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 June 30, 2018
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)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	New York Stock Exchange

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

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 an emerging growth company as defined in Rule 405 of the Securities Act of 1933.

Emerging Growth Company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☐

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

As of July 31, 2018, 44,707,771 shares of common stock, par value $0.001, were outstanding.

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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

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

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$ 455,038	$ 340,383	$ 870,515	$ 694,925
Life, accident and health earned premiums, net	19,905	20,235	39,945	40,176
Net investment income	19,342	16,939	37,066	32,243
Net realized and unrealized gains on investments	2,494	1,095	2,943	1,876
Net revenue	496,779	378,652	950,469	769,220
Operating expenses				
Cost of revenue	400,609	308,664	776,283	623,078
Policy benefits, changes in reserves, and commissions	35,391	30,443	67,674	61,930
Selling, general and administrative	57,055	41,707	109,143	81,563
Depreciation and amortization	9,057	7,295	18,713	14,692
Other operating (income) expense, net	185	1,738	(2,067)	(1,820)
Total operating expenses	502,297	389,847	969,746	779,443
Loss from operations	(5,518)	(11,195)	(19,277)	(10,223)
Interest expense	(17,181)	(12,073)	(36,506)	(26,188)
Gain on sale of subsidiary	102,141	—	102,141	—
Income from equity investees	10,752	4,003	5,521	11,696
Other income (expenses), net	(968)	(3,193)	124	(8,334)
Income (loss) from continuing operations before income taxes	89,226	(22,458)	52,003	(33,049)
Income tax (expense) benefit	(9,462)	1,985	(11,093)	(3,306)
Net income (loss)	79,764	(20,473)	40,910	(36,355)
Less: Net (income) loss attributable to noncontrolling interest and redeemable noncontrolling interest	(24,398)	2,562	(20,540)	3,948
Net income (loss) attributable to HC2 Holdings, Inc.	55,366	(17,911)	20,370	(32,407)
Less: Preferred stock and deemed dividends from conversions	703	793	1,406	1,376
Net income (loss) attributable to common stock and participating preferred stockholders	$ 54,663	$ (18,704)	$ 18,964	$ (33,783)
Income (loss) per Common Share				
Basic	$ 1.11	$ (0.44)	$ 0.39	$ (0.80)
Diluted	$ 1.08	$ (0.44)	$ 0.38	$ (0.80)
Weighted average common shares outstanding:				
Basic	44,180	42,691	44,114	42,322
Diluted	45,503	42,691	45,284	42,322

See notes to Condensed Consolidated Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$ 79,764	$ (20,473)	$ 40,910	$ (36,355)
Other comprehensive income (loss)				
Foreign currency translation adjustment	(6,205)	2,224	(1,700)	3,349
Unrealized gain (loss) on available-for-sale securities	(22,931)	19,000	(51,593)	30,976
Other comprehensive income (loss)	(29,136)	21,224	(53,293)	34,325
Comprehensive income (loss)	50,628	751	(12,383)	(2,030)
Comprehensive (income) loss attributable to noncontrolling interests and redeemable noncontrolling interests	(24,090)	2,562	(20,232)	3,948
Comprehensive income (loss) attributable to HC2 Holdings, Inc.	$ 26,538	$ 3,313	$ (32,615)	$ 1,918

See notes to Condensed Consolidated Financial Statements

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

	June 30, 2018	December 31, 2017
Assets		
Investments:		
Fixed maturity securities, available-for-sale at fair value	$ 1,249,253	$ 1,340,626
Equity securities	79,557	47,500
Mortgage loans	69,890	52,109
Policy loans	17,768	17,944
Other invested assets	86,109	85,419
Total investments	1,502,577	1,543,598
Cash and cash equivalents	112,304	97,885
Accounts receivable, net	346,702	322,446
Recoverable from reinsurers	531,269	526,337
Deferred tax asset	991	1,661
Property, plant and equipment, net	368,914	374,660
Goodwill	128,846	131,741
Intangibles, net	120,280	117,105
Other assets	142,453	102,258
Total assets	$ 3,254,336	$ 3,217,691
Liabilities, temporary equity and stockholders' equity		
Life, accident and health reserves	$ 1,728,167	$ 1,693,961
Annuity reserves	237,373	243,156
Value of business acquired	40,500	42,969
Accounts payable and other current liabilities	296,339	347,492
Deferred tax liability	8,634	10,740
Debt obligations	668,505	593,172
Other liabilities	79,529	70,174
Total liabilities	3,059,047	3,001,664
Commitments and contingencies		
Temporary equity		
Preferred stock	26,325	26,296
Redeemable noncontrolling interest	8,396	1,609
Total temporary equity	34,721	27,905
Stockholders' equity		
Common stock, $.001 par value	45	44
Shares authorized: 80,000,000 at June 30, 2018 and December 31, 2017;		
Shares issued: 45,121,231 and 44,570,004 at June 30, 2018 and December 31, 2017;		
Shares outstanding: 44,676,335 and 44,190,826 at June 30, 2018 and December 31, 2017, respectively		
Additional paid-in capital	259,999	254,685
Treasury stock, at cost: 444,896 and 379,178 shares at June 30, 2018 and December 31, 2017, respectively	(2,434)	(2,057)
Accumulated deficit	(197,148)	(221,189)
Accumulated other comprehensive income (loss)	(9,175)	41,688
Total HC2 Holdings, Inc. stockholders' equity	51,287	73,171
Noncontrolling interest	109,281	114,951
Total stockholders' equity	160,568	188,122
Total liabilities, temporary equity and stockholders' equity	$ 3,254,336	$ 3,217,691

See notes to Condensed Consolidated Financial Statements

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

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total HC2 Stockholders' Equity	Non-controlling Interest	Total Stockholders' Equity	Temporary Equity
	Shares	Amount								
Balance as of December 31, 2017	44,190	$ 44	$254,685	$ (2,057)	$(221,189)	$ 41,688	$ 73,171	$ 114,951	$188,122	$ 27,905
Cumulative effect of accounting for revenue recognition [(1)]	—	—	—	—	376	—	376	291	667	—
Cumulative effect of accounting for the recognition and measurement of financial assets and financial liabilities [(1)]	—	—	—	—	3,295	(1,660)	1,635	—	1,635	—
Share-based compensation	—	—	6,605	—	—	—	6,605	—	6,605	—
Fair value adjustment of redeemable noncontrolling interest	—	—	(3,311)	—	—	—	(3,311)	—	(3,311)	3,311
Exercise of stock options	82	—	372	—	—	—	372	—	372	—
Taxes paid in lieu of shares issued for share-based compensation	(65)	—		(377)	—	—	(377)	—	(377)	—
Preferred stock dividend	—	—	(1,000)	—	—	—	(1,000)	—	(1,000)	—
Amortization of issuance costs	—	—	(30)	—	—	—	(30)	—	(30)	30
Issuance of common stock	470	1		—	—	—	1	—	1	—
Transactions with noncontrolling interests	—	—	2,678	—	—	3,781	6,459	(27,686)	(21,227)	4,968
Net income (loss)	—	—	—	—	20,370	—	20,370	21,281	41,651	(741)
Other comprehensive (loss) income	—	—	—	—	—	(52,984)	(52,984)	444	(52,540)	(752)
Balance as of June 30, 2018	44,677	$ 45	$259,999	$ (2,434)	$(197,148)	$ (9,175)	$ 51,287	$ 109,281	$160,568	$ 34,721

(1) See Note 2 for further information about adjustments resulting from the Company's adoption of new accounting standards in 2018.

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total HC2 Stockholders' Equity	Non-controlling Interest	Total Stockholders' Equity	Temporary Equity
	Shares	Amount								
Balance as of December 31, 2016	41,811	$ 42	$241,485	$ (1,387)	$(174,278)	$ (21,647)	$ 44,215	$ 23,224	$67,439	$ 31,985
Share-based compensation	—	—	3,809	—	—	—	3,809	—	3,809	—
Dividend paid to noncontrolling interests	—	—	—	—	—	—	—	(378)	(378)	—
Fair value adjustment of redeemable noncontrolling interest	—	—	(533)	—	—	—	(533)	—	(533)	533
Exercise of stock options	129	—	462	—	—	—	462	—	462	—
Taxes paid in lieu of shares issued for share-based compensation	(105)	—	—	(582)	—	—	(582)	—	(582)	—
Preferred stock dividend	—	—	(1,063)	—	—	—	(1,063)	—	(1,063)	—
Amortization of issuance costs and beneficial conversion feature	—	—	(35)	—	—	—	(35)	—	(35)	35
Issuance of common stock	363	—	16	—	—	—	16	—	16	—
Conversion of preferred stock to common stock	803	1	3,026	—	—	—	3,027	—	3,027	(3,228)
Transactions with noncontrolling interests	—	—	—	—	—	—	—	—	—	332
Net loss	—	—	—	—	(32,407)	—	(32,407)	(2,930)	(35,337)	(1,018)
Other comprehensive income	—	—	—	—	—	34,325	34,325	—	34,325	—
Balance as of June 30, 2017	43,001	$ 43	$247,167	$ (1,969)	$(206,685)	$ 12,678	$ 51,234	$ 19,916	$71,150	$ 28,639

See notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	$ 40,910	$ (36,355)
Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities:		
Provision for doubtful accounts receivable	818	(506)
Share-based compensation expense	4,793	2,624
Depreciation and amortization	21,993	17,234
Amortization of deferred financing costs and debt discount	4,658	3,460
Amortization of (discount) premium on investments	2,418	4,255
Gain on sale of subsidiary	(2,448)	(3,879)
(Gain) loss on sale or disposal of a subsidiary	(102,141)	—
Lease termination costs	—	249
Asset impairment expense	381	1,810
Income from equity investees	(5,521)	(11,696)
Impairment of investments	—	6,089
Net realized and unrealized gains on investments	(2,988)	(1,896)
Loss on contingent consideration	—	319
Receipt of dividends from equity investees	3,081	917
Deferred income taxes	423	(8,784)
Annuity benefits	4,191	4,346
Loss on early extinguishment of debt	2,537	—
Other operating activities	(1,241)	2,718
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(23,082)	19,848
Recoverable from reinsurers	(4,931)	(3,595)
Other assets	(21,434)	(12,729)
Life, accident and health reserves	34,133	34,700
Accounts payable and other current liabilities	(9,712)	(8,056)
Other liabilities	12,008	5,843
Cash (used in) provided by operating activities:	(41,154)	16,916
Cash flows from investing activities:		
Purchase of property, plant and equipment	(20,234)	(17,019)
Disposal of property, plant and equipment	3,500	382
Purchase of investments	(207,548)	(157,599)
Sale of investments	155,545	70,750
Maturities and redemptions of investments	40,000	74,957
Purchase of equity method investments	(127)	(10,390)
Cash received for business disposition, net of cash disposed	93,272	—
Cash paid for business acquisitions, net of cash acquired	(45,965)	—
Other investing activities	(2,023)	373
Cash provided by (used in) investing activities:	16,420	(38,546)
Cash flows from financing activities:		
Proceeds from debt obligations	180,326	104,410
Principal payments on debt obligations	(110,736)	(44,127)
Annuity receipts	1,308	1,563
Annuity surrenders	(11,208)	(10,600)
Transactions with noncontrolling interest	(14,889)	332
Payment of dividends	(1,000)	(2,262)
Taxes paid in lieu of shares issued for share-based compensation	(377)	(583)
Proceeds from the exercise of warrants and stock options	488	450
Other financing activities	(805)	(116)
Cash provided by financing activities:	43,107	49,067
Effects of exchange rate changes on cash and cash equivalents	(371)	319

Net change in cash and cash equivalents and restricted cash	18,002	27,756
Cash and cash equivalents and restricted cash, beginning of period	98,853	115,869
Cash and cash equivalents and restricted cash, end of period	$ 116,855	$ 143,625
Supplemental cash flow information:		
Cash paid for interest	$ 33,944	$ 23,224
Cash paid for taxes	$ 11,512	$ 8,647
Non-cash investing and financing activities:		
Property, plant and equipment included in accounts payable	$ 1,202	$ 1,630
Investments included in accounts payable	$ 750	$ 21,433
Conversion of preferred stock to common stock	$ —	$ 4,433
Dividends payable to shareholders	$ 500	$ 500

See notes to Condensed Consolidated Financial Statements

HC2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Organization and Business

HC2 Holdings, Inc. ("HC2" and, together with its consolidated subsidiaries, the "Company", "we" and "our") is a diversified holding company which seeks to acquire and grow attractive businesses that we believe 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 may invest to a limited extent in a variety of debt instruments or noncontrolling equity interest positions. The Company's shares of common stock trade on the NYSE under the symbol "HCHC".

The Company currently has eight reportable segments based on management's organization of the enterprise - Construction, Marine Services, Energy, Telecommunications, Insurance, Life Sciences, Broadcasting, and Other, which includes businesses that do not meet the separately reportable segment thresholds.

1. Our Construction segment is comprised of DBM Global Inc. ("DBMG") and its wholly-owned subsidiaries. DBMG is a fully integrated Building Information Modelling modeler, detailer, fabricator and erector of structural steel and heavy steel plate. DBMG models, details, fabricates and erects structural steel for commercial and industrial construction projects such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas, shopping malls, hospitals, dams, bridges, mines and power plants. DBMG also fabricates trusses and girders and specializes in the fabrication and erection of large-diameter water pipe and water storage tanks. Through Aitken, DBMG manufactures pollution control scrubbers, tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products. The Company maintains an approximately 92% controlling interest in DBMG.

2. Our Marine Services segment is comprised of Global Marine Systems Limited ("GMSL"). GMSL is a leading provider of engineering and underwater services on submarine cables. GMSL aims to maintain its leading market position in the telecommunications maintenance segment and seeks opportunities to grow its installation activities in the three market sectors (telecommunications, offshore power, and oil and gas) while capitalizing on high market growth in the offshore power sector through expansion of its installation and maintenance services in that sector. The Company maintains an approximately 72% controlling interest in GMSL.

3. Our Energy segment is comprised of American Natural Gas, LLC ("ANG"). 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 an approximately 68% controlling interest in ANG.

4. Our Telecommunications segment is comprised of PTGi International Carrier Services ("ICS"). ICS operates a telecommunications business including a network of direct routes and provides premium voice communication services for national telecommunications operators, mobile operators, wholesale carriers, prepaid operators, voice over internet protocol service operators and internet service providers. ICS provides a quality service via direct routes and by forming strong relationships with carefully selected partners. The Company maintains a 100% interest in ICS.

5. Our Insurance segment is comprised of Continental General Insurance Company ("CGI" or the "Insurance Company"). CGI provides 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 maintains a 100% interest in CGI.

6. Our Life Sciences segment is comprised of Pansend Life Sciences, LLC ("Pansend"). Pansend maintains controlling interests of approximately 80% in Genovel Orthopedics, Inc. ("Genovel"), which seeks to develop products to treat early osteoarthritis of the knee and approximately 74% in R2 Dermatology Inc. ("R2"), which develops skin lightening technology. Pansend also invests in other early stage or developmental stage healthcare companies including an approximately 50% interest in Medibeacon Inc., and an investment in Triple Ring Technologies, Inc.

7. Our Broadcasting segment is comprised of HC2 Broadcasting Holdings Inc. ("Broadcasting") and its subsidiaries. Broadcasting strategically acquires and operates Over-The-Air ("OTA") broadcasting stations across the United States. In addition, Broadcasting, through its wholly-owned subsidiary, HC2 Network Inc. ("Network"), operates Azteca America, a Spanish-language broadcast network offering high quality Hispanic content to a diverse demographic across the United States. Broadcasting maintains an approximately 50% controlling interest in DTV America Corporation ("DTV").

8. 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 is the Company's approximately 56% controlling interest in 704Games Company ("704Games"), which owns licenses to create and distribute NASCAR® video games.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of the Company included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Certain information and note disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), have been condensed or omitted pursuant to such rules and regulations. Certain prior amounts have been reclassified or combined to conform to the current year presentation. These reclassifications and combinations had no effect on previously reported net loss attributable to controlling interest or accumulated deficit. These interim financial statements should be read in conjunction with the Company's annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 14, 2018, as amended by amendment no.1, filed on April 2, 2018 (collectively, "Form 10-K"). The results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of the results for any subsequent periods or the entire fiscal year ending December 31, 2018.

Use of Estimates and Assumptions

The preparation of the Company's Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions used.

Accounting Pronouncements Adopted in the Current Year

The Company's 2017 Form 10-K includes discussion of significant recent accounting pronouncements that either have impacted or may impact our financial statements in the future. The following discussion provides information about recently adopted and recently issued or changed accounting guidance (applicable to the Company) that have occurred since the Company filed its 2017 Form 10-K. The Company has implemented all new accounting pronouncements that are in effect and that may impact its Condensed Consolidated Financial Statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial condition, results of operations or liquidity.

Effective January 1, 2018 the Company adopted the accounting pronouncements described below.

Statement of Cash Flows

In November 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 2016-18, *Restricted Cash* - a consensus of the FASB Emerging Issues Task Force. This guidance requires entities to show the changes in the total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, entities will no longer present transfers between cash and cash equivalents and restricted cash and cash equivalents in the statement of cash flows. When cash, cash equivalents, restricted cash and restricted cash equivalents are presented in more than one line item on the balance sheet, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the balance sheet. This reconciliation can be presented either on the face of the statement of cash flows or in the notes to the financial statements. This standard was applied retrospectively, which resulted in the recast of the prior reporting period in the condensed consolidated statements of cash flows. A reconciliation of cash and cash equivalents and restricted cash from our condensed consolidated statements of cash flows to the amounts reported within our condensed consolidated balance sheet is included in our condensed consolidated statements of cash flows.

The following table provides a reconciliation of cash and cash equivalents and restricted cash to amounts reported within the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Cash Flows (in thousands):

	June 30, 2018	June 30, 2017
Cash and cash equivalents, beginning of period	$ 97,885	$ 115,371
Restricted cash included in other assets	968	498
Total cash and cash equivalents and restricted cash	$ 98,853	$ 115,869
Cash and cash equivalents, end of period	$ 112,304	$ 143,130
Restricted cash included in other assets	4,551	495
Total cash and cash equivalents and restricted cash	$ 116,855	$ 143,625

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The update provides that equity investments with readily determinable values be measured at fair value and changes in the fair value flow through net income. These changes historically have run through other comprehensive income. Equity investments without readily determinable fair values have the option to be measured at fair value or at cost, adjusted for changes in observable prices minus impairment. Changes in either method are also recognized in net income. The standard requires a qualitative assessment of impairment indicators at each reporting period. For financial liabilities, entities that elect the fair value option must recognize the change in fair value attributable to instrument-specific credit risk in other comprehensive income rather than net income. Lastly, regarding deferred tax assets, the need for a valuation allowance on a deferred tax asset will need to be assessed related to available-for-sale debt securities. This standard was adopted prospectively as of January 1, 2018 and resulted in a $3.3 million cumulative effect adjustment credit to retained earnings related to the following investments:

Equity securities which were previously classified as available-for-sale	$	1,660
Equity securities which were previously accounted for under the cost method		1,635
Total	$	3,295

See Note 5. Investments and Note 6. Fair Value of Financial Instruments for further details.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606) ("ASC 606")*. This ASU supersedes the revenue recognition requirements in Revenue Recognition (Topic 605). Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal Versus Agent Considerations*, which clarifies the guidance in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, an update on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which includes amendments for enhanced clarification of the guidance. In December 2016, the FASB issued ASU 2016-20, *Technical Corrections and Improvements to Revenue from Contracts with Customers (Topic 606)*, which includes amendments of a similar nature to the items typically addressed in the technical corrections and improvements project. Lastly, in February 2017, the FASB issued ASU 2017-05, clarifying the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets to clarify the scope of ASC 610-20, *Other Income - Gains and Losses from Derecognition of Nonfinancial Assets*, and provide guidance on partial sales of nonfinancial assets. This ASU clarifies that the unit of account under ASU 610-20 is each distinct nonfinancial or in substance nonfinancial asset and that a financial asset that meets the definition of an "in substance nonfinancial asset" is within the scope of ASC 610-20. This ASU eliminates rules specifically addressing sales of real estate and removes exceptions to the financial asset derecognition model. The ASUs described above are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. See Note 3. Revenue for further details.

New Accounting Pronouncements

Reporting Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effect*s from AOCI. The new guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate or law in U.S. Tax Reform is recognized. Early adoption is permitted. Current GAAP guidance requires that the effect of a change in tax laws or rates on deferred tax liabilities or assets to be included in income from continuing operations in the reporting period that includes the enactment date, even if the related income tax effects were originally charged or credited directly to AOCI. The new guidance allows a reclassification of AOCI to retained earnings for stranded tax effects resulting from U.S. Tax Reform. Also, the new guidance requires certain disclosures about stranded tax effects. The Company is currently in the process of evaluating the impact of this guidance on our consolidated financial statements and expects minimal impact.

Accounting for Leases

In February 2016, the FASB issued ASU 2016-02, *Leases*. The new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The Company has started evaluating its lease arrangements to determine the impact of this amendment on the financial statements. The evaluation includes an extensive review of the leases, which are primarily related to our vessels and office space. Additionally, the Company has begun tracking separate accounting records for leases entered into starting January 1, 2017 under the new guidance to facilitate future implementation. In January 2018, the FASB issued ASU 2018-01, *Leases (Topic 842) - Land Easement Practical Expedient for Transition to Topic 842*, which provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current leases guidance in Topic 840. The effective date and transition requirements for ASU 2018-01 are the same as ASU 2016-02. Early adoption is permitted. The Company is continuing to evaluate the impact this standard will have on its financial statements. While not yet quantified, the Company expects a material impact to its Condensed Consolidated Balance Sheets from recognizing additional assets and liabilities of operating leases upon adoption. The actual increase in assets and liabilities will depend on the volume and terms of leases in place at the time of adoption. The Company plans to elect the optional practical expedient to retain the current classification of leases, and therefore, does not anticipate a material impact to the Condensed Consolidated Statements of Income or Cash Flows. The Company also expects that adoption of the new standard will require changes to internal controls over financial reporting.

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 HC2 to evaluate events that occur after the balance date as of which HC2's financial statements are issued, and to determine whether adjustments to or additional disclosures in the financial statements are necessary. HC2 has evaluated subsequent events through the date these financial statements were issued. See Note 22. Subsequent Events for the summary of the subsequent events.

3. Revenue

The Company adopted ASC 606 on January 1, 2018. The adoption of ASC 606 represents a change in accounting principle that aligns revenue recognition with the timing of when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. To achieve this core principle, the Company applies the following five steps in accordance with ASC 606:

Identify the contract with a customer

A contract with a customer exists when: (a) the parties have approved the contract and are committed to perform their respective obligations, (b) the rights of the parties can be identified, (c) payment terms can be identified, (d) the arrangement has commercial substance, and (e) collectibility of consideration is probable. Judgment is required when determining if the contractual criteria are met, specifically in the earlier stages of a project when a formally executed contract may not yet exist. In these situations, the Company evaluates all relevant facts and circumstances, including the existence of other forms of documentation or historical experience with our customers that may indicate a contractual agreement is in place and revenue should be recognized. In determining if the collectibility of consideration is probable, the Company considers the customer's ability and intention to pay such consideration through an evaluation of several factors, including an assessment of the creditworthiness of the customer and our prior collection history with such customer.

Identify the performance obligations in the contract

At contract inception, the Company assesses the goods or services promised in a contract and identifies, as a separate performance obligation, each distinct promise to transfer goods or services to the customer. The identified performance obligations represent the "unit of account" for purposes of determining revenue recognition. In order to properly identify separate performance obligations, the Company applies judgment in determining whether each good or service provided is: (a) capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and (b) distinct within the context of the contract, whereby the transfer of the good or service to the customer is separately identifiable from other promises in the contract.

In addition, when assessing performance obligations within a contract, the Company considers the warranty provisions included within such contract. To the extent the warranty terms provide the customer with an additional service, other than assurance that the promised good or service complies with agreed upon specifications, such warranty is accounted for as a separate performance obligation. In determining whether a warranty provides an additional service, the Company considers each warranty provision in comparison to warranty terms which are standard in the industry.

Determine the transaction price

The transaction price represents the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to our customers. The consideration promised within a contract may include fixed amounts, variable amounts, or both. To the extent the performance obligation includes variable consideration, including contract bonuses and penalties that can either increase or decrease the transaction price, the Company estimates the amount of variable consideration to be included in the transaction price utilizing one of two prescribed methods, depending on which method better predicts the amount of consideration to which the entity will be entitled. Such methods include: (a) the expected value method, whereby the amount of variable consideration to be recognized represents the sum of probability weighted amounts in a range of possible consideration amounts, and (b) the most likely amount method, whereby the amount of variable consideration to be recognized represents the single most likely amount in a range of possible consideration amounts. When applying these methods, the Company considers all information that is reasonably available, including historical, current and estimates of future performance.

Variable consideration is included in the transaction price only to the extent it is probable, in the Company's judgment, that a significant future reversal in the amount of cumulative revenue recognized under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved. This threshold is referred to as the variable consideration constraint. In assessing whether to apply the variable consideration constraint, the Company considers if factors exist that could increase the likelihood or the magnitude of a potential reversal of revenue, including, but not limited to, whether: (a) the amount of consideration is highly susceptible to factors outside of the Company's influence, such as the actions of third parties, (b) the uncertainty surrounding the amount of consideration is not expected to be resolved for a long period of time, (c) the Company's experience with similar types of contracts is limited or that experience has limited predictive value, (d) the Company has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances, and (e) the contract has a large number and broad range of possible consideration amounts.

Pending change orders represent one of the most common forms of variable consideration included within contract value and typically represent contract modifications for which a change in scope has been authorized or acknowledged by our customer, but the final adjustment to contract price is yet to be negotiated. In estimating the transaction price for pending change orders, the Company considers all relevant facts, including documented correspondence with the customer regarding acknowledgment and/or agreement with the modification, as well as historical experience with the customer or similar contractual circumstances. Based upon this assessment, the Company estimates the transaction price, including whether the variable consideration constraint should be applied.

Changes in the estimates of transaction prices are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made. Such changes in estimates can result in the recognition of revenue in a current period for performance obligations which were satisfied or partially satisfied in prior periods. Such changes in estimates may also result in the reversal of previously recognized revenue if the ultimate outcome differs from the Company's previous estimate.

Allocate the transaction price to performance obligations in the contract

For contracts that contain multiple performance obligations, the Company allocates the transaction price to each performance obligation based on a relative standalone selling price. The Company determines the standalone selling price based on the price at which the performance obligation would have been sold separately in similar circumstances to similar customers. If the standalone selling price is not observable, the Company estimates the standalone selling price taking into account all available information such as market conditions and internal pricing guidelines. In certain circumstances, the standalone selling price is determined using an expected profit margin on anticipated costs related to the performance obligation.

Recognize revenue as performance obligations are satisfied

The Company recognizes revenue at the time the related performance obligation is satisfied by transferring a promised good or service to its customers. A good or service is considered to be transferred when the customer obtains control. The Company can transfer control of a good or service and satisfy its performance obligations either over time or at a point in time. The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time if one of the following three criteria are met: (a) the customer simultaneously receives and consumes the benefits provided by the Company's performance as we perform, (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or (c) the Company's performance does not create an asset with an alternative use to us, and we have an enforceable right to payment for performance completed to date.

For our performance obligations satisfied over time, we recognize revenue by measuring the progress toward complete satisfaction of that performance obligation. The selection of the method to measure progress towards completion can be either an input method or an output method and requires judgment based on the nature of the goods or services to be provided.

Revenue from contracts with customers consist of the following (in thousands):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Revenue [(1)]		
Construction	$ 176,910	$ 335,851
Marine Services	68,376	105,098
Energy	7,078	11,580
Telecommunications	190,529	392,832
Broadcasting	11,089	21,745
Other	1,056	3,409
Total revenue	$ 455,038	$ 870,515

(1) The Insurance segment does not have revenues in scope of ASU 2014-09.

Accounts receivables, net from contracts with customers consist of the following (in thousands):

		June 30, 2018
Accounts receivables with customers		
Construction	$	194,381
Marine Services		51,716
Energy		3,278
Telecommunications		80,223
Broadcasting		9,462
Other		3,988
Total accounts receivables with customers	$	343,048

Construction Segment

DBMG performs its services primarily under fixed-price contracts and recognizes revenue over time using the input method to measure progress for its projects. The nature of the projects does not provide measurable value to the customer over time and control does not transfer to the customer at discrete points in time. The customer receives value over the term of the project based on the amount of work that has been completed towards the delivery of the completed project. The most reliable measure of progress is the cost incurred towards delivery of the completed project. Therefore, the input method provides the most reliable method to measure progress. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, subcontractor costs, indirect labor, and fabrication plant overhead costs, which are charged to contract costs as incurred. Revenues relating to changes in the scope of a contract are recognized when DBMG and customer or general contractor have agreed on both the scope and price of changes, the work has commenced, it is probable that the costs of the changes will be recovered and that realization of revenue exceeding the costs is assured beyond a reasonable doubt. Revisions in estimates during the course of contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

Construction contracts with customers generally provide that billings are to be made monthly in amounts which are commensurate with the extent of performance under the contracts. Contract receivables arise principally from the balance of amounts due on progress billings on jobs under construction. Retentions on contract receivables are amounts due on progress billings, which are withheld until the completed project has been accepted by the customer.

Disaggregation of Revenues

DBMG's revenues are principally derived from contracts to provide fabrication and erection services to its customers. Contracts represent majority of the revenue of the Construction segment and are generally recognized over time. A majority of contracts are domestic, fixed priced, and are in excess of one year. Disaggregation of the Construction segment, by market or type of customer, is used to evaluate its financial performance.

The following table disaggregates DBMG's revenue by market (in thousands):

		Three Months Ended June 30, 2018		Six Months Ended June 30, 2018
Commercial	$	67,790	$	137,441
Convention		22,177		53,828
Healthcare		29,245		57,086
Other		57,692		87,472
Total revenue from contracts with customers		176,904		335,827
Other revenue		6		24
Total Construction segment revenue	$	176,910	$	335,851

Contract Assets and Contract Liabilities

The timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets include unbilled amounts from our long-term construction projects when revenue recognized under the cost-to-cost measure of progress exceed the amounts invoiced to our customers, as the amounts cannot be billed under the terms of our contracts. Such amounts are recoverable from our customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of a contract. In addition, many of our time and materials arrangements, as well as our contracts to perform turnaround services within the United States industrial services segment, are billed in arrears pursuant to contract terms that are standard within the industry, resulting in contract assets and/or unbilled receivables being recorded, as revenue is recognized in advance of billings. Also included in contract assets are amounts we seek or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders or modifications in dispute or unapproved as to both scope and/or price or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). Our contract assets do not include capitalized costs to obtain and fulfill a contract. Contract assets are included in Other assets in the Condensed Consolidated Balance Sheets.

Contract assets and contract liabilities consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Contract assets	$ 32,871	$ 25,676
Contract liabilities	$ (46,991)	$ (29,862)

The change in contract assets is a result of the recording of $30.3 million of costs in excess of billings driven by new commercial projects, offset by $23.1 million of costs in excess of billings transferred to receivables from contract assets recognized at the beginning of the period. The change in contract liabilities is a results of periodic billing in excess of costs of $46.0 million driven largely by new commercial projects, offset by revenue recognized that was included in the contract liability balance at the beginning of the period $28.9 million.

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

The transaction price allocated to remaining unsatisfied performance obligations consisted of the following (in thousands):

	Within one year	Within five years	Total
Commercial	$ 161,867	$ —	$ 161,867
Convention	138,511	15,000	153,511
Healthcare	66,253	—	66,253
Other	221,770	53,000	274,770
Remaining unsatisfied performance obligations	$ 588,401	$ 68,000	$ 656,401

DBMG's remaining unsatisfied performance obligations, otherwise referred to as backlog, increase with awards of new contracts and decrease as it performs work and recognizes revenue on existing contracts. DBMG includes a project within its remaining unsatisfied performance obligations at such time the project is awarded and agreement on contract terms has been reached. DBMG's remaining unsatisfied performance obligations include amounts related to contracts for which a fixed price contract value is not assigned when a reasonable estimate of total transaction price can be made. DBMG expects to recognize this revenue over the next twenty-four months.

Remaining unsatisfied performance obligations include unrecognized revenues to be realized from uncompleted construction contracts. Although many of DBMG's contracts are subject to cancellation at the election of its customers, in accordance with industry practice, DBMG does not limit the amount of unrecognized revenue included within its remaining unsatisfied performance obligations due to the inherent substantial economic penalty that would be incurred by its customers upon cancellation.

Marine Services Segment

GMSL generally generates revenue by providing maintenance services for subsea telecommunications cabling, installing subsea cables, providing installation, maintenance and repair of fiber optic communication and power infrastructure to offshore oil and gas platforms, and installing inter-array power cables for use in offshore wind farms.

Telecommunication - Maintenance & Installation

GMSL performs its services within telecommunication market primarily under fixed-price contracts and recognizes revenue over time using the input method to measure progress for its projects. The nature of the projects does not provide measurable value to the customer over time and control does not transfer to the customer at discrete points in time. The customer receives value over the term of the project based on the amount of work that has been completed towards the delivery of the completed project. Depending on the project, the most reliable measure of progress is either the cost incurred or time elapsed towards delivery of the completed project. Therefore, the input method provides the most reliable method to measure progress. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, indirect labor, and overhead costs, which are charged to contract costs as incurred. Revisions in estimates during the course of contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

Maintenance revenues within this market are attributable to standby vessels and the provision of cable storage depots for repair of fiber optic telecommunications cables in defined geographic zones, and its maintenance business is provided through contracts with consortia of approximately 60 global telecommunications providers. These contracts are generally five to seven years long.

Installation revenues within this market are generated through installation of cable systems including route planning, mapping, route engineering, cable laying, and trenching and burial. GMSL’s installation business is project-based with contracts typically lasting one to five months.

Power - Operations, Maintenance & Construction Support

Majority of revenues within this market are generated through the provision of crew transfer vessels and turbine technicians on the maintenance of offshore windfarms. Services are provided at agreed day rates and are recognized as revenues at the point in time at which the performance obligations are met. Additional revenues are generated through the provision of approved safety training courses to personnel operating on offshore wind turbines. Courses are supplied at agreed rates and recognized at the point in time at which the courses are provided.

Power - Cable Installation & Repair

Installation and repair revenues within this market are attributable to the provision of engineering solutions, which includes the charter of cable laying vessels and related subsea assets. These contracts are either charged at agreed day rates and are recognized as revenues at the point in time at which the performance obligations are met, or are under fixed-price contracts, in which case revenue is recognized over time using the input method to measure progress for its projects.

Disaggregation of Revenues

GMSL's revenues are principally derived from contracts to provide maintenance and installation services to its customers. Contracts represent a majority of revenues at the Marine Services segment of which approximately 73% and 72% we recognized over time during the three and six months ended June 30, 2018, respectively.

The following table disaggregates GMSL's revenue by market (in thousands):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Telecommunication - Maintenance	$ 22,090	$ 43,872
Telecommunication - Installation	16,498	23,796
Power - Operations, Maintenance & Construction Support	11,923	16,585
Power - Cable Installation & Repair	17,865	20,845
Total revenue from contracts with customers	68,376	105,098
Other revenue	—	—
Total Marine Services segment revenue	$ 68,376	$ 105,098

Contract Assets and Contract Liabilities

The timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets include unbilled amounts from our long-term projects when revenue recognized exceeds the amounts invoiced to our customers, as the amounts cannot be billed under the terms of our contracts. Such amounts are recoverable from our customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of a contract. In addition, many of our time and materials arrangements, as well as our contracts to perform services are billed in arrears pursuant to contract terms that are standard within the industry, resulting in contract assets and/or unbilled receivables being recorded, as revenue is recognized in advance of billings. Contract assets are included in Other assets in the Condensed Consolidated Balance Sheets.

Contract liabilities from our long-term construction contracts occur when amounts invoiced to our customers exceed revenues recognized. Contract liabilities additionally include advanced payments from our customers on certain contracts. Contract liabilities decrease as we recognize revenue from the satisfaction of the related performance obligation. Contract liabilities are included in Other liabilities in the Condensed Consolidated Balance Sheets.

Contract assets and contract liabilities consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Contract assets	$ 16,687	$ 6,610
Contract liabilities	$ (214)	$ (3,106)

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

The transaction price allocated to remaining unsatisfied performance obligations consisted of the following (in thousands):

	Within one year	Within five years	Thereafter	Total
Telecommunication - Maintenance	$ 36,567	$ 262,025	$ 40,836	$ 339,428
Telecommunication - Installation	3,804	—	—	3,804
Power - Operations, Maintenance & Construction Support	12,285	10,913	3,734	26,932
Power - Cable Installation & Repair	1,993	—	—	1,993
Remaining unsatisfied performance obligations	$ 54,649	$ 272,938	$ 44,570	$ 372,157

GMSL's remaining unsatisfied performance obligations, otherwise referred to as backlog, increase with awards of new contracts and decrease as it performs work and recognizes revenue on existing contracts. GMSL includes a project within its remaining unsatisfied performance obligations at such time the project is awarded and agreement on contract terms has been reached. GMSL's remaining unsatisfied performance obligations include amounts related to contracts for which a fixed price contract value is not assigned when a reasonable estimate of total transaction price can be made.

Remaining unsatisfied performance obligations consist predominantly from projects within telecommunication maintenance market. These revenues are generated through long-term contracts for the provision of vessels and cable depots in maintaining and repairing subsea telecoms cables around the globe. Revenues are recognized over time to reflect both the duration that the vessels and depots are provided on standby duties and the amount of work that has been completed.

Energy Segment

ANG's revenues are principally derived from sales of compressed natural gas. ANG recognizes revenue from the sale of natural gas fuel primarily at the time the fuel is dispensed.

As a result of the Bipartisan Budget Act of 2018, signed into law on February 9, 2018, all Alternative Fuel Tax Credit ("AFETC") revenue for vehicle fuel ANG sold in 2017 was collected in the second quarter of 2018. Net revenue after customer rebates for such credits for 2017 were $2.6 million, which was recognized during the second quarter of 2018, the period in which the credit became available.

Disaggregation of Revenues

The following table disaggregates ANG's revenue by type (in thousands):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Volume-related	$ 4,059	$ 8,123
Maintenance services	19	48
Total revenue from contracts with customers	4,078	8,171
RNG Incentives	367	742
Alternative Fuel Tax Credit	2,576	2,576
Other revenue	57	91
Total Energy segment revenue	$ 7,078	$ 11,580

Telecommunications Segment

ICS operates an extensive network of direct routes and offers premium voice communication services for carrying a mix of business, residential and carrier long-distance traffic, data and Internet traffic. Customers may have a bilateral relationship with ICS, meaning they have both a customer and vendor relationship with ICS. In these cases, ICS sells the customer access to the ICS network but also purchases access to the customer's network.

Net revenue is derived from carrying business, residential and carrier long-distance traffic, and data traffic. For certain voice services, net revenue is earned based on the number of minutes during a call, and is recorded upon completion of a call. Completed calls are billable activity while incomplete calls are non-billable. Incomplete calls may occur as a result of technical issues or because the customer's credit limit was exceeded and thus the customer routing of traffic was prevented.

Revenue for a period is calculated from information received through ICS's network switches, such as minutes and market rates. Customized software has been designed to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides ICS with the ability to perform a timely and accurate analysis of revenue earned in a period.

Net revenue represents gross revenue, net of allowance for doubtful accounts receivable, service credits and service adjustments. Cost of revenue includes network costs that consist of access, transport and termination costs. The majority of ICS's cost of revenue is variable, primarily based upon minutes of use, with transmission and termination costs being the most significant expense.

Disaggregation of Revenues

ICS's revenues is predominantly derived from wholesale of international long distance minutes (in thousands):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Termination of long distance minutes	$ 190,529	$ 392,832
Total revenue from contracts with customers	190,529	392,832
Other revenue	—	—
Total Telecommunications segment revenue	$ 190,529	$ 392,832

Broadcasting Segment

Broadcasting advertising revenue is generated primarily from the sale of television airtime for programs or advertisements. Broadcasting advertising revenue is recognized when the program or advertisement is broadcast. Revenues are reported net of agency commissions, which are calculated as a stated percentage applied to gross billings. The broadcasting advertising contracts are generally short-term in nature.

Retransmission consent revenue consists of payments received from cable, satellite and other multiple video program distribution systems for their retransmission of our broadcast signals and generally based on per subscriber basis. Retransmission consent revenue is recognized as earned over the life of the retransmission consent contract and varies from month to month generally based on the average number of subscribers.

Local Marketing Agreements ("LMAs") revenue is generated primarily from the sale of television airtime in return for a fixed fee or additional commission on the related sales incurred by the third party. In a typical LMA, the licensee of a station makes available, for a fee, airtime on its station to a party which supplies content to be broadcast during that airtime and collects revenue from advertising aired during such content. LMA revenue is recognized over the life of the contract, when the program is broadcast. The LMA fees that we charge can be fixed or commission-based and the LMA contracts that we enter into are generally short-term in nature.

Retransmission and LMA commission based revenues are usage/sales-based and recognized as revenue when the subsequent usage occurs. Transaction prices are based on the contract terms, with no material judgements or estimates.

The following table disaggregates the Broadcasting segment's revenue by type (in thousands):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Advertising	$ 7,016	$ 13,764
LMA	2,796	5,489
Retransmission	907	1,850
Other	370	642
Total revenue from contracts with customers	11,089	21,745
Other revenue	—	—
Total Broadcasting segment revenue	$ 11,089	$ 21,745

Contract Liabilities

Audience deficiency units ("ADU") liability is recognized as an available return to customers as fulfillment for under-delivered guaranteed viewership per the related agreement. ADU balance was $1.3 million and $1.6 million as of June 30, 2018 and December 31, 2017, respectively. Broadcasting measures the potential obligation based on Nielsen ratings and cost per view, and is subsequently made whole in the following period.

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

The transaction price allocated to remaining unsatisfied performance obligations consisted of $8.8 million of advertising revenues of which $3.5 million is expected to be recognized within one year and $5.3 million is expected to be recognized within five years.

Other Segment

Our Other segment's revenues are driven by 704Games. 704Games derives revenue principally from sales of software games and related content and services on (1) consoles and (2) mobile devices. Console revenue includes revenue associated with the sale of 704Games' software games, whether delivered via a physical disc (e.g., packaged goods) or via the Internet (full-game downloads). Console revenue also includes in game purchases within the Xbox and PlayStation online stores (PlayStation, Xbox, or Apple/Google play). Mobile revenue includes revenue from 704Games' free to download (“freemium”) mobile game that requires 704Games' hosting support for micro-transactions (e.g. purchases for in game use). Sales are recognized as revenues at the point in time at which control had passed to the customer, either when physical discs are received by distributors or when digital goods are purchased.

704Games reduces revenue for estimated price reductions which may occur with its distributors and retailers. Price reductions represent 704Games' practice to provide a credit allowance to lower the wholesale price on a particular product to incentivize end consumer purchases. The amount of the price reduction is generally the difference between the original wholesale price and the reduced wholesale price.

The price protection reserve for estimated price reductions are recorded as a reduction of sales in the same period that the revenue is recognized. This reserve is a subjective critical estimate that has a direct impact on reported net revenues, and is calculated based on historical price concessions, estimated future price concessions and information provided by retailers regarding their inventory levels. 704Games' price protection reserves are classified as liabilities and included within Accounts Payable and Other Current Liabilities. 704Games continually monitors current pricing trends and wholesaler inventory levels to ensure the sales allowance is fairly stated.

Disaggregation of Revenues

The following table disaggregates the Other segment's revenue by type (in thousands):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Digital	$ 650	$ 1,905
Disc	139	840
Mobile	267	664
Total revenue from contracts with customers	1,056	3,409
Other revenue	—	—
Total Other segment revenue	$ 1,056	$ 3,409

4. Acquisitions and Dispositions

Construction Segment

2017 Acquisitions

On November 1, 2017, DBMG consummated the acquisition of 100% of the shares of North American operations of Candraft VSI ("Candraft"). Candraft is a premier bridge infrastructure detailing and modeling company. On December 1, 2017, DBMG consummated the acquisition of the assets from Mountain States Steel, Inc. ("MSS") including inventory, machinery & equipment, real estate, employees and certain intangible assets. MSS is a premier custom structural steel fabricator for construction projects including bridges, stadiums and power plants. The aggregate fair value of the consideration paid in connection with the acquisitions of Candraft and MSS was $17.8 million, including $16.1 million in cash. Both transactions were accounted for as business acquisitions.

The fair value of consideration transferred and its allocation among the identified assets acquired, liabilities assumed, intangibles and residual goodwill are summarized as follows (in thousands):

Purchase price allocation	
Accounts receivable	$ 473
Property, plant and equipment	12,730
Goodwill	2,290
Intangibles	1,608
Other assets	909
Total assets acquired	18,010
Accounts payable and other current liabilities	(23)
Other liabilities	(167)
Total liabilities assumed	(190)
Total net assets acquired	$ 17,820

Goodwill was determined based on the residual differences between fair value of consideration transferred and the value assigned to tangible and intangible assets and liabilities. Among the factors that contributed to goodwill was approximately $1.5 million assigned to the assembled and trained workforce for 2017. Goodwill is not amortized and is not deductible for tax purposes.

Acquisition costs incurred by DMBG in 2017, in connection with the 2017 acquisitions were approximately $3.3 million, which were included in selling, general and administrative expenses. The acquisition costs were primarily related to legal, accounting and valuation services.

Results of acquired businesses were included in our Consolidated Statements of Operations since their respective acquisition dates. Pro forma results of operations have not been presented because they are not material to our consolidated results of operations.

Marine Services Segment

2017 Acquisitions

On November 30, 2017, GMSL acquired 5 assets and 19 employees and contractors based in Aberdeen, Scotland from Fugro N.V. The fair value of the purchase consideration was $87.2 million and comprised of 23.6% share in GMH LLC and a short-term loan of $7.5 million to Fugro N.V. The decision to acquire was made to support the overall group strategy of growing the Power and Oil & Gas businesses. The transaction was accounted for as a business acquisition.

The limited liability company agreement of GMH was amended and restated upon consummation of the Acquisition to reflect such issuance and to provide the Fugro Member with certain rights, including the right to designate two out of the up to seven members of its board of directors, the right to approve certain actions outside the ordinary course of business, certain "tag-along" rights to participate in sales of membership units by other members and, after five years and subject to the Fugro Member first offering its membership units to the other members at a price based upon independent valuations, the right to cause GMHL to be put up for sale in a process led by an investment banking firm.

Fair value of consideration transferred and its allocation among the identified assets acquired, liabilities assumed, intangibles, and residual goodwill are summarized as follows (in thousands):

Purchase price allocation		
Cash and cash equivalents	$	2,212
Property, plant and equipment		73,320
Goodwill		11,783
Other assets		596
Total assets acquired		87,911
Accounts payable and other current liabilities		(676)
Total liabilities assumed		(676)
Total net assets acquired	$	87,235

Goodwill was determined based on the residual differences between fair value of consideration transferred and the value assigned to tangible and intangible assets and liabilities. Goodwill is not amortized and is not deductible for tax purposes.

Acquisition costs incurred by GMSL in 2017, in connection with the 2017 acquisition were approximately $1.8 million, which were included in selling, general and administrative expenses. The acquisition costs were primarily related to legal, accounting and valuation services.

Results of acquired businesses were included in our Consolidated Statements of Operations since their respective acquisition dates. Pro forma results of operations are also presented because the Fugro acquisition was material to our consolidated results of operations.

Broadcasting Segment

2018 Acquisitions

During the six months ended June 30, 2018, Broadcasting completed a series of transactions for a total cash consideration of $13.2 million. All transactions were accounted for as asset acquisitions.

The following table summarizes the allocation of the purchase price to the fair value of identifiable assets acquired, liabilities assumed, and intangibles (in thousands):

Purchase price allocation		
Property, plant and equipment	$	721
Intangibles		12,446
Total assets acquired		13,167
Total liabilities assumed		—
Total net assets acquired	$	13,167

2017 Acquisitions

During the year ended December 31, 2017, Broadcasting and its subsidiaries completed the following transactions (in thousands):

	DTV	Mako	Azteca	Other	Total
Cash	$ 13,467	$ 18,192	$ —	$ 12,104	$ 43,763
Accounts payable	—	—	33,000	—	33,000
Equity	—	4,994	—	—	4,994
Debt obligations	2,405	5,250	—	—	7,655
Fair value of previously held interest	1,780	—	—	—	1,780
Fair value of consideration	$ 17,652	$ 28,436	$ 33,000	$ 12,104	$ 91,192

In November 2017, Broadcasting closed a series of transactions that resulted in the ownership of over 50% of the shares of common stock of DTV for a total consideration of $17.7 million. DTV is an aggregator and operator of Low Power Television ("LPTV") licenses and stations across the United States. DTV currently owns and operates 52 LPTV stations in more than 40 cities. DTV’s distribution platform currently provides carriage for more than 30 television broadcast networks. DTV maintains a focus on technological innovation. DTV exclusively adopted Internet Protocol (IP) as a transport to provide Broadcast-as-a-Service, making it the only adopter of all IP-transport to the home. The transaction was accounted for as business acquisition.

In November 2017, HC2 LPTV Holdings Inc. ("HC2 LPTV"), a wholly-owned subsidiary of Broadcasting, closed on a transaction with Mako Communications, LLC and certain of its affiliates ("Mako") to purchase all the assets in connection with Mako’s ownership and operation of LPTV stations that resulted in HC2 acquiring 38 operating stations in 28 cities, for a total consideration of $28.4 million. Mako is a family owned and operated business headquartered in Corpus Christi, Texas, that has been acquiring, building, and maintaining Class A and LPTV stations all across the United States since 2000. The transaction was accounted for as business acquisition.

In November 2017, Network acquired Azteca America, a Spanish-language broadcast network, from affiliates of TV Azteca, S.A.B. de C.V. ("Azteca") (AZTECACPO.MX) (Latibex:XTZA). As part of the bifurcated transaction structure, a wholly-owned subsidiary of Broadcasting signed a definitive acquisition agreement with Northstar Media, LLC ("Northstar"), a licensee of numerous broadcast television licenses in the United States. Under the agreement with Northstar, a wholly-owned subsidiary of Broadcasting acquired Northstar’s broadcast television stations, which carry Azteca America programming. In February 2018, Broadcasting closed on the acquisition and funded the $33.0 million consideration balance. The transaction was accounted for as business acquisition.

In November and December of 2017, Broadcasting closed three additional acquisitions for a total consideration of $12.1 million. All three transactions were accounted for as asset acquisitions.

The following table summarizes the allocation of the purchase price to the fair value of identifiable assets acquired, liabilities assumed, intangibles and residual goodwill (in thousands):

Purchase price allocation	
Cash and cash equivalents	$ 61
Accounts receivable	9,134
Property, plant and equipment	12,097
Goodwill	21,402
Intangibles	80,378
Other assets	1,290
Total assets acquired	124,362
Accounts payable and other current liabilities	(8,036)
Deferred tax liability	(6,072)
Debt obligations [1]	(4,480)
Other liabilities	(86)
Total liabilities assumed	(18,674)
Enterprise value	105,688
Less fair value of noncontrolling interest	14,496
Total net assets acquired	$ 91,192

[1] Debt obligations includes a $2.0 million note with CGI, which is eliminated on the Condensed Consolidated Balance Sheet.

The following table summarizes acquired intangible assets (in thousands):

FCC licenses	$	75,852
Trade name		208
Other		4,318
Total intangibles	$	80,378

Goodwill was determined based on the residual differences between fair value of consideration transferred and the value assigned to tangible and intangible assets and liabilities. Goodwill is not amortized and is not deductible for tax purposes.

Results of operations from acquisitions completed by Broadcasting segment since their respective acquisition dates have been included in our Consolidated Statements of Operations.

Life Sciences Segment

On June 8, 2018, Pansend closed on the sale of its approximately 75.9% ownership in BeneVir to Janssen Biotech, Inc. ("Janssen"). In conjunction with the closing of the transaction, Janssen made an upfront cash payment of $140.0 million. Pansend received a cash payment of $93.4 million and expects to receive an additional cash payment of $13.3 million, currently held in an escrow, for a total consideration of $106.7 million. Escrow will be released within fifteen months subsequent to the closing date, assuming there are no pending or unresolved indemnified claims. Pansend recorded a gain on the sale of $102.1 million, of which $21.7 million was allocated to noncontrolling interests. HC2 received a cash payment of $72.8 million and expects to receive an additional cash payment of $9.2 million upon the release of the escrow.

Under the terms of the merger agreement, Pansend is eligible to receive payments of up to $189.7 million upon the achievement of specified development milestones and up to $493.1 million upon the achievement of specified levels of annual net sales of licensed products. From these potential milestone payments, HC2 is eligible to receive up to $512.2 million.

Pro Forma Adjusted Summary

Disclosure of proforma information under ASC 805 related to the Azteca acquisition has not been provided as it would be impracticable to do so. After making every reasonable effort to do so, the Company is unable to obtain reliable historical GAAP financial statements for Azteca. Amounts would require estimates so significant as to render the disclosure irrelevant.

The following schedule presents unaudited consolidated pro forma results of operations data as if the acquisition of Fugro had occurred on January 1, 2017. This information does not purport to be indicative of the actual results that would have occurred if the 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):

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
Net revenue	$	389,715	$	791,346
Net income (loss) from continuing operations	$	(22,825)	$	(33,784)
Net income (loss) attributable to HC2 Holdings, Inc.	$	(18,278)	$	(33,141)

5. Investments

Fixed Maturity Securities

The following tables provide information relating to investments in fixed maturity securities (in thousands):

June 30, 2018	Amortized Cost		Unrealized Gains		Unrealized Losses		Fair Value	
Fixed maturity securities								
U.S. Government and government agencies	$	14,708	$	308	$	(205)	$	14,811
States, municipalities and political subdivisions		362,775		9,644		(1,446)		370,973
Residential mortgage-backed securities		86,850		4,909		(637)		91,122
Commercial mortgage-backed securities		39,331		133		(506)		38,958
Asset-backed securities		147,542		875		(2,022)		146,395
Corporate and other		575,516		19,738		(8,260)		586,994
Total fixed maturity securities	$	1,226,722	$	35,607	$	(13,076)	$	1,249,253

December 31, 2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Fixed maturity securities				
U.S. Government and government agencies	$ 15,283	$ 470	$ (31)	$ 15,722
States, municipalities and political subdivisions	377,549	18,953	(1,052)	395,450
Foreign government	6,331	—	(333)	5,998
Residential mortgage-backed securities	101,974	4,185	(1,264)	104,895
Commercial mortgage-backed securities	30,152	269	(16)	30,405
Asset-backed securities	145,479	2,610	(163)	147,926
Corporate and other	589,803	51,891	(1,464)	640,230
Total fixed maturity securities	$ 1,266,571	$ 78,378	$ (4,323)	$ 1,340,626

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 and unrealized gains on investments. These investments had a fair value of $11.6 million and $12.3 million as of June 30, 2018 and December 31, 2017, respectively. The change in fair value related to these securities resulted in a gain of $0.2 million and a loss of $0.7 million for the three months ended June 30, 2018 and 2017, respectively and gains of $0.7 million and a loss of $0.7 million for the six months ended June 30, 2018 and 2017, respectively.

Maturities of Fixed Maturity Securities Available-for-sale

The amortized cost and fair value of fixed maturity securities available-for-sale as of June 30, 2018 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	$ 13,753	$ 13,600
Due after one year through five years	129,070	128,942
Due after five years through ten years	165,275	165,518
Due after ten years	644,901	664,718
Subtotal	952,999	972,778
Mortgage-backed securities	126,181	130,080
Asset-backed securities	147,542	146,395
Total	$ 1,226,722	$ 1,249,253

The tables below show the major industry types of the Company's corporate and other fixed maturity securities (in thousands):

	June 30, 2018			December 31, 2017		
	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
Finance, insurance, and real estate	$ 215,159	$ 215,813	36.8%	$ 191,234	$ 203,735	31.8%
Transportation, communication and other services	158,600	160,973	27.4%	186,114	201,802	31.5%
Manufacturing	97,192	101,014	17.2%	100,942	111,391	17.4%
Other	104,565	109,194	18.6%	111,513	123,302	19.3%
Total	$ 575,516	$ 586,994	100.0%	$ 589,803	$ 640,230	100.0%

A portion of certain other-than-temporary impairment ("OTTI") losses on fixed maturity securities is recognized in Accumulated Other Comprehensive Income ("AOCI"). For these securities the net amount, which is recognized in the Condensed Consolidated Statements of Operations in the below line items, represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The Company recorded the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net realized and unrealized gains on investments	$ —	$ —	$ —	$ —
Other income (expenses), net	—	2,800	—	6,070
Total Other-Than-Temporary Impairments	$ —	$ 2,800	$ —	$ 6,070

The following table presents the total unrealized losses for the 245 and 126 fixed maturity securities held by the Company as of June 30, 2018 and December 31, 2017, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (in thousands):

	June 30, 2018		December 31, 2017	
	Unrealized Losses	% of Total	Unrealized Losses	% of Total
Fixed maturity securities				
Less than 20%	$ (12,836)	98.2%	$ (4,230)	93.7%
20% or more for less than six months	(240)	1.8%	(174)	3.9%
20% or more for six months or greater	—	—%	(110)	2.4%
Total	$ (13,076)	100.0%	$ (4,514)	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 OTTI 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 June 30, 2018. 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 245 and 126 fixed maturity and equity securities held by the Company that have estimated fair values below amortized cost as of each of June 30, 2018 and December 31, 2017, 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):

June 30, 2018	Less than 12 months		12 months of greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities						
U.S. Government and government agencies	$ 12,548	$ (205)	$ —	$ —	$ 12,548	$ (205)
States, municipalities and political subdivisions	111,992	(1,081)	6,978	(365)	118,970	(1,446)
Residential mortgage-backed securities	15,268	(552)	1,459	(85)	16,727	(637)
Commercial mortgage-backed securities	35,308	(506)	—	—	35,308	(506)
Asset-backed securities	74,271	(1,836)	3,740	(186)	78,011	(2,022)
Corporate and other	183,883	(6,068)	24,439	(2,192)	208,322	(8,260)
Total fixed maturity securities	$ 433,270	$ (10,248)	$ 36,616	$ (2,828)	$ 469,886	$ (13,076)

December 31, 2017	Less than 12 months		12 months of greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities						
U.S. Government and government agencies	$ 5,044	$ (17)	$ 2,199	$ (14)	$ 7,243	$ (31)
States, municipalities and political subdivisions	32,939	(834)	10,757	(218)	43,696	(1,052)
Foreign government	—	—	5,999	(333)	5,999	(333)
Residential mortgage-backed securities	5,139	(546)	16,150	(718)	21,289	(1,264)
Commercial mortgage-backed securities	5,053	(12)	1,003	(4)	6,056	(16)
Asset-backed securities	19,771	(64)	3,963	(99)	23,734	(163)
Corporate and other	18,478	(824)	19,433	(640)	37,911	(1,464)
Total fixed maturity securities	$ 86,424	$ (2,297)	$ 59,504	$ (2,026)	$ 145,928	$ (4,323)

As of June 30, 2018, investment grade fixed maturity securities (as determined by nationally recognized rating agencies) represented approximately 54.7% of the gross unrealized loss and 61.0% of the fair value. As of December 31, 2017, investment grade fixed maturity securities represented approximately 7.3% of the gross unrealized loss and 10.4% 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.

Equity Securities

Beginning in 2018 upon adopting ASU 2016-01, changes in fair value of equity securities are reported in Net realized and unrealized gains (losses) on investments. The following tables provide information relating to investments in equity securities measured at fair value (in thousands):

	June 30, 2018	December 31, 2017
Equity securities		
Common stocks	$ 9,329	$ 4,928
Perpetual preferred stocks	70,228	42,572
Total equity securities	$ 79,557	$ 47,500

Other Invested Assets

Beginning in 2018 upon adopting ASU 2016-01, certain investments in equity securities that do not have a readily determinable fair value are carried at cost minus impairment, if any, plus or minus changes resulting from observable price changes or at fair value. Carrying values of other invested assets were as follows (in thousands):

	June 30, 2018			December 31, 2017		
	Measurement Alternative	Equity Method	Fair Value	Cost Method	Equity Method	Fair Value
Common Equity	$ —	$ 1,750	$ —	$ —	$ 1,484	$ —
Preferred Equity	1,600	11,794	—	2,484	14,197	—
Derivatives	—	—	280	422	—	260
Joint Ventures	—	70,685	—	—	66,572	—
Total	$ 1,600	$ 84,229	$ 280	$ 2,906	$ 82,253	$ 260

Summarized financial information for subsidiaries not consolidated as of and for the six months ended June 30, 2018 and 2017 were as follows (information for two of the investees is reported on a one month lag, in thousands):

	2018	2017
Net revenue	$ 201,207	$ 247,398
Gross profit	$ 70,678	$ 76,520
Income (loss) from continuing operations	$ 10,628	$ (5,903)
Net income (loss)	$ (2,699)	$ (19,868)
Current assets	$ 363,745	$ 308,876
Noncurrent assets	$ 182,730	$ 192,156
Current liabilities	$ 230,303	$ 209,526
Noncurrent liabilities	$ 159,917	$ 122,891

Net Investment Income

The major sources of net investment income were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Fixed maturity securities, available-for-sale at fair value	$ 16,242	$ 15,550	$ 31,887	$ 29,475
Equity securities	677	574	1,262	1,249
Mortgage loans	1,648	564	2,853	1,028
Policy loans	280	291	557	589
Other invested assets	524	3	597	7
Gross investment income	19,371	16,982	37,156	32,348
External investment expense	(29)	(43)	(90)	(105)
Net investment income	$ 19,342	$ 16,939	$ 37,066	$ 32,243

Net Realized and Unrealized Gains (Losses) on Investments

The major sources of net realized and unrealized gains and losses on investments were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Realized gains on fixed maturity securities	$ 2,407	$ 2,424	$ 3,720	$ 3,385
Realized losses on fixed maturity securities	(550)	(462)	(1,265)	(917)
Realized gains on equity securities	—	110	—	110
Realized losses on equity securities	(26)	(31)	(26)	(31)
Net unrealized gains (losses) on equity securities	478	—	(191)	—
Net unrealized gains (losses) on derivative instruments	185	(946)	705	(671)
Net realized and unrealized gains (losses)	$ 2,494	$ 1,095	$ 2,943	$ 1,876

6. Fair Value of Financial Instruments

Assets by Hierarchy Level

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

June 30, 2018		Fair Value Measurement Using:		
	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturity securities				
U.S. Government and government agencies	$ 14,811	$ 4,899	$ 9,912	$ —
States, municipalities and political subdivisions	370,973	—	370,564	409
Residential mortgage-backed securities	91,122	—	78,855	12,267
Commercial mortgage-backed securities	38,958	—	16,907	22,051
Asset-backed securities	146,395	—	13,651	132,744
Corporate and other	586,994	2,081	517,621	67,292
Total fixed maturity securities	1,249,253	6,980	1,007,510	234,763
Equity securities				
Common stocks	9,329	8,846	—	483
Perpetual preferred stocks	70,228	7,474	38,389	24,365
Total equity securities	79,557	16,320	38,389	24,848
Derivatives	280	—	—	280
Total assets accounted for at fair value	$ 1,329,090	$ 23,300	$ 1,045,899	$ 259,891
Liabilities				
Warrant liability	$ 3,316	$ —	$ —	$ 3,316
Other	907	—	—	907
Total liabilities accounted for at fair value	$ 4,223	$ —	$ —	$ 4,223

December 31, 2017		Fair Value Measurement Using:		
	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturity securities				
U.S. Government and government agencies	$ 15,722	$ 5,094	$ 10,628	$ —
States, municipalities and political subdivisions	395,450	—	389,439	6,011
Foreign government	5,998	—	5,998	—
Residential mortgage-backed securities	104,895	—	90,283	14,612
Commercial mortgage-backed securities	30,405	—	18,248	12,157
Asset-backed securities	147,926	—	14,184	133,742
Corporate and other	640,230	2,098	611,844	26,288
Total fixed maturity securities	1,340,626	7,192	1,140,624	192,810
Equity securities				
Common stocks	4,928	4,771	—	157
Perpetual preferred stocks	42,572	7,665	28,470	6,437
Total equity securities	47,500	12,436	28,470	6,594
Derivatives	260	—	—	260
Total assets accounted for at fair value	$ 1,388,386	$ 19,628	$ 1,169,094	$ 199,664
Liabilities				
Warrant liability	$ 3,826	$ —	$ —	$ 3,826
Other	944	—	—	944
Total liabilities accounted for at fair value	$ 4,770	$ —	$ —	$ 4,770

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 $5.1 million of equity securities between Level 1 and Level 2 during the six months ended June 30, 2018, reflecting the level of market activity in these instruments. There were no transfers between Level 1 and Level 2 during the three and six months ended June 30, 2017.

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 into Level 3 of $12.3 million primarily related to structured securities during the six months ended June 30, 2018. The Company’s assessment resulted in a net transfer out of Level 3 of $79.5 million primarily related to structured securities during the six months ended June 30, 2017.

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. As such, the common stock purchase warrants were classified as Level 3.

Warrant Liability. The balance represents warrants issued in connection with the acquisition of the Insurance business 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 comparable periods needs to be known to determine whether a subsequent sale of shares occurs at a price that is lower than the 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

The following tables summarize changes to the Company's financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the three and six months ended June 30, 2018 and 2017, respectively (in thousands):

		Total realized/unrealized gains (losses) included in						
	Balance at March 31, 2018	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2018
Assets								
Fixed maturity securities								
States, municipalities and political subdivisions	$ 6,427	$ (1)	$ (8)	$ —	$ —	$ —	$ (6,009)	$ 409
Residential mortgage-backed securities	7,249	32	282	—	(826)	5,530	—	12,267
Commercial mortgage-backed securities	17,751	(39)	(166)	4,524	(19)	—	—	22,051
Asset-backed securities	137,888	460	(1,768)	18,500	(19,402)	—	(2,934)	132,744
Corporate and other	37,595	20	(858)	23,876	(2,528)	9,187	—	67,292
Total fixed maturity securities	206,910	472	(2,518)	46,900	(22,775)	14,717	(8,943)	234,763
Equity securities								
Common stocks	606	(123)	—	—	—	—	—	483
Perpetual preferred stocks	23,910	455	—	—	—	—	—	24,365
Total equity securities	24,516	332	—	—	—	—	—	24,848
Derivatives	270	10	—	—	—	—	—	280
Total financial assets	$ 231,696	$ 814	$ (2,518)	$ 46,900	$ (22,775)	$ 14,717	$ (8,943)	$ 259,891

		Total realized/unrealized (gains) losses included in						
	Balance at March 31, 2018	Net (earnings) loss	Other comp. (income) loss	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2018
Liabilities								
Warrant liability	$ 2,828	$ 488	$ —	$ —	$ —	$ —	$ —	$ 3,316
Other	1,233	(326)	—	—	—	—	—	907
Total financial liabilities	$ 4,061	$ 162	$ —	$ —	$ —	$ —	$ —	$ 4,223

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2017	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2018
Assets								
Fixed maturity securities								
States, municipalities and political subdivisions	$ 6,011	$ —	$ (132)	$ 121	$ —	$ 418	$ (6,009)	$ 409
Residential mortgage-backed securities	14,612	124	619	—	(5,267)	5,530	(3,351)	12,267
Commercial mortgage-backed securities	12,157	(79)	(264)	10,276	(39)	—	—	22,051
Asset-backed securities	133,742	1,158	(3,276)	68,000	(63,946)	—	(2,934)	132,744
Corporate and other	26,288	45	(870)	29,014	(2,895)	15,710	—	67,292
Total fixed maturity securities	192,810	1,248	(3,923)	107,411	(72,147)	21,658	(12,294)	234,763
Equity securities								
Common stocks	157	(123)	—	—	—	449	—	483
Perpetual preferred stocks	6,437	455	—	14,943	—	2,530	—	24,365
Total equity securities	6,594	332	—	14,943	—	2,979	—	24,848
Derivatives	260	20	—	—	—	—	—	280
Total financial assets	$ 199,664	$ 1,600	$ (3,923)	$ 122,354	$ (72,147)	$ 24,637	$ (12,294)	$ 259,891

	Balance at December 31, 2017	Total realized/unrealized (gains) losses included in Net (earnings) loss	Other comp. (income) loss	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2018
Liabilities								
Warrant liability	$ 3,826	$ (510)	$ —	$ —	$ —	$ —	$ —	$ 3,316
Other	944	(37)	—	—	—	—	—	907
Total financial liabilities	$ 4,770	$ (547)	$ —	$ —	$ —	$ —	$ —	$ 4,223

	Balance at March 31, 2017	Total realized/unrealized gains (losses) included in Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2017
Assets								
Fixed maturity securities								
U.S. Government and government agencies	$ 15	$ —	$ —	$ —	$ —	$ —	$ (15)	$ —
States, municipalities and political subdivisions	6,598	(111)	(840)	227	—	1,636	—	7,510
Residential mortgage-backed securities	53,737	(148)	(9)	3,417	(3,804)	2,163	(36,871)	18,485
Commercial mortgage-backed securities	35,973	(119)	92	—	(2,752)	—	(29,440)	3,754
Asset-backed securities	87,160	(23)	1,990	53,546	(11,341)	—	(11,734)	119,598
Corporate and other	26,720	(55)	(1,769)	4,933	(4,098)	1,312	(6,504)	20,539
Total fixed maturity securities	210,203	(456)	(536)	62,123	(21,995)	5,111	(84,564)	169,886
Equity securities								
Common stocks	3,531	(2,842)	1,401	—	—	—	—	2,090
Total equity securities	3,531	(2,842)	1,401	—	—	—	—	2,090
Derivatives	3,694	(1,539)	—	—	—	—	—	2,155
Total financial assets	$ 217,428	$ (4,837)	$ 865	$ 62,123	$ (21,995)	$ 5,111	$ (84,564)	$ 174,131

	Balance at March 31, 2017	Total realized/unrealized (gains) losses included in Net (earnings) loss	Other comp. (income) loss	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2017
Liabilities								
Warrant liability	$ 4,223	$ (132)	$ —	$ —	$ —	$ —	$ —	$ 4,091
Contingent liability	11,642	88	—	—	—	—	—	11,730
Other	675	367	—	—	—	—	—	1,042
Total financial liabilities	$ 16,540	$ 323	$ —	$ —	$ —	$ —	$ —	$ 16,863

	Balance at December 31, 2016	Total realized/unrealized gains (losses) included in Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2017
Assets								
Fixed maturity securities								
U.S. Government and government agencies	$ 32	$ —	$ —	$ —	$ (17)	$ —	$ (15)	$ —
States, municipalities and political subdivisions	5,690	—	(43)	227	—	1,636	—	7,510
Residential mortgage-backed securities	55,954	(743)	879	3,465	(6,362)	2,163	(36,871)	18,485
Commercial mortgage-backed securities	43,018	115	75	—	(10,014)	—	(29,440)	3,754
Asset-backed securities	73,217	1,051	307	81,271	(24,514)	—	(11,734)	119,598
Corporate and other	20,366	(3,322)	4,872	7,933	(4,118)	1,312	(6,504)	20,539
Total fixed maturity securities	198,277	(2,899)	6,090	92,896	(45,025)	5,111	(84,564)	169,886
Equity securities								
Common stocks	4,575	(2,842)	357	—	—	—	—	2,090
Total equity securities	4,575	(2,842)	357	—	—	—	—	2,090
Derivatives	3,813	(1,658)	—	—	—	—	—	2,155
Total financial assets	$ 206,665	$ (7,399)	$ 6,447	$ 92,896	$ (45,025)	$ 5,111	$ (84,564)	$ 174,131

	Balance at December 31, 2016	Total realized/unrealized (gains) losses included in Net (earnings) loss	Other comp. (income) loss	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2017
Liabilities								
Warrant liability	$ 4,058	$ 33	$ —	$ —	$ —	$ —	$ —	$ 4,091
Contingent liability	11,411	319	—	—	—	—	—	11,730
Other	816	226	—	—	—	—	—	1,042
Total financial liabilities	$ 16,285	$ 578	$ —	$ —	$ —	$ —	$ —	$ 16,863

Internally developed fair values of Level 3 assets 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 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. The table excludes carrying amounts 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):

June 30, 2018	Carrying Value	Estimated Fair Value	Fair Value Measurement Using: Level 1	Level 2	Level 3
Assets					
Mortgage loans	$ 69,890	$ 69,890	$ —	$ —	$ 69,890
Policy loans	17,768	17,768	—	17,768	—
Other invested assets	1,600	1,600	—	—	1,600
Total assets not accounted for at fair value	$ 89,258	$ 89,258	$ —	$ 17,768	$ 71,490
Liabilities					
Annuity benefits accumulated (1)	$ 237,373	$ 237,373	$ —	$ —	$ 237,373
Debt obligations (2)	624,326	631,626	—	631,626	—
Total liabilities not accounted for at fair value	$ 861,699	$ 868,999	$ —	$ 631,626	$ 237,373

December 31, 2017	Carrying Value	Estimated Fair Value	Fair Value Measurement Using: Level 1	Level 2	Level 3
Assets					
Mortgage loans	$ 52,109	$ 52,110	$ —	$ —	$ 52,110
Policy loans	17,944	17,944	—	17,944	—
Other invested assets	2,906	3,757	—	—	3,757
Total assets not accounted for at fair value	$ 72,959	$ 73,811	$ —	$ 17,944	$ 55,867
Liabilities					
Annuity benefits accumulated (1)	$ 243,156	$ 240,361	$ —	$ —	$ 240,361
Debt obligations (2)	544,211	552,413	—	552,413	—
Total liabilities not accounted for at fair value	$ 787,367	$ 792,774	$ —	$ 552,413	$ 240,361

(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.

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.

7. Accounts Receivable, net

Accounts receivable, net consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Contracts in progress	$ 189,056	$ 167,809
Trade receivables	94,559	106,937
Unbilled retentions	64,043	50,957
Other receivables	3,654	476
Allowance for doubtful accounts	(4,610)	(3,733)
Total accounts receivable, net	$ 346,702	$ 322,446

8. Recoverable from Reinsurers

Recoverable from reinsurers consists of the following (in thousands):

Reinsurer	A.M. Best Rating	June 30, 2018 Amount	% of Total	December 31, 2017 Amount	% of Total
Hannover Life Reassurance Co	A+	$ 336,435	63.4%	$ 336,852	64.0%
Loyal American Life Insurance Co (Cigna)	A-	143,086	26.9%	140,552	26.7%
Great American Life Insurance Co	A	51,748	9.7%	48,933	9.3%
Total		$ 531,269	100.0%	$ 526,337	100.0%

9. Property, Plant and Equipment, net

Property, plant and equipment consists of the following (in thousands):

	June 30, 2018	December 31, 2017
Land	$ 30,271	$ 30,313
Building and leasehold improvements	37,911	34,632
Plant and transportation equipment	9,301	6,631
Cable-ships and submersibles	250,968	251,840
Equipment, furniture and fixtures, and software	142,223	127,409
Construction in progress	6,370	19,927
	477,044	470,752
Less: Accumulated depreciation	108,130	96,092
Total	$ 368,914	$ 374,660

Depreciation expense was $11.1 million and $8.5 million for the three months ended June 30, 2018 and 2017, respectively. These amounts included $1.7 million and $1.3 million of depreciation expense within cost of revenue for the three months ended June 30, 2018 and 2017, respectively.

Depreciation expense was $22.3 million and $16.8 million for the six months ended June 30, 2018 and 2017, respectively. These amounts included $3.3 million and $2.5 million of depreciation expense within cost of revenue for the six months ended June 30, 2018 and 2017, respectively.

Total net book value of equipment, cable-ships, and submersibles under capital leases consisted of $42.2 million and $45.3 million as of June 30, 2018 and December 31, 2017, respectively.

10. Goodwill and Intangibles, net

Goodwill

The changes in the carrying amount of goodwill by segment were as follows (in thousands):

	Construction	Marine Services	Energy	Telecom	Insurance	Life Sciences	Broadcasting	Other	Total
Balance at December 31, 2017	$ 38,607	$ 14,251	$ 2,122	$ 3,378	$ 47,290	$ 3,620	$ 20,678	$ 1,795	$ 131,741
Measurement period adjustment	—	—	—	—	—	—	725	—	725
Disposition	—	—	—	—	—	(3,620)	—	—	(3,620)
Balance at June 30, 2018	$ 38,607	$ 14,251	$ 2,122	$ 3,378	$ 47,290	$ —	$ 21,403	$ 1,795	$ 128,846

An interim goodwill impairment evaluation was performed on each reporting unit as of June 30, 2018. After considering all quantitative and qualitative factors, the Company has determined that it is more likely than not that the reporting units' fair values exceed carrying values as of the period end.

Through the sale of BeneVir in 2018, of $3.6 million of goodwill was deconsolidated. See Note 4. Acquisitions and Dispositions, for additional detail regarding our acquisitions and dispositions.

Indefinite-lived Intangible Assets

Balances of Indefinite-lived Intangible Assets as of June 30, 2018 and December 31, 2017 were as follows (in thousands):

	June 30, 2018	December 31, 2017
State licenses	$ 2,450	$ 2,450
FCC licenses	88,196	76,490
Developed technology	—	6,392
Total	$ 90,646	$ 85,332

Through the sale of BeneVir in 2018, $6.4 million of developed technology were sold to a third party. See Note 4. Acquisitions and Dispositions, for additional detail regarding our acquisitions and dispositions.

The Broadcasting segment strategically acquires assets across the United States, which results in the recording of FCC licenses. As long as the Company acts within the requirements and constraints of the regulatory authorities, the renewal and extension of these licenses is reasonably certain at minimal costs. Accordingly we have concluded that the acquired FCC licenses are indefinite-lived intangible assets.

In 2018, FCC licenses increased $11.7 million, $12.4 million through acquisitions, offset by $0.6 million of measurement period adjustments and $0.1 million of impairments, driven by licenses dismissed by the FCC.

Definite Lived Intangible Assets

The gross carrying amount and accumulated amortization of amortizable intangible assets by major intangible asset class is as follows:

		June 30, 2018			December 31, 2017		
	Weighted-Average Original Useful Life	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	11 Years	$ 13,981	$ (5,166)	$ 8,815	$ 13,981	$ (4,527)	$ 9,454
Customer relationships	12 Years	21,657	(5,646)	16,011	21,657	(4,681)	16,976
Developed technology	4 Years	3,823	(3,749)	74	3,823	(3,601)	222
Other	4 Years	5,378	(644)	4,734	5,374	(253)	5,121
Total		$ 44,839	$ (15,205)	$ 29,634	$ 44,835	$ (13,062)	$ 31,773

Amortization expense for definite lived intangible assets for the three months ended June 30, 2018 and 2017 was $1.1 million and $1.3 million, respectively, and was included in Depreciation and amortization in the Condensed Consolidated Statements of Operations.

Amortization expense for definite lived intangible assets for the six months ended June 30, 2018 and 2017 was $2.1 million and $2.7 million, respectively, and was included in Depreciation and amortization in the Condensed Consolidated Statements of Operations.

11. Life, Accident and Health Reserves

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

	June 30, 2018	December 31, 2017
Long-term care insurance reserves	$ 1,487,477	$ 1,453,442
Traditional life insurance reserves	98,380	99,951
Other accident and health insurance reserves	142,310	140,568
Total life, accident and health reserves	$ 1,728,167	$ 1,693,961

The following table sets forth changes in the liability for claims for the portion of our long-term care insurance reserves in scope of the ASU 2015-09 disclosure requirements (in thousands):

	Six Months Ended June 30,	
	2018	2017
Beginning balance	$ 243,454	$ 226,970
Less: recoverable from reinsurers	(100,610)	(97,858)
Beginning balance, net	142,844	129,112
Incurred related to insured events of:		
Current year	36,396	33,411
Prior years	2,643	(2,880)
Total incurred	39,039	30,531
Paid related to insured events of:		
Current year	(1,360)	(1,584)
Prior years	(25,250)	(20,984)
Total paid	(26,610)	(22,568)
Interest on liability for policy and contract claims	2,678	2,409
Ending balance, net	157,951	139,484
Add: recoverable from reinsurers	106,387	107,673
Ending balance	$ 264,338	$ 247,157

The company experienced an unfavorable claims reserve development of $2.6 million and a favorable claims reserve development of $2.9 million for the six months ended June 30, 2018 and 2017, respectively. The reserve deficiency is primarily attributed to policyholder behavior, where claimants were delaying the reporting of their claims more than recent history. The reserve sufficiency is being driven by claim terminations as the result of policyholder deaths that released significant reserves which is attributable to the normal volatility in the reserves, due to the number of claims that are currently open.

12. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Accounts payable	$ 100,200	$ 119,236
Accrued expenses and other current liabilities	73,927	99,489
Accrued interconnection costs	75,665	73,383
Accrued payroll and employee benefits	35,778	44,312
Accrued interest	5,220	4,636
Accrued income taxes	5,549	6,436
Total accounts payable and other current liabilities	$ 296,339	$ 347,492

13. Debt Obligations

Debt obligations consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Corporate		
11.0% Senior Secured Notes due in 2019	$ 510,000	$ 400,000
Construction		
LIBOR plus 2.25% Notes, due in 2024[1]	5,388	6,738
LIBOR plus 1.5%, due 2023 and 2025	41,697	19,670
Marine Services		
Notes payable and revolving lines of credit, various maturity dates	31,406	23,748
Obligations under capital leases	44,025	48,500
Energy		
4.5% Note due in 2022	11,900	12,454
5.00% Term Loan due in 2022	13,020	13,706
4.25% Seller Note due in 2022	1,714	2,336
LIBOR plus 3.0% Note	1,000	1,031
Other	869	996
Life Sciences		
11.0% Secured Convertible Promissory Note Due in 2018	1,750	1,750
Broadcasting		
LIBOR plus applicable margin Bridge Note, due in 2018	—	60,000
Notes payable, various maturity dates	10,006	10,135
Other		
Notes payable, various maturity dates	—	54
Total	672,775	601,118
Issuance discount, net and deferred financing costs	(4,270)	(7,946)
Debt obligations	$ 668,505	$ 593,172

[1] The DBMG Facility was amended on July 24, 2018, increasing the availability of the borrowing base allowing DBMG to borrow an additional $10.0 million of the $70.0 million total line and bearing interest at LIBOR plus 2.5%. The temporary borrowing base increase and related interest expires on October 23, 2018.

Non-operating corporate

On May 7, 2018, the Company closed on $110.0 million aggregate principal amount of 11.0% Senior Secured Notes due 2019 (the “Notes”). The Notes were issued at a price of 102.0% of principal amount, which resulted in a premium of $2.2 million. The Company used the net proceeds from the issuance of the Notes to refinance the outstanding bridge loan (the "Bridge Loan") at our Broadcasting segment.

Construction

DBMG Credit Facilities

DBMG has a Credit and Security Agreement ("DBMG Facility") with Wells Fargo Credit, Inc. ("Wells Fargo"). Under the initial terms of the agreement, Wells Fargo agreed to advance up to a maximum amount of $50.0 million to DBMG, including up to $14.5 million of letters of credit (the "Revolving Line"). The Revolving Line has a floating interest rate based on LIBOR plus 2.0%, requires monthly interest payments, and matures in April 2019.

The DBMG Facility allows for the issuance by DBMG of additional loans in the form of notes of up to $10.0 million ("Real Estate Term Advance"), at LIBOR plus 2.5% and the issuance of a note payable of up to $15.0 million, ("Real Estate Term Advance 2") at LIBOR plus 2.5%, each as separate tranches of debt under the DBMG Facility.

The DBMG Facility was amended effective April 5, 2018, modifying the Revolving Line by increasing the maximum amount of the advance to $70.0 million, modifying the floating interest rate to LIBOR plus 1.5% and extending the maturity date through March 31, 2023. The amendment also created a $17.0 million long-term tranche under the $70.0 million Revolving Line with a maturity date of May 31, 2025. Additionally, The Real Estate Term Advance and Real Estate Advance 2 interest rates were modified to LIBOR plus 2.25% with a maturity date of April 30, 2024.

As of June 30, 2018, DBMG had drawn $41.7 million under the Revolving Line and had $8.8 million in outstanding letters of credit issued under the DBMG Facility, of which zero has been drawn. At June 30, 2018 there was $2.4 million outstanding under the Real Estate Term Advance and $2.9 million of borrowings outstanding under the Real Estate Term Advance 2.

Marine Services

On April 4, 2018, GMSL entered into a 7.49% fixed interest only loan, due April 3, 2019, with Shawbrook Bank Limited for £7.2 million, or approximately $9.4 million, the net proceeds used to fund capital expenditures, being mainly upgrades to cable ships, and working capital requirements on installation contracts.

Broadcasting

On February 4, 2018, the Broadcasting segment entered into a First Amendment to the $75.0 million Bridge Loan to finance acquisitions in the LPTV distribution market. The First Amendment to the Bridge Loan extends the agreement to add an additional $27.0 million in principal borrowing capacity to the existing credit agreement.

On February 6, 2018, the Broadcasting segment borrowed $42.0 million in principal amount of the Bridge Loan at LIBOR plus applicable margin, the net proceeds used to finance certain acquisitions, to pay fees, costs and expenses relating to the Bridge Loan, and for general corporate purposes.

The Bridge Loan of $102.0 million was repaid as part of the May 7, 2018 corporate financing transaction. As part of the transaction, the Broadcasting segment recorded a loss on extinguishment of debt of $2.5 million, which was recorded in Other income (expenses), net in the Condensed Consolidated Financial Statements.

14. Income Taxes

Income Tax (Expense) Benefit
The Company used the Annual Effective Tax Rate ("ETR") approach of ASC 740-270, Interim Reporting, to calculate its 2018 interim tax provision.

Income tax expense (benefit) was an expense of $9.5 million and a benefit of $2.0 million for the three months ended June 30, 2018 and 2017, respectively. The income tax expense recorded for the three months ended June 30, 2018 relates primarily to the projected expense as calculated under ASC 740 for taxpaying entities. The income tax expense generated from the sale of BeneVir will be offset by tax attributes for which a valuation allowance had been recorded. Therefore, there is no net income tax expense recorded in the income statement for the sale. The income tax benefit recorded for three months ended June 30, 2017 relates primarily to the appreciation of investments and the mix of income and losses by taxpaying entities, including the Insurance segment.

Income tax was an expense of $11.1 million and $3.3 million for the six months ended June 30, 2018 and 2017, respectively. The income tax expense recorded for the six months ended June 30, 2018 relates to the projected expense as calculated under ASC 740 for taxpaying entities. The income tax expense generated from the sale of BeneVir will be offset by tax attributes for which a valuation allowance had been recorded. Therefore, there is no net income tax expense recorded in the income statement for the sale. Additionally, the tax benefits associated with losses generated by certain businesses have been reduced by a full valuation allowance as we do not believe it is more-likely-than-not that the losses will be utilized prior to expiration. The income tax expense recorded for June 30, 2017 relates to the projected expense as calculated under ASC 740 for taxpaying entities. Additionally, the tax benefits associated with losses generated by the HC2 Holdings, Inc. U.S. consolidated income tax return and certain other businesses have been reduced by a full valuation allowance as we do not believe it is more-likely-than-not that the losses will be utilized prior to expiration.

As a result of the enactment of Public Law 115-97, known informally as the Tax Cuts and Jobs Act ("TCJA") on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the TCJA. SAB 118 provides that the measurement period is complete when a company's accounting is complete, but should not extend beyond one year from the enactment date. During the six months ended June 30, 2018, the Company has not recorded any measurement period adjustments to the provisional estimate recorded at December 31, 2017 for the TCJA. The accounting for the impact of the TCJA is expected to be completed by the fourth quarter of 2018.

For the calendar year beginning January 1, 2018, we are subject to several provisions of the TCJA including computations under Global Intangible Low Taxed Income ("GILTI"), Base Erosion and Anti-Abuse Tax ("BEAT"), and the interest limitation rules, and we included the impact of each of these provisions in our overall tax expense for the six months ended June 30, 2018. The Company will continue to refine these calculations as we gather additional information and additional interpretive guidance is issued.

NOL Limitation

As of December 31, 2017, the Company has a U.S. net operating loss carryforward available to reduce future taxable income in the amount of $100.4 million, of which $77.8 million is subject to an annual limitation under Section 382 of the Internal Revenue Code. The Company expects to utilize a portion of the U.S. net operating loss carryforwards in 2018 as a result of the sale of BeneVir. Additionally, the Company has $108.3 million of U.S. net operating loss carryforwards from its subsidiaries that do not qualify to be included in the HC2 Holdings, Inc. U.S. consolidated income tax return.

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.

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 - 2017 remain open for examination.

15. 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 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 Consolidated Financial Statements. The Company records a liability in its 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 its 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 Consolidated Financial Statements.

CGI Producer Litigation

On November 28, 2016, CGI, a subsidiary of the Company, Great American Financial Resource, Inc. ("GAFRI"), American Financial Group, Inc., and CIGNA Corporation were served with a putative class action complaint filed by John Fastrich and Universal Investment Services, Inc. in The United States District Court for the District of Nebraska alleging breach of contract, tortious interference with contract and unjust enrichment. The plaintiffs contend that they were agents of record under various CGI policies and that CGI allegedly instructed policyholders to switch to other CGI products and caused the plaintiffs to lose commissions, renewals, and overrides on policies that were replaced. The complaint also alleges breach of contract claims relating to allegedly unpaid commissions related to premium rate increases implemented on certain long-term care insurance policies. Finally, the complaint alleges breach of contract claims related to vesting of commissions. On August 21, 2017 the Court dismissed the plaintiffs' tortious interference with contract claim. CGI believes that the remaining allegations and claims set forth in the complaint are without merit and intends to vigorously defend against them.

The case was set for voluntary mediation, which occurred on January 26, 2018. The Court stayed discovery pending the outcome of the mediation. On February 12, 2018, the parties notified the Court that mediation did not resolve the case and that the parties' discussions regarding a possible settlement of the action were still ongoing. The Court held a status conference on March 22, 2018, during which the parties informed the Court that settlement negotiations remain ongoing. Nonetheless, the Court entered a scheduling order setting the case for trial during the week of October 15, 2019. Meanwhile, the parties' continued settlement negotiations led to a tentative settlement. The parties are in the process of preparing a formal settlement agreement, which will be subject to Court approval.

Further, the Company and CGI are seeking defense costs and indemnification for plaintiffs' claims from GAFRI and Continental General Corporation ("CGC") under the terms of an Amended and Restated Stock Purchase Agreement ("SPA") related to the Company's acquisition of CGI in December 2015. GAFRI and CGC rejected CGI's demand for defense and indemnification and, on January 18, 2017, the Company and CGI filed a Complaint against GAFRI and CGC in the Superior Court of Delaware seeking a declaratory judgment to enforce their indemnification rights under the SPA. On February 23, 2017, GAFRI answered CGI's complaint, denying the allegations. The dispute is ongoing and CGI intends to continue to pursue its right to a defense and indemnity under the SPA regardless of the tentative settlement in the class action. Meanwhile, the parties are currently involved in settlement negotiations.

VAT assessment

On February 20, 2017, and on August 15, 2017, the Company's subsidiary, ICS, received notices from Her Majesty's Revenue and Customs office in the U.K. (the "HMRC") indicating that it was required to pay certain Value-Added Taxes ("VAT") for the 2015 and 2016 tax years. ICS disagrees with HMRC's assessments on technical and factual grounds and intends to dispute the assessed liabilities and vigorously defend its interests. We do not believe the assessment to be probable and expect to prevail based on the facts and merits of our existing VAT position.

DBMG Class Action

On November 6, 2014, a putative stockholder class action complaint challenging the tender offer by which HC2 acquired approximately 721,000 of the outstanding common shares of DBMG 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 co-lead plaintiffs' counsel. The currently operative complaint was filed by Mark Jacobs. The pending complaint alleges, among other things, that in connection with the tender offer, the individual members of the DBMG Board of Directors and HC2, the controlling stockholder of DBMG, breached their fiduciary duties to members of the plaintiff class. Plaintiffs also assert that HC2 should be required to complete a short-form merger based upon plaintiffs' expectation that the Company would cash out the remaining public stockholders of DBMG 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 parties have been exploring alternative frameworks for a potential settlement. There can be no assurance that a settlement will be finalized or that the Delaware Courts would approve such a settlement even if the parties enter into a settlement agreement. If a settlement cannot be reached, the Company believes it has meritorious defenses and intends to vigorously defend this matter.

Global Marine Dispute

GMSL is in dispute with Alcatel-Lucent Submarine Networks Limited ("ASN") related to a Marine Installation Contract between the parties, dated March 11, 2016 (the "ASN Contract"). Under the ASN Contract, GMSL's obligations were to install and bury an optical fiber cable in Prudhoe Bay, Alaska. As of the date hereof, neither party has commenced legal proceedings. Pursuant to the ASN Contract any such dispute would be governed by English law and would be required to be brought in the English courts in London. ASN has alleged that GMSL committed material breaches of the ASN Contract, which entitles ASN to terminate the ASN Contract, take over the work themselves, and claim damages for their losses arising as a result of the breaches. The alleged material breaches include failure to use appropriate equipment and procedures to perform the work and failure to accurately estimate the amount of weather downtime needed. ASN has indicated to GMSL it has incurred $38.2 million in damages and $1.2 million in liquidated damages for the period from September 2016 to October 2016, plus interest and costs. GMSL believes that it has not breached the terms and conditions of the contract and also believes that ASN has not properly terminated the contract in a manner that would allow it to make a claim. However, ASN has ceased making payments to GMSL and as of June 30, 2018, the total sum of GMSL invoices raised and issued are $17.0 million, of which $8.1 million were settled by ASN and the balance of $8.9 million remains at risk. We believe that the allegations and claims by ASN are without merit, and that ASN is required to make all payments under unpaid invoices and we 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.

16. Employee Retirement Plans

The following table presents the components of Net periodic benefit cost for the periods presented (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Service cost - benefits earning during the period	$ —	$ —	$ —	$ —
Interest cost on projected benefit obligation	1,368	1,385	2,737	2,769
Expected return on assets	(1,935)	(1,896)	(3,869)	(3,792)
Actuarial gain	—	—	—	—
Foreign currency gain (loss)	(24)	7	(49)	14
Net periodic benefit cost (income)	$ (591)	$ (504)	$ (1,181)	$ (1,009)

For the six months ended June 30, 2018, $1.9 million of contributions have been made to the Company's pension plans, comprising $0.8 million of fixed contributions and $1.1 million of profit-related contributions (based on 2015 profits). The Company anticipates contributing an additional $2.2 million during 2018, comprising $1.8 million of fixed contributions and $0.4 million of profit-related contributions (based on 2016 profits).

Under a revised deficit recovery plan agreed between GMSL and the trustees of GMSL's pension plan dated March 20, 2018, which was subsequently submitted to the UK government's Pension Regulator, contributions of approximately $13.1 million deferred from 2016 and 2017 due in December 2017 have been further deferred. To support this deferral, the Company has provided secured assets in the form of the CWind Phantom crew transfer vessel and two trenchers. Consistent with earlier recovery plans, the revised deficit recovery plan comprises three elements: fixed contributions, variable contributions (profit-related element) and variable contributions (dividend-related element), though the amounts and some definitions have been modified. The fixed contributions, payable in installments, comprise approximately $2.6 million in 2018, approximately $6.8 million in 2019, approximately $7.0 million in 2020, approximately $7.2 million in 2021 and approximately $3.1 million in 2022. The variable contributions (profit-related element) are calculated as 10% of GMSL's audited operating profit and paid two years in arrears in December each year from 2018. The variable contributions (dividend-related) equate to 50% of any future dividend paid by GMSL.

17. Share-based Compensation

On April 11, 2014, HC2's Board of Directors adopted the HC2 Holdings, Inc. Omnibus Equity Award Plan (the "2014 Plan"), which was originally approved at the annual meeting of stockholders held on June 12, 2014. On April 21, 2017, the Board of Directors, subject to stockholder approval, adopted the Amended and Restated 2014 Omnibus Equity Award Plan (the "Amended 2014 Plan"). The Amended 2014 Plan was approved by HC2's stockholders at the annual meeting of stockholders held on June 14, 2017. Subject to adjustment as provided in the Amended 2014 Plan, the Amended 2014 Plan authorized the issuance of 3,500,000 shares of common stock of HC2, plus any shares that again become available for awards under the 2014 Plan.

On April 20, 2018, the Board of Directors, subject to stockholder approval, adopted the Second Amended and Restated 2014 Omnibus Equity Award Plan (the "Second A&R 2014 Plan"). The Second A&R 2014 Plan was approved by HC2's stockholders at the annual meeting of stockholders held on June 13, 2018. Subject to adjustment as provided in the Second A&R 2014 Plan, the Second A&R 2014 Plan authorizes the issuance of up to 3,500,000 shares of common stock of HC2 plus any shares that again become available for awards under the 2014 Plan or the Amended 2014 Plan.

The Second A&R 2014 Plan provides that no further awards will be granted pursuant to the Amended 2014 Plan. However, awards previously granted under either the 2014 Plan or the Amended 2014 Plan will continue to be subject to and governed by the terms of the 2014 Plan and Amended 2014 Plan, respectively. The Compensation Committee of HC2's Board of Directors administers the 2014 Plan, the Amended 2014 Plan and the Second A&R 2014 Plan and has broad authority to administer, construe and interpret the plans.

The Second A&R 2014 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 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 662,769 and 331,616 options during the six months ended June 30, 2018 and 2017, respectively. The weighted average fair value at date of grant for options granted during the six months ended June 30, 2018, and 2017 was $2.91 and $2.72, 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:

	Six Months Ended June 30,	
	2018	2017
Expected option life (in years)	0.88 - 5.84	5.75 - 6.10
Risk-free interest rate	2.24 - 2.85%	1.84 - 2.22%
Expected volatility	47.51 - 47.89%	47.58 - 48.29%
Dividend yield	—%	—%

Total share-based compensation expense recognized by the Company and its subsidiaries under all equity compensation arrangements was $3.7 million and $1.1 million for the three months ended June 30, 2018 and 2017, respectively.

Total share-based compensation expense recognized by the Company and its subsidiaries under all equity compensation arrangements was $4.8 million and $2.6 million for the six months ended June 30, 2018 and 2017, respectively.

All grants are time based and vest either immediately or over a period established at grant. The Company recognizes compensation expense for equity awards, reduced by actual forfeitures, using the straight-line basis.

Restricted Stock

A summary of HC2's restricted stock activity is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested - December 31, 2017	1,588,406	$ 5.36
Granted	2,073,612	$ 6.21
Vested	(263,189)	$ 5.53
Forfeited	(162,660)	$ 5.70
Unvested - June 30, 2018	3,236,169	$ 5.87

At June 30, 2018, the total unrecognized stock-based compensation expense related to unvested restricted stock was $14.9 million. The unrecognized compensation cost is expected to be recognized over the remaining weighted average period of 2.6 years.

Stock Options

A summary of HC2's stock option activity is as follows:

	Shares	Weighted Average Exercise Price
Outstanding - December 31, 2017	6,989,856	$ 6.57
Granted	662,769	$ 5.45
Exercised	(102,242)	$ 4.92
Forfeited	(60,293)	$ 5.50
Expired	(157,434)	$ 9.00
Outstanding - June 30, 2018	7,332,656	$ 6.45
Eligible for exercise	6,049,223	$ 6.24

At June 30, 2018, the intrinsic value and average remaining life of the Company's outstanding options were $5.3 million and approximately 6.8 years, and intrinsic value and average remaining life of the Company's exercisable options were $5.0 million and approximately 6.5 years.

At June 30, 2018, total unrecognized stock-based compensation expense related to unvested stock options was $2.3 million. The unrecognized compensation cost is expected to be recognized over the remaining weighted average period of 2.2 years. There are 1,283,433 unvested stock options expected to vest, with a weighted average remaining life of 7.9 years, a weighted average exercise price of $7.42, and an intrinsic value of $0.3 million.

18. Equity

Series A Preferred Stock and Series A-2 Preferred Stock

The Company’s preferred shares authorized, issued and outstanding consisted of the following:

	June 30, 2018	December 31, 2017
Preferred shares authorized, $0.001 par value	20,000,000	20,000,000
Series A shares issued and outstanding	12,500	12,500
Series A-2 shares issued and outstanding	14,000	14,000

Preferred Share Conversions

DG Conversion

On May 2, 2017, the Company entered into an agreement with DG Value Partners, LP and DG Value Partners II Master Funds LP, holders (collectively, "DG Value") of the Company's Series A Preferred Stock and Series A-1 Preferred Stock, to convert and exchange all of DG Value's 2,308 shares of Series A Preferred Stock and 1,000 shares of Series A-1 Preferred Stock into a total of 803,469 shares of the Company's common stock. 17,500 shares of common stock issued in the conversion were issued as consideration for the agreement by DG Value to convert its Preferred Stock. The fair value of the 17,500 shares was $0.1 million on the date of issuance and was recorded within Preferred stock and deemed dividends from conversion line item of the Consolidated Statements of Operations as a deemed dividend.

Luxor and Corrib Conversions

On August 2, 2016, the Company entered into separate agreements with each of Corrib Master Fund, Ltd. ("Corrib"), then a holder of 1,000 shares of Series A Preferred Stock, and certain investment entities managed by Luxor Capital Group, LP ("Luxor"), that together then held 9,000 shares of Series A-1 Preferred Stock, that govern their respective Preferred Share Conversions. As part of the Corrib Preferred Share Conversion 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").

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 commencing 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).

For the six months ended June 30, 2018, 61,016 and 6,864 shares of the Company's common stock have been issued to Luxor and Corrib, respectively, in conjunction with the Conversion agreement.

The fair value of the Additional Share Consideration was valued by the Company at $0.4 million on the date of issuance and was recorded within Preferred stock and deemed dividends from conversion line item of the Consolidated Statements of Operations as a deemed dividend.

Preferred Share Dividends

During the three and six months ended June 30, 2018 and 2017, HC2's Board of Directors declared cash dividends with respect to HC2’s issued and outstanding Preferred Stock, as presented in the following table (in thousands):

2018

Declaration Date		March 31, 2018		June 30, 2018
Holders of Record Date		March 31, 2018		June 30, 2018
Payment Date		April 16, 2018		July 17, 2018
Total Dividend	$	500	$	500

2017

Declaration Date		March 31, 2017		June 30, 2017
Holders of Record Date		March 31, 2017		June 30, 2017
Payment Date		April 17, 2017		July 17, 2017
Total Dividend	$	563	$	500

19. Related Parties

HC2

In January 2015, the Company entered into a services agreement (the "Services Agreement") with Harbinger Capital Partners, a related party of the Company, with respect to the provision of 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 $1.0 million and $0.9 million of expenses under the Services Agreement for each of the three months ended June 30, 2018 and 2017, respectively. The Company recognized $1.9 million and $1.9 million of expenses under the Services Agreement for each of the six months ended June 30, 2018 and 2017, respectively.

In addition, on June 25, 2018 the Company funded $0.8 million to Harbinger Capital Partners for a deposit in connection with its allocable portion of shared office space occupied by the Company.

GMSL

In November 2017, GMSL acquired the trenching a cable lay services business from Fugro N.V. ("Fugro"). As part of the transaction, Fugro became a 23.6% holder of GMSL's parent, Global Marine Holdings, LLC ("GMH"). GMSL, in the normal course of business, incurred expenses with Fugro for various survey and other contractual services. For the three months ended June 30, 2018, GMSL recognized $3.0 million of expenses for such services with Fugro. For the six months ended June 30, 2018, GMSL recognized $4.1 million of expenses for such services with Fugro.

As part of the Fugro trenching business acquisition in 2017, GMSL issued to Fugro a $7.5 million secured loan, which bears interest, payable quarterly, at 4% per annum through January 11, 2018, and at 10% per annum thereafter, and matures 363 days following the acquisition. GMSL recognized interest expense on the note of $0.2 million for the three months ended June 30, 2018 and $0.4 million for the six months ended June 30, 2018.

The parent company of GMSL, Global Marine Holdings, LLC, incurred management fees of $0.2 million and $0.2 million for the three months ended June 30, 2018 and 2017, respectively, and $0.3 million and $0.4 million for the six months ended June 30, 2018 and 2017, respectively.

GMSL also has transactions with several of their joint venture partners. A summary of transactions with such joint venture partners and balances outstanding are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenue	$ 3,754	$ 4,701	$ 7,638	$ 12,097
Operating expenses	$ 606	$ 1,080	$ 1,038	$ 4,831
Interest expense	$ 335	$ 349	$ 686	$ 696
Dividends	$ 1,351	$ —	$ 2,374	$ 632

	June 30, 2018	December 31, 2017
Accounts receivable	$ 4,425	$ 8,654
Long-term obligations	$ 31,542	$ 35,289
Accounts payable	$ 440	$ 1,925

Life Sciences

In 2017, R2 issued secured convertible note of $1.5 million to a related party, Blossom Innovations, LLC. As of June 30, 2018, the note with Blossom Innovation, LLC had an outstanding balance of $1.5 million.

Broadcasting

As part of the acquisition of DTV in 2017, Broadcasting issued $2.4 million in Senior Secured Promissory Notes ("DTV Notes") to the sellers of DTV, such notes constituting a portion of the consideration delivered in connection with the transaction. Subsequent to the transaction, the sellers entered into consulting agreements with DTV. The DTV Notes bear interest on the outstanding principal balance at an annual rate of 7%, interest payments are due quarterly and the principal amount on the DTV Notes are due on November 9, 2020. As of June 30, 2018, the DTV Notes had an outstanding balance of $2.4 million.

20. Operating Segment and Related Information

The Company currently has two primary reportable geographic segments - United States and United Kingdom. The Company has eight reportable operating segments based on management's organization of the enterprise - Construction, Marine Services, Energy, Telecommunications, Insurance, Life Sciences, Broadcasting, 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's revenue concentrations of 10% and greater are as follows:

		Three Months Ended June 30,		Six Months Ended June 30,	
	Segment	2018	2017	2018	2017
Customer A	Telecommunications	11.9%	*	11.3%	*

* Less than 10% revenue concentration

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Revenue by Geographic Region				
United States	$ 423,020	$ 338,404	$ 835,413	$ 680,509
United Kingdom	65,390	36,033	101,798	70,725
Other	8,369	4,215	13,258	17,986
Total	$ 496,779	$ 378,652	$ 950,469	$ 769,220

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenue				
Construction	$ 176,910	$ 138,906	$ 335,851	$ 251,628
Marine Services	68,376	36,386	105,098	80,565
Energy	7,078	4,095	11,580	8,382
Telecommunications	190,529	160,584	392,832	352,333
Insurance	43,750	38,269	83,950	74,295
Broadcasting	11,089	—	21,745	—
Other	1,056	412	3,409	2,017
Eliminations (1)	(2,009)	—	(3,996)	—
Total net revenue	496,779	378,652	950,469	769,220

Income (loss) from operations				
Construction	11,780	7,982	17,873	13,713
Marine Services	2,755	(7,274)	(4)	(1,545)
Energy	1,508	(449)	861	(623)
Telecommunications	1,138	2,064	2,132	3,649
Insurance	3,943	2,959	6,949	3,228
Life Sciences	(6,548)	(3,607)	(9,796)	(6,730)
Broadcasting	(8,351)	—	(16,065)	—
Other	(1,239)	(4,268)	(1,427)	(5,781)
Non-operating Corporate	(8,495)	(8,602)	(15,804)	(16,134)
Eliminations [1]	(2,009)	—	(3,996)	—
Total loss from operations	(5,518)	(11,195)	(19,277)	(10,223)
Interest expense	(17,181)	(12,073)	(36,506)	(26,188)
Gain on sale of subsidiary	102,141	—	102,141	—
Income from equity investees	10,752	4,003	5,521	11,696
Other income (expenses), net	(968)	(3,193)	124	(8,334)
Income (loss) from continuing operations before income taxes	89,226	(22,458)	52,003	(33,049)
Income tax (expense) benefit	(9,462)	1,985	(11,093)	(3,306)
Net income (loss)	79,764	(20,473)	40,910	(36,355)
Less: Net (income) loss attributable to noncontrolling interest and redeemable noncontrolling interest	(24,398)	2,562	(20,540)	3,948
Net income (loss) attributable to HC2 Holdings, Inc.	55,366	(17,911)	20,370	(32,407)
Less: Preferred stock and deemed dividends from conversions	703	793	1,406	1,376
Net income (loss) attributable to common stock and participating preferred stockholders	$ 54,663	$ (18,704)	$ 18,964	$ (33,783)

[1] The Insurance segment revenues are inclusive of mark-to-market adjustments in the amount of $2.0 million and$4.0 million for the three and six months ended June 30, 2018 respectively, recorded on equity securities in accordance with ASU 2016-01. Such adjustments related to consolidated subsidiaries are eliminated in consolidation.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Depreciation and Amortization				
Construction	$ 1,665	$ 1,240	$ 3,192	$ 2,880
Marine Services	6,429	5,255	13,257	10,340
Energy	1,359	1,381	2,703	2,629
Telecommunications	87	94	173	191
Insurance [2]	(1,320)	(1,063)	(2,254)	(2,121)
Life Sciences	53	41	111	79
Broadcasting	743	—	1,448	—
Other	21	331	42	661
Non-operating Corporate	20	16	41	33
Total	$ 9,057	$ 7,295	$ 18,713	$ 14,692

[2] Balance includes amortization of negative VOBA, which increases net income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Capital Expenditures [3]				
Construction	$ 2,817	$ 3,398	$ 4,162	$ 7,212
Marine Services	7,549	2,103	14,099	4,732
Energy	388	1,791	1,212	4,441
Telecommunications	7	10	107	40
Insurance	—	105	273	383
Life Sciences	29	147	50	198
Broadcasting	184	—	287	—
Other	8	50	8	13
Non-operating Corporate	8	2	36	—
Total	$ 10,990	$ 7,606	$ 20,234	$ 17,019

[3] The above capital expenditures exclude assets acquired under terms of capital lease and vendor financing obligations.

	June 30, 2018	December 31, 2017
Investments		
Construction	$ 165	$ 250
Marine Services	70,521	66,322
Insurance	1,455,183	1,493,589
Life Sciences	16,874	17,771
Other	2,433	1,518
Eliminations	(42,599)	(35,852)
Total	$ 1,502,577	$ 1,543,598

	June 30, 2018	December 31, 2017
Property, Plant and Equipment—Net		
United States	$ 159,123	$ 162,788
United Kingdom	203,787	204,866
Other	6,004	7,006
Total	$ 368,914	$ 374,660

	June 30, 2018	December 31, 2017
Total Assets		
Construction	$ 381,886	$ 342,806
Marine Services	399,994	389,500
Energy	80,864	83,607
Telecommunications	102,492	114,445
Insurance	2,085,429	2,117,045
Life Sciences	36,967	31,485
Broadcasting	145,430	136,690
Other	3,742	2,674
Non-operating Corporate	60,131	35,291
Eliminations	(42,599)	(35,852)
Total	$ 3,254,336	$ 3,217,691

21. Basic and Diluted Income (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, shares of any 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 as this measurement was determined to be more dilutive between the two available methods in each period.

The following potential common shares were excluded from diluted EPS for the three and six months ended June 30, 2018 as the shares were antidilutive: 2,019,972 for outstanding warrants to purchase the Company's stock and 4,787,602 for convertible preferred stock.

The Company had no dilutive common share equivalents during the three and six months ended June 30, 2017, due to the results of operations being a loss from continuing operations, net of tax.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss) attributable to common stock and participating preferred stockholders	$ 54,663	$ (18,704)	$ 18,964	$ (33,783)
Earnings allocable to common shares:				
Numerator for basic and diluted earnings per share				
Participating shares at end of period:				
Weighted-average Common stock outstanding	44,180	42,691	44,114	42,322
Unvested Restricted Stock	399	—	317	—
Preferred stock (as-converted basis)	4,787	—	4,787	—
Total	49,366	42,691	49,218	42,322
Percentage of loss allocated to:				
Common stock	89.5%	100.0%	89.6%	100.0%
Unvested Restricted Stock	0.8%	—%	0.6%	—%
Preferred stock	9.7%	—%	9.7%	—%
Net Income (loss) attributable to Common stock, Basic	$ 48,921	$ (18,704)	$ 16,997	$ (33,783)
Distributed and Undistributed earnings to Common Shareholders:				
Effect of assumed shares under treasury stock method for stock options and restricted shares	$ 120	$ —	$ 36	$ —
Income from the dilutive impact of subsidiary securities	(28)	—	—	—
Net Income (loss) attributable to Common stock, Diluted	$ 49,013	$ (18,704)	$ 17,033	$ (33,783)
Denominator for basic and dilutive earnings per share				
Weighted average common shares outstanding - Basic	44,180	42,691	44,114	42,322
Effect of assumed shares under treasury stock method for stock options and restricted shares	1,323	—	1,170	—
Weighted average common shares outstanding - Diluted	45,503	42,691	45,284	42,322
Net income (loss) attributable to Participating security holders - Basic	$ 1.11	$ (0.44)	$ 0.39	$ (0.80)
Net income (loss) attributable to Participating security holders - Diluted	$ 1.08	$ (0.44)	$ 0.38	$ (0.80)

22. Subsequent Events

Subsequent to June 30, 2018, the Broadcasting segment entered into multiple asset purchase agreements ("APAs"), for consideration of up to $19.8 million, of which $7.3 million are subject to FCC approval and / or closing conditions as of the filing date. The Broadcasting segment closed on multiple APAs for a total consideration of $24.3 million, of which $12.5 million was related to APAs entered into subsequent to June 30, 2018.

On July 23, 2018, in connection with the signed agreement to purchase the long-term care block of Humana, which is subject to regulatory approval as of the date of this filing, CGI obtained a three month surplus note (the "Surplus Note") from Humana, issued July 17, 2018 and due September 14, 2018, in the amount of $32.0 million. At the same time, and as a further inducement to Humana to purchase the Surplus Note, the Company entered into a Note Purchase Agreement with Humana pursuant to which the Company agreed to purchase the Surplus Note from Humana in the event CGI fails to pay all amounts thereunder when due.

On July 24, 2018, the DBMG Facility was amended, increasing the availability of the borrowing base allowing DBMG to borrow an additional $10.0 million of the $70.0 million total line and bearing interest at LIBOR plus 2.5%. The temporary borrowing base increase and related interest expire October 23, 2018.

On August 6, 2018, in connection with a private placement at Inseego Corp., an equity method investment of the Company, Philip Falcone stepped down as Chairman of the Board of Directors of Inseego.

On August 7, 2018, certain subsidiaries of the Broadcasting segment entered into several financing transactions, generating approximately $38.1 million of proceeds, which will be used for pending and potential acquisitions, to replenish amounts previously expended on recent acquisitions of broadcasting assets, general corporate purposes, and to pay related fees and expenses. Those financing transactions consisted of the following:

- HC2 Station Group, Inc., ("HC2 Station"), HC2 LPTV (together with HC2 Station, the "Borrowers"), indirect wholly-owned subsidiaries of the Broadcasting segment, issued a $35.0 million 364-day Secured Note (the "Secured Note") to certain institutional investors (the "Institutional Investors"). The Secured Note bears interest at a rate of 8.50%, payable at maturity.

- The Institutional Investors purchased 2.0% of the outstanding common stock of HC2 Broadcasting (the "Equity Purchase") for an aggregate purchase price of approximately $3.1 million.

- HC2 Broadcasting also issued a warrant (the "Warrant") to the Institutional Investors to purchase an additional 2.0% of the common stock of HC2 Broadcasting outstanding immediately after consummation of the Equity Purchase for what would be an aggregate purchase price of approximately $3.7 million if exercised as of the issuance date, and as may be adjusted at any future exercise of the Warrant pursuant to its terms. The Warrant has a five-year term and is immediately exercisable.

The issuance and sale of the Secured Note, the Equity Purchase and the issuance of the Warrant are collectively referred to as the "HC2 Broadcasting Transactions". The Equity Purchase and the issuance of the Warrant were, and the issuance of shares of HC2 Broadcasting common stock pursuant to the Warrant will be, issued in a private placement exempt from registration requirements pursuant to Section 4(2) of the Securities Act.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This "Management’s Discussion and Analysis of Financial Condition and Results of Operations" of HC2 Holdings, Inc. ("HC2," "we," "us," "our" and, collectively with its subsidiaries, the "Company") should be read in conjunction with 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 Form 10-K. 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, 2017, filed with the SEC on March 14, 2018, 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.

Our Business

We are a diversified holding company with principal operations conducted through eight operating platforms or reportable segments: Construction ("DBMG"), Marine Services ("GMSL"), Energy ("ANG"), Telecommunications ("ICS"), Insurance ("CIG"), Life Sciences ("Pansend"), Broadcasting, and Other, which includes businesses that do not meet the separately reportable segment thresholds.

In 2018, the Broadcasting segment's entities met the definition of a segment, in accordance with ASC 280, from both a qualitative and quantitative perspective. Therefore, it moved out of the Other segment and into its own segment. Our Broadcasting segment is comprised of HC2 Broadcasting Holdings Inc. and its subsidiaries. Broadcasting strategically acquires and operates over the air ("OTA") broadcasting stations across the United States. In addition, Broadcasting, through its wholly-owned subsidiary, HC2 Network Inc. (“Network”), operates Azteca America, a Spanish-language broadcast network offering high quality Hispanic content to a diverse demographic across the United States.

We continually evaluate acquisition opportunities, as well as monitor a variety of key indicators of our underlying platform companies in order to maximize stakeholder value. These indicators include, but are not limited to, revenue, cost of revenue, operating profit, Adjusted EBITDA and free cash flow. Furthermore, we work very closely with our subsidiary platform executive management teams on their operations and assist them in the evaluation and diligence of asset acquisitions, dispositions and any financing or operational needs at the subsidiary level. We believe that this close relationship allows us to capture synergies within the organization across all platforms and strategically position the Company for ongoing growth and value creation.

The potential for additional acquisitions and new business opportunities, while strategic, may result in acquiring assets unrelated to our current or historical operations. As part of any acquisition strategy, we may raise capital in the form of debt and/or equity securities (including preferred stock) or a combination thereof. We have broad discretion and experience in identifying and selecting acquisition and business combination opportunities and the industries in which we seek such opportunities. Many times, we face significant competition for these opportunities, including from numerous companies with a business plan similar to ours. As such, there can be no assurance that any of the past or future discussions we have had or may have with candidates will result in a definitive agreement and, if they do, what the terms or timing of any potential agreement would be. As part of our acquisition strategy, we may utilize a portion of our available cash to acquire interests in possible acquisition targets. Any securities acquired are marked to market and may increase short-term earnings volatility as a result.

We believe our track record, our platform and our strategy will enable us to deliver strong financial results, while positioning our Company for long-term growth. We believe the unique alignment of our executive compensation program, with our objective of increasing long-term stakeholder value, is paramount to executing our vision of long-term growth, while maintaining our disciplined approach. Having designed our business structure to not only address capital allocation challenges over time, but also maintain the flexibility to capitalize on opportunities during periods of market volatility, we believe the combination thereof positions us well to continue to build long-term stakeholder value.

Our Operations

Refer to Note 1. Organization and Business to our unaudited Condensed Consolidated Financial Statements for additional information.

Seasonality

Our industries can be highly cyclical and subject to seasonal patterns. Our volume of business in our Construction and Marine Services segments may be adversely affected by declines or delays in projects, which may vary by geographic region. Project schedules, particularly in connection with large, complex, and longer-term projects can also create fluctuations in the services provided, which may adversely affect us in a given period.

For example, in connection with larger, more complicated projects, the timing of obtaining permits and other approvals may be delayed, and we may need to maintain a portion of our workforce and equipment in an underutilized capacity to ensure we are strategically positioned to deliver on such projects when they move forward.

Examples of other items that may cause our results or demand for our services to fluctuate materially from quarter to quarter include: weather or project site conditions, financial condition of our customers and their access to capital; margins of projects performed during any particular period; economic, and political and market conditions on a regional, national or global scale.

Accordingly, our operating results in any particular period may not be indicative of the results that can be expected for any other period.

Marine Services

Net revenue within our Marine Services segment can fluctuate depending on the season. Revenues are relatively stable for our Marine Services 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 our Marine Services 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.

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

Recent Developments

Acquisitions

On February 7, 2018, a wholly-owned subsidiary of Broadcasting closed on the acquisition of Northstar's broadcast television stations. The total consideration paid in February 2018 was $33.0 million.

For the six months ended June 30, 2018, wholly-owned subsidiaries of the Broadcasting segment entered into asset purchase agreements ("APAs"), which are subject to FCC approval and closing conditions, for a total consideration of $36.5 million. For the six months ended June 30, 2018, certain transactions signed received FCC approval and closed for a total consideration of $13.2 million.

Subsequent to June 30, 2018, the Broadcasting segment entered into multiple APAs, for consideration of up to $19.8 million, of which $7.3 million are subject to FCC approval and/or closing conditions as of the filing date. The Broadcasting segment closed on multiple APAs for a total consideration of $24.3 million, of which $12.5 million was related to APAs entered into subsequent to June 30, 2018.

Dispositions

On June 8, 2018, Pansend closed on the sale of its approximately 75.9% ownership in BeneVir to Janssen Biotech, Inc. ("Janssen"). In conjunction with the closing of the transaction, Janssen made an upfront cash payment of $140.0 million. Pansend received a cash payment of $93.4 million and expects to receive an additional cash payment of $13.3 million, currently held in an escrow, for a total consideration of $106.7 million. Escrow will be released within fifteen months subsequent to the closing date, assuming there are no pending or unresolved indemnified claims. Pansend recorded a gain on the sale of $102.1 million, of which $21.7 million was allocated to noncontrolling interests. HC2 received a cash payment of $72.8 million and expects to receive an additional cash payment of $9.2 million upon the release of the escrow.

Under the terms of the merger agreement, Pansend is eligible to receive payments of up to $189.7 million upon the achievement of specified development milestones and up to $493.1 million upon the achievement of specified levels of annual net sales of licensed products. From these potential milestone payments, HC2 is eligible to receive $512.2 million.

Debt Issuance

On February 4, 2018, Broadcasting entered into a First Amendment to its loan agreement ("Bridge Loan"), which amends the existing Bridge Loan, to add an additional $27.0 million in principal borrowing capacity to its existing credit agreement.

On February 6, 2018, Broadcasting borrowed $42.0 million in principal amount of the Bridge Loan, the net proceeds of which were used to finance certain acquisitions, to pay fees, costs and expenses relating to the Bridge Loans, and for general corporate purposes. The total aggregate principal amount of the Bridge Loan outstanding after the February 6, 2018 borrowing was $102.0 million.

On April 4, 2018, GMSL entered into a 7.49% fixed interest only loan, due April 3, 2019, with Shawbrook Bank Limited for £7.2 million, or approximately $9.4 million.

The DBMG Facility was amended effective April 5, 2018, modifying the Revolving Line by increasing the maximum amount of the advance to $70.0 million, modifying the floating interest rate to LIBOR plus 1.5% and extending the maturity date through March 31, 2023. The amendment also created a $17.0 million long-term tranche under the $70.0 million Revolving Line with a maturity date of May 31, 2025. Additionally, The Real Estate Term Advance and Real Estate Advance 2 interest rates were modified to LIBOR plus 2.25% with a maturity date of April 30, 2024.

The DBMG Facility was further amended on July 24, 2018, increasing the availability of the borrowing base allowing DBMG to borrow an additional $10.0 million of the $70.0 million total line and bearing interest at LIBOR plus 2.5%. The temporary borrowing base increase and related interest expire October 23, 2018.

On May 3, 2018, HC2 priced $110.0 million aggregate principal amount of 11.0% Senior Secured Notes due 2019 (the “Notes”) issued at a premium of 102.0% of the principal amount. The Company used the net proceeds from the issuance of the Notes to refinance all of the Broadcasting outstanding Bridge Loan, for working capital for the Company and its subsidiaries and for general corporate purposes, including the financing of future acquisitions and investments.

On July 23, 2018, in connection with the signed agreement to purchase the long-term care block of Humana, which is subject to regulatory approval as of the date of this filing, CGI obtained a three month surplus note (the "Surplus Note") from Humana, issued July 17, 2018 and due September 14, 2018, in the amount of $32.0 million. At the same time, and as a further inducement to Humana to purchase the Surplus Note, the Company entered into a Note Purchase Agreement with Humana pursuant to which the Company agreed to purchase the Surplus Note from Humana in the event CGI fails to pay all amounts thereunder when due.

On August 7, 2018, certain subsidiaries of the Broadcasting segment entered into several financing transactions, generating approximately $38.1 million of proceeds, which will be used for pending and potential acquisitions, to replenish amounts previously expended on recent acquisitions of broadcasting assets, general corporate purposes, and to pay related fees and expenses. Those financing transactions consisted of the following:

- HC2 Station Group, Inc., (“HC2 Station"), HC2 LPTV (together with HC2 Station, the “Borrowers”), indirect wholly-owned subsidiaries of the Broadcasting segment, issued a $35.0 million 364-day Secured Note (the “Secured Note”) to certain institutional investors (the "Institutional Investors"). The Secured Note bears interest at a rate of 8.50%, payable at maturity.

- The Institutional Investors purchased 2.0% of the outstanding common stock of HC2 Broadcasting (the “Equity Purchase”) for an aggregate purchase price of approximately $3.1 million.

- HC2 Broadcasting also issued a warrant (the “Warrant”) to the Institutional Investors to purchase an additional 2.0% of the common stock of HC2 Broadcasting outstanding immediately after consummation of the Equity Purchase for what would be an aggregate purchase price of approximately $3.7 million if exercised as of the issuance date, and as may be adjusted at any future exercise of the Warrant pursuant to its terms. The Warrant has a five-year term and is immediately exercisable.

The issuance and sale of the Secured Note, the Equity Purchase and the issuance of the Warrant are collectively referred to as the “HC2 Broadcasting Transactions”. The Equity Purchase and the issuance of the Warrant were, and the issuance of shares of HC2 Broadcasting common stock pursuant to the Warrant will be, issued in a private placement exempt from registration requirements pursuant to Section 4(2) of the Securities Act.

Dividends

During the six months ended June 30, 2018, HC2 received $1.8 million in dividends from the Telecommunications segment.

Under a tax sharing agreement, DBMG reimburses HC2 for use of its net operating losses. During the six months ended June 30, 2018, HC2 received $4.0 million from DBMG under the tax sharing agreement.

Other

As a result of the Bipartisan Budget Act of 2018, signed into law on February 9, 2018, all Alternative Fuel Tax Credit ("AFETC") revenue for vehicle fuel ANG sold in 2017 was collected in the second quarter of 2018. Net revenue after customer rebates for such credits for 2017 were $2.6 million, which was recognized during the second quarter of 2018, the period in which the credit became available.

Financial Presentation Background

In the below section within this Management’s Discussion and Analysis of Financial Condition and Results of Operations, we compare, pursuant to U.S. GAAP and SEC disclosure rules, the Company’s results of operations for the three and six months ended June 30, 2018 as compared to the three and six months ended June 30, 2017.

Results of Operations

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Net revenue						
Construction	$ 176,910	$ 138,906	$ 38,004	$ 335,851	$ 251,628	$ 84,223
Marine Services	68,376	36,386	31,990	105,098	80,565	24,533
Energy	7,078	4,095	2,983	11,580	8,382	3,198
Telecommunications	190,529	160,584	29,945	392,832	352,333	40,499
Insurance	43,750	38,269	5,481	83,950	74,295	9,655
Broadcasting	11,089	—	11,089	21,745	—	21,745
Other	1,056	412	644	3,409	2,017	1,392
Eliminations [1]	(2,009)	—	(2,009)	(3,996)	—	(3,996)
Total net revenue	496,779	378,652	118,127	950,469	769,220	181,249
Income (loss) from operations						
Construction	11,780	7,982	3,798	17,873	13,713	4,160
Marine Services	2,755	(7,274)	10,029	(4)	(1,545)	1,541
Energy	1,508	(449)	1,957	861	(623)	1,484
Telecommunications	1,138	2,064	(926)	2,132	3,649	(1,517)
Insurance	3,943	2,959	984	6,949	3,228	3,721
Life Sciences	(6,548)	(3,607)	(2,941)	(9,796)	(6,730)	(3,066)
Broadcasting	(8,351)	—	(8,351)	(16,065)	—	(16,065)
Other	(1,239)	(4,268)	3,029	(1,427)	(5,781)	4,354
Non-operating Corporate	(8,495)	(8,602)	107	(15,804)	(16,134)	330
Eliminations [1]	(2,009)	—	(2,009)	(3,996)	—	(3,996)
Total loss from operations	(5,518)	(11,195)	5,677	(19,277)	(10,223)	(9,054)
Interest expense	(17,181)	(12,073)	(5,108)	(36,506)	(26,188)	(10,318)
Gain on sale of subsidiary	102,141	—	102,141	102,141	—	102,141
Income from equity investees	10,752	4,003	6,749	5,521	11,696	(6,175)
Other income (expenses), net	(968)	(3,193)	2,225	124	(8,334)	8,458
Income (loss) from continuing operations before income taxes	89,226	(22,458)	111,684	52,003	(33,049)	85,052
Income tax (expense) benefit	(9,462)	1,985	(11,447)	(11,093)	(3,306)	(7,787)
Net income (loss)	79,764	(20,473)	100,237	40,910	(36,355)	77,265
Less: Net (income) loss attributable to noncontrolling interest and redeemable noncontrolling interest	(24,398)	2,562	(26,960)	(20,540)	3,948	(24,488)
Net income (loss) attributable to HC2 Holdings, Inc.	55,366	(17,911)	73,277	20,370	(32,407)	52,777
Less: Preferred stock and deemed dividends from conversions	703	793	(90)	1,406	1,376	30
Net income (loss) attributable to common stock and participating preferred stockholders	$ 54,663	$ (18,704)	$ 73,367	$ 18,964	$ (33,783)	$ 52,747

[1] The Insurance segment revenues are inclusive of mark-to-market adjustments in the amount of $2.0 million and $4.0 million for the three and six months ended June 30, 2018 respectively, recorded on equity securities in accordance with ASU 2016-01. Such adjustments related to consolidated subsidiaries are eliminated in consolidation.

Three months ended June 30, 2018 compared to the three months ended June 30, 2017

Net revenue: Net revenue for the three months ended June 30, 2018 increased $118.1 million to $496.8 million from $378.7 million for the three months ended June 30, 2017. The Construction segment revenues increased due primarily to increased activity on two large commercial projects in the West region, a multi-use sports stadium complex and a healthcare facility, which contributed greater revenue when compared to the previous period as those projects entered the pre-assembly and erection phases, respectively. Increased revenues from the Marine Services segment were attributed to the increased scale and timing of GMSL telecom and offshore power installation projects under execution over the comparable periods, and from growth in offshore power repair and telecom maintenance revenues. Further, there was an increase in the Telecommunications segment, as a result of normal fluctuations in wholesale traffic volumes, and from the Broadcasting segment driven by revenue contribution from entities which were predominantly acquired in the fourth quarter of 2017.

Loss from operations: Loss from operations for the three months ended June 30, 2018 decreased $5.7 million to $5.5 million from $11.2 million for the three months ended June 30, 2017. The decrease was driven by the Marine Services segment due to significant increases in offshore cable installation and repair jobs in the second quarter, and our Construction segment, due to increased fabrication activity on two large commercial projects in the West region, both which contributed greater revenue when compared to the previous period. This was offset by the cost of operations of the Broadcasting segment whose subsidiaries were predominantly acquired in the fourth quarter of 2017.

Interest expense: Interest expense for the three months ended June 30, 2018 increased $5.1 million to $17.2 million from $12.1 million for the three months ended June 30, 2017. The increase was attributable to the net increase of the aggregate principal amount of our 11.0% Notes and Bridge Loans compared to the previous period.

Gain on sale of subsidiary: Gain on sale of subsidiary for the three months ended June 30, 2018 increased $102.1 million. The increase was attributable to the Life Sciences segment sale of BeneVir in which the Company recorded a gain on the sale of $102.1 million.

Income from equity investees: Income from equity investees for the three months ended June 30, 2018 increased $6.7 million to $10.8 million from $4.0 million for the three months ended June 30, 2017. The increase in income was primarily driven by our Marine Services segment, principally from its equity interests in Huawei Marine Network ("HMN"), driven by a higher level of project activity and the timing of projects.

Other income (expenses), net: Other expenses, net for the three months ended June 30, 2018 decreased $2.2 million to $1.0 million compared to $3.2 million for the three months ended June 30, 2017. The decrease is attributable to impairment expenses incurred in the comparable period which did not reoccur in 2018. This was partially offset by a current period loss on extinguishment of debt at our Broadcasting segment, net of an increase in foreign currency transaction gain.

Income tax (expense) benefit: Income tax expense (benefit) was an expense of $9.5 million and a benefit of $2.0 million for the three months ended June 30, 2018 and 2017, respectively. The income tax expense recorded for the three months ended June 30, 2018 relates primarily to the projected expense as calculated under ASC 740 for tax paying entities. The income tax expense generated from the sale of BeneVir are offset by tax attributes for which a valuation allowance had been recorded. Therefore, there is no net income tax expense recorded in the income statement for the sale. Additionally, the tax benefits associated with losses generated by certain businesses have been reduced by a full valuation allowance as we do not believe it is more-likely-than-not that the losses will be utilized prior to expiration. The income tax benefit recorded for three months ended June 30, 2017 relates primarily to the appreciation of investments and the mix of income and losses by taxpaying entities, including the Insurance segment.

Six months ended June 30, 2018 compared to the six months ended June 30, 2017

Net revenue: Net revenue for the six months ended June 30, 2018 increased $181.2 million to $950.5 million from $769.2 million for the six months ended June 30, 2017. The increase was driven by the Construction segment due primarily to increased activity on two large commercial projects in the West region, a multi-use sports stadium complex and a healthcare facility, which contributed greater revenue when compared to the previous period as those projects entered the pre-assembly and erection phases, respectively. Further, the increase was contributed by the Marine Services segment largely attributed to the increased scale and timing of GMSL telecom and offshore power installation projects under execution over the comparable periods. Additionally, growth in offshore power repair and telecom maintenance revenues contributed to the increase. Finally, the increase was driven by revenues from the entities comprising the Broadcasting segment driven by revenue contribution from entities which were predominantly acquired in the fourth quarter of 2017.

Loss from operations: Income (loss) from operations for the six months ended June 30, 2018 increased $9.1 million to a loss of $19.3 million from a loss of $10.2 million for the six months ended June 30, 2017. The increase was driven by the cost of operations of the Broadcasting segment whose subsidiaries were predominantly acquired in the fourth quarter of 2017, and our life sciences segment, due largely from the legal and disposition costs associated with the sale of BeneVir. This was offset by the Construction segment due to increased fabrication activity on two large commercial projects in the West region.

Interest expense: Interest expense for the six months ended June 30, 2018 increased $10.3 million to $36.5 million from $26.2 million for the six months ended June 30, 2017. The increase was attributable to the interest expense associated with the Broadcasting segment's Bridge Loan, which was repaid in May of 2018, and the net increase of the aggregate principal amount of our 11.0% Notes and Bridge Loan compared to the previous period.

Gain on sale of subsidiary: Gain on sale of subsidiary for the six months ended June 30, 2018 increased $102.1 million. The increase was attributable to the Life Sciences segment sale of BeneVir in which the Company recorded a gain on the sale of $102.1 million.

Income from equity investees: Income from equity investees for the six months ended June 30, 2018 decreased $6.2 million to $5.5 million from $11.7 million for the six months ended June 30, 2017. The decrease in income was primarily driven by our Marine Services segment, principally driven by HMN. While its second quarter of 2018 results were strong, HMN recorded a loss in the first quarter as the joint venture recorded negligible revenues on large turnkey projects underway due to normal project cycle. In the prior period, there were comparatively strong results driven by a higher level of project activity.

Other income (expenses), net: Other income (expenses), net for the six months ended June 30, 2018 decreased $8.5 million to income of $0.1 million compared to an expense of $8.3 million for the six months ended June 30, 2017. The decrease is attributable to impairment expenses incurred in the prior period which did not reoccur in 2018. This was partially offset by a current period loss on extinguishment of debt at our Broadcasting segment, net of an increase in foreign currency transaction gains.

Income tax expense: Income tax expense was $11.1 million and $3.3 million for the six months ended June 30, 2018 and 2017, respectively. The income tax expense recorded for the six months ended June 30, 2018 relates to the projected expense as calculated under ASC 740 for taxpaying entities. The income tax expense generated from the sale of BeneVir are offset by tax attributes for which a valuation allowance had been recorded. Therefore, there is no net income tax expense recorded in the income statement for the sale. Additionally, the tax benefits associated with losses generated by certain businesses have been reduced by a full valuation allowance as we do not believe it is more-likely-than-not that the losses will be utilized prior to expiration. The income tax expense recorded for June 30, 2017 relates to the projected expense as calculated under ASC 740 for taxpaying entities. Additionally, the tax benefits associated with losses generated by the HC2 Holdings, Inc. U.S. consolidated income tax return and certain other businesses have been reduced by a full valuation allowance as we do not believe it is more-likely-than-not that the losses will be utilized prior to expiration.

Segment Results of Operations

In the Company's Condensed Consolidated Financial Statements, other operating (income) expense includes (i) (gain) loss on sale or disposal of assets, (ii) lease termination costs and (iii) asset impairment expense. Each table summarizes the results of operations of our operating segments and compares the amount of the change between the periods presented (in thousands).

Construction Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Net revenue	$ 176,910	$ 138,906	$ 38,004	$ 335,851	$ 251,628	$ 84,223
Cost of revenue	149,105	115,366	33,739	284,790	206,478	78,312
Selling, general and administrative expenses	14,347	14,465	(118)	29,568	28,951	617
Depreciation and amortization	1,665	1,240	425	3,192	2,880	312
Other operating (income) expense	13	(147)	160	428	(394)	822
Income from operations	$ 11,780	$ 7,982	$ 3,798	$ 17,873	$ 13,713	$ 4,160

Three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017

Net revenue: Net revenue from our Construction segment for the three months ended June 30, 2018 increased $38.0 million to $176.9 million from $138.9 million for the three months ended June 30, 2017. Net revenue from our Construction segment for the six months ended June 30, 2018 increased $84.3 million to $335.9 million from $251.6 million for the six months ended June 30, 2017. The increases were due primarily to increased activity on two large commercial projects in the West region, a multi-use sports stadium complex and a healthcare facility, which contributed greater revenue when compared to the previous period as those projects entered the pre-assembly and erection phases, respectively.

Cost of revenue: Cost of revenue from our Construction segment for the three months ended June 30, 2018 increased $33.7 million to $149.1 million from $115.4 million for the three months ended June 30, 2017. Cost of revenue from our Construction segment for the six months ended June 30, 2018 increased $78.3 million to $284.8 million from $206.5 million for the six months ended June 30, 2017. The increases were due primarily to the overall growth in project revenues and expansion in backlog, including higher staffing costs associated with the timing of fabrication, pre-assembly and erection work on large complex projects.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Construction segment for the six months ended June 30, 2018 increased $0.6 million to $29.6 million from $29.0 million for the six months ended June 30, 2017. The increase was due primarily to the higher employee-related costs, professional fees, and general and administrative costs associated with the overall growth in the company.

Depreciation and amortization: Depreciation and amortization from our Construction segment for the three months ended June 30, 2018 increased $0.5 million to $1.7 million from $1.2 million for the three months ended June 30, 2017. Depreciation and amortization from our Construction segment for the six months ended June 30, 2018 increased $0.3 million to $3.2 million from $2.9 million for the six months ended June 30, 2017. The increases were due to the depreciation of additional equipment obtained in the acquisition of Mountain States Steel and the additional equipment acquired to meet the increased demand resulting from large complex projects and backlog.

Other operating (income) expense: Other operating (income) expense from our Construction segment for the three months ended June 30, 2018 decreased by $0.2 million to zero. The decrease in income was primarily driven by fewer disposals of assets in the current quarter compared to the previous year. Other operating (income) expense from our Construction segment for the six months ended June 30, 2018 decreased by $0.8 million to an expense of $0.4 million from income of $0.4 million for the six months ended June 30, 2017. The decrease in income was primarily driven by gains on asset sales in the prior year which were not repeated in the current year.

Marine Services Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Net revenue	$ 68,376	$ 36,386	$ 31,990	$ 105,098	$ 80,565	$ 24,533
Cost of revenue	53,973	33,468	20,505	84,040	65,297	18,743
Selling, general and administrative expenses	5,244	4,882	362	10,466	9,724	742
Depreciation and amortization	6,429	5,255	1,174	13,257	10,340	2,917
Other operating (income) expense	(25)	55	(80)	(2,661)	(3,251)	590
Income (loss) from operations	$ 2,755	$ (7,274)	$ 10,029	$ (4)	$ (1,545)	$ 1,541

Three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017

Net revenue: Net revenue from our Marine Services segment for the three months ended June 30, 2018 increased $32.0 million to $68.4 million from $36.4 million for the three months ended June 30, 2017. Net revenue from our Marine Services segment for the six months ended June 30, 2018 increased $24.5 million to $105.1 million from $80.6 million for the six months ended June 30, 2017. The growth in revenues can be primarily attributed to the increased scale and timing of GMSL telecom and offshore power installation projects under execution over the comparable periods. Additionally, growth in offshore power repair and telecom maintenance revenues further contributed to the increase.

Cost of revenue: Cost of revenue from our Marine Services segment for the three months ended June 30, 2018 increased $20.5 million to $54.0 million from $33.5 million for the three months ended June 30, 2017. Cost of revenue from our Marine Services segment for the six months ended June 30, 2018 increased $18.7 million to $84.0 million from $65.3 million for the six months ended June 30, 2017. The increases were primarily driven by the growth in telecom and offshore power installation project revenues.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Marine Services segment for the six months ended June 30, 2018 increased $0.7 million to $10.5 million from $9.7 million for the six months ended June 30, 2017. The increase was due primarily to the higher compensation costs and professional fees.

Depreciation and amortization: Depreciation and amortization from our Marine Services segment for the three months ended June 30, 2018 increased $1.2 million, to $6.4 million from $5.3 million for the three months ended June 30, 2017. Depreciation and amortization from our Marine Services segment for the six months ended June 30, 2018 increased $2.9 million, to $13.3 million from $10.3 million for the six months ended June 30, 2017. The increases in depreciation are largely attributable to the acquisition of the Fugro vessel and trenching assets in the fourth quarter of 2017 which was subsequent to the comparable periods.

Other operating (income) expense: Other operating (income) expense from our Marine Services segment for the six months ended June 30, 2018 decreased $0.6 million to $2.7 million of income from $3.3 million of income compared to the six months ended June 30, 2017. The gain recognized on the sale of a maintenance vessel in 2017 was greater than the sale of a similar vessel in the current period.

Energy Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Net revenue	$ 7,078	$ 4,095	$ 2,983	$ 11,580	$ 8,382	$ 3,198
Cost of revenue	2,686	2,328	358	5,611	4,835	776
Selling, general and administrative expenses	1,440	816	624	2,351	1,527	824
Depreciation and amortization	1,359	1,381	(22)	2,703	2,629	74
Other operating expense	85	19	66	54	14	40
Income (loss) from operations	$ 1,508	$ (449)	$ 1,957	$ 861	$ (623)	$ 1,484

Three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017

Net revenue: Net revenue from our Energy segment for the three months ended June 30, 2018 increased $3.0 million to $7.1 million from $4.1 million for the three months ended June 30, 2017. Net revenue from our Energy segment for the six months ended June 30, 2018 increased $3.2 million to $11.6 million from $8.4 million for the six months ended June 30, 2017. The increases were largely driven by $2.6 million of AFETC related to 2017 CNG sales that were recognized in the second quarter of 2018 and is not present in the comparable period. The increases were further driven by the addition of revenues from renewable energy tax credits related to the sale of renewable natural gas (“RNG”).

Cost of revenue: Cost of revenue from our Energy segment for the three months ended June 30, 2018 increased $0.4 million to $2.7 million from $2.3 million for the three months ended June 30, 2017. Cost of revenue from our Energy segment for the six months ended June 30, 2018 increased $0.8 million to $5.6 million from $4.8 million for the six months ended June 30, 2017. The increases were driven by increased utility and supply costs associated with delivering CNG to our customers when compared to the previous periods.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Energy segment for the three months ended June 30, 2018 increased $0.6 million to $1.4 million from $0.8 million for the three months ended June 30, 2017. Selling, general and administrative expenses from our Energy segment for the six months ended June 30, 2018 increased $0.8 million to $2.4 million from $1.5 million for the six months ended June 30, 2017. The increases were driven by a general increase in expenses required to support the overall growth in the company.

Other operating expense: Other operating expense from our Energy segment for the three and six months ended June 30, 2018 increased $0.1 million, driven by the impairment of station assets.

Telecommunications Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Net revenue	$ 190,529	$ 160,584	$ 29,945	$ 392,832	$ 352,333	$ 40,499
Cost of revenue	186,583	156,426	30,157	385,394	343,970	41,424
Selling, general and administrative expenses	2,721	2,000	721	5,133	4,523	610
Depreciation and amortization	87	94	(7)	173	191	(18)
Income from operations	$ 1,138	$ 2,064	$ (926)	$ 2,132	$ 3,649	$ (1,517)

Three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017

Net revenue: Net revenue from our Telecommunications segment for the three months ended June 30, 2018 increased $29.9 million to $190.5 million from $160.6 million for the three months ended June 30, 2017. Net revenue from our Telecommunications segment for the six months ended June 30, 2018 increased $40.5 million to $392.8 million from $352.3 million for the six months ended June 30, 2017. The increases are attributed to fluctuations in wholesale traffic volumes, which can result in period-to-period variability in revenue contribution as the sales team remains focused on expansion into underrepresented markets.

Cost of revenue: Cost of revenue from our Telecommunications segment for the three months ended June 30, 2018 increased $30.2 million to $186.6 million from $156.4 million for the three months ended June 30, 2017. Cost of revenue from our Telecommunications segment for the six months ended June 30, 2018 increased $41.4 million to $385.4 million from $344.0 million for the six months ended June 30, 2017. The increases were directly correlated to the fluctuations in wholesale traffic volumes, in addition to reductions in margin due to call termination rate changes.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Telecommunications segment for the three months ended June 30, 2018 increased $0.7 million to $2.7 million from $2.0 million for the three months ended June 30, 2017. Selling, general and administrative expenses from our Telecommunications segment for the six months ended June 30, 2018 increased $0.6 million to $5.1 million from $4.5 million for the six months ended June 30, 2017. The increases were driven by an increase in compensation expense due to headcount increases and professional fees required to support operations.

Insurance Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Life, accident and health earned premiums, net	$ 19,905	$ 20,235	$ (330)	$ 39,945	$ 40,176	$ (231)
Net investment income	19,342	16,939	2,403	37,066	32,243	4,823
Net realized and unrealized gains on investments	4,503	1,095	3,408	6,939	1,876	5,063
Net revenue	43,750	38,269	5,481	83,950	74,295	9,655
Policy benefits, changes in reserves, and commissions	35,391	30,443	4,948	67,674	61,930	5,744
Selling, general and administrative	5,736	5,930	(194)	11,581	11,258	323
Depreciation and amortization	(1,320)	(1,063)	(257)	(2,254)	(2,121)	(133)
Income from operations [(1)]	$ 3,943	$ 2,959	$ 984	$ 6,949	$ 3,228	$ 3,721

[(1)] Included in the Insurance segment revenues are effects of mark-to-market adjustments in the amount of $2.0 million and $4.0 million for the three and six months ended June 30, 2018, respectively, recorded on equity securities in accordance with ASU 2016-01. Such adjustments related to consolidated subsidiaries are eliminated in consolidation.

<u>Three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017</u>

Net investment income: Net investment income from our Insurance segment for the three months ended June 30, 2018 increased $2.4 million to $19.3 million from $16.9 million for the three months ended June 30, 2017. Net investment income from our Insurance segment for the six months ended June 30, 2018 increased $4.8 million to $37.1 million from $32.2 million for the six months ended June 30, 2017. The increase in net investment income was primarily due to higher average invested fixed maturity securities and mortgage loans and rotation into higher-yielding investments.

Net realized and unrealized gains on investments: Net realized and unrealized gains on investments from our Insurance segment for the three months ended June 30, 2018 increased $3.4 million to $4.5 million from $1.1 million for the three months ended June 30, 2017. Net realized and unrealized gains on investments from our Insurance segment for the six months ended June 30, 2018 increased $5.1 million to $6.9 million from $1.9 million for the six months ended June 30, 2017. The increases were driven by the adoption of ASU 2016-01. Commencing January 1, 2018, the Company records changes in fair value of equity securities to Net realized and unrealized gains on investments.

Policy benefits, changes in reserves, and commissions: Policy benefits, changes in reserves, and commissions from our Insurance segment for the three months ended June 30, 2018 increased $4.9 million to $35.4 million from $30.4 million for the three months ended June 30, 2017. This increase was primarily due to increased claim incidence for the aging long term care liabilities. Policy benefits, changes in reserves, and commissions from our Insurance segment for the six months ended June 30, 2018 increased $5.7 million to $67.7 million from $61.9 million for the six months ended June 30, 2017. The increase was primarily due to increased claim incidence for the aging long-term care liabilities partially offset by a smaller increase in reserves due to the timing of conditional non-forfeiture option activity related to rate increase implementations in 2017 and 2018.

Life Sciences Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Selling, general and administrative expenses	$ 6,495	$ 3,566	$ 2,929	$ 9,685	$ 6,651	$ 3,034
Depreciation and amortization	53	41	12	111	79	32
Loss from operations	$ (6,548)	$ (3,607)	$ (2,941)	$ (9,796)	$ (6,730)	$ (3,066)

<u>Three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017</u>

Selling, general and administrative expenses: Selling, general and administrative expenses increased $2.9 million and $3.0 million for the three and six months ended June 30, 2018, driven by the $2.4 million of disposition costs associated with the sale of BeneVir and an increase in compensation expense of the Pansend Holding Company resulting from increased performance of the segment.

Broadcasting

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Net revenue	$ 11,089	$ 21,745
Cost of revenue	7,216	13,967
Selling, general and administrative expenses	11,369	22,283
Depreciation and amortization	743	1,448
Other operating (income) expense	112	112
Loss from operations	$ (8,351)	$ (16,065)

In 2018, the Broadcasting segment's entities met the definition of a Segment in accordance with ASC 280. The entities in the new segment did not exist in the comparable periods, therefore, there is no comparable data.

Net revenue: Net revenue from our Broadcasting segment for the three and six months ended June 30, 2018 was $11.1 million and $21.7 million, respectively. The revenue for both periods was primarily attributable to broadcast advertising revenues, net of agency commissions, local marketing agreement revenue ("LMA") mainly attributable to the broadcasting operational stations, and retransmission revenue.

For the three months ended June 30, 2018, the Broadcasting segment recognized $7.0 million in advertising revenue, $2.8 million in LMA revenue and $0.9 million in retransmission revenue.

For the six months ended June 30, 2018, the Broadcasting segment recognized $13.8 million in advertising revenue, $5.5 million in LMA revenue, and $1.9 million in retransmission revenue.

Cost of revenue: Cost of revenue from our Broadcasting segment for the three and six months ended June 30, 2018 was $7.2 million and $14.0 million, respectively, primarily attributable to programming, transmission costs, and audience measurement, as well as direct station expenses associated with operating our OTA broadcasting stations.

For the three months ended June 30, 2018, the Broadcasting segment incurred $1.9 million in programming fees, $2.1 million in transmission costs, and $2.0 million in audience measurement costs. In addition, the Broadcasting segment incurred $1.3 million of direct station expenses, largely driven by tower rent and utilities.

For the six months ended June 30, 2018, the Broadcasting segment incurred $3.5 million in programming fees, $4.2 million in transmission costs, and $3.9 million in audience measurement costs. In addition, the Broadcasting segment incurred $2.4 million of direct station expenses, largely driven by tower rent and utilities.

Selling, general and administrative: Selling, general and administrative expenses from our Broadcasting segment for the three and six months ended June 30, 2018 was $11.4 million and $22.3 million, respectively, primarily attributable to compensation costs and legal fees.

For the three months ended June 30, 2018, the Broadcasting segment's selling, general and administrative expenses were primarily attributable to compensation costs of $5.6 million, $0.9 million in legal fees, driven by acquisition activities; and a mix of rent, consulting, insurance, and other general operating expenses of the Broadcasting entities.

For the six months ended June 30, 2018, the Broadcasting segment's selling, general and administrative expenses were primarily attributable to compensation costs of $10.9 million, $2.8 million in legal fees, driven by acquisition activities; and a mix of rent, consulting, insurance, and other general operating expenses of the Broadcasting entities.

Depreciation and amortization: Depreciation and amortization from our Broadcasting segment for the three and six months ended June 30, 2018 was $0.7 million and $1.4 million, respectively, driven by fixed assets and definite lived intangible assets acquired in 2017 and 2018.

Other operating (income) expense: Other operating (income) expense from our Broadcasting segment for the three and six months ended June 30, 2018 of $0.1 million was driven by the impairment of licenses dismissed by the FCC.

Other Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Net revenue	$ 1,056	$ 412	$ 644	$ 3,409	$ 2,017	$ 1,392
Cost of revenue	1,046	1,076	(30)	2,481	2,498	(17)
Selling, general and administrative expenses	1,228	1,462	(234)	2,313	2,828	(515)
Depreciation and amortization	21	331	(310)	42	661	(619)
Other operating expense	—	1,811	(1,811)	—	1,811	(1,811)
Loss from operations	$ (1,239)	$ (4,268)	$ 3,029	$ (1,427)	$ (5,781)	$ 4,354

Three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017

Net revenue: Net revenue from our Other segment for the three months ended June 30, 2018 increased $0.6 million, to $1.1 million from $0.4 million for the three months ended June 30, 2017. Net revenue from our Other segment for the six months ended June 30, 2018 increased $1.4 million, to $3.4 million from $2.0 million for the six months ended June 30, 2017. The increases were primarily driven by 704Games due to an increase in mobile game sales and console game sales from the NASCAR® Heat 2 game, which was released in September 2017. These sales outperformed the sales of its predecessor NASCAR® Heat Evolution console game in the comparable period.

Selling, general and administrative: Selling, general and administrative expenses from our Other segment for the three months ended June 30, 2018 decreased $0.2 million to $1.2 million from $1.5 million for the three months ended June 30, 2017. Selling, general and administrative expenses from our Other segment for the six months ended June 30, 2018 decreased $0.5 million to $2.3 million from $2.8 million for the six months ended June 30, 2017. The decreases were driven by a reduction of operating costs.

Depreciation and amortization: Depreciation and amortization from our Other segment for the three months ended June 30, 2018 decreased $0.3 million, to $0.0 million from $0.3 million for the three months ended June 30, 2017. Depreciation and amortization from our Other segment for the six months ended June 30, 2018 decreased $0.7 million, to $0.0 million from $0.7 million for the six months ended June 30, 2017. The decreases in depreciation were driven by definite lived intangible assets which became fully depreciated in the current period.

Other operating expense: Other operating expense from our Other segment decreased $1.8 million when compared to the previous periods as there was a nonrecurring impairment expense of NerVve Technologies, Inc.'s goodwill and property, plant and equipment in the second quarter of 2017.

Non-operating Corporate

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Selling, general and administrative expenses	$ 8,475	$ 8,586	$ (111)	$ 15,763	$ 16,101	$ (338)
Depreciation and amortization	20	16	4	41	33	8
Loss from operations	$ (8,495)	$ (8,602)	$ 107	$ (15,804)	$ (16,134)	$ 330

Three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017

Selling, general and administrative expenses: Selling, general and administrative expenses from our Non-operating Corporate segment for the three months ended June 30, 2018 decreased $0.1 million to $8.5 million from $8.6 million for the three months ended June 30, 2017. Selling, general and administrative expenses from our Non-operating Corporate segment for the six months ended June 30, 2018 decreased $0.3 million to $15.8 million from $16.1 million for the six months ended June 30, 2017. The decreases were driven by a reduction of acquisition related expenses incurred compared to the prior period, offset in part by an increase in stock compensation expense as a result of new grants in 2018.

Income (loss) from Equity Investments

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Construction	$ (71)	$ —	$ (71)	$ (85)	$ —	$ (85)
Marine Services	11,553	5,461	6,092	7,743	14,255	(6,512)
Life Sciences	(730)	(1,420)	690	(2,137)	(2,502)	365
Other	—	(38)	38	—	(57)	57
Income from equity investments	$ 10,752	$ 4,003	$ 6,749	$ 5,521	$ 11,696	$ (6,175)

Three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017

Marine Services: Income from equity investments in our Marine Services segment for the three months ended June 30, 2018 increased $6.1 million to $11.6 million from $5.5 million for the three months ended June 30, 2017. The increase was principally driven by HMN, due to a higher level of project activity in the current period. Income from equity investments in our Marine Services segment for the six months ended June 30, 2018 decreased $6.5 million to $7.7 million from $14.3 million for the six months ended June 30, 2017. The decrease was principally driven by HMN. While its second quarter of 2018 results were strong, HMN recorded a loss in the first quarter as the joint venture recorded negligible revenues on large turnkey projects underway due to normal project cycle. In the prior period, there were comparatively stronger results driven by a higher level of project activity, largely in the first quarter of 2017.

Life Sciences: Loss from equity investments from our Life Sciences segment for the three months ended June 30, 2018 decreased $0.7 million to $0.7 million from $1.4 million for the three months ended June 30, 2017. Loss from equity investments from our Life Sciences segment for the six months ended June 30, 2018 decreased $0.4 million to a loss of $2.1 million from a loss of $2.5 million for the six months ended June 30, 2017. The decreases were largely due to lower equity method losses recorded from our investment in Medibeacon as clinical trials on the MB-102 technology, which have been ongoing throughout 2018, began to wind down during the second quarter of 2018.

Non-GAAP Financial Measures and Other Information

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 provides investors with meaningful information for 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, since 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. While management believes that non-U.S. GAAP measurements are useful supplemental information, such adjusted results are not intended to replace our U.S. GAAP financial results. 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. Adjusted EBITDA excludes the results of operations and any consolidating eliminations of our Insurance segment.

The calculation of Adjusted EBITDA, as defined by us, consists of Net income (loss) as adjusted for depreciation and amortization; amortization of equity method fair value adjustments at acquisition; (gain) loss on sale or disposal of assets; lease termination costs; asset impairment expense; interest expense; net gain (loss) on contingent consideration; loss on early extinguishment or restructuring of debt; gain (loss) on sale of subsidiaries; other (income) expense, net; foreign currency transaction (gain) loss included in cost of revenue; income tax (benefit) expense; (gain) loss from discontinued operations; noncontrolling interest; bonus to be settled in equity; share-based compensation expense; non-recurring items; and acquisition and disposition costs.

<u>Three months ended June 30, 2018 compared to the three months ended June 30, 2017</u>

(in thousands)	Three Months Ended June 30, 2018								
	Core Operating Subsidiaries				Early Stage & Other				
	Construction	Marine Services	Energy	Telecom	Life Sciences	Broadcasting	Other and Eliminations	Non-operating Corporate	HC2
Net Income attributable to HC2 Holdings, Inc.									$ 55,366
Less: Net Income attributable to HC2 Holdings Insurance segment									565
Less: Consolidating eliminations attributable to HC2 Holdings Insurance segment									(2,009)
Net Income (loss) attributable to HC2 Holdings, Inc., excluding Insurance Segment	$ 7,397	$ 10,864	$ 679	$ 1,040	$ 74,124	$ (11,816)	$ (552)	$ (24,926)	$ 56,810
Adjustments to reconcile net income (loss) to Adjusted EBITDA:									
Depreciation and amortization	1,665	6,429	1,359	87	53	743	21	20	10,377
Depreciation and amortization (included in cost of revenue)	1,686	—	—	—	—	—	—	—	1,686
Amortization of equity method fair value adjustment at acquisition	—	(370)	—	—	—	—	—	—	(370)
Asset impairment expense	—	—	277	—	—	104	—	—	381
(Gain) loss on sale or disposal of assets	13	(25)	(192)	—	—	8	—	—	(196)
Interest expense	458	1,328	426	—	—	1,523	—	13,446	17,181
Loss on early extinguishment or restructuring of debt	—	—	—	—	—	2,537	—	—	2,537
Gain on sale of subsidiary	—	—	—	—	(102,141)	—	—	—	(102,141)
Other (income) expense, net	(66)	(1,981)	66	99	56	93	121	226	(1,386)
Foreign currency (gain) loss (included in cost of revenue)	—	(420)	—	—	—	—	—	—	(420)
Income tax (benefit) expense	3,318	68	13	—	1	14	(272)	2,759	5,901
Noncontrolling interest	601	4,030	324	—	20,679	(700)	(536)	—	24,398
Bonus to be settled in equity	—	—	—	—	—	—	—	175	175
Share-based payment expense	—	476	2	—	18	349	200	2,660	3,705
Acquisition and disposition costs	456	—	—	49	2,355	928	—	240	4,028
Adjusted EBITDA	$ 15,528	$ 20,399	$ 2,954	$ 1,275	$ (4,855)	$ (6,217)	$ (1,018)	$ (5,400)	$ 22,666
Total Core Operating Subsidiaries	$ 40,156								

(in thousands)

	Three Months Ended June 30, 2017								
	Core Operating Subsidiaries				Early Stage & Other				
	Construction	Marine Services	Energy	Telecom	Life Sciences	Broadcasting	Other and Eliminations	Non-operating Corporate	HC2
Net (loss) attributable to HC2 Holdings, Inc.									$ (17,911)
Less: Net (loss) attributable to HC2 Holdings Insurance segment									164
Net Income (loss) attributable to HC2 Holdings, Inc., excluding Insurance segment	$ 4,179	$ (3,053)	$ (365)	$ 2,060	$ (4,106)	$ —	$ (3,757)	$ (13,033)	$ (18,075)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:									
Depreciation and amortization	1,240	5,255	1,381	94	41	—	331	16	8,358
Depreciation and amortization (included in cost of revenue)	1,302	—	—	—	—	—	—	—	1,302
Amortization of equity method fair value adjustment at acquisition	—	(325)	—	—	—	—	—	—	(325)
Asset impairment expense	—	—	—	—	—	—	1,810	—	1,810
(Gain) loss on sale or disposal of assets	(145)	—	18	—	—	—	—	—	(127)
Lease termination costs	—	55	—	—	—	—	—	—	55
Interest expense	174	1,040	154	14	—	—	16	10,675	12,073
Loss on contingent consideration	—	—	—	—	—	—	—	88	88
Other (income) expense, net	28	490	255	(9)	(11)	—	803	214	1,770
Foreign currency (gain) loss (included in cost of revenue)	—	83	—	—	—	—	—	—	83
Income tax (benefit) expense	3,232	(134)	(1)	—	—	—	—	(6,543)	(3,446)
Noncontrolling interest	369	(156)	(492)	—	(911)	—	(1,372)	—	(2,562)
Bonus to be settled in equity	—	—	—	—	—	—	—	585	585
Share-based payment expense	—	394	91	—	76	—	18	527	1,106
Acquisition and disposition costs	701	—	—	—	—	—	—	1,168	1,869
Adjusted EBITDA	$ 11,080	$ 3,649	$ 1,041	$ 2,159	$ (4,911)	$ —	$ (2,151)	$ (6,303)	$ 4,564
Total Core Operating Subsidiaries	$ 17,929								

Construction: Net Income from our Construction segment for the three months ended June 30, 2018 increased $3.2 million to $7.4 million from $4.2 million. Adjusted EBITDA income from our Construction segment for the three months ended June 30, 2018 increased $4.4 million to $15.5 million from $11.1 million for the three months ended June 30, 2017. The increase can be attributed to the overall growth in project revenues, principally from large commercial projects in the West region.

Marine Services: Net Income (loss) from our Marine Services segment for the three months ended June 30, 2018 increased $14.0 million to net income of $10.9 million from net loss of $3.1 million. Adjusted EBITDA from our Marine Services segment for the three months ended June 30, 2018 increased $16.8 million to $20.4 million from $3.6 million for the three months ended June 30, 2017. The increase was primarily driven by the increase in income from GMSL operations attributable to the growth in revenues from telecom and offshore power installation work, as well as the timing of costs incurred on certain offshore power installation and repair projects in the comparable period. Furthermore, Adjusted EBITDA benefited from GMSL's equity investment in HMN, which recorded significantly higher income than in the comparable period, driven by a higher level of project work under execution and the release of project cost contingencies.

Energy: Net Income (loss) from our Energy segment for the three months ended June 30, 2018 improved by $1.1 million to net income of $0.7 million from net loss of $0.4 million. Adjusted EBITDA income from our Energy segment for the three months ended June 30, 2018 increased $2.0 million to $3.0 million from $1.0 million for the three months ended June 30, 2017. The increase was largely driven by $2.6 million of AFETC recognized in the second quarter of 2018 attributable to 2017 CNG sales that were not recognized in the comparable period, partially offset by increases in utility and supply costs associated with delivering CNG and a general increase in expenses required to support the overall growth in the company.

Telecommunications: Net Income from our Telecommunications segment for the three months ended June 30, 2018 decreased $1.1 million to $1.0 million from $2.1 million. Adjusted EBITDA income from our Telecommunications segment for the three months ended June 30, 2018 decreased $0.9 million to $1.3 million from $2.2 million for the three months ended June 30, 2017. While there was an increase in revenues due to normal fluctuations in wholesale traffic volumes, the decrease in Adjusted EBITDA was driven by a lower margin contribution mix as a result of unfavorable fluctuations in wholesale call termination and supplier termination rates. Additionally, there were increases in compensation expense due to headcount increases and professional fees required to support operations.

Life Sciences: Net Income (loss) from our Life Sciences segment for the three months ended June 30, 2018 increased $78.2 million to net income of $74.1 million from net loss of $4.1 million. Adjusted EBITDA loss from our Life Sciences segment for the three months ended June 30, 2018 remained consistent at $4.9 million for the three months ended June 30, 2017. In the quarter, there was an increase in compensation expense at the Pansend holding company related to the segment performance, which was offset by a decrease in selling, general and administrative expenses at R2 and decreased losses in its Medibeacon equity investment as clinical trials on the MB-102 technology, which have been ongoing throughout 2018, began to wind down in the second quarter of 2018.

Broadcasting: Net Loss from our Broadcasting segment for the three months ended June 30, 2018 was $11.8 million. Adjusted EBITDA loss from our Broadcasting segment for the three months ended June 30, 2018 was $6.2 million. Adjusted EBITDA loss from the Broadcasting segment was largely driven by operation expenses of the entities which were predominantly acquired in the fourth quarter of 2017 and not present in the comparable period.

Other and Eliminations: Net Loss from our Other and Eliminations segment for the three months ended June 30, 2018 decreased $3.2 million to $0.6 million from $3.8 million. Adjusted EBITDA loss from Other and Eliminations for the three months ended June 30, 2018 decreased $1.1 million to $1.0 million from $2.2 million for the three months ended June 30, 2017. The decrease in loss was due to improved performance of 704Games and its associated mobile and console games, the latter of which is outperforming its predecessor NASCAR® Heat Evolution console game.

Non-operating Corporate: Net Loss from our Non-operating Corporate segment for the three months ended June 30, 2018 increased $11.9 million to $24.9 million from $13.0 million. Adjusted EBITDA loss from our Non-operating Corporate segment for the three months ended June 30, 2018 decreased $0.9 million to $5.4 million from $6.3 million for the three months ended June 30, 2017. The decrease was attributable to a reduction in salary and benefits, rent and other general and administrative expenses.

<u>Six months ended June 30, 2018 compared to the six months ended June 30, 2017</u>

(in thousands)	Six Months Ended June 30, 2018								
	Core Operating Subsidiaries				Early Stage & Other				
	Construction	Marine Services	Energy	Telecom	Life Sciences	Broadcasting	Other and Eliminations	Non-operating Corporate	HC2
Net Income attributable to HC2 Holdings, Inc.									$ 20,370
Less: Net Income attributable to HC2 Holdings Insurance segment									1,810
Less: Consolidating eliminations attributable to HC2 Holdings Insurance segment									(3,996)
Net Income (loss) attributable to HC2 Holdings, Inc., excluding Insurance segment	$ 10,864	$ 4,611	$ (19)	$ 2,093	$ 70,188	$ (24,552)	$ (708)	$ (39,921)	$ 22,556
Adjustments to reconcile net income (loss) to Adjusted EBITDA:									
Depreciation and amortization	3,192	13,257	2,703	173	111	1,448	42	41	20,967
Depreciation and amortization (included in cost of revenue)	3,279	—	—	—	—	—	—	—	3,279
Amortization of equity method fair value adjustment at acquisition	—	(741)	—	—	—	—	—	—	(741)
Asset impairment expense	—	—	277	—	—	104	—	—	381
(Gain) loss on sale or disposal of assets	428	(2,661)	(223)	—	—	8	—	—	(2,448)
Interest expense	868	2,491	746	—	—	7,229	2	25,170	36,506
Loss on early extinguishment or restructuring of debt	—	—	—	—	—	2,537	—	—	2,537
Gain on sale of subsidiary	—	—	—	—	(102,141)	—	—	—	(102,141)
Other (income) expense, net	23	(1,033)	132	40	84	18	173	(496)	(1,059)
Foreign currency (gain) loss (included in cost of revenue)	—	(522)	—	—	—	—	—	—	(522)
Income tax (benefit) expense	5,150	2	13	—	1	14	(272)	(556)	4,352
Noncontrolling interest	883	1,666	(9)	—	19,932	(1,310)	(622)	—	20,540
Bonus to be settled in equity	—	—	—	—	—	—	—	350	350
Share-based payment expense	—	886	4	—	92	662	211	2,938	4,793
Acquisition and disposition costs	815	—	—	77	2,528	2,574	—	418	6,412
Adjusted EBITDA	$ 25,502	$ 17,956	$ 3,624	$ 2,383	$ (9,205)	$ (11,268)	$ (1,174)	$ (12,056)	$ 15,762
Total Core Operating Subsidiaries	$ 49,465								

(in thousands)	Six Months Ended June 30, 2017								
	Core Operating Subsidiaries				Early Stage & Other				
	Construction	Marine Services	Energy	Telecom	Life Sciences	Broadcasting	Other and Eliminations	Non-operating Corporate	HC2
Net (loss) attributable to HC2 Holdings, Inc.									$ (32,407)
Less: Net (loss) attributable to HC2 Holdings Insurance segment									(597)
Net Income (loss) attributable to HC2 Holdings, Inc., excluding Insurance Segment	$ 7,382	$ 8,099	$ (1,062)	$ 3,562	$ (7,516)	$ —	$ (9,187)	$ (33,088)	$ (31,810)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:									—
Depreciation and amortization	2,880	10,340	2,629	191	79	—	661	33	16,813
Depreciation and amortization (included in cost of revenue)	2,542	—	—	—	—	—	—	—	2,542
Amortization of equity method fair value adjustment at acquisition	—	(650)	—	—	—	—	—	—	(650)
Asset impairment expense	—	—	—	—	—	—	1,810	—	1,810
(Gain) loss on sale or disposal of assets	(393)	(3,500)	14	—	—	—	—	—	(3,879)
Lease termination costs	—	249	—	—	—	—	—	—	249
Interest expense	381	2,342	290	23	—	—	2,407	20,745	26,188
Loss on contingent consideration	—	—	—	—	—	—	—	319	319
Other (income) expense, net	7	1,555	1,375	65	(15)	—	2,918	258	6,163
Foreign currency (gain) loss (included in cost of revenue)	—	107	—	—	—	—	—	—	107
Income tax (benefit) expense	5,311	376	12	—	—	—	—	(4,366)	1,333
Noncontrolling interest	632	338	(1,239)	—	(1,702)	—	(1,977)	—	(3,948)
Bonus to be settled in equity	—	—	—	—	—	—	—	585	585
Share-based payment expense	—	739	182	—	168	—	47	1,489	2,625
Acquisition and disposition costs	946	—	—	—	—	—	—	1,861	2,807
Adjusted EBITDA	$ 19,688	$ 19,995	$ 2,201	$ 3,841	$ (8,986)	$ —	$ (3,321)	$ (12,164)	$ 21,254
Total Core Operating Subsidiaries	$ 45,725								

Construction: Net Income from our Construction segment for the six months ended June 30, 2018 increased $3.5 million to $10.9 million from $7.4 million. Adjusted EBITDA income from our Construction segment for the six months ended June 30, 2018 increased $5.8 million to $25.5 million from $19.7 million for the six months ended June 30, 2017. The increase can be attributed to the overall growth in project revenues, principally from large commercial projects in the West region.

Marine Services: Net Income from our Marine Services segment for the six months ended June 30, 2018 decreased $3.5 million to $4.6 million from $8.1 million. Adjusted EBITDA from our Marine Services segment for the six months ended June 30, 2018 decreased $2.0 million to $18.0 million from $20.0 million for the six months ended June 30, 2017. The decrease was primarily driven by GMSL's equity investment in HMN. While its second quarter results were strong, income recorded by HMN was greater in the comparable period, driven by a higher level of project work under execution and the release of project cost contingencies, largely in the first quarter of 2017. The decline in HMN income was partially offset by an increase in income from GMSL operations due principally to growth in telecom and offshore power cable installation work and the timing of costs incurred on certain offshore power installation and repair projects in the comparable period.

Energy: Net Income (loss) from our Energy segment for the six months ended June 30, 2018 and 2017 improved by $1.1 million. Adjusted EBITDA income from our Energy segment for the six months ended June 30, 2018 increased $1.4 million to $3.6 million from $2.2 million for the six months ended June 30, 2017. The increase was largely driven by $2.6 million of AFETC recognized in the second quarter of 2018 attributable to 2017 CNG sales that were not recognized in the comparable period, partially offset by increases in utility and supply costs associated with delivering CNG and a general increase in expenses required to support the overall growth in the company.

Telecommunications: Net Income from our Telecommunications segment for the six months ended June 30, 2018 decreased $1.5 million to $2.1 million from $3.6 million. Adjusted EBITDA income from our Telecommunications segment for the six months ended June 30, 2018 decreased $1.5 million to $2.4 million from $3.8 million for the six months ended June 30, 2017. While there was an increase in revenues due to normal fluctuations in wholesale traffic volumes, the decrease in Adjusted EBITDA was driven by a lower margin contribution mix as a result of unfavorable fluctuations in wholesale call termination and supplier termination rates. Additionally, there were increases in compensation expense due to headcount increases and professional fees required to support operations.

Life Sciences: Net Income (loss) from our Life Sciences segment for the six months ended June 30, 2018 increased $77.7 million to income of $70.2 million from net loss of $7.5 million. Adjusted EBITDA loss from our Life Sciences segment for the six months ended June 30, 2018 increased $0.2 million to a loss of $9.2 million from a loss of $9.0 million for the six months ended June 30, 2017. There was an increase in compensation expense at the Pansend holding company related to the segment performance, which was offset by a decrease in selling, general and administrative expenses at R2 Dermatology Inc. ("R2") and decreased losses in its Medibeacon equity investment as clinical trials on the MB-102 technology, which have been ongoing throughout 2018, began to wind down during the second quarter of 2018.

Broadcasting: Net Loss from our Broadcasting segment for the six months ended June 30, 2018 was $24.6 million. Adjusted EBITDA loss from our Broadcasting segment for the six months ended June 30, 2018 was $11.3 million. Loss from the Broadcasting segment was largely driven by operation expenses of the entities which were predominantly acquired in the fourth quarter of 2017 and not present in the comparable period.

Other and Eliminations: Net Loss from our Other and Eliminations segment for the six months ended June 30, 2018 decreased $8.5 million to $0.7 million from $9.2 million. Adjusted EBITDA loss from Other and Eliminations for the six months ended June 30, 2018 decreased $2.1 million to $1.2 million from $3.3 million for the six months ended June 30, 2017. The decrease in loss was due to improved performance of 704Games and its associated mobile and console games, the latter of which is outperforming its predecessor NASCAR® Heat Evolution console game.

Non-operating Corporate: Net Loss from our Non-operating Corporate segment for the six months ended June 30, 2018 increased $6.8 million to $39.9 million from $33.1 million. Adjusted EBITDA loss from our Non-operating Corporate segment for the six months ended June 30, 2018 decreased $0.1 million to $12.1 million from $12.2 million for the six months ended June 30, 2017.

	Three Months Ended June 30,			Six months ended June 30,		
(in thousands):	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Construction	$ 15,528	$ 11,080	$ 4,448	$ 25,502	$ 19,688	$ 5,814
Marine Services	20,399	3,649	16,750	17,956	19,995	(2,039)
Energy	2,954	1,041	1,913	3,624	2,201	1,423
Telecommunications	1,275	2,159	(884)	2,383	3,841	(1,458)
Total Core Operating Subsidiaries	40,156	17,929	22,227	49,465	45,725	3,740
Life Sciences	(4,855)	(4,911)	56	(9,205)	(8,986)	(219)
Broadcasting	(6,217)	—	(6,217)	(11,268)	—	(11,268)
Other and Eliminations	(1,018)	(2,151)	1,133	(1,174)	(3,321)	2,147
Total Early Stage and Other	(12,090)	(7,062)	(5,028)	(21,647)	(12,307)	(9,340)
Non-Operating Corporate	(5,400)	(6,303)	903	(12,056)	(12,164)	108
Adjusted EBITDA	$ 22,666	$ 4,564	$ 18,102	$ 15,762	$ 21,254	$ (5,492)

Our Adjusted EBITDA was $22.7 million and $4.6 million for the three months ended June 30, 2018 and 2017, respectively. The increase was primarily driven by our Marine Services segment principally due to its equity investment in HMN, which realized a significant increase in earnings compared to the prior period, and an increase in income contribution from offshore cable installation and repair jobs. The increase was also attributed to our Construction segment attributed to the overall growth in project revenues, principally from large commercial projects in the West region. This was offset by the Adjusted EBITDA loss from our Broadcasting segment, as it has significant operation expenses of the entities which were predominantly acquired in the fourth quarter of 2017 and had not been part of the Company in the comparable period.

Our Adjusted EBITDA was $15.8 million and $21.3 million for the six months ended June 30, 2018 and 2017, respectively. The decrease was primarily driven by our Broadcasting segment, as it had significant operation expenses for entities which were predominantly acquired in the fourth quarter of 2017 and had not been part of the Company in the comparable period. This was offset by improved Adjusted EBITDA from our Construction segment attributed to the overall growth in project revenues, principally from large commercial projects in the West region.

Adjusted Operating Income - Insurance

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

Similarly to Adjusted EBITDA, using Insurance AOI and Pre-tax Insurance AOI as performance measures have inherent limitations as an analytical tool as compared to income (loss) from operations or other U.S. GAAP financial measures, as these non-U.S. GAAP measures exclude certain items, including items that are recurring in nature, which may be meaningful to investors. As a result of the exclusions, Insurance AOI and Pre-tax Insurance AOI should not be considered in isolation and do not purport to be an alternative to income (loss) from operations or other U.S. GAAP financial measures as measures 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 OTTI losses recognized in operations; asset impairment; intercompany elimination; non-recurring items; and acquisition costs. Management defines Pre-tax Insurance AOI as Insurance AOI adjusted to exclude the impact of income tax (benefit) expense recognized during the current period. Management believes that Insurance AOI and Pre-tax Insurance AOI provide meaningful financial metrics that help 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 income (loss) of the Insurance segment to calculate Insurance AOI and Pre-tax Insurance AOI (in thousands). Refer to the analysis of the fluctuations within the results of operations section:

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)	2018	2017	Increase / (Decrease)
Net income (loss) - Insurance segment	$ 565	$ 164	$ 401	$ 1,810	$ (597)	$ 2,407
Effect of investment (gains) [(1)]	(4,429)	(1,095)	(3,334)	(6,939)	(1,876)	(5,063)
Asset impairment expense	—	2,842	(2,842)	—	3,364	(3,364)
Acquisition costs	759	736	23	1,062	736	326
Insurance AOI	$ (3,105)	$ 2,647	$ (5,752)	$ (4,067)	$ 1,627	$ (5,694)
Tax expense	3,560	1,461	2,099	6,741	1,973	4,768
Pre-tax Insurance AOI	$ 455	$ 4,108	$ (3,653)	$ 2,674	$ 3,600	$ (926)

[(1)] The Insurance segment revenues are inclusive of mark-to-market adjustments recorded on equity securities in accordance with ASU 2016-01. Such adjustments related to consolidated subsidiaries are eliminated in consolidation.

Three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017

Net income for the three months ended June 30, 2018 increased $0.4 million to $0.6 million from $0.2 million. Net income (loss) for the six months ended June 30, 2018 increased $2.4 million to income of $1.8 million from a loss of $0.6 million.

Our Insurance AOI for the three months ended June 30, 2018 decreased $5.8 million to a loss of $3.1 million from income of $2.6 million for the three months ended June 30, 2017. Our Insurance AOI for the six months ended June 30, 2018 decreased $5.7 million, to a loss of $4.1 million from income of $1.6 million for the six months ended June 30, 2017. Both the quarter and year-to-date decreases in income were mainly due to an increase in policy benefits attributable to a rise in claims incidence on aging long-term care liabilities, which was partially offset by an increase in net investment income primarily due to higher average invested fixed maturity securities and mortgage loans, and rotation into higher-yielding investments. In addition, there was an increase in tax expense in both periods, driven by the projected expense as calculated under ASC 740 for the Insurance segment. Any future tax benefits generated have been reduced by a full valuation allowance as the Insurance segment does not believe it is more-likely-than-not that the benefits will be realized.

Pretax Insurance AOI for the three months ended June 30, 2018 decreased $3.7 million to income of $0.5 million, as compared to $4.1 million for the three months ended June 30, 2017. Pretax Insurance AOI for the six months ended June 30, 2018 decreased $0.9 million to income of $2.7 million, as compared to $3.6 million for six months ended June 30, 2017. Both the quarter and year-to-date decreases in income were mainly due to an increase in policy benefits attributable to a rise in claims incidence on aging long-term care liabilities, which was partially offset by an increase in net investment income primarily due to higher average invested fixed maturity securities and mortgage loans, and rotation into higher-yielding investments.

Backlog

Projects in backlog consist of awarded contracts, letters of intent, notices to proceed, change orders, and purchase orders obtained. Backlog increases as contract commitments are obtained, decreases as revenues are recognized and increases or decreases to reflect modifications in the work to be performed under the contracts. Backlog is converted to sales in future periods as work is performed or projects are completed. Backlog can be significantly affected by the receipt or loss of individual contracts.

Construction Segment

At June 30, 2018, DBMG's backlog was $656.4 million, consisting of $508.2 million under contracts or purchase orders and $148.2 million under letters of intent or notices to proceed. Approximately $397.2 million, representing 60.5% of DBMG’s backlog at June 30, 2018, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these projects terminate or reduce their scope, DBMG’s backlog could decrease substantially.

Marine Services Segment

At June 30, 2018, GMSL's backlog stood at $372.2 million, inclusive of $279.1 million of signed contracts and customer-approved change orders and $93.1 million of on-site repair estimates associated with its long-term maintenance contracts. Approximately $246.3 million, representing 88.2% of GMSL’s signed contracts and customer-approved change orders and $339.5 million, representing 91.2% of GMSL's total backlog at June 30, 2018, was attributable to three multi-year telecom maintenance contracts which will naturally burn through to revenue as the contracts run off. Our reported backlog may not be converted to revenue in any particular period and actual revenue may not equal our backlog. Therefore, our backlog may not be indicative of the level of our future revenues.

Liquidity and Capital Resources

Short- and Long-Term Liquidity Considerations and Risks

HC2 is a holding company and its liquidity needs are primarily for interest payments on its 11.0% Notes and dividend payments on its Preferred Stock. HC2 also has liquidity needs related to recurring operational expenses.

As of June 30, 2018, HC2 had $112.3 million of cash and cash equivalents compared to $97.9 million as of December 31, 2017. On a stand-alone basis, as of June 30, 2018, our Non-Operating Corporate segment had cash and cash equivalents of $53.7 million compared to $29.4 million at December 31, 2017. At June 30, 2018, cash and cash equivalents in our Insurance segment was $25.9 million compared to $25.2 million at December 31, 2017.

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

As of June 30, 2018, the Company had $672.8 million of indebtedness on a consolidated basis compared to $601.1 million as of December 31, 2017. On a stand-alone basis, as of June 30, 2018 and December 31, 2017, HC2 had indebtedness of $510.0 million and $400.0 million, respectively.

Our Non-Operating Corporate segment's debt consists of the 11.0% Notes, and is required to make semi-annual interest payments on its outstanding 11.0% Notes on June 1st and December 1st of each year. HC2 is required to make dividend payments on our outstanding Preferred Stock on January 15th, April 15th, July 15th, and October 15th of each year.

During the six months ended June 30, 2018, HC2 received $1.8 million in dividends from its Telecommunications segment.

Under a tax sharing agreement, DBMG reimburses HC2 for use of its Net Operating Losses. During the six months ended June 30, 2018, HC2 received $4.0 million from DBMG 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 service 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 debt or equity, 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, regulatory requirements, 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.

Indebtedness

See Note 13. Debt Obligations, to the Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for a description of our long-term debt.

Restrictive Covenants

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 11.0% 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 subsidiary guarantors of the 11.0% Notes (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) six 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 June 30, 2018, 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 11.0% Notes will be increased back to 12 months of debt service and preferred dividend obligations. As of June 30, 2018, 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 June 30, 2018, 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.

We are in compliance as of June 30, 2018 with all of the covenants, including financial covenants, in all of our debt agreements.

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 by (used in) those activities between the fiscal periods (in thousands):

	Six Months Ended June 30,		
	2018	2017	Increase / (Decrease)
Operating activities	$ (41,154)	$ 16,916	$ (58,070)
Investing activities	16,420	(38,546)	54,966
Financing activities	43,107	49,067	(5,960)
Effect of exchange rate changes on cash and cash equivalents	(371)	319	(690)
Net increase (decrease) in cash and cash equivalents	$ 18,002	$ 27,756	$ (9,754)

Operating Activities

Cash used in operating activities totaled $41.2 million for the six months ended June 30, 2018 as compared to cash provided of $16.9 million for the six months ended June 30, 2017. The $58.1 million decrease was the result of an increase in working capital of $17.9 million compared to a decrease of $30.2 million in the previous year. The increase in working capital is largely driven by our Construction segment as the segment ramps up fabrication activity on two large commercial projects in the West region.

Investing Activities

Cash provided in investing activities totaled $16.4 million for the six months ended June 30, 2018 as compared to cash used of $38.5 million for the six months ended June 30, 2017. The $55.0 million increase was driven by our Life Sciences segment, due to the $93.4 million of cash received from the sale of BeneVir and a decrease in cash used of $10.3 million of equity method investment purchases in the prior year. This was partially offset by cash paid for acquisitions in our Broadcasting segment of $48.0 million was paid for acquisitions, of which $33.0 million was for the acquisition of Northstar's broadcast television stations.

Financing Activities

Cash provided by financing activities totaled $43.1 million for the six months ended June 30, 2018 as compared to cash provided in financing activities of $49.1 million for the six months ended June 30, 2017. The $6.0 million decrease was driven by $14.9 million in distributions to NCI holders of Pansend, due to the BeneVir sale, partially offset by an increase in cash provided of $10.0 million from the Company's debt issuances, net of debt payments when compared to the previous period.

Other Invested Assets

Carrying values of other invested assets accounted for under cost and equity method are as follows (in thousands):

	June 30, 2018			December 31, 2017		
	Measurement Alternative	Equity Method	Fair Value	Cost Method	Equity Method	Fair Value
Common Equity	$ —	$ 1,750	$ —	$ —	$ 1,484	$ —
Preferred Equity	1,600	11,794	—	2,484	14,197	—
Derivatives	—	—	280	422	—	260
Joint Ventures	—	70,685	—	—	66,572	—
Total	$ 1,600	$ 84,229	$ 280	$ 2,906	$ 82,253	$ 260

Construction

Cash Flows

Cash flows from operating activities are the principal source of cash used to fund DBMG’s operating expenses, interest payments on debt, and capital expenditures. DBMG's short-term cash needs are primarily for working capital to support operations including receivables, inventories, and other costs incurred in performing its contracts. DBMG 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, DBMG generates working capital through billings in excess of costs and recognized earnings on uncompleted contracts. DBMG relies on its credit facilities to meet its working capital needs. DBMG 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.

DBMG is required to make monthly or quarterly interest payments on all of its debt. Based upon the June 30, 2018 debt balance, DBMG anticipates that its interest payments will be approximately $0.4 million each quarter.

DBMG believes that its available funds, cash generated by operating activities and funds available under its bank credit facilities will be sufficient to fund its capital expenditures and its working capital needs. However, DBMG may expand its operations through future acquisitions and may require additional equity or debt financing.

Marine Services

Cash Flows

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. 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.

Market Environment

GMSL earns revenues in a variety of currencies including the U.S. dollar, the Singapore dollar, the Euro, and the British pound. The exchange rates between the U.S. dollar, the Singapore dollar, the Euro, 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

Cash flows

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.

Market environment

As of June 30, 2018, 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.

Dividend Limitations

CIG's insurance subsidiary is subject to Texas 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 insurance subsidiary to pay dividends and to make such other payments is limited by applicable laws and regulations of the states in which its subsidiary is domiciled, which subject its subsidiary to significant regulatory restrictions. These laws and regulations require, among other things, CIG's insurance subsidiary to maintain minimum solvency requirements and limit the amount of dividends this subsidiary 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 subsidiary Risk-Based Capital ("RBC") ratio. CIG monitors its insurance subsidiary's compliance with the RBC requirements specified by the National Association of Insurance Commissioners. As of December 31, 2017, CIG's insurance subsidiary exceeds the minimum RBC requirements. CIG's insurance subsidiary paid no dividends to CIG in fiscal year 2017 and has further agreed with its state regulator to not pay dividends for three years following the completion of the acquisition on December 24, 2015.

Other

The Company has an agreement with the Texas Department of Insurance ("TDOI") that, for five years following the acquisition, the Company will contribute to Continental General Insurance Company ("CGI" or the "Insurance Company") cash or marketable securities acceptable to the TDOI 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 Texas law and reported in CGI's statutory statements filed with the TDOI).

Additionally, CGI entered into a capital maintenance agreement with Great American Financial Resources, Inc. ("Great American"). Under the agreement, if the 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 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 $35.0 million under the capital maintenance agreement. The capital maintenance agreement will remain in effect from January 1, 2016 to January 1, 2021 or until payments by Great American under the agreement equal the 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 agreement.

Asset Liability Management

CIG's insurance subsidiary maintains 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 subsidiary 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 June 30, 2018 and December 31, 2017, CIG's investment portfolio is comprised of the following (in thousands):

	June 30, 2018		December 31, 2017	
	Fair Value	Percent	Fair Value	Percent
U.S. Government and government agencies	$ 14,811	1.0%	$ 15,722	1.1%
States, municipalities and political subdivisions	370,973	25.5%	395,450	26.5%
Foreign government	—	—%	5,998	0.4%
Residential mortgage-backed securities	91,122	6.3%	104,895	7.0%
Commercial mortgage-backed securities	38,958	2.7%	30,405	2.0%
Asset-backed securities	146,395	10.1%	147,926	9.9%
Corporate and other (*)	588,078	40.4%	641,788	42.9%
Common stocks (*)	49,510	3.4%	38,780	2.6%
Perpetual preferred stocks	67,678	4.7%	42,572	2.9%
Mortgage loans	69,890	4.8%	52,109	3.5%
Policy loans	17,768	1.1%	17,944	1.2%
Total	$ 1,455,183	100.0%	$ 1,493,589	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.

The following table summarizes the credit quality, by NRSRO rating, of CIG's fixed income portfolio (in thousands):

	June 30, 2018		December 31, 2017	
	Fair Value	Percent	Fair Value	Percent
AAA, AA, A	$ 627,409	50.3%	$ 724,973	54.0%
BBB	328,020	26.2%	415,635	31.0%
Total investment grade	955,429	76.5%	1,140,608	85.0%
BB	107,976	8.6%	60,339	4.5%
B	7,740	0.6%	7,636	0.6%
CCC, CC, C	21,916	1.8%	25,575	1.9%
D	9,374	0.7%	14,990	1.1%
NR	147,902	11.8%	93,036	6.9%
Total non-investment grade	294,908	23.5%	201,576	15.0%
Total	$ 1,250,337	100.0%	$ 1,342,184	100.0%

Foreign Currency

Foreign currency fluctuations can impact our financial results. During the three months ended June 30, 2018 and 2017, approximately 14.9% and 10.6% respectively, of our net revenue from continuing operations was derived from sales and operations outside the U.S. During the six months ended June 30, 2018 and 2017, approximately 12.1% and 11.5%, 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

DBMG

DBMG's off-balance sheet arrangements at June 30, 2018 included letters of credit of $8.8 million under Credit and Security Agreements and performance bonds of $241.8 million.

DBMG's contract arrangements with customers sometimes require DBMG 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. DBMG'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 Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Critical Accounting Policies

During the quarter ended March 31, 2018, the Company adopted ASU 2014-09, *Revenue from Contracts with Customers* (refer to 2. Summary of Significant Accounting Policies), and updated its accounting policy for revenue recognition. Besides the adoption of this ASU, there have been no material changes in the Company's critical accounting policies during the quarter ended June 30, 2018. For additional information about critical accounting policies, refer to "Critical Accounting Policies" under Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 and to "Critical Accounting Policies" under Item 2 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.

Related Party Transactions

For a discussion of our Related Party Transactions, refer to Note 19. Related Parties to our Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Corporate Information

HC2, a Delaware corporation, was incorporated in 1994. The Company's executive offices are located at 450 Park Avenue, 30th Floor, New York, NY, 10022. The Company's telephone number is (212) 235-2690. Our Internet address is *www.hc2.com*. We make available free of charge through our Internet 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.

Factors that could cause actual results, events and developments to differ include, without limitation: the ability of our subsidiaries (including, target businesses following their acquisition) to generate sufficient net income and cash flows to make upstream cash distributions, capital market conditions, our and our subsidiaries' ability to identify any suitable future acquisition opportunities, efficiencies/cost avoidance, cost savings, income and margins, growth, economies of scale, combined operations, future economic performance, conditions to, and the timetable for, completing the integration of financial reporting of acquired or target businesses with HC2 or the applicable subsidiary of HC2, completing future acquisitions and dispositions, litigation, potential and contingent liabilities, management's plans, changes in regulations and taxes.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements.

Forward-looking statements are not guarantees of performance. You should understand that the following important factors, in addition to those discussed under the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017, and in the documents incorporated by reference, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. You should also understand that many factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As a result, you should consider all of the following factors, together with all of the other information presented herein, in evaluating our business and that of our subsidiaries.

HC2 Holdings, Inc. and Subsidiaries

Our actual results or other outcomes may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- 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;
- our possible inability to generate sufficient liquidity, margins, EPS, cash flow and working capital from our operating segments;
- 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 Indenture governing HC2's Notes, the Certificates of Designation governing HC2's Preferred Stock and all other subsidiary debt obligations as summarized in Note 13. Debt Obligations and future financing agreements on our ability to operate our business and finance our pursuit of acquisition opportunities. For additional information on the Company's long-term obligations, see Note 13. Debt Obligations in the Company's Form 10-K;
- our dependence on certain key personnel, in particular, our Chief Executive Officer, Philip Falcone;
- 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 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;
- 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;
- our expectations and timing with respect to our ordinary course acquisition activity and whether such acquisitions are accretive or dilutive to shareholders;
- our expectations and timing with respect to any strategic dispositions and sales of our operating subsidiaries or businesses that we may make in the future and the effect of any such dispositions or sales on our results of operations;
- the possibility of indemnification claims arising out of divestitures of businesses;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- the effect any interests our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;
- our ability to effectively increase the size of our organization, if needed, and manage our growth;
- the potential for, and our ability to, remediate future material weaknesses in our internal controls over financial reporting;
- 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.

Construction / DBM Global Inc.

Our actual results or other outcomes of DBM Global, Inc. and its wholly-owned subsidiaries ("DBMG"), and, thus, our Construction segment, may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- its ability to realize cost savings from expected performance of contracts, whether as a result of improper estimates, performance, or otherwise;
- potential impediments and limitations on our ability to complete ordinary course acquisitions in anticipated time frames or at all;
- 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 DBMG 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 DBMG'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 DBMG'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 DBMG's obligations under bids and contracts or to finance expenditures prior to the receipt of payment for the performance of contracts.

Marine Services / Global Marine Systems Limited

Our actual results or other outcomes of Global Marine Systems Limited ("GMSL"), and, thus, our Marine Services segment, may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- its ability to realize cost savings from expected performance of contracts, whether as a result of improper estimates, performance, or otherwise;
- the possibility of global recession or market downturn with a reduction in capital spending within the targeted market segments in which the business operates;
- 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 (i.e., Huawei Marine Systems Co. Limited, a Hong Kong holding company with a Chinese operating subsidiary and SB Submarine Systems Co. Ltd.);
- risks related to noncompliance with a wide variety of anti-corruption laws;
- 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 come due.

Energy / ANG Holdings, Inc.

Our actual results or other outcomes of ANG, and, thus, our Energy segment, may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- automobile and engine manufacturers' limited production of originally manufactured natural gas vehicles and engines for the markets in which ANG participates;
- environmental regulations and programs mandating the use of cleaner burning fuels;
- competition from oil and gas companies, retail fuel providers, industrial gas companies, natural gas utilities and other organizations;
- the infrastructure for natural gas vehicle fuels;
- the safety and environmental risks of natural gas fueling operations and vehicle conversions;
- our Energy segment's ability to implement its business plan in a regulated environment;
- the adoption, modification or repeal in environmental, tax, government regulations, and other programs and incentives that encourage the use of clean fuel and alternative vehicles;
- demand for natural gas vehicles;
- advances in other alternative vehicle fuels or technologies, or improvements in gasoline, diesel or hybrid engines; and
- increases, decreases and general volatility in oil, gasoline, diesel and natural gas prices.

Telecommunications / PTGi International Carrier Services, Inc.

Our actual results or other outcomes of PTGi International Carrier Services, Inc. ("ICS"), and, thus, our Telecommunications segment, may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- 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 of ICS' suppliers to obtain credit insurance on ICS in determining whether or not to extend credit.

Insurance / Continental Insurance Group Ltd.

Our actual results or other outcomes of Continental Insurance Group Ltd. ("CIG"), the parent operating company of Continental General Insurance Company ("CGI"), which together comprise our Insurance segment, may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- our Insurance segment's ability to maintain statutory capital and maintain or improve their financial strength;
- our Insurance segment's reserve adequacy, including the effect of changes to accounting or actuarial assumptions or methodologies;
- the accuracy of our Insurance segment'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;
- extensive regulation and numerous legal restrictions on our Insurance segment;
- our Insurance segment'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;
- our Insurance segment'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, our Insurance segment's ability to access capital resources and the costs associated therewith, the fair value of our Insurance segment's investments, which could result in impairments and other-than-temporary impairments, and certain liabilities;
- our Insurance segment'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 Insurance segment's 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 our Insurance segment, and our Insurance segment's ability to mitigate such requirements;
- our Insurance segment's ability to effectively implement its business strategy or be successful in the operation of its business;
- our Insurance segment'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.

Life Sciences / Pansend Life Sciences, LLC

Our actual results or other outcomes of Pansend Life Sciences, LLC, and, thus, our Life Sciences segment, may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- our Life Sciences segment's ability to invest in development stage companies;
- our Life Sciences segment's ability to develop products and treatments related to its portfolio companies;
- medical advances in healthcare and biotechnology; and
- governmental regulation in the healthcare industry.

Broadcasting / HC2 Broadcasting Holdings Inc.

Our actual results or other outcomes of HC2 Broadcasting Holdings Inc., and, thus, our Broadcasting segment, may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- our Broadcasting segment's ability to integrate our recent and pending broadcasting acquisitions;
- our Broadcasting segment's ability to operate in highly competitive markets and maintain market share;
- our Broadcasting segment's ability to effectively implement its business strategy or be successful in the operation of its business;
- new and growing sources of competition in the broadcasting industry; and
- FCC regulation of the television broadcasting industry.

Other / 704Games Company

Our actual results or other outcomes of 704Games, and, thus, our Other segment, may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- our Other segment's ability to operate in highly competitive markets and maintain market share; and
- our Other segment's ability to effectively implement its business strategy or be successful in the operation of its business.

We caution the reader that undue reliance should not be placed on any forward-looking statements, which speak only as of the date of this document. Neither we nor any of our subsidiaries undertake any duty or responsibility to update any of these forward-looking statements to reflect events or circumstances after the date of this document or to reflect actual outcomes.

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 DBMG, 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 the HC2 Board of Directors which sets certain restrictions on the amount of securities that HC2 may acquire and its overall investment strategy.

Market prices for fixed maturity and equity securities are subject to fluctuation, as a result, 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 are classified as available-for-sale, the hypothetical decline would not affect current earnings except to the extent that the decline reflects OTTI, however with respect to Equity Securities, as of January 1, 2018, due to the adoption of ASU 2016-01, would affect earnings due to a hypothetical decline.

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 June 30, 2018, assuming all other factors are constant, we estimate that a 10.0%, 20.0%, and 30.0% decline in equity market prices would have the following impact:

	Decline in equity market prices		
	10%	20%	30%
Fixed Maturity Securities	124,925	249,851	374,776
Equity Securities	7,956	15,911	23,867

Foreign Currency Exchange Rate Risk

DBMG, GMSL and ICS are exposed to market risk from foreign currency price changes that 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, DBMG, 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 our floating rate borrowings outstanding as of June 30, 2018 of $48.1 million, would result in an increase in the recorded interest expense of $0.5 million, $1.0 million, and $1.4 million per year.

Commodity Price Risk

DBMG is exposed to the market risk from changes in the price of 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, DBMG has the ability to pass the higher costs on to the general contractor. DBMG 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 DBMG.

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 June 30, 2018, 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 June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company adopted the new revenue recognition guidance under ASC 606 on January 1, 2018. Although ASC 606 is not expected to have a material impact on the Company's financial results, changes to the Company's processes and controls related to revenue recognition were implemented. These changes included creating new accounting policies based on the five-step model of ASC 606, implementing ongoing contract review requirements, and gathering information necessary for disclosures.

PART II

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 15. Commitments and Contingencies to our unaudited financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no additional material changes to the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on March 14, 2018.

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

None.

Item 6. Exhibits

(a) Exhibits (see Exhibit Index in the below page).

Please note that the agreements included as exhibits to this Form 10-Q are included to provide information regarding their terms and are not intended to provide any other factual or disclosure information about HC2 Holdings, Inc. or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement that have been made solely for the benefit of the other parties to the applicable agreement and may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit Number	**Description**
4.1	Third Supplemental Indenture dated as of May 31, 2018 among HC2 Broadcasting Intermediate Holdings Inc. and HC2 Holdings, Inc. and U.S. Bank National Association (filed herewith).
10.1^	Separation Agreement by and between HC2 Holdings, Inc. and Paul Voigt dated May 9, 2018 (filed herewith).
10.2^	HC2 Holdings, Inc. Second Amended and Restated 2014 Omnibus Equity Award Plan (incorporated by reference to Exhibit A to the HC2 Holdings, Inc. Definitive Proxy Statement, filed on April 30, 2018) (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 June 30, 2018, formatted in extensible business reporting language (XBRL); (i) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2018 and 2017 (iii) Condensed Consolidated Balance Sheets at June 30, 2018 and December 31, 2017, (iv) Condensed Consolidated Statements of Stockholders’ Equity for the six months ended June 30, 2018 and 2017, (v) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017, and (vi) Notes to 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.

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: August 8, 2018

By: /s/ Michael J. Sena

Michael J. Sena
Chief Financial Officer
(Duly Authorized Officer and Principal Financial and Accounting Officer)

Exhibit 4.1

THIRD SUPPLEMENTAL INDENTURE

Third Supplemental Indenture (this "*Third Supplemental Indenture*"), dated as of May 31, 2018 among HC2 Broadcasting Intermediate Holdings Inc. (the "*Guaranteeing Subsidiary*"), a subsidiary of HC2 Holdings, Inc. (or its permitted successor), a Delaware corporation (the "*Company*"), the Company and U.S. Bank National Association, as trustee under the Indenture referred to below (the "*Trustee*").

W I T N E S S E T H

WHEREAS, the Company and the other Subsidiary Guarantors party thereto have heretofore executed and delivered to the Trustee an indenture (the "*Indenture*"), dated as of November 20, 2014 providing for the issuance of 11.000% Senior Secured Notes due 2019 (the "*Notes*") by the Company;

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiary shall unconditionally guarantee all of the Company's Obligations under the Notes and the Indenture on the terms and conditions set forth herein (the "*Note Guarantee*"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Third Supplemental Indenture.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guaranteeing Subsidiary and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. Agreement to Guarantee. The Guaranteeing Subsidiary hereby agrees to provide an unconditional Guarantee on the terms and subject to the conditions set forth in the Note Guarantee and in the Indenture including but not limited to Article 11 thereof.

3. No Recourse Against Others. No director, officer, employee, incorporator or stockholder of the Company or any Subsidiary Guarantor, as such, will have any liability for any obligations of the Company or the Subsidiary Guarantors under the Notes, this Indenture, the Note Guarantees, the Security Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the federal securities laws.

4. NEW YORK LAW TO GOVERN. THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS THIRD SUPPLEMENTAL INDENTURE WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

5. Counterparts. The parties may sign any number of copies of this Third Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

6. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Third Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiary and the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Third Supplemental Indenture to be duly executed and attested, all as of the date first above written.

Dated: May 31, 2018

HC2 Broadcasting Intermediate Holdings Inc.

By:
Name: Michael J. Sena
Title: Vice President

HC2 Holdings, Inc.

By:
Name: Michael J. Sena
Title: Chief Financial Officer

U.S. Bank National Association

By:
Name:
Title:

Exhibit 10.1

SEPARATION AGREEMENT

This SEPARATION AGREEMENT (this " Agreement") is entered into by and between Paul Voigt (the "Executive") and HC2 Holdings, Inc., a Delaware corporation (the "Company") on May 9, 2018 (the "Execution Date").

WHEREAS, the Executive has served as Senior Managing Director of Investments of the Company;

WHEREAS, the Executive resigned from such position effective as of the Execution Date;

WHEREAS, the Company and the Executive are parties to an employment agreement dated as of October 1, 2014 (the "Employment Agreement");

WHEREAS, the Executive's employment with the Company shall terminate on May [__], 2018 (the "Termination Date"), and the Compensation Committee of the Board of Directors of the Company agreed to waive the notice provisions of the Employment Agreement with respect such termination; and

WHEREAS, the parties agree to resolve any and all issues or disputes which may presently exist, or which may later arise out of the circumstances surrounding the Executive's employment and termination of employment with the Company.

NOW THEREFORE, in consideration of the premises and the covenants herein, the sufficiency of which is hereby acknowledged, the Executive and the Company agree as follows:

1. Office Resignation; Termination of Employment

From and after the Execution Date, the Executive shall not hold any office or title with any member of the Company Group (as defined below), but shall remain an employee of the Company through the Termination Date. Effective as of the Termination Date, the Executive is agreeing to resign, and shall be deemed to have resigned from, all his positions with, and separated as an employee from, the Company and its subsidiaries and affiliates (each entity individually, and collectively, the "Company Group").

2. Severance Payments and Benefits

(a) No Severance Payments or Severance Benefits; COBRA Continuation Coverage. Executive agrees that he is not eligible to receive any severance payments or payment for COBRA continuation coverage pursuant to the Employment Agreement or pursuant to any other plan, program or policy of the Company. Pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), the Company will provide the required COBRA notification to the Executive after the Termination Date, and the COBRA benefit entitlement period shall commence beginning in the first calendar month immediately following the Termination Date. Executive, Executive's spouse, and dependents, as applicable, may elect COBRA coverage under the provisions of COBRA, and if COBRA coverage is elected, the Executive will be responsible for payment of all COBRA premium costs.

(b) 2016 Incentive Compensation Awards. The Executive previously earned an incentive compensation award for services performed in 2016 that included deferred cash bonus amounts, $696,722 of which remains unpaid as of the Execution Date (the "2016 Deferred Bonus Amounts"), restricted stock units, 160,930 of which are unvested as of the Execution Date (the "2016 RSUs"), and stock options with respect to the common stock of the Company, 60,160 of which are unvested as of the Execution Date (the "2016 Stock Options"). The 2016 Deferred Bonus Amounts, the 2016 RSUs and the 2016 Stock Options were previously awarded pursuant to the terms of the 2014 HC2 Executive Bonus Plan and the HC2 Holdings, Inc. Amended and Restated 2014 Omnibus Equity Award Plan and applicable award agreements (collectively, the "Incentive Plans"). The Executive acknowledges that, pursuant to the terms of the Incentive Plans, he would not be eligible for payment of the 2016 Deferred Bonus Amounts or for continued vesting of his 2016 RSUs or 2016 Stock Options following the Termination Date. Subject to and contingent upon (A) the Executive's signing and not revoking this Agreement and the Release (as defined in Section 3 below), and (B) Executive's continuous compliance with Section 4 of this Agreement on each of the applicable payment and vesting dates set forth below:

(i) in respect of the 2016 Deferred Bonus Amounts, the Company will pay to the Executive the tranche scheduled to be paid in 2018 in the amount of $348,361 on June 1, 2018, and will pay to the Executive the tranche scheduled to be paid in 2019 in the amount of $348,361 on June 1, 2019;

(ii) with respect to the 2016 RSUs, 80,465 RSUs will vest on March 10, 2019, and 80,465 RSUs will vest on March 10, 2020 (with all such 2016 RSUs to be settled in accordance with the terms of the applicable award agreement); and

(iii) with respect to the 2016 Stock Options, an option to purchase 30,080 shares of the Company's common stock will vest on March 10, 2019 and will remain exercisable for 30 days thereafter, and an option to purchase 30,080 shares of the Company's common stock will vest on March 10, 2020 and will remain exercisable for 30 days thereafter.

For the avoidance of doubt, any stock options previously granted to the Executive that are exercisable as of the Execution Date shall be treated in accordance with the terms of the award agreement applicable to such stock options.

(c) 2017 Incentive Compensation Awards. The Executive previously earned an incentive compensation award for services performed in 2017 that included cash bonus amounts and grants of restricted stock units and stock options with respect to the common stock of the

Company. Specifically, (1) the Executive earned a cash bonus award under the 2014 HC2 Executive Bonus Plan in the amount of $1,212,734 in the aggregate, with $720,000 to be paid on June 1, 2018, $246,367 to be paid on June 1, 2019, and $246,367 to be paid on June 1, 2020 (such amounts collectively, the "2017 Deferred Bonus Amounts"); and (2) on March 16, 2018 the Executive was granted 283,712 unvested restricted stock units (the "2017 RSUs") and 106,320 unvested stock options (the "2017 Stock Options") under the Second Amended and Restated 2014 Omnibus Equity Award Plan (the "Amended Plan"), with the effectiveness of the 2017 RSUs and the 2017 Stock Options being subject to the approval of the Amended Plan by the Company's shareholders (the "Shareholder Approval"). The Executive acknowledges that, pursuant to the terms of the Amended Plan and the applicable award agreements, he would not be eligible for payment of the 2017 Deferred Bonus Amounts or for continued vesting of his unvested 2017 RSUs and unvested 2017 Stock Options following the Termination Date. Subject to and contingent upon (A) Executive's signing and not revoking this Agreement and the Release, and (B) Executive's continuous compliance with Section 4 of this Agreement on each of the applicable payment and vesting dates set forth below:

(i) the Company will pay to the Executive the 2017 Deferred Bonus Amounts in accordance with the payment schedule set forth in Section 2(c) above;

(ii) the 2017 RSUs will continue to vest in accordance with the vesting schedule set forth in Section 3 of the applicable award agreement; provided, that, if the Shareholder Approval does not occur, then the 2017 RSUs and any rights under the applicable award agreement in connection therewith will be cancelled and void *ab initio;* and

(iii) the 2017 Stock Options will continue to vest in accordance with the vesting schedule set forth in Section 2 of the applicable award agreement, and will remain exercisable for a period of 30 days following the applicable vesting date; provided, that, if the Shareholder Approval does not occur, then the 2017 Stock Options and any rights under the applicable award agreement in connection therewith will be cancelled and void *ab initio*.

Except to the extent modified hereby, the 2016 Deferred Bonus Amounts, the 2017 Deferred Bonus Amounts, the 2016 RSUs, the 2016 Stock Options, the 2017 RSUs and the 2017 Stock Options shall continue to be subject to the terms and conditions of the applicable incentive plan(s) and award agreements. All payments and vesting referenced in this Agreement are subject to all applicable payroll taxes and other required withholdings.

(d) No Additional Benefits. The Executive acknowledges and agrees that, except as provided in this Section 2, the Executive's participation as an active employee under any benefit plan, program, policy or arrangement sponsored or maintained by the Company Group shall cease and be terminated as of the Termination Date, and the Executive shall be treated as a terminated employee for purposes of all such benefit plans and programs effective as of the Termination Date.

(e) Acknowledgement. The Executive understands and agrees that absent this Agreement, he would not otherwise be entitled to the benefits as set forth in Section 2(b) or (c) of this Agreement.

3. Release of Claims

Notwithstanding anything to the contrary in this Agreement, the Company shall not be obligated to provide any benefit to the Executive under this Agreement until (i) the Executive shall have executed and delivered to the Company the release of claims attached hereto as Exhibit A ("Release") and (ii) such Release shall have become effective and irrevocable by the Executive under all applicable law and its terms within thirty (30) days following the date on which he receives the Release.

4. Post-Employment Obligations

(a) Surviving Employment Agreement Terms. Executive understands and agrees that Section 6 (Acknowledgements), Section 7 (Noncompetition and Nonsolicitation), Section 8 (Nondisclosure of Confidential Information), Section 9 (Return of Property), Section 10 (Intellectual Property Rights), Section 12 (Notification of Employment or Service Provider Relationship), Section 13 (Remedies and Injunctive Relief), and Section 20(b)-(f) (No Waiver; Section 409A) (all of the foregoing section from the Employment Agreement collectively, the "Surviving Employment Agreement Terms") shall remain in full force and effect after the Termination Date, and are incorporated herein by reference. Notwithstanding the terms of Section 7(a)(i) of the Employment Agreement, in consideration of the payments and benefits described in Section 2(b) and (c) of this Agreement, the Executive agrees to continue to be bound by the restrictions set forth in Section 7(a)(i) of the Employment Agreement until the 6th month anniversary of the Termination Date.

(b) Cooperation. The Executive agrees that, upon reasonable notice and without the necessity of the Company obtaining a subpoena or court order, the Executive shall cooperate and provide assistance in connection with any suit, action or proceeding (or any appeal from any suit, action or proceeding), or the decision to commence on behalf of the Company any suit, action or proceeding, and any investigation and/or defense of any claims asserted against any of the Company's or its affiliates' current or former directors, officers, employees, shareholders, partners, members, agents or representatives of any of the foregoing, which relates to events occurring during the Executive's employment hereunder by the Company as to which the Executive may have knowledge or information (including but not limited to furnishing relevant information and materials to the Company or its designee and/or providing testimony at depositions and at trial). The Company shall reimburse the Executive for expenses reasonably incurred in connection therewith and shall make reasonable efforts to schedule such cooperation to the extent reasonably practicable so as not to unreasonably interfere with the Executive's business affairs.

(c) Nondisparagement. The Executive agrees not to make, publish or communicate at any time to any person or entity, including, but not limited to, customers, clients and investors of the Company, its affiliates and their respective present or former members, partners, directors, employees or agents, and the family members thereof, any "Disparaging" (as defined below) remarks, comments or statements concerning the Company, its affiliates, any entity affiliated with Philip A. Falcone or any of his family members, or any of their respective present and former members, partners, directors, officers, employees or agents. In exchange for the Executive's execution and non-revocation of the Release, the Company agrees that the Chief

Executive Officer and the Board shall not publish or communicate at any time to any person or entity any “Disparaging” remarks, comments or statements concerning Executive, except that nothing herein shall prevent the Company from making truthful statements regarding the Executive’s termination as required or, in the discretion of the Board, deemed advisable to be made in the Company’s or any affiliate’s public filings. “Disparaging” remarks, comments or statements are those that could impugn the character, honesty, integrity, morality, business acumen or abilities of the individual or entity being disparaged.

(d) Certain Remedies of the Company. In the event that the Executive fails to fulfill any of his obligations under this Section 4 or breaches any restriction contained herein (including but not limited to those set forth in the Surviving Employment Agreement Terms), then the Company shall have no further obligation to make or continue to make any payment or provide any of the benefits described in Section 2(b) or (c) of this Agreement.

5. Arbitration; Governing law

Any dispute arising under, enforcing, or challenging the validity of this Agreement is subject to the Arbitration (Section 18) and Choice of Law (Section 19) provisions of the Employment Agreement, which are incorporated herein by reference.

1. Return of Property

On the Termination Date, the Executive shall deliver to a designated Company representative all records, documents, hardware, software, and all other Company property and all copies thereof in the Executive’s possession. The Executive acknowledges and agrees that all such materials are the sole property of the Company.

2. Miscellaneous

(a) Entire Agreement. This Agreement, the Release and, to the extent expressly set forth herein, the Employment Agreement, set forth the entire agreement between the parties with respect to the subject matter hereof. This Agreement supersedes any and all prior understandings and agreements between the parties and neither party shall have any obligation toward the other except as set forth herein. Without limiting the generality of the foregoing, the Executive agrees that the execution of this Agreement and the payments made hereunder shall constitute satisfaction in full of the Company’s obligations to the Executive under any and all plans, programs or arrangements between of Company under which the Executive may be entitled to severance or similar payment and/or benefits. This Agreement may not be superseded, amended, or modified except in writing signed by both parties.

(b) Severability and Reformation. Each of the provisions of this Agreement constitutes independent and separable covenants. Any portion of this Agreement that is determined by a court of competent jurisdiction to be overly broad in scope, duration, or area of applicability or in conflict with any applicable statute or rule will be deemed, if possible, to be modified or altered so that it is not overly broad or in conflict or, if not possible, to be omitted from this Agreement. The invalidity of any portion of the Agreement will not affect the validity of the remaining sections of this Agreement.

(a) Successors and Assigns. This Agreement and any rights herein granted are personal to the parties hereto and will not be assigned, sublicensed, encumbered, pledged or otherwise transferred by either party without the prior written consent of the other party, and any attempt at violative assignment, sublicense, encumbrance or any other transfer, whether voluntary or by operation of law, will be void and of no force and effect, except that this Agreement may be assigned to by the Company to any successor in interest to the business of the Company. This Agreement shall be binding upon and shall inure to the benefit of the Company, its successors, affiliates and any person or other entity that succeeds to all or substantially all of the business, assets or property of the Company. This Agreement and all of the Executive's rights hereunder shall inure to the benefit of and be enforceable by the Executive's heirs and estate.

9. Notices

All notices and other communications hereunder shall be in writing. Any notice or other communication hereunder shall be deemed duly given if it is sent by registered or certified mail, return receipt requested, postage prepaid, and addressed to the intended recipient at the addresses maintained in the Company's records. Notices sent to the Company should be directed to the attention of the Company's Chief Legal Officer.

10. Counterpart Agreements

This Agreement may be executed in multiple counterparts, whether or not all signatories appear on these counterparts, and each counterpart shall be deemed an original for all purposes.

11. Captions and Headings

The captions and headings are for convenience of reference only and shall not be used to construe the terms or meaning of any provisions of this Agreement.

12. Protected Disclosures

Nothing in this Agreement or the Surviving Employment Agreement Terms will prohibit or restrict the Executive from responding to any inquiry, or otherwise communicating with, any federal, state or local administrative or regulatory agency or authority or participating in an investigation conducted by any governmental agency or authority. Executive cannot be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that: (i) is made: (A) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. As a result, the Company and Executive shall have the right to disclose trade secrets in confidence to Federal, State, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. Both the Company and Executive also have the right to disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure. Nothing in this Agreement or the Surviving Employment Agreement Terms is intended to conflict with that right or to create liability for disclosures of trade secrets that are expressly allowed by the foregoing.

(signatures on following page)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year written below.

HC2 HOLDINGS, INC.

/s/ Suzi Herbst
By: Suzi Herbst
Title: Chief Administrative Officer
Dated: May 9, 2018

PAUL VOIGT

/s/ Paul Voigt

Dated: May 9, 2018

EXHIBIT A

RELEASE OF CLAIMS

1 . Terms of Release. Paul Voigt (the "Executive") hereby acknowledges that HC2 Holdings, Inc. (the "Company") is offering the Executive certain payments and benefits in connection with the Executive's resignation from employment with the Company pursuant to the terms of the Separation Agreement dated as of May 9, 2018, which provides the Executive with certain significant benefits subject to and in exchange for the Executive's promises in this General Release of Claims (this "General Release"). Capitalized terms not defined in this General Release have the meanings defined in the Separation Agreement.

2. General. In exchange for and in consideration of the benefits described in Section 2(b) and (c) of the Separation Agreement, the Executive, on behalf of himself, his agents, representatives, administrators, receivers, trustees, estates, spouse, heirs, devisees, assignees, transferees, legal representatives and attorneys, past or present (as the case may be), hereby irrevocably and unconditionally releases, discharges, and acquits all of the Released Parties (as defined below) from any and all claims, promises, demands, liabilities, contracts, debts, losses, damages, attorneys' fees and causes of action of every kind and nature, known and unknown, which the Executive may have against them up to the Effective Date of this General Release (as defined below), including but not limited to causes of action, claims or rights arising out of, or which might be considered to arise out of or to be connected in any way with: (i) the Executive's employment with the Company or the termination thereof; (ii) any treatment of the Executive by any of the Released Parties, which shall include, without limitation, any treatment or decisions with respect to hiring, placement, promotion, work hours, discipline, transfer, termination, compensation, performance review or training; (iii) any damages or injury that the Executive may have suffered, including without limitation, emotional or physical injury, or compensatory damages; (iv) employment discrimination, which shall include, without limitation, any individual or class claims of discrimination on the basis of age, disability, sex, race, religion, national origin, citizenship status, marital status, sexual preference, or any other basis whatsoever; or (v) all such other claims that the Executive could assert against any, some, or all of the Released Parties in any forum, accrued or unaccrued, liquidated or contingent, direct or indirect.

3 . Broad Construction. This General Release shall be construed as broadly as possible and shall also extend to release the Released Parties, without limitation, from any and all claims that the Executive has alleged or could have alleged, whether known or unknown, accrued or unaccrued, based on acts, omissions, transactions or occurrences which occurred up to the Effective Date against any Released Party for violation(s) of any of the following, in each case, as amended: the National Labor Relations Act; Title VII of the Civil Rights Act of 1964; the Age Discrimination in Employment Act; the Older Workers Benefit Protection Act of 1990; the Civil Rights Act of 1991; Sections 1981-1988 of Title 42 of the United States Code; the Equal Pay Act; the Executive Retirement Income Security Act of 1974; the Immigration Reform Control Act; the Americans with Disabilities Act of 1990; the Occupational Safety and Health Act; the Sarbanes-Oxley Act of 2002; the New York State Human Rights Law; the New York City Human Rights Law; the New York Labor Law; the New York City Sick Time Law; the anti-retaliation provisions of the New York

Worker's Compensation Law; any other applicable New York State or New York City law, ordinance or regulation prohibiting discrimination, harassment and/or retaliation in employment; any other federal, state, or local law or ordinance; the Employment Agreement, including without limitation the provisions pertaining to notice and eligibility for severance benefits; any other contract; public policy, whistleblower, tort, or common law; and any demand for costs or litigation expenses, including but not limited to attorneys' fees (collectively, with the release of claims set forth in Section 2, the "Released Claims"). Any rights of the Executive as may be expressly provided for under the Separation Agreement, as well as any rights that the Executive may have to be indemnified by the Company pursuant to the Company's Certificate of Incorporation, By-laws or directors and officers liability insurance policies, are excluded from this General Release.

4. Released Parties. The term "Released Parties" or "Released Party" as used herein shall mean and include: (i) the Company; (ii) the Company's former, current and future parents, subsidiaries, affiliates, shareholders and lenders; (iii) any predecessor or successor of any person listed in clauses (i), (ii), and (iii); (iv) each former, current, and future officer, director, agent, representative, employee, servant, owner, shareholder, partner, joint venturer, attorney, employee benefit plan, employee benefit plan administrator, insurer, administrator, and fiduciary of any of the persons listed in clauses (i) through (iii), and (v) any other person acting by, through, under, or in concert with any of the persons or entities listed herein.

5. OWBPA and ADEA Release. Pursuant to the Older Workers Benefit Protection Act of 1990 ("OWBPA"), the Executive understands and acknowledges that by executing this General Release and releasing all claims against any of the Released Parties, he has waived any and all rights or claims that he has or could have against any Released Party under the Age Discrimination in Employment Act ("ADEA"), which includes any claim that any Released Party discriminated against the Executive on account of his age. The Executive also acknowledges the following:

(a) The Company, by this General Release, has advised the Executive to consult with an attorney prior to executing this General Release;

(b) The Executive has had the opportunity to consult with his own attorney concerning this General Release;

(c) This General Release does not include claims arising from any act, omission, transaction or occurrence which happens on or after the Effective Date of this General Release, provided, however, that any claims arising after the Effective Date of this General Release from the then-present effect of acts or conduct occurring before the Effective Date of this General Release shall be deemed released under this General Release; and

(d) The Company has provided Employee the opportunity to review and consider this General Release for 21 days following the date on which he received it from the Company (the "Review Period"). At the Executive's option and sole discretion, the Executive may waive the Review Period and execute this General Release before the expiration of the Review Period. In electing to waive the Review Period, the Executive acknowledges and admits that he was given a reasonable period of time within which to consider this General

Release and his waiver is made freely and voluntarily, without duress or any coercion by any other person.

6. ADEA Revocation Period. The Executive may revoke this General Release within a period of seven days after his execution of this General Release. The Executive agrees that any such revocation is not effective unless it is made in writing and delivered to the attention of the Chief Legal Officer of the Company by the end of the seventh calendar day following the date of the Executive’s execution of this General Release. Under any such valid revocation, the Executive shall not be entitled to any rights or benefits under the Separation Agreement. This General Release becomes effective on the eighth calendar day following the date on which it is executed by the Executive (the “Effective Date”).

7. Representations by the Executive. The Executive confirms that no claim, charge, or complaint against any of the Released Parties, brought by him, exists before any federal, state, or local court or administrative agency. The Executive represents and warrants that he has no knowledge of any improper or illegal actions or omissions by the Company, nor does he know of any basis on which any third party or governmental entity could assert such a claim. This expressly includes any and all conduct that potentially could give rise to claims under the Sarbanes-Oxley Act of 2002 (Public Law 107-204).

8. No Right to File Action or Proceeding. The Executive agrees that he will not, unless otherwise prohibited by law, at any time hereafter, voluntarily participate in as a party, or permit to be filed by any other person on his behalf or as a member of any alleged class of persons, any action or proceeding of any kind, against the Company or its past, present, or future parents, subsidiaries, divisions, affiliates, successors and assigns and any of their past, present or future directors, officers, agents, trustees, administrators, attorneys, employees or assigns (whether acting as agents for the Company or in their individual capacities), with respect to any Released Claims; in addition, the Executive agrees to have himself removed from any such action or proceeding with respect to which he has involuntarily become a party. The Executive further agrees that he will not seek or accept any award or settlement from any source or proceeding with respect to any claim or right covered by this General Release and that this General Release shall act as a bar to recovery in any such proceedings. This General Release shall not affect the Executive’s rights under the OWBPA to have a judicial determination of the validity of this General Release and does not purport to limit any right Employee may have to file a charge under the ADEA or other civil rights statute or to participate in an investigation or proceeding conducted by the Equal Employment Opportunity Commission or other investigative agency. This General Release does, however, waive and release any right to recover damages under the ADEA or other civil rights statute.

9. No Admission of Liability. The Executive agrees that neither this General Release nor the furnishing of the consideration for the general release set forth in this General Release shall be deemed or construed at any time for any purpose as an admission by the Released Parties of any liability or unlawful conduct of any kind. The Executive further acknowledges and agrees that the consideration provided for herein is adequate consideration for the Executive’s obligations under this General Release.

10. Governing Law. This General Release shall be governed by and construed in accordance with the laws of the State of New York without regard to its conflict of laws provisions. If any provision of the General Release other than the general release set forth above, is declared legally or factually invalid or unenforceable by any court of competent jurisdiction and if such provision cannot be modified to be enforceable to any extent or in any application, then such provision immediately shall become null and void, leaving the remainder of this General Release in full force and affect.

11. Prior Agreements. This General Release sets forth the entire agreement between the Executive and the Released Parties and it supersedes any and all prior agreements or understandings, whether written or oral, between the parties, except as otherwise specified in this General Release. Notwithstanding the foregoing, this General Release shall not affect the obligations of the parties under the Separation Agreement (including without limitation the provisions of the Employment Agreement incorporated in the Separation Agreement pursuant to Section 4 and 5 of the Separation Agreement). The Executive acknowledges that he has not relied on any representations, promises, or agreements of any kind made to him in connection with his decision to sign this General Release, except for those set forth in this General Release.

12. Amendment. This General Release may not be amended except by a written agreement signed by the Company and the Executive, which specifically refers to this General Release.

THE EXECUTIVE ACKNOWLEDGES THAT HE CAREFULLY HAS READ THIS GENERAL RELEASE; THAT HE HAS HAD THE OPPORTUNITY TO THOROUGHLY DISCUSS ITS TERMS WITH COUNSEL OF HIS CHOOSING; THAT HE FULLY UNDERSTANDS ITS TERMS AND ITS FINAL AND BINDING EFFECT; THAT THE ONLY PROMISES MADE TO SIGN THIS GENERAL RELEASE ARE THOSE STATED AND CONTAINED IN THIS GENERAL RELEASE; AND THAT HE IS SIGNING THIS GENERAL RELEASE KNOWINGLY AND VOLUNTARILY. THE EXECUTIVE STATES THAT HE IS IN GOOD HEALTH AND IS FULLY COMPETENT TO MANAGE HIS BUSINESS AFFAIRS AND UNDERSTANDS THAT HE MAY BE WAIVING SIGNIFICANT LEGAL RIGHTS BY SIGNING THIS GENERAL RELEASE.

(SIGNATURE PAGE TO FOLLOW)

IN WITNESS WHEREOF, the Executive has executed this General Release as of the 9 day of 2018.

PAUL VOIGT

*/s/ Paul Voigt*____________

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.

Dated: August 8, 2018

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 J. 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.

Dated: August 8, 2018	By:	/s/ Michael J. Sena	
		Name:	Michael J. 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 J. 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 June 30, 2018, 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.

Dated: August 8, 2018

/s/ Philip A. Falcone	/s/ Michael J. Sena
Philip A. Falcone	**Michael J. Sena**
Chairman, President and Chief Executive Officer (Principal Executive Officer)	**Chief Financial Officer (Principal Financial and Accounting Officer)**