

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2016**

**OR**

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

**Commission File No. 001-35210**

**HC2 HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**54-1708481**

(I.R.S. Employer Identification No.)

**450 Park Avenue, 30<sup>th</sup> Floor**

**New York, NY**

(Address of principal executive offices)

**10022**

(Zip Code)

**(212) 235-2690**

**(Registrant's telephone number, including area code)**

505 Huntmar Park Drive, Suite 325, Herndon, VA 20170

Former name or former address, if changed since last report

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

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

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

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

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

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

<b>Class</b>	<b>Outstanding as of July 31, 2016</b>
Common Stock, \$0.001 par value	35,436,527

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

**PART I: FINANCIAL INFORMATION**

**Item 1. Financial Statements**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Services revenue	\$ 197,372	\$ 147,841	\$ 379,481	\$ 221,559
Sales revenue	125,759	133,141	246,256	261,231
Life, accident and health earned premiums, net	20,037	—	39,971	—
Net investment income	13,707	—	27,786	—
Net realized gains (losses) on investments	2,418	—	(2,457)	—
Net revenue	359,293	280,982	691,037	482,790
Operating expenses				
Cost of revenue - services	183,193	134,589	358,066	196,509
Cost of revenue - sales	101,290	110,909	200,967	221,445
Policy benefits, changes in reserves, and commissions	29,189	—	63,328	—
Selling, general and administrative	35,614	26,476	71,916	49,988
Depreciation and amortization	5,887	5,478	11,484	10,733
(Gain) loss on sale or disposal of assets	(1,837)	498	(950)	971
Lease termination costs	338	—	338	—
Total operating expenses	353,674	277,950	705,149	479,646
Income (loss) from operations	5,619	3,032	(14,112)	3,144
Interest expense	(10,569)	(10,125)	(20,895)	(18,825)
Other income (expense), net	430	(2,344)	540	(2,571)
Income (loss) from equity investees	6,035	1,429	2,101	(1,259)
Gain (loss) from continuing operations before income taxes	1,515	(8,008)	(32,366)	(19,511)
Income tax benefit (expense)	(224)	(2,678)	2,315	3,336
Gain (loss) from continuing operations	1,291	(10,686)	(30,051)	(16,175)
Loss from discontinued operations	—	(11)	—	(20)
Net income (loss)	1,291	(10,697)	(30,051)	(16,195)
Less: Net (income) loss attributable to noncontrolling interest and redeemable noncontrolling interest	644	(204)	1,524	57
Net income (loss) attributable to HC2 Holdings, Inc.	1,935	(10,901)	(28,527)	(16,138)
Less: Preferred stock dividends and accretion	1,044	1,089	2,113	2,177
Net income (loss) attributable to common stock and participating preferred stockholders	\$ 891	\$ (11,990)	\$ (30,640)	\$ (18,315)
Basic income (loss) per common share:				
Income (loss) from continuing operations	\$ 0.02	\$ (0.47)	\$ (0.87)	\$ (0.74)
Loss from discontinued operations	—	—	—	—
Net income (loss) attributable to common stock and participating preferred stockholders	\$ 0.02	\$ (0.47)	\$ (0.87)	\$ (0.74)
Diluted income (loss) per common share:				
Income (loss) from continuing operations	\$ 0.02	\$ (0.47)	\$ (0.87)	\$ (0.74)
Loss from discontinued operations	—	—	—	—
Net income (loss) attributable to common stock and participating preferred stockholders	\$ 0.02	\$ (0.47)	\$ (0.87)	\$ (0.74)
Weighted average common shares outstanding:				
Basic	35,518	25,514	35,391	24,838
Diluted	35,643	25,514	35,391	24,838

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income (loss)	\$ 1,291	\$ (10,697)	\$ (30,051)	\$ (16,195)
Other comprehensive income (loss)				
Foreign currency translation adjustment	(1,160)	5,039	663	678
Unrealized gain (loss) on available-for-sale securities, net of tax	43,672	(2,327)	62,289	(2,178)
Less: Comprehensive (income) loss attributable to the noncontrolling interest and redeemable noncontrolling interest	644	(204)	1,524	57
Comprehensive income (loss) attributable to HC2 Holdings, Inc.	<u>\$ 44,447</u>	<u>\$ (8,189)</u>	<u>\$ 34,425</u>	<u>\$ (17,638)</u>

See accompanying notes to condensed consolidated financial statements.

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

	June 30, 2016	December 31, 2015
<b>Assets</b>		
<b>Investments:</b>		
Fixed maturity securities, available-for-sale at fair value	\$ 1,323,821	\$ 1,231,841
Equity securities, available-for-sale at fair value	52,703	49,682
Mortgage loans	4,165	1,252
Policy loans	18,311	18,476
Other invested assets	62,304	53,119
Total investments	1,461,304	1,354,370
Cash and cash equivalents	134,510	158,624
Restricted cash	590	538
Accounts receivable (net of allowance for doubtful accounts of \$1,516 and \$794 at June 30, 2016 and December 31, 2015, respectively)	221,295	210,853
Costs and recognized earnings in excess of billings on uncompleted contracts	29,957	39,310
Inventory	11,116	12,120
Recoverable from reinsurers	526,158	522,562
Accrued investment income	15,079	15,300
Deferred tax asset	41,062	52,511
Property, plant and equipment, net	243,497	214,466
Goodwill	83,931	61,178
Intangibles, net	36,909	29,409
Other assets	38,801	65,206
Assets held for sale	1,116	6,065
Total assets	\$ 2,845,325	\$ 2,742,512
<b>Liabilities, temporary equity and stockholders' equity</b>		
Life, accident and health reserves	\$ 1,625,560	\$ 1,591,937
Annuity reserves	256,014	260,853
Value of business acquired	49,699	50,761
Accounts payable and other current liabilities	212,438	225,389
Billings in excess of costs and recognized earnings on uncompleted contracts	43,098	21,201
Deferred tax liability	11,514	4,281
Long-term obligations	394,489	371,876
Pension liability	21,419	25,156
Other liabilities	9,896	17,793
Total liabilities	2,624,127	2,569,247
Commitments and contingencies		
Temporary equity:		
Preferred stock, \$.001 par value - 20,000,000 shares authorized; Series A - 28,308 and 29,172 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively; Series A-1 - 10,000 shares issued and outstanding at June 30, 2016 and December 31, 2015; Series A-2 - 14,000 shares issued and outstanding at June 30, 2016 and December 31, 2015	51,854	52,619
Redeemable noncontrolling interest	2,811	3,122
Total temporary equity	54,665	55,741
Stockholders' equity:		
Common stock, \$.001 par value - 80,000,000 shares authorized; 35,605,957 and 35,281,375 shares issued and 35,574,331 and 35,249,749 shares outstanding at June 30, 2016 and December 31, 2015, respectively	36	35
Additional paid-in capital	218,478	209,477
Accumulated deficit	(108,256)	(79,729)
Treasury stock, at cost	(378)	(378)
Accumulated other comprehensive gain (loss)	27,577	(35,375)
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	137,457	94,030
Noncontrolling interest	29,076	23,494
Total stockholders' equity	166,533	117,524
Total liabilities, temporary equity and stockholders' equity	\$ 2,845,325	\$ 2,742,512

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest	Total
	Shares	Amount						
Balance as of December 31, 2014	23,813	\$ 24	\$ 141,948	\$ (378)	\$ (44,164)	\$ (18,243)	\$ 25,208	\$ 104,395
Share-based compensation expense	—	—	5,058	—	—	—	—	5,058
Dividend paid to noncontrolling interest	—	—	—	—	—	—	(241)	(241)
Preferred stock dividends and accretion	—	—	(2,177)	—	—	—	—	(2,177)
Issuance of common stock	5	—	—	—	—	—	—	—
Issuance of restricted stock	1,539	2	—	—	—	—	—	2
Conversion of preferred stock to common stock	235	—	1,000	—	—	—	—	1,000
Acquisition of noncontrolling interest	—	—	—	—	—	—	(580)	(580)
Excess book value over fair value of purchased noncontrolling interest	—	—	34	—	—	—	(34)	—
Net loss	—	—	—	—	(16,138)	—	(57)	(16,195)
Foreign currency translation adjustment	—	—	—	—	—	678	—	678
Unrealized loss on available-for-sale securities, net of tax	—	—	—	—	—	(2,178)	—	(2,178)
Balance as of June 30, 2015	25,592	\$ 26	\$ 145,863	\$ (378)	\$ (60,302)	\$ (19,743)	\$ 24,296	\$ 89,762

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest	Total
	Shares	Amount						
Balance as of December 31, 2015	35,250	\$ 35	\$ 209,477	\$ (378)	\$ (79,729)	\$ (35,375)	\$ 23,494	\$ 117,524
Share-based compensation expense	—	—	4,106	—	—	—	760	4,866
Preferred stock dividend and accretion	—	—	(2,002)	—	—	—	—	(2,002)
Preferred stock beneficial conversion feature	—	—	(111)	—	—	—	—	(111)
Issuance of common stock	65	—	—	—	—	—	—	—
Issuance of restricted stock	53	—	—	—	—	—	—	—
Conversion of preferred stock to common stock	206	1	876	—	—	—	—	877
Acquisition of noncontrolling interest	—	—	—	—	—	—	822	822
Sale of controlling interest	—	—	—	—	—	—	11,345	11,345
Excess fair value over book value of noncontrolling interest sold	—	—	6,132	—	—	—	(6,132)	—
Net loss	—	—	—	—	(28,527)	—	(1,524)	(30,051)
Net income attributable to redeemable noncontrolling interest	—	—	—	—	—	—	311	311
Foreign currency translation adjustment	—	—	—	—	—	663	—	663
Unrealized gain on available-for-sale securities, net of tax	—	—	—	—	—	62,289	—	62,289
Balance as of June 30, 2016	35,574	\$ 36	\$ 218,478	\$ (378)	\$ (108,256)	\$ 27,577	\$ 29,076	\$ 166,533

See accompanying notes to condensed consolidated financial statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (30,051)	\$ (16,195)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for doubtful accounts receivable	68	201
Share-based compensation expense	4,866	5,058
Depreciation and amortization	13,160	14,540
Amortization of deferred financing costs and debt discount	1,019	872
Amortization of fixed maturities discount/premium	6,308	—
Gain on sale or disposal of assets	(950)	(151)
Net realized gains (losses) on investments	1,093	(164)
Impairment of investments	2,686	—
Equity investment (income) loss	(2,101)	1,259
Lease termination costs	338	—
Deferred income taxes	(15,323)	(4,848)
Receipt of dividends from equity investees	7,214	—
Other	4,550	152
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(11,578)	(61,495)
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	9,353	(7,229)
(Increase) decrease in inventory	1,417	(2,718)
(Increase) decrease in other assets	23,645	(399)
Increase (decrease) in life, accident and health reserves	33,623	—
Increase (decrease) in accounts payable, current and other liabilities	(21,278)	42,584
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	21,897	(12,119)
Increase (decrease) in pension liability	(3,737)	(7,239)
Net cash provided by (used in) operating activities	46,219	(47,891)
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(10,870)	(12,914)
Sale of property and equipment	6,430	1,002
Purchase of investments	(128,366)	(38,847)
Sale of investments	75,707	2,505
Cash paid for business acquisitions, net of cash acquired	(8,614)	—
Change in restricted cash	(52)	(721)
Net cash used in investing activities	(65,765)	(48,975)
<b>Cash flows from financing activities:</b>		
Proceeds from long-term obligations	5,860	50,250
Principal payments on long-term obligations	(7,394)	(4,114)
Borrowings on line of credit, net	300	2,486
Payment of deferred financing costs	—	(1,137)
Annuity receipts	1,778	—
Annuity surrenders	(10,761)	—
Proceeds from issuance of common stock of subsidiary	8,000	—
Proceeds from sale of preferred stock, net	—	14,033
Purchase of noncontrolling interest	—	(222)
Payment of dividends	(2,019)	(2,038)

Net cash provided by (used in) financing activities	(4,236)	59,258
Effects of exchange rate changes on cash and cash equivalents	(332)	(1,429)
Net change in cash and cash equivalents	(24,114)	(39,037)
Cash and cash equivalents, beginning of period	158,624	107,978
Cash and cash equivalents, end of period	<u>\$ 134,510</u>	<u>\$ 68,941</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 19,945	\$ 20,157
Cash paid for taxes	\$ 7,129	\$ 856
<b>Non-cash investing and financing activities:</b>		
Purchases of property, plant and equipment under financing arrangements	\$ —	\$ 1,808
Property, plant and equipment included in accounts payable	\$ 4,711	\$ 822
Fair value of contingent asset assumed in CWind Acquisition	\$ 2,992	\$ —
Fair value of deferred liability assumed in CWind Acquisition	\$ 2,589	\$ —
Debt assumed in CWind acquisition	\$ 20,813	\$ —
Preferred stock accreting dividends and accretion	\$ 111	\$ 136
Conversion of preferred stock to common stock	\$ 877	\$ 1,000

See accompanying notes to condensed consolidated financial statements.



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

**1. Organization and Business**

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

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

1. Our Manufacturing segment includes Schuff International, Inc. ("Schuff") and its wholly-owned subsidiaries. Schuff is an integrated fabricator and erector 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 those states. In addition, Schuff has construction projects in select international markets, primarily Panama through Schuff Hopsa Engineering, Inc., a Panamanian joint venture with Empresas Hopsa, S.A. that provides steel fabrication services. The Company maintains a 91% controlling interest in Schuff.

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

3. Our Insurance segment includes United Teacher Associates Insurance Company ("UTA") and Continental General Insurance Company ("CGI", and together with UTA, "CII" or the "Insurance Companies"). The Insurance Companies provide long-term care, life and annuity coverage to approximately 95,000 individuals. The benefits provided help protect policy and certificate holders from the financial hardships associated with illness, injury, loss of life, or income continuation. The Company owns 100% of the Insurance Companies.

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

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

6. Our Life Sciences segment includes Pansend Life Sciences, LLC ("Pansend"). Pansend owns (i) a 77% interest in Genovel Orthopedics, Inc., which seeks to develop products to treat early osteoarthritis of the knee, (ii) a 61% interest in R2 Dermatology (f/k/a GemDerm Aesthetics, Inc.), which develops skin lightening technology, and (iii) a 60% interest in BeneVir Biopharm, Inc. ("BeneVir"), which focuses on immunotherapy for the treatment of solid tumors and invests in other early stage or developmental stage healthcare companies.

7. In our Other segment, we invest in and grow developmental stage companies that we believe have significant growth potential. In this segment, we currently have a 56% ownership interest in DMi, Inc. ("DMi"), which owns licenses to create and distribute NASCAR® video games.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial reporting and Securities and Exchange Commission ("SEC") regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such principles and

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

regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the Company's six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The financial statements should be read in conjunction with the Company's audited consolidated financial statements included in the Company's most recently filed Annual Report on Form 10-K.

***Principles of Consolidation***

The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and all other subsidiaries over which the Company exerts control. All intercompany profits, transactions and balances have been eliminated in consolidation. As of June 30, 2016, the Company has a 100% interest in the Insurance Companies, a 100% interest in PTGi-ICS, a 95% interest in GMSL, a 91% interest in Schuff, board control of and a 49.99% interest in ANG and a 56% interest in DMi. Through its subsidiary, Pansend, the Company has a 77% interest in Genovel Orthopedics, Inc., a 61% interest in R2 Dermatology and a 60% interest in BeneVir. The results of each of these entities are consolidated with the Company's results from and after their respective acquisition dates based on guidance from the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, "Consolidation" ("ASC 810"). The remaining interests not owned by the Company are presented as a noncontrolling interest component of total equity. Schuff uses a 4-4-5 week quarterly cycle, which for the second quarter of 2016 ended on July 2, 2016. The company controls the operations of ANG, therefore, the assets, liabilities, revenues and expenses of ANG are included in our consolidated financial statements.

***Reclassification***

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

***Adjustments***

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

The Company has determined to correct the cumulative effect of these adjustments in the second quarter of 2016, resulting in an immaterial net adjustment to net income (loss) attributable to common and participating preferred stockholders for the three months ended June 30, 2016 of \$1.3 million. Excluding this adjustment net income (loss) attributable to common and participating preferred stockholders would have been a loss of \$0.4 million or \$0.01 per fully diluted share for three months ended June 30, 2016. For the six months ended June 30, 2016, the net adjustment to net income (loss) attributable to common and participating preferred stockholders was \$0.5 million and has decreased our net income (loss) attributable to common and participating preferred stockholders for the six months ended June 30, 2016 from a loss of \$31.1 million to a loss of \$30.6 million.

***Newly Adopted Accounting Principles***

In September 2015, the FASB issued Accounting Standards Update ("ASU") 2015-16, "Business Combination Topic No. 805: Simplifying the Accounting for Measurement - Period Adjustments", which requires adjustments to provisional amounts that are identified during the measurement period to be recognized in the reporting period in which the adjustment amounts are determined. This includes any effect on earnings of changes in depreciation, amortization, or other income effects as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. On January 1, 2016, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, "Interest - Imputation of Interest Subtopic No. 835-30: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements", which codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line-of-credit arrangements as assets,

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**(Unaudited)**

rather than as a direct offset to the liability as is required now under ASU 2015-03. On January 1, 2016, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

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

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

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

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

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

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

#### ***New Accounting Pronouncements***

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit losses" (Topic 326), which amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. For public business entities that are U.S. Securities and Exchange Commission (SEC) filers, the amendments in the ASU are effective for fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of this accounting update on its consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, "Revenue From Contracts With Customers" (Topic 606), which addresses narrow-scope improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition.

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Additionally, the amendments in this update provide a practical expedient for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by update 2014-09). Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, defers the effective date of Update 2014-09 by one year. The Company is currently evaluating the impact of this accounting update on its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, "Revenue From Contracts With Customers (Topic 606): Identifying Performance Obligations and Licensing" which releases Accounting Standards Update No. 2016-10—Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This update clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. Further, this update includes targeted improvements based on input the Board received from the Transition Resource Group for Revenue Recognition and other stakeholders. The Update seeks to proactively address areas in which diversity in practice potentially could arise, as well as to reduce the cost and complexity of applying certain aspects of the guidance both at implementation and on an ongoing basis. The Company is currently evaluating the impact of this accounting update on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" (Topic 718), which introduces targeted amendments intended to simplify accounting for stock compensation. Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. Early adoption is permitted. The Company is currently evaluating the impact of the accounting update on its condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, "Principal versus Agent Considerations" (Topic 606), which updates the new revenue standard by clarifying the principal versus agent implementation guidance. Early adoption is permitted. The Company's effective date for adoption is January 1, 2018. The Company is currently evaluating the impact of the accounting update on its condensed consolidated financial statements.

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

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

In March 2016, the FASB issued ASU 2016-05, "Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships" (Topic 815), which requires an entity to discontinue a designated hedging relationship in certain circumstances, including termination of the derivative hedging instrument or if the entity wishes to change any of the critical terms of the hedging relationship. This ASU amends Topic 815 to clarify that novation of a derivative (i.e., replacing one of the parties to a derivative instrument with a new party) designated as the hedging instrument would not, in and of itself, be considered a termination of the derivative instrument or a change in critical terms requiring discontinuation of the designated hedging relationship. Early adoption is permitted. The Company's effective date for adoption is January 1, 2017. The Company is currently evaluating the impact of the accounting update on its condensed consolidated financial statements.

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In February 2016, the FASB issued ASU 2016-02, "Leases" (Topic 842), which applies a right-of-use (ROU) model that requires a lessee to record, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset and a liability to make lease payments. The ASU requires a lessor to classify leases as either sales-type, direct financing or operating, similar to existing U.S. GAAP requirements. Classification depends on the same five criteria used by lessees as well as certain additional factors. The new standard addresses other considerations including identification of a lease, separating lease and nonlease components of a contract, sale and leaseback transactions, modifications, combining contracts, reassessment of the lease term, and remeasurement of lease payments. Early adoption is permitted. The Company's effective date for adoption is January 1, 2019. The Company is currently evaluating the impact of this accounting update on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" (Subtopic 825-10) which, among other things, requires all equity securities currently classified as "available for sale" to be reported at fair value, with holding gains and losses recognized in net income instead of accumulated other comprehensive income ("AOCI"). Certain provisions of the ASU are eligible for early adoption. The Company's effective date for adoption is January 1, 2018. The Company is currently evaluating the impact of this accounting update on its consolidated financial statements.

### **3. Business Combinations**

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

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

#### ***Insurance Segment***

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

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

#### **Purchase Price Allocation**

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

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**Fair value of consideration transferred**

Cash	\$ 7,146
Company's Senior Secured Notes	1,879
Company's common stock	5,380
Warrant	4,332
Total fair value of consideration transferred	<u>\$ 18,737</u>

**Purchase price allocation**

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

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

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

The Value of Business Acquired ("VOBA")

The VOBA was derived using a "Becker-ized" Present Value of Distributable Earnings ("PVDE") method. The PVDE was derived using the statutory after tax profits. The VOBA was valued at \$51.6 million and is amortized over the anticipated remaining future lifetime of the acquired long-term care blocks of business. VOBA is amortized in relation to the projected future premium of the acquired long-term care blocks of business.

Recoverable from Reinsurers

The recoverable from reinsurers balance represents amounts recoverable from third parties. U.S. GAAP requires insurance reserves and recoverable from reinsurers balances to be presented on a gross basis, as opposed to U.S. statutory accounting principles, where reserves are presented net of reinsurance. Accordingly, the Company grossed up the fair value of the net insurance contract liability for the amount of reinsurance of approximately \$515.9 million, to arrive at a gross insurance liability, and recognized an offsetting recoverable from reinsurers amount of approximately \$515.9 million. As part of this process, management

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analyzed reinsurance counterparty credit risk and considers it to have an immaterial impact on the reinsurance fair value gross-up. To mitigate this risk substantially all reinsurance is ceded to companies with investment grade S&P ratings.

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

Contingent Liability

Pursuant to the agreement(s) governing the acquisition of the Insurance Companies, 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. Such payments are capped at \$13.0 million in the aggregate. The balance is calculated based on the fluctuation of the statutory cash flow testing and premium deficiency reserves annually following each of the Insurance Companies' filing with its applicable insurance regulator of its annual statutory 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 through the year ending December 31, 2019. This expectation is primarily driven by the following factors: (i) reduced confidence that treasury rates will increase to historical averages over the near term; (ii) uncertainty around future operating expenses historically performed by the sellers of the Insurance Companies; and (iii) the increase in the premium deficiency reserve as reported at December 31, 2015 of approximately \$8.0 million (because the balance is cumulative over the period, a decrease of approximately \$8.0 million would be required before there would be any obligation to the sellers under the earn-out). The Company will perform this assessment at each reporting period through December 31, 2019 or until the \$13.0 million is paid in full.

Control Level Risk-Based Capital

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

In connection with the consummation of the acquisition of the Insurance Companies, each of the Insurance Companies also entered into a capital maintenance agreement with Great American Financial Resources, Inc., ("GAFRI") (each, a "Capital Maintenance Agreement", and collectively, the "Capital Maintenance Agreements"). Under each Capital Maintenance Agreement, if the applicable Insurance Company's total adjusted capital reported in its annual statutory statements is less than 400% of its authorized control level risk-based capital, GAFRI will pay cash or assets to the applicable Insurance Company, as required, to eliminate such shortfall (after giving effect to any capital contributions made by the Company or its affiliates since the date of the relevant annual statutory statement). GAFRI's obligation to make such payments is capped at \$25.0 million under the Capital Maintenance Agreement with UTA and \$10.0 million under the Capital Maintenance Agreement with CGI. Each of the Capital Maintenance Agreements will remain in effect from January 1, 2016 to January 1, 2021, or until payments by GAFRI thereunder equal \$35.0 million. The Company will indemnify GAFRI for the amount of any payments made by it under the Capital Maintenance Agreements.

Through June 30, 2016, total capital and surplus to be reported in the Insurance Companies' quarterly statutory statements decreased by less than \$2.0 million and remains in excess of 400% of the authorized control level risk-based capital.

Other

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Transaction costs incurred in connection with the acquisition of the Insurance Companies were \$0 and \$0.5 million during the three and six months ended June 30, 2016 and were included within selling, general and administrative expenses. The Company recorded net revenue of \$36.2 million and \$65.3 million and net loss of \$2.1 million and \$10.6 million from the Insurance Companies for the three and six months ended June 30, 2016.

***Pro Forma Adjusted Summary***

The results of operations for the Insurance Companies have been included in the consolidated financial statements subsequent to their acquisition date.

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

	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Net revenue	\$ 316,786	\$ 561,326
Net loss from continuing operations	\$ (13,805)	\$ (15,332)
Loss from discontinued operations	\$ (11)	\$ (20)
Net loss attributable to HC2	\$ (13,816)	\$ (15,352)
Per share amounts:		
Loss from continuing operations	\$ (0.54)	\$ (0.62)
Loss from discontinued operations	\$ —	\$ —
Net loss attributable to HC2	\$ (0.54)	\$ (0.62)

***Utilities Segment***

On May 16, 2016, ANG completed an acquisition of two fueling stations in Arkansas for a total consideration of approximately \$2.0 million in cash.

***Other Acquisitions***

On February 1, 2016, Pansend, acquired an additional 1,000 shares of preferred stock of BeneVir, increasing its ownership to 60% and obtaining control of the company (the "Step Acquisition"). The results of BeneVir's operations since February 1, 2016 are included in the Company's Condensed Consolidated Statements of Operations. The Company applied the equity method to account for its investment in BeneVir prior to the Step Acquisition.

On February 3, 2016, GMSL acquired a 60% majority interest in CWind Limited ("CWind") for \$7.8 million, with a commitment to purchase the remaining 40% in equal amounts on September 30, 2016 and September 30, 2017 (based on agreed financial targets) (the "CWind Acquisition", and together with the Step Acquisition, the "Other Acquisitions"). Since February 3, 2016, the results of CWind have been included in the Company's Condensed Consolidated Statements of Operations. GMSL performed a preliminary valuation of the acquired assets, assumed liabilities, and a contingent liability at February 3, 2016.

The following table summarizes the preliminary consideration paid for the Other Acquisitions (in thousands):

	BeneVir	CWind
<b>Consideration</b>		
Cash	\$ 1,000	\$ 7,783
Fair value of previously held interest	4,272	—
Contingent asset	—	(2,992)
Deferred consideration	—	2,589
Total fair value of consideration transferred	\$ 5,272	\$ 7,380



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**Purchase price allocation**

Cash and cash equivalents	\$ 1,122	\$ 1,188
Accounts receivable	—	6,397
Inventory	—	528
Property, plant and equipment, net	187	27,675
Goodwill	3,633	1,528
Intangibles	6,392	2,626
Other assets	37	2,298
Total assets acquired	11,371	42,240
Accounts payable and other current liabilities	(161)	(10,891)
Deferred tax liability	(2,580)	(2,341)
Long-term obligations	—	(20,813)
Other liabilities	(12)	—
Noncontrolling interest	—	(815)
Total liabilities assumed	(2,753)	(34,860)
Enterprise value	8,618	7,380
Less fair value of noncontrolling interest	3,346	—
Purchase price attributable to controlling interest	\$ 5,272	\$ 7,380

There were no Other Acquisitions that were significant individually or in aggregate.

**4. Investments**

***Fixed Maturity and Equity Securities Available-for-Sale***

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

<u>June 30, 2016</u>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Fixed maturity securities				
U.S. Government and government agencies	\$ 16,280	\$ 884	\$ —	\$ 17,164
States, municipalities and political subdivisions	383,412	27,897	(421)	410,888
Foreign government	6,404	—	(169)	6,235
Residential mortgage-backed securities	148,872	1,728	(939)	149,661
Commercial mortgage-backed securities	67,022	1,226	(149)	68,099
Asset-backed securities	59,234	578	(452)	59,360
Corporate and other	579,262	38,491	(5,339)	612,414
Total fixed maturity securities	\$ 1,260,486	\$ 70,804	\$ (7,469)	\$ 1,323,821
Equity securities				
Common stocks	\$ 20,028	\$ 2,082	\$ (182)	\$ 21,928
Perpetual preferred stocks	30,923	602	(750)	30,775
Total equity securities	\$ 50,951	\$ 2,684	\$ (932)	\$ 52,703
<u>December 31, 2015</u>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Fixed maturity securities				
U.S. Government and government agencies	\$ 17,131	\$ 1	\$ (49)	\$ 17,083
States, municipalities and political subdivisions	387,427	60	(1,227)	386,260
Foreign government	6,426	3	—	6,429
Residential mortgage-backed securities	166,324	579	(588)	166,315
Commercial mortgage-backed securities	74,898	233	(96)	75,035

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Asset-backed securities	34,396	106	(51)	34,451
Corporate and other	553,487	318	(7,537)	546,268
<b>Total fixed maturity securities</b>	<b>\$ 1,240,089</b>	<b>\$ 1,300</b>	<b>\$ (9,548)</b>	<b>\$ 1,231,841</b>
Equity securities				
Common stocks	\$ 19,935	\$ 1	\$ (1,311)	\$ 18,625
Perpetual preferred stocks	30,901	162	(6)	31,057
<b>Total equity securities</b>	<b>\$ 50,836</b>	<b>\$ 163</b>	<b>\$ (1,317)</b>	<b>\$ 49,682</b>

The Company has investments in mortgage-backed securities ("MBS") that contain embedded derivatives (primarily interest-only MBS) that do not qualify for hedge accounting. The Company recorded the change in the fair value of these securities within Net realized gains (losses) on investments. These investments had a fair value of \$16.3 million and \$21.0 million as of June 30, 2016 and December 31, 2015, respectively. The change in fair value related to these securities resulted in a net loss of approximately \$0.6 million and \$2.3 million for the three and six months ended June 30, 2016, respectively, and \$0 for each of the three and six months ended and 2015.

***Maturities of Fixed Maturity Securities Available-for-Sale***

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

	Amortized Cost	Fair Value
Corporate, Municipal, U.S. Government and Other securities		
Due in one year or less	\$ 39,347	\$ 34,784
Due after one year through five years	113,623	116,683
Due after five years through ten years	168,367	174,928
Due after ten years	664,021	720,306
Subtotal	985,358	1,046,701
Mortgage-backed securities	215,894	217,760
Asset-backed securities	59,234	59,360
<b>Total</b>	<b>\$ 1,260,486</b>	<b>\$ 1,323,821</b>

***Corporate Fixed Maturity Securities***

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

	June 30, 2016			December 31, 2015		
	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
Finance, insurance, and real estate	\$ 215,952	\$ 218,022	35.6%	\$ 223,144	\$ 217,377	39.8%
Transportation, communication and other services	165,460	177,957	29.1%	156,022	155,175	28.4%
Manufacturing	111,434	120,617	19.7%	95,138	94,792	17.4%
Other	86,416	95,818	15.6%	79,183	78,924	14.4%
<b>Total</b>	<b>\$ 579,262</b>	<b>\$ 612,414</b>	<b>100.0%</b>	<b>\$ 553,487</b>	<b>\$ 546,268</b>	<b>100.0%</b>

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

A portion of certain other-than-temporary impairment ("OTTI") losses on fixed maturity securities is recognized in AOCI. For these securities the net amount recognized in the Condensed Consolidated Statements of Operations ("credit loss impairments") represents the difference between the amortized cost of the securities and the net present value of their projected future cash flows

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discounted at the effective interest rate implicit in the debt securities prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The Company recorded a \$0.2 million and \$1.2 million impairment related to two fixed maturity securities for the three and six months ended June 30, 2016, respectively. The Company reported \$1.0 million impairment within Other income (expense), net and \$0.2 million impairment within Net realized gains (losses) on investments. The Company did not record any impairments on fixed maturity or equity securities during the three and six months ended June 30, 2015.

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

The following table presents the total unrealized losses for the 155 and 528 fixed maturity and equity securities as of June 30, 2016 and December 31, 2015, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (in thousands):

	June 30, 2016		December 31, 2015	
	Unrealized Losses	% of Total	Unrealized Losses	% of Total
Fixed maturity securities				
Less than 20%	\$ (3,484)	41.5%	\$ (5,667)	52.2%
20% or more for less than six months	(268)	3.2%	—	—%
20% or more for six months or greater	(4,649)	55.3%	(5,198)	47.8%
Total	<u>\$ (8,401)</u>	<u>100.0%</u>	<u>\$ (10,865)</u>	<u>100.0%</u>

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

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

The Company believes it will recover its cost basis in the non-impaired securities with unrealized losses and that the Company has the ability to hold the securities until they recover in value. The Company neither intends to sell nor does it expect to be required to sell the securities with unrealized losses as of June 30, 2016 and December 31, 2015, respectively. However, unforeseen facts and circumstances may cause the Company to sell fixed maturity and equity securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality and liquidity guidelines.

The following tables present the estimated fair values and gross unrealized losses for the 155 and 528 fixed maturity and equity securities that have estimated fair values below amortized cost as of June 30, 2016 and December 31, 2015, respectively. The Company does not have any OTTI losses reported in AOCI. These investments are presented by investment category and the length of time the related fair value has remained below amortized cost (in thousands):

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<u>June 30, 2016</u>	Less than 12 months		12 months of greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Fixed maturity securities</b>						
U.S. Government and government agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
States, municipalities and political subdivisions	8,154	(421)	—	—	8,154	(421)
Foreign government	6,235	(169)	—	—	6,235	(169)
Residential mortgage-backed securities	75,338	(939)	—	—	75,338	(939)
Commercial mortgage-backed securities	20,940	(149)	—	—	20,940	(149)
Asset-backed securities	32,764	(452)	—	—	32,764	(452)
Corporate and other	33,717	(690)	4,630	(4,649)	38,347	(5,339)
Total fixed maturity securities	<u>\$ 177,148</u>	<u>\$ (2,820)</u>	<u>\$ 4,630</u>	<u>\$ (4,649)</u>	<u>\$ 181,778</u>	<u>\$ (7,469)</u>
<b>Equity securities</b>						
Common stocks	\$ 5,727	\$ (182)	\$ —	\$ —	\$ 5,727	\$ (182)
Perpetual preferred stocks	16,970	(750)	—	—	16,970	(750)
Total equity securities	<u>\$ 22,697</u>	<u>\$ (932)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 22,697</u>	<u>\$ (932)</u>

  

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

At June 30, 2016, investment grade fixed maturity securities (as determined by nationally recognized rating agencies) represented approximately 18.3% of the gross unrealized loss and 51.1% of the fair value. At December 31, 2015, investment grade fixed maturity securities represented approximately 33.2% of the gross unrealized loss and 88.3% of the fair value.

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

***Other Invested Assets***

Other invested assets represent approximately 4.3% and 3.9% of the Company's total investments as of June 30, 2016 and December 31, 2015, respectively. Carrying values of other invested assets as of June 30, 2016 and December 31, 2015 are as follows (in thousands):

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	June 30, 2016		December 31, 2015	
	Cost Method	Equity Method	Cost Method	Equity Method
Common Equity	\$ 138	\$ 3,406	\$ 249	\$ 6,475
Preferred Equity	1,655	13,482	1,655	7,522
Warrants	3,097	—	3,880	—
Limited Partnerships	—	1,055	—	1,171
Joint Ventures	—	33,968	—	27,324
Total	<u>\$ 4,890</u>	<u>\$ 51,911</u>	<u>\$ 5,784</u>	<u>\$ 42,492</u>

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

<u>June 30, 2016</u>	Cost	Gains	Losses	Fair Value
Warrants	\$ 6,384	\$ 370	\$ (1,436)	\$ 5,318
Call Options	326	—	(141)	185
Total	<u>\$ 6,710</u>	<u>\$ 370</u>	<u>\$ (1,577)</u>	<u>\$ 5,503</u>

  

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

***Net Investment Income***

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

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Fixed maturity securities, available-for-sale at fair value	\$ 13,089	\$ 26,355
Equity securities, available-for-sale at fair value	525	1,097
Mortgage loans	18	35
Policy loans	267	564
Other invested assets	30	172
Gross investment income	13,929	28,223
External investment expense	(222)	(437)
Net investment income	<u>\$ 13,707</u>	<u>\$ 27,786</u>

***Net Realized Gains (Losses) on Investments***

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

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Realized gains on fixed maturity securities	\$ 887	\$ 1,208
Realized losses on fixed maturity securities	(29)	(2,338)
Realized gains on equity securities	196	284
Realized losses on equity securities	—	(352)
Net realized gains (losses) on derivative instruments	1,527	(1,096)
Impairment loss	(163)	(163)
Net realized gains (losses)	<u>\$ 2,418</u>	<u>\$ (2,457)</u>

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**5. Fair Value of Financial Instruments**

***Assets by Hierarchy Level***

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

<u>June 30, 2016</u>		Fair Value Measurement Using:		
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Fixed maturity securities				
U.S. Government and government agencies	\$ 17,164	\$ 5,373	\$ 11,733	\$ 58
States, municipalities and political subdivisions	410,888	—	405,024	5,864
Foreign government	6,235	—	6,235	—
Residential mortgage-backed securities	149,661	—	87,372	62,289
Commercial mortgage-backed securities	68,099	—	10,536	57,563
Asset-backed securities	59,360	—	5,143	54,217
Corporate and other	612,414	6,246	589,507	16,661
Total fixed maturity securities	1,323,821	11,619	1,115,550	196,652
Equity securities				
Common stocks	21,928	17,102	—	4,826
Perpetual preferred stocks	30,775	10,122	20,653	—
Total equity securities	52,703	27,224	20,653	4,826
Derivatives	5,503	185	—	5,318
Contingent asset	2,813	—	—	2,813
Total assets accounted for at fair value	\$ 1,384,840	\$ 39,028	\$ 1,136,203	\$ 209,609

<b>Liabilities</b>				
Warrant liability	\$ 2,772	\$ —	\$ —	\$ 2,772
Deferred consideration	2,218	—	—	2,218
Total liabilities accounted for at fair value	<u>\$ 4,990</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,990</u>

<u>December 31, 2015</u>		Fair Value Measurement Using:		
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
Fixed maturity securities				
U.S. Government and government agencies	\$ 17,083	\$ 5,753	\$ 11,257	\$ 73
States, municipalities and political subdivisions	386,260	—	380,601	5,659
Foreign government	6,429	—	6,429	—
Residential mortgage-backed securities	166,315	—	87,296	79,019
Commercial mortgage-backed securities	75,035	—	14,510	60,525
Asset-backed securities	34,451	—	6,798	27,653
Corporate and other	546,268	7,090	525,234	13,944
Total fixed maturity securities	1,231,841	12,843	1,032,125	186,873
Equity securities				
Common stocks	18,625	13,693	—	4,932
Perpetual preferred stocks	31,057	10,271	20,786	—
Total equity securities	49,682	23,964	20,786	4,932
Derivatives	4,843	632	—	4,211
Total assets accounted for at fair value	\$ 1,286,366	\$ 37,439	\$ 1,052,911	\$ 196,016

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**Liabilities**

Warrant liability	\$ 4,332	\$ —	\$ —	\$ 4,332
Total liabilities accounted for at fair value	<u>\$ 4,332</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,332</u>

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

Lack of availability of secondary market activity for certain asset-backed securities ("ABS") and MBS during the three and six months ended June 30, 2016 impacted the market observable inputs used to establish fair values. This availability, coupled with less consistent pricing from third-party sources, resulted in the Company's conclusion that there was not sufficient trading activity in these instruments to support classifying these securities as Level 2 as of June 30, 2016. Accordingly, the Company's assessment resulted in a net transfer into Level 3 of \$0.9 million and \$3.0 million related to ABS and MBS during the three and six months ended June 30, 2016. There were no transfers into or out of Level 3 for the three and six months ended June 30, 2015.

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

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

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

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

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

When observable inputs are not available, the market standard valuation techniques for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation, and cannot be supported by reference to market activity. Even though unobservable, these inputs are based on assumptions deemed

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appropriate given the circumstances and are believed to be consistent with what other market participants would use when pricing such securities.

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

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

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

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

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

***Level 3 Measurements and Transfers***

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



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	Balance at March 31, 2016	Total realized/unrealized gains (losses) included in		Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2016
		Net earnings (loss)	Other comp. income (loss)					
<b>Assets</b>								
Fixed maturity securities								
U.S. Government and government agencies	\$ 53	\$ —	\$ 5	\$ —	\$ —	\$ —	\$ —	\$ 58
States, municipalities and political subdivisions	5,761	101	2	—	—	—	—	5,864
Residential mortgage-backed securities	75,200	(544)	541	—	(4,661)	1,496	(9,743)	62,289
Commercial mortgage-backed securities	54,605	(199)	304	—	(1,201)	6,765	(2,711)	57,563
Asset-backed securities	45,403	23	1,141	18,407	(13,722)	7,511	(4,546)	54,217
Corporate and other	12,486	177	1,325	600	(18)	2,091	—	16,661
Total fixed maturity securities	193,508	(442)	3,318	19,007	(19,602)	17,863	(17,000)	196,652
Equity securities								
Common stocks	4,576	—	250	—	—	—	—	4,826
Total equity securities	4,576	—	250	—	—	—	—	4,826
Derivatives	3,087	99	2,132	—	—	—	—	5,318
Contingent asset	2,992	(179)	—	—	—	—	—	2,813
Total financial assets	<u>\$ 204,163</u>	<u>\$ (522)</u>	<u>\$ 5,700</u>	<u>\$ 19,007</u>	<u>\$ (19,602)</u>	<u>\$ 17,863</u>	<u>\$ (17,000)</u>	<u>\$ 209,609</u>

<b>Liabilities</b>								
Warrant liability	\$ 2,358	\$ 414	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,772
Deferred consideration	2,589	(371)	—	—	—	—	—	2,218
Total financial liabilities	<u>\$ 4,947</u>	<u>\$ 43</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,990</u>

	Balance at December 31, 2015	Total realized/unrealized gains (losses) included in		Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2016
		Net earnings (loss)	Other comp. income (loss)					
<b>Assets</b>								
Fixed maturity securities								
U.S. Government and government agencies	\$ 73	\$ —	\$ 3	\$ —	\$ (18)	\$ —	\$ —	\$ 58
States, municipalities and political subdivisions	5,659	199	6	—	—	—	—	5,864
Residential mortgage-backed securities	79,019	(1,683)	386	—	(8,016)	7,883	(15,300)	62,289
Commercial mortgage-backed securities	60,525	(491)	938	—	(5,016)	7,150	(5,543)	57,563
Asset-backed securities	27,653	55	721	33,067	(14,022)	12,422	(5,679)	54,217
Corporate and other	13,944	158	(71)	600	(61)	2,091	—	16,661
Total fixed maturity securities	186,873	(1,762)	1,983	33,667	(27,133)	29,546	(26,522)	196,652
Equity securities								
Common stocks	4,932	—	(106)	—	—	—	—	4,826
Total equity securities	4,932	—	(106)	—	—	—	—	4,826
Derivatives	4,211	(1,025)	2,132	—	—	—	—	5,318
Contingent asset	—	(179)	—	2,992	—	—	—	2,813
Total financial assets	<u>\$ 196,016</u>	<u>\$ (2,966)</u>	<u>\$ 4,009</u>	<u>\$ 36,659</u>	<u>\$ (27,133)</u>	<u>\$ 29,546</u>	<u>\$ (26,522)</u>	<u>\$ 209,609</u>

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<b>Liabilities</b>								
Warrant liability	\$ 4,332	\$ (1,560)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,772
Deferred consideration	—	(371)	—	2,589	—	—	—	2,218
Total financial liabilities	<u>\$ 4,332</u>	<u>\$ (1,931)</u>	<u>\$ —</u>	<u>\$ 2,589</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,990</u>
		Total realized/unrealized gains (losses) included in						
	Balance at March 31, 2015	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2015
<b>Assets</b>								
Fixed maturity securities								
Corporate and other	\$ 3,205	\$ —	\$ —	\$ 10,060	\$ —	\$ —	\$ —	\$ 13,265
Total fixed maturity securities	3,205	—	—	10,060	—	—	—	13,265
Derivatives	295	—	—	6,036	—	—	—	6,331
Total financial assets	<u>\$ 3,500</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,096</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 19,596</u>
		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2014	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances		Transfer to Level 3	Transfer out of Level 3	Balance at June 30, 2015
<b>Assets</b>								
Fixed maturity securities								
Corporate and other	\$ 250	\$ —	\$ —	\$ 13,015	\$ —	\$ —	\$ —	\$ 13,265
Total fixed maturity securities	250	—	—	13,015	—	—	—	13,265
Derivatives	—	—	—	6,331	—	—	—	6,331
Total financial assets	<u>\$ 250</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 19,346</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 19,596</u>

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

***Fair Value of Financial Instruments Not Measured at Fair Value***

The Company is required by general accounting principles for *Fair Value Measurements and Disclosures* to disclose the fair value of certain financial instruments including those that are not carried at fair value. The following table presents the carrying amounts and estimated fair values of the Company's financial instruments, which were not measured at fair value on a recurring basis, at June 30, 2016 and December 31, 2015. This table excludes carrying amounts reported in the condensed consolidated balance sheets for cash, accounts receivable, costs and recognized earnings in excess of billings, accounts payable, accrued expenses, billings in excess of costs and recognized earnings, and other current assets and liabilities approximate fair value due to relatively short periods to maturity (in thousands).

<u>June 30, 2016</u>			Fair Value Measurement Using:		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Assets</b>					
Mortgage loans	\$ 4,165	\$ 4,166	\$ —	\$ —	\$ 4,166
Policy loans	18,311	18,311	—	18,311	—
Other invested assets	4,889	2,430	—	—	2,430
Total assets not accounted for at fair value	<u>\$ 27,365</u>	<u>\$ 24,907</u>	<u>\$ —</u>	<u>\$ 18,311</u>	<u>\$ 6,596</u>
<b>Liabilities</b>					
Annuity benefits accumulated <sup>(1)</sup>	\$ 256,014	\$ 253,976	\$ —	\$ —	\$ 253,976
Long-term obligations <sup>(2)</sup>	337,272	310,428	—	310,428	—
Total liabilities not accounted for at fair value	<u>\$ 593,286</u>	<u>\$ 564,404</u>	<u>\$ —</u>	<u>\$ 310,428</u>	<u>\$ 253,976</u>

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December 31, 2015

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

(1) Excludes life contingent annuities in the payout phase.

(2) Excludes certain lease obligations accounted for under ASC 840.

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

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

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

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

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

## 6. Accounts Receivable

Accounts receivable consist of the following (in thousands):

	June 30, 2016	December 31, 2015
Contract receivables:		
Contracts in progress	\$ 122,933	\$ 103,178
Unbilled retentions	37,991	31,195
Trade receivables	61,162	77,084
Other receivables	725	190
Allowance for doubtful accounts	(1,516)	(794)
	<u>\$ 221,295</u>	<u>\$ 210,853</u>

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**7. Contracts in Progress**

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

	June 30, 2016	December 31, 2015
Costs incurred on contracts in progress	\$ 573,364	\$ 597,656
Estimated earnings	109,437	99,985
	682,801	697,641
Less progress billings	695,942	679,532
	\$ (13,141)	\$ 18,109
The above is included in the accompanying condensed consolidated balance sheet under the following captions:		
Costs and recognized earnings in excess of billings on uncompleted contracts	\$ 29,957	\$ 39,310
Billings in excess of costs and recognized earnings on uncompleted contracts	43,098	21,201
	\$ (13,141)	\$ 18,109

**8. Inventory**

Inventory consist of the following (in thousands):

	June 30, 2016	December 31, 2015
Raw materials	\$ 9,673	\$ 10,485
Work in process	1,210	1,289
Finished goods	233	346
	\$ 11,116	\$ 12,120

**9. Recoverable from Reinsurers**

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

Reinsurer	A.M. BestRating	June 30, 2016		December 31, 2015	
		Amount	% of Total	Amount	% of Total
Loyal American Life Insurance Co (Cigna)	A-	\$ 138,346	26.3%	\$ 133,646	25.5%
Great American Life Insurance Co	A	45,541	8.7%	44,748	8.6%
Hannover Life Reassurance Co	A+	342,271	65.0%	344,168	65.9%
Total		\$ 526,158	100.0%	\$ 522,562	100.0%

**10. Goodwill and Other Intangible Assets**

**Goodwill**

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

	Manufacturing	Marine Services	Telecom	Utilities	Insurance	Life Sciences	Other	Total
Balance as of December 31, 2015	\$ 24,490	\$ 1,134	\$ 3,378	\$ 1,374	\$ 29,021	\$ —	\$ 1,781	\$ 61,178
Acquisition of business	—	1,528	—	—	17,592	3,633	—	22,753
Balance as of June 30, 2016	\$ 24,490	\$ 2,662	\$ 3,378	\$ 1,374	\$ 46,613	\$ 3,633	\$ 1,781	\$ 83,931

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***Indefinite-lived Intangible Assets***

The acquisition of the Insurance Companies resulted in the acquisition of state licenses, which are indefinite-lived intangible assets, not subject to amortization valued at \$4.9 million as of June 30, 2016. In addition, the acquisition of BeneVir resulted in the recording of an in-process research and development intangible asset not subject to amortization of \$6.4 million.

***Amortizable Intangible Assets***

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

	Manufacturing	Marine Services	Utilities	Life Sciences	Other	Corporate	Total
<b>Trade names</b>							
Balance as of December 31, 2015	\$ 4,005	\$ 601	\$ 5,407	\$ —	\$ —	\$ —	\$ 10,013
Amortization	(149)	(167)	(316)	—	—	—	(632)
Acquisition of business	—	2,626	—	—	—	—	2,626
Balance as of June 30, 2016	<u>\$ 3,856</u>	<u>\$ 3,060</u>	<u>\$ 5,091</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 12,007</u>
<b>Customer relationships</b>							
Balance as of December 31, 2015	\$ —	\$ 6,794	\$ 4,444	\$ —	\$ —	\$ —	\$ 11,238
Amortization	—	(240)	(221)	—	—	—	(461)
Acquisition of business	—	—	242	—	—	—	242
Balance as of June 30, 2016	<u>\$ —</u>	<u>\$ 6,554</u>	<u>\$ 4,465</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11,019</u>
<b>Developed technology</b>							
Balance as of December 31, 2015	\$ —	\$ 810	\$ —	\$ —	\$ 2,279	\$ —	\$ 3,089
Amortization	—	(143)	—	—	(638)	—	(781)
Balance as of June 30, 2016	<u>\$ —</u>	<u>\$ 667</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,641</u>	<u>\$ —</u>	<u>\$ 2,308</u>
<b>Other</b>							
Balance as of December 31, 2015	\$ —	\$ —	\$ 20	\$ 177	\$ —	\$ 22	\$ 219
Amortization	—	—	—	(2)	—	—	(2)
Acquisition of business	—	—	68	48	—	—	116
Balance as of June 30, 2016	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 88</u>	<u>\$ 223</u>	<u>\$ —</u>	<u>\$ 22</u>	<u>\$ 333</u>
<b>Total amortizable intangible assets</b>							
Balance as of December 31, 2015	\$ 4,005	\$ 8,205	\$ 9,871	\$ 177	\$ 2,279	\$ 22	\$ 24,559
Amortization	(149)	(550)	(537)	(2)	(638)	—	(1,876)
Acquisition of business	—	2,626	310	48	—	—	2,984
Balance as of June 30, 2016	<u>\$ 3,856</u>	<u>\$ 10,281</u>	<u>\$ 9,644</u>	<u>\$ 223</u>	<u>\$ 1,641</u>	<u>\$ 22</u>	<u>\$ 25,667</u>

**11. Life, Accident and Health Reserves**

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

	June 30, 2016	December 31, 2015
Long-term care insurance reserves	\$ 1,384,046	\$ 1,354,151
Traditional life insurance reserves	103,673	104,450
Other accident and health insurance reserves	137,841	133,336
Total life, accident and health reserves	<u>\$ 1,625,560</u>	<u>\$ 1,591,937</u>

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**12. Long-Term Obligations**

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

	June 30, 2016	December 31, 2015
Senior Secured Notes collateralized by the Company's assets, with interest payable semi-yearly based on a fixed annual interest rate of 11.0% with principal due in 2019	\$ 307,000	\$ 307,000
Notes payable and revolving lines of credit, collateralized by CWind's assets, with a fixed rate interest payable and principal payable monthly, with various maturity dates	20,269	—
Note payable collateralized by GMSL's assets, with interest payable monthly at LIBOR plus 3.65% and principal payable monthly, maturing in 2019	3,031	5,260
Note payable collateralized by Schuff's real estate, with interest payable monthly at LIBOR plus 4% and principal payable monthly, with one final balloon payment of \$1.9 million, maturing in 2019	3,698	4,011
Note payable collateralized by Schuff's equipment, with interest payable monthly at LIBOR plus 4% and principal payable monthly, with one final balloon payment of \$1.2 million, maturing in 2019	7,091	8,129
Note payable collateralized by Schuff's assets, with interest payable monthly at LIBOR plus 4% and principal payable monthly, with one final balloon payment of \$0.3 million, maturing in 2018	1,952	2,238
Line of credit collateralized by Schuff's HOPSA engineering equipment, with interest payable monthly at 5.25% plus 1% of special interest compensation fund	1,900	1,600
Note payable collateralized by ANG's assets, with interest payable monthly at 5.5% and principal payable monthly, maturing in 2018	581	660
Note payable collateralized by ANG's assets, with an interest only provision for the first year, payable monthly at LIBOR plus 3% and interest payable at 4.3% and principal payable monthly thereafter, maturing in 2023	3,500	—
Obligations under capital leases	54,186	52,697
Other	14	19
Credit and security agreement for Schuff to advance up to a maximum amount of \$50.0 million	—	—
Subtotal	403,222	381,614
Original issue (discount) / premium and debt issuance costs on Senior Secured Notes	(8,733)	(9,738)
Total long-term obligations	\$ 394,489	\$ 371,876

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

	Capital Leases	Debt	Total
2016	\$ 3,459	\$ 24,720	\$ 28,179
2017	6,892	46,876	53,768
2018	10,069	43,354	53,423
2019	9,937	347,665	357,602
2020	9,943	3,294	13,237
Thereafter	27,813	6,273	34,086
Total minimum principal & interest payments	68,113	472,182	540,295
Less: Amount representing interest	(13,927)	(123,146)	(137,073)
	\$ 54,186	\$ 349,036	\$ 403,222

**11.0% Senior Secured Notes due 2019**

On November 20, 2014, the Company issued \$250.0 million in aggregate principal amount of 11.0% Senior Secured Notes due 2019 (the "November 2014 Notes"). The November 2014 Notes were issued at a price of 99.05% of principal amount, which resulted in a discount of \$2.4 million. The net proceeds from the issuance of the November 2014 Notes were used to repay a senior secured credit facility, which had provided for a twelve month, floating interest rate term loan of \$214 million and a delayed draw term loan of \$36 million (the "September Credit Facility"), entered into in connection with the Company's acquisition of GMSL. On March 26, 2015, the Company issued an additional \$50.0 million in aggregate principal amount of 11.0% Senior Secured Notes due 2019 (the "March 2015 Notes"). The March 2015 Notes were issued at a price of 100.5% of principal amount, plus accrued interest from November 20, 2014, which resulted in a premium of \$0.3 million. On August 5, 2015, the Company issued an

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additional \$5.0 million aggregate principal amount of its 11.0% Senior Secured Notes due 2019 (the "August 2015 Notes"). The August 2015 Notes were issued in consideration for a release of claims by holders of the Preferred Stock discussed below (see Note 17 - Equity for additional information). On December 24, 2015, the Company issued an additional \$2.0 million aggregate principal amount of its 11% Senior Secured Notes due 2019 (the "December 2015 Notes"). All of the 11.0% Senior Secured Notes due 2019 (collectively, the "11.0% Notes") were issued under an indenture dated November 20, 2014, by and among HC2, the guarantors party thereto and U.S. Bank National Association, a national banking association ("U.S. Bank"), as trustee (the "11.0% Notes Indenture").

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

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

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

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

***Redemption Premiums.*** The Company may redeem the 11.0% Notes at a redemption price equal to 100.0% of the principal amount of the 11.0% Notes plus a make-whole premium before December 1, 2016. The make-whole premium is the greater of (i) 1% of principal amount or (ii) the excess of the present value of redemption price at December 1, 2016 plus all required interest payments through December 1, 2016 over the principal amount. After December 1, 2016, the Company may redeem the 11.0% Notes at a redemption price equal to 100% of the principal amount plus accrued interest. The Company is required to make an offer to purchase the 11.0% Notes upon a change of control at a purchase price equal to 101% of the principal amount of the 11.0% Notes on the date of purchase plus accrued interest.

#### **Schuff Credit Facilities**

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

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

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

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On May 6, 2014, Schuff entered into an amendment to the Schuff Facility, pursuant to which Wells Fargo extended the maturity date of the Schuff Facility to April 30, 2019, lowered the interest rate charged in connection with borrowings under the line of credit and allowed for the issuance of additional loans in the form of notes totaling \$5.0 million, secured by its real estate (“Real Estate Term Advance”). At June 30, 2016 and December 31, 2015, Schuff had borrowed \$3.7 million and \$4.0 million, respectively, under the Real Estate Term Advance. The Real Estate Term Advance has a five year amortization period requiring monthly principal payments and a final balloon payment at maturity. The Real Estate Term Advance has a floating interest rate of LIBOR plus 4.0% and requires monthly interest payments.

On October 21, 2014, Schuff further amended the Schuff Facility to allow for the issuance of additional loans in the form of notes of up to \$10.0 million, secured by its machinery and equipment (“Real Estate (2) Term Advance (M&E)”) and the issuance of a note payable of up to \$5.0 million, secured by its real estate (“Real Estate (2) Term Advance (Working Capital)”), each as separate tranches of debt under the facility. The Real Estate (2) Term Advance (M&E) and Real Estate (2) Term Advance (Working Capital) have a five year amortization period requiring monthly principal payments and a final balloon payment at maturity. The Real Estate (2) Term Advance (M&E) and Real Estate (2) Term Advance (Working Capital) have a floating interest rate of LIBOR plus 4.0% and require monthly interest payments. At June 30, 2016 and December 31, 2015, there was \$7.1 million and \$8.1 million, respectively, outstanding under the Real Estate (2) Term Advance (M&E) and \$2.0 million and \$2.2 million, respectively, outstanding under the Real Estate (2) Term Advance (Working Capital).

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

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

#### ***GMSL Credit Facility***

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

#### ***CWind Credit Facilities***

GMSL acquired CWind in February 2016 and assumed liability for all of CWind’s outstanding loans. CWind currently maintains 13 notes payable related to its vessels, with maturities ranging between 2018 and 2024 and interest rates varying between 5.25% and 10.0%. The initial aggregate principle amount outstanding under all 13 notes was GBP 17.4 million. As of June 30, 2016, the outstanding aggregate principal amount of the notes was GBP 14.2 million. CWind also has a note payable related to a series of sundry assets, bearing an annual interest rate of 15.3% and maturing in 2018 with a principal of GBP 0.2 million and an outstanding debt balance of GBP 0.16 million as of June 30, 2016.

CWind also has two revolving lines of credit, one based in the UK with a capacity of GBP 3.0 million and an interest rate of 2.65% over Barclays’ Base Rate of 0.5% and one based in Germany with a capacity of EUR 3.0 million and an interest rate of 2.0% over Barclays’ Base Rate of 0.5%. As of June 30, 2016 CWind had borrowings outstanding under the UK and German lines of credit of GBP 1.0 million and EUR 0.02 million, respectively.

#### ***GMSL Capital Leases***

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



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As of June 30, 2016 and December 31, 2015, \$54.2 million and \$52.7 million, respectively, in aggregate principal amount remained outstanding under the GMSL Leases.

***ANG Term Loan***

ANG established a term loan with Signature Financial in October 2013. This term loan has a five year term and bears interest at the rate of 5.5%. As of June 30, 2016 and December 31, 2015, \$0.6 million and \$0.7 million, respectively, remained outstanding under this term loan.

On June 13, 2016, ANG entered into a seven year delayed draw term note for \$6.5 million with Pioneer Savings Bank (“Pioneer”). The note includes an interest only provision for the first year and will mature on July 1, 2023. The interest rate on this loan is LIBOR plus 3.0% for the first year and a fixed rate of 4.3% thereafter. The agreement with Pioneer also includes a revolving demand note for \$1.0 million with an annual renewal provision and interest at monthly LIBOR plus 3.0%. On June 14, 2016, ANG utilized \$3.5 million of aggregate principal from the delayed draw term note. As of June 30, 2016, ANG had \$3.5 million in borrowings under the delayed draw term note and \$0 under the revolving demand note.

**13. Income Taxes**

***Income Tax Benefit***

Income tax was an expense of \$0.2 million and an expense of \$2.7 million for the three months ended June 30, 2016 and 2015, and a benefit of \$2.3 million and a benefit of \$3.3 million for the six months ended June 30, 2016 and 2015.

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

***NOL Limitation***

The Company has an estimated NOL carryforward for U.S. federal tax purposes in the amount of \$87.1 million. In the first quarter of 2014, substantial acquisitions of the Company's stock were reported by new beneficial owners of 5.0% or more of the Company's common stock on Schedule 13D filings made with the SEC. On May 29, 2014, the Company issued 30,000 shares of Series A Convertible Participating Preferred Stock of the Company (the “Series A Preferred Stock”) and 1,500,000 shares of common stock to finance the acquisition of Schuff. During the second quarter the Company completed a Section 382 review. The conclusions of this review indicate that an ownership change had occurred as of May 29, 2014. The Company's annual Section 382 base limit following the ownership change is estimated to be \$2.3 million per year. On November 4, 2015, HC2 issued 8,452,500 shares of its stock in a primary offering which the Company believes resulted in a Section 382 ownership change resulting in an additional annual limitation to cumulative carryforward. NOLs of approximately \$83.1 million are subject to this new limitation. The Company does not believe that any NOLs will expire as a result of the November 2015 ownership change.

***Unrecognized Tax Benefits***

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

***Examinations***

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

## **14. Commitments and Contingencies**

### ***Litigation***

The Company is subject to claims and legal proceedings that arise in the ordinary course of business. Such matters are inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to the Company or that the resolution of any such matter will not have a material adverse effect upon the Company's consolidated financial statements. The Company does not believe that any of such pending claims and legal proceedings will have a material adverse effect on its consolidated financial statements. The Company records a liability in its consolidated financial statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. The Company reviews these estimates each accounting period as additional information is known and adjusts the loss provision when appropriate. If a matter is both probable to result in a liability and the amounts of loss can be reasonably estimated, the Company estimates and discloses the possible loss or range of loss to the extent necessary for 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 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 but that Globility breached the letter of intent by selling the licenses to Inukshuk. Xplornet also alleges similar claims against Inukshuk, and seeks damages from all defendants in the amount of \$50 million. On January 29, 2014, Globility, MIPPS Inc., and PTCI, demanded indemnification pursuant to the Equity Purchase Agreement among PTUS, Inc., PTCAN, Inc., the Company (f/k/a 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. 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. The Company and Inukshuk have moved for summary judgment against Xplornet, arguing that there was no agreement between Globility and Xplornet to acquire the licenses at issue. The hearing on summary judgment is scheduled for September 27, 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 26, 2016 - which it has moved to extend through September 2016. On February 25, 2016, the Ontario Superior Court of Justice extended the stay of proceedings until September 19, 2016. PTCI has advised the Company that this stays all proceedings against PTCI, Globility, and MIPPS, except against the Company.

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 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. The parties have negotiated an extension of the deadline to complete fact depositions, which was originally July 8, 2016, until October 17, 2016. We believe that the allegations and claims set forth in the Complaint are without merit and intend to defend our interests vigorously.

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***Tax Matters***

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

**15. Employee Retirement Plans**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Service cost - benefits earning during the period	\$ 17	\$ 15	\$ 34	\$ 31
Interest cost on projected benefit obligation	1,878	1,833	3,755	3,665
Expected return on assets	(1,991)	(1,877)	(3,983)	(3,754)
Actuarial gain	—	128	—	256
Foreign currency gain (loss)	3	(3)	6	(6)
Net pension (benefit) expense end of period	<u>\$ (93)</u>	<u>\$ 96</u>	<u>\$ (188)</u>	<u>\$ 192</u>

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

**16. Share-Based Compensation**

On April 11, 2014, the HC2’s board of directors adopted the HC2 Holdings, Inc. 2014 Omnibus Equity Award Plan (the “Omnibus Plan”), which was approved by our stockholders at the annual meeting of stockholders held on June 12, 2014. The Omnibus Plan provides that no further awards will be granted pursuant to the Company’s Management Compensation Plan, as amended (the “Prior Plan”). However, awards that had been previously granted pursuant to the Prior Plan will continue to be subject to and governed by the terms of the Prior Plan. As of June 30, 2016, there were 465,241 shares of the Company’s common stock underlying outstanding awards under the Prior Plan.

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

The Omnibus Plan provides for the grant of awards of non-qualified stock options, incentive (qualified) stock options, stock appreciation rights, restricted stock awards, restricted stock units, other stock based awards, performance compensation awards (including cash bonus awards) or any combination of the foregoing. The Company typically issues new shares of common stock upon the exercise of stock options, as opposed to using treasury shares. The Omnibus Plan authorizes the issuance of up to 5,000,000 shares of the Company’s common stock, subject to adjustment as provided in the Omnibus Plan.

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

The Company granted 1,506,848 and 691,205 options during the six months ended June 30, 2016 and 2015, respectively. Of the total options granted during the six months ended June 30, 2016 and 2015, 6,848 and 169,697, respectively, of such options were granted to Philip Falcone, pursuant to a standalone option agreement entered in connection with Mr. Falcone’s appointment as Chairman, President and Chief Executive Officer of the Company, and not pursuant to the Omnibus Plan. The anti-dilution protection provision contained in such standalone option agreement was canceled in April 2016 and replaced with an award consisting solely of 1,500,000 premium stock options issued under the Omnibus Plan. The weighted average fair value at date of grant for options granted during the six months ended June 30, 2016 and 2015 was \$1.09 and \$3.16, respectively, per option. The

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fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions shown as a weighted average for the year:

	Six Months Ended June 30,	
	2016	2015
Expected option life (in years)	4.70 - 6.00	5.25
Risk-free interest rate	1.27% - 1.35%	1.49% - 1.68%
Expected volatility	39.58% - 55.58%	36.29% - 39.58%
Dividend yield	—%	—%

Total share-based compensation expense recognized by the Company and its subsidiaries under all equity compensation arrangements during the three months ended June 30, 2016 and 2015 was \$1.7 million and \$2.4 million, respectively. Total share-based compensation expense recognized by the Company and its subsidiaries under all equity compensation arrangements during the six months ended June 30, 2016 and 2015 was \$4.9 million and \$5.1 million, respectively. Most of the Company's stock awards vest ratably during the vesting period. The Company recognizes compensation expense for equity awards, reduced by estimated forfeitures, using the straight-line basis.

***Restricted Stock and Restricted Stock Units***

A summary of the Company's restricted stock and restricted stock units activity for the six months ended June 30, 2016 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested - December 31, 2015	790,688	\$ 8.14
Granted	275,022	\$ 3.82
Vested	(711,493)	\$ 7.92
Forfeitures	(7,611)	\$ 6.17
Unvested - June 30, 2016	346,606	\$ 5.22

As of June 30, 2016, the unvested restricted stock represented \$1.0 million of compensation expense that is expected to be recognized over the weighted average remaining vesting period of 1.0 years. The number of shares of unvested restricted stock expected to vest is 342,412.

***Stock Options***

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

	Shares	Weighted Average Exercise Price
Outstanding - December 31, 2015	5,361,285	\$ 5.48
Granted	1,506,848	\$ 10.49
Exercised	—	\$ —
Forfeitures	(1,000)	\$ 4.06
Outstanding - June 30, 2016	6,867,133	\$ 6.58
Eligible for exercise	3,949,450	\$ 5.33

As of June 30, 2016, intrinsic value and average remaining life of the Company's outstanding and exercisable options were \$0.4 million and \$0.3 million and 8.54 and 8.13 years, respectively.

As of June 30, 2016, the Company had 2,917,683 unvested stock options outstanding, of which \$3.3 million of compensation expense is expected to be recognized over the weighted average remaining vesting period of 1.99 years. The number of unvested

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stock options expected to vest is 2,917,218 shares, with a weighted average remaining life of 8.54 years, a weighted average exercise price of \$6.58, and an intrinsic value of \$0.1 million.

## **17. Equity**

At June 30, 2016 and December 31, 2015, there were 35,574,331 and 35,249,749 shares of common stock outstanding, respectively. At June 30, 2016 and December 31, 2015, there were 52,308 and 53,172 shares of Preferred Stock outstanding.

### ***Preferred and Common Stock***

On May 29, 2014, the Company issued 30,000 shares of Series A Preferred Stock and 1,500,000 shares of common stock, the proceeds of which were used to pay for a portion of the purchase price related to the acquisition of Schuff. Each share of Series A Preferred Stock is convertible at a conversion price of \$4.25. On September 22, 2014, the Company issued 11,000 shares of Series A-1 Convertible Participating Preferred Stock of the Company (the "Series A-1 Preferred Stock"). Each share of Series A-1 Preferred Stock is convertible at a conversion price of \$4.25. On January 5, 2015, the Company issued 14,000 shares of Series A-2 Convertible Participating Preferred Stock of the Company (the "Series A-2 Preferred Stock" and together with the Series A Preferred Stock and Series A-1 Preferred Stock, the "Preferred Stock"). Each share of Series A-2 Preferred Stock is convertible at a conversion price of \$7.93. The Company has amended the certificates of designation governing the Series A-1 Preferred Stock to reflect the issuance of the Series A-2 Preferred Stock as a class of preferred stock which ranks at parity with the Series A Preferred Stock and Series A-1 Preferred Stock and to make certain other technical and administrative changes to conform the terms of the Series A-1 Preferred Stock to those of the Series A-2 Preferred Stock.

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

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

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

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

During the six months ended June 30, 2016, 864 shares of Series A-1 Preferred Stock were converted into 206,057 shares of common stock at the option of the holder. During the six months ended June 30, 2015, 1,000 shares of Series A-1 Preferred Stock were converted into 235,526 shares of common stock at the option of the holder.

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**Dividends**

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

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

**18. Related Parties**

**HC2**

In January 2015, the Company entered into a services agreement (the "Services Agreement") with Harbinger Capital Partners with respect to the provision of shared services that may include providing office space and operational support and each party making available their respective employees to provide services as reasonably requested by the other party, subject to any limitations contained in applicable employment agreements and the terms of the Services Agreement. The Company recognized \$0.8 million and \$0.4 million of expenses under the Services Agreement for the three months ended June 30, 2016 and 2015, respectively. The Company recognized \$1.4 million and \$0.7 million of expenses under the Services Agreement for the six months ended June 30, 2016 and 2015, respectively.

In April 2015, the Company purchased a \$16.1 million convertible debenture of Gaming Nation, Inc. ("Gaming Nation"). On February 22, 2016, Gaming Nation purchased 41,204 shares of the common stock of DMi, then a wholly-owned subsidiary of HC2 Holdings 2, Inc. The purchase price paid by Gaming Nation for the shares was \$4.0 million. As part of the investment, Gaming Nation was given the right to designate one member of the DMi board of directors, and the number of directors was increased to five in connection with the investment.

**GMSL**

The parent company of GMSL, Global Marine Holdings, LLC, incurred management fees of \$0.2 million and \$0.1 million for the three months ended June 30, 2016 and 2015, respectively. Global Marine Holdings, LLC incurred management fees of \$0.3 million and \$0.3 million for the six months ended June 30, 2016 and 2015, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net revenue	\$ 6,220	\$ 8,763	\$ 11,495	\$ 14,436
Operating expenses	\$ 927	\$ 998	\$ 2,157	\$ 1,968
Interest expense	\$ 383	\$ 412	\$ 753	\$ 822
Dividends received	\$ —	\$ —	\$ 418	\$ —
			June 30, 2016	December 31, 2015
Accounts receivable			\$ 6,464	\$ 5,058
Long-term debt			\$ 38,416	\$ 37,627
Accounts payable			\$ 221	\$ 9

**19. Operating Segment and Related Information**

The Company currently has two primary reportable geographic segments - United States and United Kingdom; and Other. The Company has seven reportable operating segments based on management's organization of the enterprise - Manufacturing,

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Marine Services, Insurance, Telecommunications, Utilities, Life Sciences and Other. The Company also has a non-operating Corporate segment. Net revenue and long-lived assets by geographic segment is reported on the basis of where the entity is domiciled. All inter-segment revenues are eliminated. The Company has no single customer representing greater than 10% of its revenues.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Net Revenue by Geographic Region</b>				
United States	\$ 270,088	\$ 174,028	\$ 496,453	\$ 321,163
United Kingdom	88,321	102,075	192,338	153,069
Other	884	4,879	2,246	8,558
Total	<u>\$ 359,293</u>	<u>\$ 280,982</u>	<u>\$ 691,037</u>	<u>\$ 482,790</u>

<b>Net Revenue by Segment</b>				
Manufacturing	\$ 124,332	\$ 130,985	\$ 243,413	\$ 257,851
Marine Services	33,357	43,875	65,645	70,877
Insurance	36,162	—	65,300	—
Telecommunications	164,015	103,965	313,836	150,682
Utilities	1,279	1,368	2,486	2,591
Other	148	789	357	789
Total	<u>\$ 359,293</u>	<u>\$ 280,982</u>	<u>\$ 691,037</u>	<u>\$ 482,790</u>

<b>Depreciation and Amortization</b>				
Manufacturing	\$ 302	\$ 498	\$ 831	\$ 977
Marine Services	5,725	4,323	10,522	8,602
Insurance <sup>(1)</sup>	(1,120)	—	(1,739)	—
Telecommunications	140	98	246	196
Utilities	468	397	897	795
Life Sciences	36	1	55	2
Other	336	161	672	161
Total	<u>\$ 5,887</u>	<u>\$ 5,478</u>	<u>\$ 11,484</u>	<u>\$ 10,733</u>

<b>Income (Loss) from Operations</b>				
Manufacturing	\$ 14,926	\$ 11,082	\$ 23,081	\$ 17,261
Marine Services	(94)	4,394	(4,290)	7,683
Insurance	2,273	(130)	(7,136)	(130)
Telecommunications	1,039	118	1,216	(89)
Utilities	(18)	(258)	(90)	(474)
Life Sciences	(2,407)	(1,690)	(4,744)	(2,925)
Other	(2,525)	(1,611)	(4,263)	(1,852)
Non-operating Corporate	(7,575)	(8,873)	(17,886)	(16,330)
Total	<u>\$ 5,619</u>	<u>\$ 3,032</u>	<u>\$ (14,112)</u>	<u>\$ 3,144</u>

<b>Capital Expenditures <sup>(2)</sup></b>				
Manufacturing	\$ 1,716	\$ 691	\$ 3,811	\$ 1,848
Marine Services	1,164	7,804	3,798	9,372
Telecommunications	298	—	320	10
Utilities	3,658	1,269	5,317	1,658
Life Sciences	29	26	131	26
Other	11	—	11	—
Non-operating Corporate	5	—	5	—
Total	<u>\$ 6,881</u>	<u>\$ 9,790</u>	<u>\$ 13,393</u>	<u>\$ 12,914</u>

(1) Balance represents amortization of negative VOBA, which increases net income.

(2) The above capital expenditures exclude assets acquired under terms of capital lease and vendor financing obligations.

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	June 30, 2016	December 31, 2015
<b>Investments</b>		
Marine Services	\$ 33,968	\$ 27,324
Insurance	1,428,216	1,314,448
Life Sciences	12,336	4,888
Other	13,195	22,395
Eliminations	(26,411)	(14,685)
<b>Total</b>	<b>\$ 1,461,304</b>	<b>\$ 1,354,370</b>
<b>Property, Plant and Equipment, net</b>		
United States	\$ 91,792	\$ 82,540
United Kingdom	146,923	126,921
Other	4,782	5,005
<b>Total</b>	<b>\$ 243,497</b>	<b>\$ 214,466</b>
<b>Total Assets</b>		
Manufacturing	\$ 287,432	\$ 268,242
Marine Services	276,434	249,003
Insurance	2,026,908	1,952,402
Telecommunications	82,780	114,633
Utilities	38,165	31,462
Life Sciences	27,521	16,494
Other	23,070	34,841
Non-operating Corporate	83,015	75,435
<b>Total</b>	<b>\$ 2,845,325</b>	<b>\$ 2,742,512</b>

## 20. Backlog

Schuff's backlog was \$344.3 million, with \$261.1 million under contracts or purchase orders and \$83.2 million under letters of intent at June 30, 2016. 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 and loss of individual contracts. Approximately \$175.3 million, representing 50.9% of Schuff's backlog at June 30, 2016, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these large contracts or other commitments were terminated or their scope reduced, Schuff's backlog could decrease substantially.

## 21. Basic and Diluted Loss Per Common Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Income (loss) from continuing operations attributable to common stock and participating preferred stockholders	\$ 891	\$ (11,979)	\$ (30,640)	\$ (18,295)
Loss from discontinued operations	—	(11)	—	(20)
Net income (loss) attributable to common stock and participating preferred stockholders	<b>\$ 891</b>	<b>\$ (11,990)</b>	<b>\$ (30,640)</b>	<b>\$ (18,315)</b>



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<b>Earnings allocable to common shares:</b>				
<i>Numerator for basic and diluted earnings per share</i>				
Participating shares at end of period:				
Common stock outstanding	35,518	25,514	35,391	24,838
Preferred stock (as-converted basis)	10,872	—	—	—
Total	46,390	25,514	35,391	24,838
Percentage of income (loss) allocated to:				
Common Stock	77%	100%	100%	100%
Preferred Stock	23%	—%	—%	—%
Income (loss) attributable to common shares - basic:				
Income (loss) from continuing operations	\$ 686	\$ (11,979)	\$ (30,640)	\$ (18,295)
Gain (loss) from discontinued operations	—	(11)	—	(20)
<b>Net income (loss)</b>	<b>\$ 686</b>	<b>\$ (11,990)</b>	<b>\$ (30,640)</b>	<b>\$ (18,315)</b>
<i>Denominator for basic and diluted earnings per share</i>				
Weighted average common shares outstanding - basic	35,518	25,514	35,391	24,838
Add: effect of assumed shares issued under treasury stock method for stock options and restricted shares	125	—	—	—
Weighted average common shares outstanding - diluted	35,643	25,514	35,391	24,838
<i>Basic and Diluted earnings per share</i>				
<b>Net income (loss) attributable to common stock and participating preferred stockholders - basic</b>	<b>\$ 0.02</b>	<b>\$ (0.47)</b>	<b>\$ (0.87)</b>	<b>\$ (0.74)</b>
<b>Net income (loss) attributable to common stock and participating preferred stockholders - diluted</b>	<b>\$ 0.02</b>	<b>\$ (0.47)</b>	<b>\$ (0.87)</b>	<b>\$ (0.74)</b>
<b>Earnings allocable to Participating Security Holders:</b>				
<i>Numerator for basic and diluted earnings per share</i>				
<b>Net income (loss) attributable to Participating Security Holders</b>	<b>\$ 3</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<i>Denominator for basic and diluted earnings per share</i>				
Weighted average common shares outstanding - basic	35,518	25,514	35,391	24,838
Add: effect of assumed shares under treasury stock method for stock options and restricted shares	125	—	—	—
Weighted average common shares outstanding - diluted	35,643	25,514	35,391	24,838
<i>Basic and Diluted earnings per share</i>				
<b>Net income (loss) attributable to Participating security holders - basic</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Net income (loss) attributable to Participating security holders - diluted</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

## 22. Subsequent Events

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

On July 23, 2016, the Company entered into an agreement with affiliates of Luxor Capital Partners, LP ("Luxor") to convert 9,000 shares of the Company's Series A-1 Convertible Participating Preferred Stock into 2,119,765 shares of the Company's

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

common stock and an agreement with Corrib Master Fund, Ltd. ("Corrib") to convert 1,000 shares of the Company's Series A Convertible Participating Preferred Stock into 238,492 shares of the Company's common stock. In consideration for Luxor and Corrib agreeing to convert and forgoing certain dividends they would have otherwise been entitled to receive had they not converted their Preferred Stock, HC2 issued an additional 136,149 and 15,318 shares of the Company's common stock to Luxor and Corrib respectively, and the Company will be required to issue additional shares to Luxor and Corrib in the future with a value based on the dividends they would have received had they not converted their shares of Preferred Stock. As a result of these conversions, the current cumulative outstanding accrued value of the Company's series A, A-1 and A-2 Convertible Participating Preferred Stock was reduced to \$42.7 million, which are currently convertible into 8.5 million shares of the Company's common stock.

On August 5, 2016, ANG purchased a compressed natural gas fueling station located in Arkansas for \$5.5 million.

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

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

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

### **Our Business**

We are a diversified holding company with principal operations conducted through seven operating platforms or reportable segments:

1. Our Manufacturing segment includes Schuff International, Inc. ("Schuff") and its wholly-owned subsidiaries. Schuff is an integrated fabricator and erector 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 those states. In addition, Schuff has construction projects in select international markets, primarily Panama through Schuff Hopsa Engineering, Inc., a Panamanian joint venture with Empresas Hopsa, S.A. that provides steel fabrication services. The Company maintains a 91% controlling interest in Schuff.
2. Our Marine Services segment includes Global Marine Systems Limited ("GMSL"). GMSL is a leading provider of engineering and underwater services on submarine cables. The Company maintains a 95% equity interest in GMSL.
3. Our Insurance segment includes United Teacher Associates Insurance Company ("UTA") and Continental General Insurance Company ("CGI", and together with UTA, "CII" or the "Insurance Companies"). The Insurance Companies provide long-term care, life and annuity coverage to approximately 95,000 individuals. The benefits provided help protect policy and certificate holders from the financial hardships associated with illness, injury, loss of life, or income continuation. The Company owns 100% of the Insurance Companies.
4. Our Utilities segment includes American Natural Gas ("ANG"). ANG is a premier distributor of natural gas motor fuel headquartered in the Northeast. ANG designs, builds, owns, acquires, operates and maintains compressed natural gas fueling stations for transportation vehicles. The Company maintains control of and a 49.99% ownership interest in ANG.
5. Our Telecommunications segment includes PTGI-ICS. PTGI-ICS operates a telecommunications business including a network of direct routes and provides premium voice communication services for national telecom operators, mobile operators, wholesale carriers, prepaid operators, Voice over Internet Protocol ("VOIP") service operators and Internet service providers from our International Carrier Services ("ICS") business unit. ICS provides a quality service via direct routes and by forming strong relationships with carefully selected partners. The Company owns 100% of PTGI-ICS.

6. Our Life Sciences segment includes Pansend Life Sciences, LLC ("Pansend"). Pansend owns (i) a 77% interest in Genovel Orthopedics, Inc., which seeks to develop products to treat early osteoarthritis of the knee, (ii) a 61% interest in R2 Dermatology (f/k/a GemDerm Aesthetics, Inc.), which develops skin lightening technology, and (iii) a 60% interest in BeneVir Biopharm, Inc. ("BeneVir"), which focuses on immunotherapy for the treatment of solid tumors and invests in other early stage or developmental stage healthcare companies.

7. In our Other segment, we invest in and grow developmental stage companies we believe have significant growth potential. In this segment, we currently have a 56% ownership interest in DMi, Inc. ("DMi"), which owns licenses to create and distribute NASCAR® video games.

We continually monitor and evaluate a variety of key indicators of our underlying platform companies in order to assess their performance with the goal of maximizing shareholder value. These indicators include but are not limited to: revenue, cost of revenue, operating profit, earnings before interest, taxes and depreciation and amortization ("EBITDA"), Insurance AOI (as defined below), and free cash flow. We work closely with our operating subsidiaries' 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.

As part of our strategy to grow a diversified holding company we continually monitor acquisition opportunities and, in December 2015, we successfully capitalized on our structure and continued adding to our platform of companies with the acquisition of Insurance Companies.

The ongoing possibility of acquisitions and new business alternatives, while strategic, may result in acquiring assets unrelated to our current or historical operations. In addition, we face significant competition for acquisitions opportunities, including from numerous companies with a business plan similar to ours. As part of any acquisition strategy, we may raise capital in the form of debt or equity securities or a combination thereof to the extent permitted to do so under our and our subsidiaries' debt facilities and instruments and outstanding preferred stock. See "Liquidity and Capital Resources."

We believe our platform and strategy will enable us to deliver strong financial results while positioning the 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.

## **Seasonality**

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

## ***Marine Services***

Net revenue within our Marine Services segment can fluctuate depending on the season. Revenues are relatively stable for maintenance business as the core driver is the annual contractual obligation. However, this is not the case with installation business (other than for long-term charter arrangements), in which revenues show a degree of seasonality. Revenues in the installation business are driven by 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 a result, installation revenues are generally lower towards the end of the fourth quarter and throughout the first quarter, as most business is concentrated in the northern hemisphere.

## ***Telecommunications***

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

## Recent Developments

### Acquisitions

On February 1, 2016, Pansend acquired an additional 1,000 shares of preferred stock of BeneVir, increasing its ownership to 60% and obtaining control of the company (the "Step Acquisition"). The results of BeneVir's operations since February 1, 2016 are included in the Company's Condensed Consolidated Statements of Operations.

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

On May 16, 2016, ANG acquired two fueling stations in Arkansas for a total consideration of approximately \$2.0 million in cash.

### Preferred Shares Conversions

On July 23, 2016 the Company entered into an agreement with affiliates of Luxor Capital Partners, LP ("Luxor") to convert its 9,000 shares of the Company's Series A-1 Convertible Participating Preferred Stock into 2,119,765 shares of the Company's common stock and an agreement with Corrib Master Fund, Ltd. ("Corrib") to convert 1,000 shares of the Company's Series A Convertible Participating Preferred Stock into 238,492 shares of the Company's common stock. In consideration for Luxor and Corrib agreeing to convert and forgoing certain dividends they would have otherwise been entitled to receive had they not converted their Preferred Stock, HC2 issued an additional 136,149 and 15,318 shares of the Company's common stock to Luxor and Corrib respectively, and the Company will be required to issue additional shares to Luxor and Corib in the future with a value based on the dividends they would have received had they not converted their shares of Preferred Stock. As a result of these conversions, the current cumulative outstanding accrued value of the Company's series A, A-1 and A-2 Convertible Participating Preferred Stock was reduced to \$42.7 million, which are currently convertible into 8.5 million shares of the Company's common stock.

## Results of Operations

### Results of operations for the three and six months ended June 30, 2016 as compared to the three and six months ended June 30, 2015

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
<b>Net revenue:</b>						
Manufacturing	\$ 124,332	\$ 130,985	\$ (6,653)	\$ 243,413	\$ 257,851	\$ (14,438)
Marine Services	33,357	43,875	(10,518)	65,645	70,877	(5,232)
Insurance	36,162	—	36,162	65,300	—	65,300
Telecommunications	164,015	103,965	60,050	313,836	150,682	163,154
Utilities	1,279	1,368	(89)	2,486	2,591	(105)
Other	148	789	(641)	357	789	(432)
Total net revenue	<u>\$ 359,293</u>	<u>\$ 280,982</u>	<u>\$ 78,311</u>	<u>\$ 691,037</u>	<u>\$ 482,790</u>	<u>\$ 208,247</u>
<b>Income (loss) from operations:</b>						
Manufacturing	\$ 14,926	\$ 11,082	\$ 3,844	\$ 23,081	\$ 17,261	\$ 5,820
Marine Services	(94)	4,394	(4,488)	(4,290)	7,683	(11,973)
Insurance	2,273	(130)	2,403	(7,136)	(130)	(7,006)
Telecommunications	1,039	118	921	1,216	(89)	1,305
Utilities	(18)	(258)	240	(90)	(474)	384

Life Sciences	(2,407)	(1,690)	(717)	(4,744)	(2,925)	(1,819)
Other	(2,525)	(1,611)	(914)	(4,263)	(1,852)	(2,411)
Non-operating Corporate	(7,575)	(8,873)	1,298	(17,886)	(16,330)	(1,556)
Total income (loss) from operations	5,619	3,032	2,587	(14,112)	3,144	(17,256)
Interest expense	(10,569)	(10,125)	(444)	(20,895)	(18,825)	(2,070)
Other income (expense), net	430	(2,344)	2,774	540	(2,571)	3,111
Income (loss) from equity investees	6,035	1,429	4,606	2,101	(1,259)	3,360
Income (loss) from continuing operations before income taxes	1,515	(8,008)	9,523	(32,366)	(19,511)	(12,855)
Income tax benefit (expense)	(224)	(2,678)	2,454	2,315	3,336	(1,021)
Loss from continuing operations	1,291	(10,686)	11,977	(30,051)	(16,175)	(13,876)
Loss from discontinued operations	—	(11)	11	—	(20)	20
Net Income (loss)	1,291	(10,697)	11,988	(30,051)	(16,195)	(13,856)
Less: Net (income) loss attributable to noncontrolling interest	644	(204)	848	1,524	57	1,467
Net Income (loss) attributable to HC2 Holdings, Inc.	1,935	(10,901)	12,836	(28,527)	(16,138)	(12,389)
Less: Preferred stock dividends and accretion	1,044	1,089	(45)	2,113	2,177	(64)
Net Income (loss) attributable to common stock and participating preferred stockholders	\$ 891	\$ (11,990)	\$ 12,881	\$ (30,640)	\$ (18,315)	\$ (12,325)

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

*Net revenue:* Net revenue for the three months ended June 30, 2016 increased by \$78.3 million, or 27.9%, to \$359.3 million from \$281.0 million for the three months ended June 30, 2015. This increase was due primarily to the growth in the Telecommunications segment along with an added contribution from the acquisition of the Insurance Companies in December 2015, partially offset by a decrease in our Manufacturing segment due to projects which were ongoing in 2015 and nearing completion in the current quarter, and lower install revenues in our Marine segment.

*Income (loss) from operations:* Income from operations for the three months ended June 30, 2016 increased \$2.6 million, or 85.3% to \$5.6 million, from \$3.0 million for the three months ended June 30, 2015. The increase in income from operations was due to cost savings on several large projects in conjunction with a purchase accounting depreciation adjustment related to prior periods of \$1.8 million in our Manufacturing segment, and the added contribution from the acquisition of the Insurance Companies in December 2015, partially offset by a \$4.5 million decrease in profit in our Marine Services segment due to lower installation revenue.

*Interest expense:* Interest expense increased \$0.4 million, or 4.4%, to \$10.6 million from \$10.1 million for the three months ended June 30, 2016 and 2015, respectively. The increase in interest expense was due primarily to the \$20.3 million in notes payable related to loans assumed as part of the CWind acquisition in February 2016.

*Other income (expense), net:* Other income (expense), net increased \$2.8 million to income of \$0.4 million from an expense of \$2.3 million for the three months ended June 30, 2016 and 2015, respectively. The increase was driven primarily by the gain recognized on the Step Acquisition.

*Income (loss) from equity investees:* Income from equity investees increased \$4.6 million to \$6.0 million from \$1.4 million for the three months ended June 30, 2016 and 2015, respectively. The increase in income was driven by a \$2.7 million increase in GMSL's joint venture income, with the remainder of the increase due primarily to a reduction in our portion of recognized losses by Novatel Wireless, Inc.

*Income tax benefit (expense):* Income tax expense decreased \$2.5 million to \$0.2 million from \$2.7 million for the three months ended June 30, 2016 and 2015, respectively. The tax expense recorded in the three months ended June 30, 2016 is a result of income generated in the second quarter of 2016. The tax expense recorded in the three months ended June 30, 2015 resulted primarily from the projected expense as calculated under ASC 740.

*Preferred stock dividends and accretion:* Preferred stock dividends and accretion was \$1.0 million and \$1.1 million for the three months ended June 30, 2016 and 2015, respectively.

#### Six months ended June 30, 2016 compared with six months ended June 30, 2015

*Net revenue:* Net revenue increased by \$208.2 million, or 43.1%, to \$691.0 million from \$482.8 million for the six months ended June 30, 2016 and 2015, respectively. This increase was due primarily to the growth in the Telecommunications segment along with the added contribution from our acquisition of the Insurance Companies in December 2015. This was partially offset by a decrease in results from our Manufacturing segment, driven by large projects that were fully engaged in during the six months ended June 30, 2015 which were nearing completion in the current quarter and a decrease in comparable project revenues due to project delays. The increase was further offset by lower install revenues in our Marine segment.

*Income (loss) from operations:* Income (loss) from operations decreased \$17.3 million to a loss of \$14.1 million for the six months ended June 30, 2016 from a profit of \$3.1 million for the six months ended June 30, 2015. The decrease was due primarily to an increased loss in our Insurance segment of \$7.0 million, a decrease in profit in our Marine Services segment of \$12.0 million, an increase of loss in our Other segment of \$2.4 million and our non-operating Corporate segment of \$1.6 million. This was partially offset by increased contributions from our Manufacturing segment of \$5.8 million.

*Interest expense:* Interest expense increased \$2.1 million, or 11.0%, to \$20.9 million from \$18.8 million for the six months ended June 30, 2016 and 2015, respectively. The increase in interest expense was due primarily to the issuance of an additional \$50.0 million in aggregate principal amount of the Company's 11% Notes in March 2015 and \$20.3 million in notes payable assumed as part of the CWind acquisition in February 2016.

*Other income (expense), net:* Other income (expense), net increased \$3.1 million to income of \$0.5 million from an expense of \$2.6 million for the six months ended June 30, 2016 and 2015, respectively. The increase in income was due to interest income and net gains related to our long-term investments, and by the impact of non-recurring 2015 settlement cost payments to our preferred stockholders. This was partially offset by a charge of \$2.7 million related to the impairment of three of our invested assets in the first quarter of 2016.

*Income (loss) from equity investees:* Income (loss) from equity investees increased \$3.4 million to income of \$2.1 million from a loss of \$1.3 million for the six months ended June 30, 2016 and 2015, respectively. The increase in income was driven by a \$2.5 million increase in GMSL's joint venture income, with the remainder of increase due primarily to a reduction in our portion in recognized losses by Novatel Wireless, Inc.

*Income tax benefit (expense):* Income tax benefit decreased \$1.0 million to a benefit of \$2.3 million from a benefit of \$3.3 million for the six months ended June 30, 2016 and 2015, respectively. The benefit recorded in both periods relate to losses generated for which we expect to obtain benefits in the future. The tax benefit associated with losses generated by certain businesses that do not qualify to be included in the U.S. consolidated income tax return may be reduced by a valuation allowance if the facts indicate it is more-likely-than-not that the losses will not be utilized prior to expiration. During the six months ended June 30, 2016, a valuation allowance was recorded against the net deferred tax assets of the Insurance Companies. The Insurance Companies are currently ineligible to be included in the HC2 Holdings, Inc. U.S. consolidated income tax return.

*Preferred stock dividends and accretion:* Preferred stock dividends and accretion was \$2.1 million and \$2.2 million for the six months ended June 30, 2016 and 2015, respectively.

## Segment Results of Operations

### *Manufacturing*

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Net revenue	\$ 124,332	\$ 130,985	\$ (6,653)	\$ 243,413	\$ 257,851	\$ (14,438)

Cost of revenue	99,815	109,685	(9,870)	197,748	219,544	(21,796)
Selling, general and administrative expenses	11,133	9,222	1,911	22,693	19,148	3,545
Depreciation and amortization	302	498	(196)	831	977	(146)
Other operating (income) expense	(1,844)	498	(2,342)	(940)	921	(1,861)
Income from operations	<u>\$ 14,926</u>	<u>\$ 11,082</u>	<u>\$ 3,844</u>	<u>\$ 23,081</u>	<u>\$ 17,261</u>	<u>\$ 5,820</u>

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

*Net revenue:* Net revenue from our Manufacturing segment for the three months ended June 30, 2016 decreased \$6.7 million, or 5.1%, to \$124.3 million from \$131.0 million for the three months ended June 30, 2015. The decrease was largely driven by projects which were fully engaged in 2015 and nearing completion in the current quarter.

*Cost of revenue:* Cost of revenue from our Manufacturing segment for the three months ended June 30, 2016 decreased \$9.9 million, or 9.0%, to \$99.8 million from \$109.7 million for the three months ended June 30, 2015. The decrease was primarily due to the decline in revenues and a reduction of depreciation expense included in the cost of revenues.

*Selling, general and administrative expenses:* Selling, general and administrative expenses from our Manufacturing segment for the three months ended June 30, 2016 increased \$1.9 million, or 20.7%, to \$11.1 million from \$9.2 million for the three months ended June 30, 2015. The increase was due primarily to additional employee-related costs, legal fees and higher bonus expense due to the segment's improved financial performance.

*Depreciation and amortization:* Depreciation and amortization from our Manufacturing segment for the three months ended June 30, 2016 decreased \$0.2 million, or 39.4%, to \$0.3 million from \$0.5 million for the three months ended June 30, 2015.

*Other operating (income) expense:* Other operating (income) expense from our Manufacturing segment for the three months ended June 30, 2016 increased \$2.3 million, to income of \$1.8 million from expense of \$0.5 million for the three months ended June 30, 2015. The increase was related to a gain on disposal of assets held for sale.

Six months ended June 30, 2016 compared with six months ended June 30, 2015

*Net revenue:* Net revenue from our Manufacturing segment for the six months ended June 30, 2016 decreased \$14.4 million, or 5.6%, to \$243.4 million from \$257.9 million for the six months ended June 30, 2015. The decrease was driven by large projects which were fully engaged in 2015 and nearing completion in the current quarter and a decrease in comparable project revenues due to project delays.

*Cost of revenue:* Cost of revenue from our Manufacturing segment for the six months ended June 30, 2016 decreased \$21.8 million, or 9.9%, to \$197.7 million from \$219.5 million for the six months ended June 30, 2015. The decrease was driven by gross profit margins. Gross profit margins were strong in the second quarter as Schuff continues its strategy to focus on complex and sophisticated projects that makes them unique in the industry. Gross profit margins in the second quarter were driven by better-than-bid performance in both the Shop and Field Production Departments.

*Selling, general and administrative expenses:* Selling, general and administrative expenses from our Manufacturing segment for the six months ended June 30, 2016 increased \$3.5 million, or 18.5%, to \$22.7 million from \$19.1 million for the six months ended June 30, 2015. The increase was due primarily to additional employee-related costs, legal fees and higher bonus expense due to the segment's improved financial performance.

*Depreciation and amortization:* Depreciation and amortization from our Manufacturing segment for the six months ended June 30, 2016 decreased \$0.1 million, or 14.9%, to \$0.8 million from \$1.0 million for the six months ended June 30, 2015.

*Other operating (income) expense:* Other operating (income) expense from our Manufacturing segment for the six months ended June 30, 2016 increased \$1.9 million, to income of \$0.9 million from an expense of \$0.9 million for the six months ended June 30, 2015. The increase was primarily driven by a gain on disposal of assets held for sale.

**Marine Services**

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Net revenue	\$ 33,357	\$ 43,875	\$ (10,518)	\$ 65,645	\$ 70,877	\$ (5,232)
Cost of revenue	22,554	32,484	(9,930)	49,767	49,126	641
Selling, general and administrative expenses	5,165	2,674	2,491	9,656	5,466	4,190
Depreciation and amortization	5,725	4,323	1,402	10,522	8,602	1,920
Other operating (income) expense	7	—	7	(10)	—	(10)
Income (loss) from operations	\$ (94)	\$ 4,394	\$ (4,488)	\$ (4,290)	\$ 7,683	\$ (11,973)

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

*Net revenue:* Net revenue from our Marine Services segment for the three months ended June 30, 2016 decreased \$10.5 million, or 24.0%, to \$33.4 million from \$43.9 million for the three months ended June 30, 2015. The decrease is attributable to lower install revenues of \$18.0 million, partially offset by the inclusion of the results of CWind from the acquisition date, February 3, 2016, increasing net revenue by \$6.6 million.

*Cost of revenue:* Cost of revenue from our Marine Services segment for the three months ended June 30, 2016 decreased \$9.9 million, or 30.6%, to \$22.6 million from \$32.5 million for the three months ended June 30, 2015. The decrease is attributable to the decrease in net revenue and unutilized installation vessel costs.

*Selling, general and administrative expenses:* Selling, general and administrative expenses from our Marine Services segment for the three months ended June 30, 2016 increased \$2.5 million, or 93.2%, to \$5.2 million from \$2.7 million for the three months ended June 30, 2015. The increase is due primarily to the selling, general and administrative costs of CWind, which have been included in our results since the date of the acquisition.

*Depreciation and amortization:* Depreciation and amortization from our Marine Services segment for the three months ended June 30, 2016 increased \$1.4 million, or 32.4%, to \$5.7 million from \$4.3 million for the three months ended June 30, 2015. The increase was due primarily to the acquired CWind assets, which have been included in our results since the date of acquisition.

Six months ended June 30, 2016 compared with six months ended June 30, 2015

*Net revenue:* Net revenue from our Marine Services segment for the six months ended June 30, 2016 decreased \$5.2 million, or 7.4%, to \$65.6 million from \$70.9 million for the six months ended June 30, 2015. The decrease is attributable lower install revenues of \$19.2 million, partially offset by the inclusion of CWind from the acquisition date, increasing net revenue by \$10.8 million.

*Cost of revenue:* Cost of revenue from our Marine Services segment for the six months ended June 30, 2016 increased \$0.6 million, or 1.3%, to \$49.8 million from \$49.1 million for the six months ended June 30, 2015. The increase was due to an increase of \$1.4 million in unutilized vessel costs and \$5.5 million of costs recognized in the first quarter of 2016 for a loss on a telecom installation project off the northeastern coast of Russia which resulted from administrative delays by the customer and adverse weather conditions arriving earlier in the season. The increase was offset by a reduction of project costs due to lower install revenues and the results of the acquisition of CWind, which has been included in our results since the date of acquisition.

*Selling, general and administrative expenses:* Selling, general and administrative expenses from our Marine Services segment for the six months ended June 30, 2016 increased \$4.2 million, or 76.7%, to \$9.7 million from \$5.5 million for the six months ended June 30, 2015. The increase is due primarily to the selling, general and administrative costs of CWind, whose results have been included in our results since the date of acquisition.

*Depreciation and amortization:* Depreciation and amortization from our Marine Services segment for the six months ended June 30, 2016 increased \$1.9 million, or 22.3%, to \$10.5 million from \$8.6 million for the six months ended June 30, 2015. The



increase was due primarily to the acquired CWind assets, which have been included in our results since the date of acquisition.

## Insurance

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

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Life, accident and health earned premiums, net	\$ 20,036	\$ 39,971
Net investment income	13,707	27,786
Net realized gains (losses) on investments	2,418	(2,457)
Net revenue	36,161	65,300
Policy benefits, changes in reserves, and commissions	29,189	63,328
Selling, general and administrative expenses	5,820	10,847
Depreciation and amortization	(1,120)	(1,738)
Income (loss) from operations	\$ 2,272	\$ (7,137)

### Three and six months ended June 30, 2016

*Insurance premiums:* Insurance premiums consist primarily of premiums earned on long-term care insurance policies totaling \$17.7 million and \$35.4 million for the three and six months ended June 30, 2016, respectively.

*Net investment income:* Net investment income consists primarily of interest income and dividends earned from investments in fixed maturity and equity securities, respectively. Interest income, net of amortization of the discount or premium, totaled \$12.6 million and \$25.0 million for the three and six months ended June 30, 2016, respectively. Dividends totaled \$0.5 million and \$1.1 million for the three and six months ended June 30, 2016, respectively.

*Realized gains (losses) on investments:* Realized gains (losses) on investments resulted primarily from sales of low yield fixed maturity securities, fixed maturity securities with a risk of credit downgrades, and mark to market adjustments on certain interest only bonds and warrants accounted for under ASC 815. Net sales resulted in realized gains of \$1.1 million and realized losses of \$1.2 million for the three and six months ended June 30, 2016, respectively. Changes in fair value of securities resulted in net realized gains of \$1.1 million and net realized losses of \$1.5 million for the three and six months ended June 30, 2016, respectively.

*Policy benefits, changes in reserves, and commissions:* Policy benefits, changes in reserves, and commissions for the three and six months ended June 30, 2016, were \$29.2 million and \$63.3 million, respectively, which consisted of benefit expenses and reserve changes for long-term care, life and annuity policies plus renewal commissions paid to agents. The reserve was increased during the periods due primarily to the interest earned on the beginning reserve balances plus premiums received during the three and six month periods exceeding benefits paid out during the periods.

*Selling, general and administrative expenses:* Selling, general and administrative expenses for the three and six months ended June 30, 2016, were incurred primarily on (i) salaries and benefits of \$2.3 million and \$4.0 million, (ii) post-acquisition transaction services provided by the seller of the Insurance Companies of \$1.2 million and \$2.4 million, (iii) accounting, actuarial, and tax consulting services of \$0.5 million and \$1.2 million, and (iv) premium taxes of \$0.6 million and \$1.2 million, all respectively.

*Depreciation and amortization:* Depreciation and amortization for the three and six months ended June 30, 2016, was \$1.1 million and \$1.7 million, respectively, related to the amortization of VOBA, a liability established in purchase accounting.

## Telecommunications

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Net revenue	\$ 164,015	\$ 103,965	\$ 60,050	\$ 313,836	\$ 150,682	\$ 163,154
Cost of revenue	160,638	102,105	58,533	308,298	147,383	160,915
Selling, general and administrative expenses	1,861	1,644	217	3,739	3,142	597
Depreciation and amortization	140	98	42	246	196	50
Other operating (income) expense	337	—	337	337	50	287
Income (loss) from operations	\$ 1,039	\$ 118	\$ 921	\$ 1,216	\$ (89)	\$ 1,305

#### Three months ended June 30, 2016 compared with three months ended June 30, 2015

*Net revenue:* Net revenue from our Telecommunications segment for the three months ended June 30, 2016 increased \$60.1 million, or 57.8%, to \$164.0 million from \$104.0 million for the three months ended June 30, 2015. The increase is due primarily to growth in wholesale traffic volumes due to continued expansion in the scale and number of customer relationships, and seasonal growth in traffic. The changing customer base has included a shift in sales focus towards larger telecom carriers with higher volume opportunity and lower credit risk.

*Cost of revenue:* Cost of revenue from our Telecommunications segment for the three months ended June 30, 2016 increased \$58.5 million, to \$160.6 million, or 57.3%, from \$102.1 million for the three months ended June 30, 2015. The increase is directly correlated to the increase in net revenue and improvements in margin.

*Selling, general and administrative expenses:* Selling, general and administrative expenses from our Telecommunications segment for the three months ended June 30, 2016 increased \$0.2 million, or 13.2%, to \$1.9 million from \$1.6 million for the three months ended June 30, 2015. The increase was due primarily to an increase in salaries and benefits due to an increased headcount and travel and entertainment expense, which helped to contribute to the increase in revenue.

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

*Other operating (income) expense:* Other operating (income) expense from our Telecommunications segment for the three months ended June 30, 2016 and 2015 was \$0.3 million and \$0, respectively. The \$0.3 million consisted of costs associated with the early termination of a lease.

#### Six months ended June 30, 2016 compared with six months ended June 30, 2015

*Net revenue:* Net revenue from our Telecommunications segment for the six months ended June 30, 2016 increased \$163.2 million, to \$313.8 million, or 108.3%, from \$150.7 million for the six months ended June 30, 2015. The increase is due primarily to growth in wholesale traffic volumes due to continued expansion in the scale and number of customer relationships and seasonal growth in traffic. The changing customer base has included a shift in sales focus towards larger telecom carriers with higher volume opportunity and lower credit risk.

*Cost of revenue:* Cost of revenue from our Telecommunications segment for the six months ended June 30, 2016 increased \$160.9 million, or 109.2%, to \$308.3 million from \$147.4 million for the six months ended June 30, 2015. The increase is directly correlated to the growth in net revenue.

*Selling, general and administrative expenses:* Selling, general and administrative expenses from our Telecommunications segment for the six months ended June 30, 2016 increased \$0.6 million, or 19.0%, to \$3.7 million from \$3.1 million for the six months ended June 30, 2015. The increase was due primarily to an increase in salaries and benefits due to an increased headcount and travel and entertainment expense, which helped to contribute to the increase in revenue.

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

*Other operating (income) expense:* Other operating (income) expense from our Telecommunications segment for the six months ended June 30, 2016 and 2015 was \$0.3 million and \$0.1 million, respectively. The \$0.3 million consisted of costs associated with the early termination of a lease.

## Utilities

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Net revenue	\$ 1,279	\$ 1,368	\$ (89)	\$ 2,486	\$ 2,591	\$ (105)
Cost of revenue	436	820	(384)	935	1,497	(562)
Selling, general and administrative expenses	393	409	(16)	744	773	(29)
Depreciation and amortization	468	397	71	897	795	102
Loss from operations	<u>\$ (18)</u>	<u>\$ (258)</u>	<u>\$ 240</u>	<u>\$ (90)</u>	<u>\$ (474)</u>	<u>\$ 384</u>

### Three months ended June 30, 2016 compared with three months ended June 30, 2015

*Net revenue:* Net revenue from our Utilities segment for each of the three months ended June 30, 2016 and 2015 was essentially unchanged as a result of growth in the Own, Operate and Maintain ("OOM") business from increased natural gas sales, which was offset by a decrease in design and build project revenue period over period.

*Cost of revenue:* Cost of revenue from our Utilities segment for the three months ended June 30, 2016 decreased \$0.4 million, to \$0.4 million from \$0.8 million for the three months ended June 30, 2015. The decrease was due primarily to the reduction in design and build project revenue, which typically generates higher cost of revenue and lower margin than recurring revenue generated in the OOM business.

*Selling, general and administrative expenses:* Selling, general and administrative expenses from our Utilities segment for the three months ended June 30, 2016 and 2015 was essentially unchanged.

*Depreciation and amortization:* Depreciation and amortization from our Utilities segment for the three months ended June 30, 2016 and 2015 was essentially unchanged.

### Six months ended June 30, 2016 compared with six months ended June 30, 2015

*Net revenue:* Net revenue from our Utilities segment for each of the six months ended June 30, 2016 and 2015 was essentially unchanged as a result of growth in OOM business from increased natural gas sales, which was offset by a decrease in design and build project revenue period over period.

*Cost of revenue:* Cost of revenue from our Utilities segment for the six months ended June 30, 2016 decreased \$0.6 million, to \$0.9 million from \$1.5 million for the six months ended June 30, 2015. The decrease was due primarily to the reduction in design and build project revenue, which typically generates higher cost of revenue and lower margin than recurring revenue generated in the OOM business.

*Selling, general and administrative expenses:* Selling, general and administrative expenses from our Utilities segment for the six months ended June 30, 2016 and 2015 was essentially unchanged.

*Depreciation and amortization:* Depreciation and amortization from our Utilities segment for the six months ended June 30, 2016 and 2015 was essentially unchanged.

## Life Sciences

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Selling, general and administrative expenses	\$ 2,371	\$ 1,689	\$ 682	\$ 4,689	\$ 2,923	\$ 1,766
Depreciation and amortization	36	1	35	55	2	53
Loss from operations	<u>\$ (2,407)</u>	<u>\$ (1,690)</u>	<u>\$ (717)</u>	<u>\$ (4,744)</u>	<u>\$ (2,925)</u>	<u>\$ (1,819)</u>

### Three months ended June 30, 2016 compared with three months ended June 30, 2015

*Selling, general and administrative expenses:* Selling, general and administrative expenses from our Life Sciences segment for the three months ended June 30, 2016 and 2015 increased \$0.7 million to \$2.4 million from \$1.7 million. The increase was primarily driven by additional headcount, professional fees, and research and development expenses associated with our early stage companies, as well as our additional investment in BeneVir in the first quarter of 2016, which we began to consolidate on February 1, 2016.

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

### Six months ended June 30, 2016 compared with six months ended June 30, 2015

*Selling, general and administrative expenses:* Selling, general and administrative expenses from our Life Sciences segment for the six months ended June 30, 2016 and 2015 increased \$1.8 million to \$4.7 million from \$2.9 million. The increase is primarily driven by additional headcount, professional fees, and research and development expenses associated with our early stage companies, as well as our additional investment in BeneVir in the first quarter of 2016, which we began to consolidate on February 1, 2016.

*Depreciation and amortization:* Depreciation and amortization from our Life Sciences segment for the six months ended June 30, 2016 and 2015 increased primarily to the consolidation of BeneVir.

## Other

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Net revenue	\$ 148	\$ 789	\$ (641)	\$ 357	\$ 789	\$ (432)
Cost of revenue	1,239	404	835	2,286	404	1,882
Selling, general and administrative expenses	1,099	1,835	(736)	1,662	2,076	(414)
Depreciation and amortization	335	161	174	672	161	511
Loss from operations	<u>\$ (2,525)</u>	<u>\$ (1,611)</u>	<u>\$ (914)</u>	<u>\$ (4,263)</u>	<u>\$ (1,852)</u>	<u>\$ (2,411)</u>

### Three months ended June 30, 2016 compared with three months ended June 30, 2015

*Net revenue.* Net revenue from our Other segment for the three months ended June 30, 2016 and 2015 decreased \$0.6 million, to \$0.1 million from \$0.8 million. The decrease was due primarily to a decline in product sales of our NASCAR® '15 game. The

Company launched NASCAR® '15 in May of 2015, driving net Revenue growth. The next version of the NASCAR® game will be released in September 2016; sales of NASCAR® '15 have since declined as customers await the next version of the NASCAR® game.

*Cost of revenue.* Cost of revenue from our Other segment for the three months ended June 30, 2016 and 2015 increased \$0.8 million, to \$1.2 million from \$0.4 million. The increase was due primarily to development costs related to the next version of the NASCAR® game.

*Selling, general and administrative expenses.* Selling, general and administrative expenses from our Other segment for the three months ended June 30, 2016 and 2015 decreased \$0.7 million, to \$1.1 million from \$1.8 million. The decrease was due to expenses associated with the release of console and PC versions of NASCAR® '15 in May of 2015. We expect selling, general and administrative expenses from our Other segment to increase in conjunction with the release of the next version of the NASCAR® game, expected September 2016.

#### Six months ended June 30, 2016 compared with six months ended June 30, 2015

*Net revenue.* Net revenue from our Other segment for the six months ended June 30, 2016 and 2015 decreased \$0.4 million, to \$0.4 million from \$0.8 million. The decrease was due primarily to a decline in product sales of NASCAR® '15 game. The Company launched NASCAR® '15 in May of 2015, driving net Revenue growth. The next version of the NASCAR® game will be released in September 2016; sales of NASCAR® '15 have since declined as customers await the next version of the NASCAR® game.

*Cost of revenue.* Cost of revenue from our Other segment for the six months ended June 30, 2016 and 2015 increased \$1.9 million, to \$2.3 million from \$0.4 million. The increase was due primarily to development costs related to the next version of the NASCAR® game.

*Selling, general and administrative expenses.* Selling, general and administrative expenses from our Other segment for the six months ended June 30, 2016 and 2015 decreased \$0.4 million, to \$1.7 million from \$2.1 million. The decrease was due to expenses associated with the release of console and PC versions of NASCAR® '15 in May of 2015. We expect selling, general and administrative expenses from our Other segment to increase in conjunction with the release of the next version of the NASCAR® game, expected September 2016.

#### **Non-operating Corporate**

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Selling, general and administrative expenses	\$ 7,575	\$ 8,873	\$ (1,298)	\$ 17,886	\$ 16,330	\$ 1,556
Loss from operations	\$ (7,575)	\$ (8,873)	\$ 1,298	\$ (17,886)	\$ (16,330)	\$ (1,556)

#### Three months ended June 30, 2016 compared with three months ended June 30, 2015

*Selling, general and administrative expenses.* Selling, general and administrative expenses from our Non-operating Corporate segment for the three months ended June 30, 2016 and 2015 decreased \$1.3 million, or 14.6%, to \$7.6 million from \$8.9 million. The decrease is primarily attributable to decreases in both acquisition related expenses and share-based compensation, partially offset by an increase in headcount, overhead and consulting fees to support growth in the business.

#### Six months ended June 30, 2016 compared with six months ended June 30, 2015

*Selling, general and administrative expenses.* Selling, general and administrative expenses from our Non-operating Corporate segment for the six months ended June 30, 2016 and 2015 increased \$1.6 million, or 9.5%, to \$17.9 million from \$16.3 million. The increase was due primarily to an increase in headcount, overhead and consulting fees to support growth in the business, costs

incurred related to the restatement of 2014 results, and deal related expenses, partially offset by decreases in both acquisition related expenses and share-based compensation.

## Income (loss) from Equity Investments

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Increase / (Decrease)	2016	2015	Increase / (Decrease)
Marine Services	\$ 7,580	\$ 4,927	\$ 2,653	\$ 6,745	\$ 4,217	\$ 2,528
Life Sciences	(409)	(176)	(233)	(715)	(292)	(423)
Other and eliminations	(1,136)	(3,322)	2,186	(3,929)	(5,184)	1,255
Income (loss) from equity investments	\$ 6,035	\$ 1,429	\$ 4,606	\$ 2,101	\$ (1,259)	\$ 3,360

### Three months ended June 30, 2016 compared with three months ended June 30, 2015

*Marine Services.* Income from equity investments from our Marine Services segment for the three months ended June 30, 2016 and 2015 increased \$2.7 million, or 53.8%, to \$7.6 million from \$4.9 million. The increase in income was driven by growth in GMSL's joint venture income.

*Life Sciences.* Loss from equity investments from our Life Sciences segment for the three months ended June 30, 2016 and 2015 increased \$0.2 million to \$0.4 million from \$0.2 million. The increase was driven by our equity investments in Medibeacon in the second half of 2015 which is developing a noninvasive device to enable real time monitoring of kidney function.

*Other and eliminations.* Loss from equity investments from our Other segment for the three months ended June 30, 2016 and 2015 decreased \$2.2 million, or 65.8%, to \$1.1 million from \$3.3 million. The decrease in loss was driven by a reduction in recognized losses from Novatel Wireless, Inc.

### Six months ended June 30, 2016 compared with six months ended June 30, 2015

*Marine Services.* Income from equity investments from our Marine Services segment for the six months ended June 30, 2016 and 2015 increased \$2.5 million, 59.9%, to \$6.7 million from \$4.2 million. The increase in income was driven by growth in GMSL's joint venture income.

*Life Sciences.* Loss from equity investments from our Life Sciences segment for the six months ended June 30, 2016 and 2015 increased \$0.4 million, or 144.9%, to \$0.7 million from \$0.3 million. The increase was driven by our equity investments in Medibeacon in the second half of 2015.

*Other and eliminations.* Loss from equity investments from our Other segment for the six months ended June 30, 2016 and 2015 decreased \$1.3 million, or 24.2%, to \$3.9 million from \$5.2 million. The decrease in loss was driven by a reduction in recognized losses from Novatel Wireless, Inc.

## Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), management uses, and this quarterly report contains or references, certain non-U.S. GAAP financial measures, such as Adjusted EBITDA and Adjusted Operating Income - Insurance.

### **Adjusted EBITDA**

Adjusted EBITDA is not a measurement recognized under U.S. GAAP. Management believes that Adjusted EBITDA is meaningful to gaining an understanding of our results as it is frequently used by the financial community to provide insight into an organization's operating trends and facilitates comparisons between peer companies, because interest, taxes, depreciation, amortization and the other items listed in the definition of Adjusted EBITDA below can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA can also be a useful measure of a company's ability to

service debt. However, while management believes Adjusted EBITDA is useful as supplemental information, the presentation of Adjusted EBITDA is not intended to replace our U.S. GAAP financial results.

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

### Three months ended June 30, 2016 compared with the three months ended June 30, 2015

Our Adjusted EBITDA was \$15.2 million and \$19.6 million for the three months ended June 30, 2016 and 2015, respectively. The overall decrease is attributed to a reduction in our Marine Services segment of \$4.6 million driven by a decline in ongoing installation projects when compared to the same period in 2015, as well as from an increase in Non-operating corporate costs of \$1.6 million. Partially offsetting these decreases in Adjusted EBITDA was an increase from our Telecommunications segment of \$1.3 million, which can be primarily attributed to increased margin contribution as a result of the growth in revenue.

Three Months Ended June 30, 2016								
	Manufacturing	Marine Services	Telecom	Utilities	Life Sciences	Other and Eliminations	Non-operating Corporate	HC2**
Net income (loss)	\$ 9,364	\$ 6,002	\$ 1,009	\$ 68	\$ (2,004)	\$ (2,608)	\$ (7,603)	\$ 4,228
Adjustments to reconcile net income (loss) to Adjusted EBITDA:								
Depreciation and amortization	303	5,725	140	468	36	336	—	7,008
Depreciation and amortization (included in cost of revenue)*	(206)	—	—	—	—	—	—	(206)
(Gain) loss on sale or disposal of assets	(1,845)	7	—	—	—	1	—	(1,837)
Lease termination costs	—	—	338	—	—	—	—	338
Interest expense	303	1,285	—	14	—	1	8,966	10,569
Other (income) expense, net	(32)	211	29	(344)	—	(10)	465	319
Foreign currency (gain) loss (included in cost of revenue)	—	(1,540)	—	—	—	—	—	(1,540)
Income tax (benefit) expense	4,524	(212)	—	—	—	1	(9,404)	(5,091)
Noncontrolling interest	768	200	—	244	(812)	(1,044)	—	(644)
Share-based payment expense	—	152	—	90	34	40	1,359	1,675
Acquisition and nonrecurring items	—	—	18	—	—	—	313	331
Adjusted EBITDA	<u>\$ 13,179</u>	<u>\$ 11,830</u>	<u>\$ 1,534</u>	<u>\$ 540</u>	<u>\$ (2,746)</u>	<u>\$ (3,283)</u>	<u>\$ (5,904)</u>	<u>\$ 15,150</u>
Three Months Ended June 30, 2015								
	Manufacturing	Marine Services	Telecom	Utilities	Life Sciences	Other and Eliminations	Non-operating Corporate	HC2**
Net income (loss)	\$ 5,878	\$ 9,398	\$ 587	\$ (134)	\$ (1,383)	\$ (2,232)	\$ (22,885)	\$ (10,771)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:								
Depreciation and amortization	499	4,324	98	397	1	159	—	5,478
Depreciation and amortization (included in cost of revenue)	1,932	—	—	—	—	—	—	1,932
Loss on sale or disposal of assets	498	—	—	—	—	—	—	498
Interest expense	366	963	—	11	—	1	8,784	10,125
Other (income) expense, net	(6)	(1,388)	(469)	(7)	—	(1,128)	5,342	2,344
Foreign currency (gain) loss (included in cost of revenue)	—	2,758	—	—	—	—	—	2,758
Income tax (benefit) expense	4,335	38	—	—	(9)	(1,571)	(115)	2,678
Loss from discontinued operations	11	—	—	—	—	—	—	11
Noncontrolling interest	499	310	—	(129)	(475)	(1)	—	204
Share-based payment expense	—	—	—	2	—	(2)	2,364	2,364
Acquisition and nonrecurring items	—	—	—	—	—	—	1,969	1,969
Adjusted EBITDA	<u>\$ 14,012</u>	<u>\$ 16,403</u>	<u>\$ 216</u>	<u>\$ 140</u>	<u>\$ (1,866)</u>	<u>\$ (4,774)</u>	<u>\$ (4,541)</u>	<u>\$ 19,590</u>

(\*) Includes depreciation adjustments from purchase accounting as more fully described in Note 2. Adjustments of the Consolidated Financial Statements.

(\*\*) Excludes net loss from Insurance segment in the amount of \$2.3 million million and \$0.1 million for the three months ended June 30, 2016 and 2015, respectively.

**Manufacturing.** Adjusted EBITDA from our Manufacturing segment for the three months ended June 30, 2016 decreased \$0.8 million, or 5.9%, to \$13.2 million from \$14.0 million for the three months ended June 30, 2015. The decrease was due primarily to a reduction in depreciation expense as detailed in Note 2 and increases in profitability on more complex projects as compared to the prior year.

**Marine Services.** Adjusted EBITDA from our Marine Services segment for the three months ended June 30, 2016 decreased \$4.6 million, or 27.9%, to \$11.8 million from \$16.4 million for the three months ended June 30, 2015. The decrease was due primarily to a decline in ongoing installation projects when compared to the same period in 2015.

**Telecommunications.** Adjusted EBITDA from our Telecommunications segment for the three months ended June 30, 2016 increased \$1.3 million to \$1.5 million from \$0.2 million for the three months ended June 30, 2015. The increase was due primarily to increased profit contribution from growth in wholesale traffic volumes resulting from continued expansion in the scale and number of customer relationships.

**Utilities.** Adjusted EBITDA from our Utilities segment for the three months ended June 30, 2016 increased \$0.4 million to \$0.5 million from \$0.1 million for the three months ended June 30, 2015 due to increased revenue in their own, operate and maintain business.

**Life Sciences.** Adjusted EBITDA from our Life Sciences segment for the three months ended June 30, 2016 decreased \$0.9 million, or 47.2%, to negative \$2.7 million from \$(1.9) million for the three months ended June 30, 2015 due to increased costs within early stage subsidiaries.

**Other.** Adjusted EBITDA from the Other segment for the three months ended June 30, 2016 increased \$1.5 million to \$3.3 million from \$4.8 million for the three months ended June 30, 2015. The increase in adjusted EBITDA was due primarily to the decrease in our share of losses on equity method investments driven by Novatel Wireless, Inc.

**Non-operating Corporate.** Adjusted EBITDA from our Non-operating Corporate segment for the three months ended June 30, 2016 decreased \$1.4 million, or 30.0%, to negative \$5.9 million from \$(4.5) million for the three months ended June 30, 2015. The increase in the loss was due primarily to an increase in headcount and overhead to support the growth in the business in 2016.

#### Six months ended June 30, 2016 compared with the six months ended June 30, 2015

Our Adjusted EBITDA was \$15.5 million and \$25.5 million for the six months ended June 30, 2016 and 2015, respectively. The overall decrease can be primarily attributed to a reduction in our Marine Services segment of \$9.1 million driven by a decline in ongoing installation projects when compared to the same period in 2015 and from \$5.5 million of costs recognized in the first quarter of 2016 for an expected loss on a project that has been subject to administrative delays and adverse weather conditions. Also contributing to the decrease were an increase in non-operating corporate costs of \$2.3 million and losses from early stage investments in our Life Sciences segment of \$2.1 million. Partially offsetting these decreases were increases from our Manufacturing segment of \$1.7 million, due primarily to cost savings realized on certain large projects, and from our Telecommunications segment of \$1.7 million, which can be primarily attributed to increased profit contribution as a result of the growth in revenue.

	Six Months Ended June 30, 2016							
	Manufacturing	Marine Services	Telecom	Utilities	Life Sciences	Other and Eliminations	Non-operating Corporate	HC2**
Net income (loss)	\$ 13,748	\$ 84	\$ 2,211	\$ 41	\$ (706)	\$ (13,104)	\$ (21,012)	\$ (18,738)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:								
Depreciation and amortization	832	10,522	246	897	55	672	—	13,224
Depreciation and amortization (included in cost of revenue) *	1,727	—	—	—	—	—	—	1,727
(Gain) loss on sale or disposal of assets	(941)	(10)	—	—	—	1	—	(950)
Lease termination costs	—	—	338	—	—	—	—	338
Interest expense	613	2,355	—	23	—	1	17,903	20,895
Other (income) expense, net	(76)	823	(996)	(375)	(3,221)	5,996	(1,146)	1,005



Foreign currency (gain) loss (included in cost of revenue)	—	(1,687)	—	—	—	—	—	(1,687)
Income tax (benefit) expense	7,969	(852)	—	—	—	—	(13,630)	(6,513)
Noncontrolling interest	829	45	—	222	(1,532)	(1,088)	—	(1,524)
Share-based payment expense	—	761	—	104	56	200	3,745	4,866
Acquisition and nonrecurring items	—	266	18	27	—	—	2,514	2,825
Adjusted EBITDA	<u>\$ 24,701</u>	<u>\$ 12,307</u>	<u>\$ 1,817</u>	<u>\$ 939</u>	<u>\$ (5,348)</u>	<u>\$ (7,322)</u>	<u>\$ (11,626)</u>	<u>\$ 15,468</u>

(\*) Includes depreciation adjustments from purchase accounting as more fully described in Note 2. Adjustments of the Consolidated Financial Statements.

(\*\*) Excludes net loss from Insurance segment in the amount of \$9.8 million and \$0.1 million for the six months ended June 30, 2016 and 2015, respectively.

	Six Months Ended June 30, 2015							
	Manufacturing	Marine Services	Telecom	Utilities	Life Sciences	Other and Eliminations	Non-operating Corporate	HC2**
Net income (loss)	\$ 9,066	\$ 10,607	\$ 63	\$ (247)	\$ (2,455)	\$ 4,243	\$ (37,285)	\$ (16,008)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:								
Depreciation and amortization	977	8,602	196	795	2	161	—	10,733
Depreciation and amortization (included in cost of revenue)	3,807	—	—	—	—	—	—	3,807
(Gain) loss on sale or disposal of assets	921	—	50	—	—	—	—	971
Interest expense	710	1,959	—	22	—	1	16,133	18,825
Other (income) expense, net	(23)	(942)	(152)	(13)	—	(1,290)	4,991	2,571
Foreign currency (gain) loss (included in cost of revenue)	—	935	—	—	—	—	—	935
Income tax (benefit) expense	6,904	(82)	—	—	—	(9,989)	(169)	(3,336)
Loss from discontinued operations	20	—	—	—	—	—	—	20
Noncontrolling interest	584	359	—	(237)	(763)	—	—	(57)
Share-based payment expense	—	—	—	3	—	(1)	5,056	5,058
Acquisition and nonrecurring items	—	—	—	—	—	—	1,969	1,969
Adjusted EBITDA	<u>\$ 22,966</u>	<u>\$ 21,438</u>	<u>\$ 157</u>	<u>\$ 323</u>	<u>\$ (3,216)</u>	<u>\$ (6,875)</u>	<u>\$ (9,305)</u>	<u>\$ 25,488</u>

**Manufacturing.** Adjusted EBITDA from our Manufacturing segment for the six months ended June 30, 2016 increased \$1.7 million, or 7.6%, to \$24.7 million from \$23.0 million for the six months ended June 30, 2015. The increase was due primarily to revenue declines offset by a reduction of depreciation included in the cost of revenue of \$1.8 million and increased profitability on more complex projects compared to the prior year.

**Marine Services.** Adjusted EBITDA from our Marine Services segment for the six months ended June 30, 2016 decreased \$9.1 million, or 42.6%, to \$12.3 million from \$21.4 million for the six months ended June 30, 2015. The decrease was due primarily to \$5.5 million of costs recognized in the first quarter for a loss on an installation project off the northeastern coast of Russia, which resulted from administrative delays by the customer and adverse weather conditions arriving earlier in the season. This was further decreased by lower install revenues.

**Telecommunications.** Adjusted EBITDA from our Telecommunications segment for the six months ended June 30, 2016 increased \$1.7 million to \$1.8 million from \$0.2 million for the six months ended June 30, 2015. The increase was due primarily to increased profit contribution from growth in wholesale traffic volumes resulting from continued expansion in the scale and number of customer relationships.

**Utilities.** Adjusted EBITDA from our Utilities segment for the six months ended June 30, 2016 increased \$0.6 million, or 190.7%, to \$0.9 million from \$0.3 million for the six months ended June 30, 2015 due to increased revenue in their own, operate and maintain business.

**Life Sciences.** Adjusted EBITDA from our Life Sciences segment for the six months ended June 30, 2016 decreased \$2.1

million, or 66.2%, to negative \$5.3 million from \$(3.2) million for six months ended June 30, 2015 the due to increased costs at early stage subsidiaries.

*Other.* Adjusted EBITDA from the Other segment for the six months ended June 30, 2016 decreased \$0.4 million to negative \$7.3 million from \$6.9 million for the six months ended June 30, 2015. The decrease was due primarily to DMi development costs related to the next version of the NASCAR® game.

*Non-operating Corporate.* Adjusted EBITDA from our Non-operating Corporate segment for the six months ended June 30, 2016 decreased \$2.3 million, or 24.9%, to negative \$11.6 million from \$(9.3) million for the six months ended June 30, 2015. The increase in the loss was due primarily to an increase in headcount and overhead to support the growth in the business in 2016.

### ***Adjusted Operating Income - Insurance***

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

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

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

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Net loss - Insurance Segment	\$ (2,293)	\$ (9,789)
Effect of investment (gains) losses	(2,418)	2,457
Insurance AOI	<u>\$ (4,711)</u>	<u>\$ (7,332)</u>

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

### **Constant Currency**

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

### **Liquidity and Capital Resources**

#### ***Consolidated***

#### ***Short and Long-Term Liquidity Considerations and Risks***

We are a holding company and our liquidity needs are primarily for interest payments on our 11.0% Notes and dividend payments on our Series A Convertible Participating Preferred Stock (the “Series A Preferred Stock”), Series A-1 Convertible Participating Preferred Stock (the “Series A-1 Preferred Stock”) and Series A-2 Convertible Participating Preferred Stock (the “Series A-2 Preferred Stock” and, together with the Series A Preferred Stock and Series A-1 Preferred Stock, the “Preferred Stock”). We also have liquidity needs related to professional fees (including advisory services, legal and accounting fees), salaries and benefits, office rent, insurance costs and certain support services.

As of June 30, 2016, we had \$134.5 million of cash and cash equivalents on a consolidated basis compared to \$158.6 million as of December 31, 2015. As of June 30, 2016, HC2 had cash and cash equivalents of \$40.3 million compared to \$41.1 million at December 31, 2015. At June 30, 2016, cash and cash equivalents in our Insurance Segment was \$28.9 million.

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

As of June 30, 2016, we had \$394.5 million of indebtedness compared to \$371.9 million as of December 31, 2015, and as of June 30, 2016, we had \$51.9 million in liquidation value of outstanding Preferred Stock compared to \$52.6 million as of December 31, 2015. We are required to make semi-annual interest payments on our outstanding 11.0% Notes on June 1<sup>st</sup> and December 1<sup>st</sup> of each year. We are required to make dividend payments on our outstanding Preferred Stock on January 15<sup>th</sup>, April 15<sup>th</sup>, July 15<sup>th</sup>, and October 15<sup>th</sup> of each year.

In 2016, HC2 received \$20.4 million from Schuff under a tax sharing agreement where Schuff reimburses the Company for its use of HC2's Net Operating Losses.

We have financed our growth and operations to date, and expect to finance our future growth and operations, through public offerings and private placements of debt and equity securities, credit facilities, vendor financing, capital lease financing and other financing arrangements, as well as cash generated from the operations of our subsidiaries.

We believe that we will be able to continue to meet our liquidity requirements and fund our fixed obligations (such as debt services and operating leases) and other cash needs for our operations for at least the next twelve months through a combination of distributions from our subsidiaries and from raising of additional equity or debt capital, refinancing of certain of our indebtedness or Preferred Stock, other financing arrangements and/or the sale of assets. The ability of HC2's subsidiaries to make distributions to HC2 is subject to numerous factors, including restrictions contained in each subsidiary's financing agreements, availability of sufficient funds at each subsidiary and the approval of such payment by each subsidiary's board of directors, which must consider various factors, including general economic and business conditions, tax considerations, strategic plans, financial results and condition, expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends, and such other factors each subsidiary's board of directors considers relevant. Although the Company believes that it will be able to raise additional equity capital, refinance indebtedness or Preferred Stock, enter into other financing arrangement or engage in asset sales sufficient to fund any cash needs that we are not able to satisfy with the funds expected to be provided by our subsidiaries, there can be no assurance that it will be able to do so on terms satisfactory to the Company if at all.

#### *Insurance Companies Capital Contributions*

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

In connection with the consummation of the acquisition, the Company agreed with the Ohio Department of Insurance ("ODOI") that, for five years following the closing of the transaction, 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). As of year-end, after taking into account the transactions described above, CGI's total adjusted capital was approximately 455% of CGI's authorized control level risk-based capital and UTA's total adjusted capital was approximately 514% of UTA's authorized control level risk-based capital.

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

#### *Indebtedness*

See note 12. Long-Term Obligations, to the unaudited consolidated financial statements included elsewhere in the Quarterly Report on Form 10-Q for a description of our long-term debt.

#### *Restrictive Covenants*

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

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

The liquidity covenant provides that the Company will not permit the aggregate amount of all unrestricted cash and cash equivalents of the Company and the Guarantors to be less than the Company's obligations to pay interest on the 11.0% Notes and all other debt of the Company and the Guarantors, plus mandatory cash dividends on the Company's Preferred Stock, for the next (i) 6 months if our collateral coverage ratio is greater than 2.0x or (ii) 12 months if our collateral coverage ratio is less than 2.0x. As of June 30, 2016, our collateral coverage ratio was greater than 2.0x and therefore the liquidity covenant requires the Company to maintain 6 months of debt service and preferred dividend obligations, resulting in approximately \$19 million of incremental unrestricted cash and cash equivalents. If the collateral coverage ratio subsequently becomes lower than 2:1 in the future, the maintenance of liquidity requirement under the 11% Notes will be increased back to 12 months of debt service and preferred dividend obligations. As of June 30, 2016, the Company was in compliance with this covenant.

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

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

#### *Summary of Consolidated Cash Flows*

Presented below is a table that summarizes the cash provided or used in our activities and the amount of the respective increases or decreases in cash provided or used from those activities between the fiscal periods (in thousands):

<u>Cash provided by (used in):</u>	Six Months Ended June 30,		
	2016	2015	Increase / (Decrease)
Operating activities	\$ 46,219	\$ (47,891)	\$ 94,110
Investing activities	(65,765)	(48,975)	(16,790)
Financing activities	(4,236)	59,258	(63,494)
Effect of exchange rate changes on cash and cash equivalents	(332)	(1,429)	1,097
Net (decrease) increase in cash and cash equivalents	<u>\$ (24,114)</u>	<u>\$ (39,037)</u>	<u>\$ 14,923</u>

### Operating Activities

Net change in cash from operating activities totaled \$46.2 million for the six months ended June 30, 2016 as compared to \$(47.9) million for the six months ended June 30, 2015. The \$94.1 million increase in cash provided by operating activities was the result of a \$102.0 million increase in working capital and the receipt of \$7.2 million in dividends from equity investees, partially offset by a \$15.1 million decrease in net income, net of non-cash operating activity, primarily from the Insurance and Marine Services segments.

### Investing Activities

Net change in cash from investing activities for the six months ended June 30, 2016 was \$(65.8) million primarily driven by \$128.4 million for the purchase of investments, \$10.9 million of capital expenditures and \$7.8 million paid for the acquisition of CWind, partially offset by (iv) \$75.7 million from the sale of investments, (v) \$8.0 million in contributions by noncontrolling interest and (vi) \$6.4 million in proceeds from the sale of property, plant and equipment.

Net change in cash from investing activities for the six months ended June 30, 2015 was \$(49.0) million primarily driven by \$38.8 million for the purchase of investments and \$12.9 million of capital expenditures.

### Financing Activities

Net change in cash from financing activities for the six months ended June 30, 2016 was \$(4.2) million primarily driven by (i) \$10.8 million in annuity surrenders and (ii) \$7.4 million used to make principal payments on our credit facilities, partially offset by \$5.9 million of proceeds from credit facilities.

Net change in cash from financing activities for the six months ended June 30, 2015 was \$59.3 million primarily driven by (i) \$50.3 million of proceeds from the 11% Senior Secured Notes and (ii) \$14.0 million of proceeds from the issuance of Series A-2 preferred stock, partially offset by (iii) \$4.1 million used to make principal payments on our credit facilities.

### **Manufacturing**

#### Cash Flows

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

Schuff is required to make monthly interest payments on all of its debt. Based upon the June 30, 2016 debt balance of \$14.6 million, Schuff anticipates that its monthly interest payments will be approximately \$0.1 million.

Schuff estimates that its capital expenditures for 2016 will be approximately \$6.5 million. It believes that its available funds, cash generated by operating activities and funds available under its bank credit facilities will be sufficient to fund these capital

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

## ***Marine Services***

### **Market Environment**

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

### **Cash Flows**

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

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

## ***Insurance***

### **Market environment**

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

### **Dividend Limitations**

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

The ability of CIG's subsidiaries to pay dividends and to make such other payments is limited by applicable laws and regulations of the states in which its subsidiaries are domiciled, which subject its subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, CIG's insurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay. Along with solvency regulations, the primary driver in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength in the form of its subsidiaries Risk-Based Capital ("RBC") ratio. CIG monitors its insurance subsidiaries' compliance with the RBC requirements specified by the National Association of Insurance Commissioners. As of June 30, 2016, each of CIG's insurance subsidiaries exceeds the minimum RBC requirements. CIG's insurance subsidiaries paid no dividends to CIG in fiscal 2016 and have further each agreed with each of their respective state regulators to not pay dividends for three years following the completion of the acquisition on December 24, 2015.

## Cash flows

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

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

## Asset Liability Management

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

## Investments

At June 30, 2016 and December 31, 2015, the carrying value of CIG's investment portfolio was approximately \$1.4 billion and \$1.3 billion, respectively, and was divided among the following asset classes (in thousands):

	June 30, 2016		December 31, 2015	
	Fair Value	Percent	Fair Value	Percent
U.S. Government and government agencies	\$ 17,164	1.2%	\$ 17,083	1.3%
States, municipalities and political subdivisions	410,888	28.7%	386,260	29.4%
Foreign government	6,235	0.4%	6,429	0.5%
Residential mortgage-backed securities	149,661	10.5%	166,315	12.7%
Commercial mortgage-backed securities	68,099	4.8%	75,035	5.7%
Asset-backed securities	59,360	4.2%	34,451	2.6%
Corporate and other	611,471	42.8%	545,825	41.5%
Common stocks (*)	51,903	3.6%	32,081	2.4%
Perpetual preferred stocks	30,775	2.2%	31,057	2.4%
Mortgage loans	4,165	0.3%	1,252	0.1%
Policy loans	18,311	1.3%	18,476	1.4%
Other invested assets	183	—%	183	—%
Total	\$ 1,428,215	100.0%	\$ 1,314,447	100.0%

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

## Credit Quality

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

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

	June 30, 2016		December 31, 2015	
	Fair Value	Percent	Fair Value	Percent
AAA, AA, A	\$ 832,513	63.0%	\$ 790,215	64.2%
BBB	338,670	25.6%	286,861	23.3%
Total investment grade	1,171,183	88.6%	1,077,076	87.5%
BB	36,912	2.8%	36,190	2.9%
B	17,442	1.3%	18,659	1.5%
CCC, CC, C	32,052	2.4%	34,785	2.8%
D	26,496	2.0%	25,261	2.1%
NR	38,793	2.9%	39,427	3.2%
Total non-investment grade	151,695	11.4%	154,322	12.5%
Total	\$ 1,322,878	100.0%	\$ 1,231,398	100.0%

#### Other Invested Assets

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

	June 30, 2016				December 31, 2015			
	Cost Method	Equity Method	Fair Value	Total	Cost Method	Equity Method	Fair Value	Total
<b>Common Equity</b>								
DeepOcean Group	\$ 138	\$ —	\$ —	\$ 138	\$ 249	\$ —	\$ —	\$ 249
Novatel Wireless, Inc.	—	3,406	—	3,406	—	6,475	—	6,475
	138	3,406	—	3,544	249	6,475	—	6,724
<b>Preferred Equity</b>								
mParticle	655	—	—	655	655	—	—	655
BeneVir Biopharm, Inc.	—	—	—	—	—	1,179	—	1,179
MediBeacon, Inc.	—	11,336	—	11,336	—	2,709	—	2,709
NerVve Technologies, Inc.	—	2,146	—	2,146	—	3,634	—	3,634
Triple Ring Technologies, Inc.	1,000	—	—	1,000	1,000	—	—	1,000
	1,655	13,482	—	15,137	1,655	7,522	—	9,177
<b>Warrants and Call Options</b>								
DeepOcean Group	—	—	—	—	783	—	—	783
Novatel Wireless, Inc.	3,097	—	—	3,097	3,097	—	—	3,097
The Andersons, Inc.	—	—	185	185	—	—	632	632
DTV America	—	—	664	664	—	—	723	723
NerVve Technologies, Inc.	—	—	52	52	—	—	52	52
Gaming Nation, Inc.	—	—	4,602	4,602	—	—	3,436	3,436
	3,097	—	5,503	8,600	3,880	—	4,843	8,723
<b>Other Equity</b>								
Kaneland, LLC	—	872	—	872	—	988	—	988
Other	—	183	—	183	—	183	—	183
	—	1,055	—	1,055	—	1,171	—	1,171
<b>GMSL Joint Ventures</b>								
Huawei Marine Networks Co., Ltd	—	19,990	—	19,990	—	16,073	—	16,073
International Cablesip Pte., Ltd.	—	1,213	—	1,213	—	498	—	498
S. B. Submarine Systems Co., Ltd.	—	11,265	—	11,265	—	9,513	—	9,513



Visser Smit Global Marine Pte	—	426	—	426	—	418	—	418
Sembawang Cable Depot Pte., Ltd.	—	1,074	—	1,074	—	822	—	822
	—	33,968	—	33,968	—	27,324	—	27,324
Total Other invested assets	\$ 4,890	\$ 51,911	\$ 5,503	\$ 62,304	\$ 5,784	\$ 42,492	\$ 4,843	\$ 53,119

## Foreign Currency

Foreign currency translation can impact our financial results. During the three months ended June 30, 2016 and 2015, approximately 24.8% and 38.1% respectively, of our net revenue from continuing operations was derived from sales and operations outside the U.S. During the six months ended June 30, 2016 and 2015, approximately 28.2% and 33.5%, respectively, of our net revenue from continuing operations was derived from sales and operations outside the U.S. The reporting currency for our consolidated financial statements is the United States dollar (“USD”). The local currency of each country is the functional currency for each of our respective entities operating in that country.

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

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

## Off-Balance Sheet Arrangements

### Schuff

Schuff’s off-balance sheet arrangements at June 30, 2016 included letters of credit of \$3.9 million under a credit and security agreement with Wells Fargo Credit, Inc. and performance bonds of \$49.4 million.

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

## New Accounting Pronouncements

For a discussion of our “New Accounting Pronouncements,” refer to Note 2. Summary of Significant Accounting Policies to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

## Critical Accounting Policies

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

## Related Party Transactions

For a discussion of our "Related Party Transactions", refer to Note 18. Related Parties to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

## Corporate Information

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

## Special Note Regarding Forward-Looking Statements

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

## HC2

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

- our ability to remediate future material weaknesses in our internal control over financial reporting;
- the possibility of indemnification claims arising out of divestitures of businesses;
- uncertain global economic conditions in the markets in which our operating segments conduct their businesses;
- the ability of our operating segments to attract and retain customers;
- increased competition in the markets in which our operating segments conduct their businesses;
- our possible inability to generate sufficient liquidity, margins, earnings per share, cash flow and working capital from our operating segments;
- our expectations regarding the timing, extent and effectiveness of our cost reduction initiatives and management's ability to moderate or control discretionary spending;
- management's plans, goals, forecasts, expectations, guidance, objectives, strategies and timing for future operations, acquisitions, synergies, asset dispositions, fixed asset and goodwill impairment charges, tax and withholding expense, selling, general and administrative expenses, product plans, performance and results;
- management's assessment of market factors and competitive developments, including pricing actions and regulatory rulings;
- limitations on our ability to successfully identify any strategic acquisitions or business opportunities and to compete for these opportunities with others who have greater resources;
- the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;
- the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- our dependence on distributions from our subsidiaries to fund our operations and payments on our obligations;

- the impact of covenants in the Certificates of Designation governing HC2's Preferred Stock, the 11.0% Notes Indenture, the credit agreements governing the Schuff Facility and the GMSL Facility and future financing or refinancing agreements, on our ability to operate our business and finance our pursuit of acquisition opportunities;
- the impact on the holders of HC2's common stock if we issue additional shares of HC2 common stock or preferred stock;
- the impact of decisions by HC2's significant stockholders, whose interest may differ from those of HC2's other stockholders, or their ceasing to remain significant stockholders;
- the effect any interests our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;
- our dependence on certain key personnel;
- our ability to effectively increase the size of our organization, if needed, and manage our growth;
- the impact of a determination that we are an investment company or personal holding company;
- the impact of delays or difficulty in satisfying the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 or negative reports concerning our internal controls;
- the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we may incur;
- our possible inability to raise additional capital when needed or refinance our existing debt, on attractive terms, or at all; and
- our possible inability to hire and retain qualified executive management, sales, technical and other personnel.

### ***Marine Services / GMSL***

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

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

### ***Manufacturing / Schuff***

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

- its ability to realize cost savings from expected performance of contracts, whether as a result of improper estimates, performance, or otherwise;
- uncertain timing and funding of new contract awards, as well as project cancellations;
- cost overruns on fixed-price or similar contracts or failure to receive timely or proper payments on cost-reimbursable contracts, whether as a result of improper estimates, performance, disputes, or otherwise;
- risks associated with labor productivity, including performance of subcontractors that Schuff hires to complete projects;
- its ability to settle or negotiate unapproved change orders and claims;
- changes in the costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;
- adverse impacts from weather affecting Schuff's performance and timeliness of completion of projects, which could lead to increased costs and affect the quality, costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;
- fluctuating revenue resulting from a number of factors, including the cyclical nature of the individual markets in which our customers operate;

- adverse outcomes of pending claims or litigation or the possibility of new claims or litigation, and the potential effect of such claims or litigation on Schuff's business, financial condition, results of operations or cash flow; and
- lack of necessary liquidity to provide bid, performance, advance payment and retention bonds, guarantees, or letters of credit securing Schuff's obligations under bids and contracts or to finance expenditures prior to the receipt of payment for the performance of contracts.

### ***Telecommunications / ICS***

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

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

### ***Insurance / Continental Insurance Group Ltd.***

If the acquisition of the Insurance Companies by CIG is consummated, factors or risks that could cause CIG's actual results to differ materially from the results we anticipate include, but are not limited to:

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

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

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

#### **Market Risk Factors**

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

#### **Equity Price Risk**

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

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

A means of assessing exposure to changes in market prices is to estimate the potential changes in market values on the fixed maturity and equity securities resulting from a hypothetical decline in equity market prices. As of June 30, 2016, assuming all other factors are constant, we estimate that a 10.0%, 20.0%, and 30.0% decline in equity market prices would have an \$137.7 million, \$275.3 million, and \$413.0 million adverse impact on HC2's portfolio of fixed maturity and equity securities, respectively.

#### **Foreign Currency Exchange Rate Risk**

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

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

#### **Interest Rate Risk**

GMSL, Schuff and ANG are exposed to the market risk from changes in interest rate risk through their notes payables, which bear variable rates based on LIBOR. Changes in LIBOR could result in an increase or decrease in interest expense recorded. A

100, 200, and 300 basis point increase in LIBOR based on the notes payable outstanding as of June 30, 2016 of 39.5 million, would result in an increase in the recorded interest expense of \$0.4 million, \$0.8 million, and \$1.2 million per year.

### **Commodity Price Risk**

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

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures.**

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

#### **Changes in Internal Control.**

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

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

### **Item 1A. Risk Factors**

#### **Telecommunications**

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

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

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

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

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

None.

### **Item 3. Defaults upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None

**Item 6. Exhibits**

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



## SIGNATURES

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

HC2 Holdings, Inc.

Date: August 9, 2016

By:

/s/ MICHAEL SENA

**Michael Sena**

**Chief Financial Officer**

**(Principal Financial and Accounting  
Officer)**

## EXHIBIT INDEX

Exhibit Number	Description
10.1	Amended and Restated Certificate of Designation of Series A-1 Convertible Participating Preferred Stock of HC2 Holdings, Inc.
10.2	Voluntary Conversion Agreement dated August 2, 2016, by and among HC2 and Luxor Capital Group, LP, as investment manager of the exchanging entities, holders of the Company's Series A-1 Convertible Participating Preferred Stock, par value \$0.01 per share (filed herewith).
10.3	Voluntary Conversion Agreement dated August 2, 2016, by and between HC2 and Corrib Master Fund, Ltd., a holder of the Company's Series A Participating Preferred Stock, par value (\$0.01 per share) (filed herewith).
10.4	Form of Employee Nonqualified Option Award Agreement (filed herewith).
31.1	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer (filed herewith).
31.2	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer (filed herewith).
32*	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2016, formatted in extensible business reporting language (XBRL); (i) Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2016 and 2015, (ii) Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2016 and 2015, (iii) Unaudited Condensed Consolidated Balance Sheets at June 30, 2016 and December 31, 2015, (iv) Unaudited Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended June 30, 2016 and 2015, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30, 2016 and 2015, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements (filed herewith).

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

**AMENDED AND RESTATED CERTIFICATE OF DESIGNATION  
OF  
SERIES A-1 CONVERTIBLE PARTICIPATING PREFERRED STOCK  
OF  
HC2 HOLDINGS, INC.**

The undersigned, Keith M. Hladek, the Chief Operating Officer of HC2 Holdings, Inc. (including any successor in interest, the “Company”), a corporation organized and existing under the General Corporation Law of the State of Delaware (the “DGCL”), does hereby certify, in accordance with Sections 103, 141 and 242 of the DGCL as follows:

A. The Company’s Second Amended and Restated Certificate of Incorporation (the “Certificate of Incorporation”), authorizes 20,000,000 shares of preferred stock, par value \$0.001 per share (the “Preferred Stock”), issuable from time to time in one or more series.

B. The Certificate of Incorporation authorizes the Board of Directors (the “Board”) to provide by resolution for the issuance of the shares of Preferred Stock in one or more series, the number of shares in each series, the voting powers, if any, and such designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations and restrictions thereof.

C. The Board, pursuant to its authority as aforesaid, designated a series of Preferred Stock, par value \$0.001 per share, as the Series A-1 Convertible Participating Preferred Stock, by resolution dated September 22, 2014.

D. The Company, in accordance with Sections 103 and 151 of the DGCL, filed a certificate of designation on September 22, 2014 with the Secretary of State of the State of Delaware to set the number of shares constituting the Series A-1 Convertible Participating Preferred Stock, and the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations and restrictions thereof (in effect as of the date hereof, the “Certificate of Designation”).

E. 10,000 shares of the Company’s Series A-1 Convertible Participating Preferred Stock are issued and outstanding as of the date hereof.

F. This Amended and Restated Certificate of Designation of Series A-1 Convertible Participating Preferred Stock has been duly adopted and approved by the Board in accordance with the provisions of Sections 141 and 242 of the DGCL.

G. This Amended and Restated Certificate of Designation of Series A-1 Convertible Participating Preferred Stock has been duly adopted and approved by the Requisite Holders (under and as defined in the Certificate of Designation) and the Series A-1 Requisite Holders (under and as defined in the Certificate of Designation).

H. This Amended and Restated Certificate of Designation of Series A-1 Convertible Participating Preferred Stock has been duly adopted and approved by the stockholders of the Company in accordance with the provisions of Sections 228 and 242 of the DGCL.

I. The text of the Certificate of Designation is hereby amended and restated to read as set forth herein in full:

SECTION 1. Number; Designation; Rank.

(a) This series of convertible participating preferred stock is designated as the “Series A-1 Convertible Participating Preferred Stock” (the “Series A-1 Preferred Stock”). The number of shares constituting the Series A-1 Preferred Stock is 11,000 shares, par value \$0.001 per share.

(b) The Series A-1 Preferred Stock ranks, with respect to the payment of dividends, redemption payments, rights (including as to the distribution of assets) upon liquidation, dissolution or winding-up of the Company or otherwise:

(i) senior in preference and priority to the Common Stock and each other class or series of Capital Stock of the Company, except for (x) any class or series of Capital Stock hereafter issued in compliance with the terms hereof and the terms of which expressly provide that it will rank senior to or on parity, without preference or priority, with the Series A-1 Preferred Stock with respect to the payment of dividends, redemption payments, rights (including as to the distribution of assets) upon liquidation, dissolution or winding-up of the Company, or otherwise (collectively with the Common Stock, the “Junior Securities”), (y) the shares of Series A Preferred Stock and (z) the shares of Series A-2 Preferred Stock;

(ii) on parity, without preference and priority, with the Series A Preferred Stock, the Series A-2 Preferred Stock and each other class or series of Capital Stock of the Company hereafter issued in compliance with the terms hereof and the terms of which expressly provide that it will rank on parity, without preference or priority, with the Series A-1 Preferred Stock with respect to the payment of dividends, redemption payments, rights (including as to the distribution of assets) upon liquidation, dissolution or winding-up of the Company, or otherwise (collectively, the “Parity Securities”); and

(iii) junior in preference and priority to each other class or series of Preferred Stock or any other Capital Stock of the Company hereafter issued in compliance with the terms hereof and the terms of which expressly provide that it will rank senior in preference or priority to the Series A-1 Preferred Stock with respect to the payment of dividends, redemption payments, rights (including as to the distribution of assets) upon liquidation, dissolution or winding-up of the Company or otherwise (collectively, “Senior Securities”).

## SECTION 2. Dividends.

(a) Cash Dividends. Holders shall be entitled to receive, out of funds legally available for the payment of dividends to the Company’s stockholders under Delaware law, on each Preferred Share, cumulative cash dividends which accrue daily at a per annum rate of 7.50% on the Accrued Value of such Preferred Share (“Cash Dividends”). Such Cash Dividends shall begin to accrue and be cumulative from the Issue Date. Cash Dividends shall be payable quarterly with respect to each Dividend Period in arrears on the first Dividend Payment Date after such Dividend Period. If and to the extent that the Company does not for any reason (including because there are insufficient funds legally available for the payment of dividends) pay the entire Cash Dividend payable for a particular Dividend Period in cash on the applicable Dividend Payment Date for such period (whether or not there are funds of the Company legally available for the payment of dividends to the Company’s stockholders under Delaware law or such dividends are declared by the Board), during the period in which such Cash Dividend remains unpaid, an additional accreting dividend (the “Cash Accretion Dividends”) shall accrue and be payable at an annual rate equal to the Dividend Rate on the amount of the unpaid Cash Dividend through the daily addition of such Cash Accretion Dividends to the Accrued Value (whether or not such Cash Accretion Dividends are declared by the Board and whether or not there are funds legally available for the payment of dividends to the Company’s stockholders under Delaware law).

(b) Accreting Dividends. In addition to the Cash Dividend, for each Dividend Period beginning on or after the Issue Date, the Holders shall be entitled to receive on each Preferred Share additional dividends at the per annum rates set forth in this SECTION 2(b) (the “Basic Accreting Dividends” and, together with the Cash Accretion Dividends, the Participating Accretion Dividends and the In-Kind Participating Dividends, the “Accreting Dividends”; the Accreting Dividends, together with the Cash Dividend and the Participating Dividends, the “Dividends”). Basic Accreting Dividends shall accrue and be cumulative from the Issue Date. Basic Accreting Dividends shall be payable quarterly with respect to each Dividend Period in arrears on the first Dividend Payment Date after such Dividend Period by the addition of such amount to the Accrued Value, whether or not declared by the Board and whether or not there are funds legally available for the payment of dividends to the Company’s stockholders under Delaware law. Such Basic Accreting Dividend for any Dividend Period shall be at a per annum rate (the “Accreting Dividend Rate”) determined as follows:

(i) If Net Asset Value as of the last day of any Dividend Period is less than 120% of Original Issue Date NAV, a per annum rate of 4.00% of the Accrued Value for the next succeeding Dividend Period;

(ii) If Net Asset Value as of the last day of any Dividend Period is equal to or greater than 120% and less than or equal to 140% of Original Issue Date NAV, a per annum rate of 2.00% of the Accrued Value for the next succeeding Dividend Period; and

(iii) If Net Asset Value as of the last day of any Dividend Period is greater than 140% of Original Issue Date NAV, no additional per annum rate for the next succeeding Dividend Period; *provided, however*, that notwithstanding anything to the contrary contained herein, the Accreting Dividend Rate shall be 7.25% of the Accrued Value during any portion of any Dividend Period during which any of the following is true: (w) the Daily VWAP for the immediately preceding trading day was less than \$1.00 (as adjusted for stock splits, stock dividends, stock combinations and similar events), (x) the Common Stock is not registered under Section 12(b) of the Exchange Act, (y) the Common Stock is not listed on an Exchange or (z) the Company is delinquent in the payment of any Cash Dividends; *provided*, that the Company’s failure to comply with requirements (y) and (z) above will not trigger the increased Accreting Dividend Rate during the first year after the Original Issue Date.

(c) Participating Cash Dividends. If the Company declares, makes or pays any cash dividend or distribution in respect of the Common Stock (a “Common Dividend”), each Holder shall receive a dividend (in addition to the Dividends provided for by SECTION 2(a) and SECTION 2(b)) in respect of each Preferred Share held thereby, in an amount equal to the product of (x) the amount of such Common Dividend paid per share of Common Stock, multiplied by (y) the number of shares of Common Stock issuable if such Preferred Share had been converted into shares of Common Stock immediately prior to the record date for such Common Dividend (such amount per share of Preferred Stock, the “Participating Cash Dividend”). Participating Cash Dividends shall be payable to Holders on the record date for such Common Dividend at the same time and in the same manner as the Common Dividend triggering such Participating Cash Dividend is paid. If and to the extent that the Company does not for any reason pay the entire Participating Cash Dividend when the Common Dividend is paid to the holders of Common Stock, during the period in which such Participating Cash Dividend remains unpaid, an additional accreting dividend (the “Participating Accretion Dividends”) shall accrue and be payable at an annual rate equal to the Dividend Rate on the amount of the unpaid Participating Cash Dividend through the

daily addition of such Participating Accretion Dividends to the Accrued Value (whether or not such Participating Accretion Dividends are declared by the Board and whether or not there are funds legally available for the payment of dividends to the Company's stockholders under Delaware law).

(d) In-Kind Participating Dividends. If the Company distributes shares of its Capital Stock, evidences of its indebtedness or other assets, securities or property, in respect of the Common Stock (an "In-Kind Common Dividend"), including without limitation any spin-off of one or more subsidiaries or businesses of the Company but excluding: (I) dividends or distributions referred to in SECTIONS 5(g)(i)(A) and 5(g)(i)(B); and (II) cash dividends with respect to which Holders are entitled to Participating Cash Dividends, then the Holders shall receive in such distribution or other transaction, at the same time and in the same manner as holders of Common Stock, the same type and amount of consideration (the "In-Kind Participating Dividend" and, collectively with the Participating Cash Dividend, the "Participating Dividends") as Holders would have received if, immediately prior to the record date of such In-Kind Common Dividend, they had held the number of shares of Common Stock issuable upon conversion of the Preferred Shares. To the extent that the Company establishes or adopts a stockholder rights plan or agreement (i.e., a "poison pill"), the Company shall ensure that the Holders will receive, as an In-Kind Participating Dividend, rights under the stockholder rights plan or agreement with respect to any shares of Common Stock that at the time of such distribution would be issuable upon conversion of the Preferred Shares. If and to the extent that the Company does not for any reason pay the entire In-Kind Participating Dividend when the In-Kind Common Dividend is paid to the holders of Common Stock, during the period in which such In-Kind Participating Dividend remains unpaid, an additional accreting dividend (the "In-Kind Accretion Dividends") shall accrue and be payable at an annual rate equal to the Dividend Rate on the amount of the unpaid In-Kind Participating Dividend through the daily addition of such In-Kind Accretion Dividends to the Accrued Value (whether or not such In-Kind Accretion Dividends are declared by the Board and whether or not there are funds legally available for the payment of dividends to the Company's stockholders under Delaware law).

(e) Dividends (other than Participating Dividends) payable on the Series A-1 Preferred Stock in respect of any Dividend Period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of Dividends (other than Participating Dividends) payable on the Series A-1 Preferred Stock on any date prior to the end of a Dividend Period, and for the initial Dividend Period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month.

(f) Cash Dividends and Accreting Dividends that are payable on Series A-1 Preferred Stock on any Dividend Payment Date will be payable to Holders of record on the applicable record date, which shall be the fifteenth (15<sup>th</sup>) calendar day before the applicable Dividend Payment Date, or, with respect to any Cash Dividends not paid on the scheduled Dividend Payment Date therefor, such record date fixed by the Board (or a duly authorized committee of the Board) that is not more than sixty (60) nor less than ten (10) days prior to such date on which such accrued and unpaid Cash Dividends are to be paid (each such record date, a "Dividend Record Date"). Any such day that is a Dividend Record Date shall be a Dividend Record Date whether or not such day is a Business Day.

(g) The quarterly dividend periods with respect to Cash Dividends and Accreting Dividends shall commence on and include January 1, April 1, July 1 and October 1 (other than the initial Dividend Period, which shall commence on and include the Issue Date) and shall end on and include the last calendar day of the calendar quarter ending March 31, June 30, September 30 and December 31 preceding the next Dividend Payment Date (a "Dividend Period").

### SECTION 3. Liquidation Preference.

(a) Upon any Liquidation Event, each Preferred Share entitles the Holder thereof to receive and to be paid out of the assets of the Company legally available for distribution to the Company's stockholders, before any distribution or payment may be made to a holder of any Junior Securities, an amount in cash per share equal to the greater of: (i) the sum of (A) the Specified Percentage of the Accrued Value, plus (B) all accrued and unpaid Dividends (including, without limitation, accrued and unpaid Cash Dividends and accrued and unpaid Accreting Dividends for the then current Dividend Period), if any, on such share to the extent not included in the Accrued Value (such sum, after the Specified Percentage multiplier and as adjusted, the "Regular Liquidation Preference") and (ii) an amount equal to the amount the Holder of such share would have received upon such Liquidation Event had such Holder converted such Preferred Share into Common Stock (or Reference Property, to the extent applicable) immediately prior thereto (such greater amount, the "Liquidation Preference").

(b) If upon any such Liquidation Event, the assets of the Company legally available for distribution to the Company's stockholders are insufficient to pay the Holders the full Liquidation Preference and the holders of all Parity Securities the full liquidation preferences to which they are entitled, the Holders and the holders of such Parity Securities will share ratably in any such distribution of the assets of the Company in proportion to the full respective amounts to which they are entitled.

(c) After payment to the Holders of the full Liquidation Preference to which they are entitled, the Holders as such will have no right or claim to any of the assets of the Company.

(d) The value of any property not consisting of cash that is distributed by the Company to the Holders will equal the Fair Market Value thereof on the date of distribution.

(e) No holder of Junior Securities shall receive any cash upon a Liquidation Event unless the entire Liquidation Preference in respect of the Preferred Shares has been paid in cash. To the extent that there is insufficient cash available to pay the entire Liquidation Preference in respect of the Preferred Shares and any liquidation preference in respect of Parity Securities in full in cash upon a Liquidation Event, the Holders and the holders of such Parity Securities will share ratably in any cash available for distribution in proportion to the full respective amounts to which they are entitled upon such Liquidation Event.

#### SECTION 4. As-Converted Voting Rights; Certain Consent Rights.

(a) The Holders are entitled to vote on all matters on which the holders of shares of Common Stock are entitled to vote and, except as otherwise provided herein (including under SECTION 7 below) or by law, the Holders shall vote together with the holders of shares of Common Stock as a single class. As of any record date or other determination date, each Holder shall be entitled to the number of votes such Holder would have had if all Preferred Shares held by such Holder on such date had been converted into shares of Common Stock immediately prior thereto, except that, in the event that any Holder would be required to file any Notification and Report Form pursuant to the HSR Act as a result of the receipt of any Accreting Dividends by such Holder, the voting rights of such Holder pursuant to this Section 4(a) shall not be increased as a result of such Holder's receipt of such Accreting Dividends unless and until such Holder and the Company shall have made their respective filings under the HSR Act and the applicable waiting period shall have expired or been terminated in connection with such filings. The Company shall make all required filings and reasonably cooperate with and assist such Holder in connection with the making of such filing and obtaining the expiration or termination of such waiting period and shall be reimbursed by such Holder for any reasonable and documented out-of-pocket costs incurred by the Company in connection with such filings and cooperation.

(b) In addition to the voting rights provided for by SECTION 4(a) and SECTION 7 and any voting rights to which the Holders may be entitled to under law, for so long as any Preferred Shares, shares of Series A Preferred Stock or shares of Series A-2 Preferred Stock are outstanding, the Company may not, directly or indirectly, take any of the following actions (including by means of merger, consolidation, reorganization, recapitalization or otherwise) without the prior written consent of the Requisite Holders:

(i) amend the Certificate of Incorporation (excluding for this purpose this Certificate of Designation) or the By-Laws of the Company (including by means of merger, consolidation, reorganization, recapitalization or otherwise), in each case, in a manner adverse to the Holders;

(ii) authorize, create or issue any (x) Senior Securities or any debt securities convertible into or exchangeable for Equity Securities; (y) Parity Securities or (z) any voting securities providing the holders thereof voting or board designation or appointment rights that are disproportionate to such holders' fully diluted ownership of the Common Stock;

(iii) (a) authorize or effect the commencement by the Company of any case under applicable bankruptcy, insolvency or other similar laws now or hereafter in effect, including pursuant to Chapter 11 of the U.S. Bankruptcy Code, (b) consent to entry of an order for relief in an involuntary case under applicable bankruptcy, insolvency or other similar laws now or hereafter in effect, including pursuant to Chapter 11 of the U.S. Bankruptcy Code, or (c) consent to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee or similar official of the Company, or any general assignment for the benefit of creditors;

(iv) incur, or permit any Subsidiary to incur, any Indebtedness not otherwise permitted by the terms of SECTION 9(a);

(v) enter into, consummate, adopt, approve, establish or amend any Related Party Transaction (including any agreements or arrangements with HRG Affiliates relating to corporate opportunities and including all amendments, waivers and consents relating to any agreements and arrangements subject to this clause (vi)) (other than a Permitted Related Party Transaction, in either case, that has not been approved by a committee of the Board consisting solely of Independent Directors and, at all times that there is a Preferred Elected Director, not less than one Preferred Elected Director;

(vi) make, or permit any of its Subsidiaries to make, any Restricted Payments other than (A) the purchase of Equity Securities held by officers, directors, employees, consultants or independent contractors or former officers, directors, employees, consultants or independent contractors (or their estates or beneficiaries under their estates), upon death, disability, retirement, severance or other termination of employment provided that the aggregate cash consideration paid therefor in any twelve-month period after the Original Issue Date does not exceed an aggregate amount of (I) \$250,000 with respect to the Company and its Wholly Owned Subsidiaries, taken together, and (II) \$250,000 with respect to any Non-Wholly Owned Subsidiary of the Company, taken together with all Wholly Owned Subsidiaries of such Non-Wholly Owned Subsidiary, (B) dividends and distributions by Non-Wholly owned Subsidiaries made in accordance with the Organizational Documents of such Non-Wholly

Owned Subsidiaries, (C) dividends and distributions to the Company or its Wholly Owned Subsidiaries and (D) Permitted Payments;

(vii) create a new Subsidiary of the Company not in existence on the Third Issue Date for the primary purpose of issuing Equity Securities of such Subsidiary or incurring Debt the proceeds of which will, directly or indirectly, be used to make dividends or other distributions or payments of cash to holders of the Company's Capital Stock other than the Holders; provided, that for the avoidance of doubt, the foregoing shall not prohibit dividends or other distributions to the Company;

(viii) effect any voluntary deregistration under the Exchange Act or voluntary delisting with any Exchange in respect to the Common Stock other than in connection with a Change of Control transaction pursuant to which the Company satisfies in full (in cash with respect to payment obligations) all of its obligations under SECTION 6(c); or

(ix) agree to do, directly or indirectly, any of the foregoing actions set forth in clauses (i) through (viii), unless such agreement expressly provides that the Company's obligation to undertake any of the foregoing is subject to the prior approval of the Requisite Holders.

(c) In addition to the voting rights provided for by SECTION 4(a), SECTION 4(b) and SECTION 7 and any voting rights to which the Holders may be entitled to under law, for so long as any Preferred Shares are outstanding, the Company may not, directly or indirectly, take any of the following actions (including by means of merger, consolidation, reorganization, recapitalization or otherwise) without the prior written consent of the Series A-1 Requisite Holders:

(i) amend, repeal, alter or add, delete or otherwise change the powers, preferences, rights or privileges of the Series A-1 Preferred Stock;

(ii) authorize or issue any shares of Series A-1 Preferred Stock other than to the September 2014 Purchasers pursuant to SECTION 2 of the September 2014 Securities Purchase Agreement, or effect any stock split or combination, reclassification or similar event with respect to the Series A-1 Preferred Stock;

(iii) incur, or permit any Subsidiary to incur, any Indebtedness not otherwise issued in compliance with the participation rights contained in SECTION 5.4 of the September 2014 Securities Purchase Agreement; or

(iv) agree to do, directly or indirectly, any of the foregoing actions set forth in clauses (i) through (iii), unless such agreement expressly provides that the Company's obligation to undertake any of the foregoing is subject to the prior approval of the Series A-1 Requisite Holders.

(d) Notwithstanding anything to the contrary contained in this SECTION 4, the Company may not, directly or indirectly, take any action otherwise approved pursuant to Section 4(b) if such action would have a materially adverse and disproportionate effect on the powers, preferences, rights, limitations, qualifications and restrictions or privileges of any Holder with respect to any shares of Series A-1 Preferred Stock held by any Holder, without the prior approval of such Holder.

(e) Written Consent. Any action as to which a class vote of the holders of Preferred Stock, or the holders of Preferred Stock and Common Stock voting together, is required pursuant to the terms of this Certificate of Designation may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Company.

SECTION 5. Conversion. Each Preferred Share is convertible into shares of Common Stock (or Reference Property, to the extent applicable) as provided in this SECTION 5.

(a) Conversion at the Option of Holders of Series A-1 Preferred Stock. Subject to SECTION 5(b) hereof, each Holder is entitled to convert, at any time and from time to time, at the option and election of such Holder, any or all outstanding Preferred Shares held by such Holder and receive therefor the property described in SECTION 5(d) upon such conversion. In order to convert Preferred Shares into shares of Common Stock (or Reference Property, to the extent applicable), the Holder must surrender the certificates representing such Preferred Shares at the office of the Company's transfer agent for the Series A-1 Preferred Stock (or at the principal office of the Company, if the Company serves as its own transfer agent), together with (x) written notice that such Holder elects to convert all or part of the Preferred Shares represented by such certificates as specified therein, (y) a written instrument or instructions of transfer or other documents and endorsements reasonably acceptable to the transfer agent or the Company, as applicable (if reasonably required by the transfer agent or the Company, as applicable), and (z) funds for any stock transfer, documentary, stamp or similar taxes, if payable by the Holder pursuant to SECTION 5(f)(i). Except as provided in SECTION 5(b) and in SECTION 5(c), the date the transfer agent or the Company, as applicable, receives such certificates, together with such notice and any other documents and amounts required to be paid by the Holder pursuant to this SECTION 5, will be the date of conversion (the "Conversion Date").

(b) Conversion at the Option of the Company. Beginning on the third (3<sup>rd</sup>) anniversary of the Original Issue Date, the Company shall have the right, at its option, to cause all shares of Series A-1 Preferred Stock to be automatically converted (without any further action by the Holder and whether or not the certificates representing the Preferred Shares are surrendered), in whole but not in part, into the property described in SECTION 5(d) within five (5) Business Days of any day (the “Forced Conversion Trigger Date”) on which all of the Company Conversion Conditions are satisfied from time to time. The Company may exercise its option under this SECTION 5(b) by providing the Holders with a written notice, which notice shall specify that the Company is exercising the option contemplated by this SECTION 5(b), the Forced Conversion Trigger Date and the Conversion Date on which the conversion shall occur (which Conversion Date shall be not less than ten (10) Business Days following the date such notice is provided to the Holders); *provided* that, once delivered, such notice shall be irrevocable, unless the Company obtains the written consent of the Series A-1 Requisite Holders. For the avoidance of doubt, (x) the Holders shall continue to have the right to convert their Preferred Shares pursuant to SECTION 5(a) until and through the Conversion Date contemplated in this SECTION 5(b) and (y) if any Preferred Shares are converted pursuant to SECTION 5(a), such Preferred Shares shall no longer be converted pursuant to this SECTION 5(b) and the Company’s notice delivered to the Holders pursuant to this SECTION 5(b) shall automatically terminate with respect to such Preferred Shares. Notwithstanding the foregoing, any notice delivered by the Company under this SECTION 5(b) in accordance with SECTION 11(g) shall be conclusively presumed to have been duly given at the time set forth therein, whether or not such Holder of Preferred Shares actually receives such notice, and neither the failure of a Holder to actually receive such notice given as aforesaid nor any immaterial defect in such notice shall affect the validity of the proceedings for the conversion of the Preferred Shares as set forth in this SECTION 5(b). The Company shall issue a press release for publication on the Dow Jones News Service or Bloomberg Business News (or if either such service is not available, another broadly disseminated news or press release service selected by the Company) prior to the opening of business on the first Business Day following any date on which the Company provides notice to Holders pursuant to this SECTION 5(b) announcing the Company’s election to convert Preferred Shares pursuant to this SECTION 5(b).

(c) Automatic Conversion on Maturity Date. In the event that any Holder has not elected to have its Preferred Shares redeemed by the Company on the Maturity Date (as defined herein) pursuant to SECTION 6(a), then such Holder’s Preferred Shares shall be automatically converted (without any further action by the Holder and whether or not the certificates representing the Preferred Shares are surrendered), in whole and not in part, into the property described in SECTION 5(d), effective as of the Maturity Date, which shall be deemed to be the “Conversion Date” for purposes of this SECTION 5(c). As promptly as practicable (but in no event more than five (5) Business Days) following the Maturity Date, the Company shall deliver a notice to any Holder whose Preferred Shares have been converted by the Company pursuant to this SECTION 5(c), informing such Holder of the number of shares of Common Stock into which such Preferred Shares have been converted, together with certificates evidencing such shares of Common Stock. Notwithstanding the foregoing, any notice delivered by the Company in compliance with this SECTION 5(c) shall be conclusively presumed to have been duly given, whether or not such Holder of Preferred Shares actually receives such notice, and neither the failure of a Holder to actually receive such notice given as aforesaid nor any immaterial defect in such notice shall affect the validity of the proceedings for the conversion of the Preferred Shares as set forth in this SECTION 5(c). The Company shall issue a press release for publication on the Dow Jones News Service or Bloomberg Business News (or if either such service is not available, another broadly disseminated news or press release service selected by the Company) prior to the opening of business on the first Business Day following the Maturity Date announcing the aggregate number of Preferred Shares being converted pursuant to this SECTION 5(c) and the number of shares of Common Stock issuable in connection therewith, as well as the aggregate number of Preferred Shares redeemed on the Maturity Date and the purchase price paid by the Company therefor.

(d) Amounts Received Upon Conversion. Upon a conversion of Preferred Shares pursuant to SECTION 5(a), (b) or (c), the Holder of such converted Preferred Shares shall receive in respect of each Preferred Share:

(i) a number of shares of Common Stock (or Reference Property, to the extent applicable) equal to the amount (the “Conversion Amount”) determined by dividing (A) the Accrued Value for the Preferred Share to be converted by (B) the Conversion Price in effect at the time of conversion; *provided* that, notwithstanding the foregoing, if the Company has elected to convert all Preferred Shares pursuant to SECTION 5(b) and the Public Float Hurdle is not met on the Forced Conversion Trigger Date, then each Holder may elect, by delivery of a notice to the Company no later than the close of business on the Business Day immediately prior to the Conversion Date, to receive, in lieu of Common Stock (or Reference Property, to the extent applicable), cash equal to the Conversion Amount multiplied by the Thirty Day VWAP as of the close of business on the Business Day immediately preceding the Conversion Date, which cash amount shall be delivered to the electing Holders within forty-five (45) calendar days of the date that the last Holder electing to receive cash pursuant to this SECTION 5(d)(i) has provided the Company with notice thereof;

(ii) cash in an amount equal to the amount of any accrued but unpaid Cash Dividends and Participating Cash Dividends (to the extent not included in the Accrued Value) on the Preferred Shares being converted; *provided* that, to the extent the Company is prohibited by law or by contract from paying such amount, then the Company shall provide written notice to the



applicable Holder of such inability to pay, and at the written election of the Holder (which written election shall be delivered to the Company within five (5) Business Days of receipt of such written notice from the Company), the Company shall either pay such amount as soon as payment is no longer so prohibited or issue Common Stock (or Reference Property, to the extent applicable) in the manner specified in SECTION 5(d)(i) as if the amount of such accrued but unpaid Cash Dividends and Participating Cash Dividends were added to the Accrued Value (it being understood that any such Cash Dividends that are not timely paid upon conversion as a result of this proviso will be deemed to be overdue and delinquent for purposes of calculating Cash Accretion Dividends pursuant to SECTION 2(a) hereunder until paid in full in cash);

(iii) a number of shares of Common Stock (or Reference Property, to the extent applicable) equal to the amount determined by dividing (A) the amount of any accrued but unpaid Accreting Dividends (to the extent not included in the Accrued Value) on the Preferred Shares being converted by (B) the Conversion Price in effect at the time of Conversion; and

(iv) any accrued and unpaid In-Kind Participating Dividends.

Notwithstanding the foregoing, in the event any Holder would be required to file any Notification and Report Form pursuant to the HSR Act as a result of the conversion of any Preferred Shares into the property described above in this Section 5(d), at the option of such Holder upon written notice to the Company, the effectiveness of such conversion shall be delayed (only to the extent necessary to avoid a violation of the HSR Act), until such Holder shall have made such filing under the HSR Act and the applicable waiting period shall have expired or been terminated; provided, however, that in such circumstances such Holder shall use commercially reasonable efforts to make such filing and obtain the expiration or termination of such waiting period as promptly as reasonably practical and the Company shall make all required filings and reasonably cooperate with and assist such Holder in connection with the making of such filing and obtaining the expiration or termination of such waiting period and shall be reimbursed by such Holder for any reasonable and documented out-of-pocket costs incurred by the Company in connection with such filings and cooperation. Notwithstanding the foregoing, if the conversion of any Preferred Share is delayed pursuant to the preceding sentence at (x) a time when the Company desires to exercise its right to convert shares of Series A-1 Preferred Stock pursuant to SECTION 5(b) or (y) the Maturity Date in connection with the automatic conversion of the shares of Series A-1 Preferred Stock pursuant to SECTION 5(c), from and after the date of the conversions contemplated by SECTIONS 5(b) or 5(c), as applicable, such Preferred Share not then converted shall have no rights, powers, preferences or privileges other than the rights provided by this paragraph and the right to (i) convert into Common Stock if and when such Holder shall have made such filing under the HSR Act and the waiting period in connection with such filing under the HSR Act shall have expired or been terminated and (ii) receive dividends and distributions pursuant to SECTIONS 2(c) and 2(d).

(e) Fractional Shares. No fractional shares of Common Stock (or fractional shares in respect of Reference Property, to the extent applicable) will be issued upon conversion of the Series A-1 Preferred Stock. In lieu of fractional shares, the Company shall pay cash in respect of each fractional share equal to such fractional amount multiplied by the Thirty Day VWAP as of the closing of business on the Business Day immediately preceding the Conversion Date (or the Fair Market Value thereof in respect of any Reference Property). If more than one Preferred Share is being converted at one time by the same Holder, then the number of full shares issuable upon conversion will be calculated on the basis of the aggregate number of Preferred Shares converted by such Holder at such time.

(f) Mechanics of Conversion.

(i) As soon as reasonably practicable after the Conversion Date (and in any event within four (4) Business Days after such date), the Company shall issue and deliver to the applicable Holder one or more certificates for the number of shares of Common Stock (or Reference Property, to the extent applicable) to which such Holder is entitled, together with, at the option of the Holder, a check or wire transfer of immediately available funds for payment of fractional shares and any payment required by SECTION 5(d)(ii) in exchange for the certificates representing the converted Preferred Shares. Such conversion will be deemed to have been made on the Conversion Date, and the Person entitled to receive the shares of Common Stock (or Reference Property, to the extent applicable) issuable upon such conversion shall be treated for all purposes as the record holder of such shares of Common Stock (or Reference Property, to the extent applicable) on such date. The delivery of the Common Stock upon conversion of Preferred Shares shall be made, at the option of the applicable Holder, in certificated form or by book-entry. Any such certificate or certificates shall be delivered by the Company to the appropriate Holder on a book-entry basis or by mailing certificates evidencing the shares to such Holder at its address as set forth in the conversion notice. In cases where fewer than all the Preferred Shares represented by any such certificate are to be converted, a new certificate shall be issued representing the unconverted Preferred Shares. The Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of Common Stock (or Reference Property, to the extent applicable) upon conversion or due upon the issuance of a new certificate for any Preferred Shares not converted to the converting Holder; provided that the Company shall not be required to pay any such amounts, and any such amounts shall be paid by the converting Holder, in the event that such Common Stock or Preferred Shares are issued in a name other than the name of the converting Holder.

(ii) For the purpose of effecting the conversion of Preferred Shares, the Company shall: (A) at all times reserve and keep available, free from any preemptive rights, out of its treasury or authorized but unissued shares of Common Stock (or Reference Property, to the extent applicable) the full number of shares of Common Stock (or Reference Property, to the extent applicable) deliverable upon the conversion of all outstanding Preferred Shares after taking into account any adjustments to the Conversion Price from time to time pursuant to the terms of this SECTION 5 and any increases to the Accrued Value from time to time and assuming for the purposes of this calculation that all outstanding Preferred Shares are held by one holder) and (B) without prejudice to any other remedy at law or in equity any Holder may have as a result of such default, take all actions reasonably required to amend its Certificate of Incorporation, as expeditiously as reasonably practicable, to increase the authorized and available amount of Common Stock (or Reference Property, to the extent applicable) if at any time such amendment is necessary in order for the Company to be able to satisfy its obligations under this SECTION 5. Before taking any action which would cause an adjustment reducing the Conversion Price below the then par value of the shares of Common Stock (or Reference Property, to the extent applicable) issuable upon conversion of the Series A-1 Preferred Stock, the Company will take any corporate action which may be necessary in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock (or Reference Property, to the extent applicable) upon the conversion of all outstanding Preferred Shares at such adjusted Conversion Price.

(iii) From and after the Conversion Date, the Preferred Shares converted on such date, will no longer be deemed to be outstanding and all rights of the Holder thereof including the right to receive Dividends, but excluding the right to receive from the Company the Common Stock (or Reference Property, to the extent applicable) or any cash payment upon conversion, and except for any rights of Holders (including any voting rights) pursuant to this Certificate of Designation which by their express terms continue following conversion or, for the avoidance of doubt, rights which by their express terms continue following conversion pursuant to any of the other Transaction Agreements (as defined in the September 2014 Securities Purchase Agreement) shall immediately and automatically cease and terminate with respect to such Preferred Shares; *provided that*, in the event that a Preferred Share is not converted due to a default by the Company or because the Company is otherwise unable to issue the requisite shares of Common Stock (or Reference Property, to the extent applicable), such Preferred Share will, without prejudice to any other remedy at law or in equity any Holder may have as a result of such default, remain outstanding and will continue be entitled to all of the rights attendant to such Preferred Share as provided herein.

(iv) The Company shall comply with all federal and state laws, rules and regulations and applicable rules and regulations of the Exchange on which shares of the Common Stock (or Reference Property, to the extent applicable) are then listed. If any shares of Common Stock (or Reference Property, to the extent applicable) to be reserved for the purpose of conversion of Preferred Shares require registration with or approval of any Person or group (as such term is defined in Section 13(d)(3) of the Exchange Act) under any federal or state law or the rules and regulations of the Exchange on which shares of the Common Stock (or Reference Property, to the extent applicable) are then listed before such shares may be validly issued or delivered upon conversion, then the Company will, as expeditiously as reasonably practicable, use commercially reasonable efforts to secure such registration or approval, as the case may be. So long as any Common Stock (or Reference Property, to the extent applicable) into which the Preferred Shares are then convertible is then listed on an Exchange, the Company will list and keep listed on any such Exchange, upon official notice of issuance, all shares of such Common Stock (or Reference Property, to the extent applicable) issuable upon conversion.

(v) All shares of Common Stock (or Reference Property, to the extent applicable) issued upon conversion of the Preferred Shares will, upon issuance by the Company, be duly and validly issued, fully paid and nonassessable, not issued in violation of any preemptive or similar rights arising under law or contract and free from all taxes, liens and charges with respect to the issuance thereof, and the Company shall take no action which will cause a contrary result.

(g) Adjustments to Conversion Price.

(i) The Conversion Price shall be subject to the following adjustments:

(A) *Common Stock Dividends or Distributions.* If the Company issues shares of Common Stock as a dividend or distribution on shares of Common Stock, or if the Company effects a share split or share combination with respect to shares of Common Stock, the Conversion Price will be adjusted based on the following formula:

$$CP_1 = CP_0 \times \frac{OS_0}{OS_1}$$

where,

$CP_0$  = the Conversion Price in effect immediately prior to the open of business on the Ex-Date for such dividend or distribution, or the open of business on the effective date of such share split or share combination, as the case may be;

$CP_1$  = the Conversion Price in effect immediately after the open of business on the Ex-Date for such dividend or distribution, or the open of business on the effective date of such share split or share combination, as the case may be;

$OS_0$  = the number of shares of Common Stock outstanding immediately prior to the open of business on the Ex-Date for such dividend or distribution, or the open of business on the effective date of such share split or share combination, as the case may be; and

$OS_1$  = the number of shares of Common Stock outstanding immediately after such dividend or distribution, or such share split or share combination, as the case may be.

Any adjustment made under this SECTION 5(g)(i)(A) shall become effective immediately after the open of business on the Ex-Date for such dividend or distribution, or immediately after the open of business on the effective date for such share split or share combination. If any dividend or distribution of the type described in this SECTION 5(g)(i)(A) is declared but not so paid or made, or any share split or combination of the type described in this SECTION 5(g)(i)(A) is announced but the outstanding shares of Common Stock are not split or combined, as the case may be, the Conversion Price shall be immediately readjusted, effective as of the date the Board determines not to pay such dividend or distribution, or not to split or combine the outstanding shares of Common Stock, as the case may be, to the Conversion Price that would then be in effect if such dividend, distribution, share split or share combination had not been declared or announced.

(B) *Rights, Options or Warrants on Common Stock.* If the Company distributes to all or substantially all holders of its Common Stock any rights, options or warrants entitling them, for a period expiring not more than sixty (60) days immediately following the record date of such distribution, to purchase or subscribe for shares of Common Stock at a price per share less than the average of the Daily VWAP of the Common Stock over the ten (10) consecutive Trading Day period ending on the Trading Day immediately preceding the Ex-Date for such distribution, the Conversion Price will be adjusted based on the following formula:

$$CP_1 = CP_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

$CP_0$  = the Conversion Price in effect immediately prior to the open of business on the Ex-Date for such distribution;

$CP_1$  = the Conversion Price in effect immediately after the open of business on the Ex-Date for such distribution;

$OS_0$  = the number of shares of Common Stock outstanding immediately prior to the open of business on the Ex-Date for such distribution;

$X$  = the number of shares of Common Stock equal to the aggregate price payable to exercise all such rights, options or warrants divided by the average of the Daily VWAP of the Common Stock over the ten (10) consecutive Trading Day period ending on the Trading Day immediately preceding the Ex-Date for such distribution; and

$Y$  = the total number of shares of Common Stock issuable pursuant to all such rights, options or warrants.

Any adjustment made under this SECTION 5(g)(i)(B) will be made successively whenever any such rights, options or warrants are distributed and shall become effective immediately after the open of business on the Ex-Date for such distribution. To the extent that shares of Common Stock are not delivered prior to the expiration of such rights, options or warrants, the Conversion Price shall be readjusted following the expiration of such rights to the Conversion Price that would then be in effect had the decrease in the Conversion Price with respect to the distribution of such rights, options or warrants been made on the basis of delivery of only the number of shares of Common Stock actually delivered. If such rights, options or warrants are not so distributed, the Conversion Price shall be immediately readjusted, effective as of the date the Board determines not to make such distribution, to the Conversion Price that would then be in effect if such distribution had not occurred.

In determining whether any rights, options or warrants entitle the holders to subscribe for or purchase shares of Common Stock at less than such average of the Daily VWAP for the ten (10) consecutive Trading Day period ending on the Trading Day immediately preceding the Ex-Date for such distribution, and in determining the aggregate offering price of such shares of the Common Stock, there shall be taken into account any consideration received by the Company for such rights, options or warrants and any amount payable on exercise or conversion thereof, the fair market value of such consideration, if other than cash, to be reasonably determined by the Board in good faith.

(C) *Tender Offer or Exchange Offer Payments.* If the Company or any of its Subsidiaries makes a payment in respect of a tender offer or exchange offer for Common Stock, if the aggregate value of all cash and any other consideration included in the payment per share of Common Stock (as reasonably determined in good faith by the Board) exceeds the average of the Daily VWAP of the Common Stock over the ten (10) consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the date on which such tender offer or exchange offer expires, the Conversion Price will be decreased based on the following formula:

$$CP_1 = CP_0 \times \frac{OS_0 \times SP_1}{AC + (SP_1 \times OS_1)}$$

where,

CP<sub>1</sub> = the Conversion Price in effect immediately after the close of business on the last Trading Day of the ten (10) consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the date such tender or exchange offer expires;

CP<sub>0</sub> = the Conversion Price in effect immediately prior to the close of business on the last Trading Day of the ten (10) consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the date such tender or exchange offer expires;

OS<sub>0</sub> = the number of shares of Common Stock outstanding immediately prior to the date such tender or exchange offer expires;

SP<sub>1</sub> = the average of the Daily VWAP of the Common Stock over the ten (10) consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the date such tender or exchange offer expires;

AC = the aggregate value of all cash and any other consideration (as reasonably determined in good faith by the Board) paid or payable for shares purchased in such tender or exchange offer; and

OS<sub>1</sub> = the number of shares of Common Stock outstanding immediately after the date such tender or exchange offer expires (after giving effect to such tender offer or exchange offer and excluding fractional shares).

The adjustment to the Conversion Price under this SECTION 5(g)(i)(C) will occur at the close of business on the tenth (10<sup>th</sup>) Trading Day immediately following, but excluding, the date such tender or exchange offer expires; provided that, for purposes of determining the Conversion Price, in respect of any conversion during the ten (10) Trading Days immediately following, but excluding, the date that any such tender or exchange offer expires, references within this SECTION 5(g)(i)(C) to ten (10) consecutive Trading Days shall be deemed replaced with such lesser number of consecutive Trading Days as have elapsed between the date such tender or exchange offer expires and the relevant conversion date.

(D) *Common Stock Issued at Less than Conversion Price.* If, after the Original Issue Date, the Company issues or sells any Common Stock (or Option Securities or Convertible Securities, to the extent set forth in this SECTION 5(g)(i)(D)), other than Excluded Stock, for no consideration or for consideration per share less than the Conversion Price in effect as of the date of such issuance or sale, the Conversion Price in effect immediately prior to each such issuance or sale will (except as provided below) be adjusted at the time of such issuance or sale based on the following formula:

$$CP_1 = CP_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

CP<sub>1</sub> = the Conversion Price in effect immediately following such issuance or sale;

CP<sub>0</sub> = the Conversion Price in effect immediately prior to such issuance or sale;

OS<sub>0</sub> = the number of shares of Common Stock outstanding immediately prior to such issuance or sale (treating for this purpose as outstanding all shares of Common Stock issuable upon the conversion or exchange of (x) all Preferred Shares issued on the Second Issue Date, all shares of Series A Preferred Stock issued on the Original Issue Date and all shares of Series A-2 Preferred Stock issued on the Third Issue Date and (y) all convertible, exchangeable or exercisable Equity Securities of the Company not listed in (x) if the conversion price, exercise price or exchange price applicable to such Equity Securities of the Company is below Market Value on the determination date);

X = the number of shares of Common Stock that the aggregate consideration received by the Company for the number of shares of Common Stock so issued or sold would purchase at a price per share equal to CP<sub>0</sub>; and

Y = the number of additional shares of Common Stock so issued.

For the purposes of any adjustment of the Conversion Price pursuant to this SECTION 5(g)(i)(D), the following provisions shall be applicable:

(1) In the case of the issuance of Common Stock for cash, the amount of the consideration received by the Company shall be deemed to be the amount of the cash proceeds received by the Company for such Common Stock after deducting therefrom any discounts or commissions allowed, paid or incurred by the Company for any underwriting or otherwise in connection with the issuance and sale thereof

(2) In the case of the issuance of Common Stock (otherwise than upon the conversion of shares of Capital Stock or other securities of the Company) for a consideration in whole or in part other than cash, including securities acquired in exchange therefor (other than securities by their terms so exchangeable), the consideration other than cash shall be deemed to be the fair market value thereof as reasonably determined by the Board in good faith.

(3) In the case of (A) the issuance of Option Securities (whether or not at the time exercisable) or (B) the issuance of Convertible Securities (whether or not at the time so convertible or exchangeable):

i) the issuance of Option Securities shall be deemed the issuance of all shares of Common Stock deliverable upon the exercise of such Option Securities;

ii) such Option Securities shall be deemed to be issued for a consideration equal to the value of the consideration (determined in the manner provided in SECTION 5(g)(i)(D)(1) and (2)), if any, received by the Company for such Option Securities, plus the exercise price, strike price or purchase price provided in such Option Securities for the Common Stock covered thereby;

iii) the issuance of Convertible Securities shall be deemed the issuance of all shares of Common Stock deliverable upon conversion of, or in exchange for, such Convertible Securities;

iv) such Convertible Securities shall be deemed to be issued for a consideration equal to the value of the consideration (determined in the manner provided in SECTION 5(g)(i)(D)(1) and (2) and excluding any cash received on account of accrued interest or accrued dividends), if any, received by the Company for such Convertible Securities, plus the value of the additional consideration (determined in the manner provided in SECTION 5(g)(i)(D)(1) and (2)) to be received by the Company upon the conversion or exchange of such Convertible Securities, if any;

v) upon any change in the number of shares of Common Stock deliverable upon exercise of any Option Securities or Convertible Securities or upon any change in the consideration to be received by the Company upon the exercise, conversion or exchange of such securities, the Conversion Price then in effect shall be readjusted to such Conversion Price as would have been in effect had such change been in effect, with respect to any Option Securities or Convertible Securities outstanding at the time of the change, at the time such Option Securities or Convertible Securities originally were issued;

vi) upon the expiration or cancellation of Option Securities (without exercise), or the termination of the conversion or exchange rights of Convertible Securities (without conversion or exchange), if the Conversion Price shall have been adjusted upon the issuance of such expiring, canceled or terminated securities, the Conversion Price shall be readjusted to such Conversion Price as would have been obtained if, at the time of the original issuance of such Option Securities or Convertible Securities, the expired, canceled or terminated Option Securities or Convertible Securities, as applicable, had not been issued;

vii) if the Conversion Price shall have been fully adjusted upon the issuance of any such options, warrants, rights or convertible or exchangeable securities, no further adjustment of the Conversion Price shall be made for the actual issuance of Common Stock upon the exercise, conversion or exchange thereof; and

viii) if any issuance of Common Stock, Option Securities or Convertible Securities would also require an adjustment pursuant to any other adjustment provision of this SECTION 5(g)(i), then only the adjustment most favorable to the Holders shall be made.

(ii) If the Company issues rights, options or warrants that are only exercisable upon the occurrence of certain triggering events (each, a "Trigger Event"), then the Conversion Price will not be adjusted pursuant to SECTION 5(g)(i)(B) until the earliest Trigger Event occurs, and the Conversion Price shall be readjusted to the extent any of these rights, options or warrants are not exercised before they expire (provided, however, that, for the avoidance of doubt, if such Trigger Event would require an adjustment pursuant to SECTION 5(g)(i)(D), such adjustment pursuant to SECTION 5(g)(i)(D) shall be made at the time of issuance of such rights, options or warrants in accordance with such Section).

(iii) Notwithstanding anything in this SECTION 5(g) to the contrary, if a Conversion Price adjustment becomes effective pursuant to any of clauses (A), (B) or (C) of SECTION 5(g)(i) on any Ex-Date as described above, and a Holder that converts its Preferred Shares on or after such Ex-Date and on or prior to the related record date would be treated as the record holder of shares of Common Stock as of the related Conversion Date based on an adjusted Conversion Price for such Ex-Date and participate on an adjusted basis in the related dividend, distribution or other event giving rise to such adjustment, then, notwithstanding the foregoing Conversion Price adjustment provisions, the Conversion Price adjustment relating to such Ex-Date will not be made for such converting Holder. Instead, such Holder will be treated as if such Holder were the record owner of the shares of Common Stock on an un-adjusted basis and participate in the related dividend, distribution or other event giving rise to such adjustment.

Notwithstanding anything in this SECTION 5(g) to the contrary, no adjustment under SECTION 5(g)(i) need be made to the Conversion Price unless such adjustment would require a decrease of at least 1% of the Conversion Price then in effect. Any lesser adjustment shall be carried forward and shall be made at the time of and together with the next subsequent adjustment, if any, which, together with any adjustment or adjustments so carried forward, shall amount to a decrease of at least 1% of such Conversion Price; *provided* that, on the date of any conversion of the Preferred Shares pursuant to SECTION 5, adjustments to the Conversion Price will be made with respect to any such adjustment carried forward that has not been taken into account before such date. In addition, at the end of each year, beginning with the year ending December 31, 2014, the Conversion Price shall be adjusted to give effect to any adjustment or adjustments so carried forward, and such adjustments will no longer be carried forward and taken into account in any subsequent adjustment.

(iv) Adjustments Below Par Value. The Company shall not take any action that would require an adjustment to the Conversion Price such that the Conversion Price, as adjusted to give effect to such action, would be less than the then-applicable par value per share of the Common Stock, except that the Company may undertake a share split or similar event if such share split results in a corresponding reduction in the par value per share of the Common Stock such that the as-adjusted new Conversion Price per share would not be below the new as-adjusted par value per share of the Common Stock following such share split or similar transaction and the Conversion Price is adjusted as provided under SECTION 5(g)(i)(A) and any other applicable provision of SECTION 5(g).

(v) Reference Property. In the case of any recapitalization, reclassification or change of the Common Stock (other than changes resulting from a subdivision, combination or reclassification described in SECTION 5(g)(i)(A)), a consolidation, merger or combination involving the Company, a sale, lease or other transfer to a third party of all or substantially all of the assets of the Company (or the Company and its Subsidiaries on a consolidated basis), or any statutory share exchange, in each case as a result of which the Common Stock would be converted into, or exchanged for, stock, other securities, other property or assets (including cash or any combination thereof) (any of the foregoing, a “Transaction”), then, at the effective time of the Transaction, the right to convert each Preferred Share will be changed into a right to convert such Preferred Share into the kind and amount of shares of stock, other securities or other property or assets (including cash or any combination thereof) (the “Reference Property”) that a Holder would have received in respect of the Common Stock issuable upon conversion of such Preferred Shares immediately prior to such Transaction. In the event that holders of Common Stock have the opportunity to elect the form of consideration to be received in the Transaction, the Company shall make adequate provision whereby the Holders of the Preferred Shares shall have a reasonable opportunity to determine the form of consideration into which all of the Preferred Shares, treated as a single class, shall be convertible from and after the effective date of the Transaction. Any such election shall be made by the Series A-1 Requisite Holders. Any such determination by the Holders shall be subject to any limitations to which all holders of Common Stock are subject, such as pro rata reductions applicable to any portion of the consideration payable in the Transaction, and shall be conducted in such a manner as to be completed at approximately the same time as the time elections are made by holders of Common Stock. The provisions of this SECTION 5(g)(v) and any equivalent thereof in any such securities similarly shall apply to successive Transactions. The Company shall not become a party to any Transaction unless its terms are in compliance with the foregoing.

(vi) Rules of Calculation: Treasury Stock. All calculations will be made to the nearest one-hundredth of a cent or to the nearest one-ten thousandth of a share. Except as explicitly provided herein, the number of shares of Common Stock (or Reference Property, to the extent applicable) outstanding will be calculated on the basis of the number of issued and outstanding shares of Common Stock (or Reference Property, to the extent applicable), not including shares held in the treasury of the Company. The Company shall not pay any dividend on or make any distribution to shares of Common Stock (or Reference Property, to the extent applicable) held in treasury.

(vii) No Duplication. If any action would require adjustment of the Conversion Price pursuant to more than one of the provisions described in this SECTION 5 in a manner such that such adjustments are duplicative, only one adjustment (which shall be the adjustment most favorable to the Holders of Preferred Stock) shall be made.

(viii) Notice of Record Date. In the event of:

- (A) any event described in SECTION 5(g)(i)(A), (B), (C) or (D);
- (B) any Transaction to which SECTION 5(g)(v) applies;
- (C) the dissolution, liquidation or winding-up of the Company; or
- (D) any other event constituting a Change of Control;

then the Company shall mail to the Holders of Preferred Stock at their last addresses as shown on the records of the Company, at least twenty (20) days prior to the record date specified in (A) below or twenty (20) days prior to the date specified in (B) below, as applicable, a notice stating:

(A) the record date for the dividend, other distribution, stock split or combination or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, other distribution, stock split or combination; or

(B) the date on which such reclassification, change, dissolution, liquidation, winding-up or other event constituting a Transaction or Change of Control, or any transaction which would result in an adjustment pursuant to SECTION 5(g)(i)(D), is estimated to become effective or otherwise occur, and the date as of which it is expected that holders of Common Stock of record will be entitled to exchange their shares of Common Stock for Reference Property, other securities or other property deliverable upon such reclassification, change, liquidation, dissolution, winding-up, Transaction or Change of Control or that such issuance of Common Stock, Option Securities or Convertible Securities is anticipated to occur.

(ix) Certificate of Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Section 5, the Company at its expense shall as promptly as reasonably practicable compute such adjustment or readjustment in accordance with the terms hereof and furnish to each Holder of Preferred Stock a certificate, signed by an officer of the Company (in his or her capacity as such and not in an individual capacity), setting forth (A) the calculation of such adjustments and readjustments in reasonable detail, (B) the facts upon which such adjustment or readjustment is based, (C) the Conversion Price then in effect, and (D) the number of shares of Common Stock (or Reference Property, to the extent applicable) and the amount, if any, of Capital Stock, other securities or other property (including but not limited to cash and evidences of indebtedness) which then would be received upon the conversion of a Preferred Share.

(x) No Upward Revisions to Conversion Price. For the avoidance of doubt, except in the case of a reverse share split or share combination resulting in an adjustment under SECTION 5(g)(i)(A) effected with the approvals, if any, required pursuant to SECTION 4(b), in no event shall any adjustment be made pursuant to this SECTION 5 that results in an increase in the Conversion Price.

#### SECTION 6. Redemption.

(a) Redemption at Maturity. Each Holder shall have the right to require the Company to redeem such Holder's Preferred Shares, in whole or in part, on the seventh (7<sup>th</sup>) anniversary of the Original Issue Date (the "Maturity Date") at a price per share payable, subject to SECTION 6(e), in cash and equal to the Redemption Price. At any time during the period beginning on the thirtieth (30<sup>th</sup>) calendar day prior to the Maturity Date (the "Holder Redemption Notice Period"), each Holder may deliver written notice to the Company notifying the Company of such Holder's election to require the Company to redeem all or a portion of such Holder's Preferred Shares on the Maturity Date (the "Election Notice"). No later than thirty (30) calendar days prior to the commencement of the Holder Redemption Notice Period, the Company shall deliver a notice to each Holder of Preferred Stock including the following information: (A) informing the Holder of the Maturity Date and such Holder's right to elect to have all or a portion of its Preferred Shares redeemed by Company on the Maturity Date, (B) the Redemption Price payable with respect to each share of Series A-1 Preferred Stock on the Maturity Date in connection with any such redemption (to the extent the Redemption Price is known or can be calculated, and to the extent not capable of being calculated, the manner in which such price will be determined); (C) that any certificates representing Preferred Shares which a Holder elects to have redeemed must be surrendered for payment of the Redemption Price at the office of the Company or any redemption agent located in New York City selected by the Company therefor together with any written instrument or instructions of transfer or other documents and endorsements reasonably acceptable to the redemption agent or the Company, as applicable (if reasonably required by the redemption agent or the Company, as applicable); (D) that, upon a Holder's compliance with clause (C), payment of the Redemption Price with respect to any Preferred Shares to be made on the Maturity Date will be made to the Holder within five (5) Business Days of the Maturity Date to the account specified in such Holder's redemption election notice; (E) that any Holder may withdraw its Election Notice with respect to all or a portion of its Preferred Shares at any time prior to 5:00 p.m. (New York City time) on the Business Day immediately preceding the Maturity Date; and (F) the number of shares of Common Stock (or, if applicable, the amount of Reference Property) and the amount of cash, if any, that a Holder would receive upon conversion of a Preferred Share if a Holder does not elect to have its Preferred Shares redeemed. The Company shall issue a press release for publication on the Dow Jones News Service or Bloomberg Business News (or if either such service is not available, another broadly disseminated news or press release service selected by the Company) prior to the opening of business on the first Business Day following any date on which the Company provides notice to Holders pursuant to this SECTION 6(a) disclosing the right of Holders to have the Company redeem Preferred Shares pursuant to this SECTION 6(a).

(b) Optional Redemption by the Company. On and after the third (3<sup>rd</sup>) anniversary of the Original Issue Date, the Company may, at its option, redeem all (but not less than all) of the outstanding Preferred Shares for cash equal to the Redemption Price. If the Company elects to redeem the Preferred Shares pursuant to this SECTION 6(b), the Company shall deliver a notice of redemption to the Holders of Preferred Stock not less than thirty (30) or more than sixty (60) calendar days prior to the date specified for redemption (the “Optional Redemption Date”), which notice shall include: (A) the Optional Redemption Date; (B) the Redemption Price; (C) that on the Optional Redemption Date, if the Holder has not previously elected to convert Preferred Shares into Common Stock, each Preferred Share shall automatically and without further action by the Holder thereof (and whether or not the certificates representing such Preferred Shares are surrendered) be redeemed for the Redemption Price; (D) that payment of the Redemption Price will be made to the Holder within five (5) Business Days of the Redemption Date to the account specified by such Holder to the Company in writing; (E) that the Holder’s right to elect to convert its Preferred Shares will end at 5:00 p.m. (New York City time) on the Business Day immediately preceding the Optional Redemption Date; and (F) the number of shares of Common Stock (or, if applicable, the amount of Reference Property) and the amount of cash, if any, that a Holder would receive upon conversion of a Preferred Share if a Holder elect to convert its Preferred Shares prior to the Optional Redemption Date. Notwithstanding the foregoing, any notice delivered by the Company under this SECTION 6(b) in accordance with SECTION 11(g) shall be conclusively presumed to have been duly given at the time set forth therein, whether or not such Holder of Preferred Shares actually receives such notice, and neither the failure of a Holder to actually receive such notice given as aforesaid nor any immaterial defect in such notice shall affect the validity of the proceedings for the redemption of the Preferred Shares as set forth herein. The Company shall issue a press release for publication on the Dow Jones News Service or Bloomberg Business News (or if either such service is not available, another broadly disseminated news or press release service selected by the Company) prior to the opening of business on the first Business Day following any date on which the Company provides notice to Holders pursuant to this SECTION 6(b) announcing the Company’s election to redeem Preferred Shares pursuant to this SECTION 6(b).

(c) Redemption at Option of the Holder upon a Change of Control.

(i) If a Change of Control occurs, each Holder shall have the right to require the Company to redeem its Preferred Shares pursuant to a Change of Control Offer, which Change of Control Offer shall be made by the Company in accordance with Section 6(c)(ii). In such Change of Control Offer, the Company will offer a payment (such payment, a “Change of Control Payment”) in cash per Preferred Share equal to the greater of: (i) the sum of (A) the Specified Percentage of the Accrued Value, plus (B) all accrued and unpaid Dividends (including, without limitation, accrued and unpaid Cash Dividends and accrued and unpaid Accreting Dividends for the then current Dividend Period), if any, on such share to the extent not included in the Accrued Value and (ii) an amount equal to the amount the Holder of such Preferred Share would have received in connection with such Change of Control had such Holder converted such Preferred Share into Common Stock (or Reference Property, to the extent applicable) immediately prior thereto (such greater amount, the “Change of Control Payment Amount”).

(ii) Within thirty (30) days following any Change of Control, the Company will mail a notice (a “Change of Control Offer”) to each Holder describing the transaction or transactions that constituted such Change of Control and offering to redeem the Preferred Shares on the date specified in such notice (the “Change of Control Payment Date”), which date shall be no earlier than thirty (30) days and no later than sixty-one (61) days from the date such notice is mailed. In addition, such Change of Control Offer shall further state: (A) the amount of the Change of Control Payment; (B) that the Holder may elect to have all or any portion of its Preferred Shares redeemed pursuant to the Change of Control Offer, (C) that any Preferred Shares to be redeemed must be surrendered for payment of the Change of Control Payment at the office of the Company or any redemption agent selected by the Company therefor together with any written instrument or instructions of transfer or other documents and endorsements reasonably acceptable to the redemption agent or the Company, as applicable (if reasonably required by the redemption agent or the Company, as applicable); (D) that, upon a Holder’s compliance with clause (C), payment of the Change of Control Payment will be made to the Holder on the Change of Control Payment Date to the account specified by such Holder to the Company in writing; (E) the date and time by which the Holder must make its election, (F) that any Holder may withdraw its election notice with respect to all or a portion of their Preferred Shares at any time prior to 5:00 p.m. (New York City time) on the Business Day immediately preceding the Change of Control Payment Date; and (G) the amount and type of property that the Holder would receive in connection with such Change of Control if the Holder elects to convert its Preferred Shares in connection with the Change of Control. The Company shall issue a press release for publication on the Dow Jones News Service or Bloomberg Business News (or if either such service is not available, another broadly disseminated news or press release service selected by the Company) prior to the opening of business on the first Business Day following any date on which the Company provides notice to Holders pursuant to this SECTION 6(c) disclosing the right of Holders to have the Company redeem Preferred Shares pursuant to this SECTION 6(c).

(iii) On the Change of Control Payment Date, the Company will, to the extent lawful: (A) accept for payment all Preferred Shares validly tendered pursuant to the Change of Control Offer; and (B) make a Change of Control Payment to each Holder that validly tendered Preferred Shares pursuant to the Change of Control Offer.

(iv) If at any time prior to consummation of a transaction that would constitute a Change of Control, the Company has publicly announced (whether by press release, SEC filing or otherwise) such transaction or prospective transaction or the entry by the Company into any definitive agreement with respect thereto, the Company shall, within five (5) Business Days of the



issuance of such public announcement, deliver a written notice to each Holder notifying them of the same and the anticipated date of consummation of such transaction.

(v) The Company will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer and makes the Change of Control Payment in the manner, at the times and otherwise in compliance with the requirements set forth herein applicable to a Change of Control Offer made by the Company and purchases all Preferred Shares validly tendered under such Change of Control Offer.

(vi) A Change of Control Offer may be made in advance of a Change of Control, conditional upon such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

(d) Notwithstanding anything in this SECTION 6 to the contrary, each Holder shall retain the right to elect to convert any Preferred Shares to be redeemed at any time prior to 5:00 p.m. (New York City time) on the Business Day immediately preceding any Redemption Date. Any Preferred Shares that a Holder elects to convert prior to the Redemption Date shall not be redeemed pursuant to this SECTION 6.

(e) Insufficient Funds. Any redemption of the Preferred Shares pursuant to this SECTION 6 shall be payable out of any cash legally available therefor, provided, however, that, other than in respect of a redemption pursuant to SECTION 6(b) (which the Company may only effectuate to the extent it has sufficient cash legally available therefor), if there is not a sufficient amount of cash legally available to pay the Redemption Price in full in cash, then the Company may pay that portion of the Redemption Price with respect to which it does not have cash legally available therefor out of the remaining assets of the Company legally available therefor (valued at the fair market value thereof on the date of payment, as reasonably determined in good faith by the Board). If the Company anticipates not having sufficient cash legally available for a redemption pursuant to SECTION 6(a) or SECTION 6(c), the redemption notice delivered to Holders shall so specify, and indicate the nature of the other assets expected to be distributed and the fair market value of the same as reasonably determined by the Board as aforesaid. At the time of any redemption pursuant to this SECTION 6, the Company shall take all actions required or permitted under Delaware law to permit the redemption of the Preferred Shares, including, without limitation, through the revaluation of its assets in accordance with Delaware law, to make cash funds (and to the extent cash funds are insufficient, other assets) legally available for such redemption. In connection with any redemption pursuant to SECTION 6(c), to the extent that Holders elect to have their Preferred Shares redeemed and the Company has insufficient funds to redeem such Preferred Shares (after taking into account the amount of any repurchase obligations the Company has or expects to have under any Indebtedness ranking senior to the Series A-1 Preferred Stock), Senior Securities or any Parity Securities resulting from the same facts and circumstances as the Change of Control hereunder, the Company shall use any available funds to redeem a portion of such Preferred Shares and Parity Securities (if any are being redeemed) ratably in proportion to the full respective amounts to which they are entitled; *provided, however*, that the failure for any reason to redeem all Preferred Shares required to be redeemed under SECTION 6(c) when required shall constitute a Specified Breach Event.

(f) Mechanics of Redemption.

(i) The Company (or a redemption agent on behalf of the Company, as applicable) shall pay the applicable Redemption Price on the Redemption Date or the required payment date therefor upon surrender of the certificates representing the Preferred Shares to be redeemed and receipt of any written instrument or instructions of transfer or other documents and endorsements reasonably acceptable to the redemption agent or the Company, as applicable, to the extent required by SECTIONS 6(a), 6(b) and 6(c); *provided that*, if such certificates are lost, stolen or destroyed, the Company may require an affidavit certifying to such effect and, if requested, an agreement indemnifying the Company from any losses incurred in connection therewith, in each case, in form and substance reasonably satisfactory to the Company, from such Holder prior to paying such amounts.

(ii) Following any redemption of Preferred Shares on any Redemption Date, the Preferred Shares so redeemed will no longer be deemed to be outstanding and all rights of the Holder thereof shall cease, including the right to receive Dividends; *provided, however*, that any rights of Holders pursuant to this Certificate of Designation that by their terms survive redemption of the Preferred Shares and, for the avoidance of doubt, any rights that survive pursuant to any of the other Transaction Agreements (as defined in the September 2014 Securities Purchase Agreement), shall survive in accordance with their terms. The foregoing notwithstanding, in the event that a Preferred Share is not redeemed by the Company when required, such Preferred Share will remain outstanding and will continue to be entitled to all of the powers, designations, preferences and other rights (including but not limited to the accrual and payment of dividends and the conversion rights) as provided herein.

SECTION 7. Director Election Rights.

For so long as the Preferred Elected Director Condition continues to be satisfied, the Holders of the Preferred Shares and shares of Series A-1 Preferred Stock, voting or consenting, as the case may be, separately as a single class to the exclusion of all other classes of the Company's Voting Stock, by vote of the Series A/A-1 Requisite Holders, shall be entitled to elect a number of directors to the Board equal to the Preferred Director Number (the "Preferred Elected Director(s)"). As of the Third Issue Date, the Preferred Director Number is one. Subject to applicable law, one Preferred Elected Director (as designated by the Series A/A-1 Requisite Holders if there is more than one Preferred Elected Director) shall be entitled to be a member of each committee of the Board, including the compensation committee, the audit committee and the nominating and corporate governance committee of the Board;

*provided*, that notwithstanding anything to the contrary herein, membership on any such committee will be dependent upon such director meeting the qualification, and if applicable, independence criteria deemed necessary to so comply in accordance with any listing requirements of the Exchange on which the Company's capital stock is then listed. The Preferred Elected Director(s) shall be elected as set forth in this SECTION 7; *provided* that as a condition precedent to the election of any such Preferred Elected Director, the individual(s) to be elected by the Series A/A-1 Requisite Holders shall be required to provide to the Company a duly executed and delivered written resignation of such Person to be elected as a Preferred Elected Director, providing that effective immediately and automatically (without any further action by any Person) upon the expiration of the Series A/A-1 Requisite Holders' right to elect such individual to the Board as provided herein, such Preferred Elected Director shall resign from the Board. For the avoidance of doubt, no Preferred Elected Director shall be elected to the Board unless the written resignation referred to in the preceding sentence is delivered to the Company prior thereto. The Preferred Elected Directors shall be elected, at the option of the Series A/A-1 Requisite Holders, (i) by the written consent of the Series A/A-1 Requisite Holders or (ii) at annual or special meetings of stockholders of the Company at which directors are to be elected. If there is a vacancy in the office of a Preferred Elected Director, then the vacancy may only be filled by a nominee of the Series A/A-1 Requisite Holders. Each Preferred Elected Director will be entitled to one (1) vote on any matter with respect to which the Board votes and any Preferred Elected Director may be removed at any time with or without cause by, and shall not be removed otherwise than by, the written consent or vote of the Series A/A-1 Requisite Holders. The Company shall take all such action as may be reasonably requested by the Series A/A-1 Requisite Holders to effect this SECTION 7 (including nominating and recommending the Preferred Elected Director for election, if applicable).

#### SECTION 8. Specified Breach Events.

(a) The following events shall constitute "Specified Breach Events":

(i) the Company fails to declare and pay any Cash Dividends or Accreting Dividends due on any two consecutive Dividend Payment Dates; *provided* that, any such Specified Breach Event shall cease to exist once all such Cash Dividends and Accreting Dividends in arrears through the end of the most recently completed Dividend Period have been declared and paid in full; and

(ii) the Company defaults in the performance of, or breaches the covenants contained in, the following sections of this Certificate of Designation and such default or breach, if curable, is not cured within ninety (90) days: SECTION 2(c) (Participating Cash Dividends); SECTION 2(d) (In-Kind Participating Dividends); the proviso contained in SECTION 5(d)(i) (Amounts Received Upon Conversion); SECTION 6(a) (Redemption at Maturity) or SECTION 6(c) (Redemption at Option of Holder Upon a Change of Control)). Any such Specified Breach Event specified in this clause (ii) shall cease to exist once the underlying default or breach has been waived or cured.

(b) Subject to applicable law and compliance with the rules of any Exchange on which the Common Stock is then listed, if the Preferred Director Number is increased as a result of any Specified Breach Event (as provided in the definition of Preferred Director Number), then unless the Series A/A-1 Requisite Holders otherwise consent in writing, the Company shall, notwithstanding any other provision of this Certificate of Designation, increase the size of the Board as necessary to accommodate such number of additional directors as provided in the definition of Preferred Director Number (each a "Specified Breach Director") and such Specified Breach Director(s) shall be elected as set forth in this section; *provided* that as a condition precedent to the election of any such Specified Breach Director, the individual to be elected by the Series A/A-1 Requisite Holders shall be required to provide to the Company a duly executed and delivered written resignation of such Person to be elected as a Specified Breach Director, providing that effective immediately and automatically (without any further action by any Person) upon the expiration of the applicable Breach Period (as defined below), such Specified Breach Director shall resign from the Board. For the avoidance of doubt, no Specified Breach Director shall be elected to the Board unless the written resignation referred to in the preceding sentence is delivered to the Company prior thereto. A Specified Breach Director need not be an "independent director" of the Board pursuant to the rules of the Exchange on which the Company's Common Stock is then traded. The Specified Breach Directors shall be elected (i) by the written consent of the Series A/A-1 Requisite Holders or (ii) at a special meeting of the Holders of the Series A Preferred Stock and Series A-1 Preferred Stock (which shall be called by the Secretary of the Company at the request of any Holder of the Series A Preferred Stock or Series A-1 Preferred Stock) to be held within thirty (30) days of the occurrence of the Specified Breach Event, or, if the Specified Breach Event occurs less than sixty (60) days before the date fixed for the next annual meeting of the Company's stockholders, at such annual meeting. At any meeting at which the Specified Breach Director(s) will be elected, the Specified Breach Director(s) shall be elected by the Series A/A-1 Requisite Holders. The Specified Breach Director(s) will serve until there ceases to be any shares of Series A Preferred Stock or Series A-1 Preferred Stock outstanding or until no Specified Breach Event exists or is continuing, whichever occurs earliest (the "Breach Period") and, upon the expiration of an applicable Breach Period, the director seat(s) held by the Specified Breach Director(s) shall be automatically eliminated and the size of the Board shall be reduced accordingly. If there is a vacancy in the office of a Specified Breach Director during a Breach Period, then the vacancy may only be filled by a nominee of the Series A/A-1 Requisite Holders. Each Specified Breach Director will be entitled to one (1) vote on any matter with respect to which the Board votes. During the Breach Period, any Specified Breach Director may be removed at any time with or without cause by, and shall not be removed otherwise than by, the written consent or vote of the Series A/A-1 Requisite Holders. If after the appointment of a Specified Breach Director the applicable Breach Period expires, if so requested by the Company, the Holders of the Series A Preferred Stock and Series A-1 Preferred Stock shall promptly cause to resign, and take all other action reasonably necessary, or reasonably requested by the Company, to cause the prompt removal of, such Specified Breach Director.

#### SECTION 9. Covenants.

(a) Restriction on the Issuance of Additional Indebtedness. From and after the Original Issue Date, the Company has not, and has not permitted any Subsidiary to (without obtaining any requisite consent from the Holders of the Series A Preferred Stock or Series A-1 Preferred Stock, as applicable), and from and after the Third Issue Date, the Company shall not, and shall not permit any Subsidiary to, without the consent of the Requisite Holders, borrow or otherwise incur any Indebtedness if, after giving effect to such borrowing or other incurrence, (1) the sum of the total Indebtedness of the Company plus the sum of the total Indebtedness of each of the Company's Subsidiaries divided by (2) the Net Asset Value (the "Debt/NAV Ratio") would be greater than 0.75; *provided*, that (A) the Regular Liquidation Preference of the Preferred Shares (with the references to "150%" contained in such definition being changed to "100%") and the actual liquidation preference of any outstanding Senior Securities and Parity Securities shall count as Indebtedness for such purposes, (B) 100% of the Indebtedness of the Company, the Company's wholly-owned and, after taking into account the Company's ownership percentage therein, Non-Wholly Owned Subsidiaries (as well as the liquidation preference of any preferred security ranking senior to the Company's investment in such entities) shall be taken into account for purposes of determining Indebtedness but not taken into account (i.e., added back) for purposes of determining Net Asset Value, and (C) the provisions of this SECTION 9(a) shall not apply to a refinancing of any Indebtedness of the Company or any of its Subsidiaries (x) within six (6) months of the respective maturity date of such Indebtedness or (y) on economic terms more favorable to the Company or such Subsidiary, as applicable, in any such case so long as the amount of such Indebtedness does not result in an increase in the Company's total Indebtedness or the Debt/NAV Ratio (in each case, excluding the impact of the capitalization of customary and reasonable premiums, fees and expenses incurred in connection with such refinancing).

(b) Intentionally Omitted.

(c) Certificates. The Company shall promptly, and in no event later than 30 days after the last day of any calendar quarter, furnish to each Holder a certificate of an officer of the Company setting forth, as of the end of such calendar quarter the Debt/NAV Ratio and the calculation of the same (provided that the Company shall not be obligated to provide the information required by this sentence from and after such time as the covenant in SECTION 9(a) ceases to be applicable).

(i) The Company shall promptly, and in no event later than the 30th day after the first day of a Dividend Period for which the Accreting Dividend rate has been adjusted pursuant to SECTION 2(b), furnish to each Holder of Preferred Stock a certificate of an officer of the Company setting forth, as of the end of the prior Dividend Period the Net Asset Value as of the end of such prior Dividend Period and the calculation of the same.

(ii) If the Company takes any action, which pursuant to this Certificate of Designation requires the Public Float Hurdle to be met, the Company shall promptly, and in no event later than five (5) days after the date of such action, furnish to each Holder of Preferred Stock a certificate of an officer of the Company setting forth the date of such action and an analysis of the Public Float Hurdle as of the date of such action.

SECTION 10. Additional Definitions. For purposes of these resolutions, the following terms shall have the following meanings:

(a) "Accrued Value" means \$1,000 per share, as the same may be increased pursuant to SECTION 2.

(b) "Actively Traded Security," means, as of any date of determination, a Security of an entity with \$2,000,000 average daily trading volume during the preceding 60-day period.

(c) "Affiliate" means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person.

(d) "Base Original Issue Date NAV" means the final amount thereof as agreed between the Company and the Series A Requisite Holders (as defined in the Series A Certificate of Designation) pursuant to Section 12.16 of the May 2014 Securities Purchase Agreement.

(e) "Beneficial Owner" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" shall be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms "Beneficially Owns" and "Beneficially Owned" shall have a corresponding meaning.

(f) "Business Day," means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York are authorized or obligated to close.

(g) "Capital Stock" means, with respect to any Person, any and all shares of stock of a corporation, partnership interests or other equivalent interests (however designated, whether voting or non-voting) in such Person's equity, entitling the holder to receive a share of the profits and losses, and a distribution of assets, after liabilities, of such Person.

(h) "Cash Equivalents" means: (i) United States dollars, or money in other currencies received in the ordinary course of business; (ii) U.S. Government Obligations or certificates representing an ownership interest in U.S. Government Obligations with maturities

not exceeding one year from the date of acquisition; (iii) (A) demand deposits, (B) time deposits and certificates of deposit with maturities of one year or less from the date of acquisition, (C) banker's acceptances with maturities not exceeding one year from the date of acquisition, and (D) overnight bank deposits, in each case with any bank or trust company organized or licensed under the laws of the United States or any state thereof having capital, surplus and undivided profits in excess of \$500 million whose short-term debt is rated "A-2" or higher by S&P or "P-2" or higher by Moody's; (iv) repurchase obligations with a term of not more than seven (7) days for underlying securities of the type described in clauses (ii) and (iii) above entered into with any financial institution meeting the qualifications specified in clause (iii) above; (v) commercial paper rated at least P-1 by Moody's or A-1 by S&P and maturing within six (6) months after the date of acquisition; and (vi) money market funds at least 95% of the assets of which consist of investments of the type described in clauses (i) through (v) above.

(i) "Certificate of Designation" means this certificate of designation, as such shall be amended from time to time.

(j) "Change of Control" means (i) a sale of all or substantially all of the consolidated assets of the Company (including by way of any reorganization, merger, consolidation or other similar transaction or a sale of Equity Securities issued by Subsidiaries of the Company), (ii) a direct or indirect acquisition of Beneficial Ownership of Voting Power of the Company by any Person or "group" (within the meaning of Rules 13d-3 and 13d-5 under the Exchange Act) by means of any transaction or series of transactions (including any reorganization, merger, consolidation, joint venture, share transfer, share exchange, share issuance, reclassification or other similar transaction), pursuant to which the stockholders of the Company immediately preceding such transaction or transactions collectively own, following the consummation of such transaction or transactions, less than fifty percent (50%) of the Voting Power of the Company or other surviving entity (or parent thereof), as the case may be, (iii) the obtaining by any Person or "group" (within the meaning of Rules 13d-3 and 13d-5 under the Exchange Act) of the power (whether or not exercised), other than pursuant to a revocable proxy in favor of the Company's proposed slate of directors in respect of an annual meeting or other meeting related to the election of directors, to elect a majority of the members of the Board or more than fifty percent (50%) of the Voting Power of the Company; provided, that this clause (iii) will not trigger a Change of Control as a result of the HRG Affiliates or any person or "group" (within the meaning of Rules 13d-3 and 13d-5 under the Exchange Act) in which the HRG Affiliates own a majority of the voting power (the "HRG Change of Control Group") obtaining Beneficial Ownership of more than fifty percent (50%) of the Voting Power of the Company if and only if the Public Float Hurdle is satisfied at all times during which the HRG Change of Control Group has the power to elect a majority of the Board or Beneficial Ownership of more than fifty percent (50%) of the Voting Power of the Company, or (iv) the first day on which a majority of the members of the Board are not Continuing Directors; provided, that, for the avoidance of doubt, change in the ownership of HRG (without the occurrence of the events listed in (i) through (iv) above) shall not constitute, in and of itself, a Change of Control.

(k) "Common Stock" means the shares of common stock, par value \$0.01 per share, of the Company or any other Capital Stock of the Company into which such Common Stock shall be reclassified or changed.

(l) "Company Conversion Conditions" means the following: (i) the Thirty Day VWAP exceeds 150% of the then applicable Conversion Price; and (ii) the Daily VWAP exceeded 150% of the then applicable Conversion Price for at least twenty (20) Trading Days out of the thirty (30) Trading Days used to calculate the Thirty Day VWAP in clause (i) of this definition.

(m) "Compensation Committee" means the compensation committee of the Board which shall consist solely of Independent Directors and, at all times that there is a Preferred Elected Director, not less than one Preferred Elected Director.

(n) "Continuing Directors" means, as of any date of determination, (x) any member of the Board who (1) was a member of such Board on the Original Issue Date or (2) was nominated for election or elected to the Board by any HRG Affiliates, or with the approval of either the Holders or a majority of those members of the Board that were both "Continuing Directors" and Independent Directors at the time of such nomination or election or (y) any Preferred Elected Director.

(o) "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with") with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

(p) "Conversion Price" means initially \$4.25, as adjusted from time to time as provided in SECTION 5.

(q) "Convertible Securities" means securities by their terms convertible into or exchangeable for Common Stock or options, warrants or rights to purchase such convertible or exchangeable securities.

(r) "Daily VWAP" means the volume-weighted average price per share of Common Stock (or per minimum denomination or unit size in the case of any security other than Common Stock) as displayed under the heading "Bloomberg VWAP" on the Bloomberg page for the "<equity> AQR" page corresponding to the "ticker" for such Common Stock or unit (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session on such Trading Day (or if such volume-weighted average price is unavailable, the market value of one share of such Common Stock (or per minimum denomination or unit size in the case of any security other than Common Stock) on such Trading Day. The "volume weighted average price" shall be determined without regard to after-hours trading or any other trading outside of the regular trading session trading hours.

(s) “January 2015 Purchasers” means the several “Purchasers” named in and party to the January 2015 Securities Purchase Agreement.

(t) “January 2015 Securities Purchase Agreement” means that certain Securities Purchase Agreement, dated January 5, 2015, by and among the Company and the January 2015 Purchasers, as amended, supplemented or modified in accordance with its terms.

(u) “Dividend Payment Date” means January 15, April 15, July 15 and October 15 of each year, commencing on July 15, 2014; *provided that*, if any such Dividend Payment Date would otherwise occur on a day that is not a Business Day, such Dividend Payment Date shall instead be the immediately succeeding Business Day.

(v) “Dividend Rate” means for any Dividend Period, 7.50% plus the applicable Accreting Dividend Rate for such Dividend Period.

(w) “Equity Securities” means, with respect to any Person, (i) shares of Capital Stock of, or other equity or voting interest in, such Person, (ii) any securities convertible into or exchangeable for shares of Capital Stock of, or other equity or voting interest in, such Person, (iii) options, warrants, rights or other commitments or agreements to acquire from such Person, or that obligates such Person to issue, any Capital Stock of, or other equity or voting interest in, or any securities convertible into or exchangeable for shares of Capital Stock of, or other equity or voting interest in, such Person, (iv) obligations of such Person to grant, extend or enter into any subscription, warrant, right, convertible or exchangeable security or other similar agreement or commitment relating to any Capital Stock of, or other equity or voting interest (including any voting debt) in, such Person and (v) the Capital Stock of such Person.

(x) “Exchange” means the NASDAQ Global Market, the NASDAQ Global Select Market, The New York Stock Exchange, the NYSE MKT LLC or any of their respective successors.

(y) “Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(z) “Excluded Stock” means: (i) shares of Common Stock issued by the Company in an event subject to, and for which the Conversion Price is subject to adjustment pursuant to, SECTION 5(g)(i)(A); (ii) Option Securities or shares of Common Stock (including upon exercise of Option Securities) issued to Philip Falcone pursuant to the Option agreement (the “Falcone Option Agreement”) dated May 21, 2014, by and between Mr. Falcone and the Company (as in effect on the Original Issue Date) or otherwise to any director, officer or employee pursuant to compensation arrangements approved by the Compensation Committee of the Board in good faith and otherwise permitted to be issued, or not prohibited, by any other provision of this Certificate of Designation; (iii) the issuance of shares of Common Stock upon conversion of the Preferred Shares or upon the exercise or conversion of Option Securities and Convertible Securities of the Company outstanding on the Original Issue Date or otherwise permitted to be issued, or not prohibited, by any other provision of this Certificate of Designation (including, for the avoidance of doubt, pursuant to the Falcone Option Agreement (as in effect on the Original Issue Date)); (iv) Common Stock that becomes issuable in connection with, or as a result of, accretions to the face amount of, or payments in kind with respect to, shares of Series A Preferred Stock, Option Securities and Convertible Securities of the Company outstanding on the Original Issue Date or otherwise permitted to be issued, or not prohibited, by any other provision of this Certificate of Designation (including, for the avoidance of doubt, pursuant to the Falcone Option Agreement (as in effect on the Original Issue Date)); (v) Common Stock that becomes issuable in connection with, or as a result of, accretions to the face amount of, or payments in kind with respect to, shares of Series A-1 Preferred Stock issued on the Second Issue Date and shares of Series A-2 Preferred Stock issued on the Third Issue Date; (vi) Option Securities (or Shares of Common Stock upon exercise of such Option Securities) issued to Robert M. Pons or Keith Hladek as referenced in the Company’s 8-K filed on May 23, 2014 and (vii) shares of Common Stock issued by the Company pursuant to the May 2014 Securities Purchase Agreement.

(aa) “Ex-Date” means the first date on which the Common Stock trades on the applicable exchange or in the applicable market, regular way, without the right to receive the issuance, dividend or distribution in question from the Company or, if applicable, from the seller of the Common Stock on such exchange or market (in the form of due bills or otherwise) as determined by such exchange or market.

(bb) “Fair Market Value” means: (i) in the case of any Security that is either (a) listed on an Exchange or (b) an Actively Traded Security in the over-the-counter-market that represents equity in a Person with a market capitalization of at least \$250,000,000 on each Trading Day in the preceding 60 day period prior to such date, the product of (a) (i) the sum of the Daily VWAP of a single unit of such Security for each of the 20 consecutive Trading Days immediately prior to such date, divided by (ii) 20, multiplied by (b) the number of units of such Security being valued, (ii) in the case of any Security that is not so listed or not an Actively Traded Security or any other property or asset (other than Cash Equivalents), the fair market value thereof (defined as the price that would be negotiated in an arms’ length transaction for cash between a willing buyer and willing seller, neither of which is acting under compulsion), as determined by a written opinion of a nationally recognized investment banking, appraisal, accounting or valuation firm that is not an Affiliate of the Company and is selected by the Company in good faith (provided that the Requisite Holders may object in writing to any such determination of Fair Market Value by such valuation expert once every four (4) Testing Periods and if the Requisite Holders object in writing to any such determination of Fair Market Value by such valuation expert an alternative

binding valuation shall be performed by a nationally recognized investment banking, appraisal, accounting or valuation firm that is not an Affiliate of the Company and is selected by the Company and the Requisite Holders jointly, or if the Company and such Requisite Holders cannot jointly select such an alternative valuation expert within ten (10) Business Days of the Requisite Holders delivering to the Company a written notice objecting to the initial valuation, by a nationally recognized investment banking, appraisal, accounting or valuation firm that is not an Affiliate of the Company and is selected by one such valuation expert proposed by the Company and a second such valuation expert proposed by the Requisite Holders (it being understood that the Company shall be solely responsible for the payment of all of the fees and expenses of such alternative valuation expert) and (iii) in the case of Cash Equivalents, the face value thereof; *provided* that with respect to any Security of the type referred to in clause (ii) above, in no event shall the Fair Market Value thereof exceed the Company's cost basis in such Security (taking into account adjustments made in respect of follow-on capital contributions and other similar investments) plus fifty percent (50%) of any appreciation as determined pursuant to the valuation provisions set forth above.

(cc) "Governmental Entity" shall mean any United States or non-United States federal, state or local government, or any agency, bureau, board, commission, department, tribunal or instrumentality thereof or any court, tribunal, or arbitral or judicial body.

(dd) "hereof"; "herein" and "hereunder" and words of similar import refer to this Certificate of Designation as a whole and not merely to any particular clause, provision, section or subsection.

(ee) "Holders" means the holders of outstanding Preferred Shares and, except where expressly otherwise indicated, shares of Series A Preferred Stock and Series A-2 Preferred Stock as they appear in the records of the Company.

(ff) "HRG Affiliates" means (a) Philip A. Falcone, (b) Harbinger Group, Inc. or any of its subsidiaries, (c) Harbinger Capital Partners LLC, Harbinger Capital Partners II LP or any limited partnership, limited liability company, corporation or other entity that controls, is controlled by, or is under common control with Harbinger Capital Partners LLC, Harbinger Capital Partners II LP or Philip A. Falcone.

(gg) "HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the regulations promulgated thereunder.

(hh) "Indebtedness" shall have the meaning set forth in the Loan Agreement (as in effect on the Second Issue Date); *provided, however*, that Indebtedness shall not include:

(i) Hedging obligations entered into in the ordinary course of business and not for speculative purposes or taking a "market view";

(ii) Indebtedness in respect of bid, performance or surety bonds issued in the ordinary course of business, including guarantees or obligations with respect to letters of credit supporting such bid, performance or surety obligations (in each case other than for an obligation for money borrowed and only so long as such bonds or letters of credit remain undrawn);

(iii) Guarantees in respect of Indebtedness already taken into account for purposes hereof;

(iv) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within five Business Days of incurrence;

(v) Indebtedness arising in connection with endorsement of instruments for deposit in the ordinary course of business;

(vi) Indebtedness for advances of trade accounts payable received in the ordinary course of business on normal trade terms and not overdue by more than 60 days;

(vii) Indebtedness incurred from and after the Second Issue Date not in excess of \$750,000, in the aggregate;

(viii) Purchase Money Obligations (as defined in the Loan Agreement (as in effect on the Second Issue Date));

(ix) interest and other fees and expenses accrued in the ordinary course on Indebtedness that is issued and outstanding on the Third Issue Date and any interest and other fees accrued on any refinancing of such Indebtedness (including reasonable premiums, fees and expenses incurred in connection with such refinancing) in accordance with SECTION 9(a); or

(x) any Contingent Obligations (as defined in the Loan Agreement (as in effect on the Second Issue Date)) of the Company in respect of Indebtedness referred to in the foregoing clauses (i) through (ix).

(ii) "Independent Director" means any director on the Board that is "independent" as defined in the applicable rules of the Exchange on which the Common Stock is listed (or if the Common Stock is not listed on an Exchange, as defined in NASDAQ Marketplace Rule 4200(a)(15)), and in all cases, other than any director that is employed by or an officer, director or manager of an HRG Affiliate.

(jj) "Investment" means, with respect to any Person, (1) any direct or indirect advance, loan or other extension of credit to another Person, (2) any capital contribution to another Person, by means of any transfer of cash or other property or in any other

form, (3) any purchase or acquisition of Equity Interests, bonds, notes or other Indebtedness, or other instruments or securities issued by another Person, including the receipt of any of the above as consideration for the disposition of assets or rendering of services, or (4) any Guarantee of any obligation of another Person.

(kk) “Issue Date” means, with respect to a Preferred Share, the date on which such share is first issued by the Company.

(ll) “Liquidation Event” means (i) the voluntary or involuntary liquidation, dissolution or winding-up of the Company, (ii) the commencement by the Company of any case under applicable bankruptcy, insolvency or other similar laws now or hereafter in effect, including pursuant to Chapter 11 of the U.S. Bankruptcy Code, (iii) the consent to entry of an order for relief in an involuntary case under applicable bankruptcy, insolvency or other similar laws now or hereafter in effect, including pursuant to Chapter 11 of the U.S. Bankruptcy Code, and (iv) the consent to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee or similar official of the Company, or any general assignment for the benefit of creditors.

(mm) “Loan Agreement” means the Credit Agreement, dated as of September 22, 2014, among the Company, the Subsidiary Guarantors (as defined therein), the Lenders (as defined therein), and Jefferies Finance LLC, as arranger, as book manager and as documentation agent, syndication agent and administrative agent for the Lenders and as collateral agent for the Secured Parties.

(nn) “Market Disruption Event” means the occurrence or existence for more than one half hour period in the aggregate on any scheduled Trading Day for the Common Stock (or Reference Property, to the extent applicable) of any suspension or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the applicable Exchange or otherwise) in the Common Stock (or Reference Property, to the extent applicable) or in any options, contracts or future contracts relating to the Common Stock (or Reference Property, to the extent applicable), and such suspension or limitation occurs or exists at any time before 4:00 p.m. (New York City time) on such day.

(oo) “May 2014 Purchasers” means the several “Purchasers” named in and party to the May 2014 Securities Purchase Agreement.

(pp) “May 2014 Securities Purchase Agreement” means that certain Securities Purchase Agreement, dated May 29, 2014, by and among the Company and the May 2014 Purchasers, as amended, supplemented or modified in accordance with its terms.

(qq) “NAV Escrow Adjustment” means the total amount of any escrow proceeds actually received by the Company with respect to the existing escrow amounts of: BID \$19,500,000, NAT tax liability \$4,800,000, NAT PTI Sale \$3,000,000 and NAT indemnification \$6,450,000.

(rr) “Net Asset Value” means, without duplication, the amount, valued twice per annum at June 30 and December 31 of each fiscal year (each a “Testing Period”) beginning December 31, 2014, equal to (A) the sum of (1) the cash and Cash Equivalents of the Company plus (2) the Fair Market Value of all Securities (other than Cash Equivalents) owned by the Company, including Securities issued by Subsidiaries of the Company (after taking into account the Company’s ownership percentage therein, the impact on such Fair Market Value of the cash, Cash Equivalents, preferred liquidation preferences, liabilities and indebtedness of such entities and the relative rights, preferences and privileges of the Company’s Securities and the other outstanding securities issued by such entities), less (B) all Indebtedness and other liabilities of the Company determined in accordance with GAAP, including those related to the Company’s investments to the extent not taken into account in the calculation of the Fair Market Value of such investments under clause (A)(2) above; *provided* that for such purposes, (i) the derivative attributable to the conversion feature in any series of preferred stock will not be considered a liability and (ii) the Accrued Value (as well as any accrued Dividends not yet added to the Accrued Value) of the Preferred Shares and the preference amount (including the accrued value and all accrued but unpaid dividends thereon not included in the accrued value) of any other Senior Securities or Parity Securities will be considered Indebtedness of the Company; *provided, further* that, solely for purposes of determining the Debt/NAV Ratio, the Indebtedness of the Company, the Company’s wholly-owned and, after taking into account the Company’s ownership percentage therein, Non-Wholly Owned Subsidiaries (as well as the liquidation preference of any preferred security ranking senior to the Company’s investment) shall be taken into account for purposes of determining “Debt” (i.e., the numerator) but not taken into account (i.e., added back) for purposes of determining Net Asset Value (i.e., the denominator).

(ss) “Non-Wholly Owned Subsidiary” means any Subsidiary of the Company other than any Wholly Owned Subsidiary.

(tt) “Option Securities” means options, warrants or other rights to purchase or acquire Common Stock, as well as stock appreciation rights, phantom stock units and similar rights whose value is derived from the value of the Common Stock.

(uu) “Organizational Documents” means, with respect to any Person (other than an individual), (a) the certificate or articles of incorporation or organization and any joint venture, limited liability company, operating or partnership agreement and other similar documents adopted or filed in connection with the creation, formation or organization of such Person and (b) all by-laws, voting agreements and similar documents, instruments or agreements relating to the organization or governance of such Person, in each case, as amended, supplemented or modified in accordance with its terms.

(vv) “Original Issue Date” means May 29, 2014, the first issue date of shares of Series A Preferred Stock.

(ww) “Original Issue Date NAV” means the Base Original Issue Date NAV, as may be increased from time to time by the NAV Escrow Adjustment.

(xx) “Permitted Payment” means any of the following:

(i) The repurchase, redemption or other acquisition of any shares of Common Stock or Junior Securities solely out of the net proceeds of the issuance of, or in exchange for the issuance of, Common Stock;

(ii) Restricted Payments not otherwise permitted hereby in an aggregate amount not to exceed \$750,000;

(iii) (a) repurchase of Equity Securities deemed to occur upon the exercise of stock options or warrants or upon the conversion or exchange of Equity Securities if the Equity Securities represent all or a portion of the exercise price thereof (or related withholding taxes) and (b) Restricted Payments to allow the payment of cash in lieu of the issuance of fractional shares upon the exercise of options or warrants or upon the conversion or exchange of Equity Securities in an aggregate amount under this clause (b) not to exceed \$25,000.

(yy) “Permitted Related Party Transactions” means any of the following:

(i) the payment, by the Company or a Subsidiary, of reasonable and customary regular fees and compensation to, and reasonable and customary indemnification arrangements and similar payments to or on behalf of, directors of the Company or directors of such Subsidiary, respectively, who are not employees of the Company or such Subsidiary, respectively, and qualify as Independent Directors;

(ii) any Permitted Payments or any Restricted Payments if permitted under Section 4(b);

(iii) transactions or payments, including the issuance of Equity Securities pursuant to any employee, officer or director compensation or benefit plans or arrangements by the Company or a Subsidiary existing on the Third Issue Date and listed on the Disclosure Schedule to the January 2015 Securities Purchase Agreement, or approved by the Compensation Committee, by the Board of Directors (or any committee thereof) of such Subsidiary, after the Third Issue Date, respectively;

(iv) the issuance of common stock or junior Equity Securities of the Company or any Subsidiary via a rights offering or otherwise to all stockholders of the Company or such Subsidiary after the Third Issue Date and to which the adjustment provision of SECTION 5(g) apply;

(v) the entering into of any tax sharing agreement or arrangement or any other transactions with any Subsidiaries of the Company or among any Subsidiaries of the Company undertaken in good faith for the sole purpose of improving the tax efficiency of the Company and its Subsidiaries;

(vi) the entering into of any information-sharing agreement or arrangement or any other transactions undertaken in good faith for the sole purpose of the preparation of financial statements and related financial information of the HRG Affiliates, the Company and its Subsidiaries.

(zz) “Person” means any individual, corporation, limited liability company, limited or general partnership, joint venture, association, joint-stock company, trust, unincorporated organization, government, any agency or political subdivisions thereof or other “Person” as contemplated by Section 13(d) of the Exchange Act.

(aaa) “Preferred Director Number” means one (1); *provided that* (A) for so long as the Preferred Elected Director Condition continues to be satisfied, the percentage obtained by dividing the Preferred Director Number by the total number of directors on the Board shall be no more than 5% below such aggregate ownership percentage of the May 2014 Purchasers and their Affiliates and the September 2014 Purchasers and their Affiliates (*e.g.*, if the May 2014 Purchasers and their Affiliates and the September 2014 Purchasers and their Affiliates own, in the aggregate, at least twenty percent (20%) of the outstanding Common Stock on an as converted basis (*i.e.* assuming conversion of the Preferred Shares and shares of Series A Preferred Stock and including through the ownership of Preferred Shares, Series A Preferred Stock or Common Stock but excluding through the ownership of Series A-2 Preferred Stock), the Preferred Director Number would be the lowest whole number that is equal to or in excess of 15% of the total number of directors on the Board) and (B) at any time following the occurrence and during the continuance of a Specified Breach Event, the Preferred Director Number shall be increased, if necessary, in order that the Preferred Director Number plus the number of Independent Directors on the Board shall equal more than 50% of the total number of directors on the Board.

(bbb) “Preferred Elected Director Condition” means that the May 2014 Purchasers (and/or any of their Affiliates) and the September 2014 Purchasers (and/or any of their Affiliates) own, in the aggregate, at least (A) fifteen percent (15%) of the outstanding Common Stock on an as converted basis (*i.e.* assuming conversion of the Preferred Shares and shares of Series A Preferred Stock and including through the ownership of Preferred Shares, Series A Preferred Stock or Common Stock, but excluding through the ownership of Series A-2 Preferred Stock) and (B) eighty percent (80%) of the sum of (x) the aggregate number of Shares (as defined in the May 2014 Securities Purchase Agreement) issued to the May 2014 Purchasers on the Original Issue Date (determined on an as-converted to Common Stock basis) plus (y) the aggregate number of Preferred Shares issued to the September 2014 Purchasers on the Second Issue Date (determined on an as-converted to Common Stock basis).



(ccc) “Preferred Shares” means the shares of Series A-1 Preferred Stock but shall exclude, for the avoidance of doubt, shares of Series A Preferred Stock and shares of Series A-2 Preferred Stock.

(ddd) “Public Float Hurdle” means, as of any relevant measurement date, that (i) the Common Stock is registered under the Exchange Act, (ii) the Common Stock is listed on an Exchange, (iii) the aggregate value of all outstanding Common Stock (based on the Thirty Day VWAP) is not less than \$200,000,000 and (iv) the Public Market Capitalization is greater than 1.00x the aggregate value of the Common Stock issuable upon conversion of the Preferred Shares and any then outstanding Senior Securities or Parity Securities or “in-the-money” securities of the Company of the type described in clauses (ii) and (iii) of the definition of “Equity Securities” (calculated using the Thirty Day VWAP and the applicable conversion and exercise prices at such time).

(eee) “Public Market Capitalization” means, as of any relevant measurement date, all issued and outstanding shares of Common Stock, other than Common Stock being held or Beneficially Owned by (A) the HRG Affiliates, (B) the directors and executive officers of the Company or (C) any other Affiliate of the Company.

(fff) “Redemption Date” means the Maturity Date, any Optional Redemption Date or any Change of Control Payment Date, as applicable.

(ggg) “Redemption Price” means with respect to each Preferred Share: (i) in connection with a redemption pursuant to SECTION 6(a), the Accrued Value plus all accrued and unpaid Dividends (to the extent not included in the Accrued Value, including, without limitation, accrued and unpaid Cash Dividends and accrued and unpaid Accreting Dividends for the then current Dividend Period), if any, on each Preferred Share to be redeemed, (ii) in connection with a redemption pursuant to SECTION 6(b), the sum of 150% of the Accrued Value plus all accrued and unpaid Dividends (to the extent not included in the Accrued Value, including, without limitation, accrued and unpaid Cash Dividends and accrued and unpaid Accreting Dividends for the then current Dividend Period), if any, on each Preferred Share to be redeemed (the “Standard Call Price”) (provided that if the Public Float Hurdle is not satisfied as of the Optional Redemption Date, the Redemption Price for such redemption pursuant to SECTION 6(b) shall equal the greater of (X) such Standard Call Price and (Y) the Thirty Day VWAP as of the date the Company gives the applicable notice of optional redemption under SECTION 6(b) multiplied by the number of shares of Common Stock into which the Preferred Share is convertible as of such date at the applicable Conversion Price) or (iii) in connection with a Change of Control, the Change of Control Payment Amount.

(hhh) “Related Party Transaction” any transaction (or series of related transactions), arrangement or contract entered into, consummated, renewed, amended or extended between the Company or any Subsidiary of the Company, on the one hand, and any HRG Affiliate or other Affiliate of the Company (other than Subsidiaries of the Company), on the other hand, if such transaction, arrangement or contract involves payments or consideration in excess of \$500,000 in the aggregate; *provided* that (i) the execution of a joinder to the Registration Rights Agreement (as defined in the January 2015 Securities Purchase Agreement) by HRG Affiliates, (ii) the agreement granting information and access rights to the Company by Schuff International, Inc. substantially in the form previously provided to the Holders or (iii) the agreement granting information and access rights to HRG Affiliates by the Company substantially in the form previously provided to the holders shall not constitute a “Related Party Transaction”.

(iii) “Requisite Holders” means Holders (other than the Company, its employees, its Subsidiaries or any HRG Affiliates) owning more than 75% of the Regular Liquidation Preference of the issued and outstanding Preferred Shares and shares of Series A Preferred Stock and Series A-2 Preferred Stock, taken as a whole; *provided* that, for purposes of such calculation, the Preferred Shares and shares of Series A Preferred Stock and Series A-2 Preferred Stock held by the Company, its employees, its Subsidiaries or any HRG Affiliate shall be treated as not outstanding.

(jjj) “Restricted Payment” means (A) any dividend, distribution or other payment in respect of the Common Stock or any other Junior Securities (other than dividends or distributions referred to in SECTIONS 5(g)(i)(A) and 5(g)(i)(B)) or Equity Securities of a Subsidiary or the repurchase, redemption or other acquisition of any shares of Common Stock or any other Junior Securities (or setting aside funds for such purposes) or Equity Securities of a Subsidiary or (B) any dividend, distribution or other payment in respect of Parity Securities or the repurchase, redemption or other acquisition of any Parity Securities (or setting aside funds for such purposes) unless such dividend, distribution, payment, repurchase, redemption or other acquisition is made on a pro rata basis among the Preferred Shares and the Parity Securities in proportion to the amounts to which they are entitled.

(kkk) “Second Issue Date” means September 22, 2014, the first issue date of the Series A-1 Preferred Stock.

(lll) “Securities” with respect to a Person means debt or equity securities issued by such Person or similar obligations of, or participations in, such Person.

(mmm) “September 2014 Purchasers” means the several “Purchasers” named in and party to the September 2014 Securities Purchase Agreement.

(nnn) “September 2014 Securities Purchase Agreement” means that certain Securities Purchase Agreement, dated September 22, 2014, by and among the Company and the September 2014 Purchasers, as amended, supplemented or modified in accordance with its terms.

(ooo) “Series A Certificate of Designation” means the Certificate of Designation of the Series A Preferred Stock, as amended.

(ppp) “Series A Preferred Stock” means the Series A Convertible Participating Preferred Stock of the Company, par value \$0.001 per share.

(qqq) “Series A/A-1 Requisite Holders” means Holders (other than the Company, its employees, its Subsidiaries or any HRG Affiliates) owning more than 75% of the Regular Liquidation Preference of the issued and outstanding Preferred Shares and shares of Series A Preferred Stock (but excluding shares of Series A-2 Preferred Stock), taken as a whole; *provided* that, for purposes of such calculation, the Preferred Shares and shares of Series A Preferred Stock held by the Company, its employees, its Subsidiaries or any HRG Affiliate shall be treated as not outstanding.

(rrr) “Series A-1 Requisite Holders” means holders of Preferred Shares (other than the Company, its employees, its Subsidiaries or any HRG Affiliates) owning more than 75% of the Regular Liquidation Preference of the issued and outstanding Preferred Shares; *provided* that, for purposes of such calculation, the Preferred Shares held by the Company, its employees, its Subsidiaries or any HRG Affiliate shall be treated as not outstanding.

(sss) “Series A-2 Preferred Stock” means the Series A-2 Convertible Participating Preferred Stock of the Company, par value \$0.001 per share.

(ttt) “Specified Percentage” means, until the third (3<sup>rd</sup>) anniversary of the Original Issue Date, 150%, and 100% thereafter.

(uuu) “Subsidiary” means with respect to any Person, any corporation, association or other business entity of which more than 50% of the outstanding Voting Stock is owned, directly or indirectly, by, or of which more than 50% of the economic value accrues to, or, in the case of a partnership, the sole general partner or the managing partner or the only general partners of which are, such Person and one or more Subsidiaries of such Person (or a combination thereof). Unless otherwise specified, “Subsidiary” means a Subsidiary of the Company.

(vvv) “Third Issue Date” means January 5, 2015, the first issue date of shares of Series A-2 Preferred Stock.

(www) “Thirty Day VWAP” means, with respect to a security, the average of the Daily VWAP of such security for each day during a thirty (30) consecutive Trading Day period ending immediately prior to the date of determination. Unless otherwise specified, “Thirty Day VWAP” means the Thirty Day VWAP of the Common Stock.

(xxx) “Trading Day” means any day on which (i) there is no Market Disruption Event and (ii) the Exchange on which the Common Stock (or Reference Property, to the extent applicable) is listed and is open for trading or, if the Common Stock (or Reference Property, to the extent applicable) is not so listed, admitted for trading or quoted, any Business Day. A Trading Day only includes those days that have a scheduled closing time of 4:00 p.m. (New York City time) or the then standard closing time for regular trading on the relevant exchange or trading system.

(yyy) “U.S. Government Obligations” means obligations issued or directly and fully guaranteed or insured by the United States of America or by any agent or instrumentality thereof, *provided* that the full faith and credit of the United States of America is pledged in support thereof.

(zzz) “Voting Power” means either (a) the power to elect, designate or nominate directors to the Board, or (b) vote (as Common Stock or together with Common Stock) on matters to be voted on or consented to by the Common Stock through the ownership of Voting Stock, by contract or otherwise.

(aaa) “Voting Stock” means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

(bbb) “Wholly Owned Subsidiary” means any Subsidiary of a Person of which such Person owns, either directly or indirectly, 100% of the common stock or other common equity interests of such Subsidiary (excluding qualifying shares held by directors).

SECTION 11. Miscellaneous. For purposes of this Certificate of Designation, the following provisions shall apply:

(a) Share Certificates. If any certificates representing Preferred Shares shall be mutilated, lost, stolen or destroyed, the Company shall issue, in exchange and in substitution for and upon cancellation of the mutilated certificate, or in lieu of and substitution for the lost, stolen or destroyed certificate, a new Preferred Share certificate of like tenor and representing an equivalent number of Preferred Shares, but only upon receipt of evidence of such loss, theft or destruction of such certificate and indemnity by the holder thereof, if requested, reasonably satisfactory to the Company.

(b) Status of Cancelled Shares. Preferred Shares which have been converted, redeemed, repurchased or otherwise cancelled shall be retired and, following the filing of any certificate required by the DGCL, have the status of authorized and unissued shares of Preferred Stock, without designation as to series, until such shares are once more designated by the Board as part of a particular series of Preferred Stock of the Company.

(c) Severability. If any right, preference or limitation of the Series A-1 Preferred Stock set forth in this Certificate of Designation is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other rights, preferences and limitations set forth in this Certificate of Designation which can be given effect without the invalid, unlawful or unenforceable right, preference or limitation shall, nevertheless, remain in full force and effect, and no right, preference or limitation herein set forth shall be deemed dependent upon any other such right, preference or limitation unless so expressed herein.

(d) Remedies.

(i) The Company acknowledges that the obligations imposed on it in this Certificate of Designation are special, unique and of an extraordinary character, and irreparable damages, for which money damages, even if available, would be an inadequate remedy, would occur in the event that the Company does not perform the provisions of this Certificate of Designation in accordance with its specified terms or otherwise breaches such provisions. The Holders of Preferred Stock shall be entitled to an injunction, specific performance and other equitable relief to prevent breaches of this Certificate of Designation and to seek to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which they are entitled, at law or in equity, including without limitation money damages.

(e) Renunciation under DGCL Section 122(17). Pursuant to Section 122(17) of the Delaware General Corporation Law, the Company renounces any interest or expectancy of the Company in, or being offered an opportunity to participate in, business opportunities that are presented to one or more of the Preferred Elected Directors, in each case other than any business opportunities that are presented to any such Preferred Elected Director solely in his or her capacity as a director of the Company.

(f) Headings. The headings of the various subdivisions hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

(g) Notices. All notices or communications in respect of Preferred Stock shall be in writing and shall be deemed delivered (a) one (1) Business Day after being sent via a reputable nationwide overnight courier service guaranteeing next business day delivery, (b) on the date of delivery if delivered personally, or (c) if by facsimile, upon written confirmation of receipt by facsimile. Notwithstanding the foregoing, if Preferred Stock is issued in book-entry form through The Depository Trust Company or any similar facility, such notices may be given to the beneficial holders of Preferred Stock in any manner permitted by such facility.

(h) Other Rights. The shares of Preferred Stock shall not have any rights, preferences, privileges or voting powers or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Certificate of Incorporation or as provided by applicable law and regulation.

(i) Series A-1 Requisite Holders; Requisite Holders. Notwithstanding anything to the contrary contained herein, any consent, waiver, vote, decision, election or action required or permitted to be taken hereunder by (i) the Holders of the Preferred Shares as a group (i.e., as opposed to by a specified Holder) shall require the approval or action, as applicable, of the Series A-1 Requisite Holders and (ii) the Holders of the Preferred Shares and shares of Series A Preferred Stock and Series A-2 Preferred Stock as a group shall require the approval or action, as applicable, of the Requisite Holders and, in each case, after such approval or action, shall be binding on all such Holders.

*[Rest of page intentionally left blank.]*

IN WITNESS WHEREOF, the Company has caused this Amended and Restated Certificate of Designation to be executed by a duly authorized officer of the Company as of \_\_\_\_\_, 2016.

**HC2 HOLDINGS, INC.**

By: /s/ Keith M. Hladek

Name: Keith M. Hladek

Title: Chief Operating Officer

*[SIGNATURE PAGE TO CERTIFICATE OF AMENDMENT TO CERTIFICATE OF DESIGNATION]*

## VOLUNTARY CONVERSION AGREEMENT

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

### RECITALS

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

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

### AGREEMENT

The parties agree as follows:

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

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

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

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

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

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

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

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

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

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

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

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

## **2. Closing.**

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **5. Transfer Restrictions.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**11. Indemnification.**

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



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

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

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

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

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

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

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

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

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

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

[SIGNATURE PAGE FOLLOWS]

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

**COMPANY:**  
HC2 HOLDINGS, INC.

By: \_\_\_\_\_  
Name: Keith M.  
Hladek  
Title: Chief  
Operating  
Officer

[Signature Page to Voluntary Conversion Agreement (Luxor – August 2016)]

LUXOR CAPITAL  
PARTNERS, LP

By: \_\_\_\_\_  
Name:     Norris Nissim  
Title:     General  
            Counsel  
Address:  \_\_\_\_\_  
            \_\_\_\_\_

LUXOR CAPITAL PARTNERS  
OFFSHORE MASTER FUND,  
LP

By: \_\_\_\_\_  
Name:     Norris Nissim  
Title:     General  
            Counsel  
Address:  \_\_\_\_\_  
            \_\_\_\_\_

THEBES OFFSHORT  
MASTER  
FUND, LP

By: \_\_\_\_\_  
Name:     Norris Nissim  
Title:     General  
            Counsel  
Address:  \_\_\_\_\_  
            \_\_\_\_\_

LUXOR WAVERFRONT, LP

By: \_\_\_\_\_  
Name:     Norris Nissim  
Title:     General  
            Counsel  
Address:  \_\_\_\_\_  
            \_\_\_\_\_

## EXHIBIT A

### ADDITIONAL INFORMATION

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

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

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

**EXHIBIT B**

**REGISTRATION RIGHTS AGREEMENT**

[TO BE ATTACHED]

**REGISTRATION RIGHTS AGREEMENT**

**by and among**

**HC2 HOLDINGS INC.**

**and the INVESTORS party hereto**

**Dated August 2, 2016**

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## REGISTRATION RIGHTS AGREEMENT

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

### RECITALS

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

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

1. Definitions. For purposes of this Agreement:

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

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

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

1.4 “**Common Stock**” means shares of the Company’s common stock, par value \$0.001 per share.

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

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

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

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

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

1.10 “**FINRA**” means the Financial Industry Regulatory Authority.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.1 Demand and Shelf Registration.

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

(b) Shelf Registration.

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

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

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

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

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

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

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

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

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

### 2.3 Underwriting Requirements.

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

(b) Shelf Underwritten Takedown.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **3. Miscellaneous.**

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

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

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

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

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

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

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

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

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

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

(a) If to the Company:

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

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

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

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

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

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

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

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

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

[Remainder of Page Intentionally Left Blank]

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

HC2 HOLDINGS INC.

By:

Name: Paul L. Robinson

Title: Chief Legal Officer and Corporate Secretary

[HC2 – Registration Rights Agreement (Luxor - August 2016)]

US-DOCS\70205888

INVESTORS:

LUXOR CAPITAL PARTNERS, LP

By: \_\_\_\_\_

Name:

Title:

LUXOR CAPITAL PARTNERS OFFSHORE MASTER  
FUND, LP

By: \_\_\_\_\_

Name:

Title:

LUXOR WAVEFRONT, LP

By: \_\_\_\_\_

Name:

Title:

[HC2 – Registration Rights Agreement (Luxor - August 2016)]



## SCHEDULE A

### Investors

#### **Luxor Investors**

LUXOR CAPITAL PARTNERS, LP  
LUXOR CAPITAL PARTNERS OFFSHORE MASTER FUND, LP  
LUXOR WAVEFRONT, LP

**EXHIBIT A**

**FORM OF JOINDER**

THIS JOINDER is made on this      day of      ,

BETWEEN

(1)                      (the “New Party”);

AND

(2)      THE INVESTORS

(collectively, the “Current Parties” and individually, a “Current Party”);

AND

(3)      HC2 HOLDINGS INC., (the “Company”).

WHEREAS a Registration Rights Agreement was entered into on August , 2016 by and among, inter alia, certain of the Current Parties and the Company (the “Registration Rights Agreement”), a copy of which the New Party hereby confirms that it has been supplied with and acknowledges the terms therein.

NOW IT IS AGREED as follows:

1. In this Joinder, unless the context otherwise requires, words and expressions respectively defined or construed in the Registration Rights Agreement shall have the same meanings when used or referred to herein.
2. The New Party hereby accedes to and ratifies the Registration Rights Agreement and covenants and agrees with the Current Parties and the Company to be bound by the terms of the Registration Rights Agreement as an “Investor” and to duly and punctually perform and discharge all liabilities and obligations whatsoever from time to time to be performed or discharged by it under or by virtue of the Registration Rights Agreement in all respects as if named as a party therein.
3. The Company covenants and agrees that the New Party shall be entitled to all the benefits of the terms and conditions of the Registration Rights Agreement to the intent and effect that the New Party shall be deemed, with effect from the date on which the New Party executes this Joinder, to be a party to the Registration Rights Agreement as an “Investor.”
4. This Joinder shall hereafter be read and construed in conjunction and as one document with the Registration Rights Agreement and references in the Registration Rights Agreement to “the Agreement” or “this Agreement,” and references in all other instruments and documents executed thereunder or pursuant thereto to the Registration Rights Agreement, shall for all purposes refer to the Registration Rights Agreement incorporating and as supplemented by this Joinder.
5. THIS JOINDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW THEREOF.
6. Any action or proceeding against any party hereto relating in any way to this Joinder or the transactions contemplated hereby may be brought and enforced in any United States federal court or New York State Court located in the Borough of Manhattan in The City of New York, and each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the jurisdiction of each such court in respect

of any such action or proceeding. Each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the service of process in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, return receipt requested, to such person or entity at the address for such person or entity set forth in Section 3.7 of the Registration Rights Agreement or such other address such person or entity shall notify the other in writing. The foregoing shall not limit the right of any person or entity to serve process in any other manner permitted by law or to bring any action or proceeding, or to obtain execution of any judgment, in any other jurisdiction.

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

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

9. The address of the undersigned for purposes of all notices under the Registration Rights Agreement is:

\_\_\_\_\_  
\_\_\_\_\_

[NEW PARTY]

By: \_\_\_\_\_  
Name:  
Title:

## EXHIBIT C

### SCHEDULE OF EXCHANGING ENTITIES

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

## VOLUNTARY CONVERSION AGREEMENT

**THIS VOLUNTARY CONVERSION AGREEMENT** (this “**Agreement**”) is made and entered into as of August 2, 2016, by and among HC2 Holdings, Inc., a Delaware corporation (the “**Company**”), and Corrib Master Fund, Ltd., a holder (the “**Holder**”) of the Company’s Series A Convertible Participating Preferred Stock, par value \$0.01 per share (the “**Preferred Stock**”).

### RECITALS

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

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

### AGREEMENT

The parties agree as follows:

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

**(a) Conversion by the Holder.** The Holder agrees, pursuant to Section 5(a) of the Certificate of Designation of Series A Convertible Participating Preferred Stock, dated as of May 29, 2014, (as amended from time to time prior to the date hereof, and as in effect as of the date hereof, the “**Series A Certificate of Designation**”), that on the Closing Date, it will convert 1,000 shares of the Preferred Stock it holds into Common Stock, such shares of Preferred Stock representing all of the outstanding shares of Preferred Stock it holds as of the date hereof and immediately before the conversion contemplated by this clause (a) (the “**Holder’s Shares**”).

**(b) Initial Issuance of Common Stock by Company.** In consideration of the conversion referenced in clause (a) above, the Company agrees to issue to Holder on the Closing Date, in a transaction exempt from the registration requirements of the Securities Act of 1933 (the “**Securities Act**”) under Section 4(a)(2) of the Securities Act, 15,318 shares of Common Stock.

**(c) Participating Dividend Issuances by Company.** In further consideration of the conversion referenced in clause (a) above, the Company agrees that in the event that the Holder, had it not converted the Holder’s Shares pursuant to clause (a) above, would have been entitled to any Participating Dividends (as defined in the Series A Certificate of Designation) payable after the date of this Agreement had the Holder’s Shares remained unconverted, then the Company will issue to Holder, on the date such Participating Dividends become payable by the Company, in a transaction exempt from the registration requirements of the Securities Act under Section 4(a)(2)

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

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

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

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

**(g) Limitation on Hedging Transactions by Holder.** The Holder agrees that, so long as the provisions of clause (c) or clause (d) above remain applicable, it will not, and will not permit any of its controlled parties or affiliates to, directly or indirectly, enter into any hedging transaction, short position, or similar transaction (i) with respect to the shares of the Company's Common Stock it may have the right to receive pursuant to clauses (c) or (d) hereof until and unless such shares of Common Stock are issued to Holder or (ii) during any Quarterly Measurement Period.

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

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

## 2. Closing.

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

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

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

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

adverse effect on the Company's ability to perform in any material respect its obligations under the Transaction Documents (any of (x), (y) and (z), a "**Material Adverse Effect**").

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

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

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

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



Item 404 of Regulation S-K that have not been disclosed in the Company SEC Filings. The Company SEC Filings also include disclosure regarding the Company's continued evaluation of strategic and business alternatives, including the possibility that the Company is engaged in ongoing discussions with respect to possible acquisitions, business combinations and debt or equity securities offerings of widely varying sizes, which should be considered in addition to the information included on **Exhibit A** hereto regarding the potential dilution to holders of the Common Stock that may result from the transactions described in this Agreement.

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

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

(f) **No Breach.** The Company represents and warrants that the execution and delivery of the Transaction Documents, the consummation of the transactions contemplated in the Transaction Documents, and the compliance with the terms of the Transaction Documents, will not conflict with, result in the breach of, or constitute a material default under, or require any consent or approval that has not been obtained on or prior to the date hereof under, any agreement or instrument to which the Company is a party or by which it may be bound, other than those consents

and approvals the failure to obtain would not reasonable be expected to have a Material Adverse Effect.

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

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

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

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

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

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

**(m) Tax Advice.** The Company represents and warrants that neither the Holder, nor any of their respective officers, directors, stockholders, agents, representatives or affiliates has made statements, warranties or representations to the Company with respect to the tax consequences

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

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

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

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

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

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

**(b) No Breach.** The execution and delivery of the Transaction Documents by the Holder, the consummation of the transactions contemplated in the Transaction Documents, and the compliance with the terms of the Transaction Documents will not conflict with, result in the breach of, or constitute a material default under, or require any consent or approval that has not been obtained on or prior to the date hereof under, any agreement or instrument to which the Holder is a party or by which it may be bound.

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

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

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

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

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

(h) **Company Information.** The Company may possess or receive or may have received, may have access to, and may be in possession of material, non-public, confidential information concerning the Shares, the Company, and the Company’s and/or its affiliates’ financial condition, results of operations, businesses, properties, active or pending litigation, assets, liabilities, management, projections, appraisals, plans and prospects (“**Company Information**”) that has not been disclosed to the Holder. The Holder also acknowledges the information set forth on **Exhibit A** hereto (the “**Transaction Information**”). The Company Information and the Transaction Information may all have an effect on the value of the Shares or be indicative of a value of the Shares that is substantially different from the value of the Shares on the Closing Date and going forward. The Holder expressly waives and releases the Company from any and all claims and liabilities arising from (i) the Company’s failure to disclose, or the Holder’s failure to obtain and

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

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

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

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

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

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

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

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

## **5. Transfer Restrictions.**

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

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

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

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

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

**(b) Representations and Warranties.** The representations and warranties made by the Holder in Section 4 hereof shall be true and correct in all material respects when made, and shall be true and correct in all material respects on the Closing Date with the same force and effect

as if they had been made on and as of said date, except to the extent any such representation or warranty expressly speaks of an earlier date, in which case such representation and warranty shall be true and correct as of such earlier date. The Holder shall have performed all obligations and covenants herein required to be performed by them on or prior to the Closing Date.

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

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

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

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

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

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

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

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

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

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

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

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

**11. Indemnification.**

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



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

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

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

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

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

**15. Entire Agreement.** This Agreement (including all Exhibits hereto) sets forth the entire understanding of the parties hereto and supersedes any prior written or oral agreements and understandings with respect to the subject matter of this Agreement. This Agreement can be amended, supplemented or changed, and any provision hereof can be waived, only by written instrument making specific reference to this Agreement signed by the parties hereto.

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

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

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

**[SIGNATURE PAGE FOLLOWS]**

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

**COMPANY:**

HC2 HOLDINGS INC.

By: \_\_\_\_\_

Name: Keith M. Hldaek

Title: Chief Operating Officer

[Signature Page to Voluntary Conversion Agreement (Corrib – August 2016)]

CORRIB MASTER FUND, LTD.

By: \_\_\_\_\_  
Name: Kevin Cavanaugh  
Title: Chief Investment Officer  
Address: \_\_\_\_\_  
527 Marquette Avenue  
South  
Suite 1000  
Minneapolis, MN 55402

[Signature Page to Voluntary Conversion Agreement (Corrib – August 2016)]

## EXHIBIT A

### ADDITIONAL INFORMATION

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

(a)

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

(b)

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

**EXHIBIT B**

**REGISTRATION RIGHTS AGREEMENT**

[TO BE ATTACHED]

**REGISTRATION RIGHTS AGREEMENT**

**by and among**

**HC2 HOLDINGS INC.**

**and the INVESTORS party hereto**

**Dated August 2, 2016**

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<u>Schedule A</u>	- Investors
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## REGISTRATION RIGHTS AGREEMENT

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

### RECITALS

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

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

1. Definitions. For purposes of this Agreement:

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

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

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

1.4 “**Common Stock**” means shares of the Company’s common stock, par value \$0.001 per share.

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

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

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

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

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

1.10 “**FINRA**” means the Financial Industry Regulatory Authority.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.1 Demand and Shelf Registration.

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

(b) Shelf Registration.

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

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

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

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

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

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

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

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

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

### 2.3 Underwriting Requirements.

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

(b) Shelf Underwritten Takedown.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **3. Miscellaneous.**

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

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

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

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

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

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

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

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

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

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

(a) If to the Company:

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

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

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

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

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

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

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

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

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

[Remainder of Page Intentionally Left Blank]

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

HC2 HOLDINGS INC.

By: \_\_\_\_\_  
Name: Paul L. Robinson  
Title: Chief Legal Officer and Corporate Secretary

[HC2 Registration Rights Agreement (Corrib - August 2016)]

US-DOCS\70473355

CORRIB MASTER FUND, LTD.

By: \_\_\_\_\_

Name: Kevin Cavanaugh

Title: Chief Investment Officer

[HC2 Registration Rights Agreement (Corrib - August 2016)]

US-DOCS\70473355



## **SCHEDULE A**

### **Investors**

Corrib Master Fund LTD

527 Marquette Avenue South  
Suite 1000  
Minneapolis, MN 55402

US-DOCS\70473355

**EXHIBIT A**

**FORM OF JOINDER**

THIS JOINDER is made on this      day of      ,

BETWEEN

(1)                      (the “New Party”);

AND

(2) THE INVESTORS

(collectively, the “Current Parties” and individually, a “Current Party”);

AND

(3) HC2 HOLDINGS INC., (the “Company”).

WHEREAS a Registration Rights Agreement was entered into on August , 2016 by and among, inter alia, certain of the Current Parties and the Company (the “Registration Rights Agreement”), a copy of which the New Party hereby confirms that it has been supplied with and acknowledges the terms therein.

NOW IT IS AGREED as follows:

1. In this Joinder, unless the context otherwise requires, words and expressions respectively defined or construed in the Registration Rights Agreement shall have the same meanings when used or referred to herein.
2. The New Party hereby accedes to and ratifies the Registration Rights Agreement and covenants and agrees with the Current Parties and the Company to be bound by the terms of the Registration Rights Agreement as an “Investor” and to duly and punctually perform and discharge all liabilities and obligations whatsoever from time to time to be performed or discharged by it under or by virtue of the Registration Rights Agreement in all respects as if named as a party therein.
3. The Company covenants and agrees that the New Party shall be entitled to all the benefits of the terms and conditions of the Registration Rights Agreement to the intent and effect that the New Party shall be deemed, with effect from the date on which the New Party executes this Joinder, to be a party to the Registration Rights Agreement as an “Investor.”
4. This Joinder shall hereafter be read and construed in conjunction and as one document with the Registration Rights Agreement and references in the Registration Rights Agreement to “the Agreement” or “this Agreement,” and references in all other instruments and documents executed thereunder or pursuant thereto to the Registration Rights Agreement, shall for all purposes refer to the Registration Rights Agreement incorporating and as supplemented by this Joinder.
5. THIS JOINDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE PRINCIPLES OF CONFLICTS OF LAW THEREOF.
6. Any action or proceeding against any party hereto relating in any way to this Joinder or the transactions contemplated hereby may be brought and enforced in any United States federal court or New York State Court

located in the Borough of Manhattan in The City of New York, and each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the jurisdiction of each such court in respect of any such action or proceeding. Each party, on behalf of itself and its respective successors and assigns, irrevocably consents to the service of process in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, return receipt requested, to such person or entity at the address for such person or entity set forth in Section 3.7 of the Registration Rights Agreement or such other address such person or entity shall notify the other in writing. The foregoing shall not limit the right of any person or entity to serve process in any other manner permitted by law or to bring any action or proceeding, or to obtain execution of any judgment, in any other jurisdiction.

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

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

9. The address of the undersigned for purposes of all notices under the Registration Rights Agreement is:

\_\_\_\_\_

\_\_\_\_\_

[NEW PARTY]

By: \_\_\_\_\_

Name:

Title:

**HC2 HOLDINGS, INC.**  
**2014 OMNIBUS EQUITY AWARD PLAN**  
**EMPLOYEE NONQUALIFIED OPTION AWARD AGREEMENT**

THIS NONQUALIFIED OPTION AWARD AGREEMENT (the “Agreement”), is made, effective as of **[insert date]** (the “Date of Grant”), between HC2 Holdings, Inc. (the “Company”), and **[insert name]** (the “Participant”).

**RECITALS:**

WHEREAS, the Company has adopted the HC2 Holdings, Inc. 2014 Omnibus Equity Award Plan (the “Plan”), pursuant to which Options may be granted; and

WHEREAS, the Board of Directors of the Company has determined that it is in the best interests of the Company and its stockholders to grant to the Participant an Option as provided herein and subject to the terms set forth herein.

NOW THEREFORE, for and in consideration of the premises and the covenants of the parties contained in this Agreement, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto, for themselves, their successors and assigns, hereby agree as follows:

**1. Grant of Option.**

- (a) Grant. The Company hereby grants to the Participant an Option (the “Option”) to purchase **[insert number]** shares of Common Stock (such shares, the “Option Shares”), on the terms and conditions set forth in this Agreement and as otherwise provided in the Plan. The Option is not intended to qualify as an Incentive Stock Option. The Exercise Price, being the price at which the Participant shall be entitled to purchase the Option Shares upon the exercise of all or any portion of the Option, shall be \$**[insert price]** per Option Share.
- (b) Incorporation by Reference, Etc. The provisions of the Plan are hereby incorporated herein by reference. Except as otherwise expressly set forth herein, this Agreement shall be construed in accordance with the provisions of the Plan and any capitalized terms not otherwise defined in this Agreement shall have the definitions set forth in the Plan. In the event of a conflict between the Plan and this Agreement, the terms and conditions of the Plan shall govern. The Committee shall have final authority to interpret and construe the Plan and this Agreement and to make any and all determinations under them, and its decision shall be binding and conclusive upon the Participant and his legal representative in respect of any questions arising under the Plan or this Agreement.

**2. Vesting.** Except as may otherwise be provided herein (or as otherwise provided in an employment, consulting or other written agreement between the Participant and the

Company or any of its Subsidiaries), subject to the Participant's continued employment with the Company or a Subsidiary, [the Option shall become vested and exercisable with respect to \_\_\_\_\_ (\_\_\_\_%) percent of the Option Shares on the Grant Date and \_\_\_\_\_ (\_\_\_\_%) percent on the first anniversary of the Grant Date] (a "Vesting Date"). Any fractional Option Shares resulting from the application of the vesting schedule shall be aggregated and the Option Shares resulting from such aggregation shall vest on the Vesting Date.

3. **Transferability.** The Option may not be assigned, alienated, pledged, attached, sold, gifted, loaned or otherwise transferred or encumbered by the Participant other than by will or by the laws of descent and distribution, pursuant to a qualified domestic relations order or as otherwise permitted under of the Plan. In the event of the Participant's death, the Option shall thereafter be exercisable (to the extent otherwise exercisable hereunder) only by the Participant's executors or administrators. In addition, the Participant agrees to comply with any written holding requirement policy adopted by the Company for employees.

4. **Termination of Employment.** Except as otherwise provided below (or as otherwise provided in an employment, consulting or other written agreement between the Participant and the Company or any of its Subsidiaries), if the Participant's employment or service with the Company or any Subsidiary, as applicable, terminates for any reason, then the unvested portion of the Option shall be cancelled immediately and the Participant shall immediately forfeit any rights to the Option Shares subject to such unvested portion.

5. **Expiration.**

(a) In no event shall all or any portion of the Option be exercisable after the tenth anniversary of the Date of Grant (the "Option Period").

(b) Except as otherwise provided in an employment, consulting or other written agreement between the Participant and the Company or any of its Subsidiaries, if the Participant's employment or service with the Company and all Subsidiaries is terminated (i) by the Company or its Subsidiaries without Cause the Option shall expire on the earlier of the last day of the Option Period or the date that is 90 days after the date of such termination, or (ii) by the Participant for any reason other than at a time when grounds to terminate the Participant's employment for Cause exist, the Option shall expire on the earlier of the last day of the Option Period or the date that is 30 days after the date of such termination. In the event of a termination described in this subsection (b), the Option shall remain exercisable by the Participant until its expiration only to the extent the Option was exercisable at the time of such termination.

(c) Except as otherwise provided in an employment, consulting or other written agreement between the Participant and the Company or any of its Subsidiaries, if the Participant dies or is terminated on account of Disability prior to the end of the Option Period and while still in the employ or service of the Company or a Subsidiary, the Option shall remain exercisable by the Participant or his or her beneficiary, as applicable, until the earlier of the last day of the Option Period or the date that is one year after the date of death or termination on account of Disability of the Participant, as applicable. In the event of a

termination described in this subsection (c), the Option shall remain exercisable by the Participant until its expiration only to the extent the Option was exercisable at the time of such termination.

(d) If the Participant ceases employment or service of the Company or any of its Subsidiaries due to a termination for Cause or a termination by the Participant for any reason at a time when grounds to terminate the Participant's employment for Cause exist, the Option (including any vested portion of the Option) shall expire immediately upon such cessation of employment or service.

**6. Method of Exercise.**

(a) Options which have become exercisable may be exercised by delivery of a duly executed written notice of exercise to the Company at its principal business office using such form(s) as may be required from time to time by the Company. The Participant may obtain such form(s) by contacting the Chief Legal Officer at the address set forth in Section 9(a) below.

(b) No Option Shares shall be delivered pursuant to any exercise of the Option until payment in full of the Exercise Price therefor is received by the Company in accordance with Section 7(d) of the Plan and the Participant has paid to the Company an amount equal to any federal, state, local and non-U.S. income and employment taxes required to be withheld.

(c) Subject to applicable law, the Exercise Price and applicable tax withholding shall be payable, at the election of the Participant, by (i) cash or cash equivalents (including certified check or bank check or wire transfer of immediately available funds); (ii) if approved by the Committee, tendering previously acquired Common Stock (either actually or by attestation) valued at their then Fair Market Value; (iii) a "net exercise" procedure effected by withholding the minimum number of Option Shares otherwise deliverable in respect of an Option that are needed to pay for the Exercise Price and all applicable required withholding taxes; (iv) a cashless exercise procedure through a broker acceptable to the Company; or (v) such other method which is approved by the Committee. Any fractional shares of Common Stock shall be settled in cash.

**7. Rights as a Shareholder.** The Participant shall not be deemed for any purpose to be the owner of any Option Shares unless, until and to the extent that (i) this Option shall have been exercised pursuant to its terms, (ii) the Company shall have issued and delivered to the Participant the Option Shares, and (iii) the Participant's name shall have been entered as a shareholder of record with respect to such Option Shares on the books of the Company.

**8. Tax Withholding.** The exercise of the Option (or any portion thereof) shall be subject to the Participant satisfying any applicable federal, state, local and foreign tax withholding obligations in accordance with the methods specified in Section 6(c) hereof. The obligations of the Company under this Agreement will be conditional on such payment or arrangements, and the Company will, to the extent permitted by law, have the right to deduct any such

withholding taxes from all amounts payable to the Participant in connection with the Option or any payment of any kind otherwise due to the Participant.

**9. Miscellaneous.**

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

if to the Company:

HC2 Holdings, Inc.  
Attn: Chief Legal Officer  
450 Park Avenue, 30<sup>th</sup> Floor  
New York, NY 10022  
Email: [probinson@hc2.com](mailto:probinson@hc2.com)

if to the Participant, at the Participant's last known address on file with the Company.

All such notices, demands and other communications shall be deemed to have been duly given when delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial courier service; five business days after being deposited in the mail, postage prepaid, if mailed; and when receipt is mechanically acknowledged, if telecopied.

(b) Clawback/Forfeiture. If the Participant receives any amount in excess of what the Participant should have received with respect to the Option Shares for any reason (including without limitation by reason of a financial restatement, mistake in calculations or other administrative error), then the Participant shall be required to repay any such excess amount to the Company upon 30 days prior written demand by the Committee. To the extent required by applicable law (including without limitation Section 304 of the Sarbanes Oxley Act and Section 954 of the Dodd Frank Act), the Option Shares shall be subject to any required clawback, forfeiture or similar requirement.

(c) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, and each other provision of this Agreement shall be severable and enforceable to the extent permitted by law.

(d) No Rights to Service. Nothing contained in this Agreement shall be construed as giving the Participant any right to be retained, in any position as an employee, consultant or director of the Company or its Affiliates or shall interfere with or restrict in any way the rights of the Company or its Affiliates, which are hereby expressly reserved, to remove, terminate or discharge the Participant at any time for any reason whatsoever.

- (e) Bound by Plan. By signing this Agreement, the Participant acknowledges that he has received a copy of the Plan and has had an opportunity to review the Plan and agrees to be bound by all the terms and provisions of the Plan.
- (f) Beneficiary. The Participant may file with the Committee a written designation of a beneficiary on such form as may be prescribed by the Committee and may, from time to time, amend or revoke such designation. If no designated beneficiary survives the Participant, the executor or administrator of the Participant's estate shall be deemed to be the Participant's beneficiary.
- (g) Successors. The terms of this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Participant and the beneficiaries, executors, administrators, heirs and successors of the Participant.
- (h) Section 409A. The Option is intended to be exempt from or comply with Section 409A of the Code and this Agreement shall be interpreted consistent therewith. This Agreement is subject to Section 15(t) of the Plan.
- (i) Electronic Delivery. By executing this Agreement, the Participant hereby consents to the electronic delivery of prospectuses, annual reports and other information required to be delivered by Securities and Exchange Commission rules. This consent may be revoked in writing by the Participant at any time upon three business days' notice to the Company, in which case subsequent prospectuses, annual reports and other information will be delivered in hard copy to the Participant.
- (j) Securities Laws. The Participant agrees that the obligation of the Company to issue Option Shares shall also be subject, as conditions precedent, to compliance with applicable provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, state securities or corporation laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which the Company's securities shall be listed.
- (k) Entire Agreement. This Agreement and the Plan contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and supersede all prior communications, representations and negotiations in respect thereto. No change, modification or waiver of any provision of this Agreement shall be valid unless the same be in writing and signed by the parties hereto.
- (l) Governing Law. This Agreement shall be construed and interpreted in accordance with the laws of the State of Delaware without regard to principles of conflicts of law thereof, or principles of conflicts of laws of any other jurisdiction which could cause the application of the laws of any jurisdiction other than the State of Delaware.
- (m) Headings. The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part, of this Agreement.



(n) Signature in Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

*[Signatures on next page.]*

IN WITNESS WHEREOF, the Company and the Participant have executed this Agreement as set forth below.

**HC2 Holdings, Inc.**

By: \_\_\_\_\_

[Name]

[Title]

**Participant**

By: \_\_\_\_\_

[Name]

# CERTIFICATIONS

I, Philip A. Falcone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HC2 Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2016

By: /S/ Philip A. Falcone

Name: **Philip A. Falcone**

Title: **Chairman, President, and Chief Executive Officer  
(Principal Executive Officer)**

# CERTIFICATIONS

I, Michael Sena, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HC2 Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2016

By: /S/ Michael Sena

Name: **Michael Sena**

Title: **Chief Financial Officer**

**(Principal Financial and Accounting Officer)**

**CERTIFICATION**

Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002 (18 U.S.C. §1350, as adopted), Philip A. Falcone, the Chairman, President and Chief Executive Officer (Principal Executive Officer) of HC2 Holdings, Inc. (the “Company”), and Michael Sena, the Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016, to which this Certification is attached as Exhibit 32 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Periodic Report and results of operations of the Company for the period covered by the Periodic Report.

Date: August 9, 2016

/S/ Philip A. Falcone

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**Philip A. Falcone**

**Chairman, President and Chief Executive Officer**  
**(Principal Executive Officer)**

/S/ Michael Sena

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**Michael Sena**

**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**