

HC2 Holdings, Inc.  
Form 10-K  
March 15, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-K

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x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934.

For the fiscal year ended December 31, 2015

OR

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

Commission File No. 001-35210

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HC2 HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	54-1708481 (I.R.S. Employer Identification No.)
505 Huntmar Park Drive, Suite 325, Herndon, VA (Address of principal executive offices)	20170 (Zip Code)
(703) 865-0700 (Registrant's telephone number, including area code)	

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No x

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 x 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 x No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.



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PART I

ITEM 1. BUSINESS

Unless the context otherwise requires, in this Annual Report on Form 10-K, "HC2," means HC2 Holdings, Inc. and the "Company," "we" and "our" mean HC2 together with its consolidated subsidiaries.

General

We are a diversified holding company that seeks opportunities to acquire and grow businesses that can generate long-term sustainable free cash flow and attractive returns in order to maximize value for all stakeholders. As of December 31, 2015, our seven reportable operating segments based on management's organization of the enterprise included Manufacturing, Marine Services, Insurance, Telecommunications, Utilities, Life Sciences and Other, which includes operations that do not meet the separately reportable segment thresholds.

Our principal operating subsidiaries include the following assets:

- (i) Schuff International, Inc. (Manufacturing), a leading structural steel fabricator and erector in the United States;
- (ii) Global Marine Systems Limited (Marine Services), a leading provider of engineering and underwater services on submarine cables;  
Continental Insurance Inc. (Insurance), a platform for our run-off long-term care business, through its two
- (iii) insurance companies, United Teacher Associates Insurance Company ("UTA") and Continental General Insurance Company ("CGI", and together with UTA, the "Insurance Companies");
- (iv) PTGi-International Carrier Services ("PTGi-ICS") (Telecommunications), a provider of internet-based protocol and time-division multiplexing access and transport of long distance voice minutes;
- (v) American Natural Gas (Utilities), a compressed natural gas fueling company;  
and
- (vi) Pansend Life Sciences, Ltd. (Life Sciences), our subsidiary focused on supporting healthcare and biotechnology product development.

We expect to continue to focus on acquiring and investing in businesses with attractive assets that we consider to be undervalued or fairly valued and growing our acquired businesses.

The Company has made other investments in start-up companies that operate in the technology and interactive gaming industries.

Overall Business Strategy

We evaluate strategic and business alternatives, which may include the following: acquiring assets or businesses unrelated to our current or historical operations, operating, growing or acquiring additional assets or businesses related to our current or historical operations, or winding down or selling our existing operations. We generally pursue either controlling positions in durable, cash-flow generating businesses or companies we believe exhibit substantial growth potential. We may choose to actively assemble or re-assemble a company's management team to ensure the appropriate expertise is in place to execute the operating objectives of such business. We view ourselves as strategic and financial partners and seek to align our management teams' incentives with our goal of delivering sustainable long-term value to our shareholders.

As part of any acquisition strategy, we may raise capital in the form of debt or equity securities (including preferred stock) or a combination thereof. We have broad discretion in selecting a business strategy for the Company. If we

elect to pursue an acquisition, we have broad discretion in identifying and selecting both the industries and the possible acquisition or business combination opportunities. We have not identified a specific industry to focus on and there can be no assurance that we will, or we will be able to, identify or successfully complete any such transactions. In connection with evaluating these strategic and business alternatives, we may at any time be engaged in ongoing discussions with respect to possible acquisitions, business combinations and debt or equity securities offerings of widely varying sizes. There can be no assurance that any of these discussions will result in a definitive agreement and if they do, what the terms or timing of any agreement would be. While we search for additional acquisition opportunities, we manage a portion of our available cash and acquire interests in possible acquisition targets through our wholly-owned subsidiary, HC2 Investment Securities, Inc., a Delaware corporation.

#### Competition

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HC2 could encounter competition for acquisition and business opportunities from other entities having similar business objectives, such as strategic investors and private equity firms, which could lead to higher prices for acquisition targets. Many of these entities are well established and have extensive experience identifying and executing transactions directly or through affiliates. Our financial resources and human resources may be relatively limited when contrasted with many of these competitors which may place us at a competitive disadvantage. Finally, managing rapid growth could create higher corporate expenses, as compared to many of our competitors who may be at a different stage of growth.

### Employees

As of December 31, 2015, we had approximately 1,970 employees. We consider our relations with our employees to be satisfactory.

### Our Operating Subsidiaries

#### Manufacturing Segment (Schuff)

Schuff is a fully integrated fabricator and erector of structural steel and heavy steel plate. Schuff 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. Schuff also fabricates trusses and girders and specializes in the fabrication and erection of large-diameter water pipe, water storage tanks, pollution control scrubbers, tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products. Schuff's operations make up our Manufacturing segment.

Schuff's results of operations are affected primarily by (i) the level of commercial and industrial construction in its principal markets; (ii) its ability to win project contracts; (iii) the number and complexity of project changes requested by customers or general contractors; (iv) its success in utilizing its resources at or near full capacity; and (v) its ability to complete contracts on a timely and cost-effective basis. The level of commercial and industrial construction activity is related to several factors, including local, regional and national economic conditions, interest rates, availability of financing, and the supply of existing facilities relative to demand.

### Strategy

Schuff's objective is to achieve and maintain a leading position in the geographic regions and project segments that it serves by providing timely, high-quality services to its customers. Schuff is pursuing this objective with a strategy comprised of the following components:

Pursue Large, Value-Added Design-Build Projects. Schuff's unique ability to offer design-build services, a full range of steel construction services and project management capabilities makes it a preferred partner for complex, design-build fabrication projects in the geographic regions it serves. This capability often enables Schuff to bid against fewer competitors in a less traditional, more negotiated selection process on these projects, thereby offering the potential for higher margins while providing overall cost savings and project flexibility and efficiencies to its customers;

- Expand and Diversify Revenue Base. Schuff is seeking to expand and diversify its revenue base by leveraging its long-term relationships with national and multi-national construction and engineering firms, national and regional accounts and other customers. Schuff also intends to continue to grow its operations by targeting smaller projects that carry higher margins and less risk of large margin fluctuations. Schuff believes that continuing to diversify its revenue base by completing smaller projects-such as low-rise office buildings, healthcare facilities and other commercial and industrial structures-could reduce the impact of periodic

adverse market or economic conditions as well as potential margin slippage that may accompany larger projects;

**Emphasize Innovative Services.** Schuff focuses its design-build, engineering, detailing, fabrication and erection expertise on larger, more complex projects, where it typically experiences less competition and more advantageous negotiated contract opportunities. Schuff has extensive experience in providing services requiring complex fabrication and erection techniques and other unusual project needs, such as specialized transportation, steel treatment or specialty coating applications. These service capabilities have enabled Schuff to address such design-sensitive projects as stadiums and uniquely designed hotels and casinos; and

**Diversify Customer and Product Base.** Although Schuff seeks to garner a leading share of the geographic and product markets in which it competes, it also seeks to diversify its construction projects across a wide range of commercial, industrial, and specialty projects, including projects related to the oil & gas and alternative energy industries.

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### Services and/or Products and Customers

Schuff operates primarily within the over \$600 billion non-residential construction industry, which serves a diverse set of end markets. As shown on the chart below, while non-residential construction has shown only a small rebound since 2011, industry experts expect that it will follow the already significant rebound in residential construction spending. Despite only a modest increase in non-residential construction spending, Schuff's backlog has already rebounded to pre-economic crisis levels.

### Historical U.S. Total Construction Spend

Schuff consists of three business units spread across diverse steel markets: Schuff Steel Company (steel fabrication and erection), Schuff Steel Management Company (management of smaller projects, leveraging subcontractors) and the Aitken product line ("Aitken") (manufacturing of equipment for the oil & gas industry). For the fiscal year ended December 31, 2015, Schuff Steel's revenues of \$470 million account for 92% of Schuff's total revenue. Schuff Steel Management Company's revenues of \$26 million account for 5% of Schuff's total revenue. Aitken's revenues of \$6 million account for 1% of Schuff's total revenue. Schuff also provides fabricated steel to Canada and other select countries, including Panama, where Schuff owns 49% of Panama-based Schuff Hopsa Engineering, Inc., an engineering design, steel fabrication and erection company, Empresas Hopsa, S.A. Schuff Hopsa Engineering, Inc.'s revenues of \$12 million account for 2% of Schuff's total revenue. In 2015, Schuff's single largest customer represented approximately 23% of revenues.

Schuff's size gives it production capacity to complete large-scale, demanding projects, with typical utilization per facility ranging from 50%-70% and a sales pipeline that includes over \$455 million in potential revenue generation. Schuff has benefited from being one of the largest players in a market that is highly fragmented across many small firms. Schuff outperformed many of its competitors in the recent downturn due to its strong financial position and continued access to bonding facilities, whereas many competitors were forced to close their doors.

Schuff ensures a highly efficient and cost-effective construction process by focusing on collaborating with all project participants and utilizing its extensive design-build and design-assist capabilities with its clients. Additionally, Schuff enjoys in-house fabrication and erection combined with access to a network of subcontractors for smaller projects in order to provide high quality solutions for its customers. Schuff offers a range of services across a broad geography through its 9 fabrication shops and 9 sales and management facilities located in the United States and Panama.

Schuff operates with minimal bonding requirements, with the current balance of less than 11% of Schuff's backlog as of December 31, 2015, and bonding is reduced as projects are billed, rather than upon completion. Schuff has limited raw material cost exposure by securing fixed prices from mills at contract bid, and utilizing its purchasing power as the largest domestic buyer of wide flange beam in the United States.

### Products

Schuff Steel offers a variety of services to its customers which it believes enhances our ability to obtain and successfully complete projects. These services fall into six distinct groups: design-assist/design-build, pre-construction design & budgeting, steel management, fabrication, erection, and Building Information Modeling ("BIM").



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**Design-Assist/Design-Build:** Using the latest technology and BIM, Schuff works to provide clients with cost-effective steel designs. The end result is turnkey structural steel solutions for its diverse client base.

**Pre-construction Design & Budgeting:** Clients who contact Schuff in the early stages of planning can receive a Schuff-performed analysis of the structure and cost breakdown. Both of these tools allow clients to accurately plan and budget for any upcoming project.

**Steel Management:** Using Schuff's proprietary Schuff Steel Integrated Management System ("SSIMS"), Schuff can track any piece of steel and instantly know its location. Additionally, Schuff can help clients manage steel subcontracts, providing clients with savings on raw steel purchases and giving them access to variety of Schuff-approved subcontractors.

**Fabrication:** Through its nine fabrication shops in California, Arizona, Texas, Kansas and Georgia, Schuff has one of the highest fabrication capacities in America. Schuff has over 1.1 million square feet of steel under roof and a maximum annual fabrication capacity of approximately 300,000 tons.

**Erection:** Named the nation's top steel erector in 2007, 2008, 2011, 2013, 2014 and 2015 by Engineering News-Record, Schuff knows how to add value to its project through safe and efficient erection of steel structures.

**BIM:** Schuff is experienced in using BIM on every project to manage its role efficiently. Additionally Schuff's use of SSIMS in conjunction with BIM allows for real-time reporting of a project's progress and information-rich model review.

Schuff Steel Management Company provides turn-key steel fabrication and erection services with an expertise in project management. Using these skills, Schuff Steel Management Company uses its relationships with reliable subcontractors and erectors, along with state-of-the-art management systems, to deliver excellence to clients.

Schuff's third product line, Aitken, is a manufacturer of equipment used in the oil, gas, petrochemical and pipeline industries. Aitken supplies the following products both nationwide and internationally:

**Strainers:** Temporary Cone and Basket Strainers, Tee Type Strainers, Vertical and Horizontal Permanent Line Strainers, Fabricated Duplex Strainers

**Measurement Equipment:** Orifice Meter Tubes, Orifice Plates, Orifice Flanges, Seal Pots, Flow Nozzles, Venturi Tubes, Low Loss Tubes, Straightening Vanes

**Major Products:** Spectacle Blinds, Paddle Blinds, Drip Rings, Bleed Rings, and Test Inserts, ASME Vessels, Launchers, Pipe Spools

### Customers

Schuff offers its integrated steel construction services primarily to general contractors and engineering firms that specialize in a wide variety of projects, including the following: hotels and casinos, office complexes, hospitals, manufacturing plants, shopping malls and centers, sports stadiums, power plants, restaurants, convention facilities, entertainment complexes, airports, schools, churches and warehouses. In 2015, Schuff's single largest customer represented approximately 23% of revenues. In 2014, the same customer represented approximately 12% of revenues.

### Suppliers

Schuff currently purchases a majority of its steel from various foreign and domestic steel producers but is not dependent on any one producer.

### Sales and Distributions

Schuff offers its services primarily to general contractors and engineering firms that focus on a wide array of projects such as airports, malls, power plants, stadiums, shopping malls and centers. Schuff obtains these contracts through

competitive bidding or negotiation, which generally are fixed-price, cost-plus, or unit cost arrangements. Bidding and negotiations require Schuff to estimate the costs of the project up front with most projects typically lasting from one to 12 months. However, large, complex projects can often last two years or more.

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### Marketing

Sales managers lead Schuff's domestic sales and marketing efforts. Each sales manager is responsible primarily for estimating, sales, and marketing efforts in defined geographic areas. In addition, Schuff employs full-time project estimators and chief estimators. Schuff's sales representatives maintain relationships with general contractors, architects, engineers, and other potential sources of business to determine potential new projects under consideration. Schuff generates future project reports to track the weekly progress of new opportunities. Schuff's sales efforts are further supported by most of its executive officers and engineering personnel, who have substantial experience in the design, fabrication, and erection of structural steel and heavy steel plate.

Schuff competes for new project opportunities through its relationships and interaction with its active and prospective customer base, which provides valuable current market information and sales opportunities. In addition, Schuff is contacted by governmental agencies in connection with public construction projects, and by large private-sector project owners, general contractors and engineering firms in connection with new building projects such as plants, warehouse and distribution centers, and other industrial and commercial facilities.

Upon selection of projects to bid or price, Schuff's estimating division reviews and prepares projected costs of shop, field, detail drawing preparation and crane hours, steel and other raw materials, and other costs. On bid projects, a formal bid is prepared detailing the specific services and materials Schuff plans to provide, payment terms and project completion timelines. Upon acceptance, Schuff's bid proposal is finalized in a definitive contract.

### Backlog

Schuff's backlog was \$380.8 million (\$252.7 million under contracts or purchase orders and \$128.1 million under letters of intent) at December 31, 2015. Schuff's backlog increases as contract commitments, letters of intent, notices to proceed and purchase orders are obtained, decreases as revenues are recognized and increases or decreases to reflect modifications in the work to be performed under the contracts, notices to proceed, letters of intent or purchase orders. Schuff's backlog can be significantly affected by the receipt, or loss, of individual contracts. Approximately \$167.8 million, representing 44.1% of Schuff's backlog at December 31, 2015, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these large contracts or other commitments are terminated or their scope reduced, Schuff's backlog could decrease substantially. Schuff's backlog at December 31, 2014 was \$357.0 million (\$305.3 million under contracts or purchase orders and \$51.7 million under letters of intent). At December 29, 2013, its backlog was \$426.9 million (\$370.1 million under contracts or purchase orders and \$56.8 million under letters of intent).

### Competition

The principal geographic and product markets Schuff serves are highly competitive, and this intense competition is expected to continue. Schuff competes with other contractors for commercial, industrial and specialty projects on a local, regional, or national basis. Continued service within these markets requires substantial resources and capital investment in equipment, technology and skilled personnel, and certain of Schuff's competitors have financial and operating resources greater than Schuff. Competition also places downward pressure on Schuff's contract prices and margins. Among the principal competitive factors within the industry are price, timeliness of completion of projects, quality, reputation, and the desire of customers to utilize specific contractors with whom they have favorable relationships and prior experience. While Schuff believes that it maintains a competitive advantage with respect to these factors, failure to continue to do so or to meet other competitive challenges could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

## Employees

As of December 31, 2015, Schuff employed approximately 1,500 people across the country. The number of persons Schuff employs on an hourly basis fluctuates directly in relation to the amount of business Schuff performs. Certain of the fabrication and erection personnel Schuff employs are represented by the United Steelworkers of America and the International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers Union. Schuff is a party to several separate collective bargaining agreements with these unions in certain of its current operating regions, which expire (if not renewed) at various times in the future. Approximately 31% of Schuff's employees are covered under various collective bargaining agreements. Most of Schuff's collective bargaining agreements are subject to automatic annual or other renewal unless either party elects to terminate the agreement on the scheduled expiration date. Approximately 9% of Schuff's employees are covered under a collective bargaining agreement that has expired but is currently being renegotiated. Schuff considers its relationship with its employees to be good and, other than sporadic and unauthorized work stoppages of an immaterial nature, none of which have been related to its own labor relations, Schuff has not experienced a work stoppage or other labor disturbance.

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Schuff strategically utilizes third-party fabrication and erection subcontractors on many of its projects and also subcontracts detailing services from time to time when economically beneficial and/or Schuff requires additional capacity for such services. Schuff's inability to engage fabrication, erection and detailing subcontractors on terms favorable to it could limit its ability to complete projects in a timely manner or compete for new projects and could have a material adverse effect on its operations.

### Legal, Environmental and Insurance

On July 9, 2015, a putative class action wage and hour lawsuit was filed against Schuff Steel Company ("SSC"), a subsidiary of Schuff, and Schuff International (collectively "Schuff") in the Los Angeles County Superior Court [BC587322], captioned Dylan Leonard, individually and on behalf of other members of the general public v. Schuff Steel Company and Schuff International, Inc. The complaint makes generic allegations of numerous violations of California wage and hour laws and claims that Schuff failed to pay for overtime; failed to pay for meal and rest breaks; violated the minimum wage; failed to timely pay business expenses, wages and final wages; failed to keep requisite payroll records; and had non-compliant wage statements. On August 11, 2015, another putative class action wage and hour lawsuit was filed against SSC in San Joaquin County Superior Court [39-2015-0032-8373-CU-OE-STK], captioned Pablo Dominguez, on behalf of himself and all other similarly situated v. Schuff Steel Company. The Complaint alleges non-compliant wage statements and demands penalties pursuant to California Labor Code. On October 11, 2015, an amended complaint was filed in the Dominguez claim pursuing only the statutory claim based on the non-compliant wage statement. By Order dated December 17, 2015, the matters were designated as the Schuff Steel Wage and Hour Cases and assigned a coordination trial judge. No discovery schedule or trial date has been set. The Company believes that the allegations and claims set forth in the Complaints are without merit and intends to defend them vigorously.

On December 28, 2015, The Chemours Company Mexico S. de R.L de C.V. ("Chemours") filed a Demand for Arbitration (the "Demand") against SSC with the American Arbitration Association, International Centre for Dispute Resolution, Case No. 01-15-0006-0956. Schuff had a purchase order to provide fabricated steel for the Line 2 Expansion of DuPont's chemical plant in Altamira, Mexico (the "Project"). The Demand seeks recovery of an alleged mistaken payment of approximately \$5,033,000 to SSC and additional damages in excess of \$18 million for, among other reasons, alleged delays, failure to expedite, breach of assignment of subcontracting clauses, and backcharges for additional costs and rework of fabricated steel provide for the Project. On January 25, 2016, SSC filed an Answer and Counterclaim denying liability alleged by Chemours and seeking to recover the principal sum of approximately \$311,000 for unpaid work on the Project as well as an additional sum for damages due to delays, impacts, and other wrongful conduct by Chemours and its agents. No Arbitration schedule or hearing date has been set. The Company believes that the allegations and claims set forth in the Demand are without merit and intends to defend them vigorously and aggressively pursue Chemours for additional monies owed and damages sustained.

Schuff is subject to other 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 Schuff or that the resolution of any such matter will not have a material adverse effect upon Schuff or the Company's business, consolidated financial position, results of operations or cash flows. Neither Schuff nor the Company believes that any of such pending claims and legal proceedings will have a material adverse effect on its business, consolidated financial position, results of operations or cash flows.

Schuff's operations and properties are affected by numerous federal, state and local environmental protection laws and regulations, such as those governing discharges to air and water and the handling and disposal of solid and hazardous wastes. Compliance with these laws and regulations has become increasingly stringent, complex and costly. There can be no assurance that such laws and regulations or their interpretation will not change in a manner that could materially

and adversely affect Schuff's operations. Certain environmental laws, such as the CERCLA and its state law counterparts, provide for strict and joint and several liability for investigation and remediation of spills and other releases of toxic and hazardous substances. These laws may apply to conditions at properties currently or formerly owned or operated by an entity or its predecessors, as well as to conditions at properties at which wastes or other contamination attributable to an entity or its predecessors come to be located. Although Schuff has not incurred any material environmental related liability in the past and believes that it is in material compliance with environmental laws, there can be no assurance that Schuff, or entities for which it may be responsible, will not incur such liability in connection with the investigation and remediation of facilities it currently operates (or formerly owned or operated) or other locations in a manner that could materially and adversely affect its operations.

Schuff maintains commercial general liability insurance in the amount of \$1.0 million per occurrence and \$2.0 million in the aggregate. In addition, Schuff maintains umbrella coverage limits of \$25.0 million. Schuff also maintains insurance against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction of its facilities and property. All policies are subject to various deductibles and coverage limitations. Although Schuff's management believes that its insurance is adequate for its present needs, there can be no assurance that it will be able to maintain adequate insurance at premium rates that management considers commercially reasonable, nor can there be any assurance that such coverage will be adequate to cover all claims that may arise.

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### Marine Services Segment (GMSL)

GMSL is a global offshore engineering company focused on specialist subsea services across three market sectors, namely telecommunications, oil & gas and offshore power. GMSL's operations make up our Marine Services segment.

### Strategy Overview

GMSL is a leading independent operator in the subsea cable installation and maintenance markets. GMSL aims to maintain its leading market position in the telecommunications maintenance segment and will look for opportunities to grow the installation activities in the three main segments of the market and installation in the telecommunications sector while capitalizing on high market growth in the offshore power sector through expansion of its installation and maintenance services in that sector. In order to accomplish these goals GMSL has crafted a comprehensive strategy which includes:

- Developing opportunities in the offshore power market following the expiration of the Prysmian UK Group Limited ("Prysmian") non-compete agreement in November 2015 (see "Offshore Power" below);
- Diversify the business by pursuing growth within GMSL's three market segments (telecommunications, oil & gas, and offshore power) which we believe will strengthen GMSL's quality of earnings and reduce exposure to one particular market segment;
- Retain and build its leading position in telecommunications maintenance and installation;
- Work to develop convergence of GMSL's maintenance services across all three market segments; and
- Encourage overall consolidation in the wider subsea cables market by pursuing targeted mergers & acquisitions, joint ventures or partnerships, allowing a larger operating platform and benefitting from increased operating efficiencies.

GMSL has a highly experienced management team with a proven track record and has demonstrated the ability to enter new markets and generate returns for investors. The senior management team has in excess of 70 years combined experience within the telecommunications, oil & gas, and offshore power segments.

GMSL's three sectors of focus for providing subsea cable services are telecommunications installation and maintenance, oil & gas installation and offshore power installation.

**Telecommunications:** GMSL provides maintenance and installation to its global telecommunications customers. GMSL has a long, well-established reputation in the telecommunications sector and is considered a leading provider of subsea services in the industry. It operates in a mature market and is the largest independent provider in the maintenance segment. GMSL provides vessels on standby to repair fiber optic telecommunications cables in defined geographic zones, and its maintenance business is provided through contracts with consortia of up to 60 global telecommunications providers. Typically, GMSL enters into five to seven year contracts to provide maintenance to cable systems that are located in specific geographical areas. These contracts provide highly stable, predictable and recurring revenue and earnings. Additionally, GMSL provides installation of cable systems including route planning, mapping, route engineering, cable-laying, trenching and burial. GMSL's installation business is project-based with contracts typically lasting one to five months.

**Oil & Gas:** GMSL provides installation, maintenance and repair of fiber optic communication and power infrastructure to offshore platforms, through which it realizes higher margins due to implementation complexity. Its primary activities include providing power from shore, enabling fiber-based communication between platforms and shore-based systems and installing permanent reservoir monitoring systems which allow customers to monitor subsea seismic data. The majority of GMSL's oil & gas business is contracted on a project-by-project basis with major energy producers or Tier I engineering, procurement and construction (EPC) contractors.

Offshore Power: GMSL's former subsidiary Global Marine Energy ("GME") was established in 2011 as the vehicle for GMSL's significant offshore power activities, which include installing inter-array power cables for use in offshore wind farms and in the offshore wind market. GME was sold to Prysmian in November 2012 in anticipation of a temporary downturn in the offshore power market and the onerous contracting regime present at the time. As part of this sale, GMSL entered into a non-compete agreement regarding offshore power operations with Prysmian but retained certain key personnel and assets to ensure that GMSL maintained its core capabilities and experience in the offshore power sector. Following entry into this non-compete agreement, GMSL continued to install offshore power cables on behalf of Prysmian with chartered vessels through June 2014. The non-compete agreement expired in November 2015. Since November 2015, due to the expiration of the Prysmian non-compete agreement, GMSL has been able to recommence bidding for projects in the high-growth, high-margin offshore power market. Given that renewable energy production is predicted to grow over the next decade, with a substantial proportion of that



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energy to be harvested offshore, GMSL is well positioned to capitalize on this anticipated growth of the offshore alternative energy market in both construction and operations & maintenance, with a strong presence in Northern Europe and Asia, especially China.

### Services and/or Products and Customers

GMSL is a pioneer in the subsea cable industry having laid the first subsea cable in the 1850s and installed the first transatlantic fiber optic cable (TAT-8) in 1988. Over the last 30 years, GMSL estimates that it has installed approximately 300,000 kilometers of cable, which management believes represents almost a quarter of all the fiber optic cable on the global seabed today. GMSL is positioned as a global independent market leader in subsea cable installation and maintenance services and derives approximately 50% of its total revenue from long term, recurring maintenance contracts. GMSL has a strong financial position with a modest level of debt (consisting only of vessel financing), has delivered substantial growth during recent years, generates a substantial amount of cash and serves a diverse mix of global, blue-chip clients with excellent credit profiles. It has started a new phase of growth through applying its capabilities to the rapidly expanding offshore power sector into which GMSL re-entered in November 2015, as discussed above, while retaining a leading position in the telecommunications sector. As a result of this growth, GMSL has major offices in the United Kingdom and Singapore, and has additional presence in Bermuda, Canada, China, Indonesia and the Philippines. See Item IA-“Risk Factors-Risks Related to GMSL-GMSL derives a significant amount of its revenues from sales to customers in non-U.S. countries, which pose additional risks including economic, political and other uncertainties” for a description of risks attendant to such foreign operations. GMSL operates one of the largest specialist cable laying fleets in the world, consisting of seven vessels (five owned and two operated through long-term leases).

### Growth Opportunities

Today, GMSL is positioned as a leading global independent market leader in subsea cable installation and maintenance services. GMSL has a strong financial position, has delivered substantial profit growth during recent years, and generates a substantial amount of cash. It has started a new phase of growth through transferring its capabilities to the rapidly expanding demand in the offshore power sector into which GMSL re-entered in November 2015, as discussed above, while retaining its leading position in the telecommunications sector. GMSL believes it has installed more offshore wind inter-array cables than any other provider and, following the sale of GME in November 2012, remains well positioned as one of the leading installers of cables in the offshore power sector. Management believes the offshore wind farm operations and maintenance sub-sector represents a significant opportunity for GMSL and is developing strategies to realize that opportunity.

Following the sale of GME, GMSL has remained one of the leading installers of cables in relation to supporting the growth in the offshore power market and GMSL’s track record in these types of projects includes the following:

- Experimental UK farm, Blythe, for Shell
- London Array Ltd: inter-array cables for London Array project
- RWE: 4 export cables for Gwynt y Mor project
- C-Power: inter-array cables for Thornton Bank project (Belgium)
- Dong Energy: Inter-array cables for Horns Rev project, Denmark (three phases)
- Vattenfall: 3 export cables for Kentish Flats project
- EON/Shell: power and fiber optic cables for Blythe project
- GT1: largest German wind farm to date

### Fleet Overview

GMSL operates one of the largest, specialist cable laying fleets consisting of 7 vessels (5 owned, 2 operated through long-term leases). The average age of GMSL's owned and operated fleet is 22 years, which is approximately the same as the industry average. Each vessel is equipped with specialist inspection, burial, and survey equipment. By providing oil & gas, offshore power, and telecommunications installation as well as telecommunications maintenance, GMSL can retain vessels throughout their asset lives by cascading them through different uses as they age. This provides a significant competitive advantage as GMSL can retain vessels for longer and reduce the frequency of capital expenditure requirements with a longer amortization period. GMSL's fleet is operated by GMSL employees or long-term contractors.

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## Fleet Details

Vessels	Ownership	Lease Expiry	Joined Fleet	Age	Flag	Base Port
Maintenance - GMSL						
Wave Venture	GMSL	N/A	Purchased -1999	32	UK	Victoria, Canada
Pacific Guardian	GMSL	N/A	New Build -1984	31	UK	Curacao
Wave Sentinel	GMSL	N/A	Purchased - 1999	19	UK	Portland, UK
Cable Retriever	ICPL	Jan-23	New Build - 1997	17	Singapore	Batangas, Philippines
Installation – GMSL						
Sovereign	GMSL	N/A	New Build - 1991	23	UK	Portland, UK
Innovator	DYVI Cables	May-25	New Build - 1995	19	UK	Portland, UK
Networker	GMSL	N/A	New Build - 1999	15	Panama	Batam, Indonesia
SBSS Joint Venture Vessels (49% share)						
Installation						
CS Fu Hai	SBSS	N/A	Purchased - 2003	15	Panama	Shanghai, China
Bold Maverick	SBSS	N/A	Purchased - 2012	14	Panama	Shanghai, China
CS Fu An	SBSS	N/A	Purchased - 2000	33	Panama	Shanghai, China

## Product Research &amp; Development

Drawing on its long experience in the subsea cable market, over the years GMSL has provided many important innovations to the subsea cable market. One such innovation was GEOCABLE, GMSL's proprietary Geographical Information System (GIS), which GMSL believes to be the largest cable database in the market and was developed specifically to meet the needs of the cable industry. GEOCABLE is an important tool to any vendor planning subsea cable installation and GMSL sells data from GEOCABLE to third-party customers.

In addition to GEOCABLE, GMSL also developed and owns intellectual property associated with the Universal Joint in a consortium with other industry participants, a product which easily and effectively links together cables from different manufacturers. The Universal Joint has gained such prevalence in the industry that new fiber optic cables may be certified to meet the specifications of the Universal Joint, which is a service provided by GMSL among others, so that the subsea cable manufacturer can ensure compatibility of its subsea cable with other existing subsea cables and the standardized equipment on board cable repair vessels. GMSL benefits from its sales of the Universal Joint, and proceeds from GMSL sponsored training of jointing skills, but GMSL also enjoys the industry leadership and brand enhancement that come with creation of an industry leading product.

## Intellectual Property

GMSL is looking to protect its interests in intellectual property and closely monitors industry changes, including with respect to GEOCABLE and Universal Joint.

## Customers

GMSL's customer base is made up primarily of blue-chip companies. Within the two kinds of services provided by GMSL, maintenance and repair and installation, contract length varies. Maintenance and repair contracts tend to be long-term upon inception (5-7 years), with a relatively high level of expected renewal rates and the customer is typically a consortium of different cable owners such as national, regional and international telecommunication companies and others who have an ownership interest in the subsea cables covered by the maintenance contract. GMSL charges a standing fee for cost of vessels in port plus margin, paid in advance proportionally by each member, and an additional daily call out fee for repairs paid by the specific cable owner(s). All four maintenance vessels are engaged on GMSL's three current long term telecommunications maintenance contracts with ACMA, SEAIOCMA, and NAZ. Installation contracts tend to be much shorter term (30-150 days) and the counterparty tends to be a single

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client. Contracts are typically bid for on a fixed-sum basis with an initial upfront payment plus subsequent installments providing working capital support. Due to the added complexity of cable installation as opposed to maintenance, GMSL generally realizes higher margins on its installation contracts in the oil & gas and offshore power sectors. In 2015, GMSL experienced lower margins on its installation contracts as a result of competitive pressures supporting the aggressive market share expansion of GMSL's most significant customer and the operations of GMSL's joint venture with Huawei Marine Networks, a turnkey installer of fiber optic cable and telecommunications systems.

### Sales and Distributions

In the telecommunications cable market, cable maintenance is most often accomplished by zone maintenance contracts in which a consortium of telecommunications operators or cable owners contract with a maintenance provider like GMSL, over a long-term period of approximately five to seven years. GMSL has three cable maintenance agreements and these are a steady, high-quality source of income for GMSL. These maintenance contracts are usually re-awarded to incumbent providers unless there are significant performance issues which ultimately may mean that GMSL likely need not expend extra capital on retaining these contracts. GMSL constantly has a focused sales plan to build relationships with current and potential customers at regional and corporate offices and readily leverages Huawei Technologies' large sales organization.

### Marketing

In the oil & gas sector, GMSL has a focused sales and marketing plan to create relationships with major players in the oil & gas industries. In particular and despite the prevailing low oil price market conditions, GMSL hopes to use its expertise in installing PRM systems to forge new contacts with both the end users of PRM services, such as oil majors, and the PRM suppliers themselves. Additionally GMSL hopes to pursue a strategy of specialization in installing the small power and fiber optic cables that its competitors in the oil & gas and offshore power sectors find unprofitable and lack installation experience in.

In order to aid these plans for expansion, GMSL plans on increasing its fleet of maintenance and installation vessels anywhere from one to three vessels over the next several years. In particular, GMSL purchased a remotely operated vehicle ("ROV") in 2015. Furthermore, it intends to acquire an installation vessel in 2016, to replace one of its older maintenance vessels in 2016, and purchase both a new hard-ground trencher machine in 2017 as well as a new build vessel in 2018, as funded 75/25 through vessel-financing.

### Competition

GMSL is one of the few companies that provide subsea cable installation and maintenance services on a worldwide basis. GMSL competes for contracts with companies that have worldwide operations, as well as numerous others operating locally in various areas. There are a number of players, mainly Asian based, who focus primarily on their countries of origin. Competition for GMSL's services historically has been based on vessel availability, location of or ability to deploy these vessels and associated subsea equipment, quality of service and price. The relative importance of these factors can vary depending on the customer or specific project and also over time based on the prevailing market conditions. The ability to develop, train and retain skilled engineering personnel is also an important competitive factor in GMSL's markets.

GMSL believes that its ability to provide a wide range of subsea cable installation and maintenance services in the telecommunications, oil & gas and offshore power sectors on a worldwide basis enables it to compete effectively in the industry in which it operates. However, in some cases involving projects that require less sophisticated vessel and subsea equipment, smaller companies may be able to bid for contracts at prices uneconomical to GMSL. In addition,

GMSL's competitors generally have the capability to move their vessels to where GMSL operates from other locations with relative ease, which may impact competition in the markets it serves.

#### Management and Employees

As of December 31, 2015, GMSL employed 316 people. GMSL's employees are not formally represented by any labor union or other trade organization although the majority of the seafarers are members of an established trade union. GMSL considers relations with its employees to be satisfactory and it has never experienced a work stoppage or strike. GMSL regularly uses independent consultants and contractors to perform various professional services in different areas of the business, including in its installation and fleet operations and in certain administrative functions. Dick Fagerstal is a 3% interest holder, chairman and chief executive officer of Global Marine Holdings LLC, the parent holding company of Bridgehouse Marine Limited, and he is executive chairman of Global Marine Systems Limited. Mr. Fagerstal has served in an executive capacity for companies operating in various industries including energy, marine services, and their related infrastructure.

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### Legal, Environmental and Insurance

GMSL is from time to time 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 GMSL or that the resolution of any such matter will not have a material adverse effect upon GMSL's business, consolidated financial position, results of operations or cash flows. GMSL does not believe that any of such pending claims and legal proceedings will have a material adverse effect on its business, consolidated financial position, results of operations or cash flows.

GMSL has various kinds of insurance coverage including protection and indemnity, hull and machinery, war risk, and property insurances, directors and officers liability insurance, contract warranty insurance for the maintenance contracts, and all other necessary corporate insurances. GMSL's liability is capped and insured under each of its installation contracts.

### Insurance Segment (Continental Insurance, Inc.)

On December 24, 2015, we completed the acquisitions of Insurance Companies for aggregate consideration of approximately \$18.6 million, subject to post-closing adjustments. The operations of the acquired companies were consolidated into our insurance operating segment, CIG.

### Strategy

CIG currently provides long-term care, life and annuity coverage to approximately 99,000 individuals through its two Insurance Companies. The benefits provided by CIG's insurance operations help protect policy and certificate holders from the financial hardships associated with illness, injury, loss of life, or income discontinuation. In conjunction with the purchase of the Insurance Companies on December 24, 2015, an Administrative Services Agreement was entered into under which Great American Life Insurance Company ("GALIC") has agreed to continue to administer the Insurance Companies' life and annuity businesses.

### Employees and Operations.

CIG has a concentrated focus on long-term care insurance and is committed to the continued delivery of the best-practices services established by our insurance operations to its policy and certificate holders. Through investments in technology, a commitment to attracting, developing and retaining best-in-class insurance professionals, a dedication to continuing process improvements, and a focus on strategic growth, we believe CIG will be well equipped to maintain and improve the level of service provided to its customers and assume a leading role in the long-term care industry.

CIG's plan is to leverage its existing platform and industry expertise to identify strategic growth opportunities for managing closed blocks of long-term care business. Growth opportunities are expected to come from:  
• future acquisitions of long-term care businesses and/or closed blocks of long-term care policies;  
• reinsurance arrangements; and  
• third party administration arrangements.

### Products

#### Long Term Care Insurance

CIG's long-term care insurance products pay a benefit which is either a specified daily indemnity amount or reimbursement of actual charges up to a daily maximum for long-term care services provided in the insured's home or in assisted living or nursing facilities. Benefits begin after a waiting period, usually 90 days or less, and are generally paid for a period of three years, six years, or lifetime.

Substantially all of the in-force long-term care insurance policies were sold after 1995 with all sales then being discontinued in January of 2010. Policies were issued in all states except for New York with Texas being the largest issue state with over 20% of the business. The existing block of policies include both individual and group products, but all individuals were individually underwritten. CIG's long-term care insurance products were sold on a guaranteed renewable basis which allows us to re-price in-force policies, subject to regulatory approval. As part of CIG's strategy for its long-term care insurance business, management has been implementing, and expects to continue to pursue, significant premium rate increases on its blocks of business as actuarially justified. Premium rates vary by age and are based on assumptions concerning morbidity, mortality, persistency, administrative



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expenses, and investment yields. CIG develops its assumptions based on its own claims and persistency experience and published industry tables.

### Life Insurance and Annuities

CIG's life insurance products include Traditional, Term, Universal, and Interest Sensitive Life Insurance. Its annuity products include Flexible and Single Premium Deferred Annuities. CIG's life insurance business provides a personal financial safety net for individuals and their families. These products provide protection against financial hardship after the death of an insured. Some of these products also offer a savings element that can help accumulate funds to meet future financial needs. Annuities are long-term retirement saving instruments that benefit from income accruing on a tax-deferred basis. The issuer of the annuity collects premiums, credits interest or earnings on the policy and pays out a benefit upon death, surrender or annuitization. All life insurance and annuity products are closed to new business. The life insurance products were issued with both full and simplified underwriting.

### Customers

CIG's long-term care insurance policies were marketed and sold to individuals between 1986 and 2010 for the purpose of providing defined levels of protection against the significant and escalating costs of long-term care services provided in the insured's home or in assisted living or nursing facilities. Though CIG no longer actively markets new long-term care insurance products, it continues to service and receive net renewal premiums (\$73.9 million in 2015, \$74.0 million in 2014 and \$76.8 million in 2013) on our in-force block of approximately 56,000 lives. Similarly, CIG continues to service and receive net renewal premiums (\$13.1 million in 2015, \$14.0 million in 2014 and \$16.2 million in 2013) on its in-force block of approximately 43,000 life and annuity policies representing \$326.1 million of net life face amount and \$217.4 million of net annuity cash value at December 31, 2015.

### Employees and Operations

As of December 31, 2015, CIG employed 77 people full-time, the majority of whom are employed on a salaried basis but some are on an hourly basis. Except for 2 remote employees working in California and Indiana, all other employees work out of the home office in Austin, TX. CIG considers its relations with its employees to be good and has never experienced a work stoppage or other labor disturbance. All operating centers maintain a cost effective and efficient operating model.

Upon the purchase of UTA and CGI on December 24, 2015 a Transition Services Agreement was entered into with the prior owner, Great American Financial Resources ("Great American") in Cincinnati, OH, pursuant to which Great American agreed to continue to perform certain business functions such as IT, Finance, Investment, and Accounting for a period of 12 to 16 months to allow us time to secure the resources needed to take over those duties. Simultaneously, an Administrative Services Agreement was also entered into with Great American pursuant to which GALIC agreed to continue to administer the companies' life and annuity businesses for a period of no less than 5 years.

### Reinsurance

CIG reinsures a significant portion of its insurance business with unaffiliated reinsurers. In a reinsurance transaction, a reinsurer agrees to indemnify another insurer for part or all of its liability under a policy or policies it has issued for an agreed upon premium. CIG participates in reinsurance activities in order to minimize exposure to significant risks, limit losses, and provide additional capacity for future growth. CIG also obtains reinsurance to meet certain capital requirements.

Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse CIG for the ceded amount in the event a claim is paid. Cessions under reinsurance agreements do not discharge CIG's obligations as the primary insurer. In the event that reinsurers do not meet their obligations under the terms of the reinsurance agreements, reinsurance recoverable balances could become uncollectible. CIG's amounts recoverable from reinsurers represent receivables from and/or reserves ceded to reinsurers. As of December 31, 2015, \$294.1 million of total CIG long-term care insurance reserves and liabilities and \$90.3 million of life and annuity reserves and liabilities were reinsured.

#### Reserves for Policy Contracts and Benefits

The applicable insurance laws under which insurance companies operate require that they report, as liabilities, policy reserves to meet future obligations on their outstanding policies. These reserves are the amounts which, with the additional premiums to be received and interest thereon compounded annually at certain assumed rates, are calculated to be sufficient to meet the various policy and contract obligations as they mature. These laws specify that the reserves shall not be less than reserves calculated using certain specified mortality and morbidity tables, interest rates, and methods of valuation required for statutory accounting.

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CIG calculates reserves in conformity with GAAP which differ from those specified by the laws of the various states and reported in the statutory financial statements. These differences result from the use of mortality and morbidity tables and interest assumptions which CIG believes are more representative of the expected experience for these policies than those required for statutory accounting purposes and also result from differences in actuarial reserving methods.

The assumptions CIG uses to calculate its reserves are intended to represent an estimate of experience for the period that policy benefits are payable. If actual experience is not less favorable than our reserve assumptions, then reserves should be adequate to provide for future benefits and expenses. If experience is less favorable than the reserve assumptions, additional reserves may be required. The key experience assumptions include claim incidence rates, claim resolution rates, mortality and morbidity rates, policy persistency, interest rates, crediting spreads, and premium rate increases. CIG periodically reviews its experience and updates its policy reserves and reserves for all claims incurred, as it believes appropriate.

The statements of income include the annual change in reserves for future policy and contract benefits. The change reflects a normal accretion for premium payments and interest buildup and decreases for policy terminations such as lapses, deaths, and benefit payments. If policy reserves using best estimate assumptions as of the date of a test for loss recognition are higher than existing policy reserves net of any deferred acquisition costs, the increase in reserves necessary to recognize the deficiency is also included in the change in reserves for future policy and contract benefits.

For further discussion of reserves, refer to "Risk Factors" contained herein in Item 1A, "Critical Accounting Estimates" and the discussion of segment operating results included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained herein in Item 7, and Notes 2. Summary of Significant Accounting Policies and 13. Life, Accident and Health Reserves of the "Notes to Consolidated Financial Statements" contained herein in Item 8.

## Investments

CIG manages its cash and invested assets using an approach that is intended to balance quality, diversification, asset/liability matching, liquidity needs and investment return. The goals of the investment process are to optimize after-tax, risk-adjusted investment income and after-tax, risk-adjusted total return while managing the assets and liabilities on a cash flow and duration basis. CIG's liabilities are primarily supported by investments in investment grade, fixed maturity securities reflected on the Company's consolidated balance sheets.

Upon the purchase of UTA and CGI on December 24, 2015 a Transition Services Agreement was entered into with the prior owner, Great American Financial Resources in Cincinnati, OH, a subsidiary of American Financial Group, under which American Money Management, a subsidiary of American Financial Group, has agreed to continue to perform investment management services related to UTA and CGI for a period of 12 to 16 months.

## Regulation

The Company's insurance company subsidiaries are subject to regulation in the jurisdictions where they do business. In general, the insurance laws of the various states establish regulatory agencies with broad administrative powers governing, among other things, premium rates, solvency standards, licensing of insurers, agents and brokers, trade practices, forms of policies, maintenance of specified reserves and capital for the protection of policyholders, deposits of securities for the benefit of policyholders, investment activities and relationships between insurance subsidiaries and their parents and affiliates. Material transactions between insurance subsidiaries and their parents and affiliates generally must receive prior approval of the applicable insurance regulatory authorities and be disclosed. In addition,

while differing from state to state, these regulations typically restrict the maximum amount of dividends that may be paid by an insurer to its shareholders in any twelve-month period without advance regulatory approval. Such limitations are generally based on net earnings or statutory surplus.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”), among other things, established a Federal Insurance Office (“FIO”) within the U.S. Treasury. Under this law, regulations will need to be created for the FIO to carry out its mandate to focus on systemic risk oversight. The FIO gathered information regarding the insurance industry and submitted a report to Congress in December 2013. The report concluded that a hybrid approach to regulation, involving a combination of state and federal government action, could improve the U.S. insurance system by attaining uniformity, efficiency and consistency, particularly with respect to solvency and market conduct regulation. We cannot predict the extent to which the report’s recommendations might result in changes to the current state-based system of insurance industry regulation or ultimately impact the Company’s operations.

Most states have created insurance guaranty associations that assess solvent insurers to pay claims of insurance companies that become insolvent. Annual guaranty assessments for the Company’s insurance companies have not been material.

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### Telecommunications Segment (PTGi-International Carrier Services ("PTGi-ICS"))

#### Services and Customers

Our PTGi-ICS business unit provides customers with internet-based protocol and time-division multiplexing (TDM) access and transport of long distance voice minutes.

#### Competition

PTGi-ICS competes for the business of other telecommunications carriers and resellers on the basis of price, service quality, financial strength, relationship and presence. Sales of wholesale long distance voice minutes are generated by connecting one telecom operator to another and charging a fee to do so.

#### Network

General. PTGi-ICS operates a global telecommunications network consisting of international gateway and domestic switching and related peripheral equipment, carrier-grade routers and switches for Internet and circuit based services. To ensure high-quality communications services, PTGi-ICS' network employs digital switching and fiber optic technologies, incorporates the use of VOIP protocols, SS7/C7 signaling and is supported by comprehensive network monitoring and technical support services.

Switching Systems. PTGi-ICS' network makes use of a carrier-grade international gateway and domestic switch system, Internet routers and media gateways in the U.S with points of presence throughout the world via third party interconnections.

Foreign Carrier Agreements. In selected countries where competition with the traditional Post Telegraph and Telecommunications companies ("PTTs") is limited, PTGi-ICS has entered into foreign carrier agreements with PTTs or other service providers which permit us to provide traffic into and receive return traffic from these countries.

Network Management and Control. PTGi-ICS owns and operates network management systems in Herndon, Virginia which are used to monitor and control our switching systems, global data network, and other digital transmission equipment used in our network. Additional network monitoring, network management, and traffic management services are supported from our contingent Network Management Center located in Guatemala City, Guatemala. The network management control centers operate seven days per week and 24 hours per day.

#### Sales and Marketing

PTGi-ICS markets its services through a variety of sales channels, as summarized below:

Trade Shows. PTGi-ICS attends industry trade shows around the globe throughout the year. At each trade show PTGi-ICS markets to both existing and potential new customers through prearranged meetings, social gatherings and networking.

Business Development. A world class sales team globally focuses on developing PTGi-ICS's business potential through ongoing communication and face to face meetings

#### Management Information and Billing Systems

PTGi-ICS operates management information, network and customer billing systems supporting the functions of network and traffic management, customer service and customer billing. For financial reporting, PTGi-ICS

consolidates information from each of our markets into a single database.

PTGi-ICS believes that its financial reporting and billing systems are generally adequate to meet its business needs. However, in the future, PTGi-ICS may determine that it needs to invest additional capital to purchase hardware and software, license more specialized software and increase its capacity.

#### Government Regulation

PTGi-ICS is subject to varying degrees of regulation in each of the jurisdictions in which it operates. Local laws and regulations, and the interpretation of such laws and regulations, differ among those jurisdictions. There can be no assurance that (1) future regulatory, judicial and legislative changes will not have a material adverse effect on it; (2) domestic or international regulators

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or third parties will not raise material issues with regard to its compliance or noncompliance with applicable regulations; or (3) regulatory activities will not have a material adverse effect on it.

Regulation of the telecommunications industry continues to change rapidly in many jurisdictions. Privatization, deregulation, changes in regulation, consolidation, and technological change have had, and will continue to have, significant effects on the industry. Although we believe that continuing deregulation with respect to portions of the telecommunications industry will create opportunities for firms such as us, there can be no assurance that deregulation and changes in regulation will be implemented in a manner that would benefit PTGi-ICS.

The regulatory frameworks in certain jurisdictions in which we provide services as of December 31, 2015 are described below:

**United States.** In the United States, PTGi-ICS' services are subject to the provisions of the Communications Act of 1934, as amended (the "Communications Act"), and other federal laws, the Federal Communications Commission ("FCC") regulations, and the applicable laws and regulations of the various states.

PTGi-ICS' interstate telecommunications services are subject to various specific common carrier telecommunications requirements set forth in the Communications Act and the FCC's rules, including operating, reporting and fee requirements. Both federal and state regulatory agencies have broad authority to impose monetary and other penalties on PTGi-ICS for violations of regulatory requirements.

**International Service Regulation.** The FCC has jurisdiction over common carrier services linking points in the U.S. to points in other countries. PTGi-ICS provides such services. Providers of such international common carrier services must obtain authority from the FCC under Section 214 of the Communications Act. PTGi-ICS has obtained the authorizations required to use, on a facilities and resale basis, various transmission media for the provision of international switched services and international private line services on a non-dominant carrier basis. The FCC is considering a number of possible changes to its rules governing international common carriers. We cannot predict how the FCC will resolve those issues or how its decisions will affect PTGi-ICS's international business. FCC rules permit non-dominant carriers such as PTGi-ICS to offer some services on a detariffed basis, where competition can provide consumers with lower rates and choices among carriers and services.

On November 29, 2012, the FCC released an order removing the requirement for facilities-based U.S. carriers, like PTGi-ICS, with operating agreements with dominant foreign carriers, to abide by the FCC's International Settlements Policy by following uniform accounting rates, an even split in settlement rates, and proportionate return of traffic, for agreements with carriers on all remaining U.S.-international routes with the exception of Cuba, thereby allowing carriers to negotiate market-based arrangements on those routes. The November 29, 2012 order also adopted a requirement for U.S. carriers to provide information about any above-benchmark settlement rates to the FCC on an as-needed basis in connection with an investigation or competition problems on selected routes or review of high consumer rates on either multiple or selected routes. PTGi-ICS may take advantage of these more flexible arrangements with non-dominant foreign carriers, and the greater pricing flexibility that may result, but PTGi-ICS may also face greater price competition from other international service carriers. On November 9, 2015, the FCC issued a Public Notice indicating that it has begun the process of including Cuba within the liberalized settlements policy established in 2012. We cannot predict the actions the FCC will take in the future or their potential effect on PTGi-ICS's international termination rates, costs, or revenues.

**Domestic Service Regulation.** With respect to PTGi-ICS domestic U.S. telecommunications services, PTGi-ICS is considered a non-dominant interstate carrier subject to regulation by the FCC. FCC rules provide PTGi-ICS significant authority to initiate or expand its domestic interstate operations, but PTGi-ICS is required to obtain FCC

approval to assume control of another telecommunications carrier or its assets, to transfer control of our operations to another entity, or to discontinue service. PTGi-ICS is also required to file various reports and pay various fees and assessments to the FCC and various state commissions. Among other things, interstate common carriers must offer service on a nondiscriminatory basis at just and reasonable rates. The FCC has jurisdiction to hear complaints regarding our compliance or non-compliance with these and other requirements of the Communications Act and the FCC's rules. Among other regulations, PTGi-ICS is subject to the Communications Assistance for Law Enforcement Act ("CALEA") and associated FCC regulations which require telecommunications carriers to configure their networks to facilitate law enforcement authorities to perform electronic surveillance.

On November 8, 2013, the FCC released an order related to the completion of calls to rural areas. The order applies recordkeeping, retention and reporting obligations to certain providers of retail long-distance voice service. The rules require those providers to collect and retain information on long distance call attempts such as, but not limited to, the called number, the date and time of the call, the use of an intermediate provider, etc. The order also prohibits false audible ringing (the premature triggering of audible ring tones to the caller before the call setup request has reached the terminating service provider). While PTGi-ICS is not directly subject to these rules, PTGi-ICS may function as an intermediate provider within the meaning of these



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rules, which may require PTGi-ICS to provide information to its customers regarding calls that it carries on their behalf. We do not expect the costs of providing that information to be material.

Interstate and international telecommunications carriers are required to contribute to the federal Universal Service Fund ("USF"). Carriers providing wholesale telecommunications services are not required to contribute with respect to services sold to customers that provide a written certification that the customers themselves will make the required contributions. If the FCC or the Universal Service Fund Administrator were to determine that the USF reporting for the Company, including PTGi-ICS, is not accurate or in compliance with FCC rules, PTGi-ICS could be subject to additional contributions, as well as to monetary fines and penalties. In addition, the FCC is considering revising its USF contribution mechanisms and the services considered when calculating the contribution. PTGi-ICS cannot predict the outcome of these proceedings or their potential effect on our contribution obligations. Some changes to the USF under consideration by the FCC may affect certain entities more than others, and we may be disadvantaged as compared to our competitors as a result of FCC decisions regarding USF. In addition, the FCC may extend the obligation to contribute to the USF to certain services that PTGi-ICS offers but that are not currently assessed USF contributions.

FCC rules require providers that originate interstate or intrastate traffic on or destined for the PSTN to transmit the telephone number associated with the calling party to the next provider in the call path. Intermediate providers, such as PTGi-ICS, must pass calling party number ("CPN") or charge number ("CN") signaling information they receive from other providers unaltered, to subsequent providers in the call path. While PTGi-ICS believes that it is in compliance with this rule, to the extent that it passes traffic that does not have appropriate CPN or CN information, PTGi-ICS could be subject to fines, cease and desist orders, or other penalties.

### Utilities Segment (American Natural Gas)

American Natural Gas ("ANG") is a premier retailer of compressed natural gas ("CNG") that designs, builds, owns, operates and maintains natural gas fueling stations for the transportation industry. ANG's principal business is supplying CNG for light-, medium- and heavy-duty vehicles and providing operation, repair and maintenance services for vehicle fleet customer stations.

ANG focuses its efforts on customers in a variety of markets, including heavy-duty trucking, airports, refuse, industrial and institutional energy users and government fleets. ANG seeks to retain its customers by offering state of the art fueling stations with exemplary service levels.

### Market for Natural Gas as an Alternative Fuel for Vehicles

As of December 2015, Natural Gas Vehicles for America ("NGV America") estimates that there were approximately 1,640 CNG fueling stations in the United States and about 153,000 natural gas vehicles on American roads, including 39,500 heavy-duty vehicles (e.g. tractors, refuse trucks and buses), 25,800 medium-duty vehicles (e.g. delivery vans and shuttles) and 87,000 light-duty vehicles (e.g. passenger cars, sport utility vehicles, trucks and vans).

ANG believes that natural gas is an attractive alternative to gasoline and diesel for use as a vehicle fuel in the United States as it is plentiful, domestically produced, cleaner and generally cheaper than gasoline or diesel. Historically, oil, gasoline, and diesel prices have been highly volatile, while natural gas prices have generally been stable and lower than the cost of oil, gasoline and diesel on an energy equivalent basis. ANG also expects increasingly stringent federal, state and local air quality regulations, expanding initiatives by fleet operators to lower greenhouse gas emissions and increase fuel diversity and additional regulations mandating low carbon fuels, all of which supports increased market adoption of natural gas as an alternative to gasoline and diesel as a vehicle fuel. ANG believes these

factors support current opportunities to market natural gas as a vehicle fuel in the United States.

#### Benefits of Natural Gas Fuel

**Domestic and Plentiful Supply.** Technological advances in natural gas drilling and production, including the widespread deployment of horizontal drilling techniques and the use of hydraulic fracturing, have unlocked vast natural gas reserves. The U.S. is now the number one producer of natural gas in the world, with proven, abundant and growing reserves of natural gas.

**Less Expensive.** Due to the abundance of natural gas, the cost of natural gas in the U.S. is less than the cost of crude oil, on an energy equivalent basis.

Based on projections from the U.S. Energy Information Administration, ANG believes that natural gas used as a transportation fuel will remain cheaper than gasoline and diesel for the foreseeable future. In addition, because the price of the natural gas

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commodity makes up a smaller portion of the cost of a gasoline gallon equivalent (“GGE”) of CNG relative to the commodity portion of the cost of a GGE of diesel or gasoline, the price of a GGE of CNG is less sensitive to increases in the underlying commodity cost.

**Cleaner.** Natural gas contains less carbon than any other fossil fuel and thus produces fewer carbon dioxide emissions when burned. The California Air Resources Board (“CARB”) has concluded that a CNG fueled vehicle emits 20 to 29 percent fewer greenhouse gas (“GHG”) emissions than a comparable gasoline or diesel fueled vehicle on a well-to-wheel basis. Additionally, a study from Argonne National Laboratory, a research laboratory operated by the University of Chicago for the U.S. Department of Energy, indicates that natural gas vehicles produce at least 13 to 21 percent fewer GHG emissions than comparable gasoline and diesel fueled vehicles.

**Safer.** As reported by NGV America, CNG is relatively safer than gasoline and diesel because it dissipates into the air when spilled or in the event of a vehicle accident. When released, CNG is less combustible than gasoline or diesel as it ignites only at relatively high temperatures. The fuel tanks and systems used in natural gas vehicles are subjected to a number of federally required safety tests, such as fire, environmental hazard, burst pressures, and crash testing, according to the U.S. Department of Transportation National Highway Traffic Safety Administration. In addition, CNG is stored in above ground tanks and therefore the risk of soil or groundwater contamination is reduced. Currently, over 153,000 vehicles in the U.S. and 15.2 million worldwide, fuel safely with natural gas.

### Natural Gas Vehicles

Natural gas vehicles use internal combustion engines similar to those used in gasoline or diesel powered vehicles. A natural gas vehicle uses sealed storage cylinders to hold CNG, specially designed fuel lines to deliver natural gas to the engine, and an engine tuned to run on natural gas. Natural gas fuels have higher octane content than gasoline or diesel, and the acceleration and other performance characteristics of natural gas vehicles are similar to those of gasoline or diesel powered vehicles of the same weight and engine class. Natural gas vehicles running on CNG are refueled using a hose and nozzle that makes an airtight seal with the vehicle's gas tank. For heavy-duty vehicles, spark ignited natural gas vehicles have proven to operate more quietly than diesel powered vehicles. Natural gas vehicles typically cost more than gasoline or diesel powered vehicles, primarily due to the higher cost of the storage systems that hold the CNG.

Virtually any car, truck, bus or other vehicle is capable of being manufactured or modified to run on natural gas. Approximately 50 different manufacturers in the U.S. produce 100 models of heavy-, medium- and light-duty natural gas vehicles and engines. These vehicles include long-haul tractors, refuse trucks, regional tractors, transit buses, cement trucks, delivery trucks, vocational work trucks, school buses, shuttles, passenger sedans, pickup trucks and cargo and passenger vans. ANG expects that additional models and types of natural gas vehicles will become available as natural gas becomes more widely accepted as a vehicle fuel in the U.S.

### Products and Services

**CNG Sales.** ANG sells CNG through fueling stations. CNG fueling station sales are made through stations located either on ANG owned or on ANG’s customers' properties and through ANG’s network of public access fueling stations. At these CNG fueling stations, ANG procures natural gas from local utilities or third-party marketers under standard, floating-rate or locked-in rate arrangements and then compresses and dispenses it into customers' vehicles. ANG's CNG fueling station sales are made primarily through contracts with customers. Under these contracts, pricing is principally determined on a cost plus basis, which is calculated by adding a margin to the utility price for natural gas. As a result, CNG total sales revenues increase or decrease as a result of an increase or decrease in the price of natural gas. The balance of ANG’s CNG fueling station sales are on a per fill-up basis at prices set at public access stations

based on prevailing market conditions.

**O&M Services.** ANG performs operate and maintain (“O&M”) services for CNG stations that are owned by their customers. For these services, ANG generally charges either a monthly or per-GGE fee based on the volume of CNG dispensed at the station.

**Station Construction and Engineering.** ANG builds state of the art fueling stations, either serving as general contractor or supervising qualified third-party contractors, for themselves or their customers. ANG has also acquired existing stations that they did not build from third parties. Equipment for a CNG station typically consists of dryers, compressors, dispensers and storage tanks.

Half of ANG’s fueling stations have separate public access areas for retail customers, which generally have comparable

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dispensing rates of traditional gasoline and diesel fueling stations.

### Sales and Marketing

ANG focuses its sales and marketing efforts within the continental United States and targets such efforts primarily through direct sales. ANG's sales and marketing group stays informed of proposed and newly adopted regulations in order to provide education on the value of natural gas as a vehicle fuel to current and future customers.

### Key Markets and Customers

ANG targets customers in a variety of markets, such as trucking, airports, refuse, public transit and food and beverage distributors. In 2015, approximately 90% of ANG's revenues from CNG sales came from customers with multi-year contracts based on committed fueling volumes.

**Trucking and Food and Beverage Distributors.** ANG believes that heavy-duty trucking represents one of the greatest opportunities for natural gas to be used as a vehicle fuel in the U.S. Fleets with high-mileage trucks consume significant amounts of fuel and can benefit from the lower cost of natural gas. Many shippers, manufacturers, retailers and other truck fleet operators have started to adopt natural gas fueled trucks to move their freight.

**Refuse Haulers.** According to INFORM, there are 179,000 waste collection, waste transfer and recycling vehicles on U.S. roads today - 91% of them diesel-fueled and most of them old. Refuse haulers are increasingly adopting trucks that run on CNG to realize operating savings and to address their customers' demands for reduced emissions and quieter performance. ANG serves several large independent waste haulers in the northeast. ANG believes that refuse companies are ideal customers as they can be served by centralized fueling infrastructure supported by a consistent monthly volume of fuel.

### Corporate Information; Acquisitions and Divestitures

ANG was originally formed in 2011. In August 2014, HC2 acquired a 51% interest in ANG. In October 2014, ANG acquired Northville Natural Gas, which owned three stations in Indiana. ANG intends to continue to pursue additional acquisitions, divestitures, partnerships and investments as ANG becomes aware of opportunities that it believes will increase its competitive advantage, take advantage of industry developments, or enhance their market position.

### Tax Incentives

Since October 2012, ANG has been eligible to receive the volumetric excise tax credit ("VETC") federal alternative fuel tax credit of \$0.50 per GGE of CNG sold as vehicle fuel. ANG will continue to be eligible to receive the VETC through 2016. The VETC is a renewable tax incentive and therefore may not be available after 2016. In addition, other U.S. federal and state government tax incentives are available to offset the cost of acquiring natural gas vehicles, converting vehicles to use natural gas or construct natural gas fueling stations.

### Grant Programs

ANG continues to seek out and apply for, and help its fleet customers apply for federal, state and regional grant programs. These programs provide funding for natural gas vehicle conversions and purchases, natural gas fueling station construction and vehicle fuel sold.

### Competition

The market for vehicle fuels is highly competitive. The biggest competition for CNG is gasoline and diesel, as the vast majority of vehicles in the are powered by gasoline and diesel. Many of the producers and sellers of gasoline and diesel fuels are large entities that have significantly greater resources than ANG has. ANG also competes with suppliers of other alternative vehicle fuels, including ethanol, biodiesel and hydrogen fuels, as well as providers of hybrid and electric vehicles. New technologies and improvements to existing technologies may make alternatives other than natural gas more attractive to the market, or may slow the development of the market for natural gas as a vehicle fuel if such advances are made with respect to oil and gas usage.

A significant number of established businesses, including oil and gas companies, alternative vehicle and alternative fuel companies, natural gas utilities and their affiliates, industrial gas companies, truck stop and fuel station operators, fuel providers

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and other organizations have entered or are planning to enter the market for natural gas and other alternatives for use as vehicle fuels. Many of these current and potential competitors have substantially greater financial, marketing, research and other resources than ANG has. Several natural gas utilities and their affiliates own and operate public access CNG stations that compete with ANG's stations.

ANG competes for vehicle fuel users based on price of fuel, availability and price of vehicles that operate on natural gas, convenience and accessibility of its fueling stations, quality, cleanliness and safety of its fuel, and brand recognition. ANG expects competition to increase, particularly if and to the extent the demand for natural gas vehicle fuel increases. Increased competition would lead to amplified pricing pressure, reduced operating margins and fewer expansion opportunities.

### Government Regulation and Environmental Matters

Certain aspects of ANG's operations are subject to regulation under federal, state, local and foreign laws. If ANG were to violate these laws or if the laws were to change, it would have a material adverse effect on ANG's business, financial condition and results of operations. Regulations that significantly affect ANG's operations are described below.

**CNG Stations.** To construct a CNG fueling station, ANG must satisfy permitting and other requirements and either ANG or a third party contractor must be licensed as a general engineering contractor. Each CNG fueling station must be constructed in accordance with federal, state and local regulations pertaining to station design, environmental health, accidental release prevention, above-ground storage tanks, hazardous waste and hazardous materials. ANG is also required to register with certain state agencies as a retailer/wholesaler of CNG.

ANG believes it is in material compliance with environmental laws and regulations and other known regulatory requirements. Compliance with these regulations has not had a material effect on ANG's capital expenditures, earnings or competitive position but new laws or regulations or amendments to existing laws or regulations to make them more stringent, such as more rigorous air emissions requirements, proposals to make waste materials subject to more stringent and costly handling, disposal and clean-up requirements or regulations of greenhouse gas emissions, could require ANG to undertake significant capital expenditures in the future.

### Life Sciences Segment (Pansend Life Sciences, Ltd. ("Pansend"))

Pansend is HC2's life sciences segment focusing on the development of innovative technologies and products in the world of healthcare. Pansend has invested in the following four companies:

BeneVir Biopharm, Inc. ("BeneVir"), a development stage company focused on the development of a patent protected oncolytic virus, BV-2711, for the treatment of cancer. BeneVir's pre-clinical pipeline consists of oncolytic viruses delivered locally or systemically. Once inside tumors, the viruses are designed to selectively destroy cancer cells, evade elimination by the immune system, and activate multiple classes of anti-tumor immune cells. This multi-mechanistic approach builds upon key elements of both oncolytic virus and immune-checkpoint inhibitor approaches to cancer treatment and is designed to block the major methods that tumors use to subvert the immune system. BeneVir holds an exclusive worldwide license for BV-2711, a patent-protected novel compound;

R2 Dermatology, Incorporated, a company developing medical devices for the treatment of aesthetic and medical skin conditions. The device utilizes exclusive licensing rights to a novel technology developed at Massachusetts General Hospital and Harvard Medical School;

Genovel Orthopedics, Inc., a company developing novel partial and total knee replacements for the treatment of osteoarthritis of the knee based on patent protected technology invented at New York University School of Medicine; and,

MediBeacon, Inc. (“MediBeacon”), a company developing a proprietary non-invasive real-time monitoring system for the evaluation of kidney function. The MediBeacon system uses an optical skin sensor combined with a proprietary agent that glows in the presence of light. It provides clinicians continuous real-time monitoring of a patient’s kidney function. MediBeacon recently completed its first human clinical trials. In August 2015, Pansend agreed to provide MediBeacon with \$22.4 million in staged financing.

#### Other Businesses and Investments

Outside of the above listed operating subsidiaries, which collectively represent \$1,118.7 million, or 99.8% of our net revenue for 2015, we acquired DMi, Inc. (“DMi”), which owns licenses to create and distribute NASCAR® video games, for \$6.0 million. Currently, DMi is working on several games including an all-new NASCAR racing simulation game for PlayStation 4, Xbox One,



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PC and mobile games that are expected to be released in 2016. We also have made several noncontrolling investments, including \$14.2 million for an approximate 25% ownership interest in Novatel, a publicly listed company that designs and develops wireless communications technologies and software-as-a-service solutions for the Internet of Things, and \$5.6 million for a 40% interest in Nervve Technologies, Inc. (“Nervve Technologies”), an information technology company with a unique capability to search video footage, which is able to search an hour of video in less than five seconds. Nervve Technologies’ core technology utilizes a search by example methodology to automatically search massive amounts of video and image data for objects of interest.

See Note 20. Operating Segment and Related Information for additional detail regarding our operating segments and financial information by geographic area.

### Environmental Regulation

Our operations and properties, including those of Schuff and GMSL, are subject to a wide variety of increasingly complex and stringent foreign, federal, state and local environmental laws and regulations, including those concerning emissions into the air, discharge into waterways, generation, storage, handling, treatment and disposal of waste materials and health and safety of employees. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Some environmental laws provide for strict, joint and several liability for remediation of spills and other releases of hazardous substances, as well as damage to natural resources. In addition, companies may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. These laws and regulations may also expose us to liability for the conduct of or conditions caused by others, or for our acts that were in compliance with all applicable laws at the time such acts were performed.

Compliance with federal, state and local provisions regulating the discharge of materials into the environment or relating to the protection of the environment has not had a material impact on our capital expenditures, earnings or competitive position. Based on our experience to date, we do not currently anticipate any material adverse effect on our business or consolidated financial position, results of operations or cash flows as a result of future compliance with existing environmental laws and regulations. However, future events, such as changes in existing laws and regulations or their interpretation, more vigorous enforcement policies of regulatory agencies, or stricter or different interpretations of existing laws and regulations, may require additional expenditures by us, which may be material. Accordingly, there can be no assurance that we will not incur significant environmental compliance costs in the future.

### Corporate Information

The Company was incorporated in 1994. The Company’s executive offices are located at 505 Huntmar Park Drive, Suite 325, Herndon, VA 20170. The Company’s telephone number is (703) 865-0700. Our Internet address is [www.hc2.com](http://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 United States Securities and Exchange Commission (the “SEC”). The information on our website is not a part of this Annual Report on Form 10-K.

### ITEM 1A. RISK FACTORS

The following risk factors and the forward-looking statements elsewhere herein should be read carefully in connection with evaluating the business of the Company and its subsidiaries. A wide range of events and circumstances could materially affect our overall performance, the performance of particular businesses and our results of operations, and

therefore, an investment in us is subject to risks and uncertainties. In addition to the important factors affecting specific business operations and the financial results of those operations identified elsewhere in this Annual Report on Form 10-K, the following important factors, among others, could adversely affect our operations. While each risk is described separately below, some of these risks are interrelated and it is possible that certain risks could trigger the applicability of other risks described below. Also, the risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us, or that are currently deemed immaterial, could also potentially impair our overall performance, the performance of particular businesses and our results of operations. These risk factors may be amended, supplemented or superseded from time to time in filings and reports that we file with the SEC in the future.

#### Risks Related to Our Businesses

We have restated our prior financial statements, which may lead to additional risks and uncertainties, including shareholder litigation, loss of investor confidence and negative impacts on our stock price.

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In March 2016, we restated our financial statements for the fiscal year ended December 31, 2014, and the fiscal quarters ended June 30, 2014, September 30, 2014, March 31, 2015, June 30, 2015 and September 30, 2015. The determination to restate these consolidated financial statements and the unaudited interim condensed consolidated financial statements was made by our Audit Committee upon management's recommendation following the identification of errors related to our recording of a bargain purchase gain associated with the acquisition of American Natural Gas and the treatment of transaction costs and the calculation of the net operating loss limit following an Internal Revenue Code Section 382 ownership change in May 2014, as well as the consideration of other known out-of-period errors that had been waived in 2014.

The fact that we have restated our prior consolidated financial statements may subject us to shareholder or other litigation, lead to a loss of investor confidence and have a negative impact on the trading price of our common stock.

We identified a material weakness in our internal control over financial reporting related to the preparation and review of our income tax provision and related accounts, the valuation of a business acquisition, and the application of U.S. GAAP to complex and/or non-routine transactions, which could adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner .

As previously disclosed, in connection with the preparation of the Company's 2014 Annual Report on Form 10-K/A for the fiscal year ended December 31, 2014, management identified a material weakness in our internal controls over the accounting for income taxes, including the income tax provision and related tax assets and liabilities. Specifically, management determined that the Company did not have the technical knowledge nor management review controls to ensure the completeness and accuracy of the data used in the computation of income tax expense, taxes payable or receivable and deferred tax assets and liabilities. Subsequently, management also identified a material weakness in our internal controls over the valuation of a business acquisition and the application of U.S. GAAP to complex and/or non-routine transactions. In particular, the Company determined that it incorrectly valued its acquisition of American Natural Gas, completed on August 1, 2014, in its financial statements for the quarter ended September 30, 2014 as required by FASB Accounting Standards Codification 805. In addition, we determined that the valuation of the net assets acquired was incorrect. Further, the Company determined that it incorrectly classified funds released from escrow totaling \$29.2 million as cash flows from operating activities rather than cash flows from investing activities in its Consolidated Statements of Cash Flows for the fiscal year ended December 31, 2014. The funds related to the 2013 sales of the North American Telecom and BLACKIRON Data business units.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As of December 31, 2015, management concluded that, as a result of the remediation efforts that took place in 2015, which are described in Item 9A "Controls and Procedures," our internal control over financial reporting was effective.

In future periods, if the process required by Section 404 of the Sarbanes-Oxley Act reveals further material weaknesses or significant deficiencies, the correction of any such material weakness or significant deficiency could require additional remedial measures including additional personnel which could be costly and time-consuming. If a material weakness exists as of a future period year-end (including a material weakness identified prior to year-end for which there is an insufficient period of time to evaluate and confirm the effectiveness of the corrections or related new procedures), our management will be unable to report favorably as of such future period year-end to the effectiveness of our control over financial reporting. If we are unable to assert that our internal control over financial reporting is effective in any future period, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the trading price of our common stock and potentially subject us to

additional and potentially costly litigation and governmental inquiries/investigations.

We have experienced significant historical, and may experience significant future, operating losses and net losses, which may hinder our ability to meet working capital requirements or service our indebtedness, and we cannot assure you that we will generate sufficient cash flow from operations to meet such requirements or service our indebtedness.

We cannot assure you that we will recognize net income in future periods. If we cannot generate net income or sufficient operating profitability, we may not be able to meet our working capital requirements or service our indebtedness. Our ability to generate sufficient cash for our operations will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control. We recognized a net loss attributable to HC2 of \$35.6 million in 2015, a net loss of \$14.4 million in 2014 and a net income of \$111.6 million in 2013 (after taking into account \$148.8 million of gain from the sale of discontinued operations, net of tax), and have incurred net losses in prior periods.

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We cannot assure you that our business will generate cash flow from operations in an amount sufficient to fund our liquidity needs. If our cash flows and capital resources are insufficient, we may be forced to reduce or delay capital expenditures, sell assets and/or seek additional capital or financings. Our ability to obtain financings will depend on the condition of the capital markets and our financial condition at such time. Any financings could be at high interest rates and may require us to comply with covenants, which could further restrict our business operations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such disposition may not be adequate to meet our obligations. We recognized cash flows from operating activities of \$(32.6) million in 2015, \$3.7 million in 2014 and \$(20.3) million in 2013.

We are dependent on certain key personnel, the loss of which may adversely affect our financial condition or results of operations.

HC2 and its operating subsidiaries depend, and will continue to depend in the foreseeable future, on the services of HC2's and our operating subsidiary teams, in particular, our Chief Executive Officer, Philip Falcone, and other key personnel, which may consist of a relatively small number of individuals that possess sales, marketing, engineering, financial, technical and other skills that are critical to the operation of our businesses. The executive management teams that lead our subsidiaries are also highly experienced and possess extensive skills in their relevant industries. The ability to retain officers and key senior employees is important to our success and future growth. Competition for these professionals can be intense, and we may not be able to retain and motivate our existing management and key personnel, and continue to compensate such individuals competitively. The unexpected loss of the services of one or more of these individuals could have a detrimental effect on the financial condition or results of operations of our businesses, and could hinder the ability of such businesses to effectively compete in the various industries in which we operate.

We have significant indebtedness and other financing arrangements and could incur additional indebtedness and other obligations, which could adversely affect our business and financial condition.

We have a significant amount of indebtedness and Preferred Stock. As of December 31, 2015, our total outstanding indebtedness was \$371.9 million and the accrued value of our Preferred Stock was \$52.6 million. We may not generate enough cash flow to satisfy our obligations under such indebtedness and other arrangements.

Additional risks relating to our indebtedness and other financing arrangements include:

- our 11% Notes are secured by substantially all of HC2's assets and those of certain of HC2's subsidiaries that have guaranteed the 11% Notes, including certain equity interests in our other subsidiaries and other investments, as well as certain intellectual property and trademarks, and those assets cannot be pledged to secure other financings;
- certain assets of our subsidiaries are pledged to secure their indebtedness, and those assets cannot be pledged to secure other financings;
- increased vulnerability to general adverse economic and industry conditions;
- higher interest expense if interest rates increase on our floating rate borrowings and our hedging strategies are not effective to mitigate the effects of these increases;
- our having to divert a significant portion of our cash flow from operations to payments on our indebtedness and other arrangements, thereby reducing the availability of cash to fund working capital, capital expenditures, acquisitions, investments and other general corporate purposes;
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limiting our ability to obtain additional financing, on terms we find acceptable, if needed, for working capital, capital expenditures, expansion plans and other investments, which may limit our ability to implement our business strategy; limiting our flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate or to take advantage of market opportunities; and placing us at a competitive disadvantage compared to our competitors that have less debt and other outstanding obligations.

In addition, it is possible that we may need to incur additional indebtedness or enter into additional financing arrangements in the future in the ordinary course of business. The terms of the 11% Notes Indenture and our other financing arrangements allow us to incur additional debt and issue additional shares of preferred stock, subject to certain limitations. If additional indebtedness is incurred or equity is issued, the risks described above could intensify. In addition, our inability to maintain certain leverage

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ratios could result in acceleration of a portion of our debt obligations and could cause us to be in default if we are unable to repay the accelerated obligations.

To service our indebtedness and other obligations, we will require a significant amount of cash.

Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations, including those under (a) the 11% Notes Indenture governing the 11% Notes, (b) the Schuff Facility and (c) the GMSL Facility, as well as the obligations with respect to our (i) 30,000 shares of Series A Preferred Stock issued on May 29, 2014 (of which 828 shares have been converted into common stock as of December 31, 2015), (ii) 11,000 shares of Series A-1 Preferred Stock issued on September 22, 2014 (of which 1,000 shares have been converted into common stock as of December 31, 2015), and (iii) 14,000 shares of Series A-2 Preferred Stock (together with the Series A Preferred Stock and Series A-1 Preferred Stock, the “Preferred Stock”) issued on January 5, 2015, each of which is governed by a certificate of designation forming a part of HC2’s Certificate of Incorporation (collectively, the “Certificates of Designation”), could harm our business, financial condition and results of operations. Our ability to make payments on and to refinance our indebtedness and Preferred Stock and to fund working capital needs and planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control.

If our business does not generate sufficient cash flow from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness or make mandatory redemption payments with respect to the Preferred Stock, or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness or redeem the Preferred Stock, on or before the maturity thereof, sell assets, reduce or delay capital investments or seek to raise additional capital, any of which could have a material adverse effect on our operations.

In addition, we may not be able to affect any of these actions, if necessary, on commercially reasonable terms or at all. Our ability to restructure or refinance our indebtedness or redeem the Preferred Stock will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt or financings related to the redemption of our Preferred Stock could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments or preferred stock may limit or prevent us from taking any of these actions. In addition, any failure to make scheduled payments of interest and principal on our outstanding indebtedness or dividend payments on our Preferred Stock would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness or otherwise raise capital on commercially reasonable terms or at all. Our inability to generate sufficient cash flow to satisfy our debt service and other obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would have an adverse effect, which could be material, on our business, financial condition and results of operations.

The agreements governing our indebtedness and Preferred Stock, including the 11% Notes Indenture, the Schuff Facility and the GMSL Facility, as well as the Certificates of Designation with respect to our Preferred Stock, contain various covenants that may limit our discretion in the operation of our business and/or require us to meet financial maintenance tests and other covenants. The failure to comply with such tests and covenants could have a material adverse effect on us.

The agreements governing our indebtedness and Preferred Stock, including the 11% Notes Indenture, the Schuff Facility and the GMSL Facility, as well as the Certificates of Designation with respect to the Preferred Stock, contain, and any of our other future financing agreements may contain, covenants imposing operating and financial restrictions on our businesses.

The 11% Notes Indenture contains various covenants, including those that restrict our ability to, among other things:

- incur liens on our property, assets and revenue;
- borrow money, and guarantee or provide other support for the indebtedness of third parties;
- redeem or repurchase, our capital stock;
- prepay, redeem or repurchase, certain of our indebtedness, including our Preferred Stock;
- enter into certain change of control transactions;
- make investments in entities that we do not control, including joint ventures;
- enter into certain asset sale transactions, including divestiture of certain company assets and divestiture of capital stock of wholly-owned subsidiaries;
- enter into certain transactions with affiliates;



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enter into secured financing arrangements; and  
enter into sale and leaseback transactions.

The Schuff Facility and the GMSL Facility contain similar covenants applicable to Schuff and GMSL, respectively. These covenants may limit our ability to effectively operate our businesses. In addition, the 11% Notes Indenture requires that we meet certain financial tests, including a collateral coverage ratio and minimum liquidity test. Our ability to satisfy these tests may be affected by factors and events beyond our control, and we may be unable to meet such tests in the future.

Any failure to comply with the restrictions in the 11% Notes Indenture, or any agreement governing other indebtedness we could incur, may result in an event of default under those agreements. Such default may allow the creditors to accelerate the related debt, which acceleration may trigger cross-acceleration or cross-default provisions in other debt. If any of these risks were to occur, our business and operations could be materially and adversely affected.

The Certificates of Designation provide the holders of our Preferred Stock with consent and voting rights with respect to certain of the matters referred to above, in addition to certain corporate governance rights and the rights to participate in certain of our financing transactions, including certain private placements. These restrictions may interfere with our ability to obtain financings or to engage in other business activities, which could have a material adverse effect on our business and operations.

We may issue additional shares of common stock or preferred stock, which could dilute the interests of our stockholders and present other risks.

Our certificate of incorporation, as amended (the "Certificate of Incorporation"), authorizes the issuance of up to 80,000,000 shares of common stock and 20,000,000 shares of preferred stock.

As of December 31, 2015, HC2 has 35,249,749 shares of its common stock issued and outstanding, and 53,172 shares of Preferred Stock issued and outstanding. However, the Certificate of Incorporation authorizes our Board of Directors to, from time to time, subject to limitations prescribed by law and any consent rights granted to holders of outstanding shares of Preferred Stock, to issue additional shares of preferred stock having rights that are senior to those afforded to the holders of our common stock. We also have reserved shares of common stock for issuance pursuant to our broad-based equity incentive plans, upon exercise of stock options and other equity-based awards granted thereunder, and pursuant to other equity compensation arrangements.

We may issue shares of common stock or additional shares of preferred stock to raise additional capital, to complete a business combination or other acquisition, to capitalize new businesses or new or existing businesses of our operating subsidiaries or pursuant to other employee incentive plans, any of which could dilute the interests of our stockholders and present other risks.

The issuance of additional shares of common stock or preferred stock may, among other things:

- significantly dilute the equity interest and voting power of all other stockholders;
- subordinate the rights of holders of our outstanding common stock and/or Preferred Stock if preferred stock is issued with rights senior to those afforded to holders of our common stock and/or Preferred Stock;
- trigger an adjustment to the price at which all or a portion of our outstanding Preferred Stock converts into our common stock, if such stock is issued at a price lower than the then-applicable conversion price;
- entitle our existing holders of Preferred Stock to purchase a portion of such issuance to maintain their ownership percentage, subject to certain exceptions;
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entitle Philip Falcone to purchase additional shares of our common stock pursuant to the terms of his existing option agreement;

• call for us to make dividend or other payments not available to the holders of our common stock; and

• cause a change in control of our company if a substantial number of shares of our common stock is issued and/or if additional shares of preferred stock having substantial voting rights are issued.

The issuance of additional shares of common stock or preferred stock, or perceptions in the market that such issuances could occur, may also adversely affect the prevailing market price of our outstanding common stock and impair our ability to raise capital through the sale of additional equity securities.

Future sales of substantial amounts of our common stock by holders of our Preferred Stock or other significant stockholders may adversely affect the market price of our common stock.

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As of December 31, 2015, the holders of our outstanding Preferred Stock had certain rights to convert their Preferred Stock into an aggregate amount of 11,078,030 shares of our common stock.

Pursuant to a second amended and restated registration rights agreement (the “Registration Rights Agreement”) entered into in connection with the issuance of the Preferred Stock, we have granted registration rights to the purchasers of our Preferred Stock and certain of their transferees with respect to HC2 common stock held by them and common stock underlying the Preferred Stock. This Registration Rights Agreement allows these holders, subject to certain conditions, to require us to register the sale of their shares under the federal securities laws. Furthermore, the shares of our common stock held by these holders, as well as other significant stockholders, may be sold into the public market under Rule 144 of the Securities Act of 1933, as amended.

Future sales of substantial amounts of our common stock into the public market, or perceptions in the market that such sales could occur, may adversely affect the prevailing market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

Changes in credit ratings issued by nationally recognized statistical ratings organizations could adversely affect our cost of financing and the market price of our securities.

Credit rating agencies rate our debt securities and other instruments on factors that include our operating results, actions that we take, their view of the general outlook for our industry and their view of the general outlook for the economy. Actions taken by the rating agencies can include maintaining, upgrading, or downgrading the current rating or placing us on a watch list for possible future downgrading. Downgrading the credit rating of our debt securities or other instruments or placing us on a watch list for possible future downgrading would likely increase our cost of financing, limit our access to the capital markets and have an adverse effect on the market price of our securities.

Price fluctuations in our common stock could result from general market and economic conditions and a variety of other factors.

The trading price of our common stock may be highly volatile and could be subject to fluctuations in response to a number of factors beyond our control, including:

- actual or anticipated fluctuations in our results of operations and the performance of our competitors;
- reaction of the market to our announcement of any future acquisitions or investments;
- the public’s reaction to our press releases, our other public announcements and our filings with the SEC;
- changes in general economic conditions; and
- actions of our equity investors, including sales of our common stock by significant shareholders.

Because we face significant competition for acquisition and business opportunities, including from numerous companies with a business plan similar to ours, it may be difficult for us to fully execute our business strategy. Additionally, our subsidiaries also operate in highly competitive industries, limiting their ability to gain or maintain their positions in their respective industries.

We expect to encounter intense competition for acquisition and business opportunities from both strategic investors and other entities having a business objective similar to ours, such as private investors (which may be individuals or investment partnerships), blank check companies, and other entities, domestic and international, competing for the type of businesses that we may intend to acquire. Many of these competitors possess greater technical, human and other resources, or more local industry knowledge, or greater access to capital, than we do and our financial resources will be relatively limited when contrasted with those of many of these competitors. These factors may place us at a

competitive disadvantage in successfully completing future acquisitions and investments.

In addition, while we believe that there are numerous target businesses that we could potentially acquire or invest in, our ability to compete with respect to the acquisition of certain target businesses that are sizable will be limited by our available financial resources. We may need to obtain additional financing in order to consummate future acquisitions and investment opportunities and cannot assure you that any additional financing will be available to us on acceptable terms, or at all. This inherent competitive limitation gives others an advantage in pursuing acquisition and investment opportunities.

Furthermore, our subsidiaries also face competition from both traditional and new market entrants that may adversely affect them as well, as discussed below in the risk factors related to Schuff, GMSL, ICS and insurance operations.

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Future acquisitions or business opportunities could involve unknown risks that could harm our business and adversely affect our financial condition and results of operations.

We are a diversified holding company that owns interests in a number of different businesses. We have in the past, and may in the future, acquire businesses or make investments, directly or indirectly through our subsidiaries, that involve unknown risks, some of which will be particular to the industry in which the investment or acquisition targets operate, including risks in industries with which we are not familiar or experienced. There can be no assurance our due diligence investigations will identify every matter that could have a material adverse effect on us. We may be unable to adequately address the financial, legal and operational risks raised by such investments or acquisitions, especially if we are unfamiliar with the relevant industry. The realization of any unknown risks could expose us to unanticipated costs and liabilities and prevent or limit us from realizing the projected benefits of the investments or acquisitions, which could adversely affect our financial condition and liquidity. In addition, our financial condition, results of operations and the ability to service our debt may be adversely impacted depending on the specific risks applicable to any business we invest in or acquire and our ability to address those risks.

We will increase our size in the future, and may experience difficulties in managing growth.

We have adopted a business strategy that contemplates that we will expand our operations, including any future acquisitions or other business opportunities, and as a result we are required to increase our level of corporate functions, which may include hiring additional personnel to perform such functions and enhancing our information technology systems. Any future growth may increase our corporate operating costs and expenses and impose significant added responsibilities on members of our management, including the need to identify, recruit, maintain and integrate additional employees and implement enhanced informational technology systems. Our future financial performance and our ability to compete effectively will depend, in part, on our ability to manage any future growth effectively.

We may not be able to fully utilize our net operating loss and other tax carryforwards.

Our ability to utilize our net operating loss (“NOL”) and other tax carryforward amounts to reduce taxable income in future years may be limited for various reasons, including if future taxable income is insufficient to recognize the full benefit of such NOL carryforward amounts prior to their expiration. Additionally, our ability to fully utilize these U.S. tax assets can also be adversely affected by “ownership changes” within the meaning of Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “Code”). An ownership change is generally defined as a greater than 50% increase in equity ownership by “5% shareholders” (as that term is defined for purposes of Sections 382 and 383 of the Code) in any three year period.

In 2014, substantial acquisitions of our common stock were reported by new beneficial owners on Schedule 13D filings made with the SEC and we issued shares of our Preferred Stock, which are convertible into a substantial number of shares of our common stock. During the second quarter of 2014, we completed a Section 382 review. The conclusions of this review indicated that an ownership change had occurred as of May 29, 2014. Our annual Section 382 base limit following the ownership change is estimated to be \$2.3 million per year. As of December 31, 2014, we had a U.S. NOL carryforward in the amount of \$62.7 million.

As a result of our common stock offering in November 2015, we triggered another ownership change, imposing an additional limitation on the use of our NOL carryforward amounts. While this ownership change may impact the timing of our ability to use these losses, we currently do not expect this additional limitation to further reduce the total amount of NOL carryforward amounts. However, there can be no assurance that future ownership changes would not

negatively impact our NOL carryforward amounts because any future annual Section 382 limitation will ultimately depend on the value of our equity as determined for these purposes and the amount of unrealized gains immediately prior to such ownership change.

We and our subsidiaries may not be able to attract additional skilled personnel.

We may not be able to attract new personnel, including management and technical and sales personnel, necessary for future growth or to replace lost personnel. In particular, the activities of some of our operating subsidiaries, such as GMSL and the Insurance Companies, require personnel with highly specialized skills. Competition for the best personnel in our businesses can be intense. Our financial condition and results of operations could be materially adversely affected if we are unable to attract qualified personnel.

Our officers, directors, stockholders and their respective affiliates may have a pecuniary interest in certain transactions in which we are involved, and may also compete with us.

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While we have adopted a code of ethics applicable to our officers and directors reasonably designed to promote the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, we have neither adopted a policy that expressly prohibits our directors, officers, stockholders or affiliates from having a direct or indirect pecuniary interest in any transaction to which we are a party or in which we have an interest nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. We have in the past engaged in transactions in which such persons have an interest and, subject to the terms of any applicable covenants in financing arrangements or other agreements we may enter into from time to time, may in the future enter into additional transactions in which such persons have an interest. In addition, such parties may have an interest in certain transactions such as strategic partnerships or joint ventures in which we are involved, and may also compete with us.

In the course of their other business activities, certain of our current and future directors and officers may become aware of business and acquisition opportunities that may be appropriate for presentation to us as well as the other entities with which they are affiliated. Such directors and officers may therefore not present otherwise attractive business or acquisition opportunities to us.

Certain of our current and future directors and officers may become aware of business and acquisition opportunities which may be appropriate for presentation to us as well as the other entities with which they are or may be affiliated. Due to those directors' and officers' affiliations with other entities, they may have obligations to present potential business and acquisition opportunities to those entities, which could cause conflicts of interest. Moreover, in accordance with Delaware law, our certificate of incorporation contains a provision that renounces our expectation to certain corporate opportunities that are presented to our current and future directors that serve in capacities with other entities. Accordingly, our directors and officers may not present otherwise attractive business or acquisition opportunities to us.

We may suffer adverse consequences if we are deemed an investment company and we may incur significant costs to avoid investment company status.

We have not held, and do not hold, ourselves out as an investment company and do not believe we are an investment company under the Investment Company Act of 1940. If the SEC or a court were to disagree with us, we could be required to register as an investment company. This would subject us to disclosure and accounting rules geared toward investment, rather than operating, companies; limit our ability to borrow money, issue options, issue multiple classes of stock and debt, and engage in transactions with affiliates; and require us to undertake significant costs and expenses to meet the disclosure and regulatory requirements to which we would be subject as a registered investment company.

We are subject to litigation in respect of which we are unable to accurately assess our level of exposure and which, if adversely determined, may have a material adverse effect on our financial condition and results of operations.

We are currently, and may become in the future, party to legal proceedings that are considered to be either ordinary or routine litigation incidental to our current or prior businesses or not material to our financial position or results of operations. We also are currently, or may become in the future, party to legal proceedings with the potential to be material to our financial position or results of operations. There can be no assurance that we will prevail in any litigation in which we may become involved, or that our insurance coverage will be adequate to cover any potential losses. To the extent that we sustain losses from any pending litigation which are not reserved or otherwise provided for or insured against, our business, results of operations, cash flows and/or financial condition could be materially adversely affected. See Item 3, "Legal Proceedings."

Further deterioration of global economic conditions could adversely affect our business.

The global economy and capital and credit markets have experienced exceptional turmoil and upheaval over the past several years. Many major economies worldwide entered significant economic recessions beginning in 2007 and continue to experience economic weakness, with the potential for another economic downturn to occur. Ongoing concerns about the systemic impact of potential long-term and widespread recession and potentially prolonged economic recovery, volatile energy costs, geopolitical issues, the availability, cost and terms of credit, consumer and business confidence and demand, and substantially increased unemployment rates have all contributed to increased market volatility and diminished expectations for many established and emerging economies, including those in which we operate. These general economic conditions could have a material adverse effect on our cash flow from operations, results of operations and overall financial condition.

The availability, cost and terms of credit also have been and may continue to be adversely affected by illiquid markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers over the past several years, and a corresponding slowdown in global infrastructure spending.



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Continued uncertainty in the U.S. and international markets and economies and prolonged stagnation in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to access capital markets and obtain capital lease financing to meet liquidity needs.

Fluctuations in the exchange rate of the U.S. dollar and in foreign currencies may adversely impact our results of operations and financial condition.

We conduct various operations outside the United States, primarily in the United Kingdom. As a result, we face exposure to movements in currency exchange rates. These exposures include but are not limited to:

- re-measurement gains and losses from changes in the value of foreign denominated assets and liabilities;
- translation gains and losses on foreign subsidiary financial results that are translated into U.S. dollars, our functional currency, upon consolidation; and
- planning risk related to changes in exchange rates between the time we prepare our annual and quarterly forecasts and when actual results occur.

Depending on the size of the exposures and the relative movements of exchange rates, if we choose to hedge or fail to hedge effectively our exposure, we could experience a material adverse effect on results of operations and financial condition. As we have seen in some recent periods, in the event of volatility in exchange rates, these exposures can increase, and the impact on our results of operations and financial condition can be more pronounced. In addition, the current environment and the increasingly global nature of our business have made hedging these exposures more complex and costly.

We are subject to risks associated with our international operations.

We operate in international markets, and may in the future consummate additional investments in or acquisitions of foreign businesses. Our international operations are subject to a number of risks, including:

- political conditions and events, including embargo;
- restrictive actions by U.S. and foreign governments;
- the imposition of withholding or other taxes on foreign income, tariffs or restrictions on foreign trade and investment;
- adverse tax consequences;
- limitations on repatriation of earnings;
- currency exchange controls and import/export quotas;
- nationalization, expropriation, asset seizure, blockades and blacklisting;
- limitations in the availability, amount or terms of insurance coverage;
- loss of contract rights and inability to adequately enforce contracts;
- political instability, war and civil disturbances or other risks that may limit or disrupt markets, such as terrorist attacks, piracy and kidnapping;
- outbreaks of pandemic diseases or fear of such outbreaks;
- fluctuations in currency exchange rates, hard currency shortages and controls on currency exchange that affect demand for our services and our profitability;
- potential noncompliance with a wide variety of anti-corruption laws and regulations, such as the U.S. Foreign Corrupt Practices Act of 1977 (the “FCPA”), and similar non-U.S. laws and regulations, including the U.K. Bribery Act 2010 (the “Bribery Act”);
- labor strikes;
- changes in general economic and political conditions;
- adverse changes in foreign laws or regulatory requirements; and
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different liability standards and legal systems that may be less developed and less predictable than those in the United States.

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If we are unable to adequately address these risks, we could lose our ability to operate in certain international markets and our business, financial condition or results of operations could be materially adversely affected.

The U.S. Departments of Justice, Commerce, Treasury and other agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against companies for violations of export controls, the FCPA, and other federal statutes, sanctions and regulations, including those established by the Office of Foreign Assets Control (“OFAC”) and, increasingly, similar or more restrictive foreign laws, rules and regulations. By virtue of these laws and regulations, and under laws and regulations in other jurisdictions, including the European Union and the United Kingdom, we may be obliged to limit our business activities, we may incur costs for compliance programs and we may be subject to enforcement actions or penalties for noncompliance.

In recent years, U.S. and foreign governments have increased their oversight and enforcement activities with respect to these laws and we expect the relevant agencies to continue to increase these activities. A violation of these laws, sanctions or regulations could materially adversely affect our business, financial condition or results of operations.

The Company has compliance policies in place for its employees with respect to FCPA, OFAC and similar laws. Our subsidiaries also have relevant compliance policies in place for their employees, which are tailored to their operations. However, there can be no assurance that our employees, consultants or agents, or those of our subsidiaries or investees, will not engage in conduct for which we may be held responsible. Violations of the FCPA, the Bribery Act, the rules and regulations established by OFAC and other laws, sanctions or regulations may result in severe criminal or civil penalties, and we may be subject to other liabilities, which could materially adversely affect our business, financial condition or results of operations.

We may be required to expend substantial sums in order to bring the Insurance Companies, as well as other companies we have acquired or may acquire in the future, into compliance with the various reporting requirements applicable to public companies and/or to prepare required financial statements, and such efforts may harm our operating results or be unsuccessful altogether.

The Sarbanes-Oxley Act of 2002, (the “Sarbanes-Oxley Act”) requires our management to assess the effectiveness of the internal control over financial reporting for the companies we acquire and our external auditor to attest to, and report on the internal control over financial reporting, for these companies. In order to comply with the Sarbanes-Oxley Act, we will need to implement or enhance internal control over financial reporting at acquired companies and evaluate the internal controls. We did not conduct a formal evaluation of our acquired the Insurance Companies’ internal control over financial reporting prior to the acquisition. The Insurance Companies were subject to Sarbanes-Oxley Act requirements; however, we cannot be certain that the internal controls are effective. We may be required to hire additional staff and incur substantial costs to implement the necessary new internal controls at the Insurance Companies and other companies we acquire. Any failure to implement required internal controls, or difficulties encountered in their implementation, could harm our operating results or increase the risk of material weaknesses in internal controls, which could, if not remediated, adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner.

We face certain risks associated with the acquisition or disposition of businesses and lack of control over investments in associates.

In pursuing our corporate strategy, we may acquire or dispose of or exit businesses or reorganize existing investments. The success of this strategy is dependent upon our ability to identify appropriate opportunities, negotiate transactions on favorable terms and ultimately complete such transactions.

We may face delays in completing acquisitions, including in acquiring full ownership of our operating companies. For example, while we intend to complete the short form merger of Schuff, the timing of such merger is uncertain and we cannot assure you that we will complete such merger in the near term or at all.

Once we complete acquisitions or reorganizations there can be no assurance that we will realize the anticipated benefits of any transaction, including revenue growth, operational efficiencies or expected synergies. For example, if we fail to recognize some or all of the strategic benefits and synergies expected from a transaction, goodwill and intangible assets may be impaired in future periods. The negotiations associated with the acquisition and disposition of businesses could also disrupt our ongoing business, distract management and employees or increase our expenses.

In addition, we may not be able to integrate acquisitions successfully, including Schuff, GMSL and the Insurance Companies, as defined below, and we could incur or assume unknown or unanticipated liabilities or contingencies, which may impact our

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results of operations. If we dispose of or otherwise exit certain businesses, there can be no assurance that we will not incur certain disposition related charges, or that we will be able to reduce overhead related to the divested assets.

In addition to the risks described above, acquisitions are accompanied by a number of inherent risks, including, without limitation, the following:

- the difficulty of integrating acquired products, services or operations;
- difficulties in maintaining uniform standards, controls, procedures and policies;
- the potential impairment of relationships with employees and customers as a result of any integration of new management personnel;
- difficulties in disposing of the excess or idle facilities of an acquired company or business and expenses in maintaining such facilities; and
- the effect of and potential expenses under the labor, environmental and other laws and regulations of various jurisdictions to which the business acquired is subject.

We also own a minority interest in a number of entities, such as Novatel, over which we do not exercise or have only limited management control and we are therefore unable to direct or manage the business to realize the anticipated benefits that we can achieve through full integration.

We have incurred substantial costs in connection with our prior acquisitions and expect to incur substantial costs in connection with any other transaction we complete in the future, which may increase our indebtedness or reduce the amount of our available cash and could adversely affect our financial condition, results of operations and liquidity.

We have incurred substantial costs in connection with our prior acquisitions and expect to incur substantial costs in connection with any other transactions we complete in the future. These costs may increase our indebtedness or reduce the amount of cash otherwise available to us for acquisitions, business opportunities and other corporate purposes. There is no assurance that the actual costs will not exceed our estimates. We may continue to incur additional material charges reflecting additional costs associated with our investments and the integration of our acquisitions, including our acquisition of Schuff, GMSL and the Insurance Companies, in fiscal quarters subsequent to the quarter in which such investments and acquisitions were consummated.

We could consume resources in researching acquisitions, business opportunities or financings and capital market transactions that are not consummated, which could materially adversely affect subsequent attempts to locate and acquire or invest in another business.

We anticipate that the investigation of each specific acquisition or business opportunity and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments with respect to such transaction will require substantial management time and attention and substantial costs for financial advisors, accountants, attorneys and other advisors. If a decision is made not to consummate a specific acquisition, business opportunity or financing and capital market transaction, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific acquisition, investment target or financing, we may fail to consummate the investment or acquisition for any number of reasons, including those beyond our control. Any such event could consume significant management time and result in a loss to us of the related costs incurred, which could adversely affect our financial position and our ability to consummate other acquisitions and investments.

Our participation in current or any future joint investment could be adversely affected by our lack of sole decision-making authority, our reliance on a partner's financial condition and disputes between us and the relevant partners.

We have, indirectly through our subsidiaries, formed joint ventures, and may in the future engage in similar joint ventures with third parties. For example, Schuff has formed the Schuff Hopsa Engineering, Inc. joint venture located in Panama, and GMSL operates various joint ventures outside of the United States. In such circumstances, we may not be in a position to exercise significant decision-making authority if we do not own a substantial majority of the equity interests of such joint venture or otherwise have contractual rights entitling us to exercise such authority. These ventures may involve risks not present were a third party not involved, including the possibility that partners might become insolvent or fail to fund their share of required capital contributions. In addition, partners may have economic or other business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Disputes between us and partners may result in litigation or arbitration that would increase our costs and expenses and divert a substantial amount of management's time and effort away from our businesses. We may also, in certain circumstances, be liable for the actions of our third-party partners.

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There may be tax consequences associated with our acquisition, investment, holding and disposition of target companies and assets.

We may incur significant taxes in connection with effecting acquisitions of or investments in, holding, receiving payments from, operating or disposing of target companies and assets. Our decision to make a particular acquisition, sell a particular asset or increase or decrease a particular investment may be based on considerations other than the timing and amount of taxes owed as a result thereof.

We rely on information systems to conduct our businesses, and failure to protect these systems against security breaches and otherwise maintain such systems in working order could have a material adverse effect on our results of operations, cash flows or financial condition.

The efficient operation of our businesses is dependent on computer hardware and software systems. Information systems are vulnerable to security breaches, and we rely on industry-accepted security measures and technology to securely maintain confidential and proprietary information maintained on our information systems. However, these measures and technology may not adequately prevent security breaches. In addition, the unavailability of the information systems or the failure of these systems to perform as anticipated for any other reason could disrupt our businesses and result in decreased performance and increased costs, causing our results of operations, cash flows or financial condition to suffer.

We and our subsidiaries rely on trademark, copyright, trade secret, contractual restrictions and patent rights to protect our intellectual property and proprietary rights and if these rights are impaired, then our ability to generate revenue and our competitive position may be harmed.

If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology, and our business might be harmed. In addition, defending our intellectual property rights might entail significant expense. Any of our trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. While we have some U.S. patents and pending U.S. patent applications, we may be unable to obtain patent protection for the technology covered in our patent applications. In addition, our existing patents and any patents issued in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our service is available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the U.S., and mechanisms for enforcement of intellectual property rights may be inadequate. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property. In addition, some of our operating subsidiaries may use trademarks which have not been registered and may be more difficult to protect.

We might be required to spend significant resources to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel.

Our operations could be impacted by events outside of our control.

In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, our operations may be suspended or our computer systems may be inaccessible to our employees, customers, or business partners for an extended period of time. Even if our employees are able to report to work, they

may be unable to perform their duties for an extended period of time if our facilities, data or systems are disabled or destroyed.

#### Risks Related to American Natural Gas

Automobile and engine manufacturers currently produce few originally manufactured natural gas vehicles and engines for the markets in which ANG participates, which may adversely impact the adoption of CNG as a vehicle fuel.

Limited availability of natural gas vehicles and engine sizes of such vehicles restricts their wide scale introduction and narrows the potential customer base. This, in turn, has a limiting effect on the results of operations. Due to the limited supply of natural gas vehicles, ANG's ability to promote certain of the services contemplated by ANG's business plan may be restricted, even if there is demand.



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ANG's growth depends in part on environmental regulations and programs mandating the use of cleaner burning fuels, and modification or repeal of these regulations may adversely impact ANG's business.

ANG's contemplated business depends in part on environmental regulations and programs in the United States that promote or mandate the use of cleaner burning fuels, including natural gas for vehicles. Industry participants with a vested interest in gasoline and diesel, many of which have substantially greater resources than ANG does, invest significant time and money in an effort to influence environmental regulations in ways that delay or repeal requirements for cleaner vehicle emissions. Further, economic difficulties may result in the delay, amendment or waiver of environmental regulations due to the perception that they impose increased costs on the transportation industry that cannot be absorbed in a challenging economy. Further, the delay, repeal or modification of federal or state regulations or programs that encourage the use of cleaner vehicles could also have a detrimental effect on the United States natural gas vehicle industry, which, in turn, could slow the implementation of ANG's business plan.

The use of natural gas as a vehicle fuel may not become sufficiently accepted for ANG to implement its business plan based upon the public debate over the development of domestic natural gas resources or otherwise. Whether ANG will be able to implement its business plan will depend on a number of factors, including the level of acceptance and availability of natural gas vehicles and acceptance of ANG's services. A decline in oil, diesel fuel and gasoline prices may result in decreased interest in alternative fuels like CNG. Further, potential customers may not find ANG's services acceptable.

ANG faces intense competition from oil and gas companies, retail fuel providers, industrial gas companies, natural gas utilities, and other organizations that have far greater resources and brand awareness than ANG has.

A significant number of established businesses, including oil and gas companies, natural gas utilities, industrial gas companies, station owners and other organizations have entered or are planning to enter the natural gas fuels market. Many of these current and potential competitors have substantially greater financial, marketing, research and other resources than ANG has. Natural gas utilities continue to own and operate natural gas fueling stations. Utilities in Michigan, Illinois, New Jersey, North Carolina and Georgia have also recently made efforts to invest in the natural gas vehicle fuel space. ANG expects competition to intensify in the near term in the market for natural gas vehicle fuel as the use of natural gas vehicles and the demand for natural gas vehicle fuel increases. Increased competition will lead to amplified pricing pressure, reduced operating margins and fewer expansion opportunities. ANG's failure to compete successfully would adversely affect ANG's business and financial results, even if ANG is successful in implementing its business plan.

The infrastructure to support gasoline and diesel consumption is vastly more developed than the infrastructure for natural gas vehicle fuels.

Gasoline and diesel fueling stations and service infrastructure are widely available in the United States. For natural gas vehicle fuels to achieve more widespread use in the United States, they will require a promotional and educational effort and the development and supply of more natural gas vehicles and fueling stations. This will require significant continued effort by us, as well as government and clean air groups, and ANG may face resistance from oil companies and other vehicle fuel companies.

Natural gas fueling operations and vehicle conversions entail inherent safety and environmental risks that may result in substantial liability to us.

Natural gas fueling operations and vehicle conversions entail inherent risks, including equipment defects, malfunctions and failures and natural disasters, which could result in uncontrollable flows of natural gas, fires,

explosions and other damages. Additionally, CNG fuel tanks, if damaged or improperly maintained, may rupture and the contents of the tank may rapidly decompress and result in death or injury. These risks may expose us to liability for personal injury, wrongful death, property damage, pollution and other environmental damage. ANG may incur substantial liability and cost if damages are not covered by insurance or are in excess of policy limits.

A successful implementation of ANG's business plan will subject ANG to a variety of governmental regulations that may restrict ANG's business and may result in costs and penalties.

A successful implementation of ANG's business plan will subject us to a variety of federal, state and local laws and regulations relating to the environment, health and safety, labor and employment and taxation, among others. These laws and regulations are complex, change frequently and have tended to become more stringent over time. Failure to comply with these laws and regulations may result in a variety of administrative, civil and criminal enforcement measures, including assessment of monetary penalties and the imposition of remedial requirements. From time to time, as part of the regular overall evaluation of ANG's operations, including newly acquired operations, ANG may be subject to compliance audits by regulatory authorities.

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### Risks Related to the Insurance Companies' business

Our acquisition of the Insurance Companies is subject to certain post-closing adjustments.

In December 2015, pursuant to the terms of an amended and restated stock purchase agreement (the "SPA") between us and Great American Financial Resources, Inc. ("Great American") and Continental General Corp. ("CGC," and together with Great American, the "Sellers of the Insurance Companies"), we purchased all of the issued and outstanding shares of common stock of the Insurance Companies, as well as all assets owned by the Sellers of the Insurance Companies or their affiliates that are used exclusively or primarily in the business of the Insurance Companies, subject to certain exceptions. The Insurance Companies are providers of long-term care and life insurance policies and annuity contracts. Consideration associated with the purchase remains subject to further post-closing adjustments, primarily related to the balance sheets of each of the Insurance Companies as of the closing date.

If the Insurance Companies are unable to retain, attract and motivate qualified employees, their results of operations and financial condition may be adversely impacted and they may incur additional costs to recruit replacement and additional personnel.

CIG is highly dependent on its senior management team and other key personnel for the operation and development of its business. CIG faces intense competition in retaining and attracting key employees including actuarial, finance, legal, risk, compliance and other professionals.

The Insurance Companies comprise the core of our new insurance business segment, CIG. CIG will retain key personnel which we believe are necessary for the success of the business. As we do not currently have substantial insurance company holdings, we also expect that CIG will add headcount as it fills out its platform to handle aspects of the business that are currently under its transition services agreement with the Sellers of the Insurance Companies (the "Transition Services Agreement").

Because the insurance industry is highly regulated and requires specific skills, these arrangements are important to the continued operation of the Insurance Companies and the successful implementation of the acquisition of the Insurance Companies. Services covered under the Transition Services Agreement include various support functions needed for the continuation of the business as CIG transitions to a fully standalone platform; such services include certain IT functions, investment management, finance and accounting.

Any failure to attract and retain key members of CIG's management team or other key personnel going forward could have a material adverse effect on CIG's business, financial condition and results of operations.

The amount of statutory capital that CIG's insurance subsidiaries have and the amount of statutory capital that they must hold to maintain their financial strength and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of CIG's control.

CIG's insurance subsidiaries are subject to regulations that provide minimum capitalization requirements based on risk-based capital ("RBC") formulas for life and health insurance companies. The RBC formula for life and health insurance companies establishes capital requirements relating to insurance, business, asset, interest rate, and certain other risks.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including the following: the amount of statutory income or losses generated by CIG's insurance subsidiaries (which are sensitive to equity market and credit market conditions), the amount of additional capital CIG's insurance subsidiaries must hold to support business growth, changes in reserve requirements applicable to CIG's insurance subsidiaries, CIG's ability to secure capital market solutions to provide reserve relief, changes in equity market levels,

the value of certain fixed-income and equity securities in its investment portfolio, the credit ratings of investments held in its portfolio, changes in interest rates, credit market volatility, changes in consumer behavior, as well as changes to the National Association of Insurance Commissioners' ("NAIC") RBC formula. Many of these factors are outside of CIG's control. The financial strength of CIG's insurance subsidiaries are significantly influenced by their statutory surplus amounts and capital adequacy ratios.

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

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CIG's results and financial condition may be negatively affected should actual performance differ from management's assumptions and estimates.

CIG makes certain assumptions and estimates regarding mortality, morbidity (i.e., frequency and severity of claims, including claim termination rates and benefit utilization rates), health care experience (including type of care and cost of care), persistency (i.e., the probability that a policy or contract will remain in-force from one period to the next), future premium increases, expenses, interest rates, tax liability, business mix, frequency of claims, contingent liabilities, investment performance and other factors related to its business and anticipated results. The long-term profitability of CIG's insurance products depends upon how CIG's actual experience compares with its pricing and valuation assumptions. For example, if morbidity rates are higher than underlying pricing assumptions, CIG could be required to make greater payments under its long-term care insurance policies than currently projected, and such amounts could be significant. Likewise, if mortality rates are lower than CIG's pricing assumptions, CIG could be required to make greater payments and thus establish additional reserves under both its long-term care insurance policies and annuity contracts and such amounts could be significant. Conversely, if mortality rates are higher than CIG's pricing and valuation assumptions, CIG could be required to make greater payments under its life insurance policies than currently projected.

The above-described assumptions and estimates incorporate assumptions about many factors, none of which can be predicted with certainty. CIG's actual experiences, as well as changes in estimates, are used to prepare CIG's consolidated statements of operations. To the extent CIG's actual experience and changes in estimates differ from original estimates, CIG's business, operations and financial condition may be materially adversely affected.

The calculations CIG uses to estimate various components of its balance sheet and consolidated statements of operations are necessarily complex and involve analyzing and interpreting large quantities of data. CIG currently employs various techniques for such calculations including engaging third party studies and from time to time will develop and implement more sophisticated administrative systems and procedures capable of facilitating the calculation of more precise estimates. However, assumptions and estimates involve judgment, and by their nature are imprecise and subject to changes and revisions over time. Accordingly, CIG's results may be adversely affected from time to time, by actual results differing from assumptions, by changes in estimates, and by changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates.

If CIG's reserves for future policy claims are inadequate as a result of deviations from management's assumptions and estimates or other reasons, CIG may be required to increase reserves, which could have a material adverse effect on its results of operations and financial condition.

CIG calculates and maintains reserves for estimated future payments of claims to policyholders and contract holders in accordance with U.S. GAAP and statutory accounting practices. These reserves are released as those future obligations are paid, experience changes or policies lapse. The reserves reflect estimates and actuarial assumptions with regard to future experience. These estimates and actuarial assumptions involve the exercise of significant judgment. CIG's future financial results depend significantly on the extent to which actual future experience is consistent with the assumptions and methodologies used in pricing CIG's insurance products and calculating reserves. Small changes in assumptions or small deviations of actual experience from assumptions can have material impacts on reserves, results of operations and financial condition.

Because these factors are not known in advance and have the potential to change over time, they are difficult to accurately predict and are inherently uncertain, CIG cannot determine with precision the ultimate amounts it will pay

for actual claims or the timing of those payments. In addition, CIG includes assumptions for anticipated (but not yet filed) future premium rate increases in its determination of loss recognition testing of long-term care insurance reserves under U.S. GAAP and asset adequacy testing of statutory long-term care insurance reserves. CIG may not be able to realize these anticipated results in the future as a result of its inability to obtain required regulatory approvals or other factors. In this event, CIG would have to increase its long-term care insurance reserves by amounts that could be material. Moreover, CIG may not be able to mitigate the impact of unexpected adverse experience by increasing premiums and/or other charges to policyholders (when it has the right to do so) or alternatively by reducing benefits.

The risk that CIG's claims experience may differ significantly from its pricing assumptions is significant for its long-term care insurance products. Long-term care insurance policies provide for long-duration coverage and, therefore, actual claims experience will emerge over many years after pricing and locked-in valuation assumptions have been established. For example, changes in the economy, socio-demographics, behavioral trends (e.g., location of care and level of benefit use) and medical advances, among other factors, may have a material adverse impact on future loss trends. Moreover, long-term care insurance does not have as extensive of claims experience history of life insurance, and as a result, CIG's ability to forecast future claim costs for long-term care insurance is more limited than for life insurance.

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For long-duration contracts (such as long-term care policies), loss recognition occurs when, based on current expectations as of the measurement date, the existing contract liabilities plus the present value of future premiums (including reasonably expected rate increases), are not expected to cover the present value of future claims payments, related settlement and maintenance costs, and unamortized acquisition costs. CIG regularly reviews its reserves and associated assumptions as part of its ongoing assessment of business performance and risks. If CIG concludes that its reserves are insufficient to cover actual or expected policy and contract benefits and claim payments as a result of changes in experience, assumptions or otherwise, CIG would be required to increase its reserves and incur charges in the period in which such determination is made. The amounts of such increases may be significant and this could materially adversely affect CIG's results of operations and financial condition and may require additional capital in CIG's businesses.

Insurers that have issued or reinsured long-term care insurance policies have recognized, and may recognize in the future, substantial losses in order to strengthen reserves for liabilities to policyholders in respect of such policies. Such losses may be due to the effect of changes in assumptions of future investment yields, changes in claims, expense, persistency assumptions or other factors. CIG is subject to similar risks that adverse changes in any of its reserve assumptions in future periods could result in additional loss recognition in respect of its business.

CIG's inability to increase premiums on in-force long-term care insurance policies by sufficient amounts or in a timely manner may adversely affect CIG's results of operations and financial condition.

The success of CIG's strategy for its run-off long-term care insurance business assumes CIG's ability to obtain significant price increases, as warranted and actuarially justified based on its experience on its in-force block of long-term care insurance policies. The adequacy of CIG's current long-term care insurance reserves also depends significantly on this assumption and CIG's ability to successfully execute its in-force management plan through increased premiums as anticipated.

Although the terms of CIG's long-term care insurance policies permit CIG to increase premiums during the premium-paying period, these increases generally require regulatory approval, which often have long lead times to obtain and may not be obtained in all relevant jurisdictions or for the full amounts requested. In addition, some states are considering adopting long-term care insurance rate increase legislation, which would further limit increases in long-term care insurance premium rates, beyond the rate stability legislation previously adopted in certain states.

Such long-term care insurance rate increase legislation would adversely impact CIG's ability to achieve anticipated rate increases. CIG can neither predict how policyholders, competitors and regulators may react to any rate increases; nor, whether regulators will approve regulated rate increases. If CIG is not able to increase rates to the extent it currently anticipates, CIG may be required to establish additional reserves and make greater payments under long-term care insurance policies than it currently projects.

CIG is highly regulated and subject to numerous legal restrictions and regulations.

CGI conducts its business throughout the United States, excluding New York State, and UTA conducts its business throughout the United States, excluding New York, New Hampshire and Vermont. Both CGI and UTA are subject to government regulation in each of the states in which it conducts business. Such regulation is vested in state agencies having broad administrative, and in some instances discretionary, authority with respect to many aspects of CIG's business, which may include, among other things, premium rates and increases thereto, privacy, claims denial practices, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy, and is concerned primarily with the protection of policyholders and other customers rather than shareowners. At any given

time, a number of financial and/or market conduct examinations of CIG and its insurance subsidiaries may be ongoing. From time to time, regulators raise issues during examinations or audits of CIG and its insurance subsidiaries that could, if determined adversely, have a material impact on CIG.

Under insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. CIG cannot predict the amount or timing of any such future assessments.

Although CIG's business is subject to regulation in each state in which it conducts business, in many instances the state regulatory models emanate from the NAIC. State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and at the expense of the insurer and, thus, could have a material adverse effect on CIG's business, operations and financial condition.



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CIG is also subject to the risk that compliance with any particular regulator's interpretation of a legal or accounting issue may not result in compliance with another regulator's interpretation of the same issue, particularly when compliance is judged in hindsight. There is further risk that any particular regulator's interpretation of a legal or accounting issue may change over time to CIG's detriment, or that changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause CIG to change its views regarding the actions it should take from a legal risk management perspective, which could necessitate changes to CIG's practices that may, in some cases, limit its ability to grow and improve profitability.

Some of the NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Statutes, regulations, and interpretations may be applied with retroactive impact, particularly in areas such as accounting and reserve requirements.

At the federal level, bills are routinely introduced in both chambers of the U.S. Congress which could affect life insurers. In the past, Congress has considered legislation that would impact insurance companies in numerous ways, such as providing for an optional federal charter for insurance companies or a federal presence in insurance regulation, pre-empting state law in certain respects regarding the regulation of reinsurance, increasing federal oversight in areas such as consumer protection and solvency regulation, and other matters.

CIG cannot predict whether, or in what form, reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect CIG or whether these effects will be material.

Other types of regulation that could affect CIG include insurance company investment laws and regulations, state statutory accounting practices, antitrust laws, minimum solvency requirements, federal privacy laws, insurable interest laws, federal anti-money laundering and anti-terrorism laws. CIG cannot predict what form any future changes in these or other areas of regulation affecting the insurance industry might take or what effect, if any, such proposals might have on CIG if enacted into law.

CIG's reinsurers could fail to meet assumed obligations or be subject to adverse developments that could materially adversely affect CIG's business, financial condition and results of operations.

CIG, through its insurance subsidiaries, cedes material amounts of insurance and transfers related assets and certain liabilities to other insurance companies through reinsurance. However, notwithstanding the transfer of related assets and certain liabilities, CIG remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations it has assumed. Accordingly, CIG bears credit risk with respect to its reinsurers. CIG, through reinsurance to its insurance subsidiaries, currently faces material reinsurance obligations to Loyal American Life Insurance Company ("Loyal") (rated A- by A.M. Best), Hannover Life Reassurance Company ("Hannover") (rated A+ by A.M. Best) and GALIC (rated A by A.M. Best). The failure, insolvency, inability or unwillingness of a reinsurer, including Loyal, Hannover or GALIC, to pay under the terms of its reinsurance agreement with CIG could materially adversely affect CIG's business, financial condition and results of operations.

Reinsurers are currently facing many challenges regarding illiquid credit or capital markets, investment downgrades, rating agency downgrades, deterioration of general economic conditions and other factors negatively impacting the financial services industry generally. If such events cause a reinsurer to fail to meet its obligations, CIG's business, financial condition and results of operations could be materially adversely affected.

CIG's financial condition or results of operations could be adversely impacted if its assumptions regarding the fair value and future performance of its investments differ from actual experience.

CIG makes assumptions regarding the fair value and expected future performance of its investments. For example, CIG expects that its investments in residential and commercial mortgage-backed securities will continue to perform in accordance with their contractual terms, based on assumptions that CIG believes are industry standard and those that a reasonable market participant would use in determining the current fair value and the performance of the underlying assets. It is possible that the underlying collateral of these investments will perform more poorly than current market expectations and that such reduced performance may lead to adverse changes in the cash flows on CIG's holdings of these types of securities. This could lead to potential future other-than-temporary impairments within CIG's portfolio of mortgage-backed and asset-backed securities.

In addition, expectations that CIG's investments in corporate securities and/or debt obligations will continue to perform in accordance with their contractual terms are based on evidence gathered through its normal credit surveillance process. It is possible that issuers of the corporate securities in which CIG has invested will perform more poorly than current expectations. Such events may lead CIG to recognize potential future other-than-temporary impairments within its portfolio of corporate securities. It is also possible that such unanticipated events would lead CIG to dispose of certain of those holdings and recognize the effects of any

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market movements in its financial statements. Furthermore, actual values may differ from CIG's assumptions. Such events could result in a material change in the value of CIG's investments, business, operations and financial condition.

Interest rate fluctuations and withdrawal demands in excess of assumptions could negatively affect CIG's business, financial condition and results of operations.

CIG's business is sensitive to interest rate fluctuations, volatility and the low interest rate environment. For the past several years interest rates have trended downwards to historically low levels. In order to meet policy and contractual obligations, CIG must earn a sufficient return on invested assets. A prolonged period of historically low rates or significant changes in interest rates could expose CIG to the risk of not achieving sufficient return on invested assets by not achieving anticipated interest earnings, or of not earning anticipated spreads between the interest rate earned on investments and the credited interest rates paid on outstanding policies and contracts.

Additionally, a prolonged period of low interest rates in the future may lengthen liability maturity, thus increasing the need for a re-investment of assets at yields that are below the amounts required to support guarantee features of outstanding contracts.

Both rising and declining interest rates can negatively affect CIG's interest earnings and spread income (the difference between the returns CIG earns on its investments and the amounts that it must credit to policyholders and contract holders). While CIG develops and maintains asset liability management ("ALM") programs and procedures designed to mitigate the effect on interest earnings and spread income in rising or falling interest rate environments, no assurance can be given that changes in interest rates will not materially adversely affect its business, financial condition and results of operations.

An extended period of declining interest rates or a prolonged period of low interest rates may cause CIG to change its long-term view of the interest rates that CIG can earn on its investments. Such a change would cause CIG to change the long-term interest rate that it assumes in its calculation of insurance assets and liabilities under U.S. GAAP. This revision would result in increased reserves and other unfavorable consequences. In addition, while the amount of statutory reserves is not directly affected by changes in interest rates, additional statutory reserves may be required as the result of an asset adequacy analysis, which is altered by rising or falling interest rates and widening credit spreads.

CIG is subject to financial disintermediation risks in rising interest rate environments.

CIG's insurance subsidiaries offer certain products that allow policyholders to withdraw their funds under defined circumstances. In order to meet such funding obligations, CIG manages its liabilities and configure its investment portfolios so as to provide and maintain sufficient liquidity to support expected withdrawal demands and contract benefits and maturities. However, in order to provide necessary long-term returns, a certain portion of its assets are relatively illiquid. There can be no assurance that actual withdrawal demands will match its estimated withdrawal demands.

As interest rates increase, CIG is exposed to the risk of financial disintermediation through a potential increase in the number of withdrawals. Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring CIG to liquidate assets in an unrealized loss position. If CIG experiences unexpected withdrawal activity, whether as a result of financial strength downgrades or otherwise, it could exhaust its liquid assets and be forced to liquidate other assets, possibly at a loss or on other unfavorable terms, which could have a material adverse effect on CIG's business, financial condition and results of operations.

Additionally, CIG may experience spread compression, and a loss of anticipated earnings, if credited interest rates are increased on renewing contracts in an effort to decrease or manage withdrawal activity.

CIG's investments are subject to market, credit, legal and regulatory risks that could be heightened during periods of extreme volatility or disruption in financial and credit markets.

CIG's invested assets are subject to risks of credit defaults and changes in market values. Periods of extreme volatility or disruption in the financial and credit markets could increase these risks. Underlying factors relating to volatility affecting the financial and credit markets could lead to other-than-temporary impairments of assets in CIG's investment portfolio.

The value of CIG's mortgage-backed investments depends in part on the financial condition of the borrowers and tenants for the properties underlying those investments, as well as general and specific circumstances affecting the overall default rate.

Significant continued financial and credit market volatility, changes in interest rates, credit spreads, credit defaults, real estate values, market illiquidity, declines in equity prices, acts of corporate malfeasance, ratings downgrades of the issuers or guarantors

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of these investments, and declines in general economic conditions, either alone or in combination, could have a material adverse impact on CIG's results of operations, financial condition, or cash flows through realized losses, other-than-temporary impairments, changes in unrealized loss positions, and increased demands on capital. In addition, market volatility can make it difficult for CIG to value certain of its assets, especially if trading becomes less frequent. Valuations may include assumptions or estimates that may have significant period-to-period changes that could have an adverse impact on CIG's results of operations or financial condition.

Credit market volatility or disruption could adversely impact CIG's investment portfolio.

Significant volatility or disruption in credit markets could have a material adverse effect on CIG's investment portfolio, and, as a result, CIG's business, financial condition and results of operations. Changes in interest rates and credit spreads could cause market price and cash flow variability in the fixed income instruments in CIG's investment portfolio. Significant volatility and lack of liquidity in the credit markets could cause issuers of the fixed-income securities in CIG's investment portfolio to default on either principal or interest payments on these securities. Additionally, market price valuations may not accurately reflect the underlying expected cash flows of securities within CIG's investment portfolio.

Concentration of CIG's investment portfolio in any particular economic sector or asset type may increase CIG's exposure to risk if that area of concentration experiences events that cause underperformance.

CIG's investment portfolio may be concentrated in areas, such as particular industries, groups of related industries, asset classes or geographic areas that experience events that cause underperformance of the investments. While CIG seeks to mitigate this risk through portfolio diversification, if CIG's investment portfolio is concentrated in any areas that experience negative events or developments, the impact of those negative events may have a disproportionate effect on CIG's portfolio, which may have an adverse effect on the performance of the CIG's investment portfolio.

CIG may be required to increase its valuation allowance against its deferred tax assets, which could materially adversely affect CIG's capital position, business, operations and financial condition.

Deferred tax assets refer to assets that are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets, in essence, represent future savings of taxes that would otherwise be paid in cash. The realization of the deferred tax assets is dependent upon the generation of sufficient future taxable income, including capital gains. If it is determined that the deferred tax assets cannot be realized, a deferred tax valuation allowance must be established, with a corresponding charge to net income.

If future events differ from CIG's current forecasts, the valuation allowance may need to be increased from the current amount, which could have a material adverse effect on CIG's capital position, business, operations and financial condition.

Financial services companies are frequently the targets of litigation, including class action litigation, which could result in substantial judgments.

CIG operates in an industry in which various practices are subject to scrutiny and potential litigation, including class actions. Civil jury verdicts have been returned against insurers and other financial services companies involving sales, underwriting practices, product design, product disclosure, administration, denial or delay of benefits, charging excessive or impermissible fees, recommending unsuitable products to customers, breaching fiduciary or other duties to customers, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the insurer does business, payment of sales or other contingent

commissions, and other matters. Such lawsuits can result in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive or non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, financial services companies have made material settlement payments.

Companies in the financial services industry are sometimes the target of law enforcement investigations and the focus of increased regulatory scrutiny.

The financial services industry, including insurance companies, is sometimes the target of law enforcement and regulatory investigations relating to the numerous laws and regulations that govern such companies. Some financial services companies have been the subject of law enforcement or other actions resulting from such investigations. Resulting publicity about one company may generate inquiries into or litigation against other financial services companies, even those who do not engage in the business

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lines or practices at issue in the original action. It is impossible to predict the outcome of such investigations or actions, whether they will expand into other areas not yet contemplated, whether they will result in changes in insurance regulation, whether activities currently thought to be lawful will be characterized as unlawful, or the impact, if any, of such scrutiny on the financial services and insurance industry or CIG.

CIG is dependent on the performance of others under the Transition Services Agreement and on an ongoing basis as part of its business.

CIG is dependent on the performance of third parties as part of its business. In the near term, CIG will depend on the Sellers of the Insurance Companies, under the Transition Services Agreement, for the performance of certain transitional services and administrative services with respect to the life insurance, annuity and long-term care business of CIG's insurance subsidiaries.

In addition, various other third parties provide services to CIG or are otherwise involved in CIG's business operations, on an ongoing basis. For example, CIG's operations are dependent on various technologies, some of which are provided and/or maintained by certain key outsourcing partners and other parties.

Any failure by any of the Sellers of the Insurance Companies or such other third party providers to provide such services, could have a material adverse effect on CIG's business or financial results.

CIG also depends on other parties that may default on their obligations to CIG due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud, or other reasons. Such defaults could have a material adverse effect on CIG's financial condition and results of operations. In addition, certain of these other parties may act, or be deemed to act, on behalf of CIG or represent CIG in various capacities. Consequently, CIG may be held responsible for obligations that arise from the acts or omissions of these other parties.

If CIG does not maintain an effective outsourcing strategy or third-party providers do not perform as contracted, CIG may experience operational difficulties, increased costs and a loss of business that could have a material adverse effect on its results of operations. In addition, CIG's reliance on third-party service providers that it does not control does not relieve CIG of its responsibilities and requirements. Any failure or negligence by such third-party service providers in carrying out their contractual duties may result in CIG becoming liable to parties who are harmed and may result in litigation. Any litigation relating to such matters could be costly, expensive and time-consuming, and the outcome of any such litigation may be uncertain. Moreover, any adverse publicity arising from such litigation, even if the litigation is not successful, could adversely affect the reputation and sales of CIG and its products.

The occurrence of computer viruses, network security breaches, cyber-attacks, data corruption, or other unanticipated events could affect the data processing systems of CIG or its business partners and could damage CIG's business.

CIG retains confidential information in its computer systems, and relies on sophisticated commercial technologies to maintain the security of those systems. Despite CIG's implementation of network security measures, its servers could be subject to physical and electronic break-ins, and similar disruptions from unauthorized tampering with its computer systems. Anyone who is able to circumvent CIG's security measures and penetrate CIG's computer systems could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable customer information and proprietary business information. In addition, an increasing number of states require that customers be notified of unauthorized access, use, or disclosure of their information. Any compromise of the security of CIG's computer systems that results in inappropriate access, use, or disclosure of personally identifiable customer information could damage CIG's reputation in the marketplace, subject CIG to significant civil and criminal liability, and require CIG to incur significant technical, legal, and other expenses.

CIG's insurance subsidiaries' ability to grow depends in large part upon the continued availability of capital.

CIG's long-term strategic capital requirements will depend on many factors, including acquisition activity, CIG's ability to manage the run-off of in-force insurance business, CIG's accumulated statutory earnings and the relationship between the statutory capital and surplus of CIG's insurance subsidiaries and various elements of required capital. To support its capital requirements and/or finance future acquisitions, CIG may need to increase or maintain statutory capital and surplus through financings, which could include debt or equity financing arrangements and/or other surplus relief transactions. Adverse market conditions have affected and continue to affect the availability and cost of capital from external sources. We are not obligated to, and may choose not to or be unable to, provide financing or make any future capital contribution to CIG's insurance subsidiaries. Consequently, financing, if available at all, may be available only on terms that are not favorable to CIG.



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New accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact CIG.

CIG is required to comply with US GAAP. A number of organizations are instrumental in the development and interpretation of US GAAP such as the SEC, the Financial Accounting Standards Board, and the American Institute of Certified Public Accountants. US GAAP is subject to constant review by these organizations and others in an effort to address emerging accounting rules and issue interpretative accounting guidance on a continual basis. CIG can give no assurance that future changes to US GAAP will not have a negative impact on CIG.

The application of US GAAP to insurance businesses and investment portfolios, like CIG's, involves a significant level of complexity and requires a number of factors and judgments. US GAAP includes the requirement to carry certain investments and insurance liabilities at fair value. These fair values are sensitive to various factors including, but not limited to, interest rate movements, credit spreads, and various other factors. Because of this, changes in these fair values may cause increased levels of volatility in CIG's financial statements.

In addition, CIG's insurance subsidiaries are required to comply with statutory accounting principles ("SAP"). SAP and various components of SAP (such as actuarial reserving methodology) are subject to ongoing review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve financial reporting. Various proposals are currently or have previously been pending before committees and task forces of the NAIC, some of which, if enacted, would negatively affect CIG. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves and the accounting for such reserves. CIG cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect CIG. In addition, the NAIC Accounting Practices and Procedures manual provides that state insurance departments may permit insurance companies domiciled therein to depart from SAP by granting them permitted accounting practices. CIG cannot predict whether or when the insurance departments of the states of domicile of its competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which is not permitted by the insurance departments of the states of domicile of CIG and its insurance subsidiaries. With respect to regulations and guidelines, states sometimes defer to the interpretation of the insurance department of the state of domicile. Neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. CIG can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to its competitors will not have a negative impact on CIG.

CIG is exposed to the risks of natural and man-made catastrophes, pandemics and malicious and terrorist acts that could materially adversely affect CIG's business, financial condition and results of operations.

Natural and man-made catastrophes, pandemics and malicious and terrorist acts present risks that could materially adversely affect CIG's operations and results. No assurance can be given that there are not risks that have not been predicted or protected against that could have a material adverse effect on CIG. A natural or man-made catastrophe, pandemic or malicious or terrorist act could materially adversely affect the mortality or morbidity experience of CIG or its reinsurers. Claims arising from such events could have a material adverse effect on CIG's business, operations and financial condition, either directly or as a result of their effect on its reinsurers or other counterparties. While CIG has taken steps to identify and manage these risks, such risks cannot be predicted with certainty, nor fully protected against even if anticipated.

In addition, such events could result in a decrease or halt in economic activity in large geographic areas, adversely affecting the administration of CIG's business within such geographic areas and/or the general economic climate, which in turn could have an adverse effect on CIG's business, operations and financial condition. The possible

macroeconomic effects of such events could also adversely affect CIG's asset portfolio.

Future acquisition transactions may not be financially beneficial to CIG.

In the future, CIG may pursue acquisitions of insurance companies and/or blocks of insurance businesses through merger, stock purchase or reinsurance transactions or otherwise. Lines of business that may be acquired include but are not limited to, standalone long-term care, life and annuity products, life and annuity products with long-term care and critical illness features, and supplemental health products.

There can be no assurance that the performance of the companies or blocks of business acquired will meet CIG's expectations, or that any of these acquisitions will be financially advantageous for CIG. The evaluation and negotiation of potential acquisitions, as well as the integration of an acquired business or portfolio, could result in a substantial diversion of management resources. Acquisitions could involve numerous additional risks such as potential losses from unanticipated litigation, levels of claims or

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other liabilities and exposures, an inability to generate sufficient revenue to offset acquisition costs and financial exposures in the event that the sellers of the acquired entities or blocks of business are unable or unwilling to meet their indemnification, reinsurance and other obligations to CIG (if any such obligations are in place). CIG's ability to manage its growth through acquisitions will depend, in part, on its success in addressing these risks. Any failure to effectively implement CIG's acquisition strategies could have a material adverse effect on CIG's business, financial condition or results of operations.

CIG may be unable to execute acquisition transactions in accordance with its strategy.

The market for acquisitions of life or health insurers and blocks of like businesses is highly competitive, and there can be no assurance that CIG will be able to identify acquisition targets at acceptable valuations, or that any such acquisitions will ultimately achieve projected returns. In addition, insurance is a highly regulated industry and many acquisition transactions are subject to approval of state insurance regulatory authorities, and therefore involve heightened execution risk.

On October 7, 2013, the New York State Department of Financial Services announced that Philip A. Falcone, now our Chairman, President and Chief Executive Officer, had committed not to exercise control, within the meaning of New York insurance law, of a New York-licensed insurer for seven years (the "NYDFS Commitment"). Mr. Falcone, who at the time of the NYDFS Commitment was the Chief Executive Officer and Chairman of the Board of Harbinger Group Inc. ("HGI"), also committed not to serve as an officer or director of certain insurance company subsidiaries and related subsidiaries of HGI or to be involved in any investment decisions made by such subsidiaries, and agreed to recuse himself from participating in any vote of the board of HGI relating to the election or appointment of officers or directors of such companies. However, it was also noted that in the event compliance with the NYDFS Commitment proves impracticable, including in the context of merger, acquisition or similar transactions, then the terms of the NYDFS Commitment may be reconsidered and modified or withdrawn to the extent determined to be appropriate by the NYDFS Insurance regulatory authorities may consider the NYDFS Commitment in the course of a review of any prospective acquisition of an insurance company or block of insurance business by us or CIG, increasing the risk that any such transaction may be disapproved, or that regulatory conditions will be applied to the consummation of such an acquisition which may adversely affect the economic benefits anticipated to be derived by us and/or CIG from such transaction.

### Risks Related to Schuff

Schuff's business is dependent upon major construction contracts, the unpredictable timing of which may result in significant fluctuations in its cash flow due to the timing of receipt of payment under such contracts.

Schuff's cash flow is dependent upon obtaining major construction contracts primarily from general contractors and engineering firms responsible 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. The timing of or failure to obtain contracts, delays in awards of contracts, cancellations of contracts, delays in completion of contracts, or failure to obtain timely payment from Schuff's customers, could result in significant periodic fluctuations in cash flows from Schuff's operations. In addition, many of Schuff's contracts require it to satisfy specific progress or performance milestones in order to receive payment from the customer. As a result, Schuff may incur significant costs for engineering, materials, components, equipment, labor or subcontractors prior to receipt of payment from a customer. Such expenditures could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

The nature of Schuff's primary contracting terms for its contracts, including fixed-price and cost-plus pricing, could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff's projects are awarded through a competitive bid process or are obtained through negotiation, in either case generally using one of two types of contract pricing approaches: fixed-price or cost-plus pricing. Under fixed-price contracts, Schuff performs its services and executes its projects at an established price, subject to adjustment only for change orders approved by the customer, and, as a result, it may benefit from cost savings but be unable to recover any cost overruns. If Schuff does not execute such a contract within cost estimates, it may incur losses or the project may be less profitable than expected. Historically, the majority of Schuff's contracts have been fixed-price arrangements. The revenue, cost and gross profit realized on such contracts can vary, sometimes substantially, from the original projections due to a variety of factors, including, but not limited to:

- failure to properly estimate costs of materials, including steel and steel components, engineering services, equipment, labor or subcontractors;
- costs incurred in connection with modifications to a contract that may be unapproved by the customer as to scope, schedule, and/or price;

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- unanticipated technical problems with the structures, equipment or systems we supply;
- unanticipated costs or claims, including costs for project modifications, customer-caused delays, errors or changes in specifications or designs, or contract termination;
- changes in the costs of materials, engineering services, equipment, labor or subcontractors;
- changes in labor conditions, including the availability and productivity of labor;
- productivity and other delays caused by weather conditions;
- failure to engage necessary suppliers or subcontractors, or failure of such suppliers or subcontractors to perform;
- difficulties in obtaining required governmental permits or approvals;
- changes in laws and regulations; and
- changes in general economic conditions.

Under cost-plus contracts, Schuff receives reimbursement for its direct labor and material cost, plus a specified fee in excess thereof, which is typically a fixed rate per hour, an overall fixed fee, or a percentage of total reimbursable costs, up to a maximum amount, which is an arrangement that may protect Schuff against cost overruns. If Schuff is unable to obtain proper reimbursement for all costs incurred due to improper estimates, performance issues, customer disputes, or any of the additional factors noted above for fixed-price contracts, the project may be less profitable than expected.

Generally, Schuff's contracts and projects vary in length from 1 to 12 months, depending on the size and complexity of the project, project owner demands and other factors. The foregoing risks are exacerbated for projects with longer-term durations because there is an increased risk that the circumstances upon which Schuff based its original estimates will change in a manner that increases costs. In addition, Schuff sometimes bears the risk of delays caused by unexpected conditions or events. To the extent there are future cost increases that Schuff cannot recover from its customers, suppliers or subcontractors, the outcome could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Furthermore, revenue and gross profit from Schuff's contracts can be affected by contract incentives or penalties that may not be known or finalized until the later stages of the contract term. Some of Schuff's contracts provide for the customer's review of its accounting and cost control systems to verify the completeness and accuracy of the reimbursable costs invoiced. These reviews could result in reductions in reimbursable costs and labor rates previously billed to the customer.

The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods and the recognition of losses expected to be incurred on contracts in progress. Due to the various estimates inherent in Schuff's contract accounting, actual results could differ from those estimates.

Schuff's billed and unbilled revenue may be exposed to potential risk if a project is terminated or canceled or if Schuff's customers encounter financial difficulties.

Schuff's contracts often require it to satisfy or achieve certain milestones in order to receive payment for the work performed. As a result, under these types of arrangements, Schuff may incur significant costs or perform significant amounts of services prior to receipt of payment. If the ultimate customer does not proceed with the completion of the project or if the customer or contractor under which Schuff is a subcontractor defaults on its payment obligations, Schuff may face difficulties in collecting payment of amounts due to it for the costs previously incurred. If Schuff is unable to collect amounts owed to it, this could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff may be exposed to additional risks as it obtains new significant awards and executes its backlog, including greater backlog concentration in fewer projects, potential cost overruns and increasing requirements for letters of credit, each of which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

As Schuff obtains new significant project awards, these projects may use larger sums of working capital than other projects and Schuff's backlog may become concentrated among a smaller number of customers. Approximately \$167.8 million, representing 44.1%, of Schuff's backlog at December 31, 2015 was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If any significant projects such as these currently included in Schuff's backlog or awarded in the future were to have material cost overruns, or be significantly delayed, modified or canceled, Schuff's results of operations, cash flows or financial position could be adversely impacted.

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Additionally, as Schuff converts its significant projects from backlog into active construction, it may face significantly greater requirements for the provision of letters of credit or other forms of credit enhancements. We can provide no assurance that Schuff would be able to access such capital and credit as needed or that it would be able to do so on economically attractive terms. Moreover, Schuff may be unable to replace the projects that it executes in its backlog. Schuff may not be able to fully realize the revenue value reported in its backlog, a substantial portion of which is attributable to a relatively small number of large contracts or other commitments.

As of December 31, 2015, Schuff had a backlog of work to be completed of approximately \$380.8 million (\$252.7 million under contracts or purchase orders and \$128.1 million under letters of intent). Backlog develops as a result of new awards, which represent the revenue value of new project commitments received by Schuff during a given period, including legally binding commitments without a defined scope. Commitments may be in the form of written contracts, letters of intent, notices to proceed and purchase orders. New awards may also include estimated amounts of work to be performed based on customer communication and historic experience and knowledge of our customers' intentions. Backlog consists of projects which have either not yet been started or are in progress but are not yet complete. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been completed, which increases or decreases to reflect modifications in the work to be performed under a given commitment. The revenue projected in Schuff's backlog may not be realized or, if realized, may not be profitable as a result of poor contract terms or performance.

Due to project terminations, suspensions or changes in project scope and schedule, we cannot predict with certainty when or if Schuff's backlog will be performed. From time to time, projects are canceled that appeared to have a high certainty of going forward at the time they were recorded as new awards. In the event of a project cancellation, Schuff typically has no contractual right to the total revenue reflected in its backlog. Some of the contracts in Schuff's backlog provide for cancellation fees or certain reimbursements in the event customers cancel projects. These cancellation fees usually provide for reimbursement of Schuff's out-of-pocket costs, costs associated with work performed prior to cancellation, and, to varying degrees, a percentage of the profit Schuff would have realized had the contract been completed. Although Schuff may be reimbursed for certain costs, it may be unable to recover all direct costs incurred and may incur additional unrecoverable costs due to the resulting under-utilization of Schuff's assets. Approximately \$167.8 million, representing 44.1%, of Schuff's backlog at December 31, 2015 was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these large contracts or other commitments are terminated or their scope reduced, Schuff's backlog could decrease substantially.

Schuff's failure to meet contractual schedule or performance requirements could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

In certain circumstances, Schuff guarantees project completion by a scheduled date or certain performance levels. Failure to meet these schedule or performance requirements could result in a reduction of revenue and additional costs, and these adjustments could exceed projected profit. Project revenue or profit could also be reduced by liquidated damages withheld by customers under contractual penalty provisions, which can be substantial and can accrue on a daily basis. Schedule delays can result in costs exceeding our projections for a particular project. Performance problems for existing and future contracts could cause actual results of operations to differ materially from those previously anticipated and could cause us to suffer damage to our reputation within our industry and our customer base.

Schuff's government contracts may be subject to modification or termination, which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff is a provider of services to U.S. government agencies and is therefore exposed to risks associated with government contracting. Government agencies typically can terminate or modify contracts to which Schuff is a party at their convenience, due to budget constraints or various other reasons. As a result, Schuff's backlog may be reduced or it may incur a loss if a government agency decides to terminate or modify a contract to which Schuff is a party. Schuff is also subject to audits, including audits of internal control systems, cost reviews and investigations by government contracting oversight agencies. As a result of an audit, the oversight agency may disallow certain costs or withhold a percentage of interim payments. Cost disallowances may result in adjustments to previously reported revenue and may require Schuff to refund a portion of previously collected amounts. In addition, failure to comply with the terms of one or more of our government contracts or government regulations and statutes could result in Schuff being suspended or debarred from future government projects for a significant period of time, possible civil or criminal fines and penalties, the risk of public scrutiny of our performance, and potential harm to Schuff's reputation, each of which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition. Other remedies that government agencies may seek for improper activities or performance issues include sanctions such as forfeiture of profit and suspension of payments.



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In addition to the risks noted above, legislatures typically appropriate funds on a year-by-year basis, while contract performance may take more than one year. As a result, contracts with government agencies may be only partially funded or may be terminated, and Schuff may not realize all of the potential revenue and profit from those contracts. Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, curtailments in the use of government contracting firms, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures.

Schuff is exposed to potential risks and uncertainties associated with its reliance on subcontractors and third-party vendors to execute certain projects.

Schuff relies on third-party suppliers, especially suppliers of steel and steel components, and subcontractors to assist in the completion of projects. To the extent these parties cannot execute their portion of the work and are unable to deliver their services, equipment or materials according to the agreed-upon contractual terms, or Schuff cannot engage subcontractors or acquire equipment or materials, Schuff's ability to complete a project in a timely manner may be impacted. Furthermore, when bidding or negotiating for contracts, Schuff must make estimates of the amounts these third parties will charge for their services, equipment and materials. If the amount Schuff is required to pay for third-party goods and services in an effort to meet its contractual obligations exceeds the amount it has estimated, Schuff could experience project losses or a reduction in estimated profit.

Any increase in the price of, or change in supply and demand for, the steel and steel components that Schuff utilizes to complete projects could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

The prices of the steel and steel components that Schuff utilizes in the course of completing projects are susceptible to price fluctuations due to supply and demand trends, energy costs, transportation costs, government regulations, duties and tariffs, changes in currency exchange rates, price controls, general economic conditions and other unforeseen circumstances. Although Schuff may attempt to pass on certain of these increased costs to its customers, it may not be able to pass all of these cost increases on to its customers. As a result, Schuff's margins may be adversely impacted by such cost increases.

Schuff's dependence on suppliers of steel and steel components makes it vulnerable to a disruption in the supply of its products.

Schuff purchases a majority of the steel and steel components utilized in the course of completing projects from several domestic and foreign steel producers and suppliers. Schuff generally does not have long-term contracts with its suppliers. An adverse change in any of the following could have a material adverse effect on Schuff's results of operations or financial condition:

- its ability to identify and develop relationships with qualified suppliers;
- the terms and conditions upon which it purchases products from its suppliers, including applicable exchange rates, transport costs and other costs, its suppliers' willingness to extend credit to it to finance its inventory purchases and other factors beyond its control;
- financial condition of its suppliers;
- political instability in the countries in which its suppliers are located;
- its ability to import products;
- its suppliers' noncompliance with applicable laws, trade restrictions and tariffs;
- its inability to find replacement suppliers in the event of a deterioration of the relationship with current suppliers; or
- its suppliers' ability to manufacture and deliver products according to its standards of quality on a timely and efficient basis.

Intense competition in the markets Schuff serves could reduce Schuff's market share and earnings.

The principal geographic and product markets Schuff serves are highly competitive, and this intense competition is expected to continue. Schuff competes with other contractors for commercial, industrial and specialty projects on a local, regional, or national basis. Continued service within these markets requires substantial resources and capital investment in equipment, technology and skilled personnel, and certain of Schuff's competitors have financial and operating resources greater than Schuff. Competition also places downward pressure on Schuff's contract prices and margins. Among the principal competitive factors within the industry are price, timeliness of completion of projects, quality, reputation, and the desire of customers to utilize specific contractors with whom they have favorable relationships and prior experience. While Schuff believes that it maintains a competitive advantage with respect to these factors, failure to continue to do so or to meet other competitive challenges could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

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Schuff's customers' ability to receive the applicable regulatory and environmental approvals for projects and the timeliness of those approvals could adversely affect Schuff's business.

The regulatory permitting process for Schuff's projects requires significant investments of time and money by Schuff's customers and sometimes by Schuff. There are no assurances that Schuff's customers or Schuff will obtain the necessary permits for these projects. Applications for permits may be opposed by governmental entities, individuals or special interest groups, resulting in delays and possible non-issuance of the permits.

Schuff's failure to obtain or maintain required licenses may adversely affect its business.

Schuff is subject to licensure and hold licenses in each of the states in the United States in which it operates and in certain local jurisdictions within such states. While we believe that Schuff is in material compliance with all contractor licensing requirements in the various jurisdictions in which it operates, the failure to obtain, loss of or revocation of any license or the limitation on any of Schuff's primary services thereunder in any jurisdiction in which it conducts substantial operations could prevent Schuff from conducting further operations in such jurisdiction and have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Volatility in equity and credit markets could adversely impact Schuff due to its impact on the availability of funding for Schuff's customers, suppliers and subcontractors.

Some of Schuff's ultimate customers, suppliers and subcontractors have traditionally accessed commercial financing and capital markets to fund their operations, and the availability of funding from those sources could be adversely impacted by volatile equity or credit markets. The unavailability of financing could lead to the delay or cancellation of projects or the inability of such parties to pay Schuff or provide needed products or services and thereby have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff's business may be adversely affected by bonding and letter of credit capacity.

Certain of Schuff's projects require the support of bid and performance surety bonds or letters of credit. A restriction, reduction, or termination of Schuff's surety bond agreements or letter of credit facilities could limit its ability to bid on new project opportunities, thereby limiting new awards, or perform under existing awards.

Schuff is vulnerable to significant fluctuations in its liquidity that may vary substantially over time.

Schuff's operations could require the utilization of large sums of working capital, sometimes on short notice and sometimes without assurance of recovery of the expenditures. Circumstances or events that could create large cash outflows include losses resulting from fixed-price contracts, environmental liabilities, litigation risks, contract initiation or completion delays, customer payment problems, professional and product liability claims and other unexpected costs. There is no guarantee that Schuff's facilities will be sufficient to meet Schuff's liquidity needs or that Schuff will be able to maintain such facilities or obtain any other sources of liquidity on attractive terms, or at all.

Schuff's projects expose it to potential professional liability, product liability, warranty and other claims.

Schuff's operations are subject to the usual hazards inherent in providing engineering and construction services for the construction of often large commercial industrial facilities, such as the risk of accidents, fires and explosions. These hazards can cause personal injury and loss of life, business interruptions, property damage and pollution and environmental damage. Schuff may be subject to claims as a result of these hazards. In addition, the failure of any of

Schuff's products to conform to customer specifications could result in warranty claims against it for significant replacement or rework costs, which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Although Schuff generally does not accept liability for consequential damages in its contracts, should it be determined liable, it may not be covered by insurance or, if covered, the dollar amount of these liabilities may exceed applicable policy limits. Any catastrophic occurrence in excess of insurance limits at project sites involving Schuff's products and services could result in significant professional liability, product liability, warranty or other claims against Schuff. Any damages not covered by insurance, in excess of insurance limits or, if covered by insurance, subject to a high deductible, could result in a significant loss for Schuff, which may reduce its profits and cash available for operations. These claims could also make it difficult for Schuff to obtain adequate insurance coverage in the future at a reasonable cost. Additionally, customers or subcontractors that have agreed to indemnify Schuff against such losses may refuse or be unable to pay Schuff.

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Schuff may experience increased costs and decreased cash flow due to compliance with environmental laws and regulations, liability for contamination of the environment or related personal injuries.

Schuff is subject to environmental laws and regulations, including those concerning emissions into the air, discharge into waterways, generation, storage, handling, treatment and disposal of waste materials and health and safety.

Schuff's fabrication business often involves working around and with volatile, toxic and hazardous substances and other highly regulated pollutants, substances or wastes, for which the improper characterization, handling or disposal could constitute violations of U.S. federal, state or local laws and regulations and laws of other countries, and result in criminal and civil liabilities. Environmental laws and regulations generally impose limitations and standards for certain pollutants or waste materials and require Schuff to obtain permits and comply with various other requirements. Governmental authorities may seek to impose fines and penalties on Schuff, or revoke or deny issuance or renewal of operating permits for failure to comply with applicable laws and regulations. Schuff is also exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or wastes. In connection with the historical operation of our facilities, substances which currently are or might be considered hazardous may have been used or disposed of at some sites in a manner that may require us to make expenditures for remediation.

The environmental, health and safety laws and regulations to which Schuff is subject are constantly changing, and it is impossible to predict the impact of such laws and regulations on Schuff in the future. We cannot ensure that Schuff's operations will continue to comply with future laws and regulations or that these laws and regulations will not cause Schuff to incur significant costs or adopt more costly methods of operation.

Additionally, the adoption and implementation of any new regulations imposing reporting obligations on, or limiting emissions of greenhouse gases from, Schuff's customers' equipment and operations could significantly impact demand for Schuff's services, particularly among its customers for industrial facilities.

Any expenditures in connection with compliance or remediation efforts or significant reductions in demand for Schuff's services as a result of the adoption of environmental proposals could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff is and will likely continue to be involved in litigation that could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff has been and may be, from time to time, named as a defendant in legal actions claiming damages in connection with fabrication and other products and services Schuff provides and other matters. These are typically claims that arise in the normal course of business, including employment-related claims and contractual disputes or claims for personal injury or property damage which occur in connection with services performed relating to project or construction sites. Contractual disputes normally involve claims relating to the timely completion of projects or other issues concerning fabrication and other products and services Schuff provides. There can be no assurance that any of Schuff's pending contractual, employment-related personal injury or property damage claims and disputes will not have a material effect on Schuff's future results of operations, cash flows or financial condition.

Work stoppages, union negotiations and other labor problems could adversely affect Schuff's business.

A portion of Schuff's employees are represented by labor unions. A lengthy strike or other work stoppage at any of its facilities could have a material adverse effect on Schuff's business. There is inherent risk that ongoing or future

negotiations relating to collective bargaining agreements or union representation may not be favorable to Schuff. From time to time, Schuff also has experienced attempts to unionize its non-union facilities. Such efforts can often disrupt or delay work and present risk of labor unrest.

Schuff's employees work on projects that are inherently dangerous, and a failure to maintain a safe work site could result in significant losses.

Schuff often works on large-scale and complex projects, frequently in geographically remote locations. Such involvement often places Schuff's employees and others near large equipment, dangerous processes or highly regulated materials. If Schuff or other parties fail to implement appropriate safety procedures for which they are responsible or if such procedures fail, Schuff's employees or others may suffer injuries. In addition to being subject to state and federal regulations concerning health and safety, many of Schuff's customers require that it meet certain safety criteria to be eligible to bid on contracts, and some of Schuff's contract fees or profits are subject to satisfying safety criteria. Unsafe work conditions also have the potential of increasing employee

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turnover, project costs and operating costs. The failure to comply with safety policies, customer contracts or applicable regulations could subject Schuff to losses and liability.

### Risks Related to GMSL

GMSL may be unable to maintain or replace its vessels as they age.

As of December 31, 2015, the average age of the vessels operated by GMSL was approximately 22 years. The expense of maintaining, repairing and upgrading GMSL's vessels typically increases with age, and after a period of time the cost necessary to satisfy required marine certification standards may not be economically justifiable. There can be no assurance that GMSL will be able to maintain its fleet by extending the economic life of its existing vessels, or that its financial resources will be sufficient to enable it to make the expenditures necessary for these purposes. In addition, the supply of second-hand replacement vessels is relatively limited and the costs associated with acquiring a newly constructed vessel are high. In the event that GMSL was to lose the use of any of its vessels for a sustained period of time, its financial performance would be adversely affected.

The operation and leasing of seagoing vessels entails the possibility of marine disasters including damage or destruction of vessels due to accident, the loss of vessels due to piracy or terrorism, damage or destruction of cargo and similar events that may cause a loss of revenue from affected vessels and damage GMSL's business reputation, which may in turn lead to loss of business.

The operation of seagoing vessels entails certain inherent risks that may adversely affect GMSL's business and reputation, including:

- damage or destruction of a vessel due to marine disaster such as a collision or grounding;
- the loss of a vessel due to piracy and terrorism;
- cargo and property losses or damage as a result of the foregoing or less drastic causes such as human error, mechanical failure and bad weather;
- environmental accidents as a result of the foregoing; and
- business interruptions and delivery delays caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions.

Any of these circumstances or events could substantially increase GMSL's operating costs, as for example, the cost of substituting or replacing a vessel, or lower its revenues by taking vessels out of operation permanently or for periods of time. The involvement of GMSL's vessels in a disaster or delays in delivery or damages or loss of cargo may harm its reputation as a safe and reliable vessel operator and cause it to lose business.

GMSL's operations are subject to complex laws and regulations, including environmental laws and regulations that result in substantial costs and other risks.

GMSL does significant business with clients in the oil and natural gas industry, which is extensively regulated by U.S. federal, state, tribal, and local authorities, and corresponding foreign governmental authorities. Legislation and regulations affecting the oil and natural gas industry are under constant review for amendment or expansion, raising the possibility of changes that may become more stringent and, as a result, may affect, among other things, the pricing or marketing of crude oil and natural gas production. Noncompliance with statutes and regulations and more vigorous enforcement of such statutes and regulations by regulatory agencies may lead to substantial administrative, civil, and criminal penalties, including the assessment of natural resource damages, the imposition of significant investigatory and remedial obligations, and may also result in the suspension or termination of our operations.

Litigation, enforcement actions, fines or penalties could adversely impact GMSL's financial condition or results of operations and damage its reputation.

GMSL's business is subject to various international laws and regulations that could lead to enforcement actions, fines, civil or criminal penalties or the assertion of litigation claims and damages. In addition, improper conduct by GMSL's employees or agents could damage its reputation and lead to litigation or legal proceedings that could result in significant awards or settlements to plaintiffs and civil or criminal penalties, including substantial monetary fines. Such events could lead to an adverse impact on GMSL's financial condition or results of operations, if not mitigated by its insurance coverage.



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As a result of any ship or other incidents, litigation claims, enforcement actions and regulatory actions and investigations, including, but not limited to, those arising from personal injury, loss of life, loss of or damage to personal property, business interruption losses or environmental damage to any affected coastal waters and the surrounding area, may be asserted or brought against various parties including GMSL. The time and attention of GMSL's management may also be diverted in defending such claims, actions and investigations. GMSL may also incur costs both in defending against any claims, actions and investigations and for any judgments, fines or civil or criminal penalties if such claims, actions or investigations are adversely determined and not covered by its insurance policies.

Currency exchange rate fluctuations may negatively affect GMSL's operating results.

The exchange rates between the US dollar, the Singapore dollar and the GBP have fluctuated in recent periods and may fluctuate substantially in the future. Accordingly, any material fluctuation of the exchange rate of the GBP against the US dollar and Singapore dollar could have a negative impact on GMSL's results of operations and financial condition.

There are risks inherent in foreign joint ventures and investments, such as adverse changes in currency values and foreign regulations.

The joint ventures in which GMSL has operating activities or interests that are located outside the United States are subject to certain risks related to the indirect ownership and development of, or investment in, foreign subsidiaries, including government expropriation and nationalization, adverse changes in currency values and foreign exchange controls, foreign taxes, U.S. taxes on the repatriation of funds to the United States, and other laws and regulations, any of which may have a material adverse effect on GMSL's investments, financial condition, results of operations, or cash flows.

GMSL derives a significant amount of its revenues from sales to customers in non-U.S. countries, which pose additional risks including economic, political and other uncertainties.

GMSL's non-U.S. sales are significant in relation to consolidated sales. GMSL believes that non-U.S. sales will remain a significant percentage of its revenue. In addition, sales of its products to customers operating in foreign countries that experience political/economic instability or armed conflict could result in difficulties in delivering and installing complete seismic energy source systems within those geographic areas and receiving payment from these customers. Furthermore, restrictions under the FCPA, the Bribery Act, or similar legislation in other countries, or trade embargoes or similar restrictions imposed by the United States or other countries, could limit GMSL's ability to do business in certain foreign countries. These factors could materially adversely affect GMSL's results of operations and financial condition.

Further deterioration of economic opportunities in the oil and gas sector could adversely affect the financial growth of GMSL.

The oil and gas market has experienced an exceptional upheaval since early 2014 with the price of oil falling dramatically and this economic weakness could continue into the foreseeable future. Oil prices can be very volatile and are subject to international supply and demand, political developments, increased supply from new sources and the influence of OPEC in particular. The major operators are reviewing their overall capital spending and this trend is likely to reduce the size and number of projects carried out in the medium term as the project viability comes under greater scrutiny. Ongoing concerns about the systemic impact of lower oil prices and the continued uncertainty of possible reductions in long term capital expenditure could have a material adverse effect on the planned growth of

GMSL and eventually curtail the anticipated cash flow and results from operations.

#### Risks Related to our ICS Operations

Our ICS business is substantially smaller than some of our major competitors, whose marketing and pricing decisions, and relative size advantage could adversely affect our ability to attract and to retain customers. These major competitors are likely to continue to cause significant pricing pressures that could adversely affect ICS's net revenues, results of operations and financial condition.

The carrier services telecommunications industry is significantly influenced by the marketing and pricing decisions of the larger business participants. ICS faces competition for its voice trading services from telecommunication services providers' traditional processes and new companies. Once telecommunication services providers have established business relationships with competitors to ICS, it could be extremely difficult to convince them to utilize our services. These competitors may be able to develop services or processes that are superior to ICS's services or processes, or that achieve greater industry acceptance.

Many of our competitors are significantly larger than us and have substantially greater financial, technical and marketing resources, larger networks, a broader portfolio of service offerings, greater control over network and transmission lines, stronger

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name recognition and customer loyalty and long-standing relationships with our target customers. As a result, our ability to attract and retain customers may be adversely affected. Many of our competitors enjoy economies of scale that result in low cost structures for transmission and related costs that could cause significant pricing pressures within the industry. While growth through acquisitions is a possible strategy for ICS, there are no guarantees that any acquisitions will occur, nor are there any assurances that any acquisitions by ICS would improve the financial results of its business.

Any failure of ICS's physical infrastructure, including undetected defects in technology, could lead to significant costs and disruptions that could reduce its revenue and harm its business reputation and financial results.

ICS depends on providing customers with highly reliable service. ICS must protect its infrastructure and any collocated equipment from numerous factors, including:

- human error;
- physical or electronic security breaches;
- fire, earthquake, flood and other natural disasters;
- water damage;
- power loss; and
- terrorism, sabotage and vandalism.

Problems at one or more of ICS's exchange delivery points, whether or not within ICS's control, could result in service interruptions or significant equipment damage. Any loss of services, equipment damage or inability to terminate voice calls or supply Internet capacity could reduce the confidence of the members and customers and could consequently impair ICS's ability to obtain and retain customers, which would adversely affect both ICS's ability to generate revenues and its operating results.

ICS's positioning in the marketplace and intense domestic and international competition in these services places a significant strain on our resources, which if not managed effectively could result in operational inefficiencies and other difficulties.

To manage ICS's market positioning effectively, we must continue to implement and improve its operational and financial systems and controls, invest in critical network infrastructure to expand its coverage and capacity, maintain or improve its service quality levels, purchase and utilize other transmission facilities, evolve its support and billing systems and train and manage its employee base. If we inaccurately forecast the movement of traffic onto ICS's network, we could have insufficient or excessive transmission facilities and disproportionate fixed expenses. As we proceed with the development of our ICS business, operational difficulties could arise from additional demand placed on customer provisioning and support, billing and management information systems, product delivery and fulfillment, support, sales and marketing, administrative resources, network infrastructure, maintenance and upgrading. For instance, we may encounter delays or cost-overruns or suffer other adverse consequences in implementing new systems when required.

If ICS is not able to operate a cost-effective network, we may not be able to grow our ICS business successfully.

Our ICS business' long-term success depends on our ability to design, implement, operate, manage, maintain and upgrade a reliable and cost-effective network infrastructure. In addition, we rely on third-party equipment and service vendors to expand and manage ICS's global network through which it provides its services. If we fail to generate additional traffic on ICS's network, if we experience technical or logistical impediments to the development of necessary aspects of ICS's network or the migration of traffic and customers onto ICS's network, or if we experience difficulties with third-party providers, we may not achieve desired economies of scale or otherwise be successful in growing our ICS business.

### Risks Related to Our Liquidity Needs and Securities

We are a holding company and our only material assets are our equity interests in our operating subsidiaries and our other investments. As a result, our principal source of revenue and cash flow is distributions from our subsidiaries and our subsidiaries may be limited by law and by contract in making distributions to us.

As a holding company, our only material assets are our cash on hand, the equity interests in our subsidiaries and other investments. As of December 31, 2015, we had \$41.1 million in cash and cash equivalents at the corporate level at HC2.

Our principal source of revenue and cash flow is distributions from our subsidiaries. Thus, our ability to service our debt and to finance future acquisitions is dependent on the ability of our subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions to us. Our subsidiaries are and will be separate legal entities, and although they may be wholly-

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owned or controlled by us, they have no obligation to make any funds available to us, whether in the form of loans, dividends, distributions or otherwise. The ability of our subsidiaries to distribute cash to us will also be subject to, among other things, restrictions that are contained in our subsidiaries' financing agreements, availability of sufficient funds and applicable state laws and regulatory restrictions. Claims of creditors of our subsidiaries generally will have priority as to the assets of such subsidiaries over our claims and claims of our creditors and stockholders. To the extent the ability of our subsidiaries to distribute dividends or other payments to us could be limited in any way, our ability to grow, pursue business opportunities or make acquisitions that could be beneficial to our businesses, or otherwise fund and conduct our business, could be materially limited.

In order to satisfy the requirements of Section 226 of the Pensions Act of 2004 (UK), GMSL is a party to the Global Marine Pension Plan Recovery Plan, dated as of March 28, 2014 (the "Recovery Plan"). The Recovery Plan addresses GMSL's pension funding shortfall, which was approximately GBP 17 million as of December 31, 2015, by requiring GMSL to make certain scheduled fixed monthly contributions, certain variable annual profit-related contributions and certain variable dividend-related contributions to the pension plan. The variable dividend-related contributions require GMSL to pay cash contributions to the underfunded pension plan equal to 50% of any dividend payments made to its shareholder, which reduces the amount of cash available for GMSL to make upstream payments to us.

The Recovery Plan provides for the funding shortfall to be eliminated on or before June 30, 2021. However the UK plan must be valued on a triennial basis and all valuations are dependent upon the prevailing market conditions and the actuarial methods and assumptions used as well as the expected pension liabilities at the valuation date. There are various risks which could adversely affect the next valuation of the UK pension plan and consequently the obligations of GMSL to fund the plan, such as a significant adverse change in the market value of the pension plan assets, an increase in pension liabilities, longer life expectancy of plan members, a change in the discount rate or inflation rate used by the actuary or if the trustees of the plan recommend a material change to the investment strategy. Any increase in the deficit may result in a need for GMSL to increase its pension contributions which would reduce the amount of cash available for GMSL to make upstream dividend payments to us. While we expect the trustees of the pension plan to renegotiate the Recovery Plan on at least a triennial basis from March 31, 2014 or dispense with the Recovery Plan if and when the funding shortfall has been eliminated, we can make no assurances in relation to this.

Under the UK Pensions Act 2004, the Pensions Regulator may issue a contribution notice to us or any employer in the UK pension plan or any person who is connected with or is an associate of any such employer where the Pensions Regulator is of the opinion that the relevant person has been a party to an act, or a deliberate failure to act, which had as its main purpose (or one of its main purposes) the avoidance of pension liabilities. Under the UK Pensions Act 2008, the Pension Regulator has the power to issue a contribution notice to any such person where the Pensions Regulator is of the opinion that the relevant person has been a party to an act, or a deliberate failure to act, which has a materially detrimental effect on pension plans without sufficient mitigation having been provided. If the Pensions Regulator considers that any of the employers participating in the UK pension plan are "insufficiently resourced" or a "service company," it may impose a financial support direction requiring us or any person associated or connected with that employer to put in place financial support.

The Pensions Regulator can only issue a contribution notice or financial support direction where it believes it is reasonable to do so. The terms "associate" and "connected person," which are taken from the UK Insolvency Act 1986, are widely defined and cover among others GMSL, its subsidiaries and others deemed to be shadow directors. Liabilities imposed under a contribution notice or financial support direction may be up to the difference between the value of the assets of the plan and the cost of buying out the benefits of members and other beneficiaries. If GMSL or its connected or associated parties are the recipient of a contribution notice or financial support direction this could have an effect on our cash flow.

In practice, the risk of a contribution notice being imposed may restrict our ability to restructure or undertake certain corporate activities relating to GMSL without first seeking agreement of the trustees of the UK pension plan and, possibly, the approval of the Pensions Regulator. Additional security may also need to be provided to the trustees before certain corporate activities can be undertaken (such as the payment of an unusual dividend from GMSL) and any additional funding required by the UK pension plan may have an adverse effect on our financial condition and the results of our operations.

In addition, GMSL and Schuff are each party to credit agreements that include certain financial covenants that can reduce or otherwise limit the amount of cash available to make upstream dividend payments to us. GMSL's term loan with DVB Bank (the "GMSL Facility") requires GMSL to maintain minimum liquidity of GBP 6.0 million until maturity on July 23, 2018. If GMSL does not meet these minimum liquidity requirements, it will not be able to make upstream dividend payments to us until such minimum liquidity requirements are met.

Schuff's Credit and Security Agreement (the "Schuff Facility") with Wells Fargo Credit, Inc. ("Wells Fargo") allows dividends to be paid to Schuff shareholders up to four times a year, subject to the following conditions: (a) the consent of Wells Fargo Credit, Inc., which is the Schuff Facility lender (which consent shall not be unreasonably withheld); (b) maintenance of a fixed charge

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coverage ratio of 1.20 to 1; (c) a minimum excess availability under the Schuff Facility of \$10 million before and after the payment of a dividend and (d) Schuff not being in default under the Schuff Facility at the time of the dividend payment. For more information, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations - Liquidity and Capital Resources."

Furthermore, the acquisition of the Insurance Companies and the development of our CIG business may impact our cash flows. We have agreed to pay to the Sellers, on an annual basis with respect to the years 2015 through 2019, the amount, if any, by which the Insurance Companies' cash flow testing and premium deficiency reserves decrease from the amount of such reserves as of December 31, 2014, up to \$13 million.

Our capital management framework is primarily based on statutory risk-based capital ("RBC") measures. The RBC ratio is a primary measure of the capital adequacy of the Insurance Companies. RBC is calculated based on statutory financial statements and risk formulas consistent with the practices of the NAIC. RBC considers, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer's products and liabilities, interest rate risks and general business risks. RBC ratio calculations are intended to assist insurance regulators in measuring an insurer's solvency and ability to pay future claims. The RBC ratio is an annual calculation, as of December 31, 2015, the Insurance Companies' RBC ratio exceeds the minimum level required by applicable insurance regulations.

The regulatory capital level of the Insurance Companies can be materially impacted by interest rates and equity market fluctuations, changes in the values of derivatives, the level of impairments recorded, credit quality migration of the investment portfolio, and business growth, among other items. Further, the recapture of business subject to reinsurance arrangements due to defaults by, or credit quality migration affecting, the reinsurers or for other reasons could negatively impact regulatory capital levels.

Apart from the requirements discussed above, we will not be required to provide capital contributions to CIG's insurance subsidiaries following the completion of the Insurance Companies Acquisitions, however, we, in our discretion, may make additional capital contributions to support CIG.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently lease our corporate headquarters facility, which is located in Herndon, Virginia. Additionally, we lease administrative, technical and sales office space in various locations in the countries in which we operate. GMSL is headquartered in Chelmsford, UK, Schuff is headquartered in Phoenix, Arizona, and our European ICS operations are headquartered in London. We also lease space for switches operated by our Telecommunications segment. As of December 31, 2015, total leased space in the United States and the United Kingdom, as well as other countries in which we operate, approximates 498,000 square feet and the total annual lease costs are approximately \$5.4 million. The operating leases expire at various times, with the longest commitment expiring in 2027. We believe that our present administrative, technical and sales office facilities are adequate for our anticipated operations and that similar space can be obtained readily as needed. In addition, Schuff owns operations, administrative, and sales offices located throughout the United States approximating 1,465,000 square feet.

We own substantially all of our equipment required for our businesses which include cable-ships and submersibles, steel machinery and equipment, and communications equipment. Our net property and equipment was \$214.5 million

and \$233.3 million at December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, total net book value of equipment under capital leases consisted of \$66.8 million and \$75.5 million of cable-ships and submersibles, respectively. See Note 9—"Property and Equipment," for additional detail regarding our property and equipment. HC2's 11% Notes issued on November 20, 2014 are secured by substantially all of the Company's assets. In addition, the Schuff Facility and GMSL Facility are secured by certain of the assets of Schuff and GMSL, respectively. See Note 12—"Long-Term Obligations," for additional detail regarding encumbrances affecting our property and equipment.

### ITEM 3. LEGAL PROCEEDINGS

#### 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



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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 the 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.

On November 6, 2014, a putative stockholder class action complaint challenging the tender offer by which HC2 acquired approximately 721,000 of the issued and outstanding common shares of Schuff was filed in the Court of Chancery of the State of Delaware, captioned Mark Jacobs v. Philip A. Falcone, Keith M. Hladek, Paul Voigt, Michael R. Hill, Rustin Roach, D. Ronald Yagoda, Phillip O. Elbert, HC2 Holdings, Inc., and Schuff International, Inc., Civil Action No. 10323 (the “Complaint”). On November 17, 2014, a second lawsuit was filed in the Court of Chancery of the State of Delaware, captioned Arlen Diercks v. Schuff International, Inc. Philip A. Falcone, Keith M. Hladek, Paul Voigt, Michael R. Hill, Rustin Roach, D. Ronald Yagoda, Phillip O. Elbert, HC2 Holdings, Inc., Civil Action No. 10359. On February 19, 2015, the court consolidated the actions (now designated as Schuff International, Inc. Stockholders Litigation) and appointed lead plaintiff and counsel. The currently operative complaint is the November 6, 2014 Complaint filed by Mark Jacobs. The Complaint alleges, among other things, that in connection with the tender offer, the individual members of the Schuff board of directors and HC2, the controlling stockholder of Schuff, breached their fiduciary duties to members of the plaintiff class. The Complaint also purports to challenge a potential short-form merger based upon plaintiff’s expectation that the Company would cash out the remaining public stockholders of Schuff International 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. Defendants are currently in the discovery phase of the case, and have substantially completed their production of documents to plaintiffs. Under the court’s scheduling order, fact discovery closes on July 8, 2016. We believe that the allegations and claims set forth in the Complaint are without merit and intend to defend them vigorously.

On July 16, 2013, Plaintiffs Xplornet Communications Inc. and Xplornet Broadband, Inc. (“Xplornet”) initiated an action against Inukshuk Wireless Inc. (“Inukshuk”), Globility Communications Corporation (“Globility”), MIPPS Inc., Primus Telecommunications Canada Inc. (“PTCI”) and Primus Telecommunications Group, Incorporated (n/k/a HC2) (“PTGi”). Xplornet alleges that it entered into an agreement to acquire certain licenses for radio spectrum in Canada from Globility. Xplornet alleges that Globility agreed to sell Xplornet certain spectrum licenses in a Letter of Intent dated July 12, 2011 but then breached the Letter of Intent by selling the licenses to Inukshuk. Xplornet then alleges that they reached an agreement with Inukshuk to purchase the licenses on June 26, 2012, but that Inukshuk breached that agreement by not completing the sale. Xplornet alleges that, as a result of the foregoing, they have been damaged in the amount of \$50 million. On January 29, 2014, Globility, MIPPS Inc., and PTCI, demanded indemnification pursuant to the Equity Purchase Agreement among PTUS, Inc., PTCAN, Inc., PTGi, Primus Telecommunications Holding, Inc., Lingo Holdings, Inc., and Primus Telecommunications International, Inc., dated as of May 10, 2013. On February 14, 2014, the Company assumed the defense of this litigation, while reserving all of its rights under the Equity Purchase Agreement. On February 5, 2014, Globility, MIPPS Inc., and PTCI filed a Notice of Intent to Defend. On February 18, 2014, Globility, MIPPS Inc., and PTCI filed a Demand for Particulars. A Notice of Change of Solicitors to Hunt Partners LLP was filed on behalf of those same entities on April 1, 2014. On March 13, 2015, Inukshuk filed a cross claim against Globility, MIPPS, PTCI, and PTGi. Inukshuk asserts that if Inukshuk is found liable to Xplornet, then Inukshuk is entitled to contribution and indemnity, compensatory damages, interest, and costs from the Company. Inukshuk alleges that Globility represented and warranted that it owned the licenses at issue, that Globility held the licenses free and clear, and that no third party had any rights to acquire them. Inukshuk claims

breach of contract and misrepresentation if the Court finds that any of these representations are untrue.

On October 17, 2014, the Company moved for summary judgment against Xplornet arguing that there was no agreement between Globility and Xplornet to acquire the licenses at issue. On June 5, 2015, Inukshuk also moved for summary judgment against Xplornet, similarly arguing that there was no agreement between Inukshuk and Xplornet to acquire the licenses in question.

On September 17, 2015, Xplornet amended its claim to change its theory from breach of a written letter of intent allegedly accepted on July 12, 2011 to breach of an oral agreement allegedly entered on July 7, 2011. The Primus Defendants (including the Company) amended their Statement of Defence and motion for summary judgment on October 6, 2015 to include a statute of limitations defense based on this change in theory. The Primus defendants (including the Company) also filed procedural motions relating to the amendment. Xplornet disputes that the amendment changed its theory and opposes summary judgment. The hearing on summary judgment is now re-scheduled from October 7, 2015 to September 26, 2016.

On January 19, 2016, PTCI sought and obtained an order under the Companies' Creditors Arrangement Act (the "CCAA") from the Ontario Superior Court of Justice. PTCI received an Initial Order staying all proceedings against PTCI until February

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26, 2016 - which it moved to extend through September, 2016. On February 25, 2016, the Ontario Superior Court of Justice extended the stay of proceedings until September 19, 2016. PTCI has advised the Company that this stays all proceedings against PTCI, Globility, and MIPPS, except against the Company.

On July 9, 2015, a putative class action wage and hour lawsuit was filed against Schuff Steel Company ("SSC"), a subsidiary of Schuff, and Schuff International (collectively "Schuff") in the Los Angeles County Superior Court [BC587322], captioned Dylan Leonard, individually and on behalf of other members of the general public v. Schuff Steel Company and Schuff International, Inc. The complaint makes generic allegations of numerous violations of California wage and hour laws and claims that Schuff failed to pay for overtime; failed to pay for meal and rest breaks; violated the minimum wage; failed to timely pay business expenses, wages and final wages; failed to keep requisite payroll records; and had non-compliant wage statements. On August 11, 2015, another putative class action wage and hour lawsuit was filed against SSC in San Joaquin County Superior Court [39-2015-0032-8373-CU-OE-STK], captioned Pablo Dominguez, on behalf of himself and all other similarly situated v. Schuff Steel Company. The Complaint alleges non-compliant wage statements and demands penalties pursuant to California Labor Code. On October 11, 2015, an amended complaint was filed in the Dominguez claim pursuing only the statutory claim based on the non-compliant wage statement. By Order dated December 17, 2015, the matters were designated as the Schuff Steel Wage and Hour Cases and assigned a coordination trial judge. No discovery schedule or trial date has been set. The Company believes that the allegations and claims set forth in the Complaints are without merit and intends to defend them vigorously.

On December 28, 2015, The Chemours Company Mexico S. de R.L de C.V. ("Chemours") filed a Demand for Arbitration (the "Demand") against the Company's subsidiary, SSC with the American Arbitration Association, International Centre for Dispute Resolution, Case No. 01-15-0006-0956. Schuff had a purchase order to provide fabricated steel for the Line 2 Expansion of Du Pont's chemical plant in Altamira, Mexico (the "Project"). The Demand seeks recovery of an alleged \$5 million mistaken payment to SSC and additional damages in excess of \$18 million for, among other reasons, alleged delays, failure to expedite, breach of assignment of subcontracting clauses, and backcharges for additional costs and rework of fabricated steel provide for the Project. On January 25, 2016, SSC filed an Answer and Counterclaim denying liability alleged by Chemours and seeking to recover the principal sum of 311 thousand for unpaid work on the Project as well as an additional sum for damages due to delays, impacts, and other wrongful conduct by Chemours and its agents. No Arbitration schedule or hearing date has been set. The Company believes that the allegations and claims set forth in the Demand are without merit and intend to defend them vigorously and aggressively pursue Chemours for additional monies owed and damages sustained.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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## PART II

## ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## Common Stock

HC2 common stock began trading on the New York Stock Exchange (“NYSE”) under the ticker symbol “PTGI” on June 23, 2011. On November 18, 2013, the Company voluntarily withdrew the trading of HC2 common stock on the NYSE, at which point HC2 common stock began to trade on the OTCQB Market (“OTCQB”) under the same ticker symbol, “PTGI.” On April 9, 2014 in connection with our name change, we changed the ticker symbol of our common stock from “PTGI” to “HCHC”. On December 29, 2014, HC2 common stock began to trade on the NYSE MKT LLC (“NYSE MKT”) under the same ticker symbol “HCHC”.

The following table provides the high and low sale prices for HC2’s common stock as reported by the NYSE, OTCQB or NYSE MKT, as applicable, for each quarterly period for the last two fiscal years. The quotations from the OTCQB reflect inter-dealer prices, without retail markup, markdown or commissions, and may not represent actual transactions.

Period	Common Stock	
	High	Low
2015		
1st Quarter	\$13.28	\$7.04
2nd Quarter	\$12.50	\$8.16
3rd Quarter	\$8.97	\$5.20
4th Quarter	\$8.09	\$5.05
2014		
1st Quarter	\$4.04	\$2.80
2nd Quarter	\$4.10	\$3.50
3rd Quarter	\$4.60	\$3.86
4th Quarter	\$8.50	\$4.41

## Holders of Common Stock

As of February 29, 2016, HC2 had 60 holders of record of its common stock. This number does not include stockholders for whom shares were held in “nominee” or “street” name.

## Dividends

HC2 paid no dividends on its common stock in 2015 or 2014, and the HC2 Board of Directors has no current intention of paying any dividends on HC2 common stock in the near future. The payment of dividends, if any, in the future is within the discretion of the HC2 Board of Directors and will depend on our earnings, our capital requirements and financial condition. The 11% Notes Indenture contains covenants that, among other things, limit or restrict our ability to make certain restricted payments, including the payment of cash dividends with respect to HC2’s common stock. The Schuff Facility and the GMSL Facility contain similar covenants applicable to Schuff and GMSL, respectively. See Item 7—“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” and Note 12—“Long-Term Obligations” to our consolidated financial statements for more detail concerning our 11% Notes and other financing arrangements. Moreover, dividends may be restricted by other arrangements entered into in the future by us.

Issuer Purchases of Equity Securities

HC2 did not repurchase any of its equity securities in the quarter ended December 31, 2015.

Stock Performance Graph

The following graph compares the cumulative total returns during the period from December 31, 2010 to December 31, 2015 of our common stock to the Standard & Poor's Midcap 400 Index and the iShares S&P Global Telecommunications Sector Index. The comparison assumes \$100 was invested on December 31, 2010 in the common stock of HC2 and the indices and assumes

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that all dividends were reinvested. HC2's common stock began trading on the OTC Bulletin Board on July 1, 2009, on the NYSE on June 23, 2011, on the OTCQB on November 18, 2013, and on the NYSE MKT on December 29, 2014.

	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015
HC2 Holdings, Inc. (HCHC)	\$ 100.00	\$ 101.28	\$ 118.66	\$ 52.45	\$ 155.16	\$ 97.36
Standard & Poor's Midcap 400 Index (^MID)	\$ 100.00	\$ 96.90	\$ 112.48	\$ 147.98	\$ 160.09	\$ 154.16
iShares S&P Global Telecommunications Sector Index Fund (IXP)	\$ 100.00	\$ 100.94	\$ 108.46	\$ 131.52	\$ 129.93	\$ 129.86

The performance graph will not be deemed to be incorporated by reference by means of any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that HC2 specifically incorporates such information by reference, and shall not otherwise be deemed filed under such acts.

## ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with (i) Item 7 entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," (ii) our consolidated audited annual financial statements and the notes thereto, each of which are contained in Item 8 entitled "Financial Statements and Supplementary Data" and (iii) the information described below under "—Discontinued Operations." The information presented in the following tables reflects the restatement of our Consolidated Financial Statements for the fiscal year ended December 31, 2014, which is more fully described in Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on March 15, 2016.

## Statement of Operations Data:

(in thousands, except per share amounts)	Years Ended December 31,				
	2015	2014	2013	2012	2011
Net revenue	\$1,120,806	\$547,438	\$230,686	\$302,959	\$411,983
Income (loss) from operations	2,229	(13,606)	(39,136)	(51,896)	(41,167)
Loss from continuing operations	(35,741)	(11,686)	(17,612)	(44,871)	(43,557)
Gain (loss) from discontinued operations	(21)	(146)	129,218	72,740	10,288

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Net income (loss)	(35,762 )	(11,832 )	111,606	27,869	(33,269 )
Net income (loss) attributable to HC2 Holdings, Inc.	(35,565 )	(14,391 )	111,606	27,887	(38,730 )
Net income (loss) attributable to common stock and participating preferred stockholders	\$(39,850 )	\$(16,440 )	\$111,606	\$27,887	\$(38,730 )
Interest expense	(39,017 )	(12,347 )	(8 )	(27 )	(94 )
Loss on early extinguishment or restructuring of debt	—	(11,969 )	—	—	—
Income tax benefit	10,882	22,869	7,442	3,132	(1,066 )

## Per Share Data:

## Loss from continuing operations attributable to HC2 Holdings, Inc.

Basic	\$(1.50 )	\$(0.82 )	\$(1.25 )	\$(3.24 )	\$(3.77 )
Diluted	\$(1.50 )	\$(0.82 )	\$(1.25 )	\$(3.24 )	\$(3.77 )
Net income (loss) attributable to HC2 Holdings, Inc.					
Basic	\$(1.50 )	\$(0.83 )	\$7.95	\$2.02	\$(2.98 )
Diluted	\$(1.50 )	\$(0.83 )	\$7.95	\$2.02	\$(2.98 )
Weighted average common shares outstanding:					
Basic	26,482	19,729	14,047	13,844	12,994
Diluted	26,482	19,729	14,047	13,844	12,994
Dividends declared per basic weighted average common shares outstanding	—	\$—	\$8.58	\$4.09	\$—

## Balance Sheet Data:

	As of December 31,				
(in thousands)	2015	2014	2013	2012	2011
Cash and cash equivalents	\$158,624	\$107,978	\$8,997	\$23,197	\$41,052
Total assets	\$2,742,512	\$712,163	\$87,680	\$301,190	\$543,824
Total long-term obligations (including current portion)	\$371,876	\$335,531	\$—	\$127,112	\$247,762
Total liabilities	\$2,569,247	\$563,919	\$33,271	\$232,687	\$442,118
Total HC2 Holdings, Inc. stockholders' equity (deficit), before noncontrolling interest	\$94,030	\$79,187	\$54,409	\$68,503	\$101,706

## Cash Flow and Related Data:

	Years Ended December 31,				
(in thousands)	2015	2014	2013	2012	2011
Net change in cash due to operating activities	\$(32,561 )	\$3,663	\$(20,315 )	\$23,569	\$42,932
Purchases of property, plant and equipment	\$(21,324 )	\$(5,819 )	\$(12,577 )	\$(31,747 )	\$(31,533 )
Depreciation and amortization	\$30,939	\$10,684	\$23,964	\$43,239	\$65,148

## Discontinued Operations Data:

We have reclassified several segments as discontinued operations. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. Conversely, as it pertains to ICS, we reclassified such operations as a continuing operation effective as of the fourth quarter of 2013; accordingly, the revenue, costs and expenses are now included in the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net

of applicable income taxes as income, or loss, as applicable, from discontinued operations. There have been no reclassifications of any of our subsidiaries as discontinued operations in 2014 or 2015.

ICS. During the second quarter of 2012, the Board of Directors of HC2 committed to dispose of ICS and as a result reclassified ICS as a discontinued operation. In December 2013, based on management's assessment of the requirements under ASC No. 360, "Property, Plant and Equipment" ("ASC 360"), it was determined that ICS no longer met the



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criteria of a held for sale asset. On February 11, 2014, the Board of Directors officially ratified management's December 2013 assessment, and reclassified ICS from held for sale to held and used, effective December 31, 2013. As a result, the Company has applied retrospective adjustments for 2012 and 2011 to reflect the effects of the Company's decision to cease its sale process of ICS that occurred as of December 31, 2013.

**BLACKIRON Data.** In the second quarter of 2013, the Company sold its BLACKIRON Data segment. As a result, the Company has applied retrospective adjustments for 2012 and 2011 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2012.

**North America Telecom.** In the third quarter of 2013, the Company completed the initial closing of the sale of its North America Telecom segment. In conjunction with the initial closing, the Company redeemed its outstanding debt. Because the debt was required to be repaid as a result of the sale of North America Telecom, the interest expense and loss on early extinguishment or restructuring of debt of HC2 Holdings, Inc. has been allocated to discontinued operations. The closing of the sale of Primus Telecommunications, Inc. ("PTI") (the remaining portion of the North America Telecom segment subject to the applicable purchase agreement) was completed on July 31, 2014. Prior to the closing, PTI had been included in discontinued operations as a result of being held for sale. As a result, the Company has applied retrospective adjustments for 2012 and 2011 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2012.

**Australia.** During the second quarter of 2012, the Company sold its Australian segment. As a result, the Company has applied retrospective adjustments for 2011 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2011.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
Net revenue	\$—	\$7,530	\$132,515	\$375,264	\$602,647
Operating expenses	38	7,610	119,392	343,263	549,217
Income (loss) from operations	(38	) (80	) 13,123	32,001	53,430
Interest expense	—	(17	) (11,362	) (24,621	) (32,702
Gain (loss) on early extinguishment or restructuring of debt	—	—	(21,124	) (21,682	) (7,346
Other income (expense), net	4	(60	) (51	) 283	189
Foreign currency transaction gain (loss)	—	—	(378	) (2,550	) 1,539
Income (loss) before income tax benefit (expense)	(34	) (157	) (19,792	) (16,569	) 15,110
Income tax benefit (expense)	13	132	171	(4,956	) (41
Income (loss) from discontinued operations	\$(21	) \$(25	) \$(19,621	) \$(21,525	) \$15,069

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the information in our consolidated annual audited financial statements and the notes thereto, each of which are contained in Item 8 entitled "Financial Statements and Supplementary Data," and other financial information incorporated by reference herein. 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 as well as the section below entitled "—Special Note Regarding Forward-Looking Statements" for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Unless the context otherwise requires, in this Annual Report on Form 10-K, "HC2" means HC2 Holdings, Inc. and the "Company," "we" and "our" mean HC2 together with its subsidiaries. "US GAAP" means accounting principles accepted in the United States of America.

## Our Business

We are a diversified holding company with principal operations conducted through seven operating platforms or reportable segments: Manufacturing (Schuff Steel), Marine Services (Global Marine), Insurance (Continental Insurance), Utilities (American Natural Gas), Telecommunications (ICS) and Life Sciences (Pansend Holdings) and one Other segment (Corporate Holdings platform) that includes non-controlling assets that do not meet the separately reportable segment thresholds. We offer in-house design-assist/design-build pre-construction engineering services through Schuff International; maintenance and repairs of

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submarine communications cable for the telecommunications, off-shore power, oil & gas industries and deep sea research industries through Global Marine Systems Limited; operate run-off long-term care insurance through Continental Insurance, Inc.; design, build, maintain and operate compressed natural gas fueling stations for commercial transportation through American Natural Gas; provide telecommunication services to customers around the globe through PTGi International Carrier Services, Inc.; focus on the development of innovative technologies and products in the healthcare industry through Pansend Life Sciences, LLC; and acquire “toe-hold” positions in both public and private companies within the Corporate Holdings segment that we believe may ultimately fit within our entity as an operating platform.

We continually evaluate acquisition opportunities as well as monitor a variety of key indicators of our underlying platform companies in order to maximize shareholder value. These indicators include but are not limited to; revenue, cost of revenue, operating profit, adjusted EBITDA and free cash flow. We, furthermore, 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 needs at the subsidiary level. 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.

During 2015, we continued to take steps to position the Company for the future with a view toward building value over the long-term. Our unique structure gives us the freedom to make acquisitions across a broad spectrum of industries. Hence, with the acquisition of Continental Insurance in December 2015, we successfully continued to capitalize on this structure and continued adding to our platform of companies in an opportunistic and disciplined manner.

The ongoing possibility of acquisitions and new business alternatives, 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 or equity securities (including preferred stock) or a combination thereof. We have broad discretion in identifying and selecting acquisition and business combination opportunities and the industries in which we will seek such opportunities, and 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 that 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 agreement would be. While we peruse the marketplace for acquisition opportunities, 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.

As we look to 2016 and beyond, we believe our platform and strategy will enable us to deliver strong financial results while positioning our company for long-term growth. Furthermore, the unique alignment of our executive compensation program with our objective of increasing shareholder value is paramount to executing on 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 shareholder value.

### Our Operations

We are organized into seven reportable segments as follows:

1. Our Manufacturing segment includes Schuff International, Inc. ("Schuff") and its wholly-owned subsidiaries, which primarily operate as integrated fabricators and erectors of structural steel and heavy steel plates with headquarters in Phoenix, Arizona. Schuff has operations in Arizona, Georgia, Texas, Kansas and California, with its construction projects primarily located in the aforementioned states. In addition, Schuff has construction projects in select international markets, primarily Panama through a Panamanian joint venture with Empresas Hopsa, S.A. that provides steel fabrication services.

2. Our Marine Services segment includes Global Marine Systems Limited ("GMSL"). GMSL is a leading provider of engineering and underwater services on submarine cables. In conjunction with the acquisition of GMSL, approximately 3% of the Company's interest in GMSL was purchased by a group of individuals, leaving the Company's controlling interest at approximately 97%.

3. Our Insurance segment includes United Teacher Associates Insurance Company ("UTA") and Continental General Insurance Company ("CGI", and together with UTA, "CIG"). CIG provides long-term care, life and annuity coverage to approximately 99,000 individuals. The benefits provided help protect our policy and certificate holders from the financial hardships associated with illness, injury, loss of life, or income continuation.

4. Our Utilities segment includes American Natural Gas ("ANG"), which is a premier distributor of natural gas motor fuel headquartered in the Northeast that designs, builds, owns, acquires, operates and maintains compressed natural gas fueling stations

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for transportation vehicles. The goal of ANG is to make natural gas readily available for commercial and public use in vehicles. ANG's team is comprised of industry, legal, construction, engineering and entrepreneurial experts who are working directly with the leading natural gas companies to seek out opportunities for building successful natural gas fueling stations. Vehicle manufacturers and fleet operators are pursuing natural gas vehicles in the US markets to reduce carbon emissions and environmental impacts while providing a cost-effective alternative to foreign crude oil.

5. In our Telecommunications segment, we operate a telecommunications business including a network of direct routes and provide premium voice communication services for national telecom operators, mobile operators, wholesale carriers, prepaid operators, Voice over Internet Protocol service operators and Internet service providers from our International Carrier Services ("ICS") business unit. We provide premium voice communication services for National Telecom operators, Mobile operators, Wholesale carriers, Prepaid operators, VARS & VOIP service operators. ICS provides a quality service via direct routes & by forming strong relationships with carefully selected partners.

6. In our Life Sciences segment, we operate Pansend Life Sciences, LLC ("Pansend"), which has a 77% interest in Genovel Orthopedics, Inc., which seeks to develop products to treat early osteoarthritis of the knee, and a 61% interest in R2 Dermatology (f/k/a GemDerm Aesthetics, Inc.), which develops novel treatments for skin conditions. Pansend also invests in other early or developmental stage healthcare companies.

7. In our Other segment, we seek to invest, nurture and grow developmental stage companies, and invest in opportunities where growth potential is significant.

### Seasonality

In any particular year, net revenue within our Marine Services segment can fluctuate depending on the season. Within the maintenance business (and also for any long term charter arrangements) revenues are relatively stable as the core driver is the annual contractual obligation. However, this is not the case in the installation business where revenues show a degree of seasonality. Revenues in this business are driven by the customers' need for new cable installations. Generally weather downtime, and hence additional costs, is a significant factor in customers determining their installation schedules and most installations are therefore scheduled for the warmer months. As such 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.

Seasonality also impacts our Telecommunications segment. Net revenue within our Telecommunications segments is typically higher in the fourth quarter due to seasonal calling fluctuations. Revenue growth factors include global religious holidays and general holiday season calling as consumers make more calls during this time of year. Revenue from our usage based services such as long distance, being subject to seasonal fluctuations is further expected to drop in the first quarter versus the fourth quarter as consumers tend to make fewer calls versus the prior period, which will impact revenue and margin.

### Recent Developments

#### December 2015 Closing of Insurance Companies Acquisition

On December 24, 2015, the Company entered into an amended and restated stock purchase agreement to acquire UTA and CGI (the "Insurance Companies") and completed the transaction. The Company purchased all of the stock of both entities and owned assets which were used exclusively or primarily in their business, subject to certain limitations. The aggregate consideration provided in connection with the acquisition and related transactions and agreements was

\$18.6 million, consisting of \$7.0 million in cash, \$2.0 million in aggregate principal amount of the Company's 11.000% Senior Secured Notes due 2019 (having the same terms as the Company's existing Senior Secured Notes) valued at \$1.9 million, 1,007,422 shares of common stock of the Company, valued at \$5.4 million and five years warrants to purchase two million shares of the Company's common stock at an exercise price of \$7.08 per share (subject to customary adjustments upon stock splits or similar transactions) exercisable on or after February 3, 2016 valued at \$4.3 million.

Pursuant to the purchase agreement, the Company also agreed to pay to the sellers, on an annual basis with respect to the years 2015 through 2019, the amount, if any, by which the Insurance Companies' cash flow testing and premium deficiency reserves decrease from the amount of such reserves as of December 31, 2014, up to \$13.0 million. The balance is calculated based on the fluctuation of the statutory cash flow testing and premium deficiency reserves annually following each of the Insurance Companies' filing with its domiciliary insurance regulator of its annual statutory statements for each calendar year ending December 31, 2015 through and including December 31, 2019. Based on the 2015 statutory statements, the Company does not have a payment due. Further, the Company's current estimate is that the obligation will not be incurred up through the year ended December 31, 2019.

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## November 2015 Public Offering of Common Stock by the Company

On November 4, 2015, the Company entered into an underwriting agreement relating to the issuance and sale of 7,350,000 shares of the Company's common stock in a public offering (the "November 2015 Offering"). In addition, on November 5, 2015 the underwriter in the November 2015 Offering exercised its option to purchase an additional 1,102,500 shares of common stock from the Company. The total number of shares sold by the Company in the November 2015 Offering was 8,452,500 shares. The November 2015 Offering closed on November 9, 2015. The net proceeds to the Company from the November 2015 Offering, after deducting underwriting discounts and commissions and offering expenses, were approximately \$53.8 million.

## Financial Presentation Background

In the following presentations and narratives within this Management's Discussion and Analysis of Financial Condition and Results of Operations, we compare, pursuant to accounting principles generally accepted in the United States of America ("US GAAP") and SEC disclosure rules, the Company's results of operations for the year ended December 31, 2015 as compared to the year ended December 31, 2014 and the year ended December 31, 2014 as compared to the year ended December 31, 2013. This Management's Discussion and Analysis of Financial Condition and Results of Operations reflects the restatement of our Consolidated Financial Statements for the fiscal year ended December 31, 2014, which is more fully described in Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, filed with the SEC on March 15, 2016.

## Results of Operations

Year ended December 31, 2015 compared to the year ended December 31, 2014, and the year ended December 31, 2014 compared to the year ended December 31, 2013

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

	Years Ended December 31,			Increase / (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Net revenue:					
Manufacturing	\$513,770	\$348,318	\$—	\$165,452	\$348,318
Marine Services	134,926	35,328	—	99,598	35,328
Insurance	2,865	—	—	2,865	—
Telecommunications	460,355	161,953	230,686	298,402	(68,733 )
Utilities	6,765	1,839	—	4,926	1,839
Life Sciences	—	—	—	—	—
Other	2,125	—	—	2,125	—
Non-operating Corporate	—	—	—	—	—
Total net revenue	\$1,120,806	\$547,438	\$230,686	\$573,368	\$316,752
Income (loss) from operations:					
Manufacturing	42,114	26,358	—	15,756	26,358
Marine Services	12,414	(3,394 )	—	15,808	(3,394 )
Insurance	(176 )	—	—	(176 )	—

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Telecommunications	238	(1,840	) (20,037	) 2,078	18,197
Utilities	(888	) (491	) —	(397	) (491
Life Sciences	(6,404	) (4,762	) —	(1,642	) (4,762
Other	(6,198	) (221	) (10,663	) (5,977	) 10,442
Non-operating Corporate	(38,871	) (29,256	) (8,436	) (9,615	) (20,820
Total income (loss) from operations	2,229	(13,606	) (39,136	) 15,835	25,530
Interest expense	(39,017	) (12,347	) (8	) (26,670	) (12,339

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Loss on early extinguishment or restructuring of debt—	(11,969 )	—	11,969	(11,969 )
Gain from contingent value rights valuation	—	14,904	—	(14,904 )
Other income (expense), net	(6,820 )	702	(814 )	1,516
Income (loss) from equity investees	(3,015 )	2,665	—	2,665
Loss from continuing operations before income taxes	(46,623 )	(34,555 )	(25,054 )	(12,068 )
Income tax benefit (expense)	10,882	22,869	7,442	15,427
Loss from continuing operations	(35,741 )	(11,686 )	(17,612 )	(24,055 )
Gain (loss) from discontinued operations	(21 )	(146 )	129,218	(129,364 )
Net income (loss)	(35,762 )	(11,832 )	111,606	(23,930 )
Less: Net (income) loss attributable to noncontrolling interest	197	(2,559 )	—	(2,559 )
Net income (loss) attributable to HC2 Holdings, Inc.	(35,565 )	(14,391 )	111,606	(21,174 )
Less: Preferred stock dividends and accretion	4,285	2,049	—	2,049
Net income (loss) attributable to common stock and participating preferred stockholders	\$(39,850 )	\$(16,440 )	\$111,606	\$(23,410 )

Net revenue: Net revenue increased by \$573.4 million, or 104.7% from \$547.4 million for the year ended December 31, 2014 to \$1,120.8 million for the year ended December 31, 2015. This increase was primarily due to the growth in the Telecommunications segment along with the added contributions from our Manufacturing and Marine Services segment acquisitions in 2014.

Net revenue for the year ended December 31, 2014 increased \$316.8 million, or 137.3%, to \$547.4 million from \$230.7 million for the year ended December 31, 2013. The increase was primarily due to the inclusion of a partial year of revenues from our acquisitions in 2014 in the Manufacturing segment of \$348.3 million and \$35.3 million in the Marine Services segment which was partially offset by a decrease in the Telecommunications segment of \$68.7 million.

Operating Profit: Operating profit increased \$15.8 million or 116.4% for the year ended December 31, 2015 to \$2.2 million from an operating loss of \$13.6 million for the year ended December 31, 2014. The positive results were primarily due to increased contributions from our Manufacturing and Marine Services segments of \$31.6 million, partially offset by decreases in our remaining segments of \$15.7 million.

Operating loss for the year ended December 31, 2014 decreased to \$13.6 million an improvement of \$25.5 million or 65.2% from \$39.1 million for the year ended December 31, 2013. The decrease in operating loss was primarily due to operating income from our Manufacturing segment of \$26.4 million and an improvement in operating income in our Telecommunications segment of \$18.2 million, partially offset by an increase in the combined operating loss of \$19.0 million in the other reported segments.

Interest expense: Interest expense was \$39.0 million and \$12.3 million for the year ended December 31, 2015 and 2014, respectively. The increase in interest expense primarily was due to the full year impact of the issuance of the Company's 11% Senior Secured Notes due 2019 ("11% Notes").

Interest expense was \$12.3 million and less than \$0.1 million for the year ended December 31, 2014 and 2013, respectively. The increase in interest expense was primarily due to interest expense for issuances of debt related to the 2014 acquisitions and the issuance of the Company's 11% Senior Secured Notes due 2019 ("11% Notes").

Other income (expense), net: Other income (expense), net was an expense of \$6.8 million and income of \$0.7 million for the years ended December 31, 2015 and 2014, respectively. The increase in expense was due to a settlement cost

payment to our preferred holders, partially offset by interest income and net gains related to our long-term investments.

Other income (expense), net was income of \$0.7 million and expense of \$0.8 million for the years ended December 31, 2014 and 2013, respectively.

Income (loss) from equity investees: Loss from equity investees was \$3.0 million and income of \$2.7 million for the years ended December 31, 2015 and 2014, respectively. The decrease in income was due primarily due to the full year impact of investments within our Other segment that were made in the second half of 2014 which operated at a net loss.

Income from equity investees was \$2.7 million and zero for the years ended December 31, 2014 and 2013, respectively. The increase was due primarily to the performance of GMSL's equity investments which was partially offset by the impact of investments within our Other segment that were made in the second half of 2014 which operated at a net loss.

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Income tax benefit (expense): Income tax benefit was \$10.9 million and \$22.9 million for the years ended December 31, 2015 and 2014, respectively. The benefit recorded in both periods relate to losses generated for which we expect to obtain benefits in the future. The tax benefit associated with losses generated by certain businesses that do not qualify to be included in the U.S. consolidated income tax return are being 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. In addition, Genovel Orthopedics, Inc. ("Genovel") was no longer eligible to be included in the HC2 Holdings, Inc. U.S. consolidated income tax return in July 2015, therefore, a full valuation allowance was recorded against the Genovel deferred tax assets during the third quarter of 2015.

Income tax benefits were \$22.9 million and \$7.4 million for the years ended December 31, 2014 and 2013, respectively. The increase in tax benefit was due primarily to the reversal of certain valuation allowances on our U.S. deferred tax assets. As further discussed further in Note 14 - "Income Taxes" to the consolidated financial statements, based on the weight of positive and negative evidence, management concluded that US deferred tax assets would be utilized. On this basis the Company released a net valuation allowance on certain deferred tax assets into earnings of \$17.5 million.

Preferred stock dividends and accretion: Preferred stock dividends and accretion was \$4.3 million and \$2.0 million for the years ended December 31, 2015 and 2014, respectively. The increase was due to the full year impact of cash dividends on the preferred stock issued in 2014 and additional preferred stock issued in 2015.

Preferred stock dividends and accretion was \$2.0 million and zero for the years ended December 31, 2014 and 2013, respectively. The increase was due to the issuance of preferred stock in May 2014 and September 2014.

## Segment Results of Operations

We have included below certain pro forma results of operations for the Manufacturing, Marine Services and Utilities operating segments for the years ended December 31, 2014 and 2013. These pro forma results give effect to the acquisitions of Schuff, GMSL and ANG as if they had occurred on January 1, 2013. The pro forma results of operations were derived from the unaudited historical financial statements of Schuff for the year ended December 29, 2013 and five months ended May 26, 2014; of GMSL for the year ended December 31, 2013 and nine months ended September 30, 2014; and of ANG for year ended December 31, 2013 and the seven months ended July 31, 2014. Certain pro forma amounts for the years ended December 31, 2014 and 2013 were adjusted for the impact of purchase price accounting adjustments which were excluded from the results of operations discussion in the prior year Form 10-K. Management believes that presenting pro forma results is important to understanding the Company's financial performance, providing better analysis of trends in our underlying businesses as it allows for comparability to prior period results. The unaudited pro forma results of operations are not intended to represent or be indicative of the consolidated results of operations or financial condition of the Company that would have been reported had the acquisitions been completed as of their respective dates, and should not be construed as representative of the future consolidated results of operations or financial condition of the combined entity.

In conjunction with the creation of our Insurance segment, the Company reviewed the components of its present segments prior to year end to determine if each legal entity was properly assigned to a segment based on how the chief operating decision maker ("CODM") views the business. In doing so the following changes were made. The parent holding company of GMSL had been classified within Other, and was reclassified to Marine Services. The Non-operating Corporate segment now includes only the HC2 Holdings, Inc. legal entity; while previously it included other legal entities that had not met the definition of a separately reportable segment; those entities are now classified within Other.

Manufacturing Segment

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

	Years Ended December 31,					Increase / (Decrease)	
	2015	2014	2014 Pro Forma	2013	2013 Pro Forma	2015 compared to 2014 Pro Forma	2014 Pro Forma compared to 2013 Pro Forma
Net revenue	\$513,770	\$348,318	\$526,059	\$—	\$416,142	\$(12,289 )	\$109,917
Cost of revenue	430,133						