

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, 2023

OR

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

Commission File No. 001-35210



INNOVATE

INNOVATE CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
222 Lakeview Ave., Suite 1660, West Palm Beach, FL
(Address of principal executive offices)

54-1708481
(I.R.S. Employer
Identification No.)
33401
(Zip Code)

(212) 235-2691

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	VATE	New York Stock Exchange
Preferred Stock Purchase Rights	N/A	New York Stock Exchange

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

None.

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 7, 2023, 79,234,991 shares of common stock, par value \$0.001, were outstanding.

INNOVATE CORP.

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INNOVATE CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue	\$ 368.8	\$ 392.2	\$ 686.7	\$ 805.0
Cost of revenue	316.2	341.9	590.5	704.9
Gross profit	52.6	50.3	96.2	100.1
Operating expenses:				
Selling, general and administrative	41.1	42.1	82.8	84.7
Depreciation and amortization	5.6	6.9	11.9	13.8
Other operating loss (income)	0.1	1.7	(0.3)	1.3
Income (loss) from operations	5.8	(0.4)	1.8	0.3
Other (expense) income:				
Interest expense	(16.3)	(12.5)	(31.9)	(25.1)
Loss from equity investees	(0.3)	(0.5)	(4.3)	(1.0)
Other income, net	0.3	1.5	16.8	1.4
Loss from operations before income taxes	(10.5)	(11.9)	(17.6)	(24.4)
Income tax expense	(1.2)	(2.0)	(2.1)	(3.6)
Net loss	(11.7)	(13.9)	(19.7)	(28.0)
Net loss attributable to non-controlling interests and redeemable non-controlling interests	1.8	1.5	0.8	3.2
Net loss attributable to INNOVATE Corp.	(9.9)	(12.4)	(18.9)	(24.8)
Less: Preferred dividends	0.6	1.2	1.8	2.4
Net loss attributable to common stockholders	\$ (10.5)	\$ (13.6)	\$ (20.7)	\$ (27.2)
Loss per share - basic and diluted	\$ (0.13)	\$ (0.18)	\$ (0.27)	\$ (0.35)
Weighted average common shares outstanding - basic and diluted	77.9	77.5	77.8	77.4

The accompanying notes are an integral part of these condensed consolidated financial statements.

INNOVATE CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited, in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss	\$ (11.7)	\$ (13.9)	\$ (19.7)	\$ (28.0)
Other comprehensive loss				
Foreign currency translation adjustment, net of tax	(0.1)	(2.5)	(1.1)	(1.8)
Disposition of equity method investment, net of tax	—	—	(9.1)	—
Other comprehensive loss	\$ (0.1)	\$ (2.5)	\$ (10.2)	\$ (1.8)
Comprehensive loss	(11.8)	(16.4)	(29.9)	(29.8)
Comprehensive loss attributable to non-controlling interests and redeemable non-controlling interests	1.8	1.7	3.5	3.3
Comprehensive loss attributable to INNOVATE Corp.	<u>\$ (10.0)</u>	<u>\$ (14.7)</u>	<u>\$ (26.4)</u>	<u>\$ (26.5)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

INNOVATE CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in millions, except share amounts)

	June 30, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 28.8	\$ 80.4
Accounts receivable, net	293.6	254.9
Contract assets	175.3	165.1
Inventory	19.9	18.9
Restricted cash	—	0.3
Other current assets	13.6	16.8
Total current assets	531.2	536.4
Investments	7.4	59.5
Deferred tax asset	1.7	1.7
Property, plant and equipment, net	161.5	165.0
Goodwill	127.0	127.1
Intangibles, net	182.6	190.1
Other assets	68.1	71.9
Total assets	\$ 1,079.5	\$ 1,151.7
Liabilities, temporary equity and stockholders' deficit		
Current liabilities		
Accounts payable	\$ 188.7	\$ 202.5
Accrued liabilities	73.3	65.4
Current portion of debt obligations	222.4	30.6
Contract liabilities	117.3	98.6
Other current liabilities	17.2	20.1
Total current liabilities	618.9	417.2
Deferred tax liability	3.8	9.1
Debt obligations	519.6	683.8
Other liabilities	55.2	71.2
Total liabilities	1,197.5	1,181.3
Commitments and contingencies		
Temporary equity		
Preferred stock Series A-3 and Series A-4, \$0.001 par value	17.0	17.6
Shares authorized: 20,000,000 as of both June 30, 2023 and December 31, 2022		
Shares issued and outstanding: 6,125 of Series A-3 and 10,000 of Series A-4 as of both June 30, 2023 and December 31, 2022		
Redeemable non-controlling interest	(6.9)	43.4
Total temporary equity	10.1	61.0
Stockholders' deficit		
Common stock, \$0.001 par value	0.1	0.1
Shares authorized: 160,000,000 as of both June 30, 2023 and December 31, 2022		
Shares issued: 80,722,983 and 80,216,028 as of June 30, 2023 and December 31, 2022, respectively		
Shares outstanding: 79,234,991 and 78,787,768 as of June 30, 2023 and December 31, 2022, respectively		
Additional paid-in capital	327.0	330.1
Treasury stock, at cost: 1,487,992 and 1,428,260 shares as of June 30, 2023 and December 31, 2022, respectively	(5.4)	(5.3)
Accumulated deficit	(471.0)	(452.1)
Accumulated other comprehensive (loss) income	(1.6)	5.9
Total INNOVATE Corp. stockholders' deficit	(150.9)	(121.3)
Non-controlling interest	22.8	30.7
Total stockholders' deficit	(128.1)	(90.6)
Total liabilities, temporary equity and stockholders' deficit	\$ 1,079.5	\$ 1,151.7

The accompanying notes are an integral part of these condensed consolidated financial statements.

INNOVATE CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(Unaudited, in millions)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss) (a)	Total INNOVATE Stockholders' (Deficit) Equity	Non- controlling Interest	Total Stockholders' (Deficit) Equity	Temporary Equity
	Shares	Amount								
Balance as of March 31, 2023	79.0	\$ 0.1	\$ 326.8	\$ (5.4)	\$ (461.1)	\$ (1.5)	\$ (141.1)	\$ 23.0	\$ (118.1)	\$ 12.1
Share-based compensation	—	—	0.7	—	—	—	0.7	—	0.7	—
Preferred stock dividends	—	—	(0.4)	—	—	—	(0.4)	—	(0.4)	(0.3)
Issuance of common stock	0.2	—	—	—	—	—	—	—	—	—
Transactions with non-controlling interests	—	—	(0.1)	—	—	—	(0.1)	0.1	—	(0.2)
Net loss	—	—	—	—	(9.9)	—	(9.9)	(0.1)	(10.0)	(1.7)
Other comprehensive (loss) income	—	—	—	—	—	(0.1)	(0.1)	(0.2)	(0.3)	0.2
Balance as of June 30, 2023	79.2	\$ 0.1	\$ 327.0	\$ (5.4)	\$ (471.0)	\$ (1.6)	\$ (150.9)	\$ 22.8	\$ (128.1)	\$ 10.1

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss) (a)	Total INNOVATE Stockholders' (Deficit) Equity	Non- controlling Interest	Total Stockholders' (Deficit) Equity	Temporary Equity
	Shares	Amount								
Balance as of December 31, 2022	78.8	\$ 0.1	\$ 330.1	\$ (5.3)	\$ (452.1)	\$ 5.9	\$ (121.3)	\$ 30.7	\$ (90.6)	\$ 61.0
Share-based compensation	—	—	1.2	—	—	—	1.2	—	1.2	—
Taxes paid in lieu of shares issued for share-based compensation	(0.1)	—	—	(0.1)	—	—	(0.1)	—	(0.1)	—
Preferred stock dividends	—	—	(1.3)	—	—	—	(1.3)	—	(1.3)	(0.6)
Issuance of common stock	0.5	—	—	—	—	—	—	—	—	—
Distributions to non-controlling interests	—	—	—	—	—	—	—	(10.7)	(10.7)	(5.2)
Transactions with non-controlling interests	—	—	(3.0)	—	—	—	(3.0)	3.1	0.1	(0.1)
DBMGI preferred stock repurchase	—	—	—	—	—	—	—	—	—	(41.8)
Net (loss) income	—	—	—	—	(18.9)	—	(18.9)	2.1	(16.8)	(2.9)
Other comprehensive loss	—	—	—	—	—	(7.5)	(7.5)	(2.4)	(9.9)	(0.3)
Balance as of June 30, 2023	79.2	\$ 0.1	\$ 327.0	\$ (5.4)	\$ (471.0)	\$ (1.6)	\$ (150.9)	\$ 22.8	\$ (128.1)	\$ 10.1

(a) Inclusive of other comprehensive (loss) income, foreign currency cumulative translation adjustments totaled a loss of \$2.9 million as of June 30, 2023.

INNOVATE CORP.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(Unaudited, in millions)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (a)	Total INNOVATE Stockholders' (Deficit) Equity	Non-controlling Interest	Total Stockholders' (Deficit) Equity	Temporary Equity
	Shares	Amount								
Balance as of March 31, 2022	78.4	\$ 0.1	\$ 330.8	\$ (5.2)	\$ (428.6)	\$ 7.0	\$ (95.9)	\$ 26.6	\$ (69.3)	\$ 66.2
Share based compensation expense	—	—	0.5	—	—	—	0.5	—	0.5	—
Fair value adjustment to redeemable non-controlling interest	—	—	0.1	—	—	—	0.1	—	0.1	(0.1)
Preferred stock dividends	—	—	—	—	—	—	—	—	—	(0.3)
Issuance of preferred stock	—	—	(0.9)	—	—	—	(0.9)	—	(0.9)	0.9
Other	—	—	0.2	—	—	—	0.2	—	0.2	—
Net (loss) income	—	—	—	—	(12.4)	—	(12.4)	0.2	(12.2)	(1.7)
Other comprehensive loss	—	—	—	—	—	(2.3)	(2.3)	(0.2)	(2.5)	—
Balance as of June 30, 2022	78.4	\$ 0.1	\$ 330.7	\$ (5.2)	\$ (441.0)	\$ 4.7	\$ (110.7)	\$ 26.6	\$ (84.1)	\$ 65.0

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (a)	Total INNOVATE Stockholders' (Deficit) Equity	Non-controlling Interest	Total Stockholders' (Deficit) Equity	Temporary Equity
	Shares	Amount								
Balance as of December 31, 2021	77.8	\$ 0.1	\$ 330.6	\$ (5.2)	\$ (416.2)	\$ 6.4	\$ (84.3)	\$ 28.1	\$ (56.2)	\$ 68.1
Share-based compensation	—	—	1.3	—	—	—	1.3	—	1.3	—
Fair value adjustment to redeemable non-controlling interest	—	—	0.1	—	—	—	0.1	—	0.1	(0.1)
Preferred stock dividend	—	—	(0.8)	—	—	—	(0.8)	(1.3)	(2.1)	(0.6)
Issuance of common stock	0.6	—	—	—	—	—	—	—	—	—
Issuance of preferred stock	—	—	(0.9)	—	—	—	(0.9)	—	(0.9)	0.9
Transactions with non-controlling interests	—	—	0.1	—	—	—	0.1	(0.2)	(0.1)	0.1
Other	—	—	0.3	—	—	—	0.3	—	0.3	—
Net (loss) income	—	—	—	—	(24.8)	—	(24.8)	0.2	(24.6)	(3.4)
Other comprehensive loss	—	—	—	—	—	(1.7)	(1.7)	(0.2)	(1.9)	—
Balance as of June 30, 2022	78.4	\$ 0.1	\$ 330.7	\$ (5.2)	\$ (441.0)	\$ 4.7	\$ (110.7)	\$ 26.6	\$ (84.1)	\$ 65.0

(a) Inclusive of other comprehensive (loss) income, foreign currency cumulative translation adjustments totaled income of \$3.4 million as of June 30, 2022.

The accompanying notes are an integral part of these condensed consolidated financial statements.

INNOVATE CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in millions)

	Six Months Ended June 30,	
	2023	2022
Cash flows from operating activities		
Net loss	\$ (19.7)	\$ (28.0)
Adjustments to reconcile net loss to cash used in operating activities		
Share-based compensation expense	1.2	1.3
Depreciation and amortization (including amounts in cost of revenue)	19.9	21.1
Amortization of deferred financing costs and debt discount	3.3	2.2
Loss from equity investees	4.3	1.0
Realized and unrealized gains on equity method investments	(16.0)	—
Asset impairment expense	0.1	1.9
Deferred income taxes	(5.4)	0.8
Other operating activities, net	(0.7)	(1.3)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(38.3)	(21.3)
Contract assets	(10.2)	(34.1)
Other current assets	1.9	0.1
Inventory	(1.8)	(3.1)
Other assets	5.6	9.0
Accounts payable	(22.4)	1.7
Accrued liabilities	3.4	0.3
Contract liabilities	18.7	14.2
Other current liabilities	(3.2)	(5.7)
Other liabilities	(1.5)	(2.8)
Cash used in operating activities	(60.8)	(42.7)
Cash flows from investing activities		
Purchase of property, plant and equipment	(8.2)	(8.8)
Proceeds from disposal of property, plant and equipment	0.3	1.8
Loan to equity method investee	—	(4.5)
Proceeds from the sale of equity method investment	54.2	—
Other investing activities	0.4	—
Cash provided by (used in) investing activities	46.7	(11.5)
Cash flows from financing activities		
Proceeds from line of credit	75.0	142.3
Payments on line of credit	(77.0)	(85.1)
Proceeds from other debt obligations, net of deferred financing costs	3.6	0.4
Principal payments on other debt obligations	(14.2)	(19.2)
Purchase of preferred stock	(7.0)	—
Payments to non-controlling interests and redeemable non-controlling interests related to sale of equity method investment	(15.9)	—
Dividend payments	(1.6)	(2.7)
Other financing activities	(0.2)	(0.9)
Cash (used in) provided by financing activities	(37.3)	34.8
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(0.6)	(1.4)
Net decrease in cash and cash equivalents, including restricted cash	(52.0)	(20.8)
Cash, cash equivalents and restricted cash, beginning of period	82.2	47.5
Cash, cash equivalents and restricted cash, end of period	\$ 30.2	\$ 26.7

The accompanying notes are an integral part of these condensed consolidated financial statements.

INNOVATE CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Business

INNOVATE Corp. ("INNOVATE" and, together with its consolidated subsidiaries, the "Company", "we" and "our") is a diversified holding company that has a portfolio of subsidiaries in a variety of operating segments. We seek to grow these businesses so that they can generate long-term sustainable free cash flow and attractive returns in order to maximize value for all stakeholders. While the Company generally intends to acquire controlling equity interests in its operating subsidiaries, the Company may invest to a limited extent in a variety of non-controlling equity interest positions or debt instruments. The Company's shares of common stock trade on the NYSE under the symbol "VATE".

The Company currently has three reportable segments, plus our Other segment, based on management's organization of the enterprise: Infrastructure, Life Sciences, Spectrum, and Other which includes businesses that do not meet the separately reportable segment thresholds.

1. Our Infrastructure segment is comprised of DBM Global Inc. ("DBMG") and its wholly-owned subsidiaries. DBMG is a fully integrated industrial construction, structural steel and facility maintenance provider that provides fabrication and erection of structural steel and heavy steel plate services and also fabricates trusses and girders and specializes in the fabrication and erection of large-diameter water pipe and water storage tanks, as well as 3-D Building Information Modeling ("BIM") and detailing. DBMG provides these services on commercial, industrial, and infrastructure construction projects such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas and stadiums, shopping malls, hospitals, dams, bridges, mines, metal processing, refineries, pulp and paper mills and power plants. Through GrayWolf Industrial Inc. ("GrayWolf"), DBMG provides integrated solutions for digital engineering, modeling and detailing, construction, heavy equipment installation and facility services including maintenance, repair, and installation to a diverse range of end markets. Through Aitken Manufacturing, Inc., DBMG manufactures pollution control scrubbers, tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products. Through Banker Steel Holdco, LLC ("Banker Steel"), DBMG provides full-service fabricated structural steel and erection services primarily for the East Coast and Southeast commercial and industrial construction market, in addition to full design-assist services. The Company maintains an approximately 91% controlling interest in DBMG.

2. Our Life Sciences segment is comprised of Pansend Life Sciences, LLC ("Pansend"), its subsidiaries and equity method investments. Pansend maintains controlling interests of approximately 80% in Genovel Orthopedics, Inc. ("Genovel"), which seeks to develop products to treat early osteoarthritis of the knee and approximately 57% in R2 Technologies, Inc. ("R2"), which develops aesthetic and medical technologies for the skin. Pansend also invests in other early stage or developmental stage healthcare companies including an approximately 46% interest in MediBeacon Inc. ("MediBeacon"), a medical technology company specializing in the advances of fluorescent tracer agents and transdermal measurement, potentially enabling real-time, direct monitoring of kidney function, and an approximately 26% interest in Triple Ring Technologies, Inc. ("Triple Ring"), a science and technology co-development company.

3. Our Spectrum segment is comprised of HC2 Broadcasting Holdings Inc. ("Broadcasting") and its subsidiaries. Broadcasting strategically acquired and operates over-the-air broadcasting stations across the United States. The Company maintains a 98% controlling interest in Broadcasting and maintains a controlling interest of approximately 77%, inclusive of approximately 10% proxy and voting rights from minority holders of DTV America Corporation ("DTV"). On a fully diluted basis, the Company would have an approximately 86% controlling interest in Broadcasting.

4. Our Other segment represents all other businesses or investments that do not meet the definition of a segment individually or in the aggregate. Included in the Other segment is TIC Holdco, Inc. ("TIC"), which is developing a multi-purpose cultural and performing arts space in Palm Beach, Florida, the former Marine Services segment, which includes its holding company, Global Marine Holdings, LLC ("GMH"), in which the Company maintains approximately 73% controlling interest. GMH's results include its subsidiary's prior 19% equity method investment in HMN International Co., Ltd., formerly known as Huawei Marine Networks Co. ("HMN"), until it was sold on March 6, 2023. Refer to Note 6. Investments for additional information.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited 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. The remaining interests not owned by the Company are presented as a non-controlling interest component of total equity.

Basis of Presentation and Liquidity

The accompanying unaudited Condensed Consolidated Financial Statements of the Company included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Certain information and note disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), have been condensed or omitted in these interim unaudited financial statements pursuant to such rules and regulations. Certain prior amounts have been reclassified or combined to conform to the current year presentation.

INNOVATE CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
(Unaudited)

These interim financial statements should be read in conjunction with the Company's annual audited Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, filed with the SEC on March 14, 2023. The results of operations for the six months ended June 30, 2023 are not necessarily indicative of the results for any subsequent periods or the entire fiscal year ending December 31, 2023.

On August 8, 2023, Lancer Capital, LLC ("Lancer"), a related party and an entity controlled by Avram A. Glazer, the Chairman of INNOVATE's Board of Directors and a beneficial owner of the Company, provided a letter of support for up to \$35.0 million to the Company expressing Lancer's continued support for the Company and Lancer's intent to facilitate the provision of additional funding as reasonably requested by the Board through August 11, 2024. Management believes that with the available cash on hand, available borrowings under the senior credit facility, distributions from the Company's subsidiaries and the letter of support from Lancer, the Company will be able to meet its obligations for at least the next twelve months from the issuance of these Condensed Consolidated Financial Statements.

The ability of INNOVATE's subsidiaries to make distributions to INNOVATE 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, to the extent needed, that it will be able to raise additional debt or equity capital, refinance indebtedness or preferred stock, enter into other financing arrangements or engage in asset sales and sales of certain investments sufficient to fund any cash needs that we are not able to satisfy with the funds on hand or expected to be provided by our subsidiaries, there can be no assurance that it will be able to do so on terms satisfactory to the Company, if at all. Such financing options, if pursued, may also ultimately have the effect of negatively impacting our liquidity profile and prospects over the long-term and dilute holders of common stock. Our ability to sell assets and certain of our investments to meet our existing financing needs may also be limited by our existing financing instruments. In addition, the sale of assets or the Company's investments may also make the Company less attractive to potential investors or future financing partners.

Use of Estimates and Assumptions

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

Recent Accounting Pronouncements

Accounting Pronouncements Adopted in the Current Year

Credit Loss Standard

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. This new standard and its related amendments change the impairment model for most financial assets that are measured at amortized cost and certain other instruments, including trade receivables and contract assets, from an incurred loss model to an expected loss model and adds certain new required disclosures. Under the new expected loss model, which is based on historical experience, current conditions and reasonable and supportable forecasts, entities recognize estimated credit losses over the entire contractual term of the instrument rather than delaying recognition of credit losses until it is probable the loss has been incurred.

The adoption of ASU 2016-13 and its related amendments on January 1, 2023, did not have any effect on the Company's Condensed Consolidated Financial statements and did not record any effects through retained earnings. For the amounts calculated for the Current Expected Credit Loss ("CECL") model subsequent to initial transition, the Company recognizes the expense in the Condensed Consolidated Statements of Operations, and the amount is presented within general and administration costs rather than a separate line. Refer to Note 4. Accounts Receivable, Net.

The Company reviewed its entire portfolio of assets recognized on the balance sheet as of January 1, 2023, and identified Accounts Receivable and Contract Assets as the material impacted assets in-scope of Topic 326. The risk of credit losses from the remaining portfolio of assets was concluded to be immaterial. Accounts Receivable and Contract Assets are presented net of allowances for credit losses. Refer to Note 4. Accounts Receivable, Net. At each balance sheet date, all potentially uncollectible accounts are assessed individually for the purpose of determining the appropriate provision for doubtful accounts. Management has elected to use a risk-based, pool-level segmentation framework to calculate the expected loss rate. Management evaluates its experience with historical losses and then applies this historical loss ratio to financial assets with similar characteristics. The Company's historical loss ratio or its determination of risk pools may be adjusted for changes in customer, economic, market or other circumstances. The Company may also establish an allowance for credit losses for specific receivables when it is probable that the receivable will not be collected and the loss can be reasonably estimated. Amounts are written off against the allowance when they are considered to be uncollectible, and reversals of previously reserved amounts are recognized if a specifically reserved item is settled for an amount exceeding the previous estimate.

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(Unaudited)

Subsequent Events

ASC 855, *Subsequent Events* requires the Company to evaluate events that occur after the balance sheet date as of which the financial statements are issued, and to determine whether adjustments to or additional disclosures in the financial statements are necessary. Refer to Note 11, Debt Obligations for subsequent events.

3. Revenue and Contracts in Process

Revenue from contracts with customers consists of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue				
Infrastructure	\$ 362.4	\$ 382.1	\$ 674.1	\$ 784.3
Life Sciences	0.7	1.0	1.2	1.8
Spectrum	5.7	9.1	11.4	18.9
Total revenue	\$ 368.8	\$ 392.2	\$ 686.7	\$ 805.0

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

	June 30, 2023	December 31, 2022
Accounts receivables with customers		
Infrastructure	\$ 286.5	\$ 244.5
Life Sciences	0.8	0.8
Spectrum	2.0	5.1
Total accounts receivables with customers	\$ 289.3	\$ 250.4

Infrastructure Segment

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Commercial	\$ 98.3	\$ 218.4	\$ 210.8	\$ 456.6
Industrial	115.5	85.0	206.8	174.2
Transportation	59.7	7.9	101.2	17.9
Healthcare	44.7	31.2	76.1	57.3
Convention	36.1	22.1	61.5	41.7
Leisure	1.4	5.6	4.6	9.8
Government	2.9	9.1	6.6	16.5
Other	3.3	2.8	6.0	10.0
Total revenue from contracts with customers	361.9	382.1	673.6	784.0
Other revenue	0.5	—	0.5	0.3
Total Infrastructure segment revenue	\$ 362.4	\$ 382.1	\$ 674.1	\$ 784.3

INNOVATE CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
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Contract assets and contract liabilities and recognized earnings consisted of the following (in millions):

	June 30, 2023	December 31, 2022
Costs incurred on contracts in progress	\$ 2,721.7	\$ 2,503.3
Estimated earnings	459.0	378.9
Contract revenue earned on uncompleted contracts	3,180.7	2,882.2
Less: progress billings	3,122.7	2,815.7
	<u>\$ 58.0</u>	<u>\$ 66.5</u>

The above is included in the accompanying Condensed Consolidated Balance Sheets under the following line items:

Contract assets	\$ 175.3	\$ 165.1
Contract liabilities	(117.3)	(98.6)
	<u>\$ 58.0</u>	<u>\$ 66.5</u>

	June 30, 2023	December 31, 2022
Cost in excess of billings	\$ 92.2	\$ 90.7
Conditional retainage	83.1	74.4
Contract assets	\$ 175.3	\$ 165.1
Billings in excess of costs	\$ (168.2)	\$ (152.0)
Conditional retainage	50.9	53.4
Contract liabilities	\$ (117.3)	\$ (98.6)

The change in contract assets is a result of the recording of \$158.7 million of contract assets driven by new commercial projects, offset by \$148.5 million of contract assets transferred to receivables from contract assets recognized at the beginning of the period.

The change in contract liabilities is a result of periodic contract liabilities of \$108.8 million driven largely by new commercial projects, offset by revenue recognized that was included in the contract liability balance at the beginning of the period in the amount of \$90.1 million.

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

As of June 30, 2023, the transaction price allocated to remaining unsatisfied performance obligations consisted of the following (in millions):

	Within One Year	Within Five Years	Total
Healthcare	\$ 117.3	\$ 300.8	\$ 418.1
Industrial	391.1	20.7	411.8
Transportation	321.7	20.7	342.4
Commercial	199.9	2.1	202.0
Convention	56.7	—	56.7
Other	7.0	—	7.0
Government	6.8	—	6.8
Leisure	2.1	—	2.1
Remaining unsatisfied performance obligations	<u>\$ 1,102.6</u>	<u>\$ 344.3</u>	<u>\$ 1,446.9</u>

DBMG's remaining unsatisfied performance obligations increase with awards of new contracts and decrease as it performs work and recognizes revenue on existing contracts. DBMG includes a project within its remaining unsatisfied performance obligations at such time the project is awarded and agreement on contract terms has been reached. DBMG's remaining unsatisfied performance obligations include amounts related to contracts for which a fixed price contract value is not assigned when a reasonable estimate of total transaction price can be made. DBMG expects to recognize this revenue approximately within the next 3.5 years.

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

INNOVATE CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
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Life Sciences Segment

The following table disaggregates the Life Sciences segment's revenue by type (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Systems and consumables revenue	\$ 0.7	\$ 1.0	\$ 1.2	\$ 1.8
Total Life Sciences segment revenue	<u>\$ 0.7</u>	<u>\$ 1.0</u>	<u>\$ 1.2</u>	<u>\$ 1.8</u>

Spectrum Segment

The following table disaggregates the Spectrum segment's revenue by type (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Broadcast station	\$ 5.6	\$ 4.7	\$ 10.8	\$ 9.5
Network advertising	—	3.3	—	7.3
Network distribution	—	0.8	—	1.4
Other	0.1	0.3	0.6	0.7
Total Spectrum segment revenue	<u>\$ 5.7</u>	<u>\$ 9.1</u>	<u>\$ 11.4</u>	<u>\$ 18.9</u>

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

As of June 30, 2023, the transaction price allocated to remaining unsatisfied performance obligations consisted of \$6.9 million of broadcast station revenues of which \$3.7 million is expected to be recognized within one year and \$3.2 million is expected to be recognized within the next 3 years.

On December 31, 2022, Broadcasting shut-down the operations and broadcasting of the Azteca America network and, had terminated both the PLA and BSA with TV Azteca. HC2 Network did not qualify for discontinued operations presentation as HC2 Network was not significant to the Company, did not represent a strategic shift and will not have a major effect on the Company's operations and financial results. As a result of the cessation of the Azteca operations, the Company no longer has any unsatisfied performance obligations related to network advertising or network distribution.

4. Accounts Receivable, Net

Accounts receivable, net, consisted of the following (in millions):

	June 30, 2023	December 31, 2022
Contracts in progress	\$ 286.6	\$ 244.8
Unbilled retentions	0.2	0.2
Trade receivables	2.8	5.9
Other receivables	4.3	4.5
Allowance for expected credit losses ⁽¹⁾⁽²⁾	(0.3)	(0.5)
Total	<u>\$ 293.6</u>	<u>\$ 254.9</u>

⁽¹⁾ Allowance for doubtful accounts as of December 31, 2022, prior to the adoption of ASU 2016-13.

⁽²⁾ There was no change to the allowance for expected credit losses as a result of the adoption of ASU 2016-13 on January 1, 2023.

For the three and six months ended June 30, 2023, the Company recognized a \$0.1 million and \$0.2 million reversal of provisions for expected credit losses, respectively. For the three and six months ended June 30, 2022, the Company recognized provisions for doubtful accounts of \$0.3 million and \$0.5 million, respectively.

INNOVATE CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
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5. Inventory

Inventory consisted of the following (in millions):

	June 30, 2023	December 31, 2022
Raw materials and consumables	\$ 18.2	\$ 15.7
Work in process	0.8	1.2
Finished goods	0.9	2.0
Total inventory	<u>\$ 19.9</u>	<u>\$ 18.9</u>

6. Investments

The carrying values of the Company's investments were as follows (in millions):

	June 30, 2023			
	Measurement Alternative ⁽¹⁾	Equity Method	Fair Value	Total
Common stock	\$ —	\$ 2.8	\$ —	\$ 2.8
Preferred stock and fixed maturities	—	—	4.6	4.6
Total	<u>\$ —</u>	<u>\$ 2.8</u>	<u>\$ 4.6</u>	<u>\$ 7.4</u>

	December 31, 2022			
	Measurement Alternative ⁽¹⁾	Equity Method	Fair Value	Total
Common stock	\$ —	\$ 3.0	\$ —	\$ 3.0
Preferred stock and fixed maturities	—	—	4.6	4.6
Put option	11.3	—	—	11.3
Investment in securities	—	40.6	—	40.6
Total	<u>\$ 11.3</u>	<u>\$ 43.6</u>	<u>\$ 4.6</u>	<u>\$ 59.5</u>

(1) The Company accounts for its equity securities without readily determinable fair values under the measurement alternative election of ASC 321, whereby the Company can elect to measure an equity security without a readily determinable fair value, that does not qualify for the practical expedient to estimate fair value (net asset value), at its cost minus impairment, if any.

Equity Method Investments

The Company's equity method investments as of June 30, 2023 are comprised of investments in MediBeacon and Triple Ring, and, as of December 31, 2022, were comprised of investments in MediBeacon, Triple Ring and HMN.

The Company's share of net losses from its equity method investments totaled \$0.3 million and \$0.5 million for the three months ended June 30, 2023 and 2022, respectively. The Company's share of net losses from its equity method investments totaled \$4.3 million and \$1.0 million for the six months ended June 30, 2023 and 2022, respectively. The Company accounts for its Triple Ring equity method investment results on a one-month lag basis.

MediBeacon

Pansend accounts for MediBeacon's preferred stock as an equity method investment, inclusive of any fixed maturity securities (notes) issued by Pansend to MediBeacon. On March 15, 2022, Pansend issued MediBeacon a \$4.5 million 8.0% convertible note due March 2025, increasing the total outstanding principal to \$5.0 million.

On February 23, 2023, pursuant to its amended commercial partnership with Huadong Medicine Co. Ltd ("Huadong"), a publicly traded company on the Shenzhen Stock Exchange, MediBeacon issued \$7.5 million of its preferred stock to Huadong in exchange for additional shares of preferred stock, which decreased Pansend's ownership in MediBeacon from approximately 47% as of December 31, 2022 to approximately 46% subsequent to the transaction. As a result of this equity transaction, Pansend recognized a gain of \$3.8 million in Other income, net in the Condensed Consolidated Statements of Operations, which increased Pansend's basis in MediBeacon. Concurrently, Pansend recognized additional equity method losses of \$3.8 million which were previously unrecognized because Pansend's carrying amount of its investment in MediBeacon had been previously reduced to zero. As of June 30, 2023, Pansend's carrying amount of its investment in MediBeacon remains at zero inclusive of the \$5.0 million 8.0% convertible note due March 2025.

For both the three months ended June 30, 2023 and 2022, Pansend earned \$0.1 million of interest income related to the convertible note, and for the six months ended June 30, 2023 and 2022, Pansend earned \$0.2 million and \$0.1 million of interest income, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
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HMN

On March 6, 2023, the Company, through New Saxon 2019 Limited (“New Saxon”), an indirect subsidiary of GMH, closed on the sale of its remaining 19% interest in HMN to subsidiaries and an affiliate of Hengtong Optic-Electric Co Ltd. The sale was consummated pursuant to the terms of a supplemental agreement entered into by the parties in June 2022. New Saxon received gross proceeds of \$54.2 million and interest income of \$0.5 million, of which \$4.4 million was withheld for a foreign tax payment. Refer to Note 12. Income Taxes for additional information. As of June 30, 2023, \$15.9 million had been paid to GMH’s non-controlling interest holders and redeemable non-controlling interest holders pursuant to the partnership agreement. New Saxon recognized a gain on sale of \$12.2 million, which is reflected in Other income, net in the Condensed Consolidated Statements of Operations for the six months ended June 30, 2023.

The following tables provide combined summarized unaudited financial information for the Company’s equity method investments⁽¹⁾ (in millions):

	June 30, 2023	December 31, 2022
Assets	\$ 64.4	\$ 786.4
Liabilities	105.6	670.2
Equity	\$ (41.2)	\$ 116.2

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Total revenues	\$ 7.7	\$ 139.1	\$ 46.8	\$ 209.3
Gross profit	\$ 3.8	\$ 27.2	\$ 15.1	\$ 44.9
Operating (loss) income	\$ (6.2)	\$ 6.6	\$ (12.1)	\$ 5.4
Net (loss) income	\$ (7.0)	\$ 4.9	\$ (13.6)	\$ 6.8

(1) Excludes the Assets and Liabilities of HMN as of June 30 2023, and only includes the results of operations of HMN until the date of sale, March 6, 2023.

7. Property, Plant and Equipment, Net

Property, plant and equipment, net, (“PP&E”) consisted of the following (in millions):

	June 30, 2023	December 31, 2022
Equipment, furniture and fixtures, and software	\$ 203.9	\$ 196.0
Building and leasehold improvements	45.2	44.8
Land	25.9	26.1
Construction in progress	8.7	8.4
Plant and transportation equipment	8.0	8.2
	\$ 291.7	\$ 283.5
Less: Accumulated depreciation	130.2	118.5
Total	\$ 161.5	\$ 165.0

Depreciation expense was \$6.2 million and \$6.3 million for the three months ended June 30, 2023 and 2022, respectively. These amounts included \$4.0 million and \$3.6 million of depreciation expense recognized within cost of revenue for the three months ended June 30, 2023 and 2022, respectively.

Depreciation expense was \$12.5 million and \$12.7 million for the six months ended June 30, 2023 and 2022, respectively. These amounts included \$8.0 million and \$7.3 million of depreciation expense recognized within cost of revenue for the six months ended June 30, 2023 and 2022, respectively.

As of June 30, 2023 and December 31, 2022, the net book value of equipment under finance leases included in PP&E was \$2.4 million and \$2.1 million, respectively. As of June 30, 2023 and December 31, 2022, the net book value of capitalized internal-use software included in PP&E was \$37.6 million and \$35.6 million, respectively.

INNOVATE CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
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8. Goodwill and Intangibles, Net

Goodwill

The carrying amounts of goodwill by segment were as follows (in millions):

	Infrastructure	Spectrum	Total
Balance at December 31, 2022	\$ 105.7	\$ 21.4	\$ 127.1
Translation adjustment	(0.1)	—	(0.1)
Balance as of June 30, 2023	<u>\$ 105.6</u>	<u>\$ 21.4</u>	<u>\$ 127.0</u>

Indefinite-lived Intangible Assets

The carrying amounts of indefinite-lived intangible assets were as follows (in millions):

	June 30, 2023	December 31, 2022
FCC licenses	\$ 106.3	\$ 106.3
Total	<u>\$ 106.3</u>	<u>\$ 106.3</u>

Definite Lived Intangible Assets

The gross carrying amounts and accumulated amortization of definite lived intangible assets by major intangible asset class were as follows (in millions):

	Weighted- Average Original Useful Life	June 30, 2023			December 31, 2022		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	14 years	\$ 25.4	\$ (8.8)	\$ 16.6	\$ 25.4	\$ (8.0)	\$ 17.4
Customer relationships and contracts	11 years	87.6	(41.6)	46.0	87.6	(35.4)	52.2
Channel sharing arrangements	35 years	12.6	(1.6)	11.0	12.6	(1.4)	11.2
Other	12 years	4.0	(1.3)	2.7	4.1	(1.1)	3.0
Total		<u>\$ 129.6</u>	<u>\$ (53.3)</u>	<u>\$ 76.3</u>	<u>\$ 129.7</u>	<u>\$ (45.9)</u>	<u>\$ 83.8</u>

For the three and six months ended June 30, 2022, the Company recorded impairment charges to definite lived intangible assets of \$1.5 million, which are reflected in Other operating loss (income) in the unaudited Condensed Consolidated Statements of Operations. The impairment charges related to the impairment of the HC2 Network Program License Agreement ("PLA") due to a decline in performance.

Amortization expense for definite lived intangible assets was \$3.4 million and \$4.2 million for the three months ended June 30, 2023 and 2022, respectively, and was included in Depreciation and amortization in our Condensed Consolidated Statement of Operations. Amortization expense for definite lived intangible assets was \$7.4 million and \$8.2 million for the six months ended June 30, 2023 and 2022, respectively, and was included in Depreciation and amortization in our Condensed Consolidated Statements of Operations.

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9. Leases

Operating lease right-of-use-assets and assets held under finance leases are recognized in the Condensed Consolidated Balance Sheets within Other assets and Property, plant and equipment, net, respectively. Operating lease liabilities and finance lease liabilities are recognized in the Condensed Consolidated Balance Sheets within Other liabilities and Debt obligations, respectively. Right-of-use lease assets and lease liabilities consisted of the following (in millions):

	June 30, 2023	December 31, 2022
Right-of-use assets:		
Operating lease (Other assets)	\$ 60.8	\$ 65.8
Finance lease (Property, plant and equipment, net)	2.4	2.1
Total right-of-use assets	\$ 63.2	\$ 67.9
Lease liabilities:		
Current portion of operating lease (Other current liabilities)	\$ 14.4	\$ 17.1
Non-current portion of operating lease (Other liabilities)	51.0	53.8
Finance lease (Debt obligations)	2.6	2.1
Total lease liabilities	\$ 68.0	\$ 73.0

The tables below present financial information associated with the Company's leases. The Company has entered into operating and finance lease agreements primarily for land, office space, equipment and vehicles, expiring between 2023 and 2045.

The following table summarizes the components of lease expense (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Finance lease cost:				
Amortization of right-of-use assets	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.1
Interest on lease liabilities	0.1	—	0.1	—
Net finance lease cost	0.2	0.1	0.3	0.1
Operating lease cost	5.7	5.9	11.6	11.8
Variable lease cost	0.2	0.2	0.3	0.3
Sublease income	(0.2)	(0.2)	(0.4)	(0.4)
Total lease cost	\$ 5.9	\$ 6.0	\$ 11.8	\$ 11.8

Cash flow information related to leases is as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from finance leases	\$ 0.1	\$ —	\$ 0.1	\$ —
Financing cash flows from finance leases	\$ 0.1	\$ 0.1	\$ 0.2	\$ 0.1
Operating cash flows from operating leases	\$ 5.7	\$ 5.8	\$ 12.0	\$ 12.0
Right-of-use assets obtained in exchange for new lease liabilities:				
Finance leases	\$ —	\$ 0.5	\$ 0.6	\$ 0.5
Operating leases	\$ 0.6	\$ 1.2	\$ 4.5	\$ 7.7

The weighted-average remaining lease term and the weighted-average discount rate for finance leases and operating leases are as follows:

	June 30, 2023	December 31, 2022
Weighted-average remaining lease term (years) - operating leases	7.5	7.5
Weighted-average remaining lease term (years) - finance leases	1.7	1.4
Weighted-average discount rate - operating leases	5.5 %	5.3 %
Weighted-average discount rate - finance leases	5.7 %	5.7 %

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
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Future minimum lease commitments (undiscounted) as of June 30, 2023, were as follows (in millions):

	Operating Leases	Finance Leases
2023	\$ 9.3	\$ 1.6
2024	15.5	0.4
2025	11.9	0.3
2026	8.4	0.2
2027	6.1	0.2
Thereafter	28.9	—
Total future minimum lease payments	80.1	2.7
Less: amounts representing interest	(14.7)	(0.1)
Total lease liability balance	<u>\$ 65.4</u>	<u>\$ 2.6</u>

In November 2021, INNOVATE Corp. entered into a ten-year lease agreement for a special purpose space in Palm Beach, Florida. In February 2023, the lease agreement was amended to extend the term of the lease to 15 years. The lease has not yet commenced, but will require future monthly lease payments of approximately \$0.2 million over the entire lease term and yearly common area maintenance charges of \$0.6 million, both of which are subject to 3% annual upward adjustments, with total square footage of 25,184, as amended. The lease also provides for the Company to receive an allowance from the landlord of \$4.4 million, as amended in February 2023, to be used toward costs to design, engineer, install, supply and construct improvements (the "Construction Allowance"), payable at the end of the construction period, of which \$1.2 million and \$0.8 million is included in prepaid rent in Other assets as of June 30, 2023 and December 31, 2022, respectively. The future lease payments and remaining unexpended amounts under the allowance are not yet recorded in our Condensed Consolidated Balance Sheet. We expect the accounting lease commencement date for this initial portion of the lease for financial reporting purposes to begin in 2024.

In December 2021, the Company entered into a five-year lease agreement with an option to extend the lease for another five years for office space in West Palm Beach, Florida. The new lease has not commenced yet, but will require future monthly lease payments of approximately \$0.1 million over the entire lease term, subject to 3% annual upward adjustment, with total square footage of 15,786. Other than a \$0.2 million deposit included in Other assets, the future lease payments are not yet recorded on our Condensed Consolidated Balance Sheets, as the building is still under construction. We expect the accounting lease commencement date for this initial portion of the lease for financial reporting purposes to begin in 2024.

10. Other Assets, Accrued Liabilities and Other Liabilities

Other assets, which are reflected in non-current assets in the Condensed Consolidated Balance Sheets, consisted of the following (in millions):

	June 30, 2023	December 31, 2022
Right-of-use assets	\$ 60.8	\$ 65.8
Restricted cash - non-current	1.4	1.5
Other	5.9	4.6
Total other assets	<u>\$ 68.1</u>	<u>\$ 71.9</u>

Accrued liabilities consisted of the following (in millions):

	June 30, 2023	December 31, 2022
Accrued expenses	\$ 19.7	\$ 18.9
Accrued payroll and employee benefits	28.8	30.8
Accrued interest	24.5	15.3
Accrued income taxes	0.3	0.4
Total accrued liabilities	<u>\$ 73.3</u>	<u>\$ 65.4</u>

Other current liabilities consisted of the following (in millions):

	June 30, 2023	December 31, 2022
Lease liability, current	\$ 14.4	\$ 17.1
Other current liabilities	2.8	3.0
Total other current liabilities	<u>\$ 17.2</u>	<u>\$ 20.1</u>

INNOVATE CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
(Unaudited)

Other liabilities, which are reflected in non-current liabilities in the Condensed Consolidated Balance Sheets, consisted of the following (in millions):

	June 30, 2023	December 31, 2022
Lease liability, net of current portion	\$ 51.0	\$ 53.8
Other	4.2	17.4
Total other liabilities	\$ 55.2	\$ 71.2

As of June 30, 2023, the Company had \$1.8 million of Assets held for sale, which is included in Other current assets in the Condensed Consolidated Balance Sheet and which primarily consisted of \$1.0 million of Property, plant and equipment, net and \$0.8 million of Inventory. These assets are expected to be sold within the next 12 months.

11. Debt Obligations

Debt obligations, including finance lease obligations, consisted of the following (in millions):

	June 30, 2023	December 31, 2022
Infrastructure		
3.25% Term Loan due 2026	\$ 96.5	\$ 99.5
PRIME minus 0.85% Line of Credit due 2024	112.7	107.7
4.00% Note due 2024	10.0	15.0
8.00% Note due 2024	12.6	18.7
Obligations under finance leases	2.6	2.1
Total Infrastructure	\$ 234.4	\$ 243.0
Spectrum		
8.50% Note due 2024	\$ 19.3	\$ 19.3
11.45% Notes due 2024	50.4	50.4
Total Spectrum	\$ 69.7	\$ 69.7
Life Sciences		
20.00% Note due 2023	\$ 15.7	—
18.00% Note due 2023	—	10.8
Total Life Sciences	\$ 15.7	\$ 10.8
Non-Operating Corporate		
8.50% Senior Secured Notes due 2026	\$ 330.0	\$ 330.0
7.50% Convertible Senior Notes due 2026	51.8	51.8
SOFR plus 5.75% Line of Credit	13.0	20.0
9.00% Unsecured Note due 2026	35.1	—
Total Non-Operating Corporate	\$ 429.9	\$ 401.8
Total outstanding principal	\$ 749.7	\$ 725.3
Unamortized issuance discount, issuance premium, and deferred financing costs	(7.7)	(10.9)
Less: current portion of debt obligations	(222.4)	(30.6)
Debt obligations	\$ 519.6	\$ 683.8

INNOVATE CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
(Unaudited)

As of June 30, 2023, estimated future aggregate finance lease and debt payments, including interest, were as follows (in millions):

	Finance Leases	Debt	Total
2023	\$ 1.6	\$ 50.4	\$ 52.0
2024	0.4	260.9	261.3
2025	0.3	64.4	64.7
2026	0.2	506.6	506.8
2027	0.2	—	0.2
Thereafter	—	—	—
Total minimum principal and interest payments	2.7	882.3	885.0
Less: Amount representing interest	(0.1)	(135.2)	(135.3)
Total aggregate finance lease and debt payments	<u>\$ 2.6</u>	<u>\$ 747.1</u>	<u>\$ 749.7</u>

The interest rates on finance leases ranged from approximately 2.0% to 6.0%.

Infrastructure

The \$96.5 million UMB Term Loan expires May 31, 2026 and bears interest at a rate of 3.25% with an effective interest rate of 3.3%. Interest is paid monthly. Infrastructure also has a \$135.0 million Revolving Line with UMB, which expires on May 31, 2024 and bears interest at a rate of Prime Rate minus 0.85%. Interest is paid monthly. The UMB Revolving Line associated with our Infrastructure segment contains customary restrictive and financial covenants related to debt levels and performance, including a Fixed Coverage Ratio covenant, as defined in the agreement.

The \$10.0 million note expires March 31, 2024 and bears interest at a rate of 4.00%. Interest is paid quarterly. The \$12.6 million note expires May 27, 2024 and bears interest at a rate of 8.00%. Interest is paid quarterly.

Spectrum

On December 30, 2022, Broadcasting entered into a Seventh Omnibus Amendment to Secured Notes which, among other things, extended the maturity date of \$52.2 million of its Senior Secured Notes, due December 30, 2022 to May 31, 2024. The effective interest rates on the notes range from 12.8% to 19.6%. Interest is capitalized and payable upon maturity of the principal. The \$52.2 million of Senior Secured Notes consisted of \$19.3 million of 8.5% Senior Secured Notes and \$32.9 million of 10.5% Senior Secured Notes. The other terms of the \$19.3 million 8.5% Senior Notes remained the same. At the time of the extension, HC2 Broadcasting had accrued interest and other fees of \$6.9 million. The interest rate on the \$32.9 million 10.5% Senior Notes was increased to 11.45% and cumulative accrued interest and exit fees of \$17.5 million were capitalized into the principal balance with both note extensions accounted for as debt modification events. All other terms were essentially the same. Total outstanding principal after the refinancing was \$69.7 million and \$6.9 million of accrued interest and fees remain accrued, with total exit fees of \$7.6 million which were recorded as original issue discount with a corresponding liability reflected in Other Liabilities.

Concurrently therewith and as part of the consideration for extending the 10.5% Senior Notes, HC2 Broadcasting amended warrants to purchase 145,825 shares of common stock of HC2 Broadcasting Holdings, Inc. common stock held by the lenders of the 10.5% Senior Notes by extending the time to exercise such to the second half of 2026 and reducing the exercise price per share (i) from \$140.00 to \$0.01 in the case of the certain of the warrants and (ii) from \$130.00 to \$0.01 in the case of the remaining warrants. The warrants have a five-year term and are exercisable at any time. The change in the fair value of the warrants was recorded as original issue discount with a corresponding impact reflected in Non-controlling interest of \$3.1 million.

On August 8, 2023, Broadcasting entered into an Eighth Amendment to Secured Notes with its lenders which extended the maturity date of its Senior Secured Notes aggregate principal amount of \$69.7 million, due May 31, 2024 to August 15, 2024.

Life Sciences

During June to December 2022, R2 Technologies entered in various notes totaling \$10.8 million with Lancer Capital, LLC ("Lancer"), a related party, an entity controlled by Avram A. Glazer, the Chairman of INNOVATE's Board of Director. On February 15, 2023 and February 28, 2023, R2 Technologies closed on an additional 18% \$0.5 million note and an additional 18% \$0.4 million note with Lancer, respectively. On March 31, 2023, R2 Technologies entered into an exchange agreement with Lancer, which terminated all prior outstanding notes and simultaneously issued a new note with an aggregate original principal amount of \$13.0 million, which comprised of all prior outstanding principal amounts and unpaid accrued interest. The interest rate on the new note increased from 18% to 20%, and the new maturity date has been extended to the earlier of June 30, 2023 or within five business days of the date on which R2 Technologies receives an aggregate \$20.0 million from the consummation of a debt or equity financing. As a part of the exchange agreement with Lancer on March 31, 2023, the interest was capitalized into the new principal balance. Future interest will be payable upon maturity of the note.

INNOVATE CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
(Unaudited)

During the second quarter of 2023, R2 Technologies closed on an aggregate additional \$2.7 million in 20% notes with Lancer, increasing the outstanding principal balance to \$15.7 million. Subsequent to quarter end, in July 2023, Lancer loaned an additional aggregate \$1.1 million to R2 with 20% notes, increasing the total outstanding note principal to \$16.8 million. In addition, in July 2023, R2 entered into an amendment with Lancer to extended the maturity date of all prior existing notes to the earlier of August 15, 2023 or within 5 business days of the date on which R2 receives an aggregate \$20.0 million from the consummation of a debt or equity financing.

For the three and six months ended June 30, 2023, R2 Technologies recognized interest expense related to the contractual interest coupon with Lancer of \$0.7 million and \$1.2 million, respectively. As a part of the exchange agreement with Lancer on March 31, 2023, the interest outstanding at that date was capitalized into the new principal balance. Future interest will be payable upon maturity of the note.

Non-Operating Corporate

2026 Senior Secured Notes

The 2026 Senior Secured Notes were issued at 100% of par, with a stated interest rate of 8.50% and an effective interest rate of 9.26%, which reflects \$2.7 million of deferred financing fees. For both the three months ended June 30, 2023 and 2022, interest expense recognize relating to both the contractual interest coupon and amortization of the deferred financing fees was \$7.5 million. For the six months ended June 30, 2023 and 2022, interest expense recognize relating to both the contractual interest coupon and amortization of the deferred financing fees was \$15.0 million and \$15.1 million, respectively.

2026 Convertible Notes

The 2026 Convertible Notes were issued under a separate indenture dated February 1, 2021, between the Company and U.S. Bank, as trustee (the "Convertible Indenture"). The 2026 Convertible Notes were issued at 100% of par with a stated interest rate of 7.50%. The fair value of the embedded conversion feature contained in the 2026 Convertible Notes had a fair value of \$12.3 million, which was recorded as a premium on the 2026 Convertible Notes. The 2026 Convertible Notes mature on August 1, 2026 unless earlier converted, redeemed or purchased. The 2026 Convertible Notes have an effective interest rate of 3.21%, which reflects the initial \$12.3 million premium and \$1.1 million of deferred financing fees.

Each \$1,000 of principal of the 2026 Convertible Notes will initially be convertible into 234.2971 shares of our common stock, which is equivalent to an initial conversion price of approximately \$4.27 per share, subject to adjustment upon the occurrence of specified events.

As of June 30, 2023, the 2026 Convertible Notes had a net carrying value of \$58.3 million inclusive of an unamortized premium of \$7.2 million. Based on the closing price of our common stock of \$1.75 on June 30, 2023, the if-converted value of the 2026 Convertible Notes did not exceed its principal value.

For both the three months ended June 30, 2023 and 2022, interest expense recognized relating to both the contractual interest coupon and amortization of discount net of premium was \$0.5 million. For the six months ended June 30, 2023 and 2022, interest expense recognized relating to both the contractual interest coupon and amortization of discount net of premium was \$0.9 million and \$1.0 million, respectively.

Line of Credit - Revolving Credit Agreement

The Company has a \$20.0 million line of credit with MSD PCOF Partners IX, LLC ("Revolving Credit Line"), which matures on February 23, 2024, and has an interest rate margin applicable to loans borrowed under the Revolving Credit Line of 5.75%. The affirmative and negative covenants governing the Revolving Credit Line are substantially consistent with the affirmative and negative covenants contained in the indenture that governs the 2026 Senior Secured Notes. In May 2021, INNOVATE drew \$5.0 million under the Revolving Credit Agreement. In July 2022, the Company drew an additional \$15.0 million under the Revolving Credit Agreement. In March 2023, the Company paid down \$15.0 million of the Revolving Credit Agreement, reducing the outstanding balance to \$5.0 million. In April 2023, the Company extended the maturity date of its Revolving Credit Agreement to March 16, 2025, changed the benchmark rates for interest to SOFR-based rates and lowered the amount of net cash proceeds from certain asset sales in excess of which a prepayment is required from \$50.0 million to \$10.0 million. In May 2023, INNOVATE drew an additional \$8.0 million under the Revolving Credit Agreement, increasing the outstanding balance to \$13.0 million. Subsequent to quarter end, on July 31, 2023, INNOVATE drew an additional \$7.0 million under the Revolving Credit Agreement, increasing the outstanding balance to \$20.0 million.

CGIC 9% Unsecured Note Due 2026

On May 9, 2023, in connection with the redemption of the DBMGi Preferred Stock, the Company issued a subordinated unsecured promissory note to CGIC in the principal amount of \$35.1 million. Refer to Footnote 15. Preferred Stock and Equity for additional information. The promissory note is due February 28, 2026, and bears interest at 9% per annum through May 8, 2024, 16% per annum from May 9, 2024 to May 8, 2025, and 32% per annum thereafter. The promissory note also requires a mandatory prepayment from the proceeds from certain asset sales and the greater of \$3 million or 12.5% of the proceeds from certain equity sales. Other covenants in the promissory note are generally consistent with the Company's Indenture governing the 8.50% Senior Secured Notes due 2026, dated as of February 1, 2021, by and among the Company, the guarantors party thereto and U.S. Bank National Association. For the three months ended June 30, 2023, interest expense recognized relating to the contractual interest coupon was \$0.5 million.

INNOVATE is in compliance with its debt covenants as of June 30, 2023.

12. Income Taxes

The Company used the Annual Effective Tax Rate ("ETR") approach of ASC 740-270, Interim Reporting, to calculate its 2023 interim tax provision.

Income tax expense was \$1.2 million and \$2.0 million for the three months ended June 30, 2023, and 2022, respectively. Income tax expense was \$2.1 million and \$3.6 million for the six months ended June 30, 2023, and 2022, respectively. The income tax expense relates to tax expense as calculated under ASC 740 for taxpaying entities. Additionally, the tax benefits associated with losses generated by the INNOVATE Corp. U.S. tax consolidated group and certain other businesses have been reduced by a full valuation allowance as management does not believe it is more-likely-than-not that the losses will be utilized. Additionally, the annual ETR calculated for the current period interim tax provision included a \$1.1 million tax benefit, consisting of a current tax expense of \$4.4 million related to a foreign tax payment and a deferred tax benefit of \$5.5 million related to the reversal of the deferred tax liability associated with the \$11.3 million put option, both of which were related to the sale of New Saxon's 19% investment in HMN on March 6, 2023.

Net Operating Losses

At December 31, 2022, the Company had gross U.S. net operating loss carryforwards available to reduce future taxable income of the U.S. consolidated group in the amount of \$226.3 million. The Company expects that approximately \$162.9 million of the gross U.S. net operating loss carryforwards would be available to offset taxable income in 2023. This estimate may change based on changes to actual results reported on the 2022 U.S. tax return. The amount of U.S. net operating loss carryforwards reflected in the financial statements differ from the amounts reported on the U.S. tax return due to uncertain tax positions related to tax laws and regulations that are subject to varied interpretation by the IRS.

Additionally, the Company has \$124.5 million of gross U.S. net operating loss carryforwards from its subsidiaries that do not qualify to be included in the INNOVATE Corp. U.S. consolidated income tax return, including \$83.8 million from R2, \$38.3 million from DTV America, and other entities of \$2.4 million.

Unrecognized Tax Benefits

The Company follows the provision of ASC 740 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 Company did not have any unrecognized tax benefits as of June 30, 2023, and 2022 related to uncertain tax positions that would impact the effective income tax rate if recognized. The Company has reduced the net operating loss carryforward by \$58.7 million for uncertain tax positions based on our interpretation of tax laws and regulations that are subject to varied interpretation by the IRS.

Examinations

The Company conducts business globally, and as a result, INNOVATE 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. Tax years 2002-2021 remain open for examination.

The Company is currently under examination in various domestic and foreign tax jurisdictions. 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.

13. Commitments and Contingencies

Litigation

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

Based on a review of the current facts and circumstances with counsel in each of the matters disclosed, management has provided for what is believed to be a reasonable estimate of loss exposure. While acknowledging the uncertainties of litigation, management believes that the ultimate outcome of litigation will not have a material effect on its financial position and will defend itself vigorously.

VAT Assessment

On February 20, 2017, and on August 15, 2017, the Company's subsidiary, PTGi International Carrier Services Ltd. ("PTGi-ICS Ltd"), received notices from Her Majesty's Revenue and Customs office in the U.K. ("HMRC") indicating that it was required to pay certain Value-Added Taxes ("VAT") for the 2015 and 2016 tax years. On February 15, 2022, the Upper Tribunal (Tax and Chancery) Chamber (the "Tax Tribunal") found in favor of PTGi-ICS Ltd. HMRC has acknowledged that it will not appeal the Tax Tribunal's decision and it must pay reasonable legal fees incurred by PTGi-ICS Ltd. On August 1, 2022 ICS received £1.1 million (~\$1.3 million) from HMRC for the VAT refunds previously withheld. ICS is working on cost reimbursements from HMRC and is working with HMRC agents to obtain full resolution.

Fair Value Investments Litigation

On October 1, 2020, Fair Value Investments Incorporated ("FVI") filed a stockholder class action and derivative complaint in the Delaware Court of Chancery (the "Court") against INNOVATE Corp. and certain of DBMG's current and former officers and directors, including current and former INNOVATE officers and directors AJ Stahl, Kenneth S. Courtis, Robert V. Leffler, Jr., Philip A. Falcone, Michael J. Sena, and Paul Voigt (together with INNOVATE, the "INNOVATE Defendants") styled Fair Value Investments Incorporated v. Roach, et al., C.A. No. 2020-0847-JTL (Del. Ch.) (the "FVI Action"). In the FVI Action, FVI alleges that the Company, in its capacity as DBMG's controlling stockholder, and DBMG's current and former officers and directors breached their fiduciary duties to DBMG and DBMG's minority stockholders by approving certain transactions that allegedly provide disproportionate benefits to the Company. FVI challenges the following transactions: (i) DBMG's payments to the Company from 2016–present pursuant to a Tax Sharing Agreement between DBMG and the Company; (ii) DBMG acting as a guarantor or providing collateral for loans taken on by the Company; (iii) DBMG's issuance of dividends to its common and preferred stockholders in 2017–2020; (iv) DBMG's issuance of preferred stock to the Company to finance DBMG's 2018 acquisition of GrayWolf Industrial; and (v) the Company's appointment of directors to DBMG's board of directors by written consent in lieu of holding an annual stockholder meeting.

On February 23, 2021, FVI filed an Amended Verified Stockholder Class Action Complaint (the "Amended Complaint"). In the Amended Complaint, FVI named two additional defendants: the Company's Chief Executive Officer, Wayne Barr, and DBMG's General Counsel, Scott D. Sherman. The Amended Complaint includes additional fact allegations in support of the largely similar claims raised in the original complaint. Defendants moved to dismiss the Amended Complaint on April 23, 2021. The Court heard argument on the motions to dismiss on January 21, 2022. Ruling from the bench, the Court granted Defendants' motions to dismiss, in part. The Court dismissed all claims against all individual defendants other than Ronald Yagoda, including all claims against Messrs. Barr, Stahl, Courtis, Leffler, Falcone, Sena, and Voigt. As to the two remaining defendants - INNOVATE Corp. and Yagoda - the Court dismissed all claims regarding: (i) DBMG acting as a guarantor or providing collateral for loans by the Company; (ii) DBMG's issuance of dividends to its common and preferred stockholders in 2017–2020; (iii) the Company's appointment of directors to DBMG's board of directors by written consent in lieu of holding an annual stockholder meeting; and (iv) DBMG's payments to the Company in 2016 and May 2017 pursuant to a Tax Sharing Agreement between DBMG and the Company. The Company believes the surviving claims in the FVI Amended Complaint relating to (i) DBMG's payments to the Company after May 2017 pursuant to a Tax Sharing Agreement between DBMG and the Company and (ii) DBMG's issuance of preferred stock to the Company to finance DBMG's 2018 acquisition of GrayWolf Industrial are without merit. Discovery on the two remaining claims is underway.

On December 23, 2022, the parties entered into a Joint Stipulation and Proposed Scheduling Order which, among other things, scheduled the trial date for March 12-14, 2024.

On March 1, 2023, FVI's counsel filed a Motion to Withdraw and Temporarily Stay Proceedings, which motion was granted on March 9, 2023. The Court ordered a 30-day stay of the proceedings to allow FVI to engage new counsel, which stay expired on April 10, 2023. On May 1, 2023, the Company moved to dismiss this case with prejudice as to FVI and its Chairman, Gary Lutin, as part of its vigorous defense thereof. On June 13, 2023, the Court granted Defendants' Motion to Dismiss in its entirety and the case is now closed. The dismissal is with prejudice as to FVI and Gary Lutin.

DTV Derivative Litigation

On March 15, 2021, twenty-two DTV stockholders and eight holders of DTV stock options filed a stockholder class action and derivative complaint in the Delaware Court of Chancery in an action styled *Bocock, et al., v. HC2 Holdings, Inc. et al., C.A. No. 2021-0224* (Del. Ch.). Plaintiffs named as defendants INNOVATE Corp. (f/k/a HC2 Holdings, Inc.), HC2 Broadcasting Holdings, Inc., HC2 Broadcasting Inc., and Continental General Insurance Corporation (the "INNOVATE Entities") and certain current and former officers and directors of the INNOVATE Entities and DTV, including Philip Falcone, Michael Sena, Wayne Barr, Jr., Les Levi, Paul Voigt, Ivan Minkov, and Paul Robinson (the "Individual Defendants"). Plaintiffs principally allege that the defendants breached their fiduciary duties and/or aided and abetted breaches of fiduciary duty by participating in a "scheme" in which the INNOVATE Entities (i) acquired majority voting and operating control over DTV; (ii) exploited that control to misappropriate DTV's assets and business opportunities for the benefit of the INNOVATE Entities; and (iii) purchased DTV stock at a discount to fair value and diminished the value of DTV stock options. Plaintiffs allege that the Individual Defendants (i) "prompted" the INNOVATE Entities to purchase more than 100 low-power television ("LPTV") broadcast stations originally identified for potential acquisition by DTV, (ii) allowed the INNOVATE Entities to misappropriate DTV technology, known as "DTV Cast," (iii) caused DTV to transfer unspecified LPTV broadcasting station licenses to INNOVATE affiliates "without paying any value," and (iv) transferred to the INNOVATE Entities unspecified DTV broadcasting stations that had been "repacked" by the FCC. Defendants moved to dismiss the Complaint on May 19, 2021. On June 23, 2021, plaintiffs amended their complaint. In the amended complaint, plaintiffs assert the same claims they asserted in their initial complaint, added a claim for waste associated with DTV's purported transfer of licenses and construction permits for less than fair value, and dropped Paul Robinson as a defendant. Defendants moved to dismiss the amended complaint in its entirety on August 25, 2021, and the parties completed briefing on the motions to dismiss on November 10, 2021. The Court heard argument on the motions to dismiss on March 29, 2022. On June 28, 2022, the Court requested that the parties submit supplemental briefing on the motions to dismiss by July 20, 2022. The parties completed the supplemental briefing on July 20, 2022.

On October 28, 2022, the Court issued a Memorandum Opinion on Defendants' motion to dismiss the Complaint. First, the Court dismissed all claims against Continental General Insurance Corporation for lack of personal jurisdiction. Second, the Court dismissed all claims the stockholder plaintiffs purported to assert directly. Third, the Court dismissed as time-barred all claims challenging conduct that occurred before March 15, 2018, including claims challenging (i) the November 2017 acquisition of Azteca America by INNOVATE; (ii) INNOVATE's purported usurpation of the so-called "DTV Cast" technology; and (iii) the WFWC-CD Station acquisition. Fourth, the Court dismissed claims associated with the INNOVATE Entities' purported purchases of unidentified broadcasting stations. Fifth, the Court dismissed all claims challenging the Expense Sharing Agreement, and the Right to Use Agreement between INNOVATE and DTV, and certain Stock-Based Compensation Agreements. Sixth, the Court dismissed the aiding and abetting claim against the INNOVATE Entities. Seventh, the Court dismissed the civil conspiracy claim as to all defendants. Lastly, the Court dismissed the option-holders' claim for tortious interference with prospective business opportunities. Thus, after the Court issued its October 28, 2022 Memorandum Opinion, the only claims to survive Defendants' motion to dismiss are (i) a derivative claim against the INNOVATE Entities (other than Continental General), Levi, and Falcone for breach of fiduciary duty in connection with the \$0.1 million Frank Digital acquisition; (ii) a derivative claim for breach of fiduciary duty against the INNOVATE Entities (other than Continental General), in their capacities as DTV's controlling stockholders, relating to the sale of six licenses (for less than \$0.5 million) in connection with the Gray Media sale; (iii) a derivative claim for breach of fiduciary duty against the INNOVATE Entities (other than Continental General) and Levi in connection with the transfer of licenses ultimately sold to TV-49 for \$0.1 million; and (iv) a derivative claim for waste against Levi and Falcone in connection with the sale of two stations to Lowcountry, which Lowcountry later sold for \$0.2 million and \$0.4 million, respectively. The Company believes these remaining claims are without merit, and the Company intends to vigorously defend this litigation.

Marin Hospital Replacement Litigation

On October 20, 2022, McCarthy Building Companies, Inc. ("McCarthy") filed suit against Schuff Steel Company ("Schuff"), a subsidiary of DBMG, and Quality Assurance Engineering, Inc. dba Consolidated Engineering Laboratories ("CEL") in the Superior Court of the State of California for the County of Marin, styled *McCarthy Building Companies, Inc. v. Schuff Steel Company; Quality Engineering, Inc. dba Consolidated Engineering Laboratories, et al., Case No. CIV2203963* (the "Action"). In the Action, McCarthy alleges damages and delays caused by alleged failures in fabrication, erection, welding, and quality control by Schuff and improper quality assurance responsibilities by CEL on the Marin General Hospital Replacement Building (the "Project"). McCarthy asserts claims against Schuff for breach of contract, express indemnity, breach of express warranties, negligence, equitable implied indemnity, breach of implied warranties, and declaratory relief. On February 13, 2023, Schuff filed its response denying liability to McCarthy and asserting a Cross-Complaint against McCarthy, and other companies involved in the design, construction, and quality assurance, who potentially are liable for damages and delays alleged by McCarthy on the Project. In the Cross-Complaint, Schuff asserts claims for breach of contract, violation of statute, equitable indemnity apportionment, and contribution and express indemnity (the "Cross-Complaint"). Schuff intends to vigorously defend this Action and aggressively pursue the Cross-Complaint and cannot reasonably estimate any range of potential loss at this time.

Other Commitments and Contingencies

Letters of Credit and Performance Bonds

As of June 30, 2023, DBMG had outstanding letters of credit of \$2.6 million under credit and security agreements and performance bonds of \$699.9 million. As of December 31, 2022, DBM had outstanding letters of credit of \$2.6 million under credit and security agreements and performance bonds of \$956.6 million. DBMG’s contract arrangements with customers sometimes require DBMG to provide performance bonds to partially secure its obligations under its contracts. Bonding requirements typically arise in connection with private contracts and sometimes with respect to certain public work projects. DBMG’s performance bonds are obtained through surety companies and typically cover the entire project price. The ratings of the bonding companies utilized by DBMG are highly rated, ranging from A-, A, A+ and AA.

14. Share-based Compensation

Total share-based compensation expense recognized by the Company and its subsidiaries under all equity compensation arrangements was \$0.7 million and \$0.5 million for the three months ended June 30, 2023 and 2022, respectively. Total share-based compensation expense recognized by the Company and its subsidiaries under all equity compensation arrangements was \$1.2 million and \$1.3 million for the six months ended June 30, 2023 and 2022, respectively.

All grants are time based and vest either immediately or over a period established at grant, typically with a requisite service period of two to three years for the employee to vest in the stock-based award, subject to discretion by Compensation Committee of the Board of Directors. There are no other substantive conditions for vesting. The Company recognizes compensation expense for equity awards, reduced by actual forfeitures as they are incurred, using the straight-line basis.

Restricted Stock

A summary of INNOVATE’s restricted stock activity is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested - December 31, 2021	555,879	\$ 3.79
Granted	1,031,611	\$ 2.41
Vested	(400,395)	\$ 3.77
Forfeited	(45,289)	\$ 3.68
Unvested - December 31, 2022	1,141,806	\$ 2.56
Granted	506,955	\$ 2.57
Vested	(700,666)	\$ 1.89
Unvested - June 30, 2023	<u>948,095</u>	\$ 3.05

The aggregate vesting date fair value of the restricted stock awards which vested during the six months ended June 30, 2023 and 2022 was \$1.4 million and \$0.8 million, respectively. As of June 30, 2023, the total unrecognized stock-based compensation expense related to unvested restricted stock awards was \$2.5 million and is expected to be recognized over the remaining weighted average period of 1.9 years.

Stock Options

A summary of INNOVATE’s stock option activity is as follows:

	Shares	Weighted Average Exercise Price
Outstanding - December 31, 2021	4,715,859	\$ 5.13
Granted	280,791	\$ 3.25
Expired	(1,500)	\$ 4.06
Outstanding and exercisable- December 31, 2022	4,995,150	\$ 5.02
Expired	(280,791)	\$ 3.25
Outstanding and exercisable - June 30, 2023	<u>4,714,359</u>	\$ 5.13

As of June 30, 2023, the intrinsic value and weighted-average remaining life of the Company’s outstanding and exercisable stock options were zero and approximately 1.3 years, respectively. The maximum contractual term of the Company’s exercisable stock options is approximately 10 years. As of June 30, 2023, there were no unvested stock options and no unrecognized stock-based compensation expense related to unvested stock options.

15. Preferred Stock and Equity

Preferred Shares

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

	June 30, 2023	December 31, 2022
Preferred shares authorized, \$0.001 par value	20,000,000	20,000,000
Series A-3 shares issued and outstanding	6,125	6,125
Series A-4 shares issued and outstanding	10,000	10,000

Series A-3 and Series A-4 Shares

Issuance and Conversion. On July 1, 2021 (the "Exchange Date") as a part of the sale of Continental Insurance Group ("CIG"), INNOVATE entered into an exchange agreement (the "Exchange Agreement") with Continental General Insurance Company ("CGIC"), also a former subsidiary, which held the remaining shares of the Series A and Series A-2 Preferred Stock and was eliminated in consolidation prior to the sale of the Insurance segment on July 1, 2021. Per the Exchange Agreement, INNOVATE exchanged 6,125 shares of the Series A and 10,000 shares of the Series A-2 shares that CGIC held for an equivalent number of Series A-3 Convertible Participating Preferred Stock ("Series A-3") and Series A-4 Convertible Participating Preferred Stock ("Series A-4"), respectively. The terms remained substantially the same, except that the Series A-3 and Series A-4 will mature on July 1, 2026. A cash payment of \$0.3 million was made as a part of the exchange for accrued and unpaid dividends on the Series A and Series A-2 being exchanged.

Upon issuance of the Series A-3 and Series A-4 Preferred Stock on July 1, 2021, the Series A-3 and Series A-4 have been classified as temporary equity in the Company's Condensed Consolidated Balance Sheet with a combined redemption value of \$16.1 million with a current fair value as of June 30, 2023 of \$17.0 million.

Dividends. The Series A-3 and Series A-4 Preferred Stock accrued a cumulative quarterly cash dividend at an annualized rate of 7.50%. The accrued values of the Series A-3 and Series A-4 Preferred Stock accrete quarterly at an annualized rate of 4.00% that is reduced to 2.00% or 0.0% if the Company achieves specified rates of growth measured by increases in its net asset value; provided, that the accreting dividend rate will be 7.25% in the event that (A) the daily volume weighted average price ("VWAP") of the Company's common stock is less than a certain threshold amount, (B) the Company's common stock is not registered under Section 12(b) of the Securities Exchange Act of 1934, as amended, (C) the Company's common stock is not listed on certain national securities exchanges or the Company is delinquent in the payment of any cash dividends. The Series A-3 and Series A-4 Preferred Stock is also entitled to participate in cash and in-kind distributions to holders of shares of Company's common stock on an as-converted basis.

Subsequent Measurement. The Company elected to account for the Series A-3 and Series A-4 Preferred Stock by immediately recognizing changes in the redemption value as they occur. The carrying value of the Series A-3 and Series A-4 Preferred Stock are adjusted to equal what the redemption amount would be as if the redemption were to occur at the end of the reporting period as if it were also the redemption date for the Series A-3 and Series A-4 Preferred Stock. Any cash dividends paid directly reduce the carrying value of the Series A-3 and Series A-4 Preferred Stock until the carrying value equals the redemption value. The Company has a history of paying dividends on its preferred stock and expects to continue to pay such dividends each quarter.

Optional Conversion. Each share of Series A-3 and Series A-4 may be converted by the holder into shares of the Company's common stock at any time based on the then-applicable Conversion Price. Each share of Series A-3 is initially convertible at a conversion price of \$4.25 (as it may be adjusted from time to time, the "Series A-3 Conversion Price"), and each share of Series A-4 is initially convertible at a conversion price of \$8.25 (as it may be adjusted from time to time, the "Series A-4 Conversion Price") ("collectively the "Conversion Prices"). The Conversion Prices are subject to adjustment for dividends, certain distributions, stock splits, combinations, reclassifications, reorganizations, mergers, recapitalizations and similar events, as well as in connection with issuances of equity or equity-linked or other comparable securities by the Company at a price per share (or with a conversion or exercise price or effective issue price) that is below the Conversion Prices' (which adjustment shall be made on a weighted average basis). Actual conversion prices at the time of the exchange were \$3.52 for the Series A and \$5.33 for the Series A-2.

Redemption by the Holder / Automatic Conversion. On July 1, 2026, holders of the Series A-3 and Series A-4 shall be entitled to cause the Company to redeem the Series A-3 and Series A-4 at the accrued value per share plus accrued but unpaid dividends (to the extent not included in the accrued value of Series A-3 and Series A-4). Each share of Series A-3 and Series A-4 that is not so redeemed will be automatically converted into shares of the Company's common stock at the Conversion Price then in effect. Upon a change of control (as defined in each Certificate of Designation) holders of the Series A-3 and Series A-4 shall be entitled to cause the Company to redeem their shares of Series A-3 and Series A-4 at a price per share of Series A-3 and Series A-4 equal to the greater of (i) the accrued value of the Series A-3 and Series A-4, plus any accrued and unpaid dividends (to the extent not included in the accrued value of Series A-3 and Series A-4 Preferred Stock), and (ii) the value that would be received if the share of Series A-3 and Series A-4 were converted into shares of the Company's common stock immediately prior to the change of control.

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Redemption by the Company / "Company Call Option". At any time, the Company may redeem the Series A-3/Series A-4, 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 (to the extent not included in the accrued value of the Series A-3/Series A-4), subject to the holder's right to convert prior to such redemption.

Forced Conversion. The Company may force conversion of the Series A-3 and Series A-4 into shares of the Company's common stock if the common stock's thirty-day 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. In the event of a forced conversion, the holders of Series A-3 and Series A-4 will have the ability to elect cash settlement in lieu of conversion if certain market liquidity thresholds for the Company's common stock are not achieved.

Liquidation Preference. In the event of any liquidation, dissolution or winding up of the Company (any such event, a "Liquidation Event"), the holders of Series A-3 and Series A-4 will be entitled to receive per share the greater of (i) the accrued value of the Series A-3 and Series A-4, plus any accrued and unpaid dividends (to the extent not included in the accrued value of Series A-3 and Series A-4), and (ii) the value that would be received if the share of Series A-3 and Series A-4 were converted into shares of the Company's common stock immediately prior to such occurrence. The Series A-3 and Series A-4 will rank junior to any existing or future indebtedness but senior to the Company's common stock and any future equity securities other than any future senior or pari passu preferred stock issued in compliance with each Certificate of Designation. The Series A-3 Preferred Stock and the Series A-4 Preferred Stock rank at parity.

Voting Rights. Except as required by applicable law, the holders of the shares of the Series A-3 and Series A-4 will be entitled to vote on an as-converted basis with the holders of the Series A-3 Preferred Stock and the Series A-4 Preferred Stock (on an as-converted basis), as applicable, and the holders of the Company's common stock on all matters submitted to a vote of the holders of the Company's common stock with the holders of Series A-3 Preferred Stock and Series A-4 Preferred Stock on certain matters, and separately as a class on certain limited matters.

Consent Rights. For so long as any of the Series A-3 and Series A-4 is outstanding, consent of the holders of shares representing at least 75% of certain of the Series A-3 and Series A-4 then outstanding is required for certain material actions.

Participation Rights. Pursuant to the securities purchase agreements entered into with the initial purchasers of the Series A-3 Preferred Stock and the Series A-4 Preferred Stock, subject to meeting certain ownership thresholds, certain purchasers of the Series A-3 Preferred Stock and the Series A-4 Preferred Stock are entitled to participate, on a pro-rata basis in accordance with their ownership percentage, determined on an as-converted basis, in issuances of equity and equity linked securities by the Company. In addition, subject to meeting certain ownership thresholds, certain initial purchasers of the Series A-3 Preferred Stock and the Series A-4 Preferred Stock will be entitled to participate in issuances of preferred securities and in debt transactions of the Company.

As of June 30, 2023, Series A-3 Preferred Stock and Series A-4 Preferred Stock were convertible into 1,740,700 and 1,875,533 shares, respectively, of INNOVATE's common stock.

Preferred Share Dividends

During the three and six months ended June 30, 2023 and 2022, INNOVATE's Board of Directors (the "Board") declared cash dividends with respect to INNOVATE's issued and outstanding Preferred Stock, as presented in the following table (in millions):

2023			
Declaration Date and Holders of Record Date		March 31, 2023	June 30, 2023
Payment Date		April 17, 2023	July 14, 2023
Total Dividend	\$	0.3	\$ 0.3
2022			
Declaration Date and Holders of Record Date		March 31, 2022	June 30, 2022
Payment Date		April 15, 2022	July 15, 2022
Total Dividend	\$	0.3	\$ 0.3

DBMGi Series A Preferred Stock

Issuance. On November 30, 2018, Continental General Insurance Company ("CGIC") purchased 40,000 shares of DBMGi's Series A Fixed-to-Floating Rate Perpetual Preferred Stock (the "DBMGi Preferred Stock"), which was then eliminated in consolidation. On July 1, 2021, as a part of the sale of Continental Insurance Group ("CIG") which resulted in the deconsolidation of the entity, the Company was deemed to have issued \$40.9 million of DBMGi Series A Preferred Stock to the then deconsolidated CGIC. Upon the deemed issuance of the DBMGi Series A Preferred Stock on July 1, 2021, the DBMGi Series A Preferred Stock was classified as temporary equity in the Company's Condensed Consolidated Balance Sheet. There are 500,000 shares with a par value of \$0.001 each authorized for issuance. Subsequent to the issuance of the DBMGi Preferred Stock, 1,820.25 shares were issued as payment in kind for dividends, resulting in a total of 41,820.25 shares of DBMGi's Series A Preferred Stock outstanding.

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Redemption. The DBMGI Preferred Stock is redeemable at any time, in whole or in part, at the option of the Company, or at any time or by the holder prior to July 2026. On March 15, 2023, DBMGI received a redemption notice from CGIC requesting that DBMGI redeem 41,820.25 shares of DBMGI Preferred Stock, representing all of the issued and outstanding shares of DBMGI Preferred Stock, within 60 days of the notice, or by May 15, 2023. On May 9, 2023, the Company entered into a Stock Purchase Agreement and Subordinated Unsecured Promissory Note with CGIC whereby INNOVATE purchased the 41,820.25 shares of DBMGI Preferred Stock for full satisfaction of the redemption notice. In full consideration of the DBMGI Preferred Stock as well as the accrued dividend of \$0.4 million, the Company paid CGIC \$7.1 million on May 9, 2023, and issued a subordinated unsecured promissory note to CGIC in the principal amount of \$35.1 million. The promissory note is due February 28, 2026, and bears interest at 9% per annum through May 8, 2024, 16% per annum from May 9, 2024 to May 8, 2025, and 32% per annum thereafter. Refer to Note 11. Debt Obligations for additional information on the promissory note.

The DBMGI Series A Preferred Stock was measured each reporting period at its maximum redemption value, which was equal to the stated value plus all accrued, accumulated and unpaid dividends as of the end of each reporting period, as they were currently redeemable. The carrying amount as of May 9, 2023 was \$41.8 million as well as the accrued dividend of \$0.4 million and subsequently there was no gain or loss on the purchase of the DBMGI Preferred Stock from CGIC.

Dividends. The DBMGI Series A Preferred Stock accrued a cumulative quarterly cash or payment in kind dividend at a rate of (a) for the first five years following the date of issuance, (i) 9.00% per annum if dividends are paid in kind or (ii) 8.25% per annum if dividends are paid in cash and (b) starting on the fifth anniversary of the date of issuance, a rate per annum equal to (i) LIBOR (as defined in the Certificate of Designation) plus a spread of 5.85% (together, the “LIBOR Rate”) per annum, plus 0.75% if dividends are paid in kind or (ii) the LIBOR Rate per annum in the case of dividends paid in cash. Subsequent to the transition away from LIBOR beginning in 2023, the Certificate of Designation allows for a LIBOR Successor Rate, which allows the Company to reasonably determine an alternate benchmark rate (including any mathematical or other adjustments to the benchmarks (if any) incorporated therein) giving due consideration to any evolving or then existing convention for similar U.S. dollar denominated syndicated credit facilities for such alternative benchmarks. Subsequent to May 9, 2023, the date that INNOVATE purchased the DBMGI Preferred Stock, the dividends are eliminated on consolidation.

During the three and six months ended June 30, 2022 and six months ended June 30, 2023, DBMGI's Board of Directors declared dividends with respect to DBMGI's issued and outstanding Preferred Stock. No dividend was declared during the three months ended June 30, 2023. In connection with the Stock Purchase Agreement with CGIC, an equivalent amount to the dividends that had accrued through May 8, 2023 was paid to CGIC on May 9, 2023 as part of the purchase price. The dividend that accrued for the remaining portion of that period was eliminated on consolidation subsequent to the purchase. The declared dividends and equivalent amounts paid are presented in the following tables (in millions):

2023

Declaration Date and Holders of Record Date	March 31, 2023	May 9, 2023 *
Payment Date	April 17, 2023	May 9, 2023 *
Total Dividend	\$ 0.9	\$ 0.4

*In connection with the Stock Purchase Agreement entered into with CGIC on May 9, 2023, an equivalent amount to the dividends that had accrued through May 8, 2023 was paid to CGIC on May 9, 2023. \$0.1 million was paid in cash and \$0.3 million was included in the principal amount of the new unsecured note that was issued on May 9, 2023.

2022

Declaration Date and Holders of Record Date	March 31, 2022	June 30, 2022
Payment Date	April 15, 2022	July 15, 2022
Total Dividend**	\$ 0.9	\$ 0.9

**The dividend paid on April 15, 2022 was a cash dividend. The DBMGI Board of Directors elected to pay the second quarter dividend payable July 15, 2022 in shares.

Stockholders' Rights Agreement - Tax Benefits Preservation Plan

On August 30, 2021, the Company entered into a Tax Benefits Preservation Plan (the “Preservation Plan”) between the Company and Computershare Trust Company, N.A., as Rights Agent. The Preservation Plan is designed to protect the Company's ability to use its tax net operating losses and certain other tax assets (“Tax Benefits”) by deterring an “ownership change” as defined under Section 382 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder (the “Code”). If any person or group acquires 4.9% or more of the outstanding shares of the Company's Common Stock (subject to certain exceptions), there would be a triggering event under the Preservation Plan which could result in significant dilution in the ownership interest of such person or group. As such, the Preservation Plan has anti-takeover effects. In connection with the adoption of the Preservation Plan, the Company disclosed that given the change-over in the Company's stock over the past several years, the Company was approaching the risk of losing its Tax Benefits. The Tax Benefits Preservation Plan terminated on March 31, 2023.

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On April 1, 2023, as a result of the expiration of the Preservation Plan on March 31, 2023, the Company entered into a new Tax Benefits Preservation Plan (the “2023 Plan”) with Computershare Trust Company, N.A., as rights agent (the “Rights Agent”), and the Board of Directors of the Company declared a dividend distribution of one right (a “Right”) for each outstanding share of common stock, par value \$0.001 per share, of the Company (the “Common Stock”) to stockholders of record at the close of business on April 10, 2023 (the “Record Date”). Each Right is governed by the terms of the Plan and entitles the registered holder to purchase from the Company a unit consisting of one one-thousandth of a share (a “Unit”) of Series B Preferred Stock, par value \$0.001 per share (the “Series B Preferred Stock”), at a purchase price of \$15.00 per Unit, subject to adjustment (the “Purchase Price”).

Rights Certificates and Exercise Period

Initially, the Rights will be attached to all Common Stock certificates representing shares then outstanding, and no separate rights certificates (“Rights Certificates”) will be distributed. Subject to certain exceptions specified in the 2023 Plan, the Rights will separate from the Common Stock then outstanding and a distribution date (the “Distribution Date”) will occur upon the earlier of (i) 10 business days following a public announcement that a person or group of affiliated or associated persons (an “Acquiring Person”) has become the beneficial owner of 4.9% or more of the shares of the Common Stock (the “Stock Acquisition Date”) and (ii) 10 business days (or such later date as the Board shall determine) following the commencement of a tender offer or exchange offer that would result in a person or group becoming an Acquiring Person.

Until the Distribution Date, (i) the Rights will be evidenced by the Common Stock certificates (or, in the case of book entry shares, by the notations in the book entry accounts) and will be transferred with and only with such Common Stock, (ii) new Common Stock certificates issued after the Record Date will contain a notation incorporating the 2023 Plan by reference and (iii) the surrender for transfer of any certificates for Common Stock outstanding will also constitute the transfer of the Rights associated with the Common Stock represented by such certificates. Pursuant to the 2023 Plan, the Company reserves the right (prior to the occurrence of a Triggering Event (as defined below) and upon any exercise of Rights) to make the necessary and appropriate rounding adjustments so that only whole shares of Series B Preferred Stock will be issued.

The definition of “Acquiring Person” contained in the 2023 Plan contains several exemptions, including for (i) the Company or any of the Company’s subsidiaries; (ii) any employee benefit plan of the Company, or of any subsidiary of the Company, or any person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan; (iii) any person who becomes the beneficial owner of 4.9% or more of the shares of the Common Stock then outstanding as a result of (x) a reduction in the number of shares of Common Stock by the Company due to a or (y) a stock dividend, stock split, reverse stock split or similar transaction, unless and until such person increases his ownership by more than 0.5% over such person’s lowest percentage stock ownership on or after the consummation of the relevant transaction; (iv) any person who, together with all affiliates and associates of such person, was the beneficial owner of 4.9% or more of the shares of the Common Stock then outstanding on the date of the 2023 Plan, unless and until such person and its affiliates and associates increase their aggregate ownership by more than 0.5% over their lowest percentage stock ownership on or after the date of the 2023 Plan or decrease their aggregate percentage stock ownership below 4.9%; (v) any person who, within 10 business days of being requested by the Company to do so, certifies to the Company that such person became an Acquiring Person inadvertently or without knowledge of the terms of the Rights and who, together with all affiliates and associates, thereafter within 10 business days following such certification disposes of such number of shares of Common Stock so that it, together with all affiliates and associates, ceases to be an Acquiring Person; (vi) any person that the Board, in its sole discretion, has affirmatively determined shall not be deemed an Acquiring Person.

The Rights are not exercisable until the Distribution Date and will expire at the earliest of (i) 11:59 p.m. (New York City time) on October 1, 2023 or such later date and time as may be determined by the Board and approved by the stockholders of the Company by a vote of the majority of the votes cast by the holders of shares entitled to vote thereon at a meeting of the stockholders of the Company prior to 11:59 p.m. (New York City time) on October 1, 2023 (which later date and time shall be in no event later than 11:59 p.m. (New York City time) on October 1, 2026), (ii) the time at which the Rights are redeemed or exchanged as provided in the 2023 Plan, (iii) the time at which the Board determines that the 2023 Plan is no longer necessary or desirable for the preservation of Tax Benefits, and (iv) the close of business on the first day of a taxable year of the Company to which the Board determines that no Tax Benefits may be carried forward.

16. Related Parties

Non-Operating Corporate

In September 2018, the Company entered into a 75-month lease for office space. As part of the agreement, INNOVATE was able to pay a lower security deposit and lease payments, and received favorable lease terms as consideration for landlord required cross default language in the event of default of the shared space leased by Harbinger Capital Partners, a company controlled by a former CEO of INNOVATE and formerly a related party, in the same building. With the adoption of ASC 842, as of January 1, 2019, this lease was recognized as a right-of-use asset and lease liability on the Condensed Consolidated Balance Sheets.

On May 9, 2023, the Company entered into a Stock Purchase Agreement and Subordinated Unsecured Promissory Note with CGIC, a significant shareholder, in the principal amount of \$35.1 million. For the three months ended June 30, 2023, interest expense recognized relating to the contractual interest coupon was \$0.5 million. Refer to Note 11. Debt Obligations and Note 15. Preferred Stock and Equity for additional information.

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Infrastructure

Banker Steel previously leases two planes from Banker Aviation, LLC, a related party that is owned by Donald Banker, CEO of Banker Steel. During the first quarter of 2022, one of the two plane leases was terminated. The remaining lease has monthly lease payments of \$0.1 million and a total lease liability of \$0.6 million. For both the three months ended June 30, 2023 and 2022, DBM incurred lease expense related to these leases of \$0.3 million. For the six months ended June 30, 2023 and 2022, DBMG incurred lease expense related to these leases of \$0.7 million and \$0.6 million, respectively.

Banker Steel also had a subordinated 11.0% note payable of \$6.3 million to Donald Banker, which was redeemed in full by DBMG on April 4, 2022. For the six months ended June 30, 2022, DBMG incurred interest expense related to this note of \$0.2 million.

Banker Steel also has a subordinated 4.0% note payable of \$10.0 million to Donald Banker as of June 30, 2023. During the quarter ended June 30, 2023, Banker Steel made an early payment of \$5.0 million on this subordinated note, reducing the balance from \$15.0 million to \$10.0 million.

Life Sciences

During June to December 2022, R2 Technologies entered in various notes totaling \$10.8 million with Lancer, a related party, an entity controlled by Avram A. Glazer, the Chairman of INNOVATE's Board of Director. On February 15, 2023 and February 28, 2023, R2 Technologies closed on an additional 18% \$0.5 million note and an additional 18% \$0.4 million note with Lancer, respectively. On March 31, 2023, R2 Technologies entered into an exchange agreement with Lancer, which terminated all prior outstanding notes and simultaneously issued a new note with an aggregate original principal amount of \$13.0 million, which comprised of all prior outstanding principal amounts and unpaid accrued interest. The interest rate on the new note increased from 18% to 20%, and the new maturity date was extended to the earlier of June 30, 2023 or within 5 business days of the date on which R2 Technologies receives an aggregate \$20.0 million from the consummation of a debt or equity financing.

During the second quarter of 2023, R2 Technologies closed on an aggregate additional \$2.7 million in 20% notes with Lancer, increasing the outstanding principal balance to \$15.7 million. Subsequent to quarter end, in July 2023, Lancer loaned an additional aggregate \$1.1 million to R2 with 20% notes, increasing the total outstanding note principal to \$16.8 million. In addition, in July 2023, R2 entered into an amendment with Lancer to extended the maturity date of all prior existing notes to the earlier of August 15, 2023 or within 5 business days of the date on which R2 receives an aggregate \$20.0 million from the consummation of a debt or equity financing.

For the three and six months ended June 30, 2023, R2 Technologies recognized interest expense related to the contractual interest coupon with Lancer of \$0.7 million and \$1.2 million, respectively. As a part of the exchange agreement with Lancer on March 31, 2023, the interest up to March 31, 2023 was capitalized into the new principal balance. Future interest will be payable upon maturity of the note.

For the three months ended June 30, 2022, R2 Technologies recognized revenues of \$0.7 million from sales to a subsidiary of Huadong, a related party of R2 Technologies. For the six months ended June 30, 2023 and 2022, R2 Technologies recognized revenues of \$0.2 million and \$1.0 million, respectively, from sales to a subsidiary of Huadong, a related party of R2 Technologies. The related receivables totaled \$0.6 million as of both June 30, 2023 and December 31, 2022.

For the three months ended June 30, 2022, R2 Technologies incurred approximately \$0.1 million of stock compensation and royalty expenses that were paid to Blossom Innovations, LLC ("Blossom"), and investor and related party of R2 Technologies. For the six months ended June 30, 2023 and 2022, R2 Technologies incurred approximately \$0.1 million and \$0.2 million, respectively, of stock compensation and royalty expenses that were paid to Blossom.

17. Operating Segments and Related Information

The Company currently has one primary reportable geographic segment - United States and primarily all revenue is derived in the United States. The Company has three reportable operating segments, plus our Other segment, based on management's organization of the enterprise - Infrastructure, Life Sciences, Spectrum, and Other. We also have included a Non-operating Corporate segment. All inter-segment revenues are eliminated on consolidation.

The Company's revenue concentrations of 10% and greater were as follows:

	Segment	Three Months Ended June 30,		Six Months Ended June 30,	
		2023	2022	2023	2022
Customer A	Infrastructure	27.7%	24.0%	27.9%	23.6%
Customer B	Infrastructure	15.8%	*	12.4%	*

*Less than 10% revenue concentration

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Summarized financial information with respect to the Company's operating segments is as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue				
Infrastructure	\$ 362.4	\$ 382.1	\$ 674.1	\$ 784.3
Life Sciences	0.7	1.0	1.2	1.8
Spectrum	5.7	9.1	11.4	18.9
Total revenue	\$ 368.8	\$ 392.2	\$ 686.7	\$ 805.0

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Income (loss) from operations				
Infrastructure	\$ 14.7	\$ 11.8	\$ 21.0	\$ 23.7
Life Sciences	(3.9)	(5.2)	(8.3)	(10.2)
Spectrum	(0.6)	(3.1)	(1.1)	(3.5)
Other	(0.5)	—	(1.9)	(0.1)
Non-operating Corporate	(3.9)	(3.9)	(7.9)	(9.6)
Total income (loss) from operations	\$ 5.8	\$ (0.4)	\$ 1.8	\$ 0.3

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Reconciliation of the consolidated segment income (loss) from operations to consolidated loss from operations before income taxes				
Income (loss) from operations	\$ 5.8	\$ (0.4)	\$ 1.8	\$ 0.3
Interest expense	(16.3)	(12.5)	(31.9)	(25.1)
Loss from equity investees	(0.3)	(0.5)	(4.3)	(1.0)
Other income, net	0.3	1.5	16.8	1.4
Loss from operations before income taxes	\$ (10.5)	\$ (11.9)	\$ (17.6)	\$ (24.4)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Depreciation and Amortization				
Infrastructure	\$ 4.1	\$ 5.3	\$ 9.0	\$ 10.6
Infrastructure recognized within cost of revenue	4.0	3.6	8.0	7.3
Total Infrastructure	8.1	8.9	17.0	17.9
Life Sciences	0.1	—	0.2	0.1
Spectrum	1.3	1.5	2.6	3.0
Non-operating Corporate	0.1	0.1	0.1	0.1
Total depreciation and amortization	\$ 9.6	\$ 10.5	\$ 19.9	\$ 21.1

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Capital Expenditures ^(*)				
Infrastructure	\$ 4.0	\$ 3.7	\$ 7.0	\$ 6.6
Life Sciences	0.2	—	0.3	0.1
Spectrum	0.3	0.5	0.6	2.1
Non-operating Corporate	—	—	0.3	—
Total	\$ 4.5	\$ 4.2	\$ 8.2	\$ 8.8

^(*) The above capital expenditures exclude assets acquired under finance lease and other financing obligations.

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	June 30, 2023	December 31, 2022
Investments		
Life Sciences	\$ 7.4	\$ 7.6
Other	—	51.9
Total	<u>\$ 7.4</u>	<u>\$ 59.5</u>

	June 30, 2023	December 31, 2022
Equity Method Investments (included in Investments above)		
Life Sciences	\$ 2.8	\$ 3.0
Other	—	40.6
Total	<u>\$ 2.8</u>	<u>\$ 43.6</u>

	June 30, 2023	December 31, 2022
Total Assets		
Infrastructure	\$ 865.1	\$ 879.3
Life Sciences	15.1	15.4
Spectrum	180.6	188.2
Other	1.3	53.6
Non-operating Corporate	17.4	15.2
Total	<u>\$ 1,079.5</u>	<u>\$ 1,151.7</u>

18. Basic and Diluted Loss Per Common Share

Earnings (loss) per share ("EPS") is calculated using the two-class method, which allocates earnings among common stock and participating securities to calculate EPS when an entity's capital structure includes either two or more classes of common stock or common stock and participating securities. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities. As such, shares of any unvested restricted stock of the Company are considered participating securities; however, they do not participate in losses and as such are excluded from the computation of basic earnings (loss) per share during periods of net losses. The dilutive effect, if applicable, of stock options and their equivalents (including non-vested stock issued under stock-based compensation plans), is computed using the "if-converted method" if this measurement is determined to be more dilutive between the two available methods in a period.

The Company had no dilutive common stock equivalents during the three and six months ended June 30, 2023 and 2022 due to results from continuing operations being a loss, net of tax. For the three and six months ended June 30, 2023, 1,159,809 and 1,152,842, respectively, of common stock equivalents from unvested restricted stocks were excluded from the weighted average number of shares used to calculate diluted loss per share as their inclusion would have been anti-dilutive. Other instruments that may, in the future, if the average market price of the Company's stock exceeds the conversion prices, have a dilutive effect on earnings per share, but were excluded from the computation of diluted net loss per share for the six months ended June 30, 2023 and 2022 are: preferred stock, convertible debt and stock options. The following table presents a reconciliation of net loss used in the basic and diluted EPS calculations (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss	\$ (11.7)	\$ (13.9)	\$ (19.7)	\$ (28.0)
Net loss attributable to non-controlling interest and redeemable non-controlling interest	1.8	1.5	0.8	3.2
Net loss attributable to INNOVATE Corp.	(9.9)	(12.4)	(18.9)	(24.8)
Less: Preferred dividends	0.6	1.2	1.8	2.4
Net loss attributable to common stockholders	<u>\$ (10.5)</u>	<u>\$ (13.6)</u>	<u>\$ (20.7)</u>	<u>\$ (27.2)</u>
Denominator for basic and diluted loss per share:				
Weighted average common shares outstanding	<u>77.9</u>	<u>77.5</u>	<u>77.8</u>	<u>77.4</u>
Loss per share - basic and diluted	\$ (0.13)	\$ (0.18)	\$ (0.27)	\$ (0.35)

INNOVATE CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
(Unaudited)

19. Fair Value of Financial Instruments

Fair Value of Financial Instruments Not Measured at Fair Value

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments, which were not measured at fair value on a recurring basis. The table excludes carrying amounts for cash and cash equivalents and restricted cash, accounts receivable and contract assets, accounts payable, contract liabilities and other current liabilities, and other assets and liabilities that approximate fair value due to relatively short periods to maturity (in millions):

June 30, 2023

	Carrying Value	Estimated Fair Value	Fair Value Measurement Using:		
			Level 1	Level 2	Level 3
Assets					
Other invested assets ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ —
Total assets not accounted for at fair value	\$ —	\$ —	\$ —	\$ —	\$ —
Liabilities					
Debt obligations ⁽²⁾	\$ 739.4	\$ 686.0	\$ —	\$ 686.0	\$ —
Total liabilities not accounted for at fair value	\$ 739.4	\$ 686.0	\$ —	\$ 686.0	\$ —

(1) Other invested assets was comprised of a put option that related to the Company's 19% investment in HMN, which was sold March 6, 2023. Refer to Note 6. Investments for additional information.

December 31, 2022

	Carrying Value	Estimated Fair Value	Fair Value Measurement Using:		
			Level 1	Level 2	Level 3
Assets					
Other invested assets ⁽¹⁾	\$ 11.3	\$ 11.3	\$ —	\$ —	\$ 11.3
Total assets not accounted for at fair value	\$ 11.3	\$ 11.3	\$ —	\$ —	\$ 11.3
Liabilities					
Debt obligations ⁽²⁾	\$ 712.3	\$ 643.0	\$ —	\$ 643.0	\$ —
Total liabilities not accounted for at fair value	\$ 712.3	\$ 643.0	\$ —	\$ 643.0	\$ —

(1) Other invested assets was comprised of a put option that related to the Company's 19% investment in HMN, which was sold March 6, 2023. Refer to Note 6. Investments for additional information.

(2) Excludes operating lease obligations accounted for under ASC 842, *Leases*.

Debt Obligations. The fair value of the Company's long-term obligations was determined using reporting from Citadel Securities. The methodology combines direct market observations from contributed sources with quantitative pricing models to generate evaluated prices and is classified as Level 2.

20. Supplementary Financial Information

Other income, net

The following table provides information relating to Other income (expense), net for the periods indicated (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Gain on sale of equity method investment	\$ —	\$ —	\$ 12.2	\$ —
Gain on step-up of equity method investment	—	—	3.8	—
Other income, net	0.3	1.5	0.8	1.4
Total	\$ 0.3	\$ 1.5	\$ 16.8	\$ 1.4

INNOVATE CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED
(Unaudited)

Supplemental Cash Flow Information

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

	Six Months Ended June 30,	
	2023	2022
Cash and cash equivalents, beginning of period	\$ 80.4	\$ 45.5
Restricted cash	0.3	2.0
Restricted cash included in other assets (non-current)	1.5	—
Total cash, cash equivalents and restricted cash, beginning of period	<u>\$ 82.2</u>	<u>\$ 47.5</u>
Cash and cash equivalents, end of period	\$ 28.8	\$ 24.9
Restricted cash	—	1.8
Restricted cash included in other assets (non-current)	1.4	—
Total cash and cash equivalents and restricted cash, end of period	<u>\$ 30.2</u>	<u>\$ 26.7</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 23.7	\$ 20.5
Cash paid for taxes, net of refunds	\$ 6.0	\$ 1.9
Non-cash investing and financing activities:		
Property, plant and equipment included in accounts payable or accrued expenses	\$ 1.5	\$ 0.4
Unsecured note issued in connection with purchase of preferred stock and payment of dividends	\$ 35.1	\$ —

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 consolidated annual audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 14, 2023 (the "2022 Annual Report") and the unaudited condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q. 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 2022 Annual Report 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, "INNOVATE" means INNOVATE Corp. and the "Company," "we" and "our" mean INNOVATE together with its consolidated subsidiaries. "U.S. GAAP" means accounting principles accepted in the United States of America.

Our Business and Our Operations

We are a diversified holding company with principal operations conducted through three operating platforms or reportable segments: Infrastructure ("DBMG"), Life Sciences ("Pansend"), and Spectrum, plus our Other segment, which includes businesses that do not meet the separately reportable segment thresholds.

For additional information on our business, refer to Note 1. Organization and Business to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Cyclical Patterns

Our segments' operations can be highly cyclical. Our volume of business in our Infrastructure segment may be adversely affected by declines or delays in projects, which may vary by geographic region. Project schedules, particularly in connection with large, complex, and longer-term projects can also create fluctuations in the services provided, which may adversely affect us in a given period.

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

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

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

Recent Developments

On July 23, 2023, we announced the unexpected passing of Wayne Barr, our President, Chief Executive Officer and Director. Mr. Barr had served as a director of INNOVATE since January 2014 and as CEO since November 2020. He previously served as Lead Director during March 2020 and as Interim CEO from June 2020 until November 2020 when he was appointed as the Company's permanent President and CEO. During his tenure as a director of INNOVATE, he has also served as Chair and/or as a member of several of the Board committees and as a director and/or officer of certain INNOVATE subsidiaries. Following Mr. Barr's death, on July 25, 2023, Paul K. Voigt was named Interim Chief Executive Officer of the Company. Mr. Voigt has served as Senior Managing Director of Investments at Lancer Capital since 2019. From 2014 to 2018, Mr. Voigt served as Senior Managing Director of Investments of the Company and was involved with sourcing deals and capital raising for the Company.

Thus far in 2023, as part of our strategic process, we engaged in several transactions that had an effect on the results of operations and financial condition of our business and individual segments.

Dispositions

Other

Sale of Remaining 19% Interest in HMN

On March 6, 2023, the Company, through New Saxon 2019 Limited ("New Saxon"), an indirect subsidiary of GMH, closed on the sale of its remaining 19% interest in HMN to subsidiaries and an affiliate of Hengtong Optic-Electric Co Ltd. The sale was consummated pursuant to the terms of a supplemental agreement entered into by the parties in June 2022. New Saxon received gross proceeds of \$54.2 million, and interest income of \$0.5 million, of which \$4.4 million was withheld for a foreign tax payment. As of June 30, 2023, \$15.9 million has been paid to GMH's non-controlling interest holders and redeemable non-controlling interest holders pursuant to the partnership agreement. New Saxon recognized a gain on sale of \$12.2 million, which is reflected in Other income, net in the Condensed Consolidated Statements of Operations for the six months ended June 30, 2023.

Debt Obligations and Financing

In 2023 thus far, we have refinanced some of our loans and obtained new capital financing. This financing helped us provide needed capital for our operations and the operations of our subsidiaries.

Life Sciences

During the second quarter of 2023, R2 Technologies closed on an aggregate additional \$2.7 million in 20% notes with Lancer Capital ("Lancer"), an entity controlled by Avram. A Glazer, the Chairman of INNOVATE's Board of Directors, increasing the outstanding principal balance to \$15.7 million. Subsequent to quarter end, in July 2023, Lancer loaned an additional aggregate \$1.1 million to R2 with 20% notes, increasing the total outstanding note principal to \$16.8 million. In addition, in July 2023, R2 entered into an amendment with Lancer to extend the maturity date of all prior existing notes to the earlier of August 15, 2023 or within 5 business days of the date on which R2 receives an aggregate \$20.0 million from the consummation of a debt or equity financing.

Corporate

On April 25, 2023, INNOVATE extended the maturity date of its Revolving Credit Agreement to March 16, 2025, changed the interest benchmark rates from LIBOR-based to SOFR-based rates, and lowered the amount of net cash proceeds from certain asset sales in excess of which a prepayment is required from \$50.0 million to \$10.0 million. On May 8, 2023, INNOVATE drew an additional \$8.0 million under the Revolving Credit Agreement, increasing the outstanding balance to \$13.0 million.

On May 9, 2023, INNOVATE issued a subordinated unsecured promissory note to CGIC in the principal amount of \$35.1 million, in connection with the DBMGi Preferred Stock repurchase from CGIC. Refer to Footnote 15. Preferred Stock and Equity of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for additional information. The promissory note is due February 28, 2026, and bears interest at 9% per annum through May 8, 2024, 16% per annum from May 9, 2024 to May 8, 2025, and 32% per annum thereafter. The promissory note also requires a mandatory prepayment from the proceeds from certain asset sales and the greater of \$3 million or 12.5% of the proceeds from certain equity sales. Refer to 11. Debt Obligations of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for additional information.

Subsequent to quarter end, on July 31, 2023, INNOVATE drew an additional \$7.0 million under the Revolving Credit Agreement, increasing the outstanding balance to \$20.0 million.

Equity Method Investments

In November 2022, MediBeacon amended its existing agreements with Huadong Medicine Co. Ltd ("Huadong"), to provide approximately \$10 million in funding by June 30, 2023, including \$7.5 million or 50% of the remaining \$15 million milestone investment due upon FDA approval of MediBeacon's TGFR at a pre-money valuation of approximately \$400 million. On February 23, 2023, pursuant to its amended commercial partnership with Huadong, a publicly traded company on the Shenzhen Stock Exchange, MediBeacon issued \$7.5 million of its preferred stock to Huadong in exchange for additional shares of preferred stock. As a result of this equity transaction, Pansend recognized a gain of \$3.8 million in Other income, net in the Condensed Consolidated Statements of Operations, which increased Pansend's basis in MediBeacon. Concurrently, Pansend recognized additional equity method losses of \$3.8 million which were previously unrecognized because Pansend's carrying amount of its investment in MediBeacon had been previously reduced to zero.

Other

On December 30, 2022, the Company entered into a letter agreement with Continental General Insurance Company ("CGIC") pursuant to which CGIC and its affiliates agreed to vote certain shares of the Company's Series A-3 Convertible Participating Preferred Stock, par value \$0.001 per share, and the Company's Series A-4 Convertible Participating Preferred Stock, par value \$0.001 per share, to the extent such shares result in CGIC beneficially owning more than 9.9% of the aggregate voting power of the Company, in the same manner as the majority of the holders holding less than 10% of the Company's common stock, par value \$0.001 per share, vote their shares with respect to any matter pursuant to which such shares are entitled to vote.

Stockholders' Rights Agreement

On April 1, 2023, the Company entered into a Tax Benefits Preservation Plan (the "Plan") with ComputerShare Trust Company, N.A., as rights agent (the "Rights Agent"). The Plan is intended to help protect the Company's ability to use its tax net operating losses and other certain tax assets ("Tax Benefits") by deterring an "ownership change," as defined under Section 382 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder (the "Code"), by a person or group of affiliated or associated persons from acquiring beneficial ownership of 4.9% or more of the outstanding common shares.

In connection with entering into the Plan, on April 1, 2023 the Board of Directors of the Company declared a dividend distribution of one right (a "Right") for each outstanding share of common stock, par value \$0.001 per share, of the Company (the "Common Stock") to stockholders of record at the close of business on April 10, 2023 (the "Record Date"). Each Right is governed by the terms of the Plan and entitles the registered holder to purchase from the Company a unit consisting of one one-thousandth of a share (a "Unit") of Series B Preferred Stock, par value \$0.001 per share (the "Series B Preferred Stock"), at a purchase price of \$15.00 per Unit, subject to adjustment (the "Purchase Price"). The Company had entered into a previous Tax Benefits Preservation Plan on August 30, 2021 (the "Prior Plan"), in order to help protect the Company's ability to use its Tax Benefits by deterring an ownership change. The Prior Plan expired on March 31, 2023.

Refer to Note 15. Preferred Stock and Equity of the Condensed Consolidated Financial Statements (Unaudited) included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference for additional information.

Financial Presentation Background

In the below section within this Management's Discussion and Analysis of Financial Condition and Results of Operations, we compare, pursuant to U.S. GAAP and SEC disclosure rules, the Company's results of operations for the three and six months ended June 30, 2023 as compared to the three and six months ended June 30, 2022.

Results of Operations

The following table summarizes our results of operations and a comparison of the change between the periods as indicated (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Increase / (Decrease)	2023	2022	Increase / (Decrease)
Revenue						
Infrastructure	\$ 362.4	\$ 382.1	\$ (19.7)	\$ 674.1	\$ 784.3	\$ (110.2)
Life Sciences	0.7	1.0	(0.3)	1.2	1.8	(0.6)
Spectrum	5.7	9.1	(3.4)	11.4	18.9	(7.5)
Total revenue	\$ 368.8	\$ 392.2	\$ (23.4)	\$ 686.7	\$ 805.0	\$ (118.3)
Income (loss) from operations						
Infrastructure	\$ 14.7	\$ 11.8	\$ 2.9	\$ 21.0	\$ 23.7	\$ (2.7)
Life Sciences	(3.9)	(5.2)	1.3	(8.3)	(10.2)	1.9
Spectrum	(0.6)	(3.1)	2.5	(1.1)	(3.5)	2.4
Other	(0.5)	—	(0.5)	(1.9)	(0.1)	(1.8)
Non-operating Corporate	(3.9)	(3.9)	—	(7.9)	(9.6)	1.7
Total income (loss) from operations	\$ 5.8	\$ (0.4)	\$ 6.2	\$ 1.8	\$ 0.3	\$ 1.5
Interest expense	(16.3)	(12.5)	(3.8)	(31.9)	(25.1)	(6.8)
Loss from equity investees	(0.3)	(0.5)	0.2	(4.3)	(1.0)	(3.3)
Other income, net	0.3	1.5	(1.2)	16.8	1.4	15.4
Loss from operations before income taxes	\$ (10.5)	\$ (11.9)	\$ 1.4	\$ (17.6)	\$ (24.4)	\$ 6.8
Income tax expense	(1.2)	(2.0)	0.8	(2.1)	(3.6)	1.5
Net loss	\$ (11.7)	\$ (13.9)	\$ 2.2	\$ (19.7)	\$ (28.0)	\$ 8.3
Net loss attributable to non-controlling interests and redeemable non-controlling interests	1.8	1.5	0.3	0.8	3.2	(2.4)
Net loss attributable to INNOVATE Corp.	\$ (9.9)	\$ (12.4)	\$ 2.5	\$ (18.9)	\$ (24.8)	\$ 5.9
Less: Preferred dividends	0.6	1.2	(0.6)	1.8	2.4	(0.6)
Net loss attributable to common stockholders	\$ (10.5)	\$ (13.6)	\$ 3.1	\$ (20.7)	\$ (27.2)	\$ 6.5

Revenue: Revenue for the three months ended June 30, 2023 decreased \$23.4 million to \$368.8 million from \$392.2 million for the three months ended June 30, 2022. The decrease was primarily driven by our Infrastructure segment, and, to a lesser extent, our Spectrum segment. The decline at the Infrastructure segment was driven the timing of projects at DBMG's commercial structural steel fabrication and erection business and lower revenue at the industrial maintenance and repair business. Revenues at our Spectrum segment decreased primarily as a result of the termination of HC2 Network, Inc. ("Network") and its associated Azteca America network ("Azteca") content on December 31, 2022.

Revenue for the six months ended June 30, 2023 decreased \$118.3 million to \$686.7 million from \$805.0 million for the six months ended June 30, 2022. The decrease was primarily driven by our Infrastructure segment, and, to a lesser extent, our Spectrum segment. DBMG's commercial structural steel fabrication and erection business encountered customer and general contractor driven delays, resulting in the timing of work performed by DBMG to be delayed in the current period and lower revenue at the industrial maintenance and repair business. Revenues at our Spectrum segment decreased primarily as a result of the termination of Network and its associated Azteca content on December 31, 2022.

Income (loss) from operations: Income from operations for the three months ended June 30, 2023 increased \$6.2 million to income of \$5.8 million from a loss from operations of \$0.4 million for the three months ended June 30, 2022. The increase was due to a net increase in gross profit, and reductions in other operating expenses, depreciation and amortization and selling, general and administrative expenses ("SG&A").

The increase in gross profit was primarily due to the increase in our Infrastructure segment due to timing of higher margin projects at the commercial structural steel fabrication and erection business, which was partially offset by lower contribution at the industrial maintenance and repair business. The decrease in other operating expenses was primarily due to Spectrum segment's impairment of the Network Program License Agreement ("PLA") intangible in the prior year comparable period. The overall decrease in depreciation and amortization was primarily driven by DBMG's commercial structural steel fabrication and erection business and Banker Steel, as certain fixed assets became fully depreciated subsequent to the prior year comparable period. The overall decrease in SG&A was primarily driven by the elimination of costs from the termination of Network at the Spectrum segment and decreases in compensation-related expenses and research and development and marketing costs at the Life Sciences segment, which was partially offset by an increase in compensation-related expenses at the Infrastructure segment.

Income from operations for the six months ended June 30, 2023 increased \$1.5 million to \$1.8 million from \$0.3 million for the six months ended June 30, 2022. The increase was due to decreases in SG&A, depreciation and amortization, and other operating expenses, which were partially offset by a net decrease in gross profit. The net decrease in SG&A was primarily driven by the Spectrum segment from the termination of Network, decreases in compensation-related expenses and research and development costs at our Life Sciences segment, which was partially offset by an increase in compensation-related expense and restructuring costs at the Infrastructure segment as well as an increase in expenses at our Other segment as a result of the sale of New Saxon's 19% investment in HMN. The net decrease in depreciation and amortization was driven by DBMG's commercial structural steel fabrication and erection business and Banker Steel, as certain fixed assets became fully depreciated subsequent to the comparable period. The net decrease in other operating expenses was driven by the Spectrum segment which impaired the Network PLA intangible in the comparable period and an increase in FCC reimbursements received in the current period. The decrease in gross profit was primarily driven by our Spectrum segment's termination of Network, which was partially offset by an increase at station group, which added new markets and networks in the current period.

Interest expense: Interest expense for the three months ended June 30, 2023 increased \$3.8 million to \$16.3 million from \$12.5 million for the three months ended June 30, 2022. Interest expense for the six months ended June 30, 2023 increased \$6.8 million to \$31.9 million from \$25.1 million for the six months ended June 30, 2022. The increase was primarily attributable to higher interest rates, increased amortization of debt issuance costs on the debt, and higher outstanding principal balances at our Spectrum, Infrastructure, Life Sciences and Non-operating Corporate segments, as a result of new debt issued subsequent to the comparable period.

Loss from equity investees: Loss from equity investees for the three months ended June 30, 2023 decreased \$0.2 million to \$0.3 million from \$0.5 million for the three months ended June 30, 2022. The decrease in the net loss was primarily due to Pansend's net carrying amount of its investment in MediBeacon being zero, which resulted in no additional losses being recognized in our equity investment in MediBeacon in the current period, This was partially offset by a decrease as a result of the sale of our investment in HMN on March 6, 2023, which had income in the prior period, and from by higher equity method losses recorded from our investment in Triple Ring in the current period.

Loss from equity investees for the six months ended June 30, 2023 increased \$3.3 million to \$4.3 million from \$1.0 million for the six months ended June 30, 2022. The increase in loss was primarily driven by our prior equity investment in HMN, which was sold on March 6, 2023 and had losses for the approximately two months of equity method loss in the current period, compared to net income for the six months in the comparable period, as well as higher equity method losses in the current period from our investment in Triple Ring as a result of an unrepeated gain on debt extinguishment recognized by Triple Ring in the comparable period. This was partially offset by lower equity method losses from our investment in MediBeacon, as a result of suspended losses due to Pansend's carrying amount being reduced to zero.

Other income, net: Other income, net for the three months ended June 30, 2023 decreased \$1.2 million to \$0.3 million from \$1.5 million for the three months ended June 30, 2022. The decrease was primarily attributable to the Infrastructure segment, driven by a decrease in foreign currency translation gains, which was partially offset by a litigation settlement paid by Infrastructure in the comparable period.

Other income, net for the six months ended June 30, 2023 increased \$15.4 million to \$16.8 million from of \$1.4 million for the six months ended June 30, 2022. Other income, net for the six months ended June 30, 2023 primarily consisted of a gain on the sale of the equity investment in HMN of \$12.2 million and a \$3.8 million step-up gain from the increase in Pansend's basis as a result of MediBeacon issuing \$7.5 million of its preferred stock to Huadong. Refer to Note 6. Investments of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference for additional information.

Income tax expense: Income tax expense for the three months ended June 30, 2023 decreased \$0.8 million to \$1.2 million from \$2.0 million for the three months ended June 30, 2022. Income tax expense for the six months ended June 30, 2023 decreased \$1.5 million to \$2.1 million from \$3.6 million for the six months ended June 30, 2022. The income tax expense recorded for the three months and six months ended June 30, 2023 and 2022 primarily relates to the tax expense as calculated under ASC 740 for taxpaying entities. Additionally, the tax benefits associated with losses generated by the INNOVATE Corp. U.S. consolidated income tax return and certain other businesses have been reduced by a full valuation allowance as we do not believe it is more-likely-than not that the losses will be utilized prior to expiration. The annual effective tax rate calculated for the interim tax provision includes a \$1.1 million tax benefit, consisting of a current tax expense of \$4.4 million related to foreign tax payment and a deferred tax benefit of \$5.5 million related to the reversal of the deferred tax liability associated with the \$11.3 million put option agreement, both of which were related to the sale of New Saxon's 19% investment in HMN on March 6, 2023.

Segment Results of Operations

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

Infrastructure Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Increase / (Decrease)	2023	2022	Increase / (Decrease)
Revenue	\$ 362.4	\$ 382.1	\$ (19.7)	\$ 674.1	\$ 784.3	\$ (110.2)
Cost of revenue	312.8	336.0	(23.2)	583.7	693.7	(110.0)
Selling, general and administrative	30.7	29.0	1.7	60.4	56.9	3.5
Depreciation and amortization	4.1	5.3	(1.2)	9.0	10.6	(1.6)
Other operating loss (income)	0.1	—	0.1	—	(0.6)	0.6
Income from operations	\$ 14.7	\$ 11.8	\$ 2.9	\$ 21.0	\$ 23.7	\$ (2.7)

Revenue: Revenue for the three months ended June 30, 2023 decreased \$19.7 million to \$362.4 million from \$382.1 million for the three months ended June 30, 2022. The decrease was primarily driven by the timing and size of projects at DBMG's commercial structural steel fabrication and erection business and lower revenue at the industrial maintenance and repair business. This was partially offset by an increase at Banker Steel due to timing and size of projects in backlog.

Revenue for the six months ended June 30, 2023 decreased \$110.2 million to \$674.1 million from \$784.3 million for the six months ended June 30, 2022. The decrease was primarily driven by timing of projects at DBMG's commercial structural steel fabrication and erection business, which encountered customer and general contractor driven delays, resulting in the timing of work performed by DBMG to be delayed in the current period and lower revenue at the industrial maintenance and repair business. This was partially offset by Banker Steel due to the timing and size of projects.

Cost of revenue: Cost of revenue for the three months ended June 30, 2023 decreased \$23.2 million to \$312.8 million from \$336.0 million for the three months ended June 30, 2022. The decrease was primarily driven by the timing of projects at DBMG's commercial structural steel fabrication and erection business and the industrial maintenance and repair business. This was partially offset by an increase at Banker Steel due to timing and size of projects.

Cost of revenue for the six months ended June 30, 2023 decreased \$110.0 million to \$583.7 million from \$693.7 million for the six months ended June 30, 2022. The decrease was primarily driven by both DBMG's commercial structural steel fabrication and erection business, which encountered customer and general contractor driven delays, resulting in the timing of work performed by DBMG to be delayed in the current period as well as the industrial maintenance and repair business. This was partially offset by an increase at Banker Steel due to timing and size of projects.

Selling, general and administrative: Selling, general and administrative expense for the three months ended June 30, 2023 increased \$1.7 million to \$30.7 million from \$29.0 million for the three months ended June 30, 2022. The increase was primarily driven by an increase in compensation-related expense, which was partially offset by a decrease in travel and entertainment expenses.

Selling, general and administrative expense for the six months ended June 30, 2023 increased \$3.5 million to \$60.4 million from \$56.9 million for the six months ended June 30, 2022. The increase was primarily driven by increases in compensation-related expenses and restructuring costs, which were partially offset by a decrease in travel and entertainment expenses.

Depreciation and amortization: Depreciation and amortization for the three months ended June 30, 2023 decreased \$1.2 million to \$4.1 million from \$5.3 million for the three months ended June 30, 2022. Depreciation and amortization for the six months ended June 30, 2023 decreased \$1.6 million to \$9.0 million from \$10.6 million for the six months ended June 30, 2022. The decrease was primarily driven by DBMG's commercial structural steel fabrication and erection business and Banker Steel, as certain fixed assets became fully depreciated subsequent to the comparable period.

Other operating loss (income): Other operating income for the six months ended June 30, 2023 decreased \$0.6 million to zero from income of \$0.6 million for the six months ended June 30, 2022. The decrease in income was primarily driven by an unrepeatable asset sale in the comparable period.

Life Sciences Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Increase / (Decrease)	2023	2022	Increase / (Decrease)
Revenue	\$ 0.7	\$ 1.0	\$ (0.3)	\$ 1.2	\$ 1.8	\$ (0.6)
Cost of revenue	0.4	0.9	(0.5)	0.9	1.5	(0.6)
Selling, general and administrative	4.1	5.3	(1.2)	8.4	10.4	(2.0)
Depreciation and amortization	0.1	—	0.1	0.2	0.1	0.1
Loss from operations	<u>\$ (3.9)</u>	<u>\$ (5.2)</u>	<u>\$ 1.3</u>	<u>\$ (8.3)</u>	<u>\$ (10.2)</u>	<u>\$ 1.9</u>

Revenue: Revenue for the three months ended June 30, 2023 decreased \$0.3 million to \$0.7 million from \$1.0 million for the three months ended June 30, 2022. Revenue for the six months ended June 30, 2023 decreased \$0.6 million to \$1.2 million from \$1.8 million for the six months ended June 30, 2022. The decrease in revenue was attributable to R2, primarily as a result of less revenue from unit sales outside the U.S. due to payment delays resulting in shipping holds, which was partially offset by an increase in upfront unit sales in the US coupled with increased recurring revenues from consumable and subscription programs.

Cost of revenue: Cost of revenue for three months ended June 30, 2023 decreased \$0.5 million to \$0.4 million from \$0.9 million for the three months ended June 30, 2022. Cost of revenue for the six months ended June 30, 2023 decreased \$0.6 million to \$0.9 million from \$1.5 million for the six months ended June 30, 2022. The decrease in cost of revenue was attributable to R2 driven by a reduction in revenue.

Selling, general and administrative: Selling, general and administrative expense for the three months ended June 30, 2023 decreased \$1.2 million to \$4.1 million from \$5.3 million for the three months ended June 30, 2022. The decrease was primarily driven by decreases from R2 in bonus expense, severance cost, salaries and benefits, as well as research and development costs and marketing costs as a result of cost reduction initiatives.

Selling, general and administrative expense for the six months ended June 30, 2023 decreased \$2.0 million to \$8.4 million from \$10.4 million for the six months ended June 30, 2022. The decrease was primarily driven by decreases from R2 in bonus expense, salaries and benefits, as well as research and development costs and marketing costs as a result of cost reduction initiatives.

Spectrum Segment

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Increase / (Decrease)	2023	2022	Increase / (Decrease)
Revenue	\$ 5.7	\$ 9.1	\$ (3.4)	\$ 11.4	\$ 18.9	\$ (7.5)
Cost of revenue	3.0	5.0	(2.0)	5.9	9.7	(3.8)
Selling, general and administrative	2.0	4.0	(2.0)	4.3	7.8	(3.5)
Depreciation and amortization	1.3	1.5	(0.2)	2.6	3.0	(0.4)
Other operating (income) loss	—	1.7	(1.7)	(0.3)	1.9	(2.2)
Loss from operations	<u>\$ (0.6)</u>	<u>\$ (3.1)</u>	<u>\$ 2.5</u>	<u>\$ (1.1)</u>	<u>\$ (3.5)</u>	<u>\$ 2.4</u>

Revenue: Revenue for the three months ended June 30, 2023 decreased \$3.4 million to \$5.7 million from \$9.1 million for the three months ended June 30, 2022. Revenue for the six months ended June 30, 2023 decreased \$7.5 million to \$11.4 million from \$18.9 million for the six months ended June 30, 2022. The decrease was primarily driven by the elimination of advertising revenues at Azteca, which ceased operations on December 31, 2022. This was partially offset by an increase in station revenues, which launched new markets and networks with its customers in the current period.

Cost of revenue: Cost of revenue for the three months ended June 30, 2023 decreased \$2.0 million to \$3.0 million from \$5.0 million for the three months ended June 30, 2022. Cost of revenue for the six months ended June 30, 2023 decreased \$3.8 million to \$5.9 million from \$9.7 million for the six months ended June 30, 2022. The overall decrease was primarily driven by a decrease in advertising cost of revenue as a result of the termination of Azteca.

Selling, general and administrative: Selling, general and administrative for the three months ended June 30, 2023 decreased \$2.0 million to \$2.0 million from \$4.0 million for the three months ended June 30, 2022. Selling, general and administrative expense for the six months ended June 30, 2023 decreased \$3.5 million to \$4.3 million from \$7.8 million for the six months ended June 30, 2022. The decrease was primarily driven by the termination of Network, which was partially offset by an increase in salaries and benefits expense at station group.

Depreciation and amortization: Depreciation and amortization expense for the six months ended June 30, 2023 decreased \$0.4 million to \$2.6 million from \$3.0 million for the six months ended June 30, 2022. The decrease was primarily driven by the Program License Agreement ("PLA"), which was fully impaired in the comparable period.

Other operating (income) loss: Other operating (income) loss for the three months ended June 30, 2023 decreased \$1.7 million to zero from a loss of \$1.7 million for the three months ended June 30, 2022. The decrease was primarily related to the impairment of the PLA intangible in the comparable period.

Other operating (income) loss for the six months ended June 30, 2023 increased \$2.2 million to income of \$0.3 million from a loss of \$1.9 million for the six months ended June 30, 2022. The increase was primarily related to the impairment of the PLA intangible in the comparable period and an increase in FCC reimbursements received in the current period.

Non-operating Corporate

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Increase / (Decrease)	2023	2022	Increase / (Decrease)
Selling, general and administrative	\$ 3.8	\$ 3.8	\$ —	\$ 7.8	\$ 9.5	\$ (1.7)
Depreciation and amortization	0.1	0.1	—	0.1	0.1	—
Loss from operations	\$ (3.9)	\$ (3.9)	\$ —	\$ (7.9)	\$ (9.6)	\$ 1.7

Selling, general and administrative: Selling, general and administrative expenses for the six months ended June 30, 2023 decreased \$1.7 million to \$7.8 million from \$9.5 million for the six months ended June 30, 2022. The decrease in SG&A expenses was driven by a decrease in employee costs, disposition and acquisition expenses, stock-based compensation, as well as other unrepeated expenses related to the settlement with the former CEO recorded in the comparable period and a decrease in salaries and benefits from a reduced headcount.

Loss from Equity Investees

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Increase / (Decrease)	2023	2022	Increase / (Decrease)
Life Sciences	\$ (0.3)	\$ (2.3)	\$ 2.0	\$ (4.0)	\$ (3.3)	\$ (0.7)
Other	—	1.8	(1.8)	(0.3)	2.3	(2.6)
Loss from equity investees	\$ (0.3)	\$ (0.5)	\$ 0.2	\$ (4.3)	\$ (1.0)	\$ (3.3)

Life Sciences: Loss from equity investees within our Life Sciences segment for the three months ended June 30, 2023 decreased \$2.0 million to \$0.3 million from \$2.3 million for the three months ended June 30, 2022. The decrease in the loss was primarily due to Pansend's net carrying amount of its investment in MediBeacon being zero, which resulted in no losses being recognized in our equity investment in MediBeacon in the current period. This was partially offset by net higher equity method losses recorded from our investment in Triple Ring.

Loss from equity investees within our Life Sciences segment for the six months ended June 30, 2023 increased \$0.7 million to \$4.0 million from \$3.3 million for the six months ended June 30, 2022. The increase in loss was primarily due to higher equity method losses in the current period from our investment in Triple Ring as a result of an unrepeated gain on debt extinguishment recognized by Triple Ring in the comparable period. This was partially offset by lower equity method losses from our investment in MediBeacon. As a result of an additional equity investment made during the first quarter of 2023 by Huadong to MediBeacon, Pansend's basis in MediBeacon increased by \$3.8 million and Pansend recognized \$3.8 million additional equity method losses which were previously unrecognized because Pansend's carrying amount of its investment in MediBeacon had been previously reduced to zero. Pansend's carrying amount of its investment in MediBeacon remains at zero, which resulted in fewer losses recognized than in the comparable period. Refer to Note 6. Investments of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference for additional information.

Other: Income from equity investees within our Other segment for the three months ended June 30, 2023 decreased \$1.8 million to zero from income of \$1.8 million for the three months ended June 30, 2022. The decrease was driven by the equity investment in HMN, which was sold on March 6, 2023.

Loss from equity investees within our Other segment for the six months ended June 30, 2023 increased \$2.6 million to a loss of \$0.3 million from income of \$2.3 million for the six months ended June 30, 2022. The decrease was driven by the equity investment in HMN, which was sold on March 6, 2023, and had losses for the approximately two months of equity method loss in the current period, compared to net income for the six months in the comparable period. Refer to Note 6. Investments of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference for additional information.

Non-GAAP Financial Measures and Other Information

Adjusted EBITDA

Adjusted EBITDA is not a measurement recognized under U.S. GAAP. In addition, other companies may define Adjusted EBITDA differently than we do, which could limit its usefulness.

Management believes that Adjusted EBITDA provides investors with meaningful information for gaining an understanding of our results as it is frequently used by the financial community to provide insight into an organization's operating trends and facilitates comparisons between peer companies, since interest, taxes, depreciation, amortization and the other items listed in the definition of Adjusted EBITDA below can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA can also be a useful measure of a company's ability to service debt. While management believes that non-U.S. GAAP measurements are useful supplemental information, such adjusted results are not intended to replace our U.S. GAAP financial results. Using Adjusted EBITDA as a performance measure has inherent limitations as an analytical tool as compared to net income (loss) or other U.S. GAAP financial measures, as this non-GAAP measure excludes certain items, including items that are recurring in nature, which may be meaningful to investors. As a result of the exclusions, Adjusted EBITDA should not be considered in isolation and does not purport to be an alternative to net income (loss) or other U.S. GAAP financial measures as a measure of our operating performance. Adjusted EBITDA excludes the results of operations and any consolidating eliminations of our previous Insurance segment.

The calculation of Adjusted EBITDA, as defined by us, consists of Net income (loss) attributable to INNOVATE Corp., excluding discontinued operations, if applicable; depreciation and amortization; other operating (income) loss, which is inclusive of (gain) loss on sale or disposal of assets, lease termination costs, asset impairment expense and FCC reimbursements; interest expense; other (income) expense, net; income tax expense (benefit); non-controlling interest; share-based compensation expense; restructuring and exit costs; non-recurring items; and acquisition and disposition costs.

(in millions)	Three months ended June 30, 2023					
	Infrastructure	Life Sciences	Spectrum	Non-operating Corporate	Other and Eliminations	INNOVATE
Net income (loss) attributable to INNOVATE Corp.	\$ 7.0	\$ (2.9)	\$ (5.3)	\$ (8.2)	\$ (0.5)	\$ (9.9)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:						
Depreciation and amortization	4.1	0.1	1.3	0.1	—	5.6
Depreciation and amortization (included in cost of revenue)	4.0	0.1	—	—	—	4.1
Other operating loss	0.1	—	—	—	—	0.1
Interest expense	3.4	0.7	3.4	8.8	—	16.3
Other (income) expense, net	(0.3)	(0.1)	1.9	(1.9)	0.1	(0.3)
Income tax expense (benefit)	3.8	—	—	(2.6)	—	1.2
Non-controlling interest	0.7	(1.9)	(0.6)	—	—	(1.8)
Share-based compensation expense	—	0.1	—	0.6	—	0.7
Restructuring and exit costs	0.5	—	—	—	—	0.5
Acquisition and disposition costs	0.2	—	0.1	(0.2)	(0.1)	—
Adjusted EBITDA	\$ 23.5	\$ (3.9)	\$ 0.8	\$ (3.4)	\$ (0.5)	\$ 16.5

(in millions)

	Three months ended June 30, 2022					
	Infrastructure	Life Sciences	Spectrum	Non-operating Corporate	Other and Eliminations	INNOVATE
Net income (loss) attributable to INNOVATE Corp.	\$ 6.8	\$ (5.3)	\$ (5.7)	\$ (9.5)	\$ 1.3	\$ (12.4)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:						
Depreciation and amortization	5.3	—	1.5	0.1	—	6.9
Depreciation and amortization (included in cost of revenue)	3.6	—	—	—	—	3.6
Other operating loss	—	—	1.7	—	—	1.7
Interest expense	2.2	—	1.9	8.4	—	12.5
Other (income) expense, net	(1.4)	(0.2)	1.4	(1.2)	—	(1.4)
Gain on sale or dissolution of subsidiary	—	—	—	(0.1)	—	(0.1)
Income tax expense (benefit)	3.5	—	—	(1.5)	—	2.0
Non-controlling interest	0.7	(2.1)	(0.5)	—	0.4	(1.5)
Share-based compensation expense	—	0.1	—	0.4	—	0.5
Non-recurring items	0.1	—	—	—	—	0.1
Acquisition and disposition costs	0.1	—	0.1	—	—	0.2
Adjusted EBITDA	<u>\$ 20.9</u>	<u>\$ (7.5)</u>	<u>\$ 0.4</u>	<u>\$ (3.4)</u>	<u>\$ 1.7</u>	<u>\$ 12.1</u>

Infrastructure: Net income from our Infrastructure segment for the three months ended June 30, 2023 increased \$0.2 million to \$7.0 million from \$6.8 million for the three months ended June 30, 2022. Adjusted EBITDA from our Infrastructure segment for the three months ended June 30, 2023 increased \$2.6 million to \$23.5 million from \$20.9 million for the three months ended June 30, 2022. The increase in Adjusted EBITDA was primarily driven by timing of higher margin projects at DBMG's commercial structural steel fabrication and erection business. This was partially offset by lower contributions at the industrial maintenance and repair business and Banker Steel due to timing and size of projects, as well as an increase in SG&A.

Life Sciences: Net loss from our Life Sciences segment for the three months ended June 30, 2023 decreased \$2.4 million to \$2.9 million from \$5.3 million for the three months ended June 30, 2022. Adjusted EBITDA loss from our Life Sciences segment for the three months ended June 30, 2023 decreased \$3.6 million to \$3.9 million from \$7.5 million for the three months ended June 30, 2022. The decrease in Adjusted EBITDA loss was primarily due to Pansend's net carrying amount of its investment in MediBeacon being zero, which resulted in no additional losses being recognized in our equity investment in MediBeacon in the current period, as well as a decrease in SG&A expenses at R2. This was partially offset by higher equity method losses recorded from our investment in Triple Ring.

Spectrum: Net loss from our Spectrum segment for the three months ended June 30, 2023 decreased \$0.4 million to \$5.3 million from \$5.7 million for the three months ended June 30, 2022. Adjusted EBITDA from our Spectrum segment for the three months ended June 30, 2023 increased \$0.4 million to \$0.8 million from \$0.4 million for the three months ended June 30, 2022. The increase was primarily driven by the elimination of Network's EBITDA losses in the comparable period as a result of the termination of Network and an increase in station revenues, which added markets and networks with its customers in the current period, which was partially offset by an increase in salaries and benefits at station group.

Non-operating Corporate: Net loss from our Non-operating Corporate segment for the three months ended June 30, 2023 decreased \$1.3 million to \$8.2 million from \$9.5 million for the three months ended June 30, 2022. Adjusted EBITDA loss from our Non-operating Corporate segment for the three months ended June 30, 2023 remain consistent period over period at \$3.4 million with no significant offsetting increases or decreases.

Other and Eliminations: Net loss from our Other and Eliminations segment for the three months ended June 30, 2023 increased \$1.8 million to a loss of \$0.5 million from income of \$1.3 million for the three months ended June 30, 2022. Adjusted EBITDA loss from our Other segment for the three months ended June 30, 2023 increased \$2.2 million to an Adjusted EBITDA loss of \$0.5 million from Adjusted EBITDA income of \$1.7 million for the three months ended June 30, 2022. The increase in Adjusted EBITDA loss was driven by the elimination of equity method income from our investment in HMN, which was sold on March 6, 2023 and severance related expense at TIC Holdco, Inc.

(in millions)

	Six months ended June 30, 2023					
	Infrastructure	Life Sciences	Spectrum	Non-operating Corporate	Other and Eliminations	INNOVATE
Net income (loss) attributable to INNOVATE Corp.	\$ 9.0	\$ (5.7)	\$ (10.3)	\$ (20.1)	\$ 8.2	\$ (18.9)
<u>Adjustments to reconcile net income (loss) to Adjusted EBITDA:</u>						
Depreciation and amortization	9.0	0.2	2.6	0.1	—	11.9
Depreciation and amortization (included in cost of revenue)	7.9	0.1	—	—	—	8.0
Other operating income	—	—	(0.3)	—	—	(0.3)
Interest expense	6.8	1.2	6.6	17.3	—	31.9
Other (income) expense, net	(0.5)	(4.0)	3.7	(3.5)	(12.5)	(16.8)
Income tax expense (benefit)	4.9	—	—	(1.6)	(1.2)	2.1
Non-controlling interest	0.9	(3.8)	(1.2)	—	3.3	(0.8)
Share-based compensation expense	—	0.3	—	0.9	—	1.2
Restructuring and exit costs	1.0	—	—	—	—	1.0
Acquisition and disposition costs	0.8	—	0.1	—	1.2	2.1
Adjusted EBITDA	\$ 39.8	\$ (11.7)	\$ 1.2	\$ (6.9)	\$ (1.0)	\$ 21.4

(in millions)

	Six months ended June 30, 2022					
	Infrastructure	Life Sciences	Spectrum	Non-operating Corporate	Other and Eliminations	INNOVATE
Net income (loss) attributable to INNOVATE Corp.	\$ 12.9	\$ (9.4)	\$ (9.1)	\$ (20.8)	\$ 1.6	\$ (24.8)
<u>Adjustments to reconcile net income (loss) to Adjusted EBITDA:</u>						
Depreciation and amortization	10.6	0.1	3.0	0.1	—	13.8
Depreciation and amortization (included in cost of revenue)	7.3	—	—	—	—	7.3
Other operating (income) loss	(0.6)	—	1.9	—	—	1.3
Interest expense	4.4	—	3.9	16.8	—	25.1
Other (income) expense, net	(1.3)	(0.1)	2.9	(2.8)	—	(1.3)
Gain on sale or dissolution of subsidiary	—	—	—	(0.1)	—	(0.1)
Income tax expense (benefit)	6.4	—	—	(2.8)	—	3.6
Non-controlling interest	1.3	(4.1)	(1.1)	—	0.7	(3.2)
Share-based compensation expense	—	0.2	—	1.1	—	1.3
Non-recurring items	0.1	—	—	—	—	0.1
Acquisition and disposition costs	0.3	—	0.2	0.5	(0.5)	0.5
Adjusted EBITDA	\$ 41.4	\$ (13.3)	\$ 1.7	\$ (8.0)	\$ 1.8	\$ 23.6

Infrastructure: Net income from our Infrastructure segment for the six months ended June 30, 2023 decreased \$3.9 million to \$9.0 million from \$12.9 million for the six months ended June 30, 2022. Adjusted EBITDA from our Infrastructure segment for the six months ended June 30, 2023 decreased \$1.6 million to \$39.8 million from \$41.4 million for the six months ended June 30, 2022. The decrease in Adjusted EBITDA was primarily driven by lower contributions from Banker Steel and DBMG's industrial maintenance and repair businesses due to the timing of projects, as well as an increase in SG&A. While the commercial structural steel fabrication and erection business experienced customer and general contractor driven delays in the current period that impacted its revenue, the decrease in Adjusted EBITDA was partially offset by a margin improvement as projects completed in the comparable period, which had lower margins due to market pressure on point-of-sale project margins during the COVID-19 pandemic, were replaced with more recent projects with higher point-of-sale margins in the current period.

Life Sciences: Net loss from our Life Sciences segment for the six months ended June 30, 2023 decreased \$3.7 million to \$5.7 million from \$9.4 million for the six months ended June 30, 2022. Adjusted EBITDA loss from our Life Sciences segment for the six months ended June 30, 2023 decreased \$1.6 million to \$11.7 million from \$13.3 million for the six months ended June 30, 2022. The decrease in Adjusted EBITDA loss was primarily due a decrease in SG&A expenses at R2, driven by a decrease in bonus expense, salaries and benefits, research and development costs and marketing costs. Additionally contributing to the decrease in Adjusted EBITDA loss was lower equity method losses from our investment in MediBeacon. Pansend's carrying amount of its investment in MediBeacon remained at zero during the second quarter, which resulted in fewer losses to be recognized than the comparable period. The decrease was partially offset by higher equity method losses from our investment in Triple Ring driven by a gain on debt extinguishment recognized in the comparable period.

Spectrum: Net loss from our Spectrum segment for the six months ended June 30, 2023 increased \$1.2 million to \$10.3 million from \$9.1 million for the six months ended June 30, 2022. Adjusted EBITDA from our Spectrum segment for the six months ended June 30, 2023 decreased \$0.5 million to \$1.2 million from \$1.7 million for the six months ended June 30, 2022. The decrease in Adjusted EBITDA was primarily driven by the increase in salaries and benefits at station group, which was partially offset by the elimination of Network's EBITDA losses in the comparable period as a result of the termination of Network, and an increase in station revenues, which added new markets and networks with its customers in the current.

Non-operating Corporate: Net loss from our Non-operating Corporate segment for the six months ended June 30, 2023 decreased \$0.7 million to \$20.1 million from \$20.8 million for the six months ended June 30, 2022. Adjusted EBITDA loss from our Non-operating Corporate segment for the six months ended June 30, 2023 decreased \$1.1 million to \$6.9 million from \$8.0 million for the six months ended June 30, 2022. The decrease in Adjusted EBITDA loss was driven by a decrease in employee costs, unrepeatable expenses related to the settlement with the former CEO recorded in the prior period and a decrease in salaries and benefits from a reduced headcount.

Other and Eliminations: Net income from our Other and Eliminations segment for the six months ended June 30, 2023 increased \$6.6 million to \$8.2 million from \$1.6 million for the six months ended June 30, 2022. Adjusted EBITDA loss from our Other segment for the six months ended June 30, 2023 increased \$2.8 million to an Adjusted EBITDA loss of \$1.0 million from Adjusted EBITDA income of \$1.8 million for the six months ended June 30, 2022. The decrease in Adjusted EBITDA for Other and Eliminations was driven by reduced contribution from HMN, which was sold on March 6, 2023 and severance related expense at TIC Holdco, Inc.

Adjusted EBITDA by segment is summarized as follows:

(in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Increase / (Decrease)	2023	2022	Increase / (Decrease)
Infrastructure	\$ 23.5	\$ 20.9	\$ 2.6	\$ 39.8	\$ 41.4	\$ (1.6)
Life Sciences	(3.9)	(7.5)	3.6	(11.7)	(13.3)	1.6
Spectrum	0.8	0.4	0.4	1.2	1.7	(0.5)
Non-operating Corporate	(3.4)	(3.4)	—	(6.9)	(8.0)	1.1
Other and Eliminations	(0.5)	1.7	(2.2)	(1.0)	1.8	(2.8)
Adjusted EBITDA	\$ 16.5	\$ 12.1	\$ 4.4	\$ 21.4	\$ 23.6	\$ (2.2)

Backlog

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

Infrastructure Segment

As of June 30, 2023, DBMG's backlog was \$1,462.2 million, consisting of \$1,417.7 million under contracts or purchase orders and \$44.5 million under letters of intent or notices to proceed. Approximately \$708.4 million, representing 48.4% of DBMG's backlog as of June 30, 2023, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these projects terminate or reduce their scope, DBMG's backlog could decrease substantially. DBMG includes an additional \$15.3 million in its backlog that is not included in the remaining unsatisfied performance obligations disclosed in Note 3. Revenue and Contracts in Process of the Condensed Consolidated Financial Statements (Unaudited) included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference for additional information. This additional backlog includes commitments under master service agreements that are estimated amounts of work to be performed based on customer communications, historic performance and knowledge of our customers' intentions.

Liquidity and Capital Resources

Short- and Long-Term Liquidity Considerations and Risks

Our Non-Operating Corporate segment consists of holding companies, and its liquidity needs are primarily for interest payments on its 2026 Senior Secured Notes, 2026 Convertible Notes, Revolving Credit Agreement, the CGIC 9.0% Unsecured Note, and dividend payments on its Preferred Stock and recurring operational expenses.

On a consolidated basis, as of June 30, 2023, we had \$28.8 million of cash and cash equivalents, excluding restricted cash, compared to \$80.4 million as of December 31, 2022. On a stand-alone basis, as of June 30, 2023, the Non-operating Corporate segment had cash and cash equivalents, excluding restricted cash, of \$9.5 million compared to \$9.1 million at December 31, 2022.

Our subsidiaries' principal liquidity requirements arise from cash used in operating activities, debt service, and capital expenditures, including purchases of steel construction equipment, over-the-air ("OTA") broadcast station equipment, development of back-office systems, operating costs and expenses, and income taxes.

As of June 30, 2023, we had \$749.7 million of principal indebtedness on a consolidated basis compared to \$725.3 million as of December 31, 2022, an increase of \$24.4 million, which was primarily due to the issuance of the \$35.1 million CGIC 9.0% Unsecured Note, increased outstanding principal balance at R2 Technologies of \$4.9 million, partially offset by a net decrease of \$8.6 million in outstanding principal and obligations under finance lease at the Infrastructure segment and \$7.0 million repayment of the Non-Operating Corporate SOFR plus 5.75% Line of Credit.

As of June 30, 2023, on a stand-alone basis, our Non-operating Corporate segment indebtedness increased to \$429.9 million from \$401.8 million as of December 31, 2022, an increase of \$28.1 million, driven by the issuance of the \$35.1 million CGIC Unsecured 9.0% Note, partially offset by a net repayment under our Revolving Credit Agreement of \$7.0 million. As of June 30, 2023, our Non-Operating Corporate segment's stand-alone indebtedness consists of the \$330.0 million aggregate principal amount of 2026 Senior Secured Notes, \$51.8 million aggregate principal amount of 2026 Convertible Notes, \$35.1 million principal amount CGIC 9.0% Unsecured Note and \$13.0 million aggregate principal amount drawn on the Revolving Credit Agreement. Our Non-operating Corporate segment is required to make semi-annual interest payments on the 2026 Senior Secured Notes and 2026 Convertible Notes, quarterly interest payments on the Revolving Credit Agreement, and monthly interest payments on the CGIC 9.0% Unsecured Note.

Our Non-Operating Corporate received \$10.7 million in tax sharing from its Infrastructure segment for the three months ended June 30, 2023.

We are required to make dividend payments on our outstanding Preferred Stock on January 15th, April 15th, July 15th, and October 15th of each year.

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, finance lease financing and other financing arrangements, as well as cash generated from the operations of our subsidiaries. In the future, we may also choose to sell assets or certain investments to generate cash.

On March 15, 2023, DBMGI received a redemption notice from CGIC, the holder of the Series A Fixed-to-Floating Rate Perpetual Preferred Stock of DBMGI (the "DBMGI Preferred Stock") requesting that DBMGI redeem 41,820.25 shares of DBMGI Preferred Stock, representing all of the issued and outstanding shares of DBMGI Preferred Stock, within 60 days of the notice, or by May 15, 2023. On May 9, 2023, the Company entered into a Stock Purchase Agreement and Subordinated Unsecured Promissory Note with CGIC whereby the Company agreed to purchase the 41,820.25 shares of DBMGI Preferred Stock for full satisfaction of the redemption notice. In full consideration of the DBMGI Preferred Stock as well as an accrued dividend of \$0.4 million, the Company paid CGIC \$7.1 million on May 9, 2023, and issued a subordinated unsecured promissory note to CGIC in the principal amount of \$35.1 million. The promissory note is due February 28, 2026, and bears interest at 9% per annum through May 8, 2024, 16% per annum from May 9, 2024 to May 8, 2025, and 32% per annum thereafter. The promissory note also requires a mandatory prepayment from the proceeds from certain asset sales and the greater of \$3 million or 12.5% of the proceeds from certain equity sales. Other covenants in the promissory note are generally consistent with the Company's Indenture governing the 8.50% Senior Secured Notes due 2026, dated as of February 1, 2021, by and among the Company, the guarantors party thereto and U.S. Bank National Association. The foregoing is a summary only and does not purport to be a complete description of all of the terms, provisions, covenants, and agreements contained in the Stock Purchase Agreement and Subordinated Unsecured Promissory Note, and is subject to and qualified in its entirety by reference to the full text of the Stock Purchase Agreement and Subordinated Unsecured Promissory Note, which were filed with our Quarterly Report on Form 10-Q filed with the SEC on May 10, 2023, as Exhibits 10.5 and 10.6, respectively, and are incorporated herein by reference. Additionally, on May 8, 2023, INNOVATE drew an additional \$8.0 million under the Revolving Credit Agreement, increasing the outstanding balance to \$13.0 million.

On August 8, 2023, Lancer Capital, LLC (“Lancer”), a related party and an entity controlled by Avram A. Glazer, the Chairman of INNOVATE's Board of Directors and a beneficial owner of the Company, provided a letter of support for up to \$35.0 million to the Company expressing Lancer’s continued support for the Company and Lancer’s intent to facilitate the provision of additional funding as reasonably requested by the Board through August 11, 2024. Management believes that with the available cash on hand, available borrowings under the senior credit facility, distributions from the Company’s subsidiaries and the letter of support from Lancer, the Company will be able to meet its obligations for at least the next twelve months from the issuance of the Condensed Consolidated Financial Statements.

The ability of INNOVATE’s subsidiaries to make distributions to INNOVATE 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, to the extent needed, that it will be able to raise additional debt or equity capital, refinance indebtedness or preferred stock, enter into other financing arrangements or engage in asset sales and sales of certain investments sufficient to fund any cash needs that we are not able to satisfy with the funds on hand or expected to be provided by our subsidiaries, there can be no assurance that it will be able to do so on terms satisfactory to the Company, if at all. Such financing options, if pursued, may also ultimately have the effect of negatively impacting our liquidity profile and prospects over the long-term and dilute the holders of common stock. Our ability to sell assets and certain of our investments to meet our existing financing needs may also be limited by our existing financing instruments. In addition, the sale of assets or the Company’s investments may also make the Company less attractive to potential investors or future financing partners.

Capital Expenditures

Capital expenditures are set forth in the table below (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Infrastructure	\$ 4.0	\$ 3.7	\$ 7.0	\$ 6.6
Life Sciences	0.2	—	0.3	0.1
Spectrum	0.3	0.5	0.6	2.1
Non-operating Corporate	—	—	0.3	—
Total	\$ 4.5	\$ 4.2	\$ 8.2	\$ 8.8

Indebtedness

Non-Operating Corporate

2026 Senior Secured Notes

On February 1, 2021, our Non-Operating Corporate segment repaid the 2021 Senior Secured Notes and issued \$330.0 million aggregate principal amount of 8.50% senior secured notes due February 1, 2026 (the "2026 Senior Secured Notes"). The 2026 Senior Secured Notes mature on February 1, 2026, and accrue interest at a rate of 8.50% per year, which interest is paid semi-annually on February 1 and August 1 of each year. For additional information on the terms and conditions of the 2026 Senior Secured Notes, including guarantees, ranking and collateral, refer to Note 13. Debt Obligations to the Consolidated Financial Statements included in our 2022 Annual Report, which is incorporated herein by reference.

2026 Convertible Notes

As of June 30, 2023, we had \$51.8 million 2026 Convertible Notes outstanding. The 2026 Convertible Notes were issued under a separate indenture dated February 1, 2021, between the Company and U.S. Bank, as trustee (the "Convertible Indenture"). The 2026 Convertible Notes mature on August 1, 2026 unless earlier converted, redeemed or purchased. The 2026 Convertible Notes accrue interest at a rate of 7.5% per year, which interest is paid semi-annually on February 1 and August 1 of each year. For additional information on the terms and conditions of the 2026 Convertible Notes, including optional redemption, conversion rights guarantees, ranking and collateral, refer to Note 13. Debt Obligations to the Consolidated Financial Statements included in our 2022 Annual Report, which is incorporated herein by reference.

Our debt contains customary events of default which could, subject to certain conditions, cause the 2026 Senior Secured Notes and the 2026 Convertible Notes to become immediately due and payable.

Revolving Credit Agreement

We have a revolving credit agreement with MSD PCOF Partners IX, LLC ("Revolving Credit Agreement"). The Revolving Credit Agreement has a maximum commitment of \$20.0 million, of which \$5.0 million had been drawn as of June 30, 2023. The Revolving Credit Agreement has a maturity date of February 23, 2024 and accrues interest at a rate of 5.75% per year, which is paid quarterly. On April 25, 2023, the Company extended the maturity date of its Revolving Credit Agreement to March 16, 2025, changed the benchmark rates for interest to SOFR-based rates and lowered the amount of net cash proceeds from certain asset sales in excess of which a prepayment is required from \$50.0 million to \$10.0 million. On May 8, 2023, INNOVATE drew an additional \$8.0 million under the Revolving Credit Agreement, increasing the outstanding balance to \$13.0 million. Subsequent to quarter end, on July 31, 2023, INNOVATE drew an additional \$7.0 million under the Revolving Credit Agreement, increasing the outstanding balance to \$20.0 million. For additional information on the terms and conditions of the Revolving Credit Facility, including guarantees, ranking and collateral, refer to Note 13. Debt Obligations to the Consolidated Financial Statements included in our 2022 Annual Report, which is incorporated herein by reference.

CGIC Unsecured Note

On May 9, 2023, the Company issued a subordinated unsecured promissory note to CGIC in the principal amount of \$35.1 million. The promissory note is due February 28, 2026, and bears interest at 9% per annum through May 8, 2024, 16% per annum from May 9, 2024 to May 8, 2025, and 32% per annum thereafter. The promissory note also requires a mandatory prepayment from the proceeds from certain asset sales and the greater of \$3 million or 12.5% of the proceeds from certain equity sales. Refer to Footnote 15. Preferred Stock and Equity and 13. Debt Obligations of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for additional information.

Infrastructure

As of June 30, 2023, our Infrastructure segment had an aggregate principal amount of outstanding debt of \$234.4 million. On August 2, 2022, DBMG negotiated and finalized an amendment to its UMB Revolving Line which included a retrospective change to the terms of the Fixed Coverage Ratio, and an increase in the UMB Revolving Line commitment from \$110.0 million to \$135.0 million, among other things. Refer to Note 11. Debt Obligations of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for additional details regarding the indebtedness of our Infrastructure segment.

Life Sciences

During June to December 2022, R2 Technologies entered in various notes totaling \$10.8 million with Lancer Capital, LLC ("Lancer"), a related party, an entity controlled by Avram A. Glazer, the Chairman of INNOVATE's Board of Director. On February 15, 2023 and February 28, 2023, R2 Technologies closed on an additional 18% \$0.5 million note and an additional 18% \$0.4 million note with Lancer, respectively. On March 31, 2023, R2 Technologies entered into an exchange agreement with Lancer, which terminated all prior outstanding notes and simultaneously issued a new note with an aggregate original principal amount of \$13.0 million, which comprised of all prior outstanding principal amounts and unpaid accrued interest. The interest rate on the new note increased from 18% to 20%, and the new maturity date has been extended to the earlier of June 30, 2023 or within five business days of the date on which R2 Technologies receives an aggregate \$20.0 million from the consummation of a debt or equity financing. As a part of the exchange agreement with Lancer on March 31, 2023, the interest was capitalized into the new principal balance. Future interest will be payable upon maturity of the note.

During the second quarter of 2023, R2 Technologies closed on an aggregate additional \$2.7 million in 20% notes with Lancer, increasing the outstanding principal balance to \$15.7 million. Subsequent to quarter end, in July 2023, Lancer loaned an additional aggregate \$1.1 million to R2 with 20% notes, increasing the total outstanding note principal to \$16.8 million. In addition, in July 2023, R2 entered into an amendment with Lancer to extended the maturity date of all prior existing notes to the earlier of August 15, 2023 or within 5 business days of the date on which R2 receives an aggregate \$20.0 million from the consummation of a debt or equity financing.

As of June 30, 2023, our Life Sciences segment has aggregate principal outstanding debt of \$15.7 million.

Spectrum

On December 30, 2022, Broadcasting entered into a Seventh Omnibus Amendment to Secured Notes which, among other things, extended the maturity date of \$52.2 million of its Senior Secured Notes, due December 30, 2022 to May 31, 2024. The effective interest rates on the notes range from 12.8% to 19.6%. Interest is capitalized and payable upon maturity of the principal. The \$52.2 million of Senior Secured Notes consisted of \$19.3 million of 8.5% Senior Secured Notes and \$32.9 million of 10.5% Senior Secured Notes. The other terms of the \$19.3 million 8.5% Senior Notes remained the same. At the time of the extension, HC2 Broadcasting had accrued interest and other fees of \$6.9 million. The interest rate on the \$32.9 million 10.5% Senior Notes was increased to 11.45% and cumulative accrued interest and exit fees of \$17.5 million were capitalized into the principal balance with both note extensions accounted for as debt modification events. All other terms were essentially the same. Total outstanding principal after the refinancing was \$69.7 million and \$6.9 million of accrued interest and fees remain accrued, with total exit fees of \$7.6 million which were recorded as original issue discount with a corresponding liability reflected in Other liabilities.

Concurrently therewith and as part of the consideration for extending the 10.5% Senior Notes, HC2 Broadcasting amended warrants to purchase 145,825 shares of common stock of HC2 Broadcasting Holdings, Inc. common stock held by the lenders of the 10.5% Senior Notes by extending the time to exercise such to the second half of 2026 and reducing the exercise price per share (i) from \$140.00 to \$0.01 in the case of the certain of the warrants and (ii) from \$130.00 to \$0.01 in the case of the remaining warrants. The warrants have a five-year term and are exercisable at any time. The change in the fair value of the warrants was recorded as original issue discount with a corresponding impact reflected in Non-controlling interest of \$3.1 million.

As of June 30, 2023, our Spectrum segment has aggregate principal outstanding debt of \$69.7 million.

On August 8, 2023, Broadcasting entered into an Eighth Amendment to Secured Notes with its lenders which extended the maturity date of its Senior Secured Notes aggregate principal amount of \$69.7 million, due May 31, 2024 to August 15, 2024.

Refer to Note 11. Debt Obligations to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for additional details regarding the indebtedness of our Infrastructure, Life Sciences and Spectrum segments.

Restrictive Covenants

The indenture governing the 2026 Senior Secured Notes dated February 1, 2021, by and among INNOVATE, the guarantors party thereto and U.S. Bank National Association, a national banking association, as trustee (the "Secured Indenture"), contains certain affirmative and negative covenants limiting, among other things, the ability of the Company, and, in certain cases, the Company's subsidiaries, to incur additional indebtedness; create liens; engage in sale-leaseback transactions; pay dividends or make distributions in respect of capital stock; 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 Company is also required to comply with certain financial maintenance covenants, which are similarly subject to a number of important exceptions and qualifications. These covenants include maintenance of (1) liquidity and (2) collateral coverage.

The maintenance of liquidity covenant provides that the Company will not permit the aggregate amount of (i) all unrestricted cash and Cash Equivalents of the Company and the Subsidiary Guarantors, (ii) amounts available for drawing under revolving credit facilities and undrawn letters of credit of the Company and the Subsidiary Guarantors and (iii) dividends, distributions or payments that are immediately available to be paid to the Company by any of its Restricted Subsidiaries to be less than the Company's obligation to pay interest on the 2026 Senior Secured Notes and all other Debt, including Convertible Preferred Stock mandatory cash dividends or any other mandatory cash pay Preferred Stock but excluding any obligation to pay interest on Convertible Preferred Stock or any other mandatory cash pay Preferred Stock which, in each case, may be paid by accretion or in-kind in accordance with its terms of the Company and its Subsidiary Guarantors for the next six months. As of June 30, 2023, the Company was in compliance with this covenant.

The maintenance of collateral coverage provides that the certain subsidiaries' Collateral Coverage Ratio (as defined in the Secured 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 1.50 to 1.00. As of June 30, 2023, 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.

The Company has conducted its operations in a manner that resulted in compliance with the Secured Indenture; however, compliance with certain financial covenants for future periods may depend on the Company or one or more of the Company's subsidiaries undertaking one or more non-operational transactions, such as the management of operating cash outflows, a monetization of assets, a debt incurrence or refinancing, the raising of equity capital, or similar transactions. If the Company is unable to remain in compliance and does not make alternate arrangements, an event of default would occur under the Company's Secured Indenture which, among other remedies, could result in the outstanding obligations under the indenture becoming immediately due and payable and permitting the exercise of remedies with respect to the collateral. There is no assurance the Company will be able to complete any non-operational transaction it may undertake to maintain compliance with covenants under the Secured Indenture or, even if the Company completes any such transaction, that it will be able to maintain compliance for any subsequent period.

The UMB Revolving Line associated with our Infrastructure segment contains customary restrictive and financial covenants related to debt levels and performance, including a Fixed Coverage Ratio covenant, as defined in the agreement.

As of June 30, 2023, we were in compliance with the covenants of our debt agreements.

Summary of Consolidated Cash Flows

The below table summarizes the cash provided by or used in our activities and the amount of the respective changes between the years (in millions):

	June 30		Increase / (Decrease)
	2023	2022	
Cash used in operating activities	(60.8)	(42.7)	(18.1)
Cash provided by (used in) investing activities	46.7	(11.5)	58.2
Cash (used in) provided by financing activities	(37.3)	34.8	(72.1)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(0.6)	(1.4)	0.8
Net decrease in cash and cash equivalents, including restricted cash	<u>\$ (52.0)</u>	<u>\$ (20.8)</u>	<u>\$ (31.2)</u>

Operating Activities

Cash used in operating activities was \$60.8 million for the six months ended June 30, 2023, as compared to \$42.7 million for the six months ended June 30, 2022, an increase in cash used of \$18.1 million. Cash flows from operations are primarily influenced by changes in the timing of demand for services and operating margins, but can also be affected by working capital needs associated with the services we provide. For the six months ended June 30, 2023, the increase in cash used in operating activities was primarily due to an increase in net loss after non-cash adjustments and increases in cash outflows from working capital changes primarily at our Infrastructure segment, as well as a foreign tax payment of \$4.4 million at our Other segment related to the sale of New Saxon's 19% investment in HMN on March 6, 2023. This was partially offset by an improvement in working capital at our Non-operating Corporate segment, driven by a decrease in SG&A expenses.

Investing Activities

Cash provided by investing activities was \$46.7 million for the six months ended June 30, 2023 as compared to cash used in investing activities of \$11.5 million for the six months ended June 30, 2022, an improvement of \$58.2 million. The improvement in cash provided by investing activities was primarily driven by the \$54.2 million of gross cash proceeds received from the sale of New Saxon's 19% investment in HMN on March 6, 2023. Capital expenditures, net of disposals for the six months ended June 30, 2023 were \$7.9 million, as compared to \$7.0 million for six months ended June 30, 2022, a net increase in cash used in PP&E activity of \$0.9 million, largely from an unrepeatable asset sale at Infrastructure in the comparable period in 2022, partially offset by a decrease in capital expenditures at our Spectrum segment which had station buildouts in the comparable period. Additionally, the six months ended June 30, 2022 had included a \$4.5 million loan to MediBeacon in the first quarter of 2022.

Financing Activities

Cash used in financing activities was \$37.3 million for the six months ended June 30, 2023 as compared to cash provided by financing activities of \$34.8 million for the six months ended June 30, 2022, an increase in cash used of \$72.1 million. The increase in cash used in financing activities was primarily driven by a decrease in net proceeds of \$59.2 million from our credit facilities, primarily from a decrease in proceeds drawn on Infrastructure's UMB Revolving Line and a net \$7.0 million repayment of the Non-operating Corporate Line of Credit. In addition, we made \$15.9 million in distributions to non-controlling interests and redeemable non-controlling interests related to the sale of New Saxon's 19% investment in HMN on March 6, 2023 and also made a \$7.1 million payment in connection with the repurchase the DBMGi Series A Preferred Stock. This was partially offset by proceeds from new debt issued at R2 Technologies in the current period and a decrease in principal payments on other debt obligations.

Infrastructure

Cash Flows

Cash flows from operating activities are the principal source of cash used to fund DBMG's operating expenses, interest payments on debt, and capital expenditures. DBMG's short-term cash needs are primarily for working capital to support operations including receivables, inventories, and other costs incurred in performing its contracts. DBMG attempts to structure the payment arrangements under its contracts to match costs incurred under the project. To the extent it is able to bill in advance of costs incurred, DBMG generates working capital through billings in excess of costs and recognized earnings on uncompleted contracts. DBMG relies on its credit facilities to meet its working capital needs. DBMG believes that its existing borrowing availability together with cash from operations will be adequate to meet all funding requirements for its operating expenses, interest payments on debt and capital expenditures for the foreseeable future. DBMG believes that its available funds, cash generated by operating activities and funds available under its bank credit facilities will be sufficient to fund its capital expenditures and its working capital needs. However, DBMG may expand its operations through future acquisitions and may require additional equity or debt financing.

DBMG is required to make monthly or quarterly interest payments on all of its debt. Based upon the June 30, 2023 debt balance, DBMG anticipates that its interest payments will be approximately \$3.2 million for each remaining quarter of 2023.

Off- Balance Sheet Arrangements

We may enter into certain off-balance sheet arrangements in the ordinary course of business. Our off-balance sheet transactions may include, but are not limited to: leases that have not yet commenced, short-term leases, liabilities associated with non-cancelable operating leases with durations of less than twelve months, letter of credit obligations, surety, performance or payment bonds entered into in the normal course of business, and liabilities associated with multi-employer pension plans. Refer to Note 9. Leases, Note 13. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for additional information on leases and letters of credit and performance and/or payment bonds, respectively.

New Accounting Pronouncements

For information on new accounting pronouncements refer to Note 2. Summary of Significant Accounting Policies of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference for additional information.

Critical Accounting Estimates

There have been no material changes in the Company's critical accounting policies during the period ended June 30, 2023. For information about critical accounting policies and estimates, refer to "Critical Accounting Estimates" under Item 7 of our 2022 Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC on March 14, 2023.

Related Party Transactions

For a discussion of our Related Party Transactions, refer to Note 16. Related Parties of the unaudited Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for additional information.

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 stockholder value, although they are based on our current plans or assessments which we believe to be reasonable as of the date hereof.

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

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

Forward-looking statements are not guarantees of performance. You should understand that the following important factors, in addition to those discussed under the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC March 14, 2023 and the documents incorporated herein by reference, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. You should also understand that many factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As a result, you should consider all of the following factors, together with all of the other information presented herein, in evaluating our business and that of our subsidiaries.

INNOVATE Corp. and Subsidiaries

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

- the recent passing of our Chief Executive Officer, President and Director and the successful transition of his management responsibilities;
- our dependence on distributions from our subsidiaries to fund our operations and payments on our obligations;
- the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we may incur;
- the impact of covenants in the Indenture governing INNOVATE's 2026 Senior Secured Notes, 2026 Convertible Notes, and Revolving Credit Agreement, the Certificates of Designation governing INNOVATE's Preferred Stock and all other subsidiary debt obligations as summarized in Note 13. Debt Obligations to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the SEC March 14, 2023 and future financing agreements on our ability to operate our business and finance our pursuit of acquisition opportunities;
- the effect of the novel coronavirus ("COVID-19") pandemic and related governmental responses on our business, financial condition and results of operations;
- our possible inability to generate sufficient liquidity, margins, earnings per share, cash flow and working capital from our operating segments;
- our dependence on certain key personnel;
- bank failures or other similar events that could adversely affect our and our customers' and vendors' liquidity and financial performance;
- our possible inability to hire and retain qualified executive management, sales, technical and other personnel;
- the potential for, and our ability to, remediate future material weaknesses in our internal controls over financial reporting;
- the impact of recent supply chain disruptions, labor shortages and increases in overall price levels, including in transportation costs;
- the impact of a higher interest rate environment;
- the effects related to or resulting from Russia's military action in Ukraine, including the imposition of additional sanctions and export controls, as well as the broader impact to financial markets and the global macroeconomic and geopolitical environment;
- increased competition in the markets in which our operating segments conduct their businesses;
- limitations on our ability to successfully identify any strategic acquisitions or business opportunities and to compete for these opportunities with others who have greater resources;
- our ability to effectively increase the size of our organization, if needed, and manage our growth
- the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;
- our expectations and timing with respect to our ordinary course acquisition activity and whether such acquisitions are accretive or dilutive to stockholders;
- the effect any interests our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved
- uncertain global economic conditions in the markets in which our operating segments conduct their businesses;
- the impact of catastrophic events, including natural disasters, pandemic illness and the outbreak of war, or acts of terrorism;
- potential impacts on our business resulting from climate change, greenhouse gas regulations, and the impact of climate change-related changes in the frequency and severity of weather patterns;
- the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- our ability to remain in compliance with the listing standards of the New York Stock Exchange;
- the ability of our operating segments to attract and retain customers;
- 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;
- our expectations and timing with respect to any strategic dispositions and sales of our operating subsidiaries, or businesses, including the shut-down of our Network business by our Spectrum segment, that we may make in the future and the effect of any such dispositions or sales on our results of operations;
- the possibility of indemnification claims arising out of divestitures of businesses; and
- our possible inability to raise additional capital when needed or refinance our existing debt, on attractive terms, or at all.

Infrastructure / DBM Global Inc.

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

- adverse impacts from weather affecting DBMG's performance and timeliness of completion of projects, which could lead to increased costs and affect the quality, costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;
- our ability to maintain efficient staffing and productivity as well as delays and cancellations as a result of the COVID-19 pandemic;
- 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;
- uncertain timing and funding of new contract awards, as well as project cancellations;
- potential impediments and limitations on our ability to complete ordinary course acquisitions in anticipated time frames or at all;
- changes in the costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;
- the impact of inflationary pressures;
- adverse outcomes of pending claims or litigation or the possibility of new claims or litigation, and the potential effect of such claims or litigation on DBMG's business, financial condition, results of operations or cash flow;
- risks associated with labor productivity, including performance of subcontractors that DBMG hires to complete projects;
- its ability to realize cost savings from expected performance of contracts, whether as a result of improper estimates, performance, or otherwise;
- its ability to settle or negotiate unapproved change orders and claims;
- fluctuating revenue resulting from a number of factors, including the cyclical nature of the individual markets in which our customers operate;
- our possible inability to raise additional capital when needed or refinance our existing debt, on attractive terms, or at all; and
- lack of necessary liquidity to provide bid, performance, advance payment and retention bonds, guarantees, or letters of credit securing DBMG's obligations under bids and contracts or to finance expenditures prior to the receipt of payment for the performance of contracts.

Life Sciences / Pansend Life Sciences, LLC

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

- our Life Sciences segment's ability to invest in development stage companies;
- our Life Sciences segment's ability to develop products and treatments related to its portfolio companies;
- medical advances in healthcare and biotechnology;
- governmental regulation in the healthcare industry; and
- our Life Science's segment possible inability to raise additional capital when needed or refinance its existing debt, on attractive terms, or at all.

Spectrum / HC2 Broadcasting Holdings Inc.

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

- our Spectrum segment's ability to operate in highly competitive markets and maintain market share;
- our Spectrum segment's ability to effectively implement its business strategy or be successful in the operation of its business;
- our Spectrum segment's possible inability to raise additional capital when needed or refinance its existing debt, on attractive terms, or at all;
- new and growing sources of competition in the broadcasting industry; and
- FCC regulation of the television broadcasting industry.

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

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 defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as amended (the "Exchange Act") 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, 2023, 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 Exchange Act 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 Exchange Act 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 over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to claims and legal proceedings that arise in the ordinary course of business. Such matters are inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to the Company or that the resolution of any such matter will not have a material adverse effect upon the Company's Condensed Consolidated Financial Statements. The Company does not believe that any of such pending claims and legal proceedings will have a material adverse effect on its Condensed Consolidated Financial Statements. The Company records a liability in its Condensed Consolidated Financial Statements for these matters when a loss is known or considered probable and the amount can be reasonably estimated. The Company reviews these estimates each accounting period as additional information is known and adjusts the loss provision when appropriate. If a matter is both probable to result in a liability and the amounts of loss can be reasonably estimated, the Company estimates and discloses the possible loss or range of loss to the extent necessary for the Condensed Consolidated Financial Statements not to be misleading. If the loss is not probable or cannot be reasonably estimated, a liability is not recorded in its Condensed Consolidated Financial Statements. Refer to Note 13. Commitments and Contingencies of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference for additional information

ITEM 1A. RISK FACTORS

Other than as set forth below, there have been no material changes in our risk factors from those disclosed in Part 1, Item 1A of our Fiscal Year 2022 Form 10-K, which was filed with the SEC on March 14, 2023. See "Risk Factors" in Item 1A of Part I of such Fiscal Year 2022 Form 10-K for a complete description of the material risks we face.

Bank failures or other similar events could adversely affect our and our customers' and vendors' liquidity and financial performance.

We maintain domestic cash deposits in Federal Deposit Insurance Corporation ("FDIC") insured banks, in excess of FDIC insurance limits. Bank failures or other similar events could disrupt our access to bank deposits or otherwise adversely impact our liquidity and financial performance. There can be no assurance that our deposits in excess of the FDIC or other comparable insurance limits will be backstopped by the U.S. or applicable foreign government in the event of a failure or liquidity crisis.

Our customers and vendors may suffer similar adverse effects from a bank failure. Any resulting adverse effects to our customers could reduce the demand for our services or affect our allowance for doubtful accounts and collectability of accounts receivable. Adverse effects to our vendors could affect our ability to receive the resources and supplies we need for our business. These factors could materially affect our future financial results.

In addition, instability, liquidity constraints or other distress in the financial markets, including the effects of bank failures or similar adverse developments could impair the ability of one or more of the banks participating in our current credit facilities from honoring their commitments. This could have an adverse effect on our business if we were not able to replace those commitments or to locate other sources of liquidity on acceptable terms.

Loss of our key management or other personnel, including the recent unexpected passing of our Chief Executive Officer, President and Director, could adversely impact our business.

We believe that the future success of INNOVATE and its operating subsidiaries is largely dependent and will depend to a significant extent upon the performance, skills, experience and efforts of our senior management and certain other key personnel. If, for any reason, one or more senior executives or key personnel were not to remain active in our Company, our results of operations could be adversely affected.

On July 23, 2023, we announced the unexpected passing of Wayne Barr, our President, Chief Executive Officer and Director. Mr. Barr had served as a director of INNOVATE since January 2014 and as CEO since November 2020. Following Mr. Barr's death, on July 25, 2023, Paul K. Voigt was named Interim Chief Executive Officer of the Company. Mr. Voigt has served as Senior Managing Director of Investments at Lancer Capital since 2019. From 2014 to 2018, Mr. Voigt served as Senior Managing Director of Investments of the Company and was involved with sourcing deals and capital raising for the Company.

The executive management teams that lead our subsidiaries are also highly experienced and possess extensive skills in their relevant industries. The ability to retain key personnel is important to our success and future growth. Competition for these professionals can be intense, and we may not be able to retain and motivate our existing officers and senior employees, and continue to compensate such individuals competitively. The unexpected loss of the services of one or more of these individuals, whether due to competition, distraction caused by personal matters or otherwise, could have a detrimental effect on the financial condition or results of operations of our businesses, and could hinder the ability of such businesses to effectively compete in the various industries in which we operate.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

Equity Award Share Withholding

Shares of common stock withheld as payment of withholding taxes in connection with the vesting or exercise of equity awards are treated as common stock repurchases. Those withheld shares of common stock are not considered common stock repurchases under an authorized common stock repurchase plan. During the six months ended June 30, 2023, we withheld 59,732 shares at an average price per share of \$2.94 as payment of withholding taxes in connection with the vesting of employee equity awards. There were no shares withheld for taxes during the three months ended June 30, 2023.

ITEM 6. EXHIBITS

(a) Exhibits

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

Exhibit Number	Description
10.1	Stock Purchase Agreement dated as of May 9, 2023 by and between INNOVATE Corp. and Continental General Insurance Company (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q filed by INNOVATE on May 10, 2023)
10.2	Subordinated Unsecured Promissory Note dated as of May 9, 2023 by and between INNOVATE Corp. and Continental General Insurance Company (incorporated by reference to Exhibit 10.6 to the Quarterly Report on Form 10-Q filed by INNOVATE on May 10, 2023)
10.3	Senior Secured Promissory Note dated as of May 12, 2023 by and between R2 Technologies, Inc. and Lancer Capital LLC (filed herewith)
10.4	Senior Secured Promissory Note dated as of May 31, 2023 by and between R2 Technologies, Inc. and Lancer Capital LLC (filed herewith)
10.5	Senior Secured Promissory Note dated as of June 14, 2023 by and between R2 Technologies, Inc. and Lancer Capital LLC (filed herewith)
10.6	Amendment of Senior Secured Promissory Notes dated as of June 28, 2023 by and between R2 Technologies, Inc. and Lancer Capital LLC (filed herewith)
10.7	Senior Secured Promissory Note dated as of June 28, 2023 by and between R2 Technologies, Inc. and Lancer Capital LLC (filed herewith)
10.8	Senior Secured Promissory Note and amendment dated as of July 14, 2023 by and between R2 Technologies, Inc. and Lancer Capital LLC (filed herewith)
10.9	Amendment of Senior Secured Promissory Notes dated as of July 28, 2023 by and between R2 Technologies, Inc. and Lancer Capital LLC (filed herewith)
10.10	Senior Secured Promissory Note dated as of July 28, 2023 by and between R2 Technologies, Inc. and Lancer Capital LLC (filed herewith)
10.11	Eighth Omnibus Amendment to Secured Notes, dated as of August 8, 2023, by and among, HC2 Station Group, Inc., HC2 Broadcasting Inc., HC2 Network Inc., DTV America Corporation, HC2 Broadcasting Intermediate Holdings Inc., HC2 Broadcasting Holdings Inc., MSD PCOF Partners XVIII, LLC, MassMutual Ascend Life Insurance Company and Great American Insurance Company (filed herewith)
10.12	Financial Support Commitment from Lancer Capital LLC dated August 11, 2023 (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).
32.1*	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer (furnished herewith).

101	The following materials from the registrant's Quarterly Report on Form 10-Q for the three and six months ended June 30, 2023, formatted in extensible business reporting language (XBRL); (i) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2023 and 2022, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended June 30, 2023 and 2022, (iii) Condensed Consolidated Balance Sheets at June 30, 2023 and December 31, 2022, (iv) Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended June 30, 2023 and 2022, (v) Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30, 2023 and 2022, and (vi) Notes to Consolidated Financial Statements (filed herewith).
104	The cover page from the Company's Quarterly Report on Form 10-Q for the three and six months ended June 30, 2023, formatted in Inline XBRL (included as Exhibit 101).

* 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.

SENIOR SECURED PROMISSORY NOTE

\$525,000.00 May 12, 2023

San Ramon, California

For value received, R2 Technologies, Inc., a Delaware corporation (the “**Company**”), promises to pay to Lancer Capital LLC (the “**Holder**”), or its permitted assigns, in lawful money of the United States of America the principal sum of \$525,000.00. Interest shall accrue from the date of this Secured Promissory Note (this “**Note**”) on the unpaid principal amount at a rate equal to 20.00% simple interest per annum (or 22.00% simple interest per annum if provided by Section 3). Any capitalized terms not defined herein shall have the meaning as set forth in that certain Senior Secured Promissory Note Purchase Agreement, dated as of July 13, 2022 by and among the Company and the Holder (as may be amended from time to time, the “**Purchase Agreement**”).

This Note is subject to the following terms and conditions:

1. **Repayment.** The entire then-outstanding and unpaid principal amount of this Note, together with any accrued but unpaid interest under this Note (the “**Outstanding Amount**”), shall be due and payable on the earlier to occur of (i) June 30, 2023 or (ii) within five (5) business days after the date on which the Company receives an aggregate of \$20,000,000 from the consummation of one or more bona fide debt or equity financings, other capital investments, or capital contributions, whether from new or existing equity holders or debt holders (such applicable date, the “**Maturity Date**”). The Notes shall rank pari passu in right of payment with respect to each other Note, and all payments to each of the Holders under the Notes shall be made pro rata among the Holders based upon the aggregate unpaid principal amount of the Notes outstanding immediately prior to any such payment. All payments shall be made in lawful money of the United States of America at such place as the Holder hereof may from time to time designate in writing to the Company. Interest shall accrue on this Note but shall not be due and payable until the Holder’s written request for repayment after the Maturity Date.

2. **Security; Guarantee.** The parties agree that the payment obligations of the Company arising under this Note are secured pursuant to the terms of (i) that certain Security Agreement dated as of July 13, 2022 by and between the Company and Holder (as amended from time to time, the “**Security Agreement**”) and (ii) that certain Intellectual Property Security Agreement, dated as of July 13, 2022, by the Company in favor of the Holder (as amended from time to time, the “**IP Security Agreement**”). Reference hereby is made to the Security Agreement and the IP Security Agreement for a description of the nature and extent of the collateral serving as security for this Note and the rights of the Holder with respect to such security.

3. **Events of Default.** Interest shall accrue on the unpaid principal amount of this Note at a rate equal to 22.00% simple interest per annum, for the period beginning with the date of occurrence of an Event of Default (as defined below) and continuing for so long as such Event of Default is continuing. The Company shall immediately notify the Holder in writing upon becoming aware of the occurrence of any Event of Default; provided that the provision of such notice shall not effect or impair the Holder's rights hereunder. The occurrence of any of the following shall constitute an “**Event of Default**” under this Note:

(a) the Company shall fail to pay Holder in full the principal amount and all accrued and unpaid interest on this Note on the Maturity Date;

(b) the occurrence of an event of default pursuant to any Senior Indebtedness (as defined below), subject to applicable notice and cure periods;

(c) the Company shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its or any of its creditors or (iv) commence a voluntary case or other

proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it;

(d) proceedings for the appointment of a receiver, trustee, liquidator or custodian of the Company or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to the Company or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be challenged, dismissed or discharged within ninety (90) days of commencement;

(e) the dissolution or winding up of the Company; or

(f) the appointment of a receiver or trustee to take possession of any property or assets of the Company.

4. **Subordination.** The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all of the Company's Senior Indebtedness (as defined below).

(a) **Insolvency Proceedings.** If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of the Company, no amount shall be paid by the Company in respect of the principal of, interest on or other amounts due with respect to this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full.

(b) **Subrogation.** Subject to the payment in full of all Senior Indebtedness, the holder of this Note shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 4) to receive payments and distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which the Holder would be entitled except for the provisions of this Section 4 shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness. Notwithstanding the foregoing, the Company represents and warrants to the Holder that (a) the terms of the Senior Indebtedness allow for the transactions contemplated by this Note and the repayment in full by the Company of its obligations pursuant to this Note on the Maturity Date without any default thereunder, and (b) no consent is required from any third party, including any holder of the Senior Indebtedness, to enter into the transaction contemplated by this Note or to pay in full the obligations of the Company pursuant to this Note, which consent has not been obtained prior to the date hereof.

(c) **No Impairment.** Nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(d) **Reliance of the Holders of Senior Indebtedness.** The Holder, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and

are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

(e) **Senior Indebtedness.** For purposes of this Note, “**Senior Indebtedness**” shall mean, unless expressly subordinated to or made on a parity with the amounts due under this Note, the principal of (and premium, if any), unpaid interest on and amounts reimbursed, fees, expenses, costs of enforcement and other amounts due in connection with, (i) indebtedness of the Company, or with respect to which the Company is a guarantor, to banks, commercial finance lenders, insurance companies, leasing or equipment financing institutions or other lending institutions regularly engaged in the business of lending money (excluding venture capital, investment banking or similar institutions which from time to time engage in lending activities but which are primarily engaged in investments in equity securities), which is for money borrowed, or purchase or leasing of equipment in the case of lease or other equipment financing, by the Company, whether or not secured, and (ii) any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor, in each case, to the extent in existence and outstanding as of the date of the Initial Closing (as defined in the Purchase Agreement).

5. **Expenses.** The Company agrees to pay all costs, expenses and reasonable attorneys’ fees at any time paid or incurred by Holder to collect the indebtedness evidenced by this Note.

6. **Waiver.** No failure on the part of Holder to exercise, and no delay in exercising, any of the rights provided for herein shall operate as a waiver thereof, nor shall any single or partial exercise by Holder of any right preclude any other or future exercise thereof or the exercise of any other right. The Company waives presentment, protest or notice of dishonor and demand for payment and notice of default for non-payment.

7. **Transfer; Successors and Assigns.** The terms and conditions of this Note shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties. Notwithstanding the foregoing, the Holder may not assign, pledge, or otherwise transfer this Note without the prior written consent of the Company, except for transfers to an entity controlled by or under common control with the Holder. Subject to the preceding sentence, this Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name of, the transferee. Interest and principal are payable only to the registered holder of this Note.

8. **Governing Law.** This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

9. **Notices.** All notices and other communications given or made pursuant to this Note shall be in writing and shall be deemed effectively given upon the earlier of actual receipt, or (a) personal delivery to the party to be notified, (b) when sent, if sent by electronic mail or facsimile during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient’s next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt. All communications shall be sent to (i) to the Company at its corporate headquarters, to the Holder at the address as set forth on the signature pages to the Purchase Agreement, or to such e-mail address, facsimile number or address as subsequently modified by written notice given in accordance with this subsection.

10. **Amendments and Waivers.** Any term of this Note may be amended or waived only with the written consent of the Company and the Holder.

11. **Stockholders, Officers and Directors Not Liable.** In no event shall any stockholder, officer or director of the Company be liable for any amounts due or payable pursuant to this Note.

12. **Usury.** If any interest is paid on this Note which is deemed to be in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note.

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SENIOR SECURED PROMISSORY NOTE

\$650,000.00 May 31, 2023

San Ramon, California

For value received, R2 Technologies, Inc., a Delaware corporation (the “**Company**”), promises to pay to Lancer Capital LLC (the “**Holder**”), or its permitted assigns, in lawful money of the United States of America the principal sum of \$650,000.00. Interest shall accrue from the date of this Secured Promissory Note (this “**Note**”) on the unpaid principal amount at a rate equal to 20.00% simple interest per annum (or 22.00% simple interest per annum if provided by Section 3). Any capitalized terms not defined herein shall have the meaning as set forth in that certain Senior Secured Promissory Note Purchase Agreement, dated as of July 13, 2022 by and among the Company and the Holder (as may be amended from time to time, the “**Purchase Agreement**”).

This Note is subject to the following terms and conditions:

1. **Repayment.** The entire then-outstanding and unpaid principal amount of this Note, together with any accrued but unpaid interest under this Note (the “**Outstanding Amount**”), shall be due and payable on the earlier to occur of (i) June 30, 2023 or (ii) within five (5) business days after the date on which the Company receives an aggregate of \$20,000,000 from the consummation of one or more bona fide debt or equity financings, other capital investments, or capital contributions, whether from new or existing equity holders or debt holders (such applicable date, the “**Maturity Date**”). The Notes shall rank pari passu in right of payment with respect to each other Note, and all payments to each of the Holders under the Notes shall be made pro rata among the Holders based upon the aggregate unpaid principal amount of the Notes outstanding immediately prior to any such payment. All payments shall be made in lawful money of the United States of America at such place as the Holder hereof may from time to time designate in writing to the Company. Interest shall accrue on this Note but shall not be due and payable until the Holder’s written request for repayment after the Maturity Date.

2. **Security; Guarantee.** The parties agree that the payment obligations of the Company arising under this Note are secured pursuant to the terms of (i) that certain Security Agreement dated as of July 13, 2022 by and between the Company and Holder (as amended from time to time, the “**Security Agreement**”) and (ii) that certain Intellectual Property Security Agreement, dated as of July 13, 2022, by the Company in favor of the Holder (as amended from time to time, the “**IP Security Agreement**”). Reference hereby is made to the Security Agreement and the IP Security Agreement for a description of the nature and extent of the collateral serving as security for this Note and the rights of the Holder with respect to such security.

3. **Events of Default.** Interest shall accrue on the unpaid principal amount of this Note at a rate equal to 22.00% simple interest per annum, for the period beginning with the date of occurrence of an Event of Default (as defined below) and continuing for so long as such Event of Default is continuing. The Company shall immediately notify the Holder in writing upon becoming aware of the occurrence of any Event of Default; provided that the provision of such notice shall not effect or impair the Holder's rights hereunder. The occurrence of any of the following shall constitute an “**Event of Default**” under this Note:

(a) the Company shall fail to pay Holder in full the principal amount and all accrued and unpaid interest on this Note on the Maturity Date;

(b) the occurrence of an event of default pursuant to any Senior Indebtedness (as defined below), subject to applicable notice and cure periods;

(c) the Company shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its or any of its creditors or (iv) commence a voluntary case or other

proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it;

(d) proceedings for the appointment of a receiver, trustee, liquidator or custodian of the Company or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to the Company or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be challenged, dismissed or discharged within ninety (90) days of commencement;

(e) the dissolution or winding up of the Company; or

(f) the appointment of a receiver or trustee to take possession of any property or assets of the Company.

4. **Subordination.** The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all of the Company's Senior Indebtedness (as defined below).

(a) **Insolvency Proceedings.** If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of the Company, no amount shall be paid by the Company in respect of the principal of, interest on or other amounts due with respect to this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full.

(b) **Subrogation.** Subject to the payment in full of all Senior Indebtedness, the holder of this Note shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 4) to receive payments and distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which the Holder would be entitled except for the provisions of this Section 4 shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness. Notwithstanding the foregoing, the Company represents and warrants to the Holder that (a) the terms of the Senior Indebtedness allow for the transactions contemplated by this Note and the repayment in full by the Company of its obligations pursuant to this Note on the Maturity Date without any default thereunder, and (b) no consent is required from any third party, including any holder of the Senior Indebtedness, to enter into the transaction contemplated by this Note or to pay in full the obligations of the Company pursuant to this Note, which consent has not been obtained prior to the date hereof.

(c) **No Impairment.** Nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(d) **Reliance of the Holders of Senior Indebtedness.** The Holder, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and

are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

(e) **Senior Indebtedness.** For purposes of this Note, “**Senior Indebtedness**” shall mean, unless expressly subordinated to or made on a parity with the amounts due under this Note, the principal of (and premium, if any), unpaid interest on and amounts reimbursed, fees, expenses, costs of enforcement and other amounts due in connection with, (i) indebtedness of the Company, or with respect to which the Company is a guarantor, to banks, commercial finance lenders, insurance companies, leasing or equipment financing institutions or other lending institutions regularly engaged in the business of lending money (excluding venture capital, investment banking or similar institutions which from time to time engage in lending activities but which are primarily engaged in investments in equity securities), which is for money borrowed, or purchase or leasing of equipment in the case of lease or other equipment financing, by the Company, whether or not secured, and (ii) any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor, in each case, to the extent in existence and outstanding as of the date of the Initial Closing (as defined in the Purchase Agreement).

5. **Expenses.** The Company agrees to pay all costs, expenses and reasonable attorneys’ fees at any time paid or incurred by Holder to collect the indebtedness evidenced by this Note.

6. **Waiver.** No failure on the part of Holder to exercise, and no delay in exercising, any of the rights provided for herein shall operate as a waiver thereof, nor shall any single or partial exercise by Holder of any right preclude any other or future exercise thereof or the exercise of any other right. The Company waives presentment, protest or notice of dishonor and demand for payment and notice of default for non-payment.

7. **Transfer; Successors and Assigns.** The terms and conditions of this Note shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties. Notwithstanding the foregoing, the Holder may not assign, pledge, or otherwise transfer this Note without the prior written consent of the Company, except for transfers to an entity controlled by or under common control with the Holder. Subject to the preceding sentence, this Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name of, the transferee. Interest and principal are payable only to the registered holder of this Note.

8. **Governing Law.** This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

9. **Notices.** All notices and other communications given or made pursuant to this Note shall be in writing and shall be deemed effectively given upon the earlier of actual receipt, or (a) personal delivery to the party to be notified, (b) when sent, if sent by electronic mail or facsimile during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient’s next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt. All communications shall be sent to (i) to the Company at its corporate headquarters, to the Holder at the address as set forth on the signature pages to the Purchase Agreement, or to such e-mail address, facsimile number or address as subsequently modified by written notice given in accordance with this subsection.

10. **Amendments and Waivers.** Any term of this Note may be amended or waived only with the written consent of the Company and the Holder.

11. **Stockholders, Officers and Directors Not Liable.** In no event shall any stockholder, officer or director of the Company be liable for any amounts due or payable pursuant to this Note.

12. **Usury.** If any interest is paid on this Note which is deemed to be in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note.

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The Company has caused this Secured Promissory Note to be issued as of the date first written above.

COMPANY

R2 TECHNOLOGIES, INC.

By: /s/ Tim Holt

Name: Timothy Holt

Title: Chief Executive Officer

AGREED AND ACCEPTED

LANCER CAPITAL LLC

By: Avram Glazer Irrevocable Exempt Trust,
its Sole Member

By: /s/ Avram Glazer

Name: Avram Glazer

Title: Trustee

SENIOR SECURED PROMISSORY NOTE

\$562,500.00 June 14, 2023

San Ramon, California

For value received, R2 Technologies, Inc., a Delaware corporation (the “**Company**”), promises to pay to Lancer Capital LLC (the “**Holder**”), or its permitted assigns, in lawful money of the United States of America the principal sum of \$562,500.00. Interest shall accrue from the date of this Secured Promissory Note (this “**Note**”) on the unpaid principal amount at a rate equal to 20.00% simple interest per annum (or 22.00% simple interest per annum if provided by Section 3). Any capitalized terms not defined herein shall have the meaning as set forth in that certain Senior Secured Promissory Note Purchase Agreement, dated as of July 13, 2022 by and among the Company and the Holder (as may be amended from time to time, the “**Purchase Agreement**”).

This Note is subject to the following terms and conditions:

1. **Repayment.** The entire then-outstanding and unpaid principal amount of this Note, together with any accrued but unpaid interest under this Note (the “**Outstanding Amount**”), shall be due and payable on the earlier to occur of (i) June 30, 2023 or (ii) within five (5) business days after the date on which the Company receives an aggregate of \$20,000,000 from the consummation of one or more bona fide debt or equity financings, other capital investments, or capital contributions, whether from new or existing equity holders or debt holders (such applicable date, the “**Maturity Date**”). The Notes shall rank pari passu in right of payment with respect to each other Note, and all payments to each of the Holders under the Notes shall be made pro rata among the Holders based upon the aggregate unpaid principal amount of the Notes outstanding immediately prior to any such payment. All payments shall be made in lawful money of the United States of America at such place as the Holder hereof may from time to time designate in writing to the Company. Interest shall accrue on this Note but shall not be due and payable until the Holder’s written request for repayment after the Maturity Date.

2. **Security; Guarantee.** The parties agree that the payment obligations of the Company arising under this Note are secured pursuant to the terms of (i) that certain Security Agreement dated as of July 13, 2022 by and between the Company and Holder (as amended from time to time, the “**Security Agreement**”) and (ii) that certain Intellectual Property Security Agreement, dated as of July 13, 2022, by the Company in favor of the Holder (as amended from time to time, the “**IP Security Agreement**”). Reference hereby is made to the Security Agreement and the IP Security Agreement for a description of the nature and extent of the collateral serving as security for this Note and the rights of the Holder with respect to such security.

3. **Events of Default.** Interest shall accrue on the unpaid principal amount of this Note at a rate equal to 22.00% simple interest per annum, for the period beginning with the date of occurrence of an Event of Default (as defined below) and continuing for so long as such Event of Default is continuing. The Company shall immediately notify the Holder in writing upon becoming aware of the occurrence of any Event of Default; provided that the provision of such notice shall not effect or impair the Holder's rights hereunder. The occurrence of any of the following shall constitute an “**Event of Default**” under this Note:

(a) the Company shall fail to pay Holder in full the principal amount and all accrued and unpaid interest on this Note on the Maturity Date;

(b) the occurrence of an event of default pursuant to any Senior Indebtedness (as defined below), subject to applicable notice and cure periods;

(c) the Company shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its or any of its creditors or (iv) commence a voluntary case or other

proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it;

(d) proceedings for the appointment of a receiver, trustee, liquidator or custodian of the Company or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to the Company or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be challenged, dismissed or discharged within ninety (90) days of commencement;

(e) the dissolution or winding up of the Company; or

(f) the appointment of a receiver or trustee to take possession of any property or assets of the Company.

4. **Subordination.** The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all of the Company's Senior Indebtedness (as defined below).

(a) **Insolvency Proceedings.** If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of the Company, no amount shall be paid by the Company in respect of the principal of, interest on or other amounts due with respect to this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full.

(b) **Subrogation.** Subject to the payment in full of all Senior Indebtedness, the holder of this Note shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 4) to receive payments and distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which the Holder would be entitled except for the provisions of this Section 4 shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness. Notwithstanding the foregoing, the Company represents and warrants to the Holder that (a) the terms of the Senior Indebtedness allow for the transactions contemplated by this Note and the repayment in full by the Company of its obligations pursuant to this Note on the Maturity Date without any default thereunder, and (b) no consent is required from any third party, including any holder of the Senior Indebtedness, to enter into the transaction contemplated by this Note or to pay in full the obligations of the Company pursuant to this Note, which consent has not been obtained prior to the date hereof.

(c) **No Impairment.** Nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(d) **Reliance of the Holders of Senior Indebtedness.** The Holder, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and

are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

(e) **Senior Indebtedness.** For purposes of this Note, “**Senior Indebtedness**” shall mean, unless expressly subordinated to or made on a parity with the amounts due under this Note, the principal of (and premium, if any), unpaid interest on and amounts reimbursed, fees, expenses, costs of enforcement and other amounts due in connection with, (i) indebtedness of the Company, or with respect to which the Company is a guarantor, to banks, commercial finance lenders, insurance companies, leasing or equipment financing institutions or other lending institutions regularly engaged in the business of lending money (excluding venture capital, investment banking or similar institutions which from time to time engage in lending activities but which are primarily engaged in investments in equity securities), which is for money borrowed, or purchase or leasing of equipment in the case of lease or other equipment financing, by the Company, whether or not secured, and (ii) any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor, in each case, to the extent in existence and outstanding as of the date of the Initial Closing (as defined in the Purchase Agreement).

5. **Expenses.** The Company agrees to pay all costs, expenses and reasonable attorneys’ fees at any time paid or incurred by Holder to collect the indebtedness evidenced by this Note.

6. **Waiver.** No failure on the part of Holder to exercise, and no delay in exercising, any of the rights provided for herein shall operate as a waiver thereof, nor shall any single or partial exercise by Holder of any right preclude any other or future exercise thereof or the exercise of any other right. The Company waives presentment, protest or notice of dishonor and demand for payment and notice of default for non-payment.

7. **Transfer; Successors and Assigns.** The terms and conditions of this Note shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties. Notwithstanding the foregoing, the Holder may not assign, pledge, or otherwise transfer this Note without the prior written consent of the Company, except for transfers to an entity controlled by or under common control with the Holder. Subject to the preceding sentence, this Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name of, the transferee. Interest and principal are payable only to the registered holder of this Note.

8. **Governing Law.** This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

9. **Notices.** All notices and other communications given or made pursuant to this Note shall be in writing and shall be deemed effectively given upon the earlier of actual receipt, or (a) personal delivery to the party to be notified, (b) when sent, if sent by electronic mail or facsimile during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient’s next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt. All communications shall be sent to (i) to the Company at its corporate headquarters, to the Holder at the address as set forth on the signature pages to the Purchase Agreement, or to such e-mail address, facsimile number or address as subsequently modified by written notice given in accordance with this subsection.

10. **Amendments and Waivers.** Any term of this Note may be amended or waived only with the written consent of the Company and the Holder.

11. **Stockholders, Officers and Directors Not Liable.** In no event shall any stockholder, officer or director of the Company be liable for any amounts due or payable pursuant to this Note.

12. **Usury.** If any interest is paid on this Note which is deemed to be in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note.

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AMENDMENT OF SENIOR SECURED PROMISSORY NOTES

This Amendment of Senior Secured Promissory Notes (this “**Amendment**”), dated as of June 28, 2023 (the “**Effective Date**”), is entered into by and between R2 Technologies, Inc., a Delaware corporation (the “**Company**”), and Lancer Capital LLC (“**Investor**”). Capitalized terms used herein, but not otherwise defined herein, shall have the meaning assigned to them in the Notes (as defined below).

RECITALS

WHEREAS, the Company and Investor are parties to those certain Senior Secured Promissory Notes, dated March 31, 2023, March 31, 2023, April 28, 2023, May 12, 2023, May 31, 2023, and June 14, 2023 (collectively, the “**Notes**”); and

WHEREAS, the Company and the undersigned Investors desire to amend the Notes.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and for other valuable consideration the receipt of which is hereby acknowledged, the Company and Investor hereby amend each of the Notes in the following manner:

1. Section 1 of the Notes. Section 1 of the Notes is hereby deleted in its entirety and replaced with the following:

“**1 Repayment**. The entire then-outstanding and unpaid principal amount of this Note, together with any accrued but unpaid interest under this Note (the “**Outstanding Amount**”), shall be due and payable on the earlier to occur of (i) July 15, 2023 or (ii) within five (5) business days after the date on which the Company receives an aggregate of \$20,000,000 from the consummation of one or more bona fide debt or equity financings, other capital investments, or capital contributions, whether from new or existing equity holders or debt holders (such applicable date, the “**Maturity Date**”). The Notes shall rank pari passu in right of payment with respect to each other Note, and all payments to each of the Holders under the Notes shall be made pro rata among the Holders based upon the aggregate unpaid principal amount of the Notes outstanding immediately prior to any such payment. All payments shall be made in lawful money of the United States of America at such place as the Holder hereof may from time to time designate in writing to the Company. Interest shall accrue on this Note but shall not be due and payable until the Holder’s written request for repayment after the Maturity Date.”

2. Effect on Notes. The term “Notes” as used in the Notes shall at all times refer to, collectively, the Notes as amended by this Amendment. Except as amended hereby, the Notes shall remain in full force and effect.

3. Further Instruments. The undersigned parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Amendment.

4. Applicable Law; Entire Agreement; Amendments. This Amendment shall be governed by and construed in accordance with the laws of the State of Delaware as it applies to agreements between Delaware residents, entered into and to be performed entirely within Delaware. This Amendment constitutes the entire agreement of the parties with respect to the subject matter hereof superseding all prior written or oral agreements, and no amendment or addition hereto shall be deemed effective unless agreed to in writing by the parties hereto.

5. Counterparts; Electronic Delivery. This Amendment may be executed and delivered electronically and in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Signature pages follow.

The parties have executed this Amendment of Senior Secured Promissory Notes as of the date first written above.

R2 TECHNOLOGIES, INC.

By: /s/ Timothy Holt
Name: Timothy Holt
Title: Chief Executive Officer

LANCER CAPITAL LLC

By: Avram Glazer Irrevocable Exempt Trust,
its Sole Member

By: /s/ Avram Glazer
Name: Avram Glazer
Title: Trustee

SENIOR SECURED PROMISSORY NOTE

\$472,500.00 June 28, 2023

San Ramon, California

For value received, R2 Technologies, Inc., a Delaware corporation (the “**Company**”), promises to pay to Lancer Capital LLC (the “**Holder**”), or its permitted assigns, in lawful money of the United States of America the principal sum of \$472,500.00. Interest shall accrue from the date of this Secured Promissory Note (this “**Note**”) on the unpaid principal amount at a rate equal to 20.00% simple interest per annum (or 22.00% simple interest per annum if provided by Section 3). Any capitalized terms not defined herein shall have the meaning as set forth in that certain Senior Secured Promissory Note Purchase Agreement, dated as of July 13, 2022 by and among the Company and the Holder (as may be amended from time to time, the “**Purchase Agreement**”).

This Note is subject to the following terms and conditions:

1. **Repayment.** The entire then-outstanding and unpaid principal amount of this Note, together with any accrued but unpaid interest under this Note (the “**Outstanding Amount**”), shall be due and payable on the earlier to occur of (i) June 30, 2023 or (ii) within five (5) business days after the date on which the Company receives an aggregate of \$20,000,000 from the consummation of one or more bona fide debt or equity financings, other capital investments, or capital contributions, whether from new or existing equity holders or debt holders (such applicable date, the “**Maturity Date**”). The Notes shall rank pari passu in right of payment with respect to each other Note, and all payments to each of the Holders under the Notes shall be made pro rata among the Holders based upon the aggregate unpaid principal amount of the Notes outstanding immediately prior to any such payment. All payments shall be made in lawful money of the United States of America at such place as the Holder hereof may from time to time designate in writing to the Company. Interest shall accrue on this Note but shall not be due and payable until the Holder’s written request for repayment after the Maturity Date.

2. **Security; Guarantee.** The parties agree that the payment obligations of the Company arising under this Note are secured pursuant to the terms of (i) that certain Security Agreement dated as of July 13, 2022 by and between the Company and Holder (as amended from time to time, the “**Security Agreement**”) and (ii) that certain Intellectual Property Security Agreement, dated as of July 13, 2022, by the Company in favor of the Holder (as amended from time to time, the “**IP Security Agreement**”). Reference hereby is made to the Security Agreement and the IP Security Agreement for a description of the nature and extent of the collateral serving as security for this Note and the rights of the Holder with respect to such security.

3. **Events of Default.** Interest shall accrue on the unpaid principal amount of this Note at a rate equal to 22.00% simple interest per annum, for the period beginning with the date of occurrence of an Event of Default (as defined below) and continuing for so long as such Event of Default is continuing. The Company shall immediately notify the Holder in writing upon becoming aware of the occurrence of any Event of Default; provided that the provision of such notice shall not effect or impair the Holder's rights hereunder. The occurrence of any of the following shall constitute an “**Event of Default**” under this Note:

(a) the Company shall fail to pay Holder in full the principal amount and all accrued and unpaid interest on this Note on the Maturity Date;

(b) the occurrence of an event of default pursuant to any Senior Indebtedness (as defined below), subject to applicable notice and cure periods;

(c) the Company shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its or any of its creditors or (iv) commence a voluntary case or other

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proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it;

(d) proceedings for the appointment of a receiver, trustee, liquidator or custodian of the Company or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to the Company or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be challenged, dismissed or discharged within ninety (90) days of commencement;

(e) the dissolution or winding up of the Company; or

(f) the appointment of a receiver or trustee to take possession of any property or assets of the Company.

4. **Subordination.** The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all of the Company's Senior Indebtedness (as defined below).

(a) **Insolvency Proceedings.** If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of the Company, no amount shall be paid by the Company in respect of the principal of, interest on or other amounts due with respect to this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full.

(b) **Subrogation.** Subject to the payment in full of all Senior Indebtedness, the holder of this Note shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 4) to receive payments and distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which the Holder would be entitled except for the provisions of this Section 4 shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness. Notwithstanding the foregoing, the Company represents and warrants to the Holder that (a) the terms of the Senior Indebtedness allow for the transactions contemplated by this Note and the repayment in full by the Company of its obligations pursuant to this Note on the Maturity Date without any default thereunder, and (b) no consent is required from any third party, including any holder of the Senior Indebtedness, to enter into the transaction contemplated by this Note or to pay in full the obligations of the Company pursuant to this Note, which consent has not been obtained prior to the date hereof.

(c) **No Impairment.** Nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(d) **Reliance of the Holders of Senior Indebtedness.** The Holder, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and

are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

(e) **Senior Indebtedness.** For purposes of this Note, “**Senior Indebtedness**” shall mean, unless expressly subordinated to or made on a parity with the amounts due under this Note, the principal of (and premium, if any), unpaid interest on and amounts reimbursed, fees, expenses, costs of enforcement and other amounts due in connection with, (i) indebtedness of the Company, or with respect to which the Company is a guarantor, to banks, commercial finance lenders, insurance companies, leasing or equipment financing institutions or other lending institutions regularly engaged in the business of lending money (excluding venture capital, investment banking or similar institutions which from time to time engage in lending activities but which are primarily engaged in investments in equity securities), which is for money borrowed, or purchase or leasing of equipment in the case of lease or other equipment financing, by the Company, whether or not secured, and (ii) any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor, in each case, to the extent in existence and outstanding as of the date of the Initial Closing (as defined in the Purchase Agreement).

5. **Expenses.** The Company agrees to pay all costs, expenses and reasonable attorneys’ fees at any time paid or incurred by Holder to collect the indebtedness evidenced by this Note.

6. **Waiver.** No failure on the part of Holder to exercise, and no delay in exercising, any of the rights provided for herein shall operate as a waiver thereof, nor shall any single or partial exercise by Holder of any right preclude any other or future exercise thereof or the exercise of any other right. The Company waives presentment, protest or notice of dishonor and demand for payment and notice of default for non-payment.

7. **Transfer; Successors and Assigns.** The terms and conditions of this Note shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties. Notwithstanding the foregoing, the Holder may not assign, pledge, or otherwise transfer this Note without the prior written consent of the Company, except for transfers to an entity controlled by or under common control with the Holder. Subject to the preceding sentence, this Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name of, the transferee. Interest and principal are payable only to the registered holder of this Note.

8. **Governing Law.** This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

9. **Notices.** All notices and other communications given or made pursuant to this Note shall be in writing and shall be deemed effectively given upon the earlier of actual receipt, or (a) personal delivery to the party to be notified, (b) when sent, if sent by electronic mail or facsimile during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient’s next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt. All communications shall be sent to (i) to the Company at its corporate headquarters, to the Holder at the address as set forth on the signature pages to the Purchase Agreement, or to such e-mail address, facsimile number or address as subsequently modified by written notice given in accordance with this subsection.

10. **Amendments and Waivers.** Any term of this Note may be amended or waived only with the written consent of the Company and the Holder.

11. **Stockholders, Officers and Directors Not Liable.** In no event shall any stockholder, officer or director of the Company be liable for any amounts due or payable pursuant to this Note.

12. **Usury.** If any interest is paid on this Note which is deemed to be in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note.

Remainder of Page Intentionally Left Blank.

The Company has caused this Secured Promissory Note to be issued as of the date first written above.

COMPANY

R2 TECHNOLOGIES, INC.

By: /s/ Tim Holt

Name: Timothy Holt

Title: Chief Executive Officer

AGREED AND ACCEPTED

LANCER CAPITAL LLC

By: Avram Glazer Irrevocable Exempt Trust,
its Sole Member

By: /s/ Avram Glazer

Name: Avram Glazer

Title: Trustee

SENIOR SECURED PROMISSORY NOTE

\$562,500.00 July 14, 2023

San Ramon, California

For value received, R2 Technologies, Inc., a Delaware corporation (the “**Company**”), promises to pay to Lancer Capital LLC (the “**Holder**”), or its permitted assigns, in lawful money of the United States of America the principal sum of \$562,500.00. Interest shall accrue from the date of this Secured Promissory Note (this “**Note**”) on the unpaid principal amount at a rate equal to 20.00% simple interest per annum (or 22.00% simple interest per annum if provided by Section 3). Any capitalized terms not defined herein shall have the meaning as set forth in that certain Senior Secured Promissory Note Purchase Agreement, dated as of July 13, 2022 by and among the Company and the Holder (as may be amended from time to time, the “**Purchase Agreement**”).

This Note is subject to the following terms and conditions:

1. **Repayment.** The entire then-outstanding and unpaid principal amount of this Note, together with any accrued but unpaid interest under this Note (the “**Outstanding Amount**”), shall be due and payable on the earlier to occur of (i) July 31, 2023 or (ii) within five (5) business days after the date on which the Company receives an aggregate of \$20,000,000 from the consummation of one or more bona fide debt or equity financings, other capital investments, or capital contributions, whether from new or existing equity holders or debt holders (such applicable date, the “**Maturity Date**”). The Notes shall rank pari passu in right of payment with respect to each other Note, and all payments to each of the Holders under the Notes shall be made pro rata among the Holders based upon the aggregate unpaid principal amount of the Notes outstanding immediately prior to any such payment. All payments shall be made in lawful money of the United States of America at such place as the Holder hereof may from time to time designate in writing to the Company. Interest shall accrue on this Note but shall not be due and payable until the Holder’s written request for repayment after the Maturity Date.

2. **Security; Guarantee.** The parties agree that the payment obligations of the Company arising under this Note are secured pursuant to the terms of (i) that certain Security Agreement dated as of July 13, 2022 by and between the Company and Holder (as amended from time to time, the “**Security Agreement**”) and (ii) that certain Intellectual Property Security Agreement, dated as of July 13, 2022, by the Company in favor of the Holder (as amended from time to time, the “**IP Security Agreement**”). Reference hereby is made to the Security Agreement and the IP Security Agreement for a description of the nature and extent of the collateral serving as security for this Note and the rights of the Holder with respect to such security.

3. **Events of Default.** Interest shall accrue on the unpaid principal amount of this Note at a rate equal to 22.00% simple interest per annum, for the period beginning with the date of occurrence of an Event of Default (as defined below) and continuing for so long as such Event of Default is continuing. The Company shall immediately notify the Holder in writing upon becoming aware of the occurrence of any Event of Default; provided that the provision of such notice shall not effect or impair the Holder's rights hereunder. The occurrence of any of the following shall constitute an “**Event of Default**” under this Note:

(a) the Company shall fail to pay Holder in full the principal amount and all accrued and unpaid interest on this Note on the Maturity Date;

(b) the occurrence of an event of default pursuant to any Senior Indebtedness (as defined below), subject to applicable notice and cure periods;

(c) the Company shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its or any of its creditors or (iv) commence a voluntary case or other

proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it;

(d) proceedings for the appointment of a receiver, trustee, liquidator or custodian of the Company or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to the Company or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be challenged, dismissed or discharged within ninety (90) days of commencement;

(e) the dissolution or winding up of the Company; or

(f) the appointment of a receiver or trustee to take possession of any property or assets of the Company.

4. **Subordination.** The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all of the Company's Senior Indebtedness (as defined below).

(a) **Insolvency Proceedings.** If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of the Company, no amount shall be paid by the Company in respect of the principal of, interest on or other amounts due with respect to this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full.

(b) **Subrogation.** Subject to the payment in full of all Senior Indebtedness, the holder of this Note shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 4) to receive payments and distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which the Holder would be entitled except for the provisions of this Section 4 shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness. Notwithstanding the foregoing, the Company represents and warrants to the Holder that (a) the terms of the Senior Indebtedness allow for the transactions contemplated by this Note and the repayment in full by the Company of its obligations pursuant to this Note on the Maturity Date without any default thereunder, and (b) no consent is required from any third party, including any holder of the Senior Indebtedness, to enter into the transaction contemplated by this Note or to pay in full the obligations of the Company pursuant to this Note, which consent has not been obtained prior to the date hereof.

(c) **No Impairment.** Nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(d) **Reliance of the Holders of Senior Indebtedness.** The Holder, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and

are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness, whether such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

(e) **Senior Indebtedness.** For purposes of this Note, “**Senior Indebtedness**” shall mean, unless expressly subordinated to or made on a parity with the amounts due under this Note, the principal of (and premium, if any), unpaid interest on and amounts reimbursed, fees, expenses, costs of enforcement and other amounts due in connection with, (i) indebtedness of the Company, or with respect to which the Company is a guarantor, to banks, commercial finance lenders, insurance companies, leasing or equipment financing institutions or other lending institutions regularly engaged in the business of lending money (excluding venture capital, investment banking or similar institutions which from time to time engage in lending activities but which are primarily engaged in investments in equity securities), which is for money borrowed, or purchase or leasing of equipment in the case of lease or other equipment financing, by the Company, whether or not secured, and (ii) any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor, in each case, to the extent in existence and outstanding as of the date of the Initial Closing (as defined in the Purchase Agreement).

5. **Expenses.** The Company agrees to pay all costs, expenses and reasonable attorneys’ fees at any time paid or incurred by Holder to collect the indebtedness evidenced by this Note.

6. **Waiver.** No failure on the part of Holder to exercise, and no delay in exercising, any of the rights provided for herein shall operate as a waiver thereof, nor shall any single or partial exercise by Holder of any right preclude any other or future exercise thereof or the exercise of any other right. The Company waives presentment, protest or notice of dishonor and demand for payment and notice of default for non-payment.

7. **Transfer; Successors and Assigns.** The terms and conditions of this Note shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties. Notwithstanding the foregoing, the Holder may not assign, pledge, or otherwise transfer this Note without the prior written consent of the Company, except for transfers to an entity controlled by or under common control with the Holder. Subject to the preceding sentence, this Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name of, the transferee. Interest and principal are payable only to the registered holder of this Note.

8. **Governing Law.** This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

9. **Notices.** All notices and other communications given or made pursuant to this Note shall be in writing and shall be deemed effectively given upon the earlier of actual receipt, or (a) personal delivery to the party to be notified, (b) when sent, if sent by electronic mail or facsimile during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient’s next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt. All communications shall be sent to (i) to the Company at its corporate headquarters, to the Holder at the address as set forth on the signature pages to the Purchase Agreement, or to such e-mail address, facsimile number or address as subsequently modified by written notice given in accordance with this subsection.

10. **Amendments and Waivers.** Any term of this Note may be amended or waived only with the written consent of the Company and the Holder.

11. **Stockholders, Officers and Directors Not Liable.** In no event shall any stockholder, officer or director of the Company be liable for any amounts due or payable pursuant to this Note.

12. **Usury.** If any interest is paid on this Note which is deemed to be in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note.

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AMENDMENT OF SENIOR SECURED PROMISSORY NOTES

This Amendment of Senior Secured Promissory Notes (this “**Amendment**”), dated as of July 14, 2023 (the “**Effective Date**”), is entered into by and between R2 Technologies, Inc., a Delaware corporation (the “**Company**”), and Lancer Capital LLC (“**Investor**”). Capitalized terms used herein, but not otherwise defined herein, shall have the meaning assigned to them in the Notes (as defined below).

RECITALS

WHEREAS, the Company and Investor are parties to those certain Senior Secured Promissory Notes, dated March 31, 2023, March 31, 2023, April 28, 2023, May 12, 2023, May 31, 2023, June 14, 2023, and June 28, 2023 (collectively, the “**Notes**”); and

WHEREAS, the Company and the undersigned Investors desire to amend the Notes.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and for other valuable consideration the receipt of which is hereby acknowledged, the Company and Investor hereby amend each of the Notes in the following manner:

1. Section 1 of the Notes. Section 1 of the Notes is hereby deleted in its entirety and replaced with the following:

“**1 Repayment**. The entire then-outstanding and unpaid principal amount of this Note, together with any accrued but unpaid interest under this Note (the “**Outstanding Amount**”), shall be due and payable on the earlier to occur of (i) July 31, 2023 or (ii) within five (5) business days after the date on which the Company receives an aggregate of \$20,000,000 from the consummation of one or more bona fide debt or equity financings, other capital investments, or capital contributions, whether from new or existing equity holders or debt holders (such applicable date, the “**Maturity Date**”). The Notes shall rank pari passu in right of payment with respect to each other Note, and all payments to each of the Holders under the Notes shall be made pro rata among the Holders based upon the aggregate unpaid principal amount of the Notes outstanding immediately prior to any such payment. All payments shall be made in lawful money of the United States of America at such place as the Holder hereof may from time to time designate in writing to the Company. Interest shall accrue on this Note but shall not be due and payable until the Holder’s written request for repayment after the Maturity Date.”

2. Effect on Notes. The term “Notes” as used in the Notes shall at all times refer to, collectively, the Notes as amended by this Amendment. Except as amended hereby, the Notes shall remain in full force and effect.

3. Expenses. The Company agrees to pay all reasonable attorneys’ fees incurred by Investor in connection with this Amendment.

4. Further Instruments. The undersigned parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Amendment.

5. Applicable Law; Entire Agreement; Amendments. This Amendment shall be governed by and construed in accordance with the laws of the State of Delaware as it applies to agreements between Delaware residents, entered into and to be performed entirely within Delaware. This Amendment constitutes the entire agreement of the parties with respect to the subject matter hereof superseding all

prior written or oral agreements, and no amendment or addition hereto shall be deemed effective unless agreed to in writing by the parties hereto.

6. Counterparts; Electronic Delivery. This Amendment may be executed and delivered electronically and in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Signature pages follow.

AMENDMENT OF SENIOR SECURED PROMISSORY NOTES

This Amendment of Senior Secured Promissory Notes (this “**Amendment**”), dated as of July 28, 2023 (the “**Effective Date**”), is entered into by and between R2 Technologies, Inc., a Delaware corporation (the “**Company**”), and Lancer Capital LLC (“**Investor**”). Capitalized terms used herein, but not otherwise defined herein, shall have the meaning assigned to them in the Notes (as defined below).

RECITALS

WHEREAS, the Company and Investor are parties to those certain Senior Secured Promissory Notes, dated March 31, 2023, March 31, 2023, April 28, 2023, May 12, 2023, May 31, 2023, June 14, 2023, June 28, 2023, and July 14, 2023 (collectively, the “**Notes**”); and

WHEREAS, the Company and the undersigned Investors desire to amend the Notes.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and for other valuable consideration the receipt of which is hereby acknowledged, the Company and Investor hereby amend each of the Notes in the following manner:

1. Section 1 of the Notes. Section 1 of the Notes is hereby deleted in its entirety and replaced with the following:

“**1 Repayment**. The entire then-outstanding and unpaid principal amount of this Note, together with any accrued but unpaid interest under this Note (the “**Outstanding Amount**”), shall be due and payable on the earlier to occur of (i) August 15, 2023 or (ii) within five (5) business days after the date on which the Company receives an aggregate of \$20,000,000 from the consummation of one or more bona fide debt or equity financings, other capital investments, or capital contributions, whether from new or existing equity holders or debt holders (such applicable date, the “**Maturity Date**”). The Notes shall rank pari passu in right of payment with respect to each other Note, and all payments to each of the Holders under the Notes shall be made pro rata among the Holders based upon the aggregate unpaid principal amount of the Notes outstanding immediately prior to any such payment. All payments shall be made in lawful money of the United States of America at such place as the Holder hereof may from time to time designate in writing to the Company. Interest shall accrue on this Note but shall not be due and payable until the Holder’s written request for repayment after the Maturity Date.”

2. Effect on Notes. The term “Notes” as used in the Notes shall at all times refer to, collectively, the Notes as amended by this Amendment. Except as amended hereby, the Notes shall remain in full force and effect.

3. Expenses. The Company agrees to pay all reasonable attorneys’ fees incurred by Investor in connection with this Amendment.

4. Further Instruments. The undersigned parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Amendment.

5. Applicable Law; Entire Agreement; Amendments. This Amendment shall be governed by and construed in accordance with the laws of the State of Delaware as it applies to agreements between Delaware residents, entered into and to be performed entirely within Delaware. This Amendment constitutes the entire agreement of the parties with respect to the subject matter hereof superseding all prior written or oral agreements, and no amendment or addition hereto shall be deemed effective unless agreed to in writing by the parties hereto.

6. Counterparts; Electronic Delivery. This Amendment may be executed and delivered electronically and in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Signature pages follow.

The parties have executed this Amendment of Senior Secured Promissory Notes as of the date first written above.

R2 TECHNOLOGIES, INC.

By: /s/ Tim Holt
Name: Timothy Holt
Title: Chief Executive Officer

LANCER CAPITAL LLC

By: Avram Glazer Irrevocable Exempt Trust,
its Sole Member

By: /s/ Avram Glazer
Name: Avram Glazer
Title: Trustee

SENIOR SECURED PROMISSORY NOTE

\$562,500.00 July 28, 2023
San Ramon, California

For value received, R2 Technologies, Inc., a Delaware corporation (the “**Company**”), promises to pay to Lancer Capital LLC (the “**Holder**”), or its permitted assigns, in lawful money of the United States of America the principal sum of \$562,500.00. Interest shall accrue from the date of this Secured Promissory Note (this “**Note**”) on the unpaid principal amount at a rate equal to 20.00% simple interest per annum (or 22.00% simple interest per annum if provided by Section 3). Any capitalized terms not defined herein shall have the meaning as set forth in that certain Senior Secured Promissory Note Purchase Agreement, dated as of July 13, 2022 by and among the Company and the Holder (as may be amended from time to time, the “**Purchase Agreement**”).

This Note is subject to the following terms and conditions:

1. **Repayment.** The entire then-outstanding and unpaid principal amount of this Note, together with any accrued but unpaid interest under this Note (the “**Outstanding Amount**”), shall be due and payable on the earlier to occur of (i) August 15, 2023 or (ii) within five (5) business days after the date on which the Company receives an aggregate of \$20,000,000 from the consummation of one or more bona fide debt or equity financings, other capital investments, or capital contributions, whether from new or existing equity holders or debt holders (such applicable date, the “**Maturity Date**”). The Notes shall rank pari passu in right of payment with respect to each other Note, and all payments to each of the Holders under the Notes shall be made pro rata among the Holders based upon the aggregate unpaid principal amount of the Notes outstanding immediately prior to any such payment. All payments shall be made in lawful money of the United States of America at such place as the Holder hereof may from time to time designate in writing to the Company. Interest shall accrue on this Note but shall not be due and payable until the Holder’s written request for repayment after the Maturity Date.

2. **Security; Guarantee.** The parties agree that the payment obligations of the Company arising under this Note are secured pursuant to the terms of (i) that certain Security Agreement dated as of July 13, 2022 by and between the Company and Holder (as amended from time to time, the “**Security Agreement**”) and (ii) that certain Intellectual Property Security Agreement, dated as of July 13, 2022, by the Company in favor of the Holder (as amended from time to time, the “**IP Security Agreement**”). Reference hereby is made to the Security Agreement and the IP Security Agreement for a description of the nature and extent of the collateral serving as security for this Note and the rights of the Holder with respect to such security.

3. **Events of Default.** Interest shall accrue on the unpaid principal amount of this Note at a rate equal to 22.00% simple interest per annum, for the period beginning with the date of occurrence of an Event of Default (as defined below) and continuing for so long as such Event of Default is continuing. The Company shall immediately notify the Holder in writing upon becoming aware of the occurrence of any Event of Default; provided that the provision of such notice shall not effect or impair the Holder's rights hereunder. The occurrence of any of the following shall constitute an “**Event of Default**” under this Note:

(a) the Company shall fail to pay Holder in full the principal amount and all accrued and unpaid interest on this Note on the Maturity Date;

(b) the occurrence of an event of default pursuant to any Senior Indebtedness (as defined below), subject to applicable notice and cure periods;

(c) the Company shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian of itself or of all or a substantial part of its property, (ii) make a general assignment for the benefit of its or any of its creditors or (iv) commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any

bankruptcy, insolvency or other similar law now or hereafter in effect or consent to any such relief or to the appointment of or taking possession of its property by any official in an involuntary case or other proceeding commenced against it;

(d) proceedings for the appointment of a receiver, trustee, liquidator or custodian of the Company or of all or a substantial part of the property thereof, or an involuntary case or other proceedings seeking liquidation, reorganization or other relief with respect to the Company or the debts thereof under any bankruptcy, insolvency or other similar law now or hereafter in effect shall be commenced and an order for relief entered or such proceeding shall not be challenged, dismissed or discharged within ninety (90) days of commencement;

(e) the dissolution or winding up of the Company; or

(f) the appointment of a receiver or trustee to take possession of any property or assets of the Company.

4. **Subordination.** The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all of the Company's Senior Indebtedness (as defined below).

(a) **Insolvency Proceedings.** If there shall occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization, or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation, or any other marshaling of the assets and liabilities of the Company, no amount shall be paid by the Company in respect of the principal of, interest on or other amounts due with respect to this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness then outstanding shall be paid in full.

(b) **Subrogation.** Subject to the payment in full of all Senior Indebtedness, the holder of this Note shall be subrogated to the rights of the holder(s) of such Senior Indebtedness (to the extent of the payments or distributions made to the holder(s) of such Senior Indebtedness pursuant to the provisions of this Section 4) to receive payments and distributions of assets of the Company applicable to the Senior Indebtedness. No such payments or distributions applicable to the Senior Indebtedness shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of this Note; and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness to which the Holder would be entitled except for the provisions of this Section 4 shall, as between the Company and its creditors, other than the holders of Senior Indebtedness and the Holder, be deemed to be a payment by the Company to or on account of the Senior Indebtedness. Notwithstanding the foregoing, the Company represents and warrants to the Holder that (a) the terms of the Senior Indebtedness allow for the transactions contemplated by this Note and the repayment in full by the Company of its obligations pursuant to this Note on the Maturity Date without any default thereunder, and (b) no consent is required from any third party, including any holder of the Senior Indebtedness, to enter into the transaction contemplated by this Note or to pay in full the obligations of the Company pursuant to this Note, which consent has not been obtained prior to the date hereof.

(c) **No Impairment.** Nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

(d) **Reliance of the Holders of Senior Indebtedness.** The Holder, by its acceptance hereof, shall be deemed to acknowledge and agree that the foregoing subordination provisions are, and are intended to be, an inducement to and a consideration of each holder of Senior Indebtedness, whether

such Senior Indebtedness was created or acquired before or after the creation of the indebtedness evidenced by this Note, and each such holder of Senior Indebtedness shall be deemed conclusively to have relied on such subordination provisions in acquiring and holding, or in continuing to hold, such Senior Indebtedness.

(e) **Senior Indebtedness.** For purposes of this Note, “**Senior Indebtedness**” shall mean, unless expressly subordinated to or made on a parity with the amounts due under this Note, the principal of (and premium, if any), unpaid interest on and amounts reimbursed, fees, expenses, costs of enforcement and other amounts due in connection with, (i) indebtedness of the Company, or with respect to which the Company is a guarantor, to banks, commercial finance lenders, insurance companies, leasing or equipment financing institutions or other lending institutions regularly engaged in the business of lending money (excluding venture capital, investment banking or similar institutions which from time to time engage in lending activities but which are primarily engaged in investments in equity securities), which is for money borrowed, or purchase or leasing of equipment in the case of lease or other equipment financing, by the Company, whether or not secured, and (ii) any debentures, notes or other evidence of indebtedness issued in exchange for such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor, in each case, to the extent in existence and outstanding as of the date of the Initial Closing (as defined in the Purchase Agreement).

5. **Expenses.** The Company agrees to pay all costs, expenses and reasonable attorneys’ fees at any time paid or incurred by Holder to collect the indebtedness evidenced by this Note.

6. **Waiver.** No failure on the part of Holder to exercise, and no delay in exercising, any of the rights provided for herein shall operate as a waiver thereof, nor shall any single or partial exercise by Holder of any right preclude any other or future exercise thereof or the exercise of any other right. The Company waives presentment, protest or notice of dishonor and demand for payment and notice of default for non-payment.

7. **Transfer; Successors and Assigns.** The terms and conditions of this Note shall inure to the benefit of and be binding upon the respective successors and permitted assigns of the parties. Notwithstanding the foregoing, the Holder may not assign, pledge, or otherwise transfer this Note without the prior written consent of the Company, except for transfers to an entity controlled by or under common control with the Holder. Subject to the preceding sentence, this Note may be transferred only upon surrender of the original Note for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, a new note for the same principal amount and interest will be issued to, and registered in the name of, the transferee. Interest and principal are payable only to the registered holder of this Note.

8. **Governing Law.** This Note and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

9. **Notices.** All notices and other communications given or made pursuant to this Note shall be in writing and shall be deemed effectively given upon the earlier of actual receipt, or (a) personal delivery to the party to be notified, (b) when sent, if sent by electronic mail or facsimile during normal business hours of the recipient, and if not sent during normal business hours, then on the recipient’s next business day, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) business day after deposit with a nationally recognized overnight courier, freight prepaid, specifying next business day delivery, with written verification of receipt. All communications shall be sent to (i) to the Company at its corporate headquarters, to the Holder at the address as set forth on the signature pages to the Purchase Agreement, or to such e-mail address, facsimile number or address as subsequently modified by written notice given in accordance with this subsection.

10. **Amendments and Waivers.** Any term of this Note may be amended or waived only with the written consent of the Company and the Holder.

11. **Stockholders, Officers and Directors Not Liable.** In no event shall any stockholder, officer or director of the Company be liable for any amounts due or payable pursuant to this Note.

12. **Usury.** If any interest is paid on this Note which is deemed to be in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal of this Note.

Remainder of Page Intentionally Left Blank.

EIGHTH OMNIBUS AMENDMENT TO SECURED NOTES

This **EIGHTH OMNIBUS AMENDMENT TO SECURED NOTES** (this "Amendment"), is entered into as of August 8, 2023, by and among **HC2 STATION GROUP, INC.**, **HC2 BROADCASTING INC.**, **HC2 NETWORK INC.**, **DTV AMERICA CORPORATION** (collectively, the "Subsidiary Borrowers"), **HC2 BROADCASTING INTERMEDIATE HOLDINGS INC.** (the "Intermediate Parent"), **HC2 BROADCASTING HOLDINGS INC.** (the "Parent Borrower" and, together with the Intermediate Parent and the Subsidiary Borrowers, the "Borrowers" and each, a "Borrower"), **MSD PCOF PARTNERS XVIII, LLC** ("MSD"), **MASSMUTUAL ASCEND LIFE INSURANCE COMPANY** ("MassMutual"), and **GREAT AMERICAN INSURANCE COMPANY** ("GAIC", and, together with MassMutual, "Great American", and Great American, together with MSD, the "Lenders").

WITNESSETH:

WHEREAS, the Borrowers have requested and MSD and Great American have agreed to extend the Maturity Date of each of the MSD Secured Note and the GA Secured Note, on the terms and subject to the conditions specified herein;

WHEREAS, pursuant to that certain Secured Note dated as of October 24, 2019 (as amended by the Consent and First Amendment to Secured Note dated December 19, 2019 and the First Omnibus Amendment to Secured Notes and Intercreditor Agreement dated February 21, 2020, the Consent dated August 17, 2020, the Second Omnibus Amendment to Secured Notes, dated August 31, 2020, the Third Omnibus Amendment to Secured Notes and Second Amendment to Intercreditor Agreement dated September 25, 2020, the Fourth Omnibus Amendment to Secured Notes and Third Amendment to Intercreditor Agreement, dated November 25, 2020, the Consent to Note Assignments and DTV Note Extensions Under Secured Notes and Intercreditor Agreement dated August 30, 2021, Fifth Omnibus Amendment to Secured Notes, Consent and Second Amendment to Asset Sale Under Secured Notes and Intercreditor Agreement, dated as of October 21, 2021, Sixth Omnibus Amendment to Secured Notes, dated as of November 28, 2022, Seventh Omnibus Amendment to Secured Notes, dated as of December 30, 2022, and as may be further amended, restated, supplemented or otherwise modified from time to time, the "MSD Secured Note"), by and among the Borrowers and MSD, MSD made a Loan to the Borrowers pursuant to the terms and conditions thereof;

WHEREAS, pursuant to that certain Amended and Restated Secured Note dated as of October 24, 2019 (as amended by the First Omnibus Amendment to Secured Notes and Intercreditor Agreement, the Consent dated August 17, 2020, the Second Omnibus Amendment to Secured Notes, dated August 31, 2020, the Third Omnibus Amendment to Secured Notes and Second Amendment to Intercreditor Agreement dated September 25, 2020, the Fourth Omnibus Amendment to Secured Notes and Third Amendment to Intercreditor Agreement, dated November 25, 2020, the Consent to Note Assignments and DTV Note Extensions Under Secured Notes and Intercreditor Agreement dated August 30, 2021, the Fifth Omnibus Amendment to Secured Notes, Consent and Second Amendment to Asset Sale Under Secured Notes and Intercreditor Agreement, dated as of October 21, 2021, Sixth Omnibus Amendment to Secured Notes, dated as of November 28, 2022, Seventh Omnibus Amendment to Secured Notes, dated as of December 30, 2022, and as may be further amended, restated, supplemented or otherwise modified from time to time, the "GA Secured Note"), by and among the Borrowers and Great American, Great American made a Loan to the Borrowers pursuant to the terms and conditions thereof;

WHEREAS, the Borrowers have requested that the Lenders amend certain provisions of the MSD Secured Note and the GA Secured Note,

WHEREAS, the Lenders are willing to agree to the foregoing, on the terms and subject to the conditions specified herein; and

WHEREAS, initially capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the MSD Secured Note and the GA Secured Note, as applicable.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants herein contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each of the parties hereto hereby agrees as follows.

1. Amendments to MSD Secured Note. Subject to the satisfaction of the conditions precedent to the Amendment Effective Date set forth in Section 3 below, the MSD Secured Note is amended as follows:

(a) Section 1 is hereby amended by adding the below definition in the appropriate alphabetical order:

“Eighth Omnibus Amendment Effective Date” means August 8, 2023.

(b) The definition of “Maturity Date” in Section 1 is hereby amended and restated in its entirety as follows:

“Maturity Date” means the earlier of (a) August 15, 2024 and (b) the date on which all amounts under this Note shall become due and payable.

(c) Section 3.6 is hereby amended and restated in its entirety as follows:

Exit Fee. As consideration for the agreements of the Lender under the Secured Note, the Borrowers agree to pay to the Lender an exit fee (the **“Exit Fee”**) in an amount equal to 15.68% of the aggregate principal amount of this Note on the Eighth Omnibus Amendment Effective Date, including accrued and capitalized interest earned through the Exit Fee Payment Date (as defined below), which Exit Fee shall be earned in full on the Eighth Omnibus Amendment Effective Date and due and payable on the earliest to occur (such earliest date, the **“Exit Fee Payment Date”**) of (a) the Maturity Date and (b) each date on which any of the Obligations are repaid, prepaid or required to be repaid or prepaid in full in cash (whether by scheduled maturity, voluntary prepayment, required prepayment, acceleration, demand, or otherwise).

2. Amendments to GA Secured Note. Subject to the satisfaction of the conditions precedent to the Amendment Effective Date set forth in Section 3 below, the GA Secured Note is hereby amended as follows:

(a) Section 1 is hereby amended by adding the below definition in the appropriate alphabetical order:

“Eighth Omnibus Amendment Effective Date” means August 8, 2023.

(b) The definition of “Maturity Date” in Section 1 is hereby amended and restated in its entirety as follows:

“Maturity Date” means the earlier of (a) August 15, 2024 and (b) the date on which all amounts under this Note shall become due and payable.

(c) Section 3.6 is hereby amended and restated in its entirety as follows:

Exit Fee.

(a) As consideration for the agreements of MassMutual under the Secured Note, the Borrowers agree to pay to MassMutual an exit fee (the **“MassMutual Exit Fee”**) in an amount equal to 8.86% of the Capitalized Principal Amount of this Note on the Eighth Omnibus Amendment Effective Date owed to MassMutual plus all accrued and capitalized interest earned through the MassMutual Exit Fee Payment Date (as defined below), which MassMutual Exit Fee shall be earned in full on the Eighth Omnibus Amendment Effective Date and due and payable on the earliest to occur (such earliest date, the **“MassMutual Exit Fee Payment Date”**) of (i) the Maturity Date and (ii) each date on which any of the Obligations are repaid, prepaid or required to be repaid or prepaid in full in cash (whether by scheduled maturity, voluntary prepayment, required prepayment, acceleration, demand, or otherwise).

(b) As consideration for the agreements of GAIC under the Secured Note, the Borrowers agree to pay to GAIC an exit fee (the **“GAIC Exit Fee”**) in an amount equal to 8.86% of the Capitalized Principal Amount of this Note on the Eighth Omnibus Amendment Effective Date owed to GAIC plus all accrued and capitalized interest earned through the GAIC Exit Fee Payment Date (as defined below), which GAIC Exit Fee shall be earned in full on the Eighth Omnibus Amendment Effective Date and due and payable on the earliest to occur (such earliest date, the **“GAIC Exit Fee Payment Date”**) of (i) the Maturity Date and (ii) each date on which any of the Obligations are repaid, prepaid or required to be repaid or prepaid in full in cash (whether by scheduled maturity, voluntary prepayment, required prepayment, acceleration, demand, or otherwise).

3. Conditions to Effectiveness. This Amendment shall be effective when all of the following conditions have been satisfied (such date, the **“Amendment Effective Date”**):

(a) Execution and Delivery. MSD and Great American shall have received in form and substance satisfactory to them and their legal counsel, counterparts of this Amendment duly executed and delivered by each of the parties hereto.

(b) Fees, Costs and Expenses. The Borrowers shall have paid all fees, costs and expenses due and payable as of the date hereof under the MSD Secured Note and the GA Secured Note, including without limitation all attorney's fees and expenses incurred by the Lenders;

(c) Representations and Warranties. The representations and warranties set forth in Section 4 hereof shall be true and correct as of the date hereof and as of the Amendment Effective Date;

4. Representations and Warranties of the Borrowers. Each Borrower hereby represents and warrants to the Lenders as follows:

(a) the execution and delivery of this Amendment, and the performance of the MSD Secured Note and the GA Secured Note (i) have been duly authorized by all proper and necessary action of the board of directors of such Borrower; and (ii) do not and will not conflict with (x) any material provision of Law or regulatory requirements to which such Borrower is subject, or (y) any charter, bylaw, stock provision, partnership agreement or other document pertaining to the organization, power or authority of such Borrower;

(b) there is no material outstanding decree, decision, judgment or order that has been issued by any court, Governmental Authority, agency or arbitration authority against such Borrower or its FCC Licenses;

(c) (x) no Borrower is in default under or with respect to any Contractual Obligation of such Borrower that could, either individually or in the aggregate reasonably be expected to result in a Material Adverse Change; or (y) no consent or approval of any public authority or any other third party is required as a condition to the validity of this Amendment;

(d) each of this Amendment and each Note Document (as defined in each of the MSD Secured Note and the GA Secured Note) is the valid and legally binding obligation of such Borrower, enforceable against such Borrower in accordance with its respective terms;

(e) the representations and warranties contained in Section 7.3 of the MSD Secured Note and in Section 7.3 of the GA Secured Note are true, correct and complete in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) on and as of the date of this Amendment (except to the extent that such representations and warranties relate solely to an earlier date, in which case such representations and warranties shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) as of such earlier date); and

(f) no Default or Event of Default has occurred and is continuing.

5. Further Assurances. At any time upon the reasonable request of any Lender, each Borrower shall promptly execute and deliver to the Lenders any additional documents as such Lender shall reasonably request pursuant to the Note Documents (as defined in the MSD Secured Note and the GA Secured Note), in each case in form and substance reasonably satisfactory to the Lenders.

6. Governing Law; Submission to Jurisdiction; Venue; Waiver of Jury Trial. THIS AMENDMENT SHALL BE SUBJECT TO THE PROVISIONS REGARDING GOVERNING LAW, SUBMISSION TO JURISDICTION, VENUE, AND WAIVER OF JURY TRIAL SET FORTH IN SECTION 11 OF THE MSD SECURED NOTE AND SECTION 11 OF THE GA SECURED NOTE, AND SUCH PROVISIONS ARE INCORPORATED HEREIN BY THIS REFERENCE, MUTATIS MUTANDIS.

7. Binding Effect. This Amendment shall be binding upon the Borrowers and shall inure to the benefit of the Lenders, together with their respective successors and permitted assigns.

8. Effect on Note Documents. The terms and provisions set forth in this Amendment shall supersede all inconsistent terms and provisions of the MSD Secured Note and the GA Secured Note, and shall not be deemed to be a consent to or a modification or amendment of any other term or condition of the MSD Secured Note or the GA Secured Note. Except as expressly modified and superseded by this Amendment, the terms and provisions of the MSD Secured Note, the GA Secured Note, and each of the other Note Documents (as defined in the MSD Secured Note and the GA Secured Note) are ratified and confirmed and shall continue in full force and effect.

9. Release.

(a) In consideration of the agreements of the Lenders contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, each Borrower, on behalf of itself and its successors, assigns, and other legal representatives, hereby absolutely, unconditionally and irrevocably releases, remises and forever discharges each of the Lenders, its successors and assigns, and its direct and indirect owners, partners, members, managers, consultants, affiliates, subsidiaries, divisions, predecessors, directors, officers, attorneys, employees, agents and other representatives, and all persons acting by, through, under or in concert with any of them (the Lenders and all such other Persons being hereinafter referred to collectively as the "Releasees" and individually as a "Releasee") of and from all demands, actions, causes of action, suits, covenants, contracts, controversies, agreements, promises, sums of money, accounts, bills, reckonings, damages and any and all other claims, counterclaims, defenses, recoupment, rights of setoff, demands and liabilities whatsoever (individually, a "Claim" and collectively, "Claims") of every name and nature, known or unknown, contingent or mature, suspected or unsuspected, both at law and in equity, which any Borrower or any of its respective successors, affiliates, assigns, or other legal representatives may now or hereafter own, hold, have or claim to have against the Releasees or any of them for, upon, or by reason of any circumstance, action, cause or thing whatsoever which arises at any time on or prior to the day and date of this Amendment, including, without limitation, for or on account of, or in relation to, or in any way in connection with this Amendment or any of the other Note Documents (as defined in the MSD Secured Note and the GA Secured Note) or transactions thereunder or related thereto.

(b) Each Borrower understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(c) Each Borrower agrees that no fact, event, circumstance, evidence or transaction which could now be asserted or which may hereafter be discovered shall affect in any manner the final, absolute and unconditional nature of the release set forth above.

(d) In entering into this Amendment, each Borrower has consulted with, and has been represented by, legal counsel and expressly disclaims any reliance on any representations, acts or omissions by any of the Releasees and hereby agrees and acknowledges that the validity and effectiveness of the release set forth above does not depend in any way on any such representations, acts and/or omissions or the accuracy, completeness or validity hereof. The release set forth herein shall survive the termination of this Amendment and the Note Documents and the payment in full of the Obligations (Note Documents and Obligations, each as defined in the MSD Secured Note and the GA Secured Note).

(e) Each Borrower acknowledges and agrees that the release set forth above may not be changed, amended, waived, discharged or terminated orally.

10. Miscellaneous

(a) This Amendment is a “Note Document” under both the MSD Secured Note and the GA Secured Note. Any breach of any term, covenant, agreement, or representation or warranty shall be an immediate Event of Default under each of the MSD Secured Note and the GA Secured Note and any failure to satisfy any conditions under this Amendment shall be deemed an automatic and immediate withdrawal of the agreements of the Lenders hereunder. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, taken together, shall constitute but one and the same instrument. Delivery of an executed counterpart of this Amendment by telefacsimile or other electronic image scan transmission (e.g., “PDF” or “tif” via email) shall be equally effective as delivery of a manually executed counterpart of this Amendment.

(b) If any term or provision of this Amendment is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Amendment or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Amendment so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

(c) The headings of the various Sections and subsections herein are for reference only and shall not define, modify, expand or limit any of the terms or provisions hereof.

(d) This Amendment shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted.

[remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the Borrowers and the Lenders have caused this Amendment to be duly executed by its authorized officer as of the day and year first above written.

HC2 BROADCASTING HOLDINGS, INC.
as the Parent Borrower

By: /s/ Matthew Katrosar
Name: Matthew Katrosar
Title: President and Chief Executive Officer

HC2 BROADCASTING INTERMEDIATE HOLDINGS, INC.
as the Intermediate Parent

By: /s/ Matthew Katrosar
Name: Matthew Katrosar
Title: President and Chief Executive Officer

HC2 STATION GROUP, INC.,
as a Subsidiary Borrower

By: /s/ Matthew Katrosar
Name: Matthew Katrosar
Title: President and Chief Executive Officer

HC2 BROADCASTING INC.,
as a Subsidiary Borrower

By: /s/ Matthew Katrosar
Name: Matthew Katrosar
Title: President and Chief Executive Officer

HC2 NETWORK INC.,
as a Subsidiary Borrower

By: /s/ Matthew Katrosar
Name: Matthew Katrosar
Title: President and Chief Executive
Officer

DTV AMERICA CORPORATION,
as a Subsidiary Borrower

By: /s/ Matthew Katrosar
Name: Matthew Katrosar
Title: President and Chief Executive
Officer

SIGNATURE PAGE TO EIGHTH OMNIBUS AMENDMENT TO SECURED NOTES

MSC PCOF PARTNERS XVIII, LLC

By: /s/ Marcello Liguori
Name: Marcello Liguori
Title: Authorized Signatory

SIGNATURE PAGE TO EIGHTH OMNIBUS AMENDMENT TO SECURED NOTES

**MASSMUTUAL ASCEND LIFE
INSURANCE COMPANY**

**BY: BARINGS LLC AS INVESTMENT
ADVISER**

By: /s/ Mark Hindson
Name: Mark Hindson
Title: Managing Director

SIGNATURE PAGE TO EIGHTH OMNIBUS AMENDMENT TO SECURED NOTES

**GREAT AMERICAN INSURANCE
COMPANY**

By: /s/ Stephen C. Beraha
Name: Stephen C. Beraha
Title: Assistant Vice President

Lancer Capital, LLC
222 Lakeview Avenue, Suite 1660
West Palm Beach, FL 33401

August 8, 2023

INNOVATE Corp.
222 Lakeview Ave., Suite 1660
West Palm Beach
FL 33401

Re: Financial Support Commitment

To Whom It May Concern:

This letter sets forth the terms and conditions upon which Lancer Capital LLC, a Delaware limited liability company ("Lancer") agrees to provide financial support to INNOVATE Corp., a Delaware corporation (the "Company").

Lancer unconditionally and irrevocably, until the Termination Date (as defined below), agrees to provide financial support to the Company as follows:

1. If the Company is unable to meet its payment or covenant obligations with respect to its funded debt during the term of this letter agreement, Lancer will provide the necessary financial support to the Company (each, a "Contribution" and together, the "Contributions") to ensure the Company's ability to meet such obligations as a going concern through the Termination Date up to a total of US\$35,000,000.00 for all Contributions in the aggregate (the "Maximum Commitment Amount"). A Contribution may take the form of a loan, equity investment, deferral of obligations, or backstop commitment with respect to a capital raise.
2. Each Contribution will be made within five (5) days following a written request to Lancer from the Company, which request will contain the required Contribution amount and a description of the Company's payment or covenant obligation necessitating such Contribution.
3. The Company shall use commercially reasonable efforts to obtain funding from other sources prior to requesting a Contribution.
4. The obligations of Lancer to provide the financial support provided herein shall terminate on August 11, 2024 (the "Termination Date").

The Company shall be responsible for payment of the costs and expenses of Lancer with respect to this letter agreement and the making of any Contributions hereunder, including without limitation reasonable attorneys' fees.

CERTIFICATIONS

I, Paul K. Voigt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of INNOVATE Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2023

By: /s/ Paul K. Voigt

Name: Paul K. Voigt
Title: Interim President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Michael J. Sena, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of INNOVATE Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2023

By: /s/ Michael J. Sena

Name:

Michael J. 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), Paul K. Voigt, the Interim President and Chief Executive Officer (Principal Executive Officer) of INNOVATE Corp. (the “Company”), and Michael J. Sena, the Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2023, to which this Certification is attached as Exhibit 32 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Periodic Report and results of operations of the Company for the period covered by the Periodic Report.

Dated: August 9, 2023

/s/ Paul K. Voigt

Paul K. Voigt
Interim President and Chief Executive Officer (Principal Executive Officer)

/s/ Michael J. Sena

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