	—	—	—	—	1,928
Gain on sale or disposal of assets	(990)	(117)	—	—	—	—	—	(1,107)
Lease termination costs	—	—	1,124	—	—	—	—	1,124
Interest expense	354	929	—	10	—	(1)	9,090	10,382
Other (income) expense, net	(141)	(1,149)	(162)	(19)	—	280	—	(1,191)
Foreign currency (gain) loss (included in cost of revenue)	—	(1,739)	—	—	—	—	—	(1,739)
Income tax (benefit) expense	5,284	260	—	—	—	(6,359)	2,318	1,503
Loss from discontinued operations	—	—	—	—	—	24	—	24
Noncontrolling interest	383	204	—	(73)	(449)	—	—	65
Share-based compensation expense	—	—	—	20	—	1	2,323	2,344
Acquisition and nonrecurring items	—	—	—	—	—	—	2,733	2,733
Other costs	—	—	109	—	—	—	—	109
Adjusted EBITDA	$ 14,447	$ 10,120	$ 807	$ 267	$ (2,018)	$ (4,050)	$ (5,340)	$ 14,233

(*) Includes depreciation adjustments from purchase accounting as more fully described in Note 2. Adjustments of the Condensed Consolidated Financial Statements.
(**) Excludes net loss from Insurance segment in the amount of $2.2 million and $0.2 million for the three months ended September 30, 2016 and 2015, respectively.

Manufacturing. Adjusted EBITDA from our Manufacturing segment for the three months ended September 30, 2016 remained essentially unchanged when compared to the three months ended September 30, 2015.

Marine Services. Adjusted EBITDA from our Marine Services segment for the three months ended September 30, 2016 increased $3.9 million to $14.1 million from $10.1 million when compared to the three months ended September 30, 2015. This increase was due to higher maintenance and offshore power installation revenues.

Telecommunications. Adjusted EBITDA from our Telecommunications segment for the three months ended September 30, 2016 increased $1.4 million to $2.2 million from $0.8 million for the three months ended September 30, 2015. The increase was

due primarily to growth in wholesale traffic volumes in part delivered by the changing regulatory environment throughout the European market combined with the religious holidays in the Middle East region.

Utilities. Adjusted EBITDA from our Utilities segment for the three months ended September 30, 2016 increased $0.5 million to $0.7 million from $0.3 million for the three months ended September 30, 2015 due to increased revenue in the OOM business.

Life Sciences. Adjusted EBITDA from our Life Sciences segment for the three months ended September 30, 2016 decreased $0.9 million, to $(2.9) million from $(2.0) million for the three months ended September 30, 2015 due to increased costs within early stage companies.

Other. Adjusted EBITDA from the Other segment for the three months ended September 30, 2016 decreased 0.8 million to $(4.8) million from $(4.1) million for the three months ended September 30, 2015. The decrease in adjusted EBITDA was attributable to increased development costs coupled with additional selling, general and administrative expenses related to DMi's release of the NASCAR® Heat Evolution game in September 2016.

Non-operating Corporate. Adjusted EBITDA from our Non-operating Corporate segment for the three months ended September 30, 2016 remained essentially unchanged when compared to the three months ended September 30, 2015. The decrease was due to increases in acquisition and non-recurring costs in 2016.

Nine months ended September 30, 2016 compared with the nine months ended September 30, 2015

Our Adjusted EBITDA was $33.7 million and $39.7 million for the nine months ended September 30, 2016 and 2015, respectively.

The overall decrease can be primarily attributed to a reduction in our Marine Services segment of $5.2 million due to a decline in ongoing installation projects when compared to the same period in 2015 and to $4.0 million of costs recognized for an expected loss on a project that had been subject to administrative delays and adverse weather conditions. Also contributing to the decrease were increased losses in our Non-Operating Corporate segment of $2.5 million and from early stage investments in our Life Sciences segment of $3.0 million. Partially offsetting these decreases were increases from our Manufacturing segment of $1.7 million, due primarily to higher margins driven by DBM Global's continued focus on more complex projects, and from our Telecommunications segment of $1.7 million, which can be primarily attributed to increased profit contribution as a result of the growth in revenue.

	Nine Months Ended September 30, 2016							
	Manufacturing	Marine Services	Telecom	Utilities	Life Sciences	Other and Eliminations	Non-operating Corporate	HC2**
Net loss attributable to HC2 Holdings, Inc.	$ 20,710	$ 8,780	$ 4,007	$ 68	$ (2,991)	$ (21,264)	$ (30,417)	$ (21,107)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:								
Depreciation and amortization *	1,263	15,747	389	1,479	87	1,050	4	20,019
Depreciation and amortization (included in cost of revenue)	3,048	—	—	—	—	—	—	3,048
Asset impairment expense								
(Gain) loss on sale or disposal of assets	(963)	(10)	—	—	—	—	—	(973)
Lease termination costs	—	—	179	—	—	—	—	179
Interest expense	917	3,683	—	142	—	1	26,871	31,614
Other (income) expense, net	(88)	(1,190)	(574)	(399)	(3,223)	9,888	(311)	4,103
Foreign currency (gain) loss (included in cost of revenue)	—	(1,970)	—	—	—	—	—	(1,970)
Income tax (benefit) expense	12,641	(756)	—	—	—	—	(21,481)	(9,596)
Loss from discontinued operations								
Noncontrolling interest	1,240	510	—	249	(2,302)	(2,062)	—	(2,365)
Share-based compensation expense	—	1,307	—	107	184	238	4,833	6,669
Acquisition and nonrecurring items	428	266	18	27	—	—	3,335	4,073
Adjusted EBITDA	$ 39,196	$ 26,367	$ 4,019	$ 1,673	$ (8,245)	$ (12,149)	$ (17,166)	$ 33,694

	Nine Months Ended September 30, 2015							
	Manufacturing	Marine Services	Telecom	Utilities	Life Sciences	Other and Eliminations	Non-operating Corporate	HC2**
Net loss attributable to HC2 Holdings, Inc.	$ 16,182	$ 17,963	$ (299)	$ (329)	$ (4,030)	$ 5,768	$ (59,089)	$ (23,834)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:								
Depreciation and amortization *	1,490	12,978	294	1,206	8	641	—	16,617
Depreciation and amortization (included in cost of revenue)	5,735	—	—	—	—	—	—	5,735
Amortization of Debt Discount	—	—	—	—	—	—		—
(Gain) loss on sale or disposal of assets	(69)	(117)	50	—	—	—	—	(136)
Lease termination costs	—	—	1,124	—	—	—	—	1,124
Interest expense	1,064	2,888	—	32	—	—	25,223	29,207
Other (income) expense, net	(164)	(2,091)	(314)	(32)	—	(1,010)	4,991	1,380
Foreign currency (gain) loss (included in cost of revenue)	—	(804)	—	—	—	—	—	(804)
Income tax (benefit) expense	12,188	178	—	—	—	(16,349)	2,151	(1,832)
Loss from discontinued operations	20	—	—	—	—	24	—	44
Noncontrolling interest	967	563	—	(310)	(1,212)	—	—	8
Share-based payment expense	—	—	—	23	—	—	7,378	7,401
Acquisition and nonrecurring items	—	—	—	—	—	—	4,701	4,701
Other Costs	$ —	$ —	$ 109	$ —	$ —	$ 76	$ —	$ 109
Adjusted EBITDA	$ 37,413	$ 31,558	$ 964	$ 590	$ (5,234)	$ (10,850)	$ (14,645)	$ 39,720

(*) Includes depreciation adjustments from purchase accounting as more fully described in Note 2. Adjustments to our unaudited financial statement included elsewhere in this Quarterly Report on Form 10-Q.

(**) Excludes net loss from Insurance segment in the amount of $12.0 million and $0.3 million for the nine months ended September 30, 2016 and 2015, respectively.

Manufacturing. Adjusted EBITDA from our Manufacturing segment for the nine months ended September 30, 2016 increased $1.8 million compared to the nine months ended September 30, 2015. The increase was largely driven by reduction in costs of revenue due to higher margins driven by DBM Global's continued focus on more complex projects.

Marine Services. Adjusted EBITDA from our Marine Services segment for the nine months ended September 30, 2016 decreased $5.2 million to $26.4 million from $31.6 million for the nine months ended September 30, 2015. The decrease was due primarily to $4.0 million of costs recognized on an installation project off the northeastern coast of Russia which resulted from administrative delays by the customer and adverse weather conditions arriving earlier in the season. This was further decreased by lower installation revenues in the first half of the year.

Telecommunications. Adjusted EBITDA from our Telecommunications segment for the nine months ended September 30, 2016 increased $3.1 million to $4.0 million from $1.0 million for the nine months ended September 30, 2015. The increase was due primarily to increased profit contribution from growth in wholesale traffic volumes resulting from continued expansion in the scale and number of customer relationships.

Utilities. Adjusted EBITDA from our Utilities segment for the nine months ended September 30, 2016 increased $1.1 million to $1.7 million from $0.6 million for the nine months ended September 30, 2015 due to increased revenue in their OOM business.

Life Sciences. Adjusted EBITDA from our Life Sciences segment for the nine months ended September 30, 2016 decreased $3.0 million to $(8.2) million from $(5.2) million for nine months ended September 30, 2015 the due to increased costs at early stage subsidiaries.

Other. Adjusted EBITDA from the Other segment for the nine months ended September 30, 2016 decreased $2.5 million to $(12.1) million from $(10.9) million for the nine months ended September 30, 2015. The decrease in loss was due primarily to increases in DMi's development and sales costs, and selling, general and administrative expenses related to the release of the NASCAR® Heat Evolution game in September 2016.

Non-operating Corporate. Adjusted EBITDA from our Non-operating Corporate segment for the nine months ended September 30, 2016 decreased $2.5 million when compared to the nine months ended September 30, 2015. The decrease was due to increases

in acquisition and non-recurring costs in 2016.

Adjusted Operating Income - Insurance

Adjusted Operating Income for the Insurance segment ("Insurance AOI") is a non-US GAAP financial measure frequently used throughout the insurance industry and is an economic measure the Insurance segment uses to evaluate its financial performance. Management believes that Insurance AOI measures provide investors with meaningful information for gaining an understanding of certain results and provides insight into an organization's operating trends and facilitates comparisons between peer companies. However, Insurance AOI has certain limitations, including that we may not calculate it the same as other companies in our industry and therefore should be read together with the Company's results calculated in accordance with GAAP.

Similarly to Adjusted EBITDA, using Insurance AOI as a performance measure has inherent limitations as an analytical tool as compared to income (loss) from operations or other U.S. GAAP financial measures, as this non-GAAP measure excludes certain items, including items that are recurring in nature, which may be meaningful to investors. As a result of the exclusions, Insurance AOI should not be considered in isolation and does not purport to be an alternative to income (loss) from operations or other U.S. GAAP financial measures as a measure of our operating performance.

Management defines Insurance AOI as Net income (loss) for the Insurance segment adjusted to exclude the impact of net investment gains (losses), including other-than-temporary impairment losses recognized in operations; intercompany elimination and acquisition and non-recurring items. Management believes that Insurance AOI provides a meaningful financial metric that helps investors understand certain results and profitability. While these adjustments are an integral part of the overall performance of the Insurance segment, market conditions impacting these items can overshadow the underlying performance of the business. Accordingly, we believe using a measure which excludes their impact is effective in analyzing the trends of our operations.

The table below shows the adjustments made to the reported net (loss) income of the Insurance segment to calculate Insurance AOI (in millions):

	Three months ended September 30, 2016	Nine months ended September 30, 2016
Net loss - Insurance Segment	$ (2,189)	$ (11,978)
Effect of investment (gains) losses	220	2,677
Acquisition and non-recurring items	269	269
Insurance AOI	$ (1,700)	$ (9,032)

Net loss and Adjusted Operating Income for the first quarter 2016 have been adjusted to exclude certain intercompany eliminations to better reflect the results of the Insurance Companies, and remain consistent with internally reported metrics. For the first quarter of 2016, this resulted in a change to the previously reported Insurance net loss of $12.3 million to a net loss of $7.5 million and a change to the previously reported Insurance Adjusted Operating Income of $3.6 million to a loss of $2.6 million.

Constant Currency

When we refer to operating results on a constant currency basis, this means operating results without the impact of the currency exchange rate fluctuations. We calculate constant currency results using the prior year's currency exchange rate for both periods presented. We believe the disclosure of operating results on a constant currency basis permits investors to better understand our underlying performance.

Liquidity and Capital Resources

Consolidated

Short and Long-Term Liquidity Considerations and Risks

We are a holding company and our liquidity needs are primarily for interest payments on our 11.0% Notes and dividend payments on our Series A Convertible Participating Preferred Stock (the "Series A Preferred Stock"), Series A-1 Convertible Participating Preferred Stock (the "Series A-1 Preferred Stock") and Series A-2 Convertible Participating Preferred Stock (the "Series A-2 Preferred Stock" and, together with the Series A Preferred Stock and Series A-1 Preferred Stock, the "Preferred Stock"). We also have liquidity needs related to recurring operational expenses.

As of September 30, 2016, we had $121.3 million of cash and cash equivalents on a consolidated basis compared to $158.6 million as of December 31, 2015. As of September 30, 2016, HC2 had cash and cash equivalents of $29.4 million compared to $41.1 million at December 31, 2015. At September 30, 2016, cash and cash equivalents in our Insurance segment was $28.3 million.

Our subsidiaries' principal liquidity requirements arise from cash used in operating activities and capital expenditures, including purchases of network equipment (such as switches, related transmission equipment and capacity), fueling stations and service infrastructure, liabilities associated with insurance products, steel manufacturing equipment and subsea cable equipment, development of back-office systems, operating costs and expenses, and income taxes.

As of September 30, 2016, we had $396.7 million of indebtedness on a consolidated basis compared to $371.9 million as of December 31, 2015. As of September 30, 2016, we had $41.7 million in liquidation value of outstanding Preferred Stock compared to $52.6 million as of December 31, 2015. We are required to make semi-annual interest payments on our outstanding 11.0% Notes on June 1st and December 1st of each year. We are required to make dividend payments on our outstanding Preferred Stock on January 15th, April 15th, July 15th, and October 15th of each year.

Under a tax sharing agreement, DBM Global reimburses HC2 for use of our Net Operating Losses. In 2016, HC2 received $22.4 million from DBM Global under this tax sharing agreement.

We have financed our growth and operations to date, and expect to finance our future growth and operations, through public offerings and private placements of debt and equity securities, credit facilities, vendor financing, capital lease financing and other financing arrangements, as well as cash generated from the operations of our subsidiaries. In the future, we may also choose to sell assets or certain investments to generate cash.

At this time, we believe that we will be able to continue to meet our liquidity requirements and fund our fixed obligations (such as debt services and operating leases) and other cash needs for our operations for at least the next twelve months through a combination of distributions from our subsidiaries and from raising of additional equity or debt capital, refinancing of certain of our indebtedness or Preferred Stock, other financing arrangements and/or the sale of assets and certain investments. Historically, we have chosen to reinvest cash and receivables into the growth of our various businesses, and therefore have not kept a large amount of cash on hand at the holding company level, a practice which we expect to continue in the future. The ability of HC2's subsidiaries to make distributions to HC2 is subject to numerous factors, including restrictions contained in each subsidiary's financing agreements, availability of sufficient funds at each subsidiary and the approval of such payment by each subsidiary's board of directors, which must consider various factors, including general economic and business conditions, tax considerations, strategic plans, financial results and condition, expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends, and such other factors each subsidiary's board of directors considers relevant. Our ability to sell assets and certain of our investments to meet our existing financing needs may also be limited by our existing financing instruments. Although the Company believes that it will be able to raise additional equity capital, refinance indebtedness or Preferred Stock, enter into other financing arrangements or engage in asset sales and sales of certain investments sufficient to fund any cash needs that we are not able to satisfy with the funds expected to be provided by our subsidiaries, there can be no assurance that it will be able to do so on terms satisfactory to the Company if at all. Such financing options, if pursued, may also ultimately have the effect of negatively impacting our liquidity profile and prospects over the long-term. In addition, the sale of assets or the Company's investments may also make the Company less attractive to potential investors or future financing partners.

Insurance Companies Capital Contributions

In connection with the acquisition of Insurance Companies in December 2015, the Company contributed approximately $33.0 million of additional assets to the Insurance Companies, as required by the acquisition agreement governing the purchase. The contribution was made for the purpose of satisfying the reserve release amount of $13.0 million and offsetting the impact on the acquired companies' statutory capital and surplus of the election to be made by the Company and Seller Parties pursuant to Section 338(h)(10) of the Internal Revenue Code in connection with the transaction as soon as possible after closing.

In connection with the consummation of the acquisition, the Company agreed with the Ohio Department of Insurance ("ODOI") that, for five years following the closing of the transaction, the Company will contribute to CGI cash or marketable securities acceptable to the ODOI to the extent required for CGI's total adjusted capital to be not less than 400% of CGI's authorized control level risk-based capital (each as defined under Ohio law and reported in CGI's statutory statements filed with the ODOI). Similarly, the Company has agreed with the Texas Department of Insurance ("TDOI") that, for five years following the closing of the

transaction, it will contribute to UTA cash or other admitted assets acceptable to the TDOI to the extent required for UTA's total adjusted capital to be not less than 400% of UTA's authorized control level risk-based capital (each as defined under Texas law and reported in UTA's statutory statements filed with the TDOI).

Also in connection with the consummation of the acquisition, each of CGI and UTA also entered into a capital maintenance agreement (each, a "Capital Maintenance Agreement", and collectively, the "Capital Maintenance Agreements") with Great American Financial Resources, Inc. ("Great American"). Under each Capital Maintenance Agreement, if the applicable acquired company's total adjusted capital reported in its annual statutory financial statements is less than 400% of its authorized control level risk-based capital, Great American has agreed to pay cash or assets to the applicable acquired company as required to eliminate such shortfall (after giving effect to any capital contributions made by the Company or its affiliates since the date of the relevant annual statutory financial statement). Great American's obligation to make such payments is capped at $25.0 million under the Capital Maintenance Agreement with UTA and $10.0 million under the Capital Maintenance Agreement with CGI (each, a "Cap"). Each of the Capital Maintenance Agreements will remain in effect from January 1, 2016 to January 1, 2021 or until payments by Great American under the applicable agreement equal the applicable Cap. Pursuant to the purchase agreement, the Company is required to indemnify Great American for the amount of any payments made by Great American under the Capital Maintenance Agreements.

Indebtedness

See Note 12. Long-Term Obligations, to the unaudited Condensed Consolidated Financial Statements included elsewhere in the Quarterly Report on Form 10-Q for a description of our long-term debt.

Restrictive Covenants

The indenture governing our 11.0% Notes (the "11.0% Notes Indenture") contains certain covenants limiting, among other things, the ability of the Company and certain subsidiaries of the Company to incur additional indebtedness; create liens; engage in sale-leaseback transactions; pay dividends or make distributions in respect of capital stock and make certain restricted payments; sell assets; engage in transactions with affiliates; or consolidate or merge with, or sell substantially all of its assets to, another person. These covenants are subject to a number of important exceptions and qualifications.

The 11% Notes Indenture also includes two maintenance covenants: (1) a liquidity covenant; and (2) a collateral coverage covenant.

The liquidity covenant provides that the Company will not permit the aggregate amount of all unrestricted cash and cash equivalents of the Company and the Guarantors to be less than the Company's obligations to pay interest on the 11.0% Notes and all other debt of the Company and the Guarantors, plus mandatory cash dividends on the Company's Preferred Stock, for the next (i) 6 months if our collateral coverage ratio is greater than 2.0x or (ii) 12 months if our collateral coverage ratio is less than 2.0x. As of September 30, 2016, our collateral coverage ratio was greater than 2.0x and therefore the liquidity covenant requires the Company to maintain 6 months of debt service and preferred dividend obligations. If the collateral coverage ratio subsequently becomes lower than 2:1 in the future, the maintenance of liquidity requirement under the 11% Notes will be increased back to 12 months of debt service and preferred dividend obligations. As of September 30, 2016, the Company was in compliance with this covenant.

The collateral coverage covenant provides that the Company's Collateral Coverage Ratio (defined in the 11.0% Notes Indenture as the ratio of (i) the Loan Collateral to (ii) Consolidated Secured Debt (each as defined therein)) calculated on a pro forma basis as of the last day of each fiscal quarter may not be less than 1.25:1. As of September 30, 2016, the Company was in compliance with this covenant.

The instruments governing the Company's Preferred Stock also limit the Company's and its subsidiaries ability to take certain actions, including, among other things, to incur additional indebtedness; issue additional Preferred Stock; engage in transactions with affiliates; and make certain restricted payments. These limitations are subject to a number of important exceptions and qualifications.

Summary of Consolidated Cash Flows

Presented below is a table that summarizes the cash provided or used in our activities and the amount of the respective increases

or decreases in cash provided or used from those activities between the fiscal periods (in thousands):

	Nine Months Ended September 30,		
Cash provided by (used in):	2016	2015	Increase / (Decrease)
Operating activities	$ 54,979	$ (31,151)	$ 86,130
Investing activities	(80,072)	(46,407)	(33,665)
Financing activities	(10,863)	55,292	(66,155)
Effect of exchange rate changes on cash and cash equivalents	(1,347)	(4,646)	3,299
Net (decrease) increase in cash and cash equivalents	$ (37,303)	$ (26,912)	$ (10,391)

Operating Activities

Net cash provided by operating activities totaled $55.0 million for the nine months ended September 30, 2016 as compared to a use of cash of $31.2 million for the nine months ended September 30, 2015. The $86.1 million increase in cash provided by operating activities was largely the result of a decrease in working capital, driven by increases in insurance reserves from premiums collected in 2016 and a lower working capital increase in our Manufacturing segment.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2016 was $80.1 million primarily due to $179.3 million for the purchase of investments primarily in our Insurance segment, $21.7 million of capital expenditures and $7.8 million paid for the acquisition of CWind, partially offset by $72.2 million from the sale of investments, $8.0 million in contributions by noncontrolling interest and $0.5 million in proceeds from the sale of property, plant and equipment.

Net cash used in investing activities for the nine months ended September 30, 2015 was $46.4 million primarily driven by $41.7 million for the purchase of investments at HC2 and $16.8 million of capital expenditures.

Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2016 was $10.9 million primarily driven by $15.6 million in annuity surrenders and $11.4 million used to make principal payments on our credit facilities, partially offset by $11.7 million of proceeds from long term obligations.

Net cash provided by financing activities for the nine months ended September 30, 2015 was $55.3 million primarily driven by $55.0 million of proceeds from the 11% Senior Secured Notes and $14.0 million of proceeds from the issuance of Series A-2 preferred stock, partially offset by $8.5 million used to make principal payments on our long term obligations.

Manufacturing

Cash Flows

Cash flows from operating activities are the principal source of cash used to fund DBM Global’s operating expenses, interest payments on debt, and capital expenditures. DBM Global's short-term cash needs are primarily for working capital to support operations including receivables, inventories, and other costs incurred in performing its contracts. DBM Global attempts to structure the payment arrangements under its contracts to match costs incurred under the project. To the extent it is able to bill in advance of costs incurred, DBM Global generates working capital through billings in excess of costs and recognized earnings on uncompleted contracts. To the extent it is not able to bill in advance of costs, DBM Global relies on its credit facilities to meet its working capital needs. DBM Global believes that its existing borrowing availability together with cash from operations will be adequate to meet all funding requirements for its operating expenses, interest payments on debt and capital expenditures for the foreseeable future.

DBM Global is required to make monthly and quarterly interest and principal payments depending on the structure of each individual debt agreement.

DBM Global estimates that its capital expenditures for 2016 will be approximately $8.2 million. It believes that its available funds, cash generated by operating activities and funds available under its bank credit facilities will be sufficient to fund these

capital expenditures and its working capital needs. However, DBM Global may expand its operations through future acquisitions and may require additional equity or debt financing.

Marine Services

<u>Cash Flows</u>

Cash flows from operating activities are the principal source of cash used to fund GMSL's operating expenses, interest payments on debt, and capital expenditures. GMSL's short-term cash needs are primarily for working capital to support operations including receivables, inventories, and other costs incurred in performing its contracts. GMSL attempts to structure the payment arrangements under its contracts to match costs incurred under the project. To the extent it is able to bill in advance of costs incurred, GMSL generates working capital through billings in excess of costs and recognized earnings on uncompleted contracts. To the extent it is not able to bill in advance of costs, GMSL relies on its credit facilities to meet its working capital needs. GMSL believes that its existing borrowing availability together with cash from operations will be adequate to meet all funding requirements for its operating expenses, interest payments on debt and capital expenditures for the foreseeable future.

GMSL is required to make monthly and quarterly interest and principal payments depending on the structure of each individual debt agreement.

<u>Market Environment</u>

GMSL earns revenues in a variety of currencies including the US dollar, the Singapore dollar and the British pound. The exchange rates between the US dollar, the Singapore dollar and the British pound have fluctuated in recent periods and may fluctuate substantially in the future. Any material appreciation or depreciation of these currencies against each other may have a negative impact on GMSL's results of operations and financial condition.

Insurance

<u>Cash flows</u>

CIG's principal cash inflows from its operating activities relate to its premiums, annuity deposits and insurance, investment product fees and other income. CIG's principal cash inflows from its invested assets result from investment income and the maturity and sales of invested assets. The primary liquidity concern with respect to these cash inflows relates to the risk of default by debtors and interest rate volatility. Additional sources of liquidity to meet unexpected cash outflows in excess of operating cash inflows and current cash and equivalents on hand include selling short-term investments or fixed maturity securities.

CIG's principal cash outflows relate to the payment of claims liabilities, interest credited and operating expenses. CIG's management believes its current sources of liquidity are adequate to meet its cash requirements for the next 12 months.

<u>Market environment</u>

As of September 30, 2016, CIG was in a position to hold any investment security showing an unrealized loss until recovery, provided it remains comfortable with the credit of the issuer. CIG does not rely on short-term funding or commercial paper and to date it has experienced no liquidity pressure, nor does it anticipate such pressure in the foreseeable future. CIG projects its reserves to be sufficient and believes its current capital base is adequate to support its business.

<u>Dividend Limitations</u>

CIG is subject to Texas and Ohio statutory provisions that restrict the payment of dividends. The dividend limitations on CIG are based on statutory financial results and regulatory approval. Statutory accounting practices differ in certain respects from accounting principles used in financial statements prepared in conformity with U.S. GAAP. Significant differences include the treatment of deferred income taxes, required investment reserves, reserve calculation assumptions and surplus notes.

The ability of CIG's subsidiaries to pay dividends and to make such other payments is limited by applicable laws and regulations of the states in which its subsidiaries are domiciled, which subject its subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, CIG's insurance subsidiaries to maintain minimum solvency requirements and limit

the amount of dividends these subsidiaries can pay. Along with solvency regulations, the primary driver in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength in the form of its subsidiaries Risk-Based Capital ("RBC") ratio. CIG monitors its insurance subsidiaries' compliance with the RBC requirements specified by the National Association of Insurance Commissioners. As of September 30, 2016, each of CIG's insurance subsidiaries exceeds the minimum RBC requirements. CIG's insurance subsidiaries paid no dividends to CIG in fiscal year 2016 and have further each agreed with each of their respective state regulators to not pay dividends for three years following the completion of the acquisition on December 24, 2015.

Asset Liability Management

CIG's insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. Products having liabilities with longer durations, such as long-term care insurance, are matched with investments such as long-term fixed maturity securities. Shorter-term liabilities are matched with fixed maturity securities that have short- and medium-term fixed maturities. The types of assets in which CIG may invest are influenced by state laws, which prescribe qualified investment assets applicable to insurance companies. Within the parameters of these laws, CIG invests in assets giving consideration to four primary investment objectives: (i) maintain robust absolute returns; (ii) provide reliable yield and investment income; (iii) preserve capital and (iv) provide liquidity to meet policyholder and other corporate obligations. The Insurance segment's investment portfolio is designed to contribute stable earnings and balance risk across diverse asset classes and is primarily invested in high quality fixed income securities. In addition, at any given time, CIG's insurance subsidiaries could hold cash, highly liquid, high-quality short-term investment securities and other liquid investment grade fixed maturity securities to fund anticipated operating expenses, surrenders and withdrawals.

Investments

At September 30, 2016 and December 31, 2015, the carrying value of CIG's investment portfolio was approximately $1.5 billion and $1.3 billion, respectively, and was divided among the following asset classes (in thousands):

	September 30, 2016		December 31, 2015	
	Fair Value	Percent	Fair Value	Percent
U.S. Government and government agencies	$ 16,915	1.2%	$ 17,083	1.3%
States, municipalities and political subdivisions	401,613	27.4%	386,260	29.4%
Foreign government	6,279	0.4%	6,429	0.5%
Residential mortgage-backed securities	143,479	9.8%	166,315	12.7%
Commercial mortgage-backed securities	60,149	4.1%	75,035	5.7%
Asset-backed securities	70,516	4.8%	34,451	2.6%
Corporate and other	632,726	43.2%	545,825	41.5%
Common stocks (*)	70,396	4.8%	32,081	2.4%
Perpetual preferred stocks	37,012	2.5%	31,057	2.4%
Mortgage loans	8,939	0.6%	1,252	0.1%
Policy loans	18,228	1.2%	18,476	1.4%
Other invested assets	297	—%	183	—%
Total	$ 1,466,549	100.0%	$ 1,314,447	100.0%

(*) Balance includes fair value of certain securities held by the Company, which are either eliminated on consolidation or reported within other invested assets.

Credit Quality

Insurance statutes regulate the type of investments that CIG is permitted to make and limit the amount of funds that may be used for any one type of investment. In light of these statutes and regulations, and CIG's business and investment strategy, CIG generally seeks to invest in (i) securities rated investment grade by established nationally recognized statistical rating organizations (each, a nationally recognized statistical rating organization ("NRSRO")), (ii) U.S. Government and government-sponsored agency securities, or (iii) securities of comparable investment quality, if not rated.

At September 30, 2016 and December 31, 2015, CIG's fixed maturity portfolio was approximately $1.3 billion and $1.2 billion, respectively. The following table summarizes the credit quality, by NRSRO rating, of CIG's fixed income portfolio (in thousands):

	September 30, 2016		December 31, 2015	
	Fair Value	Percent	Fair Value	Percent
AAA, AA, A	$ 812,930	61.1%	$ 790,215	64.2%
BBB	357,031	26.8%	286,861	23.3%
Total investment grade	1,169,961	87.9%	1,077,076	87.5%
BB	33,980	2.6%	36,190	2.9%
B	18,937	1.4%	18,659	1.5%
CCC, CC, C	32,552	2.4%	34,785	2.8%
D	29,655	2.2%	25,261	2.1%
NR	46,592	3.5%	39,427	3.2%
Total non-investment grade	161,716	12.1%	154,322	12.5%
Total	$ 1,331,677	100.0%	$ 1,231,398	100.0%

Other Invested Assets

The Company's other invested assets as of September 30, 2016 and December 31, 2015 are summarized as follows (in thousands):

	September 30, 2016				December 31, 2015			
	Cost Method	Equity Method	Fair Value	Total	Cost Method	Equity Method	Fair Value	Total
Common Equity								
DeepOcean Group	$ 138	$ —	$ —	$ 138	$ 249	$ —	$ —	$ 249
Novatel Wireless, Inc.	—	338	—	338	—	6,475	—	6,475
Triple Ring Technologies, Inc.	—	1,044	—	1,044				
	138	1,382	—	1,520	249	6,475	—	6,724
Preferred Equity								
mParticle	655	—	—	655	655	—	—	655
BeneVir Biopharm, Inc.	—	—	—	—	—	1,179	—	1,179
MediBeacon, Inc.	—	10,763	—	10,763	—	2,709	—	2,709
NerVve Technologies, Inc.	—	—	—	—	—	3,634	—	3,634
Triple Ring Technologies, Inc.	1,829	—	—	1,829	1,000	—	—	1,000
	2,484	10,763	—	13,247	1,655	7,522	—	9,177
Warrants and Call Options								
DeepOcean Group	—	—	—	—	783	—	—	783
Novatel Wireless, Inc.	3,097	—	—	3,097	3,097	—	—	3,097
The Andersons, Inc.	—	—	—	—	—	—	632	632
DTV America	—	—	575	575	—	—	723	723
NerVve Technologies, Inc.	—	—	—	—	—	—	52	52
Gaming Nation, Inc.	—	—	3,907	3,907	—	—	3,436	3,436
Triple Ring Technologies, Inc.	—	—	230	230				
	3,097	—	4,712	7,809	3,880	—	4,843	8,723
Other Equity								
Kaneland, LLC	—	844	—	844	—	988	—	988
Other	—	297	—	297	—	183	—	183
	—	1,141	—	1,141	—	1,171	—	1,171

GMSL Joint Ventures								
Huawei Marine Networks Co., Ltd	—	22,517	—	22,517	—	16,073	—	16,073
International Cableship Pte., Ltd.	—	1,103	—	1,103	—	498	—	498
S. B. Submarine Systems Co., Ltd.	—	11,844	—	11,844	—	9,513	—	9,513
Visser Smit Global Marine Pte	—	1,259	—	1,259	—	418	—	418
Sembawang Cable Depot Pte., Ltd.	—	430	—	430	—	822	—	822
	—	37,153	—	37,153	—	27,324	—	27,324
Total Other invested assets	$ 5,719	$ 50,439	$ 4,712	$ 60,870	$ 5,784	$ 42,492	$ 4,843	$ 53,119

Foreign Currency

Foreign currency translation can impact our financial results. During the three months ended September 30, 2016 and 2015, approximately 34.1% and 37.5% respectively, of our net revenue from continuing operations was derived from sales and operations outside the U.S. During the nine months ended September 30, 2016 and 2015, approximately 30.4% and 35.0% respectively, of our net revenue from continuing operations was derived from sales and operations outside the U.S. The reporting currency for our Condensed Consolidated Financial Statements is the United States dollar ("USD"). The local currency of each country is the functional currency for each of our respective entities operating in that country.

In the future, we expect to continue to derive a portion of our net revenue and incur a portion of our operating costs from outside the U.S., and therefore changes in exchange rates may continue to have a significant, and potentially adverse, effect on our results of operations. Our risk of loss regarding foreign currency exchange rate risk is caused primarily by fluctuations in the USD/British pound sterling ("GBP") exchange rate. Changes in the exchange rate of USD relative to the GBP could have an adverse impact on our future results of operations. We have agreements with certain subsidiaries for repayment of a portion of the investments and advances made to these subsidiaries. As we anticipate repayment in the foreseeable future, we recognize the unrealized gains and losses in foreign currency transaction gain (loss) on the Condensed Consolidated Financial Statements. The exposure of our income from operations to fluctuations in foreign currency exchange rates is reduced in part because a majority of the costs that we incur in connection with our foreign operations are also denominated in local currencies.

We are exposed to financial statement gains and losses as a result of translating the operating results and financial position of our international subsidiaries. We translate the local currency statements of operations of our foreign subsidiaries into USD using the average exchange rate during the reporting period. Changes in foreign exchange rates affect the reported profits and losses and cash flows of our international subsidiaries and may distort comparisons from year to year. By way of example, when the USD strengthens compared to the GBP, there could be a negative or positive effect on the reported results for our Telecommunications segment, depending upon whether such businesses are operating profitably or at a loss. More profits in GBP are required to generate the same amount of profits in USD and a greater loss in GBP to generate the same amount of loss in USD, and vice versa. For instance, when the USD weakens against the GBP, there is a positive effect on reported profits and a negative effect on reported losses.

Off-Balance Sheet Arrangements

DBM Global

DBM Global's off-balance sheet arrangements at September 30, 2016 included letters of credit of $4.0 million under a credit and security agreement with Wells Fargo Credit, Inc. and performance bonds of $49.4 million.

DBM Global's contract arrangements with customers sometimes require DBM Global to provide performance bonds to partially secure its obligations under its contracts. Bonding requirements typically arise in connection with public works projects and sometimes with respect to certain private contracts. DBM Global's performance bonds are obtained through surety companies and typically cover the entire project price.

New Accounting Pronouncements

For a discussion of our "New Accounting Pronouncements," refer to Note 2. Summary of Significant Accounting Policies to our unaudited Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Critical Accounting Policies

There have been no significant changes in our critical accounting policies since December 31, 2015.

Related Party Transactions

For a discussion of our "Related Party Transactions", refer to Note 18. Related Parties to our Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Corporate Information

The Company's executive offices are located at 450 Park Avenue 30 th Floor, New York, NY 10022. The Company's telephone number is (212) 235-2690. Our Internet address is www.HC2.com. We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosures will be included on our website in the 'Investor Relations' sections. Accordingly, investors should monitor such portions of our website, in addition to following our press releases, SEC filings and public conference calls and webcasts. We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information on our website is not a part of this Quarterly Report on Form 10-Q.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains or incorporates a number of "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based on current expectations, and are not strictly historical statements. In some cases, you can identify forward-looking statements by terminology such as "if," "may," "should," "believe," "anticipate," "future," "forward," "potential," "estimate," "opportunity," "goal," "objective," "growth," "outcome," "could," "expect," "intend," "plan," "strategy," "provide," "commitment," "result," "seek," "pursue," "ongoing," "include" or in the negative of such terms or comparable terminology. These forward-looking statements inherently involve certain risks and uncertainties and are not guarantees of performance, results, or the creation of shareholder value, although they are based on our current plans or assessments which we believe to be reasonable as of the date hereof.

HC2

Important factors or risks that could cause HC2's actual results to differ materially from the results we anticipate include, but are not limited to:

- The potential for and our ability to remediate future material weaknesses in our internal control over financial reporting;
- the possibility of indemnification claims arising out of divestitures of businesses;
- uncertain global economic conditions in the markets in which our operating segments conduct their businesses;
- the ability of our operating segments to attract and retain customers;
- increased competition in the markets in which our operating segments conduct their businesses;
- our possible inability to generate sufficient liquidity, margins, earnings per share, cash flow and working capital from our operating segments;
- our expectations regarding the timing, extent and effectiveness of our cost reduction initiatives and management's ability to moderate or control discretionary spending;
- management's plans, goals, forecasts, expectations, guidance, objectives, strategies and timing for future operations, acquisitions, synergies, asset dispositions, fixed asset and goodwill impairment charges, tax and withholding expense, selling, general and administrative expenses, product plans, performance and results;
- management's assessment of market factors and competitive developments, including pricing actions and regulatory rulings;
- limitations on our ability to successfully identify any strategic acquisitions or business opportunities and to compete for these opportunities with others who have greater resources;
- the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;

- the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- our dependence on distributions from our subsidiaries to fund our operations and payments on our obligations;
- the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we may incur;
- the impact of covenants in the Certificates of Designation governing HC2's Preferred Stock, the 11.0% Notes Indenture, the credit agreements governing the DBM Global Facility and the GMSL Facility and future financing agreements, on our ability to operate our business and finance our pursuit of acquisition opportunities;
- the impact on the holders of HC2's common stock if we issue additional shares of HC2 common stock or preferred stock;
- the impact of decisions by HC2's significant stockholders, whose interest may differ from those of HC2's other stockholders, or their ceasing to remain significant stockholders;
- the effect any interests our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;
- our dependence on certain key personnel;
- our ability to effectively increase the size of our organization, if needed, and manage our growth;
- the impact of a determination that we are an investment company or personal holding company;
- the impact of delays or difficulty in satisfying the requirements of Section 404 of the Sarbanes-Oxley Act of 2002;
- our possible inability to raise additional capital when needed or refinance our existing debt, on attractive terms, or at all; and
- our possible inability to hire and retain qualified executive management, sales, technical and other personnel.

Marine Services / GMSL

Important factors or risks that could cause GMSL's, and thus our Marine Services segment's, actual results to differ materially from the results we anticipate include, but are not limited to:

- the possibility of global recession or market downturn with a reduction in capital spending within the targeted market segments the business operates in;
- project implementation issues and possible subsequent overruns;
- risks associated with operating outside of core competencies when moving into different market segments;
- possible loss or severe damage to marine assets;
- vessel equipment aging or reduced reliability;
- risks associated with operating two joint ventures in China (Huawei Marine Networks Co., Ltd; China Telecom);
- risks related to foreign corrupt practices;
- changes to the local laws and regulatory environment in different geographical regions;
- loss of key senior employees;
- difficulties attracting enough skilled technical personnel;
- foreign exchange rate risk;
- liquidity risk; and
- potential for financial loss arising from the failure by customers to fulfill their obligations as and when these obligations fall due.

Manufacturing / DBM Global

Important factors or risks that could cause DBM Global's, and thus our Manufacturing segment's, actual results to differ materially from the results we anticipate include, but are not limited to:

- its ability to realize cost savings from expected performance of contracts, whether as a result of improper estimates, performance, or otherwise;
- uncertain timing and funding of new contract awards, as well as project cancellations;
- cost overruns on fixed-price or similar contracts or failure to receive timely or proper payments on cost-reimbursable contracts, whether as a result of improper estimates, performance, disputes, or otherwise;
- risks associated with labor productivity, including performance of subcontractors that DBM Global hires to complete projects;
- its ability to settle or negotiate unapproved change orders and claims;
- changes in the costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;

- adverse impacts from weather affecting DBM Global's performance and timeliness of completion of projects, which could lead to increased costs and affect the quality, costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;
- fluctuating revenue resulting from a number of factors, including the cyclical nature of the individual markets in which our customers operate;
- adverse outcomes of pending claims or litigation or the possibility of new claims or litigation, and the potential effect of such claims or litigation on DBM Global's business, financial condition, results of operations or cash flow; and
- lack of necessary liquidity to provide bid, performance, advance payment and retention bonds, guarantees, or letters of credit securing DBM Global's obligations under bids and contracts or to finance expenditures prior to the receipt of payment for the performance of contracts.

Telecommunications / ICS

Important factors or risks that could cause ICS's, and thus our Telecommunications segment's, actual results to differ materially from the results we anticipate include, but are not limited to:

- our expectations regarding increased competition, pricing pressures and usage patterns with respect to ICS's product offerings;
- significant changes in ICS's competitive environment, including as a result of industry consolidation, and the effect of competition in its markets, including pricing policies;
- its compliance with complex laws and regulations in the U.S. and internationally;
- further changes in the telecommunications industry, including rapid technological, regulatory and pricing changes in its principal markets; and
- an inability for ICS' suppliers to obtain credit insurance on ICS in determining whether or not to extend credit.

Insurance / Continental Insurance Group Ltd.

Factors or risks that could cause CIG's, and thus our Insurance segment's, actual results to differ materially from the results we anticipate include, but are not limited to:

- CIG's insurance subsidiaries' ability to maintain statutory capital and maintain or improve their financial strength;
- CIG's insurance subsidiaries' reserve adequacy, including the effect of changes to accounting or actuarial assumptions or methodologies;
- the accuracy of CIG's assumptions and estimates regarding future events and ability to respond effectively to such events, including mortality, morbidity, persistency, expenses, interest rates, tax liability, business mix, frequency of claims, severity of claims, contingent liabilities, investment performance, and other factors related to its business and anticipated results;
- availability, affordability and adequacy of reinsurance and credit risk associated with reinsurance;
- CIG's insurance subsidiaries are extensively regulated and subject to numerous legal restrictions and regulations;
- CIG's ability to defend itself against litigation, inherent in the insurance business (including class action litigation) and respond to enforcement investigations or regulatory scrutiny;
- the performance of third parties including distributors and technology service providers, and providers of outsourced services;
- the impact of changes in accounting and reporting standards;
- CIG's ability to protect its intellectual property;
- general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance which may affect (among other things) CIG's ability to access capital resources and the costs associated therewith, the fair value of CIG's investments, which could result in impairments and other-than-temporary impairments, and certain liabilities;
- CIG's exposure to any particular sector of the economy or type of asset through concentrations in its investment portfolio;
- the ability to increase sufficiently, and in a timely manner, premiums on in-force long-term care insurance policies and/or reduce in-force benefits, as may be required from time to time in the future (including as a result of our failure to obtain any necessary regulatory approvals or unwillingness or inability of policyholders to pay increased premiums);
- other regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) regulation of the sale, underwriting and pricing of products, and minimum capitalization, risk-based capital and statutory reserve requirements for insurance companies, and CIG's insurance subsidiaries' ability to mitigate such requirements; and
- CIG's ability to effectively implement its business strategy or be successful in the operation of its business;

- CIG's ability to retain, attract and motivate qualified employees;
- interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems;
- medical advances, such as genetic research and diagnostic imaging, and related legislation; and
- the occurrence of natural or man-made disasters or a pandemic.

Other unknown or unpredictable factors could also affect our business, financial condition and results. Although we believe that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that any of the estimated or projected results will be realized. You should not place undue reliance on these forward-looking statements, which apply only as of the date hereof. Subsequent events and developments may cause our views to change. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Factors

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, commodity prices and equity prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. We are exposed to market risk with respect to our investments and foreign currency exchange rates. Through DBM Global, we have market risk exposure from changes in interest rates charged on its borrowings and from adverse changes in steel prices. Through GMSL and ANG, we have market risk exposure from changes in interest rates charged on their respective borrowings. We do not use derivative financial instruments to mitigate a portion of the risk from such exposures.

Equity Price Risk

HC2 is exposed to market risk primarily through changes in fair value of available for sale fixed maturity and equity securities. HC2 follows an investment strategy approved by its board of directors which sets certain restrictions on the amounts of securities it may acquire and its overall investment strategy.

Market prices for fixed maturity and equity securities are subject to fluctuation and consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Because HC2's fixed maturity and equity securities are classified as available for-sale, the hypothetical decline would not affect current earnings except to the extent that the decline reflects other-than-temporary impairments.

A means of assessing exposure to changes in market prices is to estimate the potential changes in market values on the fixed maturity and equity securities resulting from a hypothetical decline in equity market prices. As of September 30, 2016, assuming all other factors are constant, we estimate that a 10.0%, 20.0%, and 30.0% decline in equity market prices would have an $138.8 million, $277.6 million, and $416.5 million adverse impact on HC2's portfolio of fixed maturity and equity securities, respectively.

Foreign Currency Exchange Rate Risk

GMSL and ICS are exposed to market risk from foreign currency price changes which could have a significant and potentially adverse impact on gains and losses as a result of translating the operating results and financial position of our international subsidiaries into USD.

We translate the local currency statements of operations of our foreign subsidiaries into USD using the average exchange rate during the reporting period. Changes in foreign exchange rates affect the reported profits and losses and cash flows of our international subsidiaries and may distort comparisons from year to year. For example, when the USD strengthens compared to the GBP, there could be a negative or positive effect on the reported results for our Telecommunications segment, depending upon whether such businesses are operating profitably or at a loss. More profits in GBP are required to generate the same amount of profits in USD and, similarly, a greater loss in GBP is required to generate the same amount of loss in USD, and vice versa. For instance, when the USD weakens against the GBP, there is a positive effect on reported profits and a negative effect on reported losses.

Interest Rate Risk

GMSL, DBM Global and ANG are exposed to the market risk from changes in interest rates through their borrowings, which bear variable rates based on LIBOR. Changes in LIBOR could result in an increase or decrease in interest expense recorded. A 100, 200, and 300 basis point increase in LIBOR based on the borrowings outstanding as of September 30, 2016 of 37.4 million, would result in an increase in the recorded interest expense of $0.4 million, $0.7 million, and $1.1 million per year.

Commodity Price Risk

DBM Global is exposed to the market risk from changes in prices on steel. For large orders the risk is mitigated by locking the general contractors into the price at the mill at the time work is awarded. In the event of a subsequent price increase by the mill, DBM Global has the ability to pass the higher costs on to the general contractor. DBM Global does not hedge or enter into any forward purchasing arrangements with the mills. The price negotiated at the time of the order is the price paid by DBM Global.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2016, our disclosure controls and procedures were effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control.

There have been no changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is subject to claims and legal proceedings that arise in the ordinary course of business. Such matters are inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to the Company or that the resolution of any such matter will not have a material adverse effect upon the Company's Condensed Consolidated Financial Statements. The Company does not believe that any of such pending claims and legal proceedings will have a material adverse effect on its Condensed Consolidated Financial Statements. The Company records a liability in its Condensed Consolidated Financial Statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. The Company reviews these estimates each accounting period as additional information is known and adjusts the loss provision when appropriate. If a matter is both probable to result in a liability and the amounts of loss can be reasonably estimated, the Company estimates and discloses the possible loss or range of loss to the extent necessary for the Condensed Consolidated Financial Statements not to be misleading. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in its Condensed Consolidated Financial Statements. See Note 14. Commitments and Contingencies to our unaudited financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

Telecommunications

ICS makes purchases from its suppliers, who may rely on the ability to obtain credit insurance on ICS in determining whether or not to extend short-term credit to ICS in the form of accounts receivables. To the extent that these suppliers are unable to obtain such insurance they may be unwilling to extend credit. Recently, two significant insurers of credit, Euler and Coface, have determined that they will not insure ICS credit and that the existing policies on its credit were cancelled based on their analysis of the financial condition of HC2, including its indebtedness levels and recent net losses and negative cash flow. As a result, we expect ICS's suppliers to find it difficult to obtain credit insurance on ICS, which could have a material adverse effect on ICS's business, financial condition, results of operations and prospects.

The United Kingdom's impending departure from the European Union could adversely affect us.

The United Kingdom held a referendum on June 23, 2016 in which a majority of voters voted to exit the European Union ("Brexit"). Negotiations are expected to commence to determine the future terms of the United Kingdom's relationship with the European Union, including, among other things, the terms of trade between the United Kingdom and the European Union. The Company's Marine Services and Telecommunications segments operate in the United Kingdom. The Marine Services and Telecommunications segments contributed 9.3% and 9.5% and 15.3% and 18.3% of our net revenues from operations in the United Kingdom for the three and the nine months ended September 30, 2016, respectively. The effects of Brexit will depend on any agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could adversely affect European and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the Euro. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

There are no additional material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On November 3, 2016, HC2's Board approved a revised form of indemnification agreement for directors and executive officers (the "*Indemnification Agreement*"). The Board determined that, in order to attract and retain highly competent individuals to serve, or continue to serve, as directors and executive officers, it is in the best interests of HC2 and its stockholders to enter into the Indemnification Agreements so as to eliminate any undue concern that such persons will not be indemnified for losses incurred by them relating to their status as a director or executive officer of HC2. HC2 anticipates that it will enter into a substantially similar Indemnification Agreement with any new directors or executive officers.

The Indemnification Agreements, among other things, require HC2 to indemnify, and advance expenses to, each director and executive officer to the fullest extent permitted by the laws of the State of Delaware, including indemnification of expenses such as attorneys' fees, judgments, fines and settlement amounts incurred by the director or executive officer in any action or proceeding, including any action or proceeding by or in right of HC2, arising out of such person's services as a director or executive officer. Upon execution of the Indemnification Agreement by any director or officer, any prior indemnification agreements entered into by such person shall be terminated and of no further force or effect.

The foregoing description of the Indemnification Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the form of Indemnification Agreement, a copy of which is attached hereto as Exhibit 10.1 and incorporated by reference herein.

Item 6. Exhibits

(a) Exhibits (see Exhibit Index following signature page below)

SIGNATURES

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

		HC2 Holdings, Inc.
Date: November 9, 2016	By:	/s/ Michael Sena
		Michael Sena
		Chief Financial Officer
		(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
10.1	Revised Indemnification Agreement of HC2 Holdings Inc. (filed herewith)
10.2	Voluntary Conversion Agreement, dated as of August 2, 2016, by and between Luxor Capital Group, LP and HC2 Holdings, Inc. (filed herewith)
10.3	Registration Rights Agreement, dated as of August 2, 2016, by and between Luxor Capital Group, LP and HC2 Holdings, Inc. (filed herewith)
10.4	Voluntary Conversion Agreement, dated as of August 2, 2016, by and between Corrib Master Fund, Ltd. and HC2 Holdings, Inc. (filed herewith)
10.5	Registration Rights Agreement, dated as of August 2, 2016, by and between Corrib Master Fund, Ltd. and HC2 Holdings, Inc. (filed herewith)
10.6^	Independent Consulting Services Agreement dated effective as of July 1, 2016 and dated as of July 11, 2016, by and between Wayne Barr, Jr. and HC2 Holdings, Inc. (incorporated by reference to Exhibit 10.1 to HC2's Current Report on Form 8-K, filed on July 14, 2016) (File No. 001-35210).
10.7^	Separation and Release Agreement dated July 20, 2016 by and between PTGi International Carrier Services, Inc. and Mesfin Demise (incorporated by reference to Exhibit 10.1 to HC2's Current Report on Form 8-K, filed on July 21, 2016) (File No. 001-35210).
31.1	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer (filed herewith).
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer (filed herewith).
32*	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2016, formatted in extensible business reporting language (XBRL); (i) Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2016 and 2015, (iii) Unaudited Condensed Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, (iv) Unaudited Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2016 and 2015, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2016 and 2015, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements (filed herewith).

* These certifications are being "furnished" and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

^ Indicates management contract or compensatory plan or arrangement.

EXHIBIT 10.1

INDEMNIFICATION AGREEMENT

This Indemnification Agreement, dated as of this _____ day of ___________ (this "***Agreement***"), is made by and between HC2 Holdings, Inc., a Delaware corporation (the "***Company***"), and _________________ ("***Indemnitee***").

RECITALS:

A. Section 141 of the Delaware General Corporation Law ("***DGCL***") provides that the business and affairs of a corporation shall be managed by or under the direction of its board of directors.

B. By virtue of the managerial prerogatives vested in the directors of a Delaware corporation, directors act as fiduciaries of the corporation and its stockholders.

C. It is critically important to the Company and its stockholders that the Company be able to attract and retain the most capable persons reasonably available to serve as directors and named executive officers ("***NEOs***") of the Company.

D. In recognition of the need for corporations to be able to induce capable and responsible persons to accept positions in corporate management, Delaware law authorizes (and in some instances requires) corporations to indemnify their directors and officers, and further authorizes corporations to purchase and maintain insurance for the benefit of their directors and officers.

E. The Delaware courts have recognized that indemnification by a corporation serves the dual policies of (1) allowing corporate officials to resist unjustified lawsuits, secure in the knowledge that, if vindicated, the corporation will bear the expense of litigation, and (2) encouraging capable persons to serve as corporate directors and officers, secure in the knowledge that the corporation will absorb the costs of defending their honesty and integrity.

F. Under Delaware law, a director's or officer's right to be reimbursed for the costs of defense of criminal actions, whether such claims are asserted under state or federal law, does not depend upon the merits of the claims asserted against the director or officer and is separate and distinct from any right to indemnification the director or officer may be able to establish.

G. Indemnitee is, or will be, a director or NEO of the Company and his or her willingness to serve in such capacity is predicated, in substantial part, upon the Company's willingness to indemnify him or her in accordance with the principles reflected above, to the fullest extent permitted by the laws of the State of Delaware, and upon the other undertakings set forth in this Agreement.

H. Therefore, in recognition of the need to provide Indemnitee with substantial protection against personal liability, in order to procure Indemnitee's continued service as a director or officer of the Company and to enhance Indemnitee's ability to serve the Company in an effective manner, and in order to provide such protection pursuant to express contract rights (intended to be enforceable irrespective of, among other things, any amendment to the Company's certificate of incorporation or bylaws (collectively, the "***Constituent Documents***"), any change in the composition of the Company's Board of Directors (the "***Board***") or any change-in-control or business combination transaction relating to the Company), the Company wishes to provide in this Agreement for the indemnification of and the advancement of Expenses to Indemnitee as set forth in this Agreement and for the continued coverage of Indemnitee under the Company's directors' and officers' liability insurance policies.

I. In light of the considerations referred to in the preceding recitals, it is the Company's intention and desire that the provisions of this Agreement be construed liberally, subject to their express terms, to maximize the protections to be provided to Indemnitee hereunder.

AGREEMENT:

NOW, THEREFORE, the parties hereby agree as follows:

1. Certain Definitions. In addition to terms defined elsewhere herein, the following terms have the following meanings when used in this Agreement with initial capital letters:

(a) "Change in Control" shall have occurred at such time, if any, as Incumbent Directors cease for any reason to constitute a majority of Directors. For purpose of this Section 1(a), "Incumbent Directors" means the individuals who, as of the date hereof, are Directors of the Company and any individual becoming a Director subsequent to the date hereof whose election, nomination for election by the Company's stockholders, or appointment, was approved by a vote of at least two-thirds of the then Incumbent Directors (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination); provided, however, that an individual shall not be an Incumbent Director if such individual's election or appointment to the Board occurs as a result of an actual or threatened election contest (as described in Rule 14a-12(c) of the Securities Exchange Act of 1934, as amended) with respect to the election or removal of Directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

(b) "Claim" means (i) any threatened, asserted, pending or completed claim, demand, action, suit or proceeding, whether civil, criminal, administrative, arbitrative, investigative or other, and whether made pursuant to federal, state or other law; and (ii) any inquiry or investigation, whether made, instituted or conducted, by the Company or any other Person, including without limitation any federal, state or other governmental entity, that Indemnitee determines might lead to the institution of any such claim, demand, action, suit or proceeding. For the avoidance of doubt, the Company intends indemnity to be provided hereunder in respect of acts or failure to act prior to, on or after the date hereof.

(c) "Controlled Affiliate" means any corporation, limited liability company, partnership, joint venture, trust or other entity or enterprise, whether or not for profit, that is directly or indirectly controlled by the Company. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of an entity or enterprise, whether through the ownership of voting securities, through other voting rights, by contract or otherwise; provided that direct or indirect beneficial ownership of capital stock or other interests in an entity or enterprise entitling the holder to cast 15% or more of the total number of votes generally entitled to be cast in the election of directors (or persons performing comparable functions) of such entity or enterprise shall be deemed to constitute control for purposes of this definition.

(d) "Disinterested Director" means a director of the Company who is not and was not a party to the Claim in respect of which indemnification is sought by Indemnitee.

(e) "Expenses" means attorneys' and experts' fees and expenses and all other costs and expenses paid or payable in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to investigate, defend, be a witness in or participate in (including on appeal), any Claim.

(f) "Indemnifiable Claim" means any Claim based upon, arising out of or resulting from (i) any actual, alleged or suspected act or failure to act by Indemnitee in his or her capacity as a director, officer, employee or agent of the Company or as a director, officer, employee, member, manager, trustee or agent of any other corporation, limited liability company, partnership, joint venture, trust or other entity or enterprise, whether or not for profit, as to which Indemnitee is or was serving at the request of the Company, (ii) any actual, alleged or suspected act or failure to act by Indemnitee in respect of any business, transaction, communication, filing, disclosure or other activity of the Company or any other entity or enterprise referred to in clause (i) of this sentence, or (iii) Indemnitee's status as a current or former director, officer, employee or agent of the Company or as a current or former director, officer, employee, member, manager, trustee or

agent of the Company or any other entity or enterprise referred to in clause (i) of this sentence or any actual, alleged or suspected act or failure to act by Indemnitee in connection with any obligation or restriction imposed upon Indemnitee by reason of such status. In addition to any service at the actual request of the Company, for purposes of this Agreement, Indemnitee shall be deemed to be serving or to have served at the request of the Company as a director, officer, employee, member, manager, agent, trustee or other fiduciary of another entity or enterprise if Indemnitee is or was serving as a director, officer, employee, member, manager, agent, trustee or other fiduciary of such entity or enterprise and (A) such entity or enterprise is or at the time of such service was a Controlled Affiliate, (B) such entity or enterprise is or at the time of such service was an employee benefit plan (or related trust) sponsored or maintained by the Company or a Controlled Affiliate, or (C) the Company or a Controlled Affiliate (by action of the Board, any committee thereof or the Company's Chief Executive Officer ("***CEO***") (other than as the CEO him or herself)) caused or authorized Indemnitee to be nominated, elected, appointed, designated, employed, engaged or selected to serve in such capacity.

(g) "Indemnifiable Losses" means any and all Losses relating to, arising out of or resulting from any Indemnifiable Claim; provided, however, that Indemnifiable Losses shall not include Losses incurred by Indemnitee in respect of any Indemnifiable Claim (or any matter or issue therein) as to which Indemnitee shall have been adjudged liable to the Company, unless and only to the extent that the Delaware Court of Chancery or the court in which such Indemnifiable Claim was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification for such Expenses as the court shall deem proper.

(h) "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company (or any subsidiary of the Company) or Indemnitee in any matter material to either such party (other than with respect to matters concerning the Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements) or (ii) any other named (or, as to a threatened matter, reasonably likely to be named) party to the Indemnifiable Claim giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(i) "Losses" means any and all Expenses, damages, losses, liabilities, judgments, fines, penalties (whether civil, criminal or other) and amounts paid or payable in settlement, including without limitation all interest, assessments and other charges paid or payable in connection with or in respect of any of the foregoing.

(j) "Person" means any individual, entity, or group, within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended.

(k) "Standard of Conduct" means the standard for conduct by Indemnitee that is a condition precedent to indemnification of Indemnitee hereunder against Indemnifiable Losses relating to, arising out of or resulting from an Indemnifiable Claim. The Standard of Conduct is (i) good faith and reasonable belief by Indemnitee that his or her action was in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, that Indemnitee had no reasonable cause to believe that his or her conduct was unlawful, or (ii) any other applicable standard of conduct that may hereafter be substituted under Section 145(a) or (b) of the DGCL or any successor to such provision(s).

2 . Indemnification Obligation. Subject only to Section 7 and to the proviso in this Section, the Company shall indemnify, defend and hold harmless Indemnitee, to the fullest extent permitted or required by the laws of the State of Delaware in effect on the date hereof or as such laws may from time to time

hereafter be amended to increase the scope of such permitted indemnification, against any and all Indemnifiable Claims and Indemnifiable Losses; provided, however, that, except as provided in Sections 4 and 20, Indemnitee shall not be entitled to indemnification pursuant to this Agreement in connection with any Claim initiated by Indemnitee against the Company or any director or officer of the Company unless the Company has joined in or consented to the initiation of such Claim. The Company acknowledges that the foregoing obligation may be broader than that now provided by applicable law and the Company's Constituent Documents and intends that it be interpreted consistently with this Section and the recitals to this Agreement.

3 . Advancement of Expenses. Indemnitee shall have the right to advancement by the Company prior to the final disposition of any Indemnifiable Claim of any and all Expenses relating to, arising out of or resulting from any Indemnifiable Claim paid or incurred by Indemnitee or which Indemnitee determines in good faith are reasonably likely to be paid or incurred by Indemnitee and as to which Indemnitee's counsel provides supporting documentation. Without limiting the generality or effect of any other provision hereof, Indemnitee's right to such advancement is not subject to the satisfaction of any Standard of Conduct. Without limiting the generality or effect of the foregoing, within five business days after any request by Indemnitee that is accompanied by supporting documentation for specific Expenses to be reimbursed or advanced, the Company shall, in accordance with such request (but without duplication), (a) pay such Expenses on behalf of Indemnitee, (b) advance to Indemnitee funds in an amount sufficient to pay such Expenses, or (c) reimburse Indemnitee for such Expenses; provided that Indemnitee shall repay, without interest any amounts actually advanced to Indemnitee that, at the final disposition of the Indemnifiable Claim to which the advance related, were in excess of amounts paid or payable by Indemnitee in respect of Expenses relating to, arising out of or resulting from such Indemnifiable Claim. In connection with any such payment, advancement or reimbursement, at the request of the Company, Indemnitee shall execute and deliver to the Company an undertaking, which need not be secured and shall be accepted without reference to Indemnitee's ability to repay the Expenses, by or on behalf of the Indemnitee, to repay any amounts paid, advanced or reimbursed by the Company in respect of Expenses relating to, arising out of or resulting from any Indemnifiable Claim in respect of which it shall have been determined, following the final disposition of such Indemnifiable Claim and in accordance with Section 7, that Indemnitee is not entitled to indemnification hereunder.

4 . Indemnification for Additional Expenses. Without limiting the generality or effect of the foregoing, the Company shall indemnify and hold harmless Indemnitee against and, if requested by Indemnitee, shall reimburse Indemnitee for, or advance to Indemnitee, within five business days of such request accompanied by supporting documentation for specific Expenses to be reimbursed or advanced, any and all Expenses paid or incurred by Indemnitee or which Indemnitee determines in good faith are reasonably likely to be paid or incurred by Indemnitee in connection with any Claim made, instituted or conducted by Indemnitee for (a) indemnification or reimbursement or advance payment of Expenses by the Company under any provision of this Agreement, or under any other agreement or provision of the Constituent Documents now or hereafter in effect relating to Indemnifiable Claims, and/or (b) recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless in each case of whether Indemnitee ultimately is determined to be entitled to such indemnification, reimbursement, advance or insurance recovery, as the case may be; provided, however, that Indemnitee shall return, without interest, any such advance of Expenses (or portion thereof) which remains unspent at the final disposition of the Claim to which the advance related.

5 . Partial Indemnity. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any Indemnifiable Loss but not for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

6 . Procedure for Notification. To obtain indemnification under this Agreement in respect of an Indemnifiable Claim or Indemnifiable Loss, Indemnitee shall submit to the Company a written request therefor, including a brief description (based upon information then available to Indemnitee) of such Indemnifiable Claim or Indemnifiable Loss. If, at the time of the receipt of such request, the Company has directors' and officers' liability insurance in effect under which coverage for such Indemnifiable Claim or Indemnifiable Loss is potentially available, the Company shall give prompt written notice of such Indemnifiable Claim or Indemnifiable Loss to the applicable insurers in accordance with the procedures set forth in the applicable policies. The Company shall provide to Indemnitee a copy of such notice delivered to the applicable insurers and, upon Indemnitee's request, copies of all subsequent correspondence between the Company and such insurers regarding the Indemnifiable Claim or Indemnifiable Loss, in each case substantially concurrently with the delivery thereof by the Company. The failure by Indemnitee to timely notify the Company of any Indemnifiable Claim or Indemnifiable Loss shall not relieve the Company from any liability hereunder unless, and only to the extent that, the Company did not otherwise learn of such Indemnifiable Claim or Indemnifiable Loss and such failure results in forfeiture by the Company of substantial defenses, rights or insurance coverage.

7. Determination of Right to Indemnification.

(a) To the extent that Indemnitee shall have been successful on the merits or otherwise in defense of any Indemnifiable Claim or any portion thereof or in defense of any issue or matter therein, including without limitation dismissal without prejudice, Indemnitee shall be indemnified against all Indemnifiable Losses relating to, arising out of or resulting from such Indemnifiable Claim in accordance with Section 2 and no Standard of Conduct Determination (as defined in Section 7(b)) shall be required.

(b) To the extent that the provisions of Section 7(a) are inapplicable to an Indemnifiable Claim that shall have been finally disposed of, any determination of whether Indemnitee has satisfied the applicable Standard of Conduct (a "***Standard of Conduct Determination***") shall be made as follows: (i) if a Change in Control shall not have occurred, or if a Change in Control shall have occurred but Indemnitee shall have requested that the Standard of Conduct Determination be made pursuant to this clause (i), (A) by a majority vote of the Disinterested Directors, even if less than a quorum of the Board, (B) if such Disinterested Directors so direct, by a majority vote of a committee of Disinterested Directors designated by a majority vote of all Disinterested Directors, or (C) if there are no such Disinterested Directors, or if a majority of the Disinterested Directors so direct, by Independent Counsel in a written opinion addressed to the Board, a copy of which shall be delivered to Indemnitee; and (ii) if a Change in Control shall have occurred and Indemnitee shall not have requested that the Standard of Conduct Determination be made pursuant to clause (i), by Independent Counsel in a written opinion addressed to the Board, a copy of which shall be delivered to Indemnitee. Indemnitee shall cooperate with reasonable requests of the individual or firm making such Standard of Conduct Determination, including providing to such Person documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination without incurring any unreimbursed cost in connection therewith. The Company shall indemnify and hold harmless Indemnitee against and, if requested by Indemnitee, shall reimburse Indemnitee for, or advance to Indemnitee, within five business days of such request accompanied by supporting documentation for specific costs and expenses to be reimbursed or advanced, any and all costs and expenses (including attorneys' and experts' fees and expenses) incurred by Indemnitee in so cooperating with the Person making such Standard of Conduct Determination.

(c) The Company shall use its reasonable efforts to cause any Standard of Conduct Determination required under Section 7(b) to be made as promptly as practicable. If (i) the Person empowered or selected under Section 7 to make the Standard of Conduct Determination shall not have made a determination within 30 calendar days after the later of (A) receipt by the Company of written notice from Indemnitee advising the Company of the final disposition of the applicable Indemnifiable Claim (the date

of such receipt being the "***Notification Date***") and (B) the selection of an Independent Counsel, if such determination is to be made by Independent Counsel, that is permitted under the provisions of Section 7(e) to make such determination, and (ii) Indemnitee shall have fulfilled his or her obligations set forth in the second sentence of Section 7(b), then Indemnitee shall be deemed to have satisfied the applicable Standard of Conduct; provided that such 30-day period may be extended for a reasonable time, not to exceed an additional 30 calendar days, if the Person making such determination in good faith requires such additional time for the obtaining or evaluation or documentation and/or information relating thereto.

(d) If (i) Indemnitee shall be entitled to indemnification hereunder against any Indemnifiable Losses pursuant to Section 7(a), (ii) no determination of whether Indemnitee has satisfied any applicable standard of conduct under Delaware law is a legally required condition precedent to indemnification of Indemnitee hereunder against any Indemnifiable Losses, or (iii) Indemnitee has been determined or deemed pursuant to Section 7(b) or (c) to have satisfied the applicable Standard of Conduct, then the Company shall pay to Indemnitee, within five business days after the later of (x) the Notification Date in respect of the Indemnifiable Claim or portion thereof to which such Indemnifiable Losses are related, out of which such Indemnifiable Losses arose or from which such Indemnifiable Losses resulted and (y) the earliest date on which the applicable criterion specified in clause (i), (ii) or (iii) above shall have been satisfied, an amount equal to the amount of such Indemnifiable Losses. Nothing herein is intended to mean or imply that the Company is intending to use Section 145(f) of the DGCL to dispense with a requirement that Indemnitee meet the applicable Standard of Conduct where it is otherwise required by such statute.

(e) If a Standard of Conduct Determination is required to be, but has not been, made by Independent Counsel pursuant to Section 7(b)(i), the Independent Counsel shall be selected by the Board or a Board Committee, and the Company shall give written notice to Indemnitee advising him or her of the identity of the Independent Counsel so selected. If a Standard of Conduct Determination is required to be, or to have been, made by Independent Counsel pursuant to Section 7(b)(ii), the Independent Counsel shall be selected by Indemnitee, and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either case, Indemnitee or the Company, as applicable, may, within five business days after receiving written notice of selection from the other, deliver to the other a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not satisfy the criteria set forth in the definition of "Independent Counsel" in Section 1(h), and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the Person so selected shall act as Independent Counsel. If such written objection is properly and timely made and substantiated, (i) the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit and (ii) the non-objecting party may, at its option, select an alternative Independent Counsel and give written notice to the other party advising such other party of the identity of the alternative Independent Counsel so selected, in which case the provisions of the two immediately preceding sentences and clause (i) of this sentence shall apply to such subsequent selection and notice. If applicable, the provisions of clause (ii) of the immediately preceding sentence shall apply to successive alternative selections. If no Independent Counsel that is permitted under the foregoing provisions of this Section 7(e) to make the Standard of Conduct Determination shall have been selected within 30 calendar days after the Company gives its initial notice pursuant to the first sentence of this Section 7(e) or Indemnitee gives its initial notice pursuant to the second sentence of this Section 7(e), as the case may be, either the Company or Indemnitee may petition the Court of Chancery of the State of Delaware for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person or firm selected by the Court or by such other person as the Court shall designate, and the person or firm with respect to whom all objections are so resolved or the person or firm so appointed will act as Independent Counsel. In all events,

the Company shall pay all of the actual and reasonable fees and expenses of the Independent Counsel incurred in connection with the Independent Counsel's determination pursuant to Section 7(b).

8 . Presumption of Entitlement. Notwithstanding any other provision hereof, in making any Standard of Conduct Determination, the Person making such determination shall presume that Indemnitee has satisfied the applicable Standard of Conduct, and the Company may overcome such presumption only by its adducing clear and convincing evidence to the contrary. Any Standard of Conduct Determination that is adverse to Indemnitee may be challenged by the Indemnitee in the Court of Chancery of the State of Delaware. No determination by the Company (including by its directors or any Independent Counsel) that Indemnitee has not satisfied any applicable Standard of Conduct shall be a defense to any Claim by Indemnitee for indemnification or reimbursement or advance payment of Expenses by the Company hereunder or create a presumption that Indemnitee has not met any applicable Standard of Conduct.

9 . No Other Presumption. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere or its equivalent, will not create a presumption that Indemnitee did not meet any applicable Standard of Conduct or that indemnification hereunder is otherwise not permitted.

10. Non Exclusivity. The rights of Indemnitee hereunder will be in addition to any other rights Indemnitee may have under the Constituent Documents, or the substantive laws of the Company's jurisdiction of incorporation, any other contract or otherwise (collectively, "***Other Indemnity Provisions***"); provided, however, that (a) to the extent that Indemnitee otherwise would have any greater right to indemnification under any Other Indemnity Provision, Indemnitee will without further action be deemed to have such greater right hereunder, and (b) to the extent that any change is made to any Other Indemnity Provision which permits any greater right to indemnification than that provided under this Agreement as of the date hereof, Indemnitee will be deemed to have such greater right hereunder. The Company may not, without the consent of Indemnitee, adopt any amendment to any of the Constituent Documents the effect of which would be to deny, diminish or encumber Indemnitee's right to indemnification under this Agreement or any Other Indemnity Provision.

11. Liability Insurance and Funding. For the duration of Indemnitee's service as a director and/or officer of the Company and for not less than six years thereafter, the Company shall use commercially reasonable efforts (taking into account the scope and amount of coverage available relative to the cost thereof) to cause to be maintained in effect policies of directors' and officers' liability insurance providing coverage for Indemnitee that is at least as favorable in scope and amount to that provided by the Company's current policies of directors' and officers' liability insurance. Upon request, the Company shall provide Indemnitee or his or her counsel with a copy of all directors' and officers' liability insurance applications, binders, policies, declarations, endorsements and other related materials. In all policies of directors' and officers' liability insurance obtained by the Company, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits, subject to the same limitations, as are accorded to the Company's directors and officers most favorably insured by such policy. Notwithstanding the foregoing, (i) the Company may, but shall not be required to, create a trust fund, grant a security interest or use other means, including without limitation a letter of credit, to ensure the payment of such amounts as may be necessary to satisfy its obligations to indemnify and advance expenses pursuant to this Agreement and (ii) in renewing or seeking to renew any insurance hereunder, the Company will not be required to expend more than 3.0 times the premium amount of the immediately preceding policy period (equitably adjusted if necessary to reflect differences in policy periods).

12. Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the related rights of recovery of Indemnitee against other Persons (other than Indemnitee's successors), including any entity or enterprise referred to in clause (i) of the definition of "Indemnifiable Claim" in Section 1(f). Indemnitee shall execute all papers reasonably required to evidence

such rights (all of Indemnitee's reasonable Expenses, including attorneys' fees and charges, related thereto to be reimbursed by or, at the option of Indemnitee, advanced by the Company).

13. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment to Indemnitee in respect of any Indemnifiable Losses to the extent Indemnitee has otherwise already actually received payment (net of Expenses incurred in connection therewith) under any insurance policy, the Constituent Documents and Other Indemnity Provisions or otherwise (including from any entity or enterprise referred to in clause (i) of the definition of "Indemnifiable Claim" in Section 1(f)) in respect of such Indemnifiable Losses otherwise indemnifiable hereunder.

14. Defense of Claims. Subject to the provisions of applicable policies of directors' and officers' liability insurance, the Company shall be entitled to participate in the defense of any Indemnifiable Claim or to assume or lead the defense thereof with counsel reasonably satisfactory to the Indemnitee; provided that if Indemnitee determines, after consultation with counsel selected by Indemnitee, that (a) the use of counsel chosen by the Company to represent Indemnitee would present such counsel with an actual or potential conflict, (b) the named parties in any such Indemnifiable Claim (including any impleaded parties) include both the Company and Indemnitee and Indemnitee shall conclude that there may be one or more legal defenses available to him or her that are different from or in addition to those available to the Company, (c) any such representation by such counsel would be precluded under the applicable standards of professional conduct then prevailing, or (d) Indemnitee has interests in the claim or underlying subject matter that are different from or in addition to those of other Persons against whom the Claim has been made or might reasonably be expected to be made, then Indemnitee shall be entitled to retain separate counsel (but not more than one law firm plus, if applicable, local counsel in respect of any particular Indemnifiable Claim for all indemnitees in Indemnitee's circumstances) at the Company's expense. The Company shall not be liable to Indemnitee under this Agreement for any amounts paid in settlement of any threatened or pending Indemnifiable Claim effected without the Company's prior written consent. The Company shall not, without the prior written consent of the Indemnitee, effect any settlement of any threatened or pending Indemnifiable Claim which the Indemnitee is or could have been a party unless such settlement solely involves the payment of money and includes a complete and unconditional release of the Indemnitee from all liability on any claims that are the subject matter of such Indemnifiable Claim. Neither the Company nor Indemnitee shall unreasonably withhold its consent to any proposed settlement; provided that Indemnitee may withhold consent to any settlement that does not provide a complete and unconditional release of Indemnitee.

15. Successors, Binding Agreement and Survival.

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform if no such succession had taken place. This Agreement shall be binding upon and inure to the benefit of the Company and any successor to the Company, including without limitation any Person acquiring directly or indirectly all or substantially all of the business or assets of the Company whether by purchase, merger, consolidation, reorganization or otherwise (and such successor will thereafter be deemed the "***Company***" for purposes of this Agreement), but shall not otherwise be assignable or delegable by the Company.

(b) This Agreement shall inure to the benefit of and be enforceable by the Indemnitee's personal or legal representatives, executors, administrators, heirs, distributees, legatees and other successors.

(c) This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or delegate this Agreement or any rights or obligations hereunder except as expressly provided in Sections 15(a) and 15(b). Without limiting the generality or effect of the foregoing, Indemnitee's right to receive payments hereunder shall not be assignable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by the Indemnitee's will or by the laws of descent and

distribution, and, in the event of any attempted assignment or transfer contrary to this Section 15(c), the Company shall have no liability to pay any amount so attempted to be assigned or transferred.

(d) For the avoidance of doubt, this Agreement shall survive and continue even though Indemnitee may have terminated his or her service as a director, officer, employee or agent of the Company or as a director, officer, employee, member, manager, trustee or agent of any other corporation, limited liability company, partnership, joint venture, trust or other entity or enterprise, whether or not for profit, as to which Indemnitee is or was serving at the request of the Company.

16. Notices. For all purposes of this Agreement, all communications, including without limitation notices, consents, requests or approvals, required or permitted to be given hereunder must be in writing and shall be deemed to have been duly given when hand delivered or dispatched by electronic facsimile or other electronic transmission (with receipt thereof orally confirmed), or one business day after having been sent for next day delivery by a nationally recognized overnight courier service, addressed to the Company (to the attention of the Secretary of the Company) and to Indemnitee at the applicable address shown on the signature page hereto, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address will be effective only upon receipt.

17. Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by and construed in accordance with the substantive laws of the State of Delaware, without giving effect to the principles of conflict of laws of such State. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the Chancery Court of the State of Delaware for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement, waive all procedural objections to suit in that jurisdiction, including without limitation objections as to venue or inconvenience, agree that service in any such action may be made by notice given in accordance with Section 16 and also agree that any action instituted under this Agreement shall be brought only in the Chancery Court of the State of Delaware.

18. Validity. If any provision of this Agreement or the application of any provision hereof to any Person or circumstance is held invalid, unenforceable or otherwise illegal, the remainder of this Agreement and the application of such provision to any other Person or circumstance shall not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal shall be reformed to the extent, and only to the extent, necessary to make it enforceable, valid or legal. In the event that any court or other adjudicative body shall decline to reform any provision of this Agreement held to be invalid, unenforceable or otherwise illegal as contemplated by the immediately preceding sentence, the parties thereto shall take all such action as may be necessary or appropriate to replace the provision so held to be invalid, unenforceable or otherwise illegal with one or more alternative provisions that effectuate the purpose and intent of the original provisions of this Agreement as fully as possible without being invalid, unenforceable or otherwise illegal.

19. Miscellaneous. No provision of this Agreement may be waived, modified or discharged unless such waiver, modification or discharge is agreed to in writing signed by Indemnitee and the Company. No waiver by either party hereto at any time of any breach by the other party hereto or compliance with any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, expressed or implied with respect to the subject matter hereof have been made by either party that are not set forth expressly in this Agreement.

20. Legal Fees and Expenses. It is the intent of the Company that Indemnitee not be required to incur legal fees and or other Expenses associated with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to Indemnitee hereunder. Accordingly,

without limiting the generality or effect of any other provision hereof, if it should reasonably appear to Indemnitee that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other Person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to improperly deny, or to improperly recover from, Indemnitee the benefits provided or intended to be provided to Indemnitee hereunder, the Company irrevocably authorizes the Indemnitee from time to time to retain counsel of Indemnitee's choice, at the expense of the Company as hereafter provided, to advise and represent Indemnitee in connection with any such interpretation, enforcement or defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other Person affiliated with the Company, in any jurisdiction. Without limiting the generality or effect of any other provision hereof or respect to whether Indemnitee prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses actually and reasonably incurred by Indemnitee in connection with any of the foregoing.

21. Certain Interpretive Matters. Unless the context of this Agreement otherwise requires, (a) "it" or "its" or words of any gender include each other gender, (b) words using the singular or plural number also include the plural or singular number, respectively, (c) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement, (d) the terms "Article," "Section," "Annex" or "Exhibit" refer to the specified Article, Section, Annex or Exhibit of or to this Agreement, (e) the terms "include," "includes" and "including" will be deemed to be followed by the words "without limitation" (whether or not so expressed), and (f) the word "or" is disjunctive but not exclusive. Whenever this Agreement refers to a number of days, such number will refer to calendar days unless business days are specified and whenever action must be taken (including the giving of notice or the delivery of documents) under this Agreement during a certain period of time or by a particular date that ends or occurs on a non-business day, then such period or date will be extended until the immediately following business day. As used herein, "business day" means any day other than Saturday, Sunday or a United States federal holiday.

22. Entire Agreement. This Agreement and the Constituent Documents constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, between the parties hereto with respect to the subject matter of this Agreement. Any prior agreements or understandings between the parties hereto with respect to indemnification are hereby terminated and of no further force or effect.

23. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original but all of which together shall constitute one and the same agreement.

[SIGNATURES ON NEXT PAGE]

IN WITNESS WHEREOF, Indemnitee has executed and the Company has caused its duly authorized representative to execute this Agreement as of the date first above written.

HC2 Holdings, Inc.

By: ________________________

Name: ________________________

Title: ________________________

INDEMNITEE:

Name: ________________________

Address: ________________________

____

____

Phone: ________________________

Email: ________________________

EXHIBIT 10.2

VOLUNTARY CONVERSION AGREEMENT

THIS VOLUNTARY CONVERSION AGREEMENT (this "***Agreement***") is made and entered into as of August 2, 2016, by and among HC2 Holdings, Inc., a Delaware corporation (the "***Company***"), and Luxor Capital Group, LP, the investment manager of the exchanging entities shown in Exhibit C (collectively, the "***Holder***") of the Company's Series A-1 Convertible Participating Preferred Stock, par value $0.01 per share (the "***Preferred Stock***").

RECITALS

A. The Holder has agreed to convert all of the shares of Preferred Stock it holds into common stock of the Company, par value $0.001 per share (the "***Common Stock***"), on the terms and subject to the conditions set forth in this Agreement.

B. In consideration of the conversion of the Preferred Stock by the Holder, the Company has agreed to issue Common Stock to the Holder in certain circumstances, on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

The parties agree as follows:

1. Conversion of the Preferred Stock and Issuances of Common Stock. On the terms and subject to the conditions of this Agreement, the Company and the Holder agree to take the following actions on the Closing Date (as defined below):

(a) Conversion by the Holder. The Holder agrees, pursuant to Section 5(a) of the Certificate of Designation of Series A-1 Convertible Participating Preferred Stock, dated as of September 22, 2014, (as amended from time to time prior to the date hereof, and as in effect as of the date hereof, the "***Series A-1 Certificate of Designation***"), that on the Closing Date, it will convert 9,000 shares of the Preferred Stock it holds into Common Stock, such shares of Preferred Stock representing all of the outstanding shares of Preferred Stock it holds as of the date hereof and immediately before the conversion contemplated by this clause (a) (the "***Holder's Shares***").

(b) Initial Issuance of Common Stock by Company. In consideration of the conversion referenced in clause (a) above, the Company agrees to issue to Holder on the Closing Date, in a transaction exempt from the registration requirements of the Securities Act of 1933 (the "Securities Act") under Section 4(a)(2) of the Securities Act, 136,149 shares of Common Stock.

(c) Participating Dividend Issuances by Company. In further consideration of the conversion referenced in clause (a) above, the Company agrees that in the event that the Holder, had it not converted the Holder's Shares pursuant to clause (a) above, would have been entitled to any Participating Dividends (as defined in the Series A-1 Certificate of Designation) payable after the date of this Agreement had the Holder's Shares remained unconverted, then the Company will issue to Holder, on the date such Participating Dividends become payable by the

Company, in a transaction exempt from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act, the number of shares of Common Stock equal to (a) the value of the Participating Dividends such Holder would have received pursuant to Sections (2)(c) and (2)(d) of the Series A-1 Certificate of Designation, divided by (b) the Thirty Day VWAP (as defined in the Series A-1 Certificate of Designation) for the period ending two business days prior to the underlying event or transaction that would have entitled the Holder to such Participating Dividend had the Holder's Shares remain unconverted.

(d) Accrued Value Issuances by Company. In further consideration of the conversion referenced in clause (a) above, the Company agrees that it will issue to Holder, on each quarterly anniversary of May 29, 2017 (or, if later, the date on which the corresponding dividend payment is made to the holders of the outstanding Preferred Stock) (such period, the "Quarterly Measurement Period"), through and until the Maturity Date (as defined in the Series A-1 Certificate of Designation), in a transaction exempt from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act, the number of shares of Common Stock equal to (a) 1.875% the Accrued Value (as defined in the Series A-1 Certificate of Designation) of the Holder's Shares as of the Closing Date, divided by (b) the Thirty Day VWAP (as defined in the Series A-1 Certificate of Designation) for the period ending two business days prior to the applicable Dividend Payment Date (as defined in the Series A-1 Certificate of Designation).

(e) Cessation of Issuances. The provisions of clauses (c) and (d) above will cease to apply, and the Company will not be required to issue any additional shares of its Common Stock hereunder, if beginning on May 29, 2017 and at any time thereafter, the Thirty Day VWAP and the Daily VWAP (each as defined in the Series A-1 Certificate of Designation), would be such that the Company would have been able to cause Holder to convert the Holder's Shares pursuant to Section 5(b) of the Series A-1 Certificate of Designation, assuming for purposes of this provision (and the underlying Conversion Price, as defined in the Series A-1 Certificate of Designation) that the transactions contemplated by this Agreement (or any similar transaction with holders of Non-Participating Preferred Stock (as defined in ***Exhibit A***) had never taken place.

(f) NYSE MKT LLC Restriction. In no event will the aggregate number of shares of Common Stock issued to Holder pursuant to the foregoing clauses (b), (c) and (d), together with the number of shares of Common Stock issued to holders of Non-Participating Preferred Stock pursuant to the analogous provisions contained in related transactions or similar transactions being undertaken substantially concurrently with this transaction (in each case, taking into account subsequent stock splits or similar changes to Company's capitalization permitted under applicable NYSE MKT LLC rules), exceed 19.99% of the number of shares of Common Stock of the Company outstanding on the Closing Date, unless the Company has received prior stockholder approval of such issuance (in accordance with the requirements of the NYSE MKT LLC).

(g) Limitation on Hedging Transactions by Holder. The Holder agrees that, so long as the provisions of clause (c) or clause (d) above remain applicable, it will not, and will not permit any of its controlled parties or affiliates to, directly or indirectly, enter into any hedging transaction, short position, or similar transaction (i) with respect to the shares of the Company's

Common Stock it may have the right to receive pursuant to clauses (c) or (d) hereof until and unless such shares of Common Stock are issued to Holder or (ii) during any Quarterly Measurement Period.

(h) Registration Rights Agreement. The Company agrees that on the Documentation Date it will enter into a registration rights agreement with the Holder substantially in the form of Exhibit B attached hereto (the "***Registration Rights Agreement***").

(i) Closing Date. On the terms and subject to the conditions of this Agreement, the closing of the transactions contemplated by clauses (a) and (b) above (the "***Closing***") shall occur at 10.00 a.m., New York time, on August 5, 2016, or at such other time and date as shall be agreed among the Company and the Holder (the time and date on which the Closing occurs is referred to herein as the "***Closing Date***"). Notwithstanding the foregoing, if the Closing has not occurred within 30 days of the Closing Date, this Agreement shall terminate and all obligations of the Company and the Holders pursuant to this Agreement shall be void and of no effect; provided, that Sections 9, 10, 12, 13, 14, 15, 16 and 18 and the last sentence of Section 17 and this sentence shall survive termination of this Agreement and that no such termination shall relieve any party hereto from liability for any material breach of this Agreement or bad faith conduct that occurred prior to, or in connection with, such termination. Common Stock issued pursuant to Section 1(b), Section 1(c) or Section 1(d) are referred to as the "***Shares***."

2. Closing.

(a) At the Closing, the Company will (x) execute and deliver an instruction letter and any other documents reasonably requested by the Holder or Broadridge Corporate Issuer Solutions, Inc., as transfer agent for the Company (the "***Transfer Agent***"), in form reasonably acceptable to the Holder, in order to effect (i) the conversion of the Holder's Shares as contemplated by Section 1(a) above and (ii) the issuance of Common Stock to the Holder as contemplated by Section 1(b) above.

(b) The obligation of the Holder to consummate the Closing is subject to the fulfillment at or prior to the Closing of each of the following conditions: (i) the Company shall have duly executed and delivered to the Holder the Registration Rights Agreement and (ii) the Company having executed and delivered the documents referred to in Section 2(a). This Agreement and the Registration Rights Agreement are together referred to as the "***Transaction Documents***."

3. Representation and Warranties of the Company. The Company hereby represents and warrants to the Holder as of the date hereof and as of the Closing Date, as follows:

(a) Organization and Standing of the Company. The Company represents and warrants that it (i) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with full corporate power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as presently conducted, and (ii) is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction which requires such qualification, except in the case of clause (ii) above, to the extent that the failure to be so qualified or be in good standing would not reasonably be expected to result in (x) a material adverse effect on the validity or enforceability of the Transaction

Documents, (y) a material adverse effect on the condition (financial or otherwise), earnings, business or properties of the Company and its subsidiaries and investments, taken as a whole, or (z) a material adverse effect on the Company's ability to perform in any material respect its obligations under the Transaction Documents (any of (x), (y) and (z), a "***Material Adverse Effect***").

(b) Authorization. The Company represents and warrants, that: (i) it has full power and authority to execute and deliver the Transaction Documents, to perform its obligations under the Transaction Documents, and to consummate the transactions contemplated in the Transaction Documents; (ii) the execution and delivery by the Company of the Transaction Documents, the performance of its obligations hereunder and thereunder and the consummation of the transactions contemplated hereby have been duly authorized by all necessary action on the part of the Company, and no further approval or authorization is required on the part of the Company; and (iii) the Company has duly executed and delivered the Transaction Documents and such Transaction Documents constitute the legal, valid and binding obligation of the Company, enforceable in accordance with their terms, subject to applicable laws affecting creditors' rights generally and to general equitable principles.

(c) Issuance and Delivery of the Shares. The Company hereby represents and warrants that (i) the Shares, when issued by the Company pursuant to Section 1, have been duly authorized and, when issued in compliance with the provisions of this Agreement, will be validly issued, fully paid and nonassessable and assuming the accuracy of the representations made by the Holder in this agreement, the issuance by the Company of the Shares, when issued by the Company pursuant to Section 1, are exempt from registration under the Securities Act.

(d) SEC Documents; Financial Statements. The Company represents and warrants that:

(i) As of the date hereof, the Company has filed all forms, reports and documents with the Securities and Exchange Commission (the "***Commission***") that have been required to be filed by it under applicable Laws (the "***Company SEC Filings***"), including the Annual Report of the Company on Form 10-K for the fiscal year ended December 31, 2015, as amended through the date of this Agreement. Each Company SEC Filing complied as of its filing date, as to form in all material respects with the applicable requirements of the Securities Act of 1933, as amended, and all of the rules and regulations promulgated thereunder (the "***Securities Act***") or the Securities Exchange Act of 1934, as amended, and all of the rules and regulations promulgated thereunder (the "***Exchange Act***"), as the case may be, each as in effect on the date such Company SEC Filing was filed (and, if amended or superseded by a filing prior to the date of this Agreement, on the date of such amended or superseded filing). As of its filing date (and, if amended or superseded by a filing prior to the date of this Agreement, on the date of such amended or superseded filing), each Company SEC Filing did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. None of the Company's subsidiaries is required to file any forms, reports or other documents with the SEC pursuant to Sections 13(d) and 15(d) of the Exchange Act. No executive officer of the Company has failed to make the certifications required by him or her under Section 302 and 906 of the Sarbanes Oxley Act of 2002

with respect to any Company SEC Filing. As of the date hereof, there are no transactions that have occurred that are required to be disclosed in the appropriate Company SEC Filings pursuant to Item 404 of Regulation S-K that have not been disclosed in the Company SEC Filings. The Company SEC Filings also include disclosure regarding the Company's continued evaluation of strategic and business alternatives, including the possibility that the Company is engaged in ongoing discussions with respect to possible acquisitions, business combinations and debt or equity securities offerings of widely varying sizes, which should be considered in addition to the information included on ***Exhibit A*** hereto regarding the potential dilution to holders of the Common Stock that may result from the transactions described in this Agreement.

(ii) The consolidated financial statements (including all related notes and schedules) of the Company and its subsidiaries included in the Company SEC Filings and (collectively, the "***Company Financial Statements***") (i) comply as to form in all material respects with the published rules and regulations of the SEC with respect thereto and (ii) fairly present, in all material respects, the consolidated financial position of the Company and its subsidiaries as of the dates indicated and the results of their operations and their cash flows for the periods therein specified, all in accordance with United States generally accepted accounting principles applied on a consistent basis ("***GAAP***") throughout the periods therein specified (except as otherwise noted therein, and in the case of quarterly financial statements except for the absence of footnote disclosure and subject, in the case of interim periods, to normal year-end adjustments, the effect of which will not, individually or in the aggregate, be material, and the absence of footnote disclosure that if presented, would not differ materially from those included in the audited Company Financial Statements).

(e) Capitalization of the Company. The Company represents and warrants that (i) the authorized capital stock of the Company consists of 80,000,000 shares of common stock and 20,000,000 shares of Preferred Stock, (ii) as of August 1, 2016, there are 28,308 shares of Series A Preferred Stock issued and outstanding, 10,000 shares of Series A-1 Preferred Stock issued and outstanding and 14,000 shares of Series A-2 Preferred Stock issued and outstanding, (iii) as of August 1, 2016, there are 35,605,957 shares of Common Stock issued and 35,436,527 shares of Common Stock outstanding, and there are no other shares of any other class or series of capital stock of the Company issued or outstanding, (iv) on April 11, 2014, the Company's Board of Directors adopted the HC2 Holdings, Inc. 2014 Omnibus Equity Award Plan (the "***Omnibus Plan***"), which was approved by the Company's stockholders at the annual meeting of stockholders held on June 12, 2014; the Omnibus Plan provides that no further awards will be granted pursuant to the Company's Management Compensation Plan, as amended (the "***Prior Plan***"); however, awards that had been previously granted pursuant to the Prior Plan will continue to be subject to and governed by the terms of the Prior Plan; as of August 1, 2016, there were 467,371 shares of Common Stock underlying outstanding awards under the Prior Plan.

(f) No Breach. The Company represents and warrants that the execution and delivery of the Transaction Documents, the consummation of the transactions contemplated in the Transaction Documents, and the compliance with the terms of the Transaction Documents, will not conflict with, result in the breach of, or constitute a material default under, or require any consent or approval that has not been obtained on or prior to the date hereof under, any agreement or

instrument to which the Company is a party or by which it may be bound, other than those consents and approvals the failure to obtain would not reasonable be expected to have a Material Adverse Effect.

(g) Litigation. The Company represents and warrants that, except as disclosed in SEC filings, no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or its property is pending or, to the best knowledge of the Company, threatened that could reasonably expected to have a Material Adverse Effect, whether or not arising from transactions in the ordinary course of business.

(h) Governmental Consents. The Company represents and warrants that, except as disclosed in SEC filings, no consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state, or local governmental authority on the part of the Company is required in connection with the consummation of the transactions contemplated by this Agreement except for (a) compliance with the securities and blue sky laws in the states and other jurisdictions in which the Shares are issued, which compliance will be effected in accordance with such laws, (b) the approval by NYSE MKT LLC of the listing of the Shares, (c) the filing of one or more Current Reports on Form 8-K and (d) those that the failure to obtain would not reasonably be expected to have a Material Adverse Effect.

(i) No Material Adverse Change. The Company represents and warrants that as of the date hereof, there have not been any changes in the authorized capital, assets, liabilities, financial condition, business, material agreements or operations of the Company from that reflected in the Financial Statements except changes in the ordinary course of business which have not been, either individually or in the aggregate, materially adverse to the business, properties, financial condition or results of operations of the Company.

(j) Compliance with NYSE MKT LLC Continued Listing Requirements. The Company represents and warrants that (i) it is in compliance with applicable NYSE MKT LLC continued listing requirements; and (ii) there are no proceedings pending or, to the Company's knowledge, threatened against the Company relating to the continued listing of the Common Stock on NYSE MKT LLC and the Company has not received any notice of, nor to the Company's knowledge is there any reasonable basis for, the delisting of the Common Stock from NYSE MKT LLC.

(k) Investment Company. The Company represents and warrants that it is not and, after giving effect to the transactions contemplated by this Agreement, will not be an "investment company" as defined in the Investment Company Act of 1940, as amended.

(l) Price of Common Stock. The Company represents and warrants that it has not taken, directly or indirectly, any action designed to cause or result in, or that has constituted or that might reasonably be expected to constitute the stabilization or manipulation of the price of any securities of the Company to facilitate the transactions contemplated by this Agreement.

(m) Tax Advice. The Company represents and warrants that neither the Holder, nor any of their respective officers, directors, stockholders, agents, representatives or affiliates has

made statements, warranties or representations to the Company with respect to the tax consequences of the transactions contemplated by this Agreement; (ii) the Company has reviewed with its own tax advisors the federal, state, local and foreign tax consequences of the transactions contemplated by this Agreement; (iii) the Company relies solely on its own advisors and not on any statements or representations of the Holder or any of their respective agents for the federal, state, local and foreign tax consequences to it that may result from the transactions contemplated by this Agreement; and (iv) the Company understands that it (and not the Holder) will be responsible for any tax liability of the Company that may arise as a result of the transactions contemplated by this Agreement.

(n) Offering. The Company represents and warrants that no person has or will have, as a result of the transactions contemplated hereby, any right, interest or valid claim against or upon the Holder for any commission, fee or other compensation as a finder, broker or agent because of any act or omission by the Company.

(o) No General Solicitation. The Company represents and warrants that neither it nor any person acting on its behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D promulgated under the Securities Act) in connection with the transactions contemplated by this Agreement.

(p) No Integrated Offering. The Company represents and warrants that neither the Company nor any person acting on its behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any Company security, under circumstances that would adversely affect reliance by the Company on Section 4(a)(2) of the Securities Act or require registration of any of the Shares under the Securities Act or, to the knowledge of the Company, cause the transactions contemplated hereby to be integrated with prior offerings of Common Stock by the Company for purposes of the Securities Act.

4. Representations and Warranties of the Holder. The Holder represents and warrants to the Company, as of the date hereof and as of the Closing Date, as follows:

(a) Authorization. (i) The Holder has full power and authority to execute and deliver the Transaction Documents, to perform its obligations under the Transaction Documents, and to consummate the transactions contemplated in the Transaction Documents; (ii) the execution and delivery by the Holder of the Transaction Documents, the performance of its obligations thereunder and the consummation of the transactions contemplated thereby have been duly authorized by all necessary action on the part of the Holder, and no further approval or authorization is required on the part of the Holder; and (iii) the Holder has duly executed and delivered the Transaction Documents and such Transaction Documents constitute the legal, valid and binding obligation of the Holder, enforceable in accordance with their terms, subject to applicable laws affecting creditors' rights generally and to general equitable principles.

(b) No Breach. The execution and delivery of the Transaction Documents by the Holder, the consummation of the transactions contemplated in the Transaction Documents, and the compliance with the terms of the Transaction Documents will not conflict with, result in the breach of, or constitute a material default under, or require any consent or approval that has not

been obtained on or prior to the date hereof under, any agreement or instrument to which the Holder is a party or by which it may be bound.

(c) Accredited Investor. The Holder is an "accredited investor" as defined in Rule 501 of Regulation D promulgated under the Securities Act.

(d) Investment Representations. The Holder understands that the private placements of the Shares has not been registered under the Securities Act. The Holder also understands that the Shares are being issued pursuant to an exemption from registration contained in the Securities Act based in part upon the Holder's representations contained in this Agreement and that the Shares must continue to be held by the Holder unless a subsequent disposition thereof is registered under the Securities Act or is exempt from such registration. The Holder understands that the exemptions from registration afforded by Rule 144 under the Securities Act ("***Rule 144***") (the provisions of which are known to it) depend on the satisfaction of various conditions.

(e) Economic Risk. The Holder has been afforded the opportunity to receive information from, and to ask questions of and receive answers from the management of, the Company and its subsidiaries concerning this transaction so as to allow it to make an informed investment decision prior to the transaction and has sufficient knowledge and experience in evaluating and investing in companies similar to the Company so as to be able to evaluate the risks and merits of any investment or transaction involving in the Company. The Holder's financial condition is such that it is able to bear the risk of holding the Shares for an indefinite period of time and the risk of loss of its entire investment in the Shares. The Holder understands that there is no assurance that any exemption from registration under the Securities Act will be available for the disposition by it of the Shares.

(f) Acquisition for Own Account. The Holder is acquiring the Shares for its own account solely for the purpose of investment, not as nominee or agent, and not with a view to, or for sale in connection with, any distribution of Shares, and the Holder has no present intention of selling, granting any participation in, or otherwise distributing the same, in violation of the Securities Act. The Holder has no present agreement, undertaking, arrangement, obligation or commitment providing for the disposition of the Shares.

(g) HSR. The Acquiring Person (as defined in 16 C.F.R. §801.2(a)) qualifies for the "acquisition solely for the purpose of investment exemption" under 16 C.F.R. § 802.9, and the Holder's acquisition of the Shares is therefore exempt from the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

(h) Company Information. The Company may possess or receive or may have received, may have access to, and may be in possession of material, non-public, confidential information concerning the Shares, the Company, and the Company's and/or its affiliates' financial condition, results of operations, businesses, properties, active or pending litigation, assets, liabilities, management, projections, appraisals, plans and prospects ("***Company Information***") that has not been disclosed to the Holder. The Holder also acknowledges the information set forth on ***Exhibit A*** hereto (the "***Transaction Information***"). The Company Information and the Transaction Information may all have an effect on the value of the Shares or be indicative of a value of the

Shares that is substantially different from the value of the Shares on the Closing Date and going forward. The Holder expressly waives and releases the Company from any and all claims and liabilities arising from (i) the Company's failure to disclose, or the Holder's failure to obtain and review, the Company Information and (ii) any of the facts and circumstances of the Transaction Information. Furthermore, the Holder expressly agrees not to make any claim or demand or bring any action against the Company in respect of the transactions contemplated hereby relating to (A) the Company's failure to disclose, or the Holder's failure to obtain and review, such Company Information and (B) any of the facts and circumstances of the Transaction Information; provided, however the foregoing shall not prevent the Holder from bringing any claim for fraud. The Holder acknowledges that the Company is relying on the representations, warranties, agreements and acknowledgments set forth in this Section 4(h) in engaging in the transactions contemplated hereby, and would not engage in such transactions in the absence of such representations, warranties and acknowledgements.

(i) Business Experience. The Holder is capable of evaluating the merits and risks of the transactions contemplated by this Agreement.

(j) Tax Advice. (i) Neither the Company, nor any of its officers, directors, stockholders, agents, representatives or affiliates has made statements, warranties or representations to the Holder with respect to the tax consequences of the transactions contemplated by this Agreement; (ii) the Holder has reviewed with its own tax advisors the federal, state, local and foreign tax consequences of the transactions contemplated by this Agreement; (iii) the Holder relies solely on its own advisors and not on any statements or representations of the Company or any of its respective agents for the federal, state, local and foreign tax consequences to it that may result from the transactions contemplated by this Agreement; and (iv) the Holder understands that it (and not the Company) will be responsible for any tax liability of the Holder that may arise as a result of the transactions contemplated by this Agreement.

(k) Broker's Fee. No person has or will have, as a result of the transactions contemplated hereby, any right, interest or valid claim against or upon the Company for any commission, fee or other compensation as a finder, broker or agent because of any act or omission by the Holder.

(l) Access to Information. The Holder has had access to such financial and other information as is necessary in order for the Holder to make a fully-informed decision as to this Agreement. The Holder acknowledges that (i) conversion and related Common Stock issuances described in Section 1 represent negotiated transactions; and (ii) no representation or warranty as to the current or future fair market value of the Shares has been made.

(m) No Governmental Review. The Holder understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Shares or the fairness or suitability of the investment in the Shares nor have such authorities passed upon or endorsed the merits of this Agreement and the transactions contemplated hereby.

(n) No General Solicitation. The Holder is not participating in the transactions contemplated by this Agreement as a result of any general solicitation or general advertising.

(o) No Change of Control. The Holder has no present intent to effect a "change of control" of the Company as such term is understood under the rules promulgated pursuant to Section 13(d) of the Exchange Act.

5. Transfer Restrictions.

(a) The Holder agrees that it and its controlled Affiliates may only dispose of the Shares pursuant to an effective registration statement under the Securities Act or pursuant to an available exemption from the registration requirements of the Securities Act, and in compliance with any applicable state securities laws. In connection with any transfer of Shares other than pursuant to an effective registration statement or to the Company or pursuant to paragraph (b)(1) of Rule 144, the Company may require that the transferor provide to the Company an opinion of counsel, selected by the transferor and reasonably acceptable to the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration under the Securities Act. Notwithstanding the foregoing, the Company hereby consents to and agrees to register on the books of the Company and with its transfer agent, without any such legal opinion, any transfer of the Shares by the Holder to an Affiliate of the Holder, provided that the transferee certifies to the Company that it is an "accredited investor" as defined in Rule 501(a) under the Securities Act. For purposes of this Agreement, the term "***Affiliate***" means, with respect to any person, any other person directly or indirectly controlling, controlled by or under common control with, such person. For purposes of this definition, "***control***" of a person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities, by contract or otherwise.

6. Share Certificates. The Holder acknowledges that any certificate representing the Shares will bear a legend conspicuously thereon to the following effect:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "***ACT***"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND SAID LAWS OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF."

7. Conditions to the Company's Obligations at the Closing. The Company's obligation to complete the transactions contemplated by this Agreement shall be subject to the following conditions to the extent not waived by the Company:

(a) Evidence of Conversion. The Company shall have received satisfactory evidence from the Holder and/or the Transfer Agent that the conversion of the Holder's Shares contemplated in Section 1 has been completed.

(b) Representations and Warranties. The representations and warranties made by the Holder in Section 4 hereof shall be true and correct in all material respects when made, and shall be true and correct in all material respects on the Closing Date with the same force and effect as if they had been made on and as of said date, except to the extent any such representation or warranty expressly speaks of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date. The Holder shall have performed all obligations and covenants herein required to be performed by them on or prior to the Closing Date.

(c) Receipt of Executed Documents. The Holder shall have executed and delivered to the Company the Agreement.

(d) Judgments. No judgment, writ, order, injunction, award or decree of or by any court, or judge, justice or magistrate, including any bankruptcy court or judge, or any order of or by any governmental authority, shall have been issued, and no action or proceeding shall have been instituted by any governmental authority, enjoining or preventing the consummation of the transactions contemplated hereby.

(e) Waiver of Non-Participating Holders. The Company shall have received from the holders of the Non-Participating Preferred Stock a waiver of all rights and required consents related to the transactions contemplated by the Agreement.

(f) NYSE MKT LLC Approval. The Company shall have received approval of the transactions contemplated by the Agreement from NYSE MKT LLC.

8. Conditions to Holder's Obligations at the Closing. The Holder's obligation to complete the transactions contemplated by this Agreement shall be subject to the following conditions to the extent not waived by the Holder:

(a) Representations and Warranties. The representations and warranties made by the Company in Section 3 hereof shall be true and correct in all material respects when made, and shall be true and correct in all material respects on the Closing Date, with the same force and effect as if they had been made on and as of said date, except to the extent any such representation and warranty expressly speaks of an earlier date, in which case such representation or warranty shall be true and correct as of such earlier date. The Company shall have performed all obligations and covenants herein required to be performed by it on or prior to the Closing Date.

(b) Good Standing. The Company shall be validly existing as a corporation in good standing under the laws of Delaware.

(c) NYSE MKT LLC Notification. The Company shall have filed with NYSE MKT a Notification Form: Listing of Additional Shares for the listing of the Shares.

(d) Judgments. No judgment, writ, order, injunction, award or decree of or by any court, or judge, justice or magistrate, including any bankruptcy court or judge, or any order of or by any governmental authority, shall have been issued, and no action or proceeding shall have

been instituted by any governmental authority, enjoining or preventing the consummation of the transactions contemplated hereby.

(e) Stop Orders. No stop order or suspension of trading shall have been imposed by the NYSE MKT LLC, the SEC or any other governmental regulatory body with respect to public trading in the Common Stock.

9. Assignment; Binding Effect. Neither this Agreement nor any of the rights, interests or obligations hereunder is binding upon and inures to the benefit of any parties other than the parties hereto and their respective successors and permitted assigns, and there are no third party beneficiaries of this Agreement. No party will assign this Agreement (or any portion hereof, or any rights or obligations hereunder) without the prior written consent of the other parties hereto. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

10. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York applicable to agreements made and to be performed in such state. Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby may be instituted in the federal courts of the United States of America located in the Borough of Manhattan in the City of New York or the courts of the State of New York in each case located in the Borough of Manhattan in the City of New York (collectively, the "***Specified Courts***"), and each party irrevocably submits to the exclusive jurisdiction (except for proceedings instituted in regard to the enforcement of a judgment of any such court, as to which such jurisdiction is non-exclusive) of such courts in any such suit, action or proceeding. Service of any process, summons, notice or document by mail to such party's address set forth above shall be effective service of process for any suit, action or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or other proceeding in the Specified Courts and irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such suit, action or other proceeding brought in any such court has been brought in an inconvenient forum. EACH PARTY HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

11. Indemnification.

(a) Indemnification by the Company. The Company agrees to indemnify and hold harmless the Holder and/or each Person, if any, who controls the Holder within the meaning of the Securities Act (each, a "***Company Indemnified Party***"), against any losses, claims, damages, liabilities or expenses, joint or several, to which such Company Indemnified Party may become subject under the Securities Act, the Exchange Act, or any other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Company), insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof as contemplated below) arise out of

or are based in whole or in part on any inaccuracy in the representations and warranties of the Company contained in this Agreement or any failure of the Company to perform its obligations hereunder, and will reimburse each Company Indemnified Party for legal and other expenses reasonably incurred as such expenses are reasonably incurred by such Company Indemnified Party in connection with investigating, defending, settling, compromising or paying such loss, claim, damage, liability, expense or action; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon the inaccuracy of any representations made by such Company Indemnified Party herein.

(b) Indemnification by the Holder. The Holder agrees to indemnify and hold harmless the Company, each of its directors and officers, and/or each Person, if any, who controls the Company within the meaning of the Securities Act (each, a "***Holder Indemnified Party***"), against any losses, claims, damages, liabilities or expenses, joint or several, to which such Holder Indemnified Party may become subject, under the Securities Act, the Exchange Act, or any other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Holder) insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof as contemplated below) arise out of or are based in whole or in part on any inaccuracy in the representations and warranties of the Holder contained in this Agreement or any failure of the Holder to perform its obligations hereunder and will reimburse each Holder Indemnified Party for legal and other expenses reasonably incurred, as such expenses are reasonably incurred by such Holder Indemnified Party in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action, provided, however, that the Holder will not be liable in any such case to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon the inaccuracy of any representations made by such Holder Indemnified Party herein.

12. Notices. All notices and other communications under this Agreement will be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when delivered by confirmed facsimile (with respect to this clause (b), solely if receipt is confirmed), (c) when delivered after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) when delivered by a nationally recognized overnight courier. All communications, if to the Company, shall be sent to HC2 Holdings, Inc. 450 Park Avenue, 30th Floor, New York, NY 10022, Attention: Paul Robinson, email: probinson@hc2.com, with copies to Latham & Watkins LLP at 885 Third Avenue, New York, New York 10021, Facsimile: (212) 751-4864, Attention: Senet S. Bischoff, and if to Holder at the address indicated on the signature page.

13. Counterparts. This Agreement may be executed in any number of counterparts, each of which will be an original, but all of which together will constitute one instrument.

14. Headings. The headings contained in this Agreement are included for purposes of convenience only, and do not affect the meaning or interpretation of this Agreement.

15. Entire Agreement. This Agreement (including all Exhibits hereto) sets forth the entire understanding of the parties hereto and supersedes any prior written or oral agreements and understandings with respect to the subject matter of this Agreement. This Agreement can be

amended, supplemented or changed, and any provision hereof can be waived, only by written instrument making specific reference to this Agreement signed by the parties hereto.

16. Expenses. Except as otherwise provided in this Agreement, each of the parties will bear their respective expenses incurred or to be incurred in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby. In the event that any action or proceeding is initiated to enforce or interpret the provisions of this Agreement, or to recover for a violation of this Agreement, the substantially prevailing party in any such action or proceeding shall be entitled to its costs (including reasonable attorneys' fees).

17. Survival Period. All representations and warranties made in this Agreement will expire on the first anniversary of the date of this Agreement, except for the representations in Sections 3(a), (b), (c), (e) and (f) which shall survive until the end of the applicable statute of limitations, and the representations, warranties, agreements and acknowledgements set forth in Section 4(h) which shall survive indefinitely. All other covenants, agreements and obligations contained in this Agreement shall survive indefinitely unless a different period is specifically pursuant to the provisions of this Agreement. Notwithstanding anything in this Agreement to the contrary (i) in no event will the Company or the Holder be responsible for damages resulting from the breach of any representation, warranty or covenant (including the foregoing indemnity) under this Agreement in excess of the value of Shares issued pursuant to Section 1 of this Agreement by the Company, the value of such Shares determined on their date of issuance by the closing price as reported on NYSE MKT LLC on the date of such issuance and (ii) damages shall not include any (x) special, indirect or punitive damages, or (y) any damages that are not the natural and reasonably foreseeable consequence of the relevant breach.

18. Efforts to Consummate. The Company and the Holder shall use their reasonable best efforts to take, or cause to be taken, all appropriate action, to do, or cause to be done, all things necessary, proper or advisable under applicable law, and to execute and deliver such documents and other papers, as may be required to carry out the provisions of this Agreement and make effective the transactions contemplated by this Agreement (including, without limitation, the satisfaction of applicable conditions set forth in Sections 2, 7 and 8).

[SIGNATURE PAGE FOLLOWS]

The parties have executed this Voluntary Conversion Agreement as of the date first above written.

COMPANY:

HC2 HOLDINGS, INC.

By: /s/ Keith M. Hladek
Name: Keith M. Hladek
Title: Chief Operating Officer

LUXOR CAPITAL PARTNERS, LP

By: /s/ Norris Nissim
Name: Norris Nissim
Title: General Counsel

Address:
1114 Avenue of the Americas
29th Floor
New York, NY 10036

LUXOR CAPITAL PARTNERS OFFSHORE MASTER FUND, LP

By: /s/ Norris Nissim
Name: Norris Nissim
Title: General Counsel

Address:
1114 Avenue of the Americas
29th Floor
New York, NY 10036

THEBES OFFSHORE MASTER FUND, LP

By: /s/ Norris Nissim
Name: Norris Nissim
Title: General Counsel

Address:
1114 Avenue of the Americas
29th Floor
New York, NY 10036

LUXOR WAVEFRONT, LP

By: /s/ Norris Nissim
Name: Norris Nissim
Title: General Counsel

Address:
1114 Avenue of the Americas
29th Floor
New York, NY 10036

EXHIBIT A

ADDITIONAL INFORMATION

1. As a result of the transactions contemplated by the Preferred Conversion Agreement to which this Exhibit A is attached, holders of the Company's Common Stock may experience significant dilution. The Company has entered into several agreements which feature anti-dilution adjustments that may be triggered by the issuance of additional equity securities or securities convertible into equity securities, including:

(a) In connection with the December 2015 acquisition of certain insurance assets by the Company (the "Insurance Acquisition"), the Company issued warrants to purchase two million shares (the "Warrant") of Common Stock to Great American Financial Resources, Inc. a Delaware corporation ("GAFRI"), at an exercise price of $7.08 per share (subject to certain adjustments, including for anti-dilution if Common Stock is issued at a price below $7.08) on or after February 3, 2016 until five years after the closing date. As a result of such anti-dilution adjustments, assuming 814,424 shares of Common Stock are issued in connection with the Agreement (and assuming a fixed share price of $4.54 per share), the issuances pursuant to the Agreement would result in an increase of 11,364 shares of Common Stock issuable under the Warrant.

(b) The Company's Series A-1 Convertible Participating Preferred Stock, the Company's Series A Convertible Participating Preferred Stock, par value $0.001 per share (the "Series A Preferred Stock") and the Company's Series A-2 Convertible Participating Preferred Stock, par value $0.001 per share (the "Series A-2 Preferred Stock"), contain anti-dilution adjustments providing for the adjustment of their conversion prices in certain issuances, including the issuance of Common Stock below their then current respective conversion prices. The Series A-1 Preferred Stock (other than the Series A-1 Preferred Stock held by the Converting Holder which is being converted on the date of the Voluntary Conversion Agreement), the Series A Preferred Stock and the Series A-2 Preferred Stock is referred to as the "Non-Participating Preferred Stock." As a result of such anti-dilution adjustments, assuming 814,424 shares of Common Stock are issued in connection with the Agreement (and assuming a fixed share price of $4.54 per share), the issuances pursuant to the Agreement would result in an increase of 29,423 shares of Common Stock issuable upon conversion of the Non-Participating Preferred Stock.

EXHIBIT B

REGISTRATION RIGHTS AGREEMENT

[TO BE ATTACHED]

EXHIBIT C

SCHEDULE OF EXCHANGING ENTITIES

Legal Entity	Shares
Luxor Capital Partners, LP	3,988
Luxor Capital Partners Offshore Master Fund, LP	4,015
Thebes Offshore Master Fund, LP	182
Luxor Wavefront, LP	815

EXHIBIT 10.3

REGISTRATION RIGHTS AGREEMENT

by and among

HC2 HOLDINGS INC.

and the INVESTORS party hereto

Dated August 2, 2016

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Schedule A - Investors

Exhibit A - Form of Joinder

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "**Agreement**"), is made as of the 2nd day of August, 2016, by and among HC2 Holdings Inc., a Delaware corporation (the "**Company**"), and each of the investors listed on Schedule A hereto (each of which is referred to in this Agreement as an "**Investor**").

RECITALS

WHEREAS, the Company entered into that certain Voluntary Conversion Agreement dated as of August 2, 2016 (the "**Voluntary Conversion Agreement**") with the investors party thereto , pursuant to which the Company will issue on the date hereof and may in the future issue additional shares of Common Stock (as defined below) to the Investors.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. For purposes of this Agreement:

1.1 "**Affiliate**" means, with respect to any specified Person, any other Person who, directly or indirectly, controls, is controlled by, or is under common control with such Person.

1.2 "**Automatic Shelf Registration Statement**" means an "automatic shelf registration statement" as defined in Rule 405 promulgated under the Securities Act.

1.3 "**Board of Directors**" means the board of directors of the Company (or any duly authorized committee thereof).

1.4 "**Common Stock**" means shares of the Company's common stock, par value $0.001 per share.

1.5 "**Cut Back Shares**" has the meaning set forth in Subsection 2.1(f).

1.6 "**Damages**" means any loss, damage, claim or liability (joint or several) to which a party hereto may become subject under the Securities Act, the Exchange Act, or other federal or state law, insofar as such loss, damage, claim or liability (or any action in respect thereof) arises out of or is based upon: (i) any untrue statement or alleged untrue statement of a material fact contained in any registration statement of the Company, including any preliminary prospectus, free writing prospectus prepared by a Holder or the Company, as applicable, or final prospectus contained therein or any amendments or supplements thereto; (ii) an omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or (iii) any violation or alleged violation by the indemnifying party (or any of its agents or Affiliates) of this Agreement, the Securities Act, the Exchange Act, any state securities law, or any rule or regulation promulgated under the Securities Act, the Exchange Act, or any state securities law.

1.7 "**Demand Notice**" has the meaning set forth in Subsection 2.1.

1.8 "**Exchange Act**" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

1.9 "**Excluded Registration**" means (i) a registration relating to the sale of securities to employees of the Company or a subsidiary pursuant to a stock option, stock purchase, or similar plan; (ii) a registration relating to an SEC Rule 145 transaction; or (iii) a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities that are also being registered.

1.10 "**FINRA**" means the Financial Industry Regulatory Authority.

1.11 "**Form S-1**" means such form under the Securities Act as in effect on the date hereof or any successor registration form under the Securities Act subsequently adopted by the SEC.

1.12 “**Form S-3**” means such form under the Securities Act as in effect on the date hereof or any registration form under the Securities Act subsequently adopted by the SEC that permits incorporation of substantial information by reference to other documents filed by the Company with the SEC.

1.13 “**Holdback Period**” has the meaning set forth in Section 2.11.

1.14 “**Holdback Extension”** has the meaning set forth in Section 2.11.

1.15 “**Holders**” means any Investor and any other holder of Registrable Securities who is a party to this Agreement.

1.16 “**Immediate Family Member**” means a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including, adoptive relationships, of a natural person referred to herein.

1.17 “**Initiating Holders**” means, collectively, Holders who properly initiate a registration request under this Agreement.

1.18 “**Person**” means any individual, corporation, partnership, trust, limited liability company, association or other entity.

1.19 “**Prospectus**” means the prospectus related to any Registration Statement (whether preliminary or final or any prospectus supplement, including, without limitation, a prospectus or prospectus supplement that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance on Rule 415, 424, 430A, 430B or 430C under the Securities Act, as amended or supplemented by any amendment or prospectus supplement), including post-effective amendments, and all materials incorporated by reference in such prospectus.

1.20 “**Registration Rights Agreement**” has the meaning set forth in the Recitals.

1.21 “**Registrable Securities**” means any newly issued shares of Common Stock issued by the Company pursuant to the Voluntary Conversion Agreement (and for the avoidance of doubt, not including shares of Common Stock received upon the conversion of any shares of Preferred Stock (as defined in the Voluntary Conversion Agreement)); provided, that Registrable Securities held by any Holder will cease to be Registrable Securities, when they have been (A) sold to or through a broker or dealer or underwriter in a public distribution or a public securities transaction (including pursuant to Rule 144 of the Securities Act), or (B) sold in a transaction in which the transferor’s rights under this Agreement are not validly assigned in accordance with this Agreement.

1.22 “**Registration Statement**” means any registration statement filed pursuant to the Securities Act.

1.23 “**SEC**” means the Securities and Exchange Commission.

1.24 “**SEC Restrictions**” has the meaning set forth in Subsection 2.1(f).

1.25 “**SEC Rule 144**” means Rule 144 promulgated by the SEC under the Securities Act.

1.26 “**SEC Rule 145**” means Rule 145 promulgated by the SEC under the Securities Act.

1.27 “**Securities Act**” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

1.28 “**Selling Holder Counsel**” has the meaning set forth in Subsection 2.6.

1.29 “**Selling Expenses**” means all underwriting discounts, selling commissions, and stock transfer taxes applicable to the sale of Registrable Securities, and fees and disbursements of counsel for any Holder, except for the fees and disbursements of the Selling Holder Counsel borne and paid by the Company as provided in Subsection 2.6.

1.30 “**Shelf Registration**” means a registration of securities pursuant to a Registration Statement filed with the Commission in accordance with and pursuant to Rule 415 promulgated under the Securities Act.

1.31 “**Shelf Registration Statement**” has the meaning set forth in Subsection 2.1(b) hereof.

1.32 “**Suspension Period**” has the meaning set forth in Subsection 2.1(d).

1.33 “**Underwriter**” means the underwriter, placement agent or other similar intermediary participating in an Underwriting.

1.34 “**Underwriting**” of securities means a public offering of securities registered under the Securities Act in which an underwriter, placement agent or other similar intermediary participates in the distribution of such securities.

1.35 “**Underwritten Takedown**” means an underwritten offering takedown to be conducted by one or more Holders in accordance with Section 2.3(b).

2. Registration Rights. The Company covenants and agrees as follows:

2.1 Demand and Shelf Registration.

(a) Form S-1 Demand. If at any time after the date hereof, the Company receives a request from a Holder of Registrable Securities that the Company file a Form S-1 registration statement with respect to any outstanding Registrable Securities of such Holders having an anticipated aggregate offering price, net of Selling Expenses, of at least $5 million, then the Company shall (x) within two (2) days after the date such request is given, give notice thereof (the “**Demand Notice**”) to all Holders other than the Initiating Holders (if there are Holders of Registrable Securities other than the Initiating Holders); and (y) as soon as practicable, and in any event within thirty (30) days after the date such request is given by the Initiating Holders, file a Form S-1 registration statement under the Securities Act covering all Registrable Securities that the Initiating Holders requested to be registered and any additional Registrable Securities requested to be included in such registration by any other Holders, as specified by notice given by each such Holder to the Company within five (5) days of the date the Demand Notice is given, and in each case, subject to the limitations of Subsections 2.1(c) and 2.3. No Holder shall deliver an initiating request under this Section 2.1(a) at any time when a Shelf Registration Statement covering such Holder’s Registrable Securities is effective and available for use in connection with a resale of such Registrable Securities. The Company shall not be required to file a Form S-1 registration statement under this Section 2.1(a) if it is then eligible to use Form S-3 for secondary offerings of Registrable and it advises the Initiating Holders that it is preparing a Shelf Registration Statement in accordance with the first sentence of Section 2.1(b)(i).

(b) Shelf Registration.

(i) Within thirty (30) days after the date on which a Holder of Registrable Securities shall so request (provided, that the Company is, at the time of receipt of such request, eligible to use a Form S-3 registration statement for secondary offerings of Registrable Securities) and for so long as there are Registrable Securities outstanding, the Company shall use its reasonable best efforts to ensure that the Company shall at all times have and maintain an effective Registration Statement for a Shelf Registration covering the resale of all of the Registrable Securities requested to be included by any Holder, on a delayed or continuous basis (the “**Shelf Registration Statement**”). The Company shall give written notice of the filing of any Shelf Registration Statement at least fifteen (15) days prior to filing such Shelf Registration Statement to all Holders of Registrable Securities and shall, upon receipt of a request from any Holder, include in such Shelf Registration Statement all Registrable Securities of each requesting Holder. The Company shall use its reasonable best efforts to maintain the effectiveness of such Shelf Registration Statement in accordance with the terms hereof. The “Plan of Distribution” section of such Shelf Registration Statement shall permit all lawful means of disposition of Registrable Securities, including firm-commitment underwritten public offerings, block trades, agented transactions, sales directly into the market, purchases or sales by brokers, Hedging Transactions, distributions to stockholders, partners or members of such Holders and sales not involving a public offering.

(ii) From and after the date that the Shelf Registration Statement is initially effective, as promptly as is practicable after receipt of a request from a Holder, and in any event within (x) ten (10) days after the date such request is received by the Company or (y) if a request is so received during a Suspension Period, five (5) days after the expiration of such Suspension Period, the Company shall take all necessary action to cause the requesting Holder to be named as a selling securityholder in the Shelf Registration Statement and the related Prospectus in such a manner as to permit such Holder to deliver such Prospectus in connection with sales of such Registrable Securities to the

purchasers thereof in accordance with applicable law, which action may include: (A) if required by applicable law, filing with the Commission a post-effective amendment to the Shelf Registration Statement; (B) preparing and, if required by applicable law, filing a supplement or supplements to the related Prospectus or a supplement or amendment to any document incorporated therein by reference; (C) filing any other required document; or (D) with respect to a post-effective amendment to the Shelf Registration Statement that is not automatically effective, using its reasonable best efforts to cause such post-effective amendment to be declared or to otherwise become effective under the Securities Act as promptly as is practicable; provided that: (A) the Company may delay such filing until the date that is twenty (20) days after any prior such filing; (B) if the Shelf Registration Statement is not an Automatic Shelf Registration Statement and the Company has already made such a filing during the calendar quarter in which such filing would otherwise be required to be made, the Company may delay such filing until the tenth (10th) day of the following calendar quarter; and (C) if such request is delivered during a Suspension Period, the Company shall so inform the Holder delivering such request and shall take the actions set forth above upon expiration of the Suspension Period in accordance with Subsection 2.1(d).

(c) Notwithstanding the foregoing obligations, if the Company furnishes to Holders requesting a registration pursuant to this Subsection 2.1 a certificate signed by the Company's chief executive officer stating that in the good faith judgment of the Company's Board of Directors, after consultation with counsel, it would be materially detrimental to the Company and its stockholders for such registration statement to either become effective or remain effective for as long as such registration statement otherwise would be required to remain effective, because such action would (i) be expected to have a material adverse effect on any proposal or plan of the Company to effect a merger, acquisition, disposition, financing, reorganization, recapitalization or similar transaction; (ii) require premature disclosure of material information that the Company has a bona fide business purpose for preserving as confidential; or (iii) render the Company unable to comply with requirements under the Securities Act or Exchange Act, then the Company shall have the right to defer taking action with respect to such filing, and any time periods with respect to filing or effectiveness thereof shall be tolled correspondingly, for a period of not more than forty five (45) days after the request of the Initiating Holder is given; provided, however, that the Company may not invoke this right more than once in any twelve (12) month period; and provided further that the Company shall not register any securities for its own account or that of any other stockholder during such forty five (45) day period other than an Excluded Registration.

(d) Suspension Periods. Upon written notice to the Holders of Registrable Securities, (x) the Company shall be entitled to suspend, for a period of time, the use of any Registration Statement or Prospectus if the Board of Directors determines in its good faith judgment, after consultation with counsel, that the Registration Statement or any Prospectus may contain an untrue statement of a material fact or omits any fact necessary to make the statements in the Registration Statement or Prospectus not misleading and (y) the Company shall not be required to amend or supplement the Registration Statement, any related Prospectus or any document incorporated therein by reference if the Board of Directors determines in its good faith judgment, after consultation with counsel, that such amendment or supplement would reasonably be expected to have a material adverse effect on any proposal or plan of the Company to effect a merger, acquisition, disposition, financing, reorganization, recapitalization or similar transaction, in each case that is material to the Company (in case of each clause (x) and (y), a "**Suspension Period**"); provided that (A) the duration of all Suspension Periods may not exceed one hundred and twenty (120) days in the aggregate in any 12-month period and (B) the Company shall use its commercially reasonable efforts to amend or supplement the Registration Statement and/or Prospectus to correct such untrue statement or omission as soon as reasonably practicable, but in no event shall any single suspension period exceed forty five (45) days.

(e) The Company shall not be obligated to effect, or to take any action to effect, any registration pursuant to Subsection 2.1(a) during the period ending ninety (90) days after the effective date of, another registration by the Company, including a Company-initiated registration, in each case, in which Holders were entitled to include Registrable Securities in accordance with Section 2.2. A registration shall not be counted as "effected" for purposes of this Subsection 2.1(e) until such time as the applicable registration statement has been declared effective by the SEC; provided, however, if the Initiating Holders withdraw their request for such registration and elect to pay the

registration expenses therefor, such withdrawn registration statement shall not be counted as "effected" for purposes of this Subsection 2.1(e).

(f) Secondary Offering. If at any time the SEC takes the position that the offering of some or all of the Registrable Securities in a Registration Statement are not eligible to be made as a secondary offering, the Company shall use commercially reasonable best efforts to persuade the SEC that the offering contemplated by the Registration Statement is a bona fide secondary offering. In the event that the SEC refuses to alter its position, the Company shall (i) remove from the Registration Statement such portion of the Registrable Securities (the "**Cut Back Shares**") and/or (ii) agree to such restrictions and limitations on the registration and resale of the Registrable Securities as the SEC may require to assure that the Registration Statement is deemed a secondary offering (collectively, the "**SEC Restrictions**"); provided, however, that the Company shall not agree to name any Holder as an "underwriter" in such Registration Statement without the prior written consent of such Holder. Any cut-back imposed pursuant to this Section 2.1(f) shall be allocated among the Holders on a pro rata basis in accordance with the number of shares that such Holders have requested to be included in such Registration Statement, unless the SEC Restrictions otherwise require or provide or the participating Holders otherwise agree. From and after the date that the Company is able to effect the registration of such Cut Back Shares in accordance with any SEC Restrictions, all of the provisions of this Section 2.1 shall again be applicable to such Cut Back Shares.

2.2 Company Registration. If the Company proposes to register (including, for this purpose, a registration effected by the Company for stockholders other than the Holders) any of its Common Stock under the Securities Act in connection with the public offering of such securities solely for cash (other than in an Excluded Registration), the Company shall, at such time, promptly give each Holder written notice of such Registration. In the case of a takedown offering under a Shelf Registration, the Company shall give each Holder notice of such registration not less than five (5) days prior to the expected date of commencement of marketing efforts for such takedown. Upon the request of each Holder given within two (2) days after such notice is given by the Company, the Company shall, subject to the provisions of Subsection 2.3, cause to be included all of the Registrable Securities that each such Holder has requested to be included in such registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Subsection 2.2 before the effective date of such registration, whether or not any Holder has elected to include Registrable Securities in such registration. The expenses (other than Selling Expenses) of such withdrawn registration shall be borne by the Company in accordance with Subsection 2.6.

2.3 Underwriting Requirements.

(a) If, pursuant to Subsection 2.1(a), the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an Underwriting, they shall so advise the Company as a part of their request made pursuant to Subsection 2.1, and the Company shall include such information in the Demand Notice. The managing Underwriter(s) will be selected by the Initiating Holders, subject only to the reasonable approval of the Company. In such event, the right of any Holder to include such Holder's Registrable Securities in such registration shall be conditioned upon such Holder's participation in such Underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such Underwriting shall (together with the Company as provided in Subsection 2.4(n)) enter into an underwriting agreement in customary form with the Underwriter(s) selected for such Underwriting. Notwithstanding any other provision of this Subsection 2.3, if the managing Underwriter(s) advise the Initiating Holders in writing that marketing factors require a limitation on the number of shares to be underwritten, then the Initiating Holders (if there are Holders of Registrable Securities other than the Initiating Holders) shall so advise all Holders of Registrable Securities that otherwise would be underwritten pursuant hereto, and the number of Registrable Securities that shall be included in the underwriting shall be allocated among such Holders of Registrable Securities, including the Initiating Holders, in proportion (as nearly as practicable) to the number of Registrable Securities proposed by each Holder to be included in the registration or in such other proportion as shall mutually be agreed to in writing by all such selling Holders; provided, however, that the number of Registrable Securities held by the Holders to be included in such underwriting shall not be reduced unless all other securities to be sold by persons who are not Holders are first entirely excluded from the underwriting.

(b) Shelf Underwritten Takedown.

(i) At any time after the Company has an effective shelf registration one or more Holders of outstanding Registrable Securities may request that the Company effect an underwritten takedown under the Shelf Registration Statement of at least $5 million in Registrable Securities, based on the closing market price on the trading day immediately prior to the initial request of such requesting Holders. Within five (5) days of receipt of such request, the Company shall notify all other Holders (if applicable) whose Registrable Securities are included in such Shelf Registration Statement of such request and shall (except as provided in clause (iii) below) include in such Underwritten Takedown all Registrable Securities requested to be included therein by Holders who respond within five (5) days of the Company's notification described above.

(ii) For any Underwritten Takedown from a Shelf Registration Statement, the managing underwriter or underwriters shall be selected by the Holders participating in such offering holding a majority of the Registrable Securities to be disposed of pursuant to such offering and shall be reasonably acceptable to the Company.

(iii) If the managing underwriter or underwriters for the Underwritten Takedown advise the Company that in their reasonable opinion the number of securities requested to be included in such underwritten offering takedown exceeds the number which can be sold in an orderly manner in such offering within a price range acceptable to the Initiating Holders, the Company shall include in such Underwritten Takedown the number which can be so sold in the following order of priority: (A) first, the securities requested to be included by the Holders (pro rata among the Holders of such securities on the basis of the number of securities requested to be included therein by each such holder), (B) second, the securities requested to be included in such Underwritten Takedown by holders exercising piggyback registration rights (pro rata among the holders of such securities on the basis of the number of securities requested to be included therein by each such holder), (C) third, the securities the Company proposes to sell, and (D) fourth, other securities requested to be included in such Underwritten Takedown (pro rata among the holders of such securities on the basis of the number of securities requested to be included therein by each such holder).

(iv) The Company shall not be required to effect an Underwritten Takedown more than once in any six (6) month period.

(c) In connection with any offering involving an underwriting of shares of the Company's capital stock pursuant to Subsection 2.2, the Company shall not be required to include any of the Holders' Registrable Securities in such underwriting unless the Holders accept the terms of the underwriting as agreed upon between the Company and its underwriters, and then only in such quantity as the underwriters in their sole discretion determine will not jeopardize the success of the offering by the Company. If the total number of securities, including Registrable Securities, requested by stockholders to be included in such offering exceeds the number of securities to be sold that the underwriters in their reasonable discretion determine is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters and the Company in their sole discretion determine will not jeopardize the success of the offering. If the underwriters determine that less than all of the Registrable Securities requested to be registered can be included in such offering, then the Registrable Securities that are included in such offering shall be allocated among the selling Holders in proportion (as nearly as practicable to) to the number of Registrable Securities proposed by each Holder to be included in the registration or in such other proportions as shall mutually be agreed to in writing by all such selling Holders. Notwithstanding the foregoing, in no event shall (i) the number of Registrable Securities included in the offering be reduced unless all other securities (other than securities to be sold by the Company) are first entirely excluded from the offering. For purposes of the provision in this Subsection 2.3(c) and Sections 2.3(a) and 2.3(b)(iii) concerning apportionment, for any selling Holder that is a partnership, limited liability company, or corporation, the partners, members, retired partners, retired members, stockholders, and Affiliates of such Holder, or the estates and Immediate Family Members of any such partners, retired partners, members, and retired members and any trusts for the benefit of any of the foregoing Persons, shall be deemed to be a single "selling Holder," and any pro rata reduction with respect to such "selling Holder" shall be based upon the aggregate number of Registrable Securities owned by all Persons included in such "selling Holder," as defined in this sentence.

(d) For purposes of Subsection 2.1 and 2.3(b), a registration shall not be counted as "effected" if, as a result of an exercise of the underwriter's cutback provisions in Subsection 2.3(a), fewer than seventy-five percent (75%) of the total number of Registrable Securities that Holders have requested to be included in such registration statement are actually included.

2.4 Obligations of the Company. Whenever required under this Section 2 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts to cause such registration statement to become effective and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to one hundred twenty (120) days or, if earlier, until the distribution contemplated in the registration statement has been completed; provided, however, that (i) such one hundred twenty (120) day period shall be extended for a period of time equal to the period the Holder refrains, at the request of an underwriter of Common Stock (or other securities) of the Company, from selling any securities included in such registration, and (ii) in the case of any registration of Registrable Securities on Form S-3 that are intended to be offered on a continuous or delayed basis, subject to compliance with applicable SEC rules, such one hundred twenty (120) day period shall be extended in accordance with Section 2.1(b) until all such Registrable Securities are sold;

(b) prepare and file with the SEC such amendments and supplements to such registration statement, and the prospectus used in connection with such registration statement, as may be necessary to comply with the Securities Act in order to enable the disposition of all securities covered by such registration statement;

(c) furnish to the selling Holders such numbers of copies of a prospectus, including a preliminary prospectus, as required by the Securities Act, and such other documents as the Holders may reasonably request in order to facilitate their disposition of their Registrable Securities;

(d) provide counsel to the Holders a reasonable opportunity to review and comment upon any Registration Statement and any Prospectus supplements;

(e) if requested by any participating Holder, promptly include in a Prospectus supplement or amendment such information as the Holder may reasonably request, including in order to permit the intended method of distribution of such securities, and make all required filings of such Prospectus supplement or such amendment as soon as reasonably practicable after the Company has received such request;

(f) use its commercially reasonable efforts to register and qualify, or obtain an exemption from registration or qualification for the securities covered by such registration statement under such other securities or blue-sky laws of such jurisdictions as shall be reasonably requested by the selling Holders; provided that the Company shall not be required to qualify to do business or to file a general consent to service of process in any such states or jurisdictions, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(g) in the case of certificated Registrable Securities, cooperate with the participating Holders of Registrable Securities and the managing underwriters to facilitate the timely preparation and delivery of certificates (not bearing any legends) representing Registrable Securities sold pursuant to a Shelf Registration Statement;

(h) in the case of an underwritten offering, use its commercially reasonable efforts to obtain a "comfort" letter or letters, dated as of such date or dates as the managing underwriters reasonably requests, from the Company's independent public accountants in customary form and covering such matters of the type customarily covered by "comfort" letters as any managing underwriter reasonably requests;

(i) in the case of a underwritten offering, furnish, at the request of any managing underwriter for such offering an opinion with respect to legal matters and a negative assurance letter with respect to disclosure matters, dated as of each closing date of such offering of counsel representing the Company for the purposes of such registration,

addressed to the underwriters, covering such matters with respect to the registration in respect of which such opinion and letter are being delivered as the underwriters, may reasonably request and are customarily included in such opinions and negative assurance letters;

(j) in the case of an underwritten offering, furnish, at the request of any managing underwriter for such offering an opinion with respect to legal matters and a negative assurance letter with respect to disclosure matters, dated as of each closing date of such offering of counsel representing the Company for the purposes of such registration, addressed to the underwriters, covering such matters with respect to the registration in respect of which such opinion and letter are being delivered as the underwriters, may reasonably request and are customarily included in such opinions and negative assurance letters;

(k) in the case of an underwritten offering, use its commercially reasonable efforts to cooperate and assist in any filings required to be made with FINRA and in the performance of any due diligence investigation by any underwriter and its counsel (including any "qualified independent underwriter," if applicable) that is (A) required or requested by FINRA in order to obtain written confirmation from FINRA that FINRA does not object to the fairness and reasonableness of the underwriting terms and arrangements (or any deemed underwriting terms and arrangements) relating to the resale of Registrable Securities pursuant to the Shelf Registration Statement, including, without limitation, information provided to FINRA through its COBRADesk system or (B) required to be retained in accordance with the rules and regulations of FINRA;

(l) if requested by the managing underwriters, if any, or by any Holder of Registrable Securities being sold in an underwritten offering, promptly incorporate in a Prospectus supplement or post-effective amendment to the Registration Statement such information as the managing underwriters, if any, or such Holders indicate relates to them or that they reasonably request be included therein and make appropriate members of management available to meeting with potential investors in the offering;

(m) cause the Registrable Securities covered by such Registration Statement to be registered with or approved by such other governmental agencies or authorities, as may be reasonably necessary by virtue of the business and operations of the Company to enable the seller or sellers of Registrable Securities to consummate the disposition of such Registrable Securities;

(n) in the event of any underwritten offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the underwriter(s) of such offering;

(o) in the event of the issuance or threatened issuance of any stop order suspending the effectiveness of a Registration Statement, or of any order suspending or preventing the use of any related Prospectus or suspending the qualification of any Registrable Securities included in such Registration Statement for sale in any jurisdiction, use its commercially reasonable efforts promptly to (i) prevent the issuance of any such stop order, and in the event of such issuance, to obtain the withdrawal of such order and (ii) obtain, at the earliest practicable date, the withdrawal of any order suspending or preventing the use of any related Prospectus or suspending qualification of any Registrable Securities included in such Registration Statement for sale in any jurisdiction;

(p) use its commercially reasonable efforts to cause all such Registrable Securities covered by such registration statement to be listed on each securities exchange and trading system (if any) on which similar securities issued by the Company are then listed;

(q) provide a transfer agent and registrar for all Registrable Securities registered pursuant to this Agreement and provide a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(r) promptly make available for inspection by the selling Holders, any managing underwriter(s) participating in any disposition pursuant to such registration statement, and any attorney or accountant or other agent retained by any such underwriter or selected by the selling Holders, all financial and other records, pertinent corporate documents, and properties of the Company, and cause the Company's officers, directors, employees, and independent

accountants to supply all oral or written information reasonably requested by any such seller, underwriter, attorney, accountant, or agent, in each case, as necessary or advisable to verify the accuracy of the information in such registration statement and to conduct appropriate due diligence in connection therewith;

(s) notify each selling Holder, promptly after the Company receives notice thereof, of the time when such registration statement has been declared effective or a supplement to any prospectus forming a part of such registration statement has been filed;

(t) notify each selling Holder at any time when a Prospectus relating to the applicable Registration Statement is required to be delivered under the Securities Act: (i) as promptly as practicable upon discovery that, or upon the happening of any event as a result of which, such Registration Statement, or the Prospectus relating to such Registration Statement, or any document incorporated or deemed to be incorporated therein by reference contains an untrue statement of a material fact or omits any fact necessary to make the statements in the Registration Statement, the Prospectus relating thereto not misleading or otherwise requires the making of any changes in such Registration Statement, Prospectus, or document, and, at the request of any such Holder and subject to the Company's ability to declare Suspension Periods pursuant to Section 2.1(d), the Company shall promptly prepare a supplement or amendment to such Prospectus, furnish a reasonable number of copies of such supplement or amendment to each such seller of such Registrable Securities, and file such supplement or amendment with the SEC so that, as thereafter delivered to the purchasers of such Registrable Securities, such Prospectus as so amended or supplemented shall not contain an untrue statement of a material fact or omit to state any fact necessary to make the statements therein not misleading, (ii) as promptly as practicable after the Company becomes aware of any request by the SEC or any Federal or state governmental authority for amendments or supplements to a Registration Statement or related Prospectus covering Registrable Securities or for additional information relating thereto, (iii) as promptly as practicable after the Company becomes aware of the issuance or threatened issuance by the SEC of any stop order suspending or threatening to suspend the effectiveness of a Registration Statement covering the Registrable Securities or (iv) as promptly as practicable after the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any Registrable Security for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose; and

(u) after such registration statement becomes effective, notify each selling Holder of any request by the SEC that the Company amend or supplement such registration statement or prospectus.

In addition, the Company shall ensure that, at all times after any registration statement covering a public offering of securities of the Company under the Securities Act shall have become effective, its insider trading policy shall provide that the Company's directors may implement a trading program under Rule 10b5-1 of the Exchange Act.

2.5 Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 2 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as is reasonably required to effect the registration of such Holder's Registrable Securities.

2.6 Expenses of Registration. All expenses (other than Selling Expenses) incurred in connection with registrations, filings, or qualifications pursuant to Section 2, including all registration, filing, and qualification fees; printers' and accounting fees; fees and disbursements of counsel for the Company; and the reasonable fees and disbursements of one counsel for each of the selling Holders ("**Selling Holder Counsel**"), shall be borne and paid by the Company; provided, however, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Subsection 2.1 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all selling Holders shall bear such expenses pro rata based upon the number of Registrable Securities that were to be included in the withdrawn registration); provided further that if, at the time of such withdrawal, the Holders shall have learned of a material adverse change in the condition, business, or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness after learning of such information then the Holders shall not be required to pay any of such expenses. All Selling Expenses relating to Registrable Securities registered

pursuant to this Section 2 shall be borne and paid by the Holders pro rata on the basis of the number of Registrable Securities registered on their behalf.

2.7 Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any registration pursuant to this Agreement as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 2.

2.8 Indemnification. If any Registrable Securities are included in a Registration Statement under this Section 2:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each selling Holder, and the partners, members, officers, directors, and stockholders of each such Holder; legal counsel and accountants for each such Holder; any underwriter (as defined in the Securities Act) for each such Holder; and each Person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any Damages, and the Company will pay to each such Holder, underwriter, controlling Person, or other aforementioned Person any legal or other expenses reasonably incurred thereby in connection with investigating or defending any claim or proceeding from which Damages may result, as such expenses are incurred; provided, however, that the indemnity agreement contained in this Subsection 2.8(a) shall not apply to amounts paid in settlement of any such claim or proceeding if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, nor shall the Company be liable for any Damages to the extent that they arise out of or are based upon actions or omissions made in reliance upon and in conformity with written information furnished by or on behalf of any such Holder, underwriter, controlling Person, or other aforementioned Person expressly for use in connection with such registration.

(b) To the extent permitted by law, each selling Holder, severally and not jointly, will indemnify and hold harmless the Company, and each of its directors, each of its officers who has signed the Registration Statement, each Person (if any), who controls the Company within the meaning of the Securities Act, legal counsel and accountants for the Company, any underwriter (as defined in the Securities Act), any other Holder selling securities in such registration statement, and any controlling Person of any such underwriter or other Holder, against any Damages, in each case only to the extent that such Damages arise out of or are based upon actions or omissions made in reliance upon and in conformity with written information furnished by or on behalf of such selling Holder expressly for use in connection with such registration; and each such selling Holder will pay to the Company and each other aforementioned Person any legal or other expenses reasonably incurred thereby in connection with investigating or defending any claim or proceeding from which Damages may result, as such expenses are incurred; provided, however, that the indemnity agreement contained in this Subsection 2.8(b) shall not apply to amounts paid in settlement of any such claim or proceeding if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; and provided further that in no event shall the aggregate amounts payable by any Holder by way of indemnity or contribution under Subsections 2.8(b) and 2.8(d) exceed the proceeds from the related offering received by such Holder (net of any Selling Expenses paid by such Holder).

(c) Promptly after receipt by an indemnified party under this Subsection 2.8 of notice of the commencement of any action (including any governmental action) for which a party may be entitled to indemnification hereunder, such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Subsection 2.8, give the indemnifying party notice of the commencement thereof. The indemnifying party shall have the right to participate in such action and, to the extent the indemnifying party so desires, participate jointly with any other indemnifying party to which notice has been given, and to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties that may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such action.

(d) To provide for just and equitable contribution to joint liability under the Securities Act in any case in which either: (i) any party otherwise entitled to indemnification hereunder makes a claim for indemnification pursuant to this Subsection 2.8 but it is judicially determined (by the entry of a final judgment or decree by a court of competent

jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case, notwithstanding the fact that this Subsection 2.8 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any party hereto for which indemnification is provided under this Subsection 2.8, then, and in each such case, such parties will contribute to the aggregate losses, claims, damages, liabilities, or expenses to which they may be subject (after contribution from others) in such proportion as is appropriate to reflect the relative fault of each of the indemnifying party and the indemnified party in connection with the statements, omissions, or other actions that resulted in such loss, claim, damage, liability, or expense, as well as to reflect any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or allegedly untrue statement of a material fact, or the omission or alleged omission of a material fact, relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation; and provided further that in no event shall a Holder's liability pursuant to this Subsection 2.8(d), when combined with the amounts paid or payable by such Holder pursuant to Subsection 2.8(b), exceed the proceeds from the related offering received by such Holder (net of any Selling Expenses paid by such Holder), except in the case of willful misconduct or fraud by such Holder.

(e) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control between the parties to such agreement.

(f) Unless otherwise superseded by an underwriting agreement entered into in connection with the underwritten public offering, the obligations of the Company and Holders under this Subsection 2.8 shall survive the completion of any offering of Registrable Securities in a registration under this Section 2, and otherwise shall survive the termination of this Agreement.

2.9 Reports Under Exchange Act. With a view to making available to the Holders the benefits of SEC Rule 144 and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company shall:

(a) make and keep available adequate current public information, as those terms are understood and defined in SEC Rule 144;

(b) use commercially reasonable efforts to file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after the Company is subject to such reporting requirements); and

(c) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) to the extent accurate, a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144, the Securities Act, and the Exchange Act, or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after the Company so qualifies); and (ii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC that permits the selling of any such securities without registration or pursuant to Form S-3 (at any time after the Company so qualifies to use such form).

2.10 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of a majority of the Registrable Securities then outstanding, enter into any agreement with any holder or prospective holder of any securities of the Company that would provide to such holder the right to include securities in any registration on other than a subordinate basis after all Holders have had the opportunity to include in the registration and offering all shares of Registrable Securities that they wish to so include.

2.11 Market Stand-off Agreement. Each Holder and the Company hereby agree that it will not, without the prior written consent of the managing underwriter, in connection with an underwritten offering pursuant to Section 2.2 by the Company for its own behalf of shares of its Common Stock or any other equity securities under the Securities Act on a registration statement on Form S-1 or Form S-3, during the period commencing on the date of the final prospectus relating to and ending on the date specified by the Company and the managing underwriter (such period not to exceed ninety (90) days (the "**Holdback Period**")), effect any sale or distribution of equity securities of the Company, as applicable, or any securities convertible into or exchangeable or exercisable for such securities. If (x) the Company issues an earnings release or other material news or a material event relating to the Company and its subsidiaries occurs during the last 17 days of the Holdback Period or (y) prior to the expiration of the Holdback Period, the Company announces that it will release earnings results during the 16-day period beginning upon the expiration of the Holdback Period, then to the extent necessary for a managing or co-managing underwriter of an underwritten offering required hereunder to comply with FINRA Rule 2711(f)(4) or any successor regulation, the Holdback Period shall be extended until 18 days after the earnings release or the occurrence of the material news or event, as the case may be (such period the "**Holdback Extension**"). The Company may impose stop-transfer instructions with respect to its securities that are subject to the forgoing restriction until the end of such period, including any period of Holdback Extension. The foregoing provisions of this Subsection 2.11 shall (i) not apply to the sale of any shares to an underwriter pursuant to an underwriting agreement, (ii) shall be applicable to the Holders only if all officers and directors are subject to substantially the same restrictions and the Company uses commercially reasonable efforts to obtain a similar agreement from all stockholders individually owning more than five percent (5%) of the Company's outstanding Common Stock (after giving effect to conversion into Common Stock of all outstanding Preferred Stock (as defined in the Voluntary Conversion Agreement)) and (iii) shall be applicable to the Holders only if the Company has complied with its obligations under Section 2 and has included at least 75% of the Registered Securities requested by such Holders in such underwritten offering. The underwriters in connection with such underwritten offering are intended third-party beneficiaries of this Subsection 2.11 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto. Each Holder further agrees to execute such agreements as may be reasonably requested by the underwriters in connection with such underwritten offering that are consistent with this Subsection 2.11 or that are necessary to give further effect thereto.

2.12 Termination of Registration Rights. The right of any Holder to request registration or inclusion of Registrable Securities in any registration pursuant to Subsections 2.1 or 2.2 shall terminate upon when all shares of such Holder's that were Registrable Securities cease to be Registrable Securities, provided that the indemnification provisions of Subsection 2.8 shall survive such termination.

3. Miscellaneous.

3.1 Successors and Assigns. This Agreement shall inure, as hereinafter provided, to the benefit of and be binding upon the successors and permitted assigns of each of the parties, including each person who is a transferee of a Holder of any Registrable Securities, who executes a Joinder in the form attached as Annex A hereto, provided that nothing herein shall be deemed to permit any assignment, transfer or other disposition of Registrable Securities in violation of the terms of applicable law and any applicable agreement. If any transferee of any Holder shall acquire Registrable Securities, in any manner, whether by operation of law or otherwise, such Registrable Securities shall be held subject to and benefit from all of the terms of this Agreement, and by taking and holding such Registrable Securities, such person shall be conclusively deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement and such person shall be entitled to receive the benefits hereof.

3.2 Governing Law. This Agreement shall be governed by the internal law of the State of New York.

3.3 Jurisdiction. Any action or proceeding against any party hereto relating in any way to this Agreement or the transactions contemplated hereby may be brought and enforced in any United States federal court or New York State Court located in the Borough of Manhattan in The City of New York, and each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the jurisdiction of each such court in respect of any such action or proceeding. Each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the service of process in any such action or proceeding by the mailing of copies thereof by registered or certified

mail, postage prepaid, return receipt requested, to such person or entity at the address for such person or entity set forth in Section 3.7 hereof of this Agreement or such other address such person or entity shall notify the other in writing. The foregoing shall not limit the right of any person or entity to serve process in any other manner permitted by law or to bring any action or proceeding, or to obtain execution of any judgment, in any other jurisdiction.

Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising under or relating to this Agreement or the transactions contemplated hereby in any court located in the Borough of Manhattan in The City of New York. Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives any claim that a court located in the State of New York is not a convenient forum for any such action or proceeding.

Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives, to the fullest extent permitted by applicable United States federal and state law, all immunity from jurisdiction, service of process, attachment (both before and after judgment) and execution to which he might otherwise be entitled in any action or proceeding relating in any way to this Agreement or the transactions contemplated hereby in the courts of the State of New York, of the United States or of any other country or jurisdiction, and hereby waives any right he might otherwise have to raise or claim or cause to be pleaded any such immunity at or in respect of any such action or proceeding.

3.4 Waiver of Jury Trial. EACH PARTY HEREBY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE OTHER TRANSACTION DOCUMENTS, THE SECURITIES OR THE SUBJECT MATTER HEREOF OR THEREOF. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS (INCLUDING NEGLIGENCE), BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. THIS SECTION HAS BEEN FULLY DISCUSSED BY EACH OF THE PARTIES HERETO AND THESE PROVISIONS WILL NOT BE SUBJECT TO ANY EXCEPTIONS. EACH PARTY HERETO HEREBY FURTHER WARRANTS AND REPRESENTS THAT SUCH PARTY HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT SUCH PARTY KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

3.5 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Counterparts may be delivered via facsimile, electronic mail (including pdf or any electronic signature or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes**.**

3.6 Titles and Subtitles. The titles and subtitles used in this Agreement are for convenience only and are not to be considered in construing or interpreting this Agreement.

3.7 Notices. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be made by registered or certified first-class mail, return receipt requested, telecopy, electronic transmission, courier service or personal delivery:

(a) If to the Company:

Suite 150
460 Herndon Parkway
Herndon, VA 20170
Telecopy: (212) 339-5831
Attention: Paul L. Robinson, Chief Legal Officer and Corporate Secretary

With a copy to (which shall not constitute notice
hereunder):

Latham & Watkins LLP
885 Third Avenue
New York, NY 10022-4834
Telecopy: (212) 906-4864
Attention: Senet S. Bischoff

(b) If to any Holder, at its address as it appears on Exhibit A, or at the Holder's address as it appears in the records of the Company if updated after the execution of this Agreement.

All such notices, demands and other communications shall be deemed to have been duly given when delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial courier service; five (5) days after being deposited in the mail, postage prepaid, if mailed; and when receipt is acknowledged, if telecopied or electronically transmitted. Any party may by notice given in accordance with this Section 3.7 designate another address or Person for receipt of notices hereunder. If the due date for any notice is a day that is not a business day for commercial banks in the City of New York, then such notice shall be considered timely delivered if it is delivered by the end of the following such business day.

3.8 Amendments and Waivers. This Agreement may be amended with the consent of the Company and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company shall have obtained a written consent to such amendment, action or omission to act of the Holders of a majority of the Registrable Securities then outstanding. No waiver of any terms or conditions of this Agreement shall operate as a waiver of any other breach of such terms and conditions or any other term or condition, nor shall any failure to enforce any provision hereof operate as a waiver of such provision or of any other provision hereof. No written waiver hereunder, unless it by its own terms explicitly provides to the contrary, shall be construed to effect a continuing waiver of the provisions being waived and no such waiver in any instance shall constitute a waiver in any other instance or for any other purpose or impair the right of the party against whom such waiver is claimed in all other instances or for all other purposes to require full compliance with such provision. The failure of any party to enforce any provision of this Agreement shall not be construed as a waiver of such provision and shall not affect the right of such party thereafter to enforce each provision of this Agreement in accordance with its terms.

3.9 Severability. In case any one or more of the provisions contained in this Agreement is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement, and such invalid, illegal, or unenforceable provision shall be reformed and construed so that it will be valid, legal, and enforceable to the maximum extent permitted by law.

3.10 Aggregation of Stock. All shares of Registrable Securities held or acquired by Affiliates shall be aggregated together for the purpose of determining the availability of any rights under this Agreement and such Affiliated persons may apportion such rights as among themselves in any manner they deem appropriate.

3.11 Entire Agreement. This Agreement (including any Schedules and Exhibits hereto) constitutes the full and entire understanding and agreement among the parties with respect to the subject matter hereof, and any other written or oral agreement relating to the subject matter hereof existing between the parties is expressly canceled.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

HC2 HOLDINGS INC.

By:	/s/ Paul Robinson
Name:	Paul L. Robinson
Title:	Chief Legal Officer and Corporate Secretary

INVESTORS:

LUXOR CAPITAL PARTNERS, LP

By: Luxor Capital Group, LP,
Its Investment Manager

By:	/s/ Norris Nissim
Name:	Norris Nissim
Title:	General Counsel

Address:
1114 Avenue of the Americas
29th Floor
New York, NY 10036

LUXOR CAPITAL PARTNERS OFFSHORE MASTER FUND, LP

By: Luxor Capital Group, LP,
Its Investment Manager

By:	/s/ Norris Nissim
Name:	Norris Nissim
Title:	General Counsel

Address:
1114 Avenue of the Americas
29th Floor
New York, NY 10036

LUXOR WAVEFRONT, LP

By: Luxor Capital Group, LP,
Its Investment Manager

By:	/s/ Norris Nissim
Name:	Norris Nissim
Title:	General Counsel

Address:

114 Avenue of the Americas
29th Floor
New York, NY 10036

SCHEDULE A

Investors

Luxor Investors

LUXOR CAPITAL PARTNERS, LP
LUXOR CAPITAL PARTNERS OFFSHORE MASTER FUND, LP
LUXOR WAVEFRONT, LP

EXHIBIT A

FORM OF JOINDER

THIS JOINDER is made on this day of ,

BETWEEN

(1) (the "New Party");

AND

(2) THE INVESTORS

(collectively, the "Current Parties" and individually, a "Current Party");

AND

(3) HC2 HOLDINGS INC., (the "Company").

WHEREAS a Registration Rights Agreement was entered into on August , 2016 by and among, inter alia, certain of the Current Parties and the Company (the "Registration Rights Agreement"), a copy of which the New Party hereby confirms that it has been supplied with and acknowledges the terms therein.

NOW IT IS AGREED as follows:

1. In this Joinder, unless the context otherwise requires, words and expressions respectively defined or construed in the Registration Rights Agreement shall have the same meanings when used or referred to herein.

2. The New Party hereby accedes to and ratifies the Registration Rights Agreement and covenants and agrees with the Current Parties and the Company to be bound by the terms of the Registration Rights Agreement as an "Investor" and to duly and punctually perform and discharge all liabilities and obligations whatsoever from time to time to be performed or discharged by it under or by virtue of the Registration Rights Agreement in all respects as if named as a party therein.

3. The Company covenants and agrees that the New Party shall be entitled to all the benefits of the terms and conditions of the Registration Rights Agreement to the intent and effect that the New Party shall be deemed, with effect from the date on which the New Party executes this Joinder, to be a party to the Registration Rights Agreement as an "Investor."

4. This Joinder shall hereafter be read and construed in conjunction and as one document with the Registration Rights Agreement and references in the Registration Rights Agreement to "the Agreement" or "this Agreement," and references in all other instruments and documents executed thereunder or pursuant thereto to the Registration Rights Agreement, shall for all purposes refer to the Registration Rights Agreement incorporating and as supplemented by this Joinder.

5. THIS JOINDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW THEREOF.

6. Any action or proceeding against any party hereto relating in any way to this Joinder or the transactions contemplated hereby may be brought and enforced in any United States federal court or New York State Court

located in the Borough of Manhattan in The City of New York, and each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the jurisdiction of each such court in respect of any such action or proceeding. Each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the service of process in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, return receipt requested, to such person or entity at the address for such person or entity set forth in Section 3.7 of the Registration Rights Agreement or such other address such person or entity shall notify the other in writing. The foregoing shall not limit the right of any person or entity to serve process in any other manner permitted by law or to bring any action or proceeding, or to obtain execution of any judgment, in any other jurisdiction.

7. Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising under or relating to this Joinder or the transactions contemplated hereby in any court located in the Borough of Manhattan in The City of New York. Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives any claim that a court located in the State of New York is not a convenient forum for any such action or proceeding.

8. Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives, to the fullest extent permitted by applicable United States federal and state law, all immunity from jurisdiction, service of process, attachment (both before and after judgment) and execution to which he might otherwise be entitled in any action or proceeding relating in any way to this Joinder or the transactions contemplated hereby in the courts of the State of New York, of the United States or of any other country or jurisdiction, and hereby waives any right he might otherwise have to raise or claim or cause to be pleaded any such immunity at or in respect of any such action or proceeding.

9. The address of the undersigned for purposes of all notices under the Registration Rights Agreement is:

____

____

[NEW PARTY]

By: ________
Name:
Title:

VOLUNTARY CONVERSION AGREEMENT

THIS VOLUNTARY CONVERSION AGREEMENT (this "***Agreement***") is made and entered into as of August 2, 2016, by and among HC2 Holdings, Inc., a Delaware corporation (the "***Company***"), and Corrib Master Fund, Ltd., a holder (the "***Holder***") of the Company's Series A Convertible Participating Preferred Stock, par value $0.01 per share (the "***Preferred Stock***").

RECITALS

A. The Holder has agreed to convert all of the shares of Preferred Stock it holds into common stock of the Company, par value $0.001 per share (the "***Common Stock***"), on the terms and subject to the conditions set forth in this Agreement.

B. In consideration of the conversion of the Preferred Stock by the Holder, the Company has agreed to issue Common Stock to the Holder in certain circumstances, on the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

The parties agree as follows:

1. Conversion of the Preferred Stock and Issuances of Common Stock. On the terms and subject to the conditions of this Agreement, the Company and the Holder agree to take the following actions on the Closing Date (as defined below):

(a) Conversion by the Holder. The Holder agrees, pursuant to Section 5(a) of the Certificate of Designation of Series A Convertible Participating Preferred Stock, dated as of May 29, 2014, (as amended from time to time prior to the date hereof, and as in effect as of the date hereof, the "***Series A Certificate of Designation***"), that on the Closing Date, it will convert 1,000 shares of the Preferred Stock it holds into Common Stock, such shares of Preferred Stock representing all of the outstanding shares of Preferred Stock it holds as of the date hereof and immediately before the conversion contemplated by this clause (a) (the "***Holder's Shares***").

(b) Initial Issuance of Common Stock by Company. In consideration of the conversion referenced in clause (a) above, the Company agrees to issue to Holder on the Closing Date, in a transaction exempt from the registration requirements of the Securities Act of 1933 (the "Securities Act") under Section 4(a)(2) of the Securities Act, 15,318 shares of Common Stock.

(c) Participating Dividend Issuances by Company. In further consideration of the conversion referenced in clause (a) above, the Company agrees that in the event that the Holder, had it not converted the Holder's Shares pursuant to clause (a) above, would have been entitled to any Participating Dividends (as defined in the Series A Certificate of Designation) payable after the date of this Agreement had the Holder's Shares remained unconverted, then the Company will issue to Holder, on the date such Participating Dividends become payable by the Company, in a transaction exempt from the registration requirements of the Securities Act under Section 4(a)(2)

of the Securities Act, the number of shares of Common Stock equal to (a) the value of the Participating Dividends such Holder would have received pursuant to Sections (2)(c) and (2)(d) of the Series A Certificate of Designation, divided by (b) the Thirty Day VWAP (as defined in the Series A Certificate of Designation) for the period ending two business days prior to the underlying event or transaction that would have entitled the Holder to such Participating Dividend had the Holder's Shares remain unconverted.

(d) Accrued Value Issuances by Company. In further consideration of the conversion referenced in clause (a) above, the Company agrees that it will issue to Holder, on each quarterly anniversary of May 29, 2017 (or, if later, the date on which the corresponding dividend payment is made to the holders of the outstanding Preferred Stock) (such period, the "Quarterly Measurement Period"), through and until the Maturity Date (as defined in the Series A Certificate of Designation), in a transaction exempt from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act, the number of shares of Common Stock equal to (a) 1.875% the Accrued Value (as defined in the Series A Certificate of Designation) of the Holder's Shares as of the Closing Date, divided by (b) the Thirty Day VWAP (as defined in the Series A Certificate of Designation) for the period ending two business days prior to the applicable Dividend Payment Date (as defined in the Series A Certificate of Designation).

(e) Cessation of Issuances. The provisions of clauses (c) and (d) above will cease to apply, and the Company will not be required to issue any additional shares of its Common Stock hereunder, if beginning on May 29, 2017 and at any time thereafter, the Thirty Day VWAP and the Daily VWAP (each as defined in the Series A Certificate of Designation), would be such that the Company would have been able to cause Holder to convert the Holder's Shares pursuant to Section 5(b) of the Series A Certificate of Designation, assuming for purposes of this provision (and the underlying Conversion Price, as defined in the Series A Certificate of Designation) that the transactions contemplated by this Agreement (or any similar transaction with holders of Non-Participating Preferred Stock (as defined in ***Exhibit A***) had never taken place.

(f) NYSE MKT LLC Restriction. In no event will the aggregate number of shares of Common Stock issued to Holder pursuant to the foregoing clauses (b), (c) and (d), together with the number of shares of Common Stock issued to holders of Non-Participating Preferred Stock pursuant to the analogous provisions contained in related transactions or similar transactions being undertaken substantially concurrently with this transaction (in each case, taking into account subsequent stock splits or similar changes to Company's capitalization permitted under applicable NYSE MKT LLC rules), exceed 19.99% of the number of shares of Common Stock of the Company outstanding on the Closing Date, unless the Company has received prior stockholder approval of such issuance (in accordance with the requirements of the NYSE MKT LLC).

(g) Limitation on Hedging Transactions by Holder. The Holder agrees that, so long as the provisions of clause (c) or clause (d) above remain applicable, it will not, and will not permit any of its controlled parties or affiliates to, directly or indirectly, enter into any hedging transaction, short position, or similar transaction (i) with respect to the shares of the Company's Common Stock it may have the right to receive pursuant to clauses (c) or (d) hereof until and unless such shares of Common Stock are issued to Holder or (ii) during any Quarterly Measurement Period.

(h) Registration Rights Agreement. The Company agrees that on the Documentation Date it will enter into a registration rights agreement with the Holder substantially in the form of Exhibit B attached hereto (the "***Registration Rights Agreement***").

(i) Closing Date. On the terms and subject to the conditions of this Agreement, the closing of the transactions contemplated by clauses (a) and (b) above (the "***Closing***") shall occur at 10.00 a.m., New York time, on August 5, 2016, or at such other time and date as shall be agreed among the Company and the Holder (the time and date on which the Closing occurs is referred to herein as the "***Closing Date***"). Notwithstanding the foregoing, if the Closing has not occurred within 30 days of the Closing Date, this Agreement shall terminate and all obligations of the Company and the Holders pursuant to this Agreement shall be void and of no effect; provided, that Sections 9, 10, 12, 13, 14, 15, 16 and 18 and the last sentence of Section 17 and this sentence shall survive termination of this Agreement and that no such termination shall relieve any party hereto from liability for any material breach of this Agreement or bad faith conduct that occurred prior to, or in connection with, such termination. Common Stock issued pursuant to Section 1(b), Section 1(c) or Section 1(d) are referred to as the "***Shares***."

2. Closing.

(a) At the Closing, the Company will (x) execute and deliver an instruction letter and any other documents reasonably requested by the Holder or Broadridge Corporate Issuer Solutions, Inc., as transfer agent for the Company (the "***Transfer Agent***"), in form reasonably acceptable to the Holder, in order to effect (i) the conversion of the Holder's Shares as contemplated by Section 1(a) above and (ii) the issuance of Common Stock to the Holder as contemplated by Section 1(b) above.

(b) The obligation of the Holder to consummate the Closing is subject to the fulfillment at or prior to the Closing of each of the following conditions: (i) the Company shall have duly executed and delivered to the Holder the Registration Rights Agreement and (ii) the Company having executed and delivered the documents referred to in Section 2(a). This Agreement and the Registration Rights Agreement are together referred to as the "***Transaction Documents***."

3. Representation and Warranties of the Company. The Company hereby represents and warrants to the Holder as of the date hereof and as of the Closing Date, as follows:

(a) Organization and Standing of the Company. The Company represents and warrants that it (i) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, with full corporate power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as presently conducted, and (ii) is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction which requires such qualification, except in the case of clause (ii) above, to the extent that the failure to be so qualified or be in good standing would not reasonably be expected to result in (x) a material adverse effect on the validity or enforceability of the Transaction Documents, (y) a material adverse effect on the condition (financial or otherwise), earnings, business or properties of the Company and its subsidiaries and investments, taken as a whole, or (z) a material

adverse effect on the Company's ability to perform in any material respect its obligations under the Transaction Documents (any of (x), (y) and (z), a "***Material Adverse Effect***").

(b) Authorization. The Company represents and warrants, that: (i) it has full power and authority to execute and deliver the Transaction Documents, to perform its obligations under the Transaction Documents, and to consummate the transactions contemplated in the Transaction Documents; (ii) the execution and delivery by the Company of the Transaction Documents, the performance of its obligations hereunder and thereunder and the consummation of the transactions contemplated hereby have been duly authorized by all necessary action on the part of the Company, and no further approval or authorization is required on the part of the Company; and (iii) the Company has duly executed and delivered the Transaction Documents and such Transaction Documents constitute the legal, valid and binding obligation of the Company, enforceable in accordance with their terms, subject to applicable laws affecting creditors' rights generally and to general equitable principles.

(c) Issuance and Delivery of the Shares. The Company hereby represents and warrants that (i) the Shares, when issued by the Company pursuant to Section 1, have been duly authorized and, when issued in compliance with the provisions of this Agreement, will be validly issued, fully paid and nonassessable and assuming the accuracy of the representations made by the Holder in this agreement, the issuance by the Company of the Shares, when issued by the Company pursuant to Section 1, are exempt from registration under the Securities Act.

(d) SEC Documents; Financial Statements. The Company represents and warrants that:

(i) As of the date hereof, the Company has filed all forms, reports and documents with the Securities and Exchange Commission (the "***Commission***") that have been required to be filed by it under applicable Laws (the "***Company SEC Filings***"), including the Annual Report of the Company on Form 10-K for the fiscal year ended December 31, 2015, as amended through the date of this Agreement. Each Company SEC Filing complied as of its filing date, as to form in all material respects with the applicable requirements of the Securities Act of 1933, as amended, and all of the rules and regulations promulgated thereunder (the "***Securities Act***") or the Securities Exchange Act of 1934, as amended, and all of the rules and regulations promulgated thereunder (the "***Exchange Act***"), as the case may be, each as in effect on the date such Company SEC Filing was filed (and, if amended or superseded by a filing prior to the date of this Agreement, on the date of such amended or superseded filing). As of its filing date (and, if amended or superseded by a filing prior to the date of this Agreement, on the date of such amended or superseded filing), each Company SEC Filing did not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. None of the Company's subsidiaries is required to file any forms, reports or other documents with the SEC pursuant to Sections 13(d) and 15(d) of the Exchange Act. No executive officer of the Company has failed to make the certifications required by him or her under Section 302 and 906 of the Sarbanes Oxley Act of 2002 with respect to any Company SEC Filing. As of the date hereof, there are no transactions that have occurred that are required to be disclosed in the appropriate Company SEC Filings pursuant to

Item 404 of Regulation S-K that have not been disclosed in the Company SEC Filings. The Company SEC Filings also include disclosure regarding the Company's continued evaluation of strategic and business alternatives, including the possibility that the Company is engaged in ongoing discussions with respect to possible acquisitions, business combinations and debt or equity securities offerings of widely varying sizes, which should be considered in addition to the information included on ***Exhibit A*** hereto regarding the potential dilution to holders of the Common Stock that may result from the transactions described in this Agreement.

(ii) The consolidated financial statements (including all related notes and schedules) of the Company and its subsidiaries included in the Company SEC Filings and (collectively, the "***Company Financial Statements***") (i) comply as to form in all material respects with the published rules and regulations of the SEC with respect thereto and (ii) fairly present, in all material respects, the consolidated financial position of the Company and its subsidiaries as of the dates indicated and the results of their operations and their cash flows for the periods therein specified, all in accordance with United States generally accepted accounting principles applied on a consistent basis ("***GAAP***") throughout the periods therein specified (except as otherwise noted therein, and in the case of quarterly financial statements except for the absence of footnote disclosure and subject, in the case of interim periods, to normal year-end adjustments, the effect of which will not, individually or in the aggregate, be material, and the absence of footnote disclosure that if presented, would not differ materially from those included in the audited Company Financial Statements).

(e) Capitalization of the Company. The Company represents and warrants that (i) the authorized capital stock of the Company consists of 80,000,000 shares of common stock and 20,000,000 shares of Preferred Stock, (ii) as of August 1, 2016, there are 28,308 shares of Series A Preferred Stock issued and outstanding, 10,000 shares of Series A-1 Preferred Stock issued and outstanding and 14,000 shares of Series A-2 Preferred Stock issued and outstanding, (iii) as of August 1, 2016, there are 35,605,957 shares of Common Stock issued and 35,436,527 shares of Common Stock outstanding, and there are no other shares of any other class or series of capital stock of the Company issued or outstanding, (iv) on April 11, 2014, the Company's Board of Directors adopted the HC2 Holdings, Inc. 2014 Omnibus Equity Award Plan (the "***Omnibus Plan***"), which was approved by the Company's stockholders at the annual meeting of stockholders held on June 12, 2014; the Omnibus Plan provides that no further awards will be granted pursuant to the Company's Management Compensation Plan, as amended (the "***Prior Plan***"); however, awards that had been previously granted pursuant to the Prior Plan will continue to be subject to and governed by the terms of the Prior Plan; as of August 1, 2016, there were 467,371 shares of Common Stock underlying outstanding awards under the Prior Plan.

(f) No Breach. The Company represents and warrants that the execution and delivery of the Transaction Documents, the consummation of the transactions contemplated in the Transaction Documents, and the compliance with the terms of the Transaction Documents, will not conflict with, result in the breach of, or constitute a material default under, or require any consent or approval that has not been obtained on or prior to the date hereof under, any agreement or instrument to which the Company is a party or by which it may be bound, other than those consents

and approvals the failure to obtain would not reasonable be expected to have a Material Adverse Effect.

(g) Litigation. The Company represents and warrants that, except as disclosed in SEC filings, no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or its property is pending or, to the best knowledge of the Company, threatened that could reasonably expected to have a Material Adverse Effect, whether or not arising from transactions in the ordinary course of business.

(h) Governmental Consents. The Company represents and warrants that, except as disclosed in SEC filings, no consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state, or local governmental authority on the part of the Company is required in connection with the consummation of the transactions contemplated by this Agreement except for (a) compliance with the securities and blue sky laws in the states and other jurisdictions in which the Shares are issued, which compliance will be effected in accordance with such laws, (b) the approval by NYSE MKT LLC of the listing of the Shares, (c) the filing of one or more Current Reports on Form 8-K and (d) those that the failure to obtain would not reasonably be expected to have a Material Adverse Effect.

(i) No Material Adverse Change. The Company represents and warrants that as of the date hereof, there have not been any changes in the authorized capital, assets, liabilities, financial condition, business, material agreements or operations of the Company from that reflected in the Financial Statements except changes in the ordinary course of business which have not been, either individually or in the aggregate, materially adverse to the business, properties, financial condition or results of operations of the Company.

(j) Compliance with NYSE MKT LLC Continued Listing Requirements. The Company represents and warrants that (i) it is in compliance with applicable NYSE MKT LLC continued listing requirements; and (ii) there are no proceedings pending or, to the Company's knowledge, threatened against the Company relating to the continued listing of the Common Stock on NYSE MKT LLC and the Company has not received any notice of, nor to the Company's knowledge is there any reasonable basis for, the delisting of the Common Stock from NYSE MKT LLC.

(k) Investment Company. The Company represents and warrants that it is not and, after giving effect to the transactions contemplated by this Agreement, will not be an "investment company" as defined in the Investment Company Act of 1940, as amended.

(l) Price of Common Stock. The Company represents and warrants that it has not taken, directly or indirectly, any action designed to cause or result in, or that has constituted or that might reasonably be expected to constitute the stabilization or manipulation of the price of any securities of the Company to facilitate the transactions contemplated by this Agreement.

(m) Tax Advice. The Company represents and warrants that neither the Holder, nor any of their respective officers, directors, stockholders, agents, representatives or affiliates has made statements, warranties or representations to the Company with respect to the tax consequences

of the transactions contemplated by this Agreement; (ii) the Company has reviewed with its own tax advisors the federal, state, local and foreign tax consequences of the transactions contemplated by this Agreement; (iii) the Company relies solely on its own advisors and not on any statements or representations of the Holder or any of their respective agents for the federal, state, local and foreign tax consequences to it that may result from the transactions contemplated by this Agreement; and (iv) the Company understands that it (and not the Holder) will be responsible for any tax liability of the Company that may arise as a result of the transactions contemplated by this Agreement.

(n) Offering. The Company represents and warrants that no person has or will have, as a result of the transactions contemplated hereby, any right, interest or valid claim against or upon the Holder for any commission, fee or other compensation as a finder, broker or agent because of any act or omission by the Company.

(o) No General Solicitation. The Company represents and warrants that neither it nor any person acting on its behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D promulgated under the Securities Act) in connection with the transactions contemplated by this Agreement.

(p) No Integrated Offering. The Company represents and warrants that neither the Company nor any person acting on its behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any Company security, under circumstances that would adversely affect reliance by the Company on Section 4(a)(2) of the Securities Act or require registration of any of the Shares under the Securities Act or, to the knowledge of the Company, cause the transactions contemplated hereby to be integrated with prior offerings of Common Stock by the Company for purposes of the Securities Act.

4. Representations and Warranties of the Holder. The Holder represents and warrants to the Company, as of the date hereof and as of the Closing Date, as follows:

(a) Authorization. (i) The Holder has full power and authority to execute and deliver the Transaction Documents, to perform its obligations under the Transaction Documents, and to consummate the transactions contemplated in the Transaction Documents; (ii) the execution and delivery by the Holder of the Transaction Documents, the performance of its obligations thereunder and the consummation of the transactions contemplated thereby have been duly authorized by all necessary action on the part of the Holder, and no further approval or authorization is required on the part of the Holder; and (iii) the Holder has duly executed and delivered the Transaction Documents and such Transaction Documents constitute the legal, valid and binding obligation of the Holder, enforceable in accordance with their terms, subject to applicable laws affecting creditors' rights generally and to general equitable principles.

(b) No Breach. The execution and delivery of the Transaction Documents by the Holder, the consummation of the transactions contemplated in the Transaction Documents, and the compliance with the terms of the Transaction Documents will not conflict with, result in the breach of, or constitute a material default under, or require any consent or approval that has not been obtained on or prior to the date hereof under, any agreement or instrument to which the Holder is a party or by which it may be bound.

(c) **Accredited Investor.** The Holder is an "accredited investor" as defined in Rule 501 of Regulation D promulgated under the Securities Act.

(d) **Investment Representations**. The Holder understands that the private placements of the Shares has not been registered under the Securities Act. The Holder also understands that the Shares are being issued pursuant to an exemption from registration contained in the Securities Act based in part upon the Holder's representations contained in this Agreement and that the Shares must continue to be held by the Holder unless a subsequent disposition thereof is registered under the Securities Act or is exempt from such registration. The Holder understands that the exemptions from registration afforded by Rule 144 under the Securities Act ("***Rule 144***") (the provisions of which are known to it) depend on the satisfaction of various conditions.

(e) **Economic Risk.** The Holder has been afforded the opportunity to receive information from, and to ask questions of and receive answers from the management of, the Company and its subsidiaries concerning this transaction so as to allow it to make an informed investment decision prior to the transaction and has sufficient knowledge and experience in evaluating and investing in companies similar to the Company so as to be able to evaluate the risks and merits of any investment or transaction involving in the Company. The Holder's financial condition is such that it is able to bear the risk of holding the Shares for an indefinite period of time and the risk of loss of its entire investment in the Shares. The Holder understands that there is no assurance that any exemption from registration under the Securities Act will be available for the disposition by it of the Shares.

(f) **Acquisition for Own Account.** The Holder is acquiring the Shares for its own account solely for the purpose of investment, not as nominee or agent, and not with a view to, or for sale in connection with, any distribution of Shares, and the Holder has no present intention of selling, granting any participation in, or otherwise distributing the same, in violation of the Securities Act. The Holder has no present agreement, undertaking, arrangement, obligation or commitment providing for the disposition of the Shares.

(g) **HSR.** The Acquiring Person (as defined in 16 C.F.R. §801.2(a)) qualifies for the "acquisition solely for the purpose of investment exemption" under 16 C.F.R. § 802.9, and the Holder's acquisition of the Shares is therefore exempt from the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

(h) **Company Information**. The Company may possess or receive or may have received, may have access to, and may be in possession of material, non-public, confidential information concerning the Shares, the Company, and the Company's and/or its affiliates' financial condition, results of operations, businesses, properties, active or pending litigation, assets, liabilities, management, projections, appraisals, plans and prospects ("***Company Information***") that has not been disclosed to the Holder. The Holder also acknowledges the information set forth on ***Exhibit A*** hereto (the "***Transaction Information***"). The Company Information and the Transaction Information may all have an effect on the value of the Shares or be indicative of a value of the Shares that is substantially different from the value of the Shares on the Closing Date and going forward. The Holder expressly waives and releases the Company from any and all claims and liabilities arising from (i) the Company's failure to disclose, or the Holder's failure to obtain and

review, the Company Information and (ii) any of the facts and circumstances of the Transaction Information. Furthermore, the Holder expressly agrees not to make any claim or demand or bring any action against the Company in respect of the transactions contemplated hereby relating to (A) the Company's failure to disclose, or the Holder's failure to obtain and review, such Company Information and (B) any of the facts and circumstances of the Transaction Information; provided, however the foregoing shall not prevent the Holder from bringing any claim for fraud. The Holder acknowledges that the Company is relying on the representations, warranties, agreements and acknowledgments set forth in this Section 4(h) in engaging in the transactions contemplated hereby, and would not engage in such transactions in the absence of such representations, warranties and acknowledgements.

(i) Business Experience. The Holder is capable of evaluating the merits and risks of the transactions contemplated by this Agreement.

(j) Tax Advice. (i) Neither the Company, nor any of its officers, directors, stockholders, agents, representatives or affiliates has made statements, warranties or representations to the Holder with respect to the tax consequences of the transactions contemplated by this Agreement; (ii) the Holder has reviewed with its own tax advisors the federal, state, local and foreign tax consequences of the transactions contemplated by this Agreement; (iii) the Holder relies solely on its own advisors and not on any statements or representations of the Company or any of its respective agents for the federal, state, local and foreign tax consequences to it that may result from the transactions contemplated by this Agreement; and (iv) the Holder understands that it (and not the Company) will be responsible for any tax liability of the Holder that may arise as a result of the transactions contemplated by this Agreement.

(k) Broker's Fee. No person has or will have, as a result of the transactions contemplated hereby, any right, interest or valid claim against or upon the Company for any commission, fee or other compensation as a finder, broker or agent because of any act or omission by the Holder.

(l) Access to Information. The Holder has had access to such financial and other information as is necessary in order for the Holder to make a fully-informed decision as to this Agreement. The Holder acknowledges that (i) conversion and related Common Stock issuances described in Section 1 represent negotiated transactions; and (ii) no representation or warranty as to the current or future fair market value of the Shares has been made.

(m) No Governmental Review. The Holder understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Shares or the fairness or suitability of the investment in the Shares nor have such authorities passed upon or endorsed the merits of this Agreement and the transactions contemplated hereby.

(n) No General Solicitation. The Holder is not participating in the transactions contemplated by this Agreement as a result of any general solicitation or general advertising.

(o) No Change of Control. The Holder has no present intent to effect a "change of control" of the Company as such term is understood under the rules promulgated pursuant to Section 13(d) of the Exchange Act.

5. Transfer Restrictions.

(a) The Holder agrees that it and its controlled Affiliates may only dispose of the Shares pursuant to an effective registration statement under the Securities Act or pursuant to an available exemption from the registration requirements of the Securities Act, and in compliance with any applicable state securities laws. In connection with any transfer of Shares other than pursuant to an effective registration statement or to the Company or pursuant to paragraph (b)(1) of Rule 144, the Company may require that the transferor provide to the Company an opinion of counsel, selected by the transferor and reasonably acceptable to the Company, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration under the Securities Act. Notwithstanding the foregoing, the Company hereby consents to and agrees to register on the books of the Company and with its transfer agent, without any such legal opinion, any transfer of the Shares by the Holder to an Affiliate of the Holder, provided that the transferee certifies to the Company that it is an "accredited investor" as defined in Rule 501(a) under the Securities Act. For purposes of this Agreement, the term "***Affiliate***" means, with respect to any person, any other person directly or indirectly controlling, controlled by or under common control with, such person. For purposes of this definition, "***control***" of a person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities, by contract or otherwise.

6. Share Certificates. The Holder acknowledges that any certificate representing the Shares will bear a legend conspicuously thereon to the following effect:

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "***ACT***"), OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND SAID LAWS OR AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS THEREOF."

7. Conditions to the Company's Obligations at the Closing. The Company's obligation to complete the transactions contemplated by this Agreement shall be subject to the following conditions to the extent not waived by the Company:

(a) Evidence of Conversion. The Company shall have received satisfactory evidence from the Holder and/or the Transfer Agent that the conversion of the Holder's Shares contemplated in Section 1 has been completed.

(b) Representations and Warranties. The representations and warranties made by the Holder in Section 4 hereof shall be true and correct in all material respects when made, and shall be true and correct in all material respects on the Closing Date with the same force and effect

as if they had been made on and as of said date, except to the extent any such representation or warranty expressly speaks of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date. The Holder shall have performed all obligations and covenants herein required to be performed by them on or prior to the Closing Date.

(c) Receipt of Executed Documents. The Holder shall have executed and delivered to the Company the Agreement.

(d) Judgments. No judgment, writ, order, injunction, award or decree of or by any court, or judge, justice or magistrate, including any bankruptcy court or judge, or any order of or by any governmental authority, shall have been issued, and no action or proceeding shall have been instituted by any governmental authority, enjoining or preventing the consummation of the transactions contemplated hereby.

(e) Waiver of Non-Participating Holders. The Company shall have received from the holders of the Non-Participating Preferred Stock a waiver of all rights and required consents related to the transactions contemplated by the Agreement.

(f) NYSE MKT LLC Approval. The Company shall have received approval of the transactions contemplated by the Agreement from NYSE MKT LLC.

8. Conditions to Holder's Obligations at the Closing. The Holder's obligation to complete the transactions contemplated by this Agreement shall be subject to the following conditions to the extent not waived by the Holder:

(a) Representations and Warranties. The representations and warranties made by the Company in Section 3 hereof shall be true and correct in all material respects when made, and shall be true and correct in all material respects on the Closing Date, with the same force and effect as if they had been made on and as of said date, except to the extent any such representation and warranty expressly speaks of an earlier date, in which case such representation or warranty shall be true and correct as of such earlier date. The Company shall have performed all obligations and covenants herein required to be performed by it on or prior to the Closing Date.

(b) Good Standing. The Company shall be validly existing as a corporation in good standing under the laws of Delaware.

(c) NYSE MKT LLC Notification. The Company shall have filed with NYSE MKT a Notification Form: Listing of Additional Shares for the listing of the Shares.

(d) Judgments. No judgment, writ, order, injunction, award or decree of or by any court, or judge, justice or magistrate, including any bankruptcy court or judge, or any order of or by any governmental authority, shall have been issued, and no action or proceeding shall have been instituted by any governmental authority, enjoining or preventing the consummation of the transactions contemplated hereby.

(e) Stop Orders. No stop order or suspension of trading shall have been imposed by the NYSE MKT LLC, the SEC or any other governmental regulatory body with respect to public trading in the Common Stock.

9. Assignment; Binding Effect. Neither this Agreement nor any of the rights, interests or obligations hereunder is binding upon and inures to the benefit of any parties other than the parties hereto and their respective successors and permitted assigns, and there are no third party beneficiaries of this Agreement. No party will assign this Agreement (or any portion hereof, or any rights or obligations hereunder) without the prior written consent of the other parties hereto. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

10. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York applicable to agreements made and to be performed in such state. Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby may be instituted in the federal courts of the United States of America located in the Borough of Manhattan in the City of New York or the courts of the State of New York in each case located in the Borough of Manhattan in the City of New York (collectively, the "***Specified Courts***"), and each party irrevocably submits to the exclusive jurisdiction (except for proceedings instituted in regard to the enforcement of a judgment of any such court, as to which such jurisdiction is non-exclusive) of such courts in any such suit, action or proceeding. Service of any process, summons, notice or document by mail to such party's address set forth above shall be effective service of process for any suit, action or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or other proceeding in the Specified Courts and irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such suit, action or other proceeding brought in any such court has been brought in an inconvenient forum. EACH PARTY HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

11. Indemnification.

(a) Indemnification by the Company. The Company agrees to indemnify and hold harmless the Holder and/or each Person, if any, who controls the Holder within the meaning of the Securities Act (each, a "***Company Indemnified Party***"), against any losses, claims, damages, liabilities or expenses, joint or several, to which such Company Indemnified Party may become subject under the Securities Act, the Exchange Act, or any other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Company), insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof as contemplated below) arise out of or are based in whole or in part on any inaccuracy in the representations and warranties of the Company contained in this Agreement or any failure of the Company to perform its obligations

hereunder, and will reimburse each Company Indemnified Party for legal and other expenses reasonably incurred as such expenses are reasonably incurred by such Company Indemnified Party in connection with investigating, defending, settling, compromising or paying such loss, claim, damage, liability, expense or action; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon the inaccuracy of any representations made by such Company Indemnified Party herein.

(b) Indemnification by the Holder. The Holder agrees to indemnify and hold harmless the Company, each of its directors and officers, and/or each Person, if any, who controls the Company within the meaning of the Securities Act (each, a "***Holder Indemnified Party***"), against any losses, claims, damages, liabilities or expenses, joint or several, to which such Holder Indemnified Party may become subject, under the Securities Act, the Exchange Act, or any other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Holder) insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof as contemplated below) arise out of or are based in whole or in part on any inaccuracy in the representations and warranties of the Holder contained in this Agreement or any failure of the Holder to perform its obligations hereunder and will reimburse each Holder Indemnified Party for legal and other expenses reasonably incurred, as such expenses are reasonably incurred by such Holder Indemnified Party in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action, provided, however, that the Holder will not be liable in any such case to the extent that any such loss, claim, damage, liability or expense arises out of or is based upon the inaccuracy of any representations made by such Holder Indemnified Party herein.

12. Notices. All notices and other communications under this Agreement will be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when delivered by confirmed facsimile (with respect to this clause (b), solely if receipt is confirmed), (c) when delivered after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) when delivered by a nationally recognized overnight courier. All communications, if to the Company, shall be sent to HC2 Holdings, Inc. 450 Park Avenue, 30th Floor, New York, NY 10022, Attention: Paul Robinson, email: probinson@hc2.com, with copies to Latham & Watkins LLP at 885 Third Avenue, New York, New York 10021, Facsimile: (212) 751-4864, Attention: Senet S. Bischoff, and if to Holder at the address indicated on the signature page.

13. Counterparts. This Agreement may be executed in any number of counterparts, each of which will be an original, but all of which together will constitute one instrument.

14. Headings. The headings contained in this Agreement are included for purposes of convenience only, and do not affect the meaning or interpretation of this Agreement.

15. Entire Agreement. This Agreement (including all Exhibits hereto) sets forth the entire understanding of the parties hereto and supersedes any prior written or oral agreements and understandings with respect to the subject matter of this Agreement. This Agreement can be amended, supplemented or changed, and any provision hereof can be waived, only by written instrument making specific reference to this Agreement signed by the parties hereto.

16. Expenses. Except as otherwise provided in this Agreement, each of the parties will bear their respective expenses incurred or to be incurred in connection with the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby. In the event that any action or proceeding is initiated to enforce or interpret the provisions of this Agreement, or to recover for a violation of this Agreement, the substantially prevailing party in any such action or proceeding shall be entitled to its costs (including reasonable attorneys' fees).

17. Survival Period. All representations and warranties made in this Agreement will expire on the first anniversary of the date of this Agreement, except for the representations in Sections 3(a), (b), (c), (e) and (f) which shall survive until the end of the applicable statute of limitations, and the representations, warranties, agreements and acknowledgements set forth in Section 4(h) which shall survive indefinitely. All other covenants, agreements and obligations contained in this Agreement shall survive indefinitely unless a different period is specifically pursuant to the provisions of this Agreement. Notwithstanding anything in this Agreement to the contrary (i) in no event will the Company or the Holder be responsible for damages resulting from the breach of any representation, warranty or covenant (including the foregoing indemnity) under this Agreement in excess of the value of Shares issued pursuant to Section 1 of this Agreement by the Company, the value of such Shares determined on their date of issuance by the closing price as reported on NYSE MKT LLC on the date of such issuance and (ii) damages shall not include any (x) special, indirect or punitive damages, or (y) any damages that are not the natural and reasonably foreseeable consequence of the relevant breach.

18. Efforts to Consummate. The Company and the Holder shall use their reasonable best efforts to take, or cause to be taken, all appropriate action, to do, or cause to be done, all things necessary, proper or advisable under applicable law, and to execute and deliver such documents and other papers, as may be required to carry out the provisions of this Agreement and make effective the transactions contemplated by this Agreement (including, without limitation, the satisfaction of applicable conditions set forth in Sections 2, 7 and 8).

[SIGNATURE PAGE FOLLOWS]

The parties have executed this Voluntary Conversion Agreement as of the date first above written.

COMPANY:

HC2 HOLDINGS, INC.

By: /s/ Keith M. Hladek
Name: Keith M. Hladek
Title: Chief Operating Officer

CORRIB MASTER FUND, LTD.

By: /s/ Kevin Cavanaugh
Name: Kevin Cavanaugh
Title: Chief Investment Officer
Address:

527 Marquette Avenue South
Suite 1000
Minneapolis, MN 55402

[Signature Page to Voluntary Conversion Agreement (Corrib – August 2016)]

EXHIBIT A

ADDITIONAL INFORMATION

1. As a result of the transactions contemplated by the Preferred Conversion Agreement to which this Exhibit A is attached, holders of the Company's Common Stock may experience significant dilution. The Company has entered into several agreements which feature anti-dilution adjustments that may be triggered by the issuance of additional equity securities or securities convertible into equity securities, including:

(a) In connection with the December 2015 acquisition of certain insurance assets by the Company (the "Insurance Acquisition"), the Company issued warrants to purchase two million shares (the "Warrant") of Common Stock to Great American Financial Resources, Inc. a Delaware corporation ("GAFRI"), at an exercise price of $7.08 per share (subject to certain adjustments, including for anti-dilution if Common Stock is issued at a price below $7.08) on or after February 3, 2016 until five years after the closing date. As a result of such anti-dilution adjustments, assuming 814,424 shares of Common Stock are issued in connection with the Agreement and similar transactions being undertaken substantially concurrently with this transaction (and assuming a fixed share price of $4.54 per share), the issuances pursuant to the Agreement would result in an increase of 11,364 shares of Common Stock issuable under the Warrant.

(b) The Company's Series A Convertible Participating Preferred Stock, the Company's Series A-1 Convertible Participating Preferred Stock, par value $0.001 per share (the "Series A-1 Preferred Stock") and the Company's Series A-2 Convertible Participating Preferred Stock, par value $0.001 per share (the "Series A-2 Preferred Stock"), contain anti-dilution adjustments providing for the adjustment of their conversion prices in certain issuances, including the issuance of Common Stock below their then current respective conversion prices. The Series A Preferred Stock (other than the Series A Preferred Stock held by the Converting Holder which is being converted on the date of the Voluntary Conversion Agreement), the Series A-1 Preferred Stock and the Series A-2 Preferred Stock is referred to as the "Non-Participating Preferred Stock." As a result of such anti-dilution adjustments, assuming 814,424 shares of Common Stock are issued in connection with the Agreement and similar transactions being undertaken substantially concurrently with this transaction (and assuming a fixed share price of $4.54 per share), the issuances pursuant to the Agreement would result in an increase of 29,423 shares of Common Stock issuable upon conversion of the Non-Participating Preferred Stock.

EXHIBIT B

REGISTRATION RIGHTS AGREEMENT

[TO BE ATTACHED]

EXHIBIT 10.5

REGISTRATION RIGHTS AGREEMENT

by and among

HC2 HOLDINGS INC.

and the INVESTORS party hereto

Dated August 2, 2016

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REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "**Agreement**"), is made as of the 2nd day of August, 2016, by and among HC2 Holdings Inc., a Delaware corporation (the "**Company**"), and each of the investors listed on Schedule A hereto (each of which is referred to in this Agreement as an "**Investor**").

RECITALS

WHEREAS, the Company entered into that certain Voluntary Conversion Agreement dated as of August 2, 2016 (the "**Voluntary Conversion Agreement**") with the investors party thereto, pursuant to which the Company will issue on the date hereof and may in the future issue additional shares of Common Stock (as defined below) to the Investors.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

1. Definitions. For purposes of this Agreement:

1.1 "**Affiliate**" means, with respect to any specified Person, any other Person who, directly or indirectly, controls, is controlled by, or is under common control with such Person.

1.2 "**Automatic Shelf Registration Statement**" means an "automatic shelf registration statement" as defined in Rule 405 promulgated under the Securities Act.

1.3 "**Board of Directors**" means the board of directors of the Company (or any duly authorized committee thereof).

1.4 "**Common Stock**" means shares of the Company's common stock, par value $0.001 per share.

1.5 "**Cut Back Shares**" has the meaning set forth in Subsection 2.1(f).

1.6 "**Damages**" means any loss, damage, claim or liability (joint or several) to which a party hereto may become subject under the Securities Act, the Exchange Act, or other federal or state law, insofar as such loss, damage, claim or liability (or any action in respect thereof) arises out of or is based upon: (i) any untrue statement or alleged untrue statement of a material fact contained in any registration statement of the Company, including any preliminary prospectus, free writing prospectus prepared by a Holder or the Company, as applicable, or final prospectus contained therein or any amendments or supplements thereto; (ii) an omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or (iii) any violation or alleged violation by the indemnifying party (or any of its agents or Affiliates) of this Agreement, the Securities Act, the Exchange Act, any state securities law, or any rule or regulation promulgated under the Securities Act, the Exchange Act, or any state securities law.

1.7 "**Demand Notice**" has the meaning set forth in Subsection 2.1.

1.8 "**Exchange Act**" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

1.9 "**Excluded Registration**" means (i) a registration relating to the sale of securities to employees of the Company or a subsidiary pursuant to a stock option, stock purchase, or similar plan; (ii) a registration relating to an SEC Rule 145 transaction; or (iii) a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities that are also being registered.

1.10 "**FINRA**" means the Financial Industry Regulatory Authority.

1.11 "**Form S-1**" means such form under the Securities Act as in effect on the date hereof or any successor registration form under the Securities Act subsequently adopted by the SEC.

1.12 “**Form S-3**” means such form under the Securities Act as in effect on the date hereof or any registration form under the Securities Act subsequently adopted by the SEC that permits incorporation of substantial information by reference to other documents filed by the Company with the SEC.

1.13 “**Holdback Period**” has the meaning set forth in Section 2.11.

1.14 “**Holdback Extension”** has the meaning set forth in Section 2.11.

1.15 “**Holders**” means any Investor and any other holder of Registrable Securities who is a party to this Agreement.

1.16 “**Immediate Family Member**” means a child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including, adoptive relationships, of a natural person referred to herein.

1.17 “**Initiating Holders**” means, collectively, Holders who properly initiate a registration request under this Agreement.

1.18 “**Person**” means any individual, corporation, partnership, trust, limited liability company, association or other entity.

1.19 “**Prospectus**” means the prospectus related to any Registration Statement (whether preliminary or final or any prospectus supplement, including, without limitation, a prospectus or prospectus supplement that discloses information previously omitted from a prospectus filed as part of an effective registration statement in reliance on Rule 415, 424, 430A, 430B or 430C under the Securities Act, as amended or supplemented by any amendment or prospectus supplement), including post-effective amendments, and all materials incorporated by reference in such prospectus.

1.20 “**Registration Rights Agreement**” has the meaning set forth in the Recitals.

1.21 “**Registrable Securities**” means any newly issued shares of Common Stock issued by the Company pursuant to the Voluntary Conversion Agreement (and for the avoidance of doubt, not including shares of Common Stock received upon the conversion of any shares of Preferred Stock (as defined in the Voluntary Conversion Agreement)); provided, that Registrable Securities held by any Holder will cease to be Registrable Securities, when they have been (A) sold to or through a broker or dealer or underwriter in a public distribution or a public securities transaction (including pursuant to Rule 144 of the Securities Act), or (B) sold in a transaction in which the transferor’s rights under this Agreement are not validly assigned in accordance with this Agreement.

1.22 “**Registration Statement**” means any registration statement filed pursuant to the Securities Act.

1.23 “**SEC**” means the Securities and Exchange Commission.

1.24 “**SEC Restrictions**” has the meaning set forth in Subsection 2.1(f).

1.25 “**SEC Rule 144**” means Rule 144 promulgated by the SEC under the Securities Act.

1.26 “**SEC Rule 145**” means Rule 145 promulgated by the SEC under the Securities Act.

1.27 “**Securities Act**” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

1.28 “**Selling Holder Counsel**” has the meaning set forth in Subsection 2.6.

1.29 “**Selling Expenses**” means all underwriting discounts, selling commissions, and stock transfer taxes applicable to the sale of Registrable Securities, and fees and disbursements of counsel for any Holder, except for the fees and disbursements of the Selling Holder Counsel borne and paid by the Company as provided in Subsection 2.6.

1.30 “**Shelf Registration**” means a registration of securities pursuant to a Registration Statement filed with the Commission in accordance with and pursuant to Rule 415 promulgated under the Securities Act.

1.31 “**Shelf Registration Statement**” has the meaning set forth in Subsection 2.1(b) hereof.

1.32 “**Suspension Period**” has the meaning set forth in Subsection 2.1(d).

1.33 “**Underwriter**” means the underwriter, placement agent or other similar intermediary participating in an Underwriting.

1.34 “**Underwriting**” of securities means a public offering of securities registered under the Securities Act in which an underwriter, placement agent or other similar intermediary participates in the distribution of such securities.

1.35 “**Underwritten Takedown**” means an underwritten offering takedown to be conducted by one or more Holders in accordance with Section 2.3(b).

2. Registration Rights. The Company covenants and agrees as follows:

2.1 Demand and Shelf Registration.

(a) Form S-1 Demand. If at any time after the date hereof, the Company receives a request from a Holder of Registrable Securities that the Company file a Form S-1 registration statement with respect to any outstanding Registrable Securities of such Holders having an anticipated aggregate offering price, net of Selling Expenses, of at least $5 million, then the Company shall (x) within two (2) days after the date such request is given, give notice thereof (the “**Demand Notice**”) to all Holders other than the Initiating Holders (if there are Holders of Registrable Securities other than the Initiating Holders); and (y) as soon as practicable, and in any event within thirty (30) days after the date such request is given by the Initiating Holders, file a Form S-1 registration statement under the Securities Act covering all Registrable Securities that the Initiating Holders requested to be registered and any additional Registrable Securities requested to be included in such registration by any other Holders, as specified by notice given by each such Holder to the Company within five (5) days of the date the Demand Notice is given, and in each case, subject to the limitations of Subsections 2.1(c) and 2.3. No Holder shall deliver an initiating request under this Section 2.1(a) at any time when a Shelf Registration Statement covering such Holder’s Registrable Securities is effective and available for use in connection with a resale of such Registrable Securities. The Company shall not be required to file a Form S-1 registration statement under this Section 2.1(a) if it is then eligible to use Form S-3 for secondary offerings of Registrable and it advises the Initiating Holders that it is preparing a Shelf Registration Statement in accordance with the first sentence of Section 2.1(b)(i).

(b) Shelf Registration.

(i) Within thirty (30) days after the date on which a Holder of Registrable Securities shall so request (provided, that the Company is, at the time of receipt of such request, eligible to use a Form S-3 registration statement for secondary offerings of Registrable Securities) and for so long as there are Registrable Securities outstanding, the Company shall use its reasonable best efforts to ensure that the Company shall at all times have and maintain an effective Registration Statement for a Shelf Registration covering the resale of all of the Registrable Securities requested to be included by any Holder, on a delayed or continuous basis (the “**Shelf Registration Statement**”). The Company shall give written notice of the filing of any Shelf Registration Statement at least fifteen (15) days prior to filing such Shelf Registration Statement to all Holders of Registrable Securities and shall, upon receipt of a request from any Holder, include in such Shelf Registration Statement all Registrable Securities of each requesting Holder. The Company shall use its reasonable best efforts to maintain the effectiveness of such Shelf Registration Statement in accordance with the terms hereof. The “Plan of Distribution” section of such Shelf Registration Statement shall permit all lawful means of disposition of Registrable Securities, including firm-commitment underwritten public offerings, block trades, agented transactions, sales directly into the market, purchases or sales by brokers, Hedging Transactions, distributions to stockholders, partners or members of such Holders and sales not involving a public offering.

(ii) From and after the date that the Shelf Registration Statement is initially effective, as promptly as is practicable after receipt of a request from a Holder, and in any event within (x) ten (10) days after the date such request is received by the Company or (y) if a request is so received during a Suspension Period, five (5) days after the expiration of such Suspension Period, the Company shall take all necessary action to cause the requesting Holder to be named as a selling securityholder in the Shelf Registration Statement and the related Prospectus in such a manner as to permit such Holder to deliver such Prospectus in connection with sales of such Registrable Securities to the

purchasers thereof in accordance with applicable law, which action may include: (A) if required by applicable law, filing with the Commission a post-effective amendment to the Shelf Registration Statement; (B) preparing and, if required by applicable law, filing a supplement or supplements to the related Prospectus or a supplement or amendment to any document incorporated therein by reference; (C) filing any other required document; or (D) with respect to a post-effective amendment to the Shelf Registration Statement that is not automatically effective, using its reasonable best efforts to cause such post-effective amendment to be declared or to otherwise become effective under the Securities Act as promptly as is practicable; provided that: (A) the Company may delay such filing until the date that is twenty (20) days after any prior such filing; (B) if the Shelf Registration Statement is not an Automatic Shelf Registration Statement and the Company has already made such a filing during the calendar quarter in which such filing would otherwise be required to be made, the Company may delay such filing until the tenth (10th) day of the following calendar quarter; and (C) if such request is delivered during a Suspension Period, the Company shall so inform the Holder delivering such request and shall take the actions set forth above upon expiration of the Suspension Period in accordance with Subsection 2.1(d).

(c) Notwithstanding the foregoing obligations, if the Company furnishes to Holders requesting a registration pursuant to this Subsection 2.1 a certificate signed by the Company's chief executive officer stating that in the good faith judgment of the Company's Board of Directors, after consultation with counsel, it would be materially detrimental to the Company and its stockholders for such registration statement to either become effective or remain effective for as long as such registration statement otherwise would be required to remain effective, because such action would (i) be expected to have a material adverse effect on any proposal or plan of the Company to effect a merger, acquisition, disposition, financing, reorganization, recapitalization or similar transaction; (ii) require premature disclosure of material information that the Company has a bona fide business purpose for preserving as confidential; or (iii) render the Company unable to comply with requirements under the Securities Act or Exchange Act, then the Company shall have the right to defer taking action with respect to such filing, and any time periods with respect to filing or effectiveness thereof shall be tolled correspondingly, for a period of not more than forty five (45) days after the request of the Initiating Holder is given; provided, however, that the Company may not invoke this right more than once in any twelve (12) month period; and provided further that the Company shall not register any securities for its own account or that of any other stockholder during such forty five (45) day period other than an Excluded Registration.

(d) Suspension Periods. Upon written notice to the Holders of Registrable Securities, (x) the Company shall be entitled to suspend, for a period of time, the use of any Registration Statement or Prospectus if the Board of Directors determines in its good faith judgment, after consultation with counsel, that the Registration Statement or any Prospectus may contain an untrue statement of a material fact or omits any fact necessary to make the statements in the Registration Statement or Prospectus not misleading and (y) the Company shall not be required to amend or supplement the Registration Statement, any related Prospectus or any document incorporated therein by reference if the Board of Directors determines in its good faith judgment, after consultation with counsel, that such amendment or supplement would reasonably be expected to have a material adverse effect on any proposal or plan of the Company to effect a merger, acquisition, disposition, financing, reorganization, recapitalization or similar transaction, in each case that is material to the Company (in case of each clause (x) and (y), a "**Suspension Period**"); provided that (A) the duration of all Suspension Periods may not exceed one hundred and twenty (120) days in the aggregate in any 12-month period and (B) the Company shall use its commercially reasonable efforts to amend or supplement the Registration Statement and/or Prospectus to correct such untrue statement or omission as soon as reasonably practicable, but in no event shall any single suspension period exceed forty five (45) days.

(e) The Company shall not be obligated to effect, or to take any action to effect, any registration pursuant to Subsection 2.1(a) during the period ending ninety (90) days after the effective date of, another registration by the Company, including a Company-initiated registration, in each case, in which Holders were entitled to include Registrable Securities in accordance with Section 2.2. A registration shall not be counted as "effected" for purposes of this Subsection 2.1(e) until such time as the applicable registration statement has been declared effective by the SEC; provided, however, if the Initiating Holders withdraw their request for such registration and elect to pay the

registration expenses therefor, such withdrawn registration statement shall not be counted as "effected" for purposes of this Subsection 2.1(e).

(f) Secondary Offering. If at any time the SEC takes the position that the offering of some or all of the Registrable Securities in a Registration Statement are not eligible to be made as a secondary offering, the Company shall use commercially reasonable best efforts to persuade the SEC that the offering contemplated by the Registration Statement is a bona fide secondary offering. In the event that the SEC refuses to alter its position, the Company shall (i) remove from the Registration Statement such portion of the Registrable Securities (the "**Cut Back Shares**") and/or (ii) agree to such restrictions and limitations on the registration and resale of the Registrable Securities as the SEC may require to assure that the Registration Statement is deemed a secondary offering (collectively, the "**SEC Restrictions**"); provided, however, that the Company shall not agree to name any Holder as an "underwriter" in such Registration Statement without the prior written consent of such Holder. Any cut-back imposed pursuant to this Section 2.1(f) shall be allocated among the Holders on a pro rata basis in accordance with the number of shares that such Holders have requested to be included in such Registration Statement, unless the SEC Restrictions otherwise require or provide or the participating Holders otherwise agree. From and after the date that the Company is able to effect the registration of such Cut Back Shares in accordance with any SEC Restrictions, all of the provisions of this Section 2.1 shall again be applicable to such Cut Back Shares.

2.2 Company Registration. If the Company proposes to register (including, for this purpose, a registration effected by the Company for stockholders other than the Holders) any of its Common Stock under the Securities Act in connection with the public offering of such securities solely for cash (other than in an Excluded Registration), the Company shall, at such time, promptly give each Holder written notice of such Registration. In the case of a takedown offering under a Shelf Registration, the Company shall give each Holder notice of such registration not less than five (5) days prior to the expected date of commencement of marketing efforts for such takedown. Upon the request of each Holder given within two (2) days after such notice is given by the Company, the Company shall, subject to the provisions of Subsection 2.3, cause to be included all of the Registrable Securities that each such Holder has requested to be included in such registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Subsection 2.2 before the effective date of such registration, whether or not any Holder has elected to include Registrable Securities in such registration. The expenses (other than Selling Expenses) of such withdrawn registration shall be borne by the Company in accordance with Subsection 2.6.

2.3 Underwriting Requirements.

(a) If, pursuant to Subsection 2.1(a), the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an Underwriting, they shall so advise the Company as a part of their request made pursuant to Subsection 2.1, and the Company shall include such information in the Demand Notice. The managing Underwriter(s) will be selected by the Initiating Holders, subject only to the reasonable approval of the Company. In such event, the right of any Holder to include such Holder's Registrable Securities in such registration shall be conditioned upon such Holder's participation in such Underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such Underwriting shall (together with the Company as provided in Subsection 2.4(n)) enter into an underwriting agreement in customary form with the Underwriter(s) selected for such Underwriting. Notwithstanding any other provision of this Subsection 2.3, if the managing Underwriter(s) advise the Initiating Holders in writing that marketing factors require a limitation on the number of shares to be underwritten, then the Initiating Holders (if there are Holders of Registrable Securities other than the Initiating Holders) shall so advise all Holders of Registrable Securities that otherwise would be underwritten pursuant hereto, and the number of Registrable Securities that shall be included in the underwriting shall be allocated among such Holders of Registrable Securities, including the Initiating Holders, in proportion (as nearly as practicable) to the number of Registrable Securities proposed by each Holder to be included in the registration or in such other proportion as shall mutually be agreed to in writing by all such selling Holders; provided, however, that the number of Registrable Securities held by the Holders to be included in such underwriting shall not be reduced unless all other securities to be sold by persons who are not Holders are first entirely excluded from the underwriting.

(b) Shelf Underwritten Takedown.

(i) At any time after the Company has an effective shelf registration one or more Holders of outstanding Registrable Securities may request that the Company effect an underwritten takedown under the Shelf Registration Statement of at least $5 million in Registrable Securities, based on the closing market price on the trading day immediately prior to the initial request of such requesting Holders. Within five (5) days of receipt of such request, the Company shall notify all other Holders (if applicable) whose Registrable Securities are included in such Shelf Registration Statement of such request and shall (except as provided in clause (iii) below) include in such Underwritten Takedown all Registrable Securities requested to be included therein by Holders who respond within five (5) days of the Company's notification described above.

(ii) For any Underwritten Takedown from a Shelf Registration Statement, the managing underwriter or underwriters shall be selected by the Holders participating in such offering holding a majority of the Registrable Securities to be disposed of pursuant to such offering and shall be reasonably acceptable to the Company.

(iii) If the managing underwriter or underwriters for the Underwritten Takedown advise the Company that in their reasonable opinion the number of securities requested to be included in such underwritten offering takedown exceeds the number which can be sold in an orderly manner in such offering within a price range acceptable to the Initiating Holders, the Company shall include in such Underwritten Takedown the number which can be so sold in the following order of priority: (A) first, the securities requested to be included by the Holders (pro rata among the Holders of such securities on the basis of the number of securities requested to be included therein by each such holder), (B) second, the securities requested to be included in such Underwritten Takedown by holders exercising piggyback registration rights (pro rata among the holders of such securities on the basis of the number of securities requested to be included therein by each such holder), (C) third, the securities the Company proposes to sell, and (D) fourth, other securities requested to be included in such Underwritten Takedown (pro rata among the holders of such securities on the basis of the number of securities requested to be included therein by each such holder).

(iv) The Company shall not be required to effect an Underwritten Takedown more than once in any six (6) month period.

(c) In connection with any offering involving an underwriting of shares of the Company's capital stock pursuant to Subsection 2.2, the Company shall not be required to include any of the Holders' Registrable Securities in such underwriting unless the Holders accept the terms of the underwriting as agreed upon between the Company and its underwriters, and then only in such quantity as the underwriters in their sole discretion determine will not jeopardize the success of the offering by the Company. If the total number of securities, including Registrable Securities, requested by stockholders to be included in such offering exceeds the number of securities to be sold that the underwriters in their reasonable discretion determine is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters and the Company in their sole discretion determine will not jeopardize the success of the offering. If the underwriters determine that less than all of the Registrable Securities requested to be registered can be included in such offering, then the Registrable Securities that are included in such offering shall be allocated among the selling Holders in proportion (as nearly as practicable to) to the number of Registrable Securities proposed by each Holder to be included in the registration or in such other proportions as shall mutually be agreed to in writing by all such selling Holders. Notwithstanding the foregoing, in no event shall (i) the number of Registrable Securities included in the offering be reduced unless all other securities (other than securities to be sold by the Company) are first entirely excluded from the offering. For purposes of the provision in this Subsection 2.3(c) and Sections 2.3(a) and 2.3(b)(iii) concerning apportionment, for any selling Holder that is a partnership, limited liability company, or corporation, the partners, members, retired partners, retired members, stockholders, and Affiliates of such Holder, or the estates and Immediate Family Members of any such partners, retired partners, members, and retired members and any trusts for the benefit of any of the foregoing Persons, shall be deemed to be a single "selling Holder," and any pro rata reduction with respect to such "selling Holder" shall be based upon the aggregate number of Registrable Securities owned by all Persons included in such "selling Holder," as defined in this sentence.

(d) For purposes of Subsection 2.1 and 2.3(b), a registration shall not be counted as "effected" if, as a result of an exercise of the underwriter's cutback provisions in Subsection 2.3(a), fewer than seventy-five percent (75%) of the total number of Registrable Securities that Holders have requested to be included in such registration statement are actually included.

2.4 Obligations of the Company. Whenever required under this Section 2 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its commercially reasonable efforts to cause such registration statement to become effective and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to one hundred twenty (120) days or, if earlier, until the distribution contemplated in the registration statement has been completed; provided, however, that (i) such one hundred twenty (120) day period shall be extended for a period of time equal to the period the Holder refrains, at the request of an underwriter of Common Stock (or other securities) of the Company, from selling any securities included in such registration, and (ii) in the case of any registration of Registrable Securities on Form S-3 that are intended to be offered on a continuous or delayed basis, subject to compliance with applicable SEC rules, such one hundred twenty (120) day period shall be extended in accordance with Section 2.1(b) until all such Registrable Securities are sold;

(b) prepare and file with the SEC such amendments and supplements to such registration statement, and the prospectus used in connection with such registration statement, as may be necessary to comply with the Securities Act in order to enable the disposition of all securities covered by such registration statement;

(c) furnish to the selling Holders such numbers of copies of a prospectus, including a preliminary prospectus, as required by the Securities Act, and such other documents as the Holders may reasonably request in order to facilitate their disposition of their Registrable Securities;

(d) provide counsel to the Holders a reasonable opportunity to review and comment upon any Registration Statement and any Prospectus supplements;

(e) if requested by any participating Holder, promptly include in a Prospectus supplement or amendment such information as the Holder may reasonably request, including in order to permit the intended method of distribution of such securities, and make all required filings of such Prospectus supplement or such amendment as soon as reasonably practicable after the Company has received such request;

(f) use its commercially reasonable efforts to register and qualify, or obtain an exemption from registration or qualification for the securities covered by such registration statement under such other securities or blue-sky laws of such jurisdictions as shall be reasonably requested by the selling Holders; provided that the Company shall not be required to qualify to do business or to file a general consent to service of process in any such states or jurisdictions, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(g) in the case of certificated Registrable Securities, cooperate with the participating Holders of Registrable Securities and the managing underwriters to facilitate the timely preparation and delivery of certificates (not bearing any legends) representing Registrable Securities sold pursuant to a Shelf Registration Statement;

(h) in the case of an underwritten offering, use its commercially reasonable efforts to obtain a "comfort" letter or letters, dated as of such date or dates as the managing underwriters reasonably requests, from the Company's independent public accountants in customary form and covering such matters of the type customarily covered by "comfort" letters as any managing underwriter reasonably requests;

(i) in the case of a underwritten offering, furnish, at the request of any managing underwriter for such offering an opinion with respect to legal matters and a negative assurance letter with respect to disclosure matters, dated as of each closing date of such offering of counsel representing the Company for the purposes of such registration,

addressed to the underwriters, covering such matters with respect to the registration in respect of which such opinion and letter are being delivered as the underwriters, may reasonably request and are customarily included in such opinions and negative assurance letters;

(j) in the case of an underwritten offering, furnish, at the request of any managing underwriter for such offering an opinion with respect to legal matters and a negative assurance letter with respect to disclosure matters, dated as of each closing date of such offering of counsel representing the Company for the purposes of such registration, addressed to the underwriters, covering such matters with respect to the registration in respect of which such opinion and letter are being delivered as the underwriters, may reasonably request and are customarily included in such opinions and negative assurance letters;

(k) in the case of an underwritten offering, use its commercially reasonable efforts to cooperate and assist in any filings required to be made with FINRA and in the performance of any due diligence investigation by any underwriter and its counsel (including any "qualified independent underwriter," if applicable) that is (A) required or requested by FINRA in order to obtain written confirmation from FINRA that FINRA does not object to the fairness and reasonableness of the underwriting terms and arrangements (or any deemed underwriting terms and arrangements) relating to the resale of Registrable Securities pursuant to the Shelf Registration Statement, including, without limitation, information provided to FINRA through its COBRADesk system or (B) required to be retained in accordance with the rules and regulations of FINRA;

(l) if requested by the managing underwriters, if any, or by any Holder of Registrable Securities being sold in an underwritten offering, promptly incorporate in a Prospectus supplement or post-effective amendment to the Registration Statement such information as the managing underwriters, if any, or such Holders indicate relates to them or that they reasonably request be included therein and make appropriate members of management available to meeting with potential investors in the offering;

(m) cause the Registrable Securities covered by such Registration Statement to be registered with or approved by such other governmental agencies or authorities, as may be reasonably necessary by virtue of the business and operations of the Company to enable the seller or sellers of Registrable Securities to consummate the disposition of such Registrable Securities;

(n) in the event of any underwritten offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the underwriter(s) of such offering;

(o) in the event of the issuance or threatened issuance of any stop order suspending the effectiveness of a Registration Statement, or of any order suspending or preventing the use of any related Prospectus or suspending the qualification of any Registrable Securities included in such Registration Statement for sale in any jurisdiction, use its commercially reasonable efforts promptly to (i) prevent the issuance of any such stop order, and in the event of such issuance, to obtain the withdrawal of such order and (ii) obtain, at the earliest practicable date, the withdrawal of any order suspending or preventing the use of any related Prospectus or suspending qualification of any Registrable Securities included in such Registration Statement for sale in any jurisdiction;

(p) use its commercially reasonable efforts to cause all such Registrable Securities covered by such registration statement to be listed on each securities exchange and trading system (if any) on which similar securities issued by the Company are then listed;

(q) provide a transfer agent and registrar for all Registrable Securities registered pursuant to this Agreement and provide a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(r) promptly make available for inspection by the selling Holders, any managing underwriter(s) participating in any disposition pursuant to such registration statement, and any attorney or accountant or other agent retained by any such underwriter or selected by the selling Holders, all financial and other records, pertinent corporate documents, and properties of the Company, and cause the Company's officers, directors, employees, and independent

accountants to supply all oral or written information reasonably requested by any such seller, underwriter, attorney, accountant, or agent, in each case, as necessary or advisable to verify the accuracy of the information in such registration statement and to conduct appropriate due diligence in connection therewith;

(s) notify each selling Holder, promptly after the Company receives notice thereof, of the time when such registration statement has been declared effective or a supplement to any prospectus forming a part of such registration statement has been filed;

(t) notify each selling Holder at any time when a Prospectus relating to the applicable Registration Statement is required to be delivered under the Securities Act: (i) as promptly as practicable upon discovery that, or upon the happening of any event as a result of which, such Registration Statement, or the Prospectus relating to such Registration Statement, or any document incorporated or deemed to be incorporated therein by reference contains an untrue statement of a material fact or omits any fact necessary to make the statements in the Registration Statement, the Prospectus relating thereto not misleading or otherwise requires the making of any changes in such Registration Statement, Prospectus, or document, and, at the request of any such Holder and subject to the Company's ability to declare Suspension Periods pursuant to Section 2.1(d), the Company shall promptly prepare a supplement or amendment to such Prospectus, furnish a reasonable number of copies of such supplement or amendment to each such seller of such Registrable Securities, and file such supplement or amendment with the SEC so that, as thereafter delivered to the purchasers of such Registrable Securities, such Prospectus as so amended or supplemented shall not contain an untrue statement of a material fact or omit to state any fact necessary to make the statements therein not misleading, (ii) as promptly as practicable after the Company becomes aware of any request by the SEC or any Federal or state governmental authority for amendments or supplements to a Registration Statement or related Prospectus covering Registrable Securities or for additional information relating thereto, (iii) as promptly as practicable after the Company becomes aware of the issuance or threatened issuance by the SEC of any stop order suspending or threatening to suspend the effectiveness of a Registration Statement covering the Registrable Securities or (iv) as promptly as practicable after the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any Registrable Security for sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose; and

(u) after such registration statement becomes effective, notify each selling Holder of any request by the SEC that the Company amend or supplement such registration statement or prospectus.

In addition, the Company shall ensure that, at all times after any registration statement covering a public offering of securities of the Company under the Securities Act shall have become effective, its insider trading policy shall provide that the Company's directors may implement a trading program under Rule 10b5-1 of the Exchange Act.

2.5 Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 2 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as is reasonably required to effect the registration of such Holder's Registrable Securities.

2.6 Expenses of Registration. All expenses (other than Selling Expenses) incurred in connection with registrations, filings, or qualifications pursuant to Section 2, including all registration, filing, and qualification fees; printers' and accounting fees; fees and disbursements of counsel for the Company; and the reasonable fees and disbursements of one counsel for each of the selling Holders ("**Selling Holder Counsel**"), shall be borne and paid by the Company; provided, however, that the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Subsection 2.1 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all selling Holders shall bear such expenses pro rata based upon the number of Registrable Securities that were to be included in the withdrawn registration); provided further that if, at the time of such withdrawal, the Holders shall have learned of a material adverse change in the condition, business, or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness after learning of such information then the Holders shall not be required to pay any of such expenses. All Selling Expenses relating to Registrable Securities registered

pursuant to this Section 2 shall be borne and paid by the Holders pro rata on the basis of the number of Registrable Securities registered on their behalf.

2.7 Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any registration pursuant to this Agreement as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 2.

2.8 Indemnification. If any Registrable Securities are included in a Registration Statement under this Section 2:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each selling Holder, and the partners, members, officers, directors, and stockholders of each such Holder; legal counsel and accountants for each such Holder; any underwriter (as defined in the Securities Act) for each such Holder; and each Person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any Damages, and the Company will pay to each such Holder, underwriter, controlling Person, or other aforementioned Person any legal or other expenses reasonably incurred thereby in connection with investigating or defending any claim or proceeding from which Damages may result, as such expenses are incurred; provided, however, that the indemnity agreement contained in this Subsection 2.8(a) shall not apply to amounts paid in settlement of any such claim or proceeding if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, nor shall the Company be liable for any Damages to the extent that they arise out of or are based upon actions or omissions made in reliance upon and in conformity with written information furnished by or on behalf of any such Holder, underwriter, controlling Person, or other aforementioned Person expressly for use in connection with such registration.

(b) To the extent permitted by law, each selling Holder, severally and not jointly, will indemnify and hold harmless the Company, and each of its directors, each of its officers who has signed the Registration Statement, each Person (if any), who controls the Company within the meaning of the Securities Act, legal counsel and accountants for the Company, any underwriter (as defined in the Securities Act), any other Holder selling securities in such registration statement, and any controlling Person of any such underwriter or other Holder, against any Damages, in each case only to the extent that such Damages arise out of or are based upon actions or omissions made in reliance upon and in conformity with written information furnished by or on behalf of such selling Holder expressly for use in connection with such registration; and each such selling Holder will pay to the Company and each other aforementioned Person any legal or other expenses reasonably incurred thereby in connection with investigating or defending any claim or proceeding from which Damages may result, as such expenses are incurred; provided, however, that the indemnity agreement contained in this Subsection 2.8(b) shall not apply to amounts paid in settlement of any such claim or proceeding if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; and provided further that in no event shall the aggregate amounts payable by any Holder by way of indemnity or contribution under Subsections 2.8(b) and 2.8(d) exceed the proceeds from the related offering received by such Holder (net of any Selling Expenses paid by such Holder).

(c) Promptly after receipt by an indemnified party under this Subsection 2.8 of notice of the commencement of any action (including any governmental action) for which a party may be entitled to indemnification hereunder, such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Subsection 2.8, give the indemnifying party notice of the commencement thereof. The indemnifying party shall have the right to participate in such action and, to the extent the indemnifying party so desires, participate jointly with any other indemnifying party to which notice has been given, and to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties that may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such action.

(d) To provide for just and equitable contribution to joint liability under the Securities Act in any case in which either: (i) any party otherwise entitled to indemnification hereunder makes a claim for indemnification pursuant to this Subsection 2.8 but it is judicially determined (by the entry of a final judgment or decree by a court of competent

jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case, notwithstanding the fact that this Subsection 2.8 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any party hereto for which indemnification is provided under this Subsection 2.8, then, and in each such case, such parties will contribute to the aggregate losses, claims, damages, liabilities, or expenses to which they may be subject (after contribution from others) in such proportion as is appropriate to reflect the relative fault of each of the indemnifying party and the indemnified party in connection with the statements, omissions, or other actions that resulted in such loss, claim, damage, liability, or expense, as well as to reflect any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or allegedly untrue statement of a material fact, or the omission or alleged omission of a material fact, relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation; and provided further that in no event shall a Holder's liability pursuant to this Subsection 2.8(d), when combined with the amounts paid or payable by such Holder pursuant to Subsection 2.8(b), exceed the proceeds from the related offering received by such Holder (net of any Selling Expenses paid by such Holder), except in the case of willful misconduct or fraud by such Holder.

(e) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control between the parties to such agreement.

(f) Unless otherwise superseded by an underwriting agreement entered into in connection with the underwritten public offering, the obligations of the Company and Holders under this Subsection 2.8 shall survive the completion of any offering of Registrable Securities in a registration under this Section 2, and otherwise shall survive the termination of this Agreement.

2.9 Reports Under Exchange Act. With a view to making available to the Holders the benefits of SEC Rule 144 and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company shall:

(a) make and keep available adequate current public information, as those terms are understood and defined in SEC Rule 144;

(b) use commercially reasonable efforts to file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after the Company is subject to such reporting requirements); and

(c) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) to the extent accurate, a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144, the Securities Act, and the Exchange Act, or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after the Company so qualifies); and (ii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC that permits the selling of any such securities without registration or pursuant to Form S-3 (at any time after the Company so qualifies to use such form).

2.10 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of a majority of the Registrable Securities then outstanding, enter into any agreement with any holder or prospective holder of any securities of the Company that would provide to such holder the right to include securities in any registration on other than a subordinate basis after all Holders have had the opportunity to include in the registration and offering all shares of Registrable Securities that they wish to so include.

2.11 Market Stand-off Agreement. Each Holder and the Company hereby agree that it will not, without the prior written consent of the managing underwriter, in connection with an underwritten offering pursuant to Section 2.2 by the Company for its own behalf of shares of its Common Stock or any other equity securities under the Securities Act on a registration statement on Form S-1 or Form S-3, during the period commencing on the date of the final prospectus relating to and ending on the date specified by the Company and the managing underwriter (such period not to exceed ninety (90) days (the "**Holdback Period**")), effect any sale or distribution of equity securities of the Company, as applicable, or any securities convertible into or exchangeable or exercisable for such securities. If (x) the Company issues an earnings release or other material news or a material event relating to the Company and its subsidiaries occurs during the last 17 days of the Holdback Period or (y) prior to the expiration of the Holdback Period, the Company announces that it will release earnings results during the 16-day period beginning upon the expiration of the Holdback Period, then to the extent necessary for a managing or co-managing underwriter of an underwritten offering required hereunder to comply with FINRA Rule 2711(f)(4) or any successor regulation, the Holdback Period shall be extended until 18 days after the earnings release or the occurrence of the material news or event, as the case may be (such period the "**Holdback Extension**"). The Company may impose stop-transfer instructions with respect to its securities that are subject to the forgoing restriction until the end of such period, including any period of Holdback Extension. The foregoing provisions of this Subsection 2.11 shall (i) not apply to the sale of any shares to an underwriter pursuant to an underwriting agreement, (ii) shall be applicable to the Holders only if all officers and directors are subject to substantially the same restrictions and the Company uses commercially reasonable efforts to obtain a similar agreement from all stockholders individually owning more than five percent (5%) of the Company's outstanding Common Stock (after giving effect to conversion into Common Stock of all outstanding Preferred Stock (as defined in the Voluntary Conversion Agreement)) and (iii) shall be applicable to the Holders only if the Company has complied with its obligations under Section 2 and has included at least 75% of the Registered Securities requested by such Holders in such underwritten offering. The underwriters in connection with such underwritten offering are intended third-party beneficiaries of this Subsection 2.11 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto. Each Holder further agrees to execute such agreements as may be reasonably requested by the underwriters in connection with such underwritten offering that are consistent with this Subsection 2.11 or that are necessary to give further effect thereto.

2.12 Termination of Registration Rights. The right of any Holder to request registration or inclusion of Registrable Securities in any registration pursuant to Subsections 2.1 or 2.2 shall terminate upon when all shares of such Holder's that were Registrable Securities cease to be Registrable Securities, provided that the indemnification provisions of Subsection 2.8 shall survive such termination.

3. Miscellaneous.

3.1 Successors and Assigns. This Agreement shall inure, as hereinafter provided, to the benefit of and be binding upon the successors and permitted assigns of each of the parties, including each person who is a transferee of a Holder of any Registrable Securities, who executes a Joinder in the form attached as Annex A hereto, provided that nothing herein shall be deemed to permit any assignment, transfer or other disposition of Registrable Securities in violation of the terms of applicable law and any applicable agreement. If any transferee of any Holder shall acquire Registrable Securities, in any manner, whether by operation of law or otherwise, such Registrable Securities shall be held subject to and benefit from all of the terms of this Agreement, and by taking and holding such Registrable Securities, such person shall be conclusively deemed to have agreed to be bound by and to perform all of the terms and provisions of this Agreement and such person shall be entitled to receive the benefits hereof.

3.2 Governing Law. This Agreement shall be governed by the internal law of the State of New York.

3.3 Jurisdiction. Any action or proceeding against any party hereto relating in any way to this Agreement or the transactions contemplated hereby may be brought and enforced in any United States federal court or New York State Court located in the Borough of Manhattan in The City of New York, and each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the jurisdiction of each such court in respect of any such action or proceeding. Each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the service of process in any such action or proceeding by the mailing of copies thereof by registered or certified

mail, postage prepaid, return receipt requested, to such person or entity at the address for such person or entity set forth in Section 3.7 hereof of this Agreement or such other address such person or entity shall notify the other in writing. The foregoing shall not limit the right of any person or entity to serve process in any other manner permitted by law or to bring any action or proceeding, or to obtain execution of any judgment, in any other jurisdiction.

Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising under or relating to this Agreement or the transactions contemplated hereby in any court located in the Borough of Manhattan in The City of New York. Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives any claim that a court located in the State of New York is not a convenient forum for any such action or proceeding.

Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives, to the fullest extent permitted by applicable United States federal and state law, all immunity from jurisdiction, service of process, attachment (both before and after judgment) and execution to which he might otherwise be entitled in any action or proceeding relating in any way to this Agreement or the transactions contemplated hereby in the courts of the State of New York, of the United States or of any other country or jurisdiction, and hereby waives any right he might otherwise have to raise or claim or cause to be pleaded any such immunity at or in respect of any such action or proceeding.

3.4 Waiver of Jury Trial. EACH PARTY HEREBY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE OTHER TRANSACTION DOCUMENTS, THE SECURITIES OR THE SUBJECT MATTER HEREOF OR THEREOF. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS (INCLUDING NEGLIGENCE), BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. THIS SECTION HAS BEEN FULLY DISCUSSED BY EACH OF THE PARTIES HERETO AND THESE PROVISIONS WILL NOT BE SUBJECT TO ANY EXCEPTIONS. EACH PARTY HERETO HEREBY FURTHER WARRANTS AND REPRESENTS THAT SUCH PARTY HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT SUCH PARTY KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

3.5 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Counterparts may be delivered via facsimile, electronic mail (including pdf or any electronic signature or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes**.**

3.6 Titles and Subtitles. The titles and subtitles used in this Agreement are for convenience only and are not to be considered in construing or interpreting this Agreement.

3.7 Notices. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be made by registered or certified first-class mail, return receipt requested, telecopy, electronic transmission, courier service or personal delivery:

(a) If to the Company:

Suite 150
460 Herndon Parkway
Herndon, VA 20170
Telecopy: (212) 339-5831
Attention: Paul L. Robinson, Chief Legal Officer and Corporate Secretary

With a copy to (which shall not constitute notice
hereunder):

Latham & Watkins LLP
885 Third Avenue
New York, NY 10022-4834
Telecopy: (212) 906-4864
Attention: Senet S. Bischoff

(b) If to any Holder, at its address as it appears on Exhibit A, or at the Holder's address as it appears in the records of the Company if updated after the execution of this Agreement.

All such notices, demands and other communications shall be deemed to have been duly given when delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial courier service; five (5) days after being deposited in the mail, postage prepaid, if mailed; and when receipt is acknowledged, if telecopied or electronically transmitted. Any party may by notice given in accordance with this Section 3.7 designate another address or Person for receipt of notices hereunder. If the due date for any notice is a day that is not a business day for commercial banks in the City of New York, then such notice shall be considered timely delivered if it is delivered by the end of the following such business day.

3.8 Amendments and Waivers. This Agreement may be amended with the consent of the Company and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company shall have obtained a written consent to such amendment, action or omission to act of the Holders of a majority of the Registrable Securities then outstanding. No waiver of any terms or conditions of this Agreement shall operate as a waiver of any other breach of such terms and conditions or any other term or condition, nor shall any failure to enforce any provision hereof operate as a waiver of such provision or of any other provision hereof. No written waiver hereunder, unless it by its own terms explicitly provides to the contrary, shall be construed to effect a continuing waiver of the provisions being waived and no such waiver in any instance shall constitute a waiver in any other instance or for any other purpose or impair the right of the party against whom such waiver is claimed in all other instances or for all other purposes to require full compliance with such provision. The failure of any party to enforce any provision of this Agreement shall not be construed as a waiver of such provision and shall not affect the right of such party thereafter to enforce each provision of this Agreement in accordance with its terms.

3.9 Severability. In case any one or more of the provisions contained in this Agreement is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision of this Agreement, and such invalid, illegal, or unenforceable provision shall be reformed and construed so that it will be valid, legal, and enforceable to the maximum extent permitted by law.

3.10 Aggregation of Stock. All shares of Registrable Securities held or acquired by Affiliates shall be aggregated together for the purpose of determining the availability of any rights under this Agreement and such Affiliated persons may apportion such rights as among themselves in any manner they deem appropriate.

3.11 Entire Agreement. This Agreement (including any Schedules and Exhibits hereto) constitutes the full and entire understanding and agreement among the parties with respect to the subject matter hereof, and any other written or oral agreement relating to the subject matter hereof existing between the parties is expressly canceled.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

HC2 HOLDINGS INC.

By: /s/ Paul L. Robinson
Name: Paul L. Robinson
Title: Chief Legal Officer and Corporate Secretary

CORRIB MASTER FUND LTD

By: /s/ Kevin Cavanaugh
Name: Kevin Cavanaugh
Title: Chief Investment Officer

Address:
527 Marquette Avenue South
Suite 1000
Minneapolis, MN 55402

SCHEDULE A

Investors

Corrib Master Fund LTD

527 Marquette Avenue South
Suite 1000
Minneapolis, MN 55402

EXHIBIT A

FORM OF JOINDER

THIS JOINDER is made on this day of ,

BETWEEN

(1) (the “New Party”);

AND

(2) THE INVESTORS

(collectively, the “Current Parties” and individually, a “Current Party”);

AND

(3) HC2 HOLDINGS INC., (the “Company”).

WHEREAS a Registration Rights Agreement was entered into on August , 2016 by and among, inter alia, certain of the Current Parties and the Company (the “Registration Rights Agreement”), a copy of which the New Party hereby confirms that it has been supplied with and acknowledges the terms therein.

NOW IT IS AGREED as follows:

1. In this Joinder, unless the context otherwise requires, words and expressions respectively defined or construed in the Registration Rights Agreement shall have the same meanings when used or referred to herein.

2. The New Party hereby accedes to and ratifies the Registration Rights Agreement and covenants and agrees with the Current Parties and the Company to be bound by the terms of the Registration Rights Agreement as an “Investor” and to duly and punctually perform and discharge all liabilities and obligations whatsoever from time to time to be performed or discharged by it under or by virtue of the Registration Rights Agreement in all respects as if named as a party therein.

3. The Company covenants and agrees that the New Party shall be entitled to all the benefits of the terms and conditions of the Registration Rights Agreement to the intent and effect that the New Party shall be deemed, with effect from the date on which the New Party executes this Joinder, to be a party to the Registration Rights Agreement as an “Investor.”

4. This Joinder shall hereafter be read and construed in conjunction and as one document with the Registration Rights Agreement and references in the Registration Rights Agreement to “the Agreement” or “this Agreement,” and references in all other instruments and documents executed thereunder or pursuant thereto to the Registration Rights Agreement, shall for all purposes refer to the Registration Rights Agreement incorporating and as supplemented by this Joinder.

5. THIS JOINDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW THEREOF.

6. Any action or proceeding against any party hereto relating in any way to this Joinder or the transactions contemplated hereby may be brought and enforced in any United States federal court or New York State Court

located in the Borough of Manhattan in The City of New York, and each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the jurisdiction of each such court in respect of any such action or proceeding. Each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the service of process in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, return receipt requested, to such person or entity at the address for such person or entity set forth in Section 3.7 of the Registration Rights Agreement or such other address such person or entity shall notify the other in writing. The foregoing shall not limit the right of any person or entity to serve process in any other manner permitted by law or to bring any action or proceeding, or to obtain execution of any judgment, in any other jurisdiction.

7. Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising under or relating to this Joinder or the transactions contemplated hereby in any court located in the Borough of Manhattan in The City of New York. Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives any claim that a court located in the State of New York is not a convenient forum for any such action or proceeding.

8. Each party, on behalf of itself and its respective successors and assigns, hereby irrevocably waives, to the fullest extent permitted by applicable United States federal and state law, all immunity from jurisdiction, service of process, attachment (both before and after judgment) and execution to which he might otherwise be entitled in any action or proceeding relating in any way to this Joinder or the transactions contemplated hereby in the courts of the State of New York, of the United States or of any other country or jurisdiction, and hereby waives any right he might otherwise have to raise or claim or cause to be pleaded any such immunity at or in respect of any such action or proceeding.

9. The address of the undersigned for purposes of all notices under the Registration Rights Agreement is:

____

____

[NEW PARTY]

By: __________________________

Name:

Title:

Exhibit 31.1

CERTIFICATIONS

I, Philip A. Falcone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HC2 Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2016

By: /s/ Philip A. Falcone

Name: **Philip A. Falcone**

Title: **Chairman, President, and Chief Executive Officer**
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Michael Sena, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HC2 Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2016

By: /s/ Michael Sena

Name: **Michael Sena**

Title: **Chief Financial Officer**
(Principal Financial and Accounting Officer)

Exhibit 32

CERTIFICATION

Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002 (18 U.S.C. §1350, as adopted), Philip A. Falcone, the Chairman, President and Chief Executive Officer (Principal Executive Officer) of HC2 Holdings, Inc. (the "Company"), and Michael Sena, the Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016, to which this Certification is attached as Exhibit 32 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Periodic Report and results of operations of the Company for the period covered by the Periodic Report.

Date: November 9, 2016

/s/ Philip A. Falcone

Philip A. Falcone

Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ Michael Sena

Michael Sena

Chief Financial Officer
(Principal Financial and Accounting Officer)