HC2 HOLDINGS, INC.
Form 10-K
March 09, 2017

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2016
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
Commission File No. 001-35210

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

Delaware	54-1708481
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
450 Park Avenue, 30th Floor, New York, NY	10022
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	NYSE MKT LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	Accelerated filer	x
Non-accelerated filer	Smaller reporting company	

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

The aggregate market value of HC2's common stock held by non-affiliates of the registrant as of June 30, 2016 was approximately $141,269,061, based on the closing sale price of the Common Stock on such date.

As of February 28, 2017, 41,939,827 shares of common stock, par value $0.001, were outstanding.

Documents Incorporated by Reference:

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the registrant's 2017 Annual Meeting of Stockholders are incorporated by reference into Part III.

HC2 HOLDINGS, INC.
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PART I
ITEM 1. BUSINESS

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

This Annual Report on Form 10-K contains forward looking statements. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Special Note Regarding Forward-Looking Statements.”

General

HC2 is a diversified holding company that seeks opportunities to acquire and grow businesses that can generate long-term sustainable free cash flow and attractive returns in order to maximize value for all stakeholders. As of December 31, 2016, our seven reportable operating segments based on management’s organization of the enterprise included Construction (f/k/a Manufacturing), Marine Services, Insurance, Telecommunications, Energy (f/k/a Utilities), Life Sciences and Other.

Our principal operating subsidiaries include the following assets:

(i) DBM Global Inc. (Construction), a family of companies providing fully integrated structural and steel construction services;
(ii) Global Marine Systems Limited (Marine Services), a leading provider of engineering and underwater services on submarine cables;
(iii) Continental Insurance Group Ltd. (Insurance), a platform for our run-off long-term care and life and annuity business, through its insurance company, Continental General Insurance Company ("CGI" or the "Insurance Company");
(iv) PTGi-International Carrier Services Inc. ("ICS") (Telecommunications), a provider of internet-based protocol and time-division multiplexing access and transport of long-distance voice minutes;
(v) American Natural Gas (Energy), a compressed natural gas fueling company;
(vi) Pansend Life Sciences, Ltd. (Life Sciences), our subsidiary focused on supporting healthcare and biotechnology product development; and
(vii) Other includes controlling interests in DMi, Inc., ("DMi") which owns licenses to create and distribute NASCAR® video games, and NerVve, Inc. ("NerVve"), which provides analytics on broadcast TV, digital and social media online platforms. In addition, Other includes non-controlling interests in various investments.

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

Overall Business Strategy

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

As part of any acquisition strategy, we may raise capital in the form of debt or equity securities (including preferred stock) or a combination thereof. We have broad discretion in selecting a business strategy for the Company. If we elect to pursue an acquisition, we have broad discretion in identifying and selecting both the industries and the possible acquisition or business combination opportunities. We have not identified a specific industry to focus on and there can be no assurance that we will, or we will be able to, identify or successfully complete any such transactions. In connection with evaluating these strategic and business alternatives, we may at any time be engaged in ongoing discussions with respect to possible acquisitions, business combinations and debt or equity securities offerings of widely varying sizes. There can be no assurance that any of these discussions will result in a definitive agreement and if they do, what the terms or timing of any agreement would be.

Competition

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

Employees

As of December 31, 2016, we had approximately 2,744 employees, including the employees of our operating businesses as described in more detail below. We consider our relations with our employees to be satisfactory.

Our Operating Subsidiaries

Construction Segment (DBMG)

DBM Global Inc. ("DBMG", f/k/a Schuff International, Inc.) is a fully integrated detailer, Building Information modelling (“BIM”) modeler, fabricator and erector of structural steel and heavy steel plate. DBMG details, models, fabricates and erects structural steel for commercial and industrial construction projects such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas and stadiums, shopping malls, hospitals, dams, bridges, mines and power plants. DBMG also fabricates trusses and girders and specializes in the fabrication and erection of large-diameter water pipe and water storage tanks. Through its Aitken business ("Aitken"), DBMG manufactures pollution control scrubbers, tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products. Headquartered in Phoenix, Arizona, DBMG has operations in Arizona, California, Georgia, Kansas, and Texas, with construction projects primarily located in the aforementioned states, in addition to international construction projects in select markets, primarily Panama, through its former Panamanian joint venture, Schuff Hopsa Engineering, which was sold in December 2016. The Company maintains a 92% controlling interest in DBMG.

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

Strategy

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

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

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

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

- Diversify Customer and Product Base: Although DBMG seeks to achieve a leading share of the geographic and product markets in which it traditionally competes, it also seeks to diversify its product offerings and geographic markets through acquisition. By expanding the portfolio of products offered and geographic markets served, DBMG believes that it will be able to offer more value-added services to existing and new potential customers, as well as to reduce the impact of periodic adverse market or economic conditions.

Services and Customers

DBMG operates primarily within the over $600 billion non-residential construction industry, which serves a diverse set of end markets.

DBMG consists of five business units spread across diverse steel markets: Schuff Steel Company (“SSC”) (steel fabrication and erection), Schuff Steel Management Company (“SSMC”) (management of smaller projects, leveraging subcontractors), PDC Global Pty Ltd. (“PDC”) (steel detailing, BIM modelling and BIM management services), BDS VirCon (“BDS”) (steel detailing, rebar detailing and BIM modelling services) and the Aitken product line (manufacturing of equipment for the oil and gas industry). For the fiscal year ended December 31, 2016, SSC’s revenues of $464.5 million account for 92.4% of DBMG’s total revenue. SSMC’s revenues of $24.4 million account for 4.9% of DBMG’s total revenue. PDC’s revenues of $2.2 million account for 0.7% of DBMG’s total revenue. BDS’s revenues of $1.3 million account for 0.5% of

DBMG’s total revenue. Aitken’s revenues of $6.2 million account for 1.3% of DBMG’s total revenue. The majority of DBMG’s business is in North America, but PDC and BDS provide detailing services on five continents, and SSC provides fabricated steel to Canada and other select countries. In 2016, DBMG’s single largest customer represented approximately 9.3% of revenues. In 2015, the same customer represented approximately 23.0% of revenues.

DBMG’s size gives it the production capacity to complete large-scale, demanding projects, with typical utilization per facility ranging from 50%-70% and a sales pipeline that includes over $555 million in potential revenue generation. DBMG believes it has benefited from being one of the largest players in a market that is highly-fragmented across many small firms.

DBMG achieves a highly-efficient and cost-effective construction process by focusing on collaborating with all project participants and utilizing its extensive design-build and design-assist capabilities with its clients. Additionally, DBMG has in-house fabrication and erection combined with access to a network of subcontractors for smaller projects in order to provide high-quality solutions for its customers. DBMG offers a range of services across a broad geography through its eight fabrication shops in the United States and 17 sales and management facilities located in the United States, Australia, Canada, India, New Zealand, the Philippines and the UK.

DBMG operates with minimal bonding requirements, with the current balance of less than 31% of DBMG's backlog (out of a total backlog of $503.4 million) as of December 31, 2016, and bonding is reduced as projects are billed, rather than upon completion. DBMG has limited its raw material cost exposure by securing fixed prices from mills at contract bid, as well as by utilizing its purchasing power as one of the largest domestic buyers of wide flange beams in the United States.

SSC offers a variety of services to its customers which it believes enhances its ability to obtain and successfully complete projects. These services fall into six distinct groups: design-assist/design-build, pre-construction design and budgeting, steel management, fabrication, erection, and BIM.

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

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

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

- Fabrication: Through its eight fabrication shops in California, Arizona, Texas, Kansas and Georgia, DBMG has one of the highest fabrication capacities in the United States, with over 1.1 million square feet of steel and a maximum annual fabrication capacity of approximately 300,000 tons.

- Erection: Named the top steel erector in the United States for 2007, 2008, 2011, 2013, 2014 and 2015 by Engineering News-Record, DBMG knows how to add value to its projects through the safe and efficient erection of steel structures.

- BIM: DBMG uses BIM on every project to manage its role efficiently. Additionally DBMG’s use of SSIMS in conjunction with BIM allows for real-time reporting on a project’s progress and an information-rich model review.

SSMC provides turn-key steel fabrication and erection services with expertise in project management. Leveraging such strengths, SSMC uses its relationships with reliable subcontractors and erectors, along with state-of-the-art management systems, to deliver excellence to clients.

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

- Strainers: Temporary cone and basket strainers, tee-type strainers, vertical and horizontal permanent line strainers and fabricated duplex strainers.

- Measurement Equipment: Orifice meter tubes, orifice plates, orifice flanges, seal pots, flow nozzles, Venturi tubes, low loss tubes and straightening vanes.

- Major Products: Spectacle blinds, paddle blinds, drip rings, bleed rings, and test inserts, ASME vessels, launchers and pipe spools.

PDC provides steel detailing, BIM modelling and BIM management services for industrial and commercial construction projects in Australia and North America.

- Steel Detailing: Utilizing industry leading technologies, PDC provides steel detailing services which include: shop drawings, erection plans, anchor bolt drawings, connection sketches, DSTV files for cutting and drilling, DXF files for plate work, field bolt lists, specialist reports and advance bill of material and piping.

- BIM Modelling: Through multidisciplinary teams, PDC creates highly accurate, scaled virtual models of each structural component. These independent models and data are integrated and standardized to produce a single 3D model simulation of the entire structure. This integrated model contains complete information for all functional requirements of a project, including procurement and logistics, financial modelling, claims and litigation, fabrication, construction support and asset management.

- BIM Management: PDC is an industry leading provider of BIM management consultancy services ("BIM Management"), with clients ranging from government, industry organizations and general construction contractors. BIM Management of all project participants' input, use and development of the applicable model is integral to ensuring that the model remains the single point of reference. PDC's BIM Management service includes the governing of process and workflow management, which is a collection of defined model uses, workflows, and modelling methods used to achieve specific, repeatable and reliable information results from the model. The way the model is created and shared, and the sequencing of its application, impacts the effective and efficient use of BIM for desired project outcomes and decision support.

BDS provides steel- and rebar detailing and BIM modelling services for industrial and commercial projects in Australia, New Zealand, North America and Europe.

- Steel Detailing: Utilizing industry leading technologies, BDS provides steel detailing services, including: shop drawings, erection plans, anchor bolt drawings, connection sketches, DSTV files for cutting and drilling, DXF files for plate work, field bolt lists, specialist reports, advance bill of material and piping.

- BIM modelling: Through multidisciplinary teams, BDS creates highly accurate, scaled virtual models of each structural component. These independent models and data are integrated and standardized to produce a single 3D model simulation of the entire structure. This integrated model contains complete information for all functional requirements of a project, including procurement and logistics, financial modelling, claims and litigation, fabrication, construction support and asset management.

- Rebar Detailing: These services, including rebar detailing and estimating, are delivered by a staff experienced in rebar installation and familiar with the construction practices and constructability issues that arise on project sites. Deliverables include: field placement/shop drawings, field and/or phone support, 2D and 3D modelling, connection sketches, bar listing in ASA format, DGN files, and complete rebar estimating.

Suppliers

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

Sales and Distributions

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

Marketing

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

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

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

Competition

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

Employees

As of December 31, 2016, DBMG employed approximately 2,089 people across the globe, including the U.S., Canada, Australia, New Zealand, India, Philippines and the UK. The number of persons DBMG employs on an hourly basis fluctuates directly in relation to the amount of business DBMG performs. Certain of the fabrication and erection personnel DBMG employs are represented by the United Steelworkers of America and the International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers Union. DBMG is a party to several separate collective bargaining agreements with these unions in certain of its current operating regions, which expire (if not renewed) at various times in the future. Approximately 18% of DBMG’s employees are covered under various collective bargaining agreements. As of December 31, 2016, most of DBMG’s collective bargaining agreements are subject to automatic annual or other renewal unless either party elects to terminate the agreement on the scheduled expiration date. Approximately 13% of DBMG’s employees are covered under collective bargaining agreements that expire less than one year from December 31, 2016 (but which are currently being renegotiated). DBMG considers its relationship with its employees to be satisfactory and, other than sporadic and unauthorized work stoppages of an immaterial nature, none of which have been related to its own labor relations, DBMG has not experienced a work stoppage or other labor disturbance.

DBMG strategically utilizes third-party fabrication and erection subcontractors on many of its projects and also subcontracts detailing services from time to time when its management determines that this would be economically beneficial (and/or when DBMG requires additional capacity for such services). DBMG’s inability to engage fabrication, erection and detailing subcontractors on favorable terms could limit its ability to complete projects in a timely manner or compete for new projects, which could have a material adverse effect on its operations.

Legal, Environmental and Insurance

DBMG is subject to other claims and legal proceedings that arise in the ordinary course of business. Such matters are inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to DBMG or that the resolution of any such matter will not have a material adverse effect upon DBMG or the Company’s business, consolidated financial position, results of operations or cash flows. Neither DBMG nor the Company believes that any of such pending claims and legal proceedings will have a material adverse effect on its (or the Company’s) business, consolidated financial position, results of operations or cash flows.

DBMG’s operations and properties are affected by numerous federal, state and local environmental protection laws and regulations, such as those governing discharges to air and water and the handling and disposal of solid and hazardous wastes. These laws and regulations have become increasingly stringent and compliance with these laws and regulations has become increasingly complex and costly. There can be no assurance that such laws and regulations or their interpretation will not change in a manner that could materially and adversely affect DBMG’s operations. Certain environmental laws, such as CERCLA (the Comprehensive Environmental Response, Compensation, and Liability Act) and its state law counterparts, provide for strict and joint and several liability for investigation and remediation of spills and other releases of toxic and hazardous substances. These laws may apply to conditions at properties currently or formerly owned or operated by an entity or its predecessors, as well as to conditions at properties at which wastes or other contamination attributable to an entity or its predecessors come to be located. Although DBMG has not incurred any material environmental related liability in the past and believes that it is in material compliance with environmental laws, there can be no assurance that DBMG, or entities for which it may be responsible, will not incur such liability in connection with the investigation and remediation of facilities it currently operates (or formerly owned or operated) or other locations in a manner that could materially and adversely affect its operations.

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

Marine Services Segment (GMSL)

Global Marine Services Limited ("GMSL") is a global offshore engineering company focused on specialist subsea services across three market sectors, namely telecommunications, oil and gas, and offshore power.

Strategy Overview

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

- Developing opportunities in the offshore power market;

- Diversifying the business by pursuing growth within its three market segments (telecommunications, oil and gas, and offshore power), which it believes will strengthen its quality of earnings and reduce exposure to one particular market segment;
- Retaining and building its leading position in telecommunications maintenance and installation;
- Working to develop convergence of its maintenance services across all three market segments; and
- Pursuing targeted mergers and acquisitions, joint ventures, partnerships and opportunities to build a larger operating platform that can benefit from increased operating efficiencies.

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

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

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

Offshore Power: GMSL's former subsidiary Global Marine Energy ("GME") was established in 2011 as the vehicle for GMSL's significant offshore power activities, which included installing inter-array power cables for use in offshore wind farms and in the offshore wind market. GME was sold to Prysmian UK Group Ltd. ("Prysmian") in November 2012 in anticipation of a temporary downturn in the offshore power market and the onerous contracting regime present at the time. As part of this sale, GMSL entered into a non-compete agreement regarding offshore power operations with Prysmian (the "Prysmian Non-Compete Agreement") but retained certain key personnel and assets to ensure that GMSL maintained its core capabilities and experience in the offshore power sector. Following entry into the Prysmian Non-Compete Agreement, GMSL continued to install offshore power cables on behalf of Prysmian with chartered vessels through June 2014. Following the sale of GME, GMSL remained one of the leading installers of cables in relation to supporting the growth in the offshore power market. GMSL's track record in these types of projects includes the following:

- 70 inter-array cables installed in the Wikinger wind farm, for Prysmian;
- Experimental UK farm, Blythe, for Shell;

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

As a result of the expiration of the Prysmian Non-Compete Agreement in November 2015, GMSL has been able to recommence bidding for projects in the high-growth, high-margin offshore power market. Given that renewable energy production is predicted to grow over the next decade, with a substantial proportion of that energy to be harvested offshore, GMSL believes it is well positioned to capitalize on this anticipated growth of the offshore alternative energy market in construction as well as operations and maintenance, with a strong presence in Northern Europe and Asia (especially China). In 2016, GMSL acquired 100% of CWind Limited (“CWind”), a UK-based specialist service provider in the offshore wind farm industry in the UK and northern Europe. GMSL’s management believes the offshore wind farm operations and maintenance sub-sector represents a significant opportunity for GMSL and, through its acquisition of CWind in 2016, GMSL is developing strategies to realize that opportunity.

Services and/or Products

GMSL is a pioneer in the subsea cable industry, having laid the first subsea cable in the 1850s and installed the first transatlantic fiber optic cable (TAT-8) in 1988. Over the last 30 years, GMSL estimates that it has installed approximately 300,000 kilometers of cable, which its management believes represents almost a quarter of all the fiber optic cable on the global seabed today. GMSL is positioned as a global independent market leader in subsea cable installation and maintenance services and derives approximately 50% of its total revenue from long-term, recurring maintenance contracts. GMSL has started a new phase of growth through applying its capabilities to the rapidly expanding offshore power sector into which GMSL re-entered in November 2015 (see “Offshore Power” above), while retaining a leading position in the telecommunications sector. As a result of this growth, GMSL has major offices in the United Kingdom and Singapore, with presence in Bermuda, Canada, China, Indonesia and the Philippines. See “Item IA - Risk Factors - Risks Related to GMSL - GMSL derives a significant amount of its revenues from sales to customers outside of the United States, which poses additional risks, including economic, political and other uncertainties” for a description of risks attendant to such foreign operations.

Fleet Overview

GMSL operates one of the largest specialist cable laying fleets in the world, consisting of seven vessels (five owned, two operated through long-term leases) and 16 vessels operated by its wholly-owned subsidiary, CWind, as of December 31, 2016. In January 2017, a new vessel was purchased, bringing the CWind fleet to a total of 17. The average age of the GMSL fleet (excluding CWind vessels) is 23 years. The average age of the CWind vessels is 3 years. Each vessel is equipped with specialist inspection, burial, and survey equipment. By providing oil and gas, offshore power, and telecommunications installation as well as telecommunications maintenance, GMSL can retain vessels throughout their asset lives by cascading them through different uses as they age, as older vessels can or should only be used to provide specified services. This provides a significant competitive advantage because GMSL can retain vessels for longer and reduce the frequency of capital expenditure requirements with a longer amortization period. GMSL’s fleet is operated by GMSL employees or long-term contractors.

Fleet Details

Vessels	Ownership	Lease Expiry	Age	Flag	Base Port
Maintenance - GMSL					
Innovator	DYVI Cableship AS	May-25	20	UK	Portland, UK
Wave Venture	GMSL	N/A	32	UK	Victoria, Canada
Pacific Guardian	GMSL	N/A	32	UK	Curacao
Wave Sentinel	GMSL	N/A	20	UK	Portland, UK
Cable Retriever	ICPL	Jan-23	18	Singapore	Batangas, Philippines
Installation – GMSL					
Sovereign	GMSL	N/A	24	UK	Portland, UK
Networker	GMSL	N/A	16	Panama	Batam, Indonesia
Offshore – CWind					
Argocat	CWind Limited	N/A	6	UK	Grimsby, UK
Alliance	50% CWind Limited	N/A	5	UK	Grimsby, UK
Endeavour	CWind Limited	N/A	4	UK	Barrow-in-Furness, UK
Adventure	CWind Limited	N/A	4	UK	Fleetwood, UK
Fulmar	CWind Limited	N/A	3	UK	Barrow-in-Furness, UK
Artimus	CWind Limited	N/A	2	UK	Emden, Germany
Buzzard	CWind Limited	N/A	4	UK	Barrow-in-Furness, UK
Challenger	CWind Limited	N/A	4	UK	Ipswich, UK
Resolution	CWind Limited	N/A	3	UK	Fleetwood, UK
Sword	CWind Limited	N/A	2	UK	Emden, Germany
Spirit	CWind Limited	N/A	1	UK	Emden, Germany
Endurance	CWind Limited	N/A	3	UK	Grimsby, UK
Tempest	CWind Limited	N/A	1	UK	Ramsgate, UK
Tornado	CWind Limited	N/A	1	UK	Ramsgate, UK

Typhoon TOW	CWind Limited	N/A	1	UK	Ramsgate, UK
Hurricane TOW	CWind Limited	N/A	1	UK	Ramsgate, UK
CWind Phantom	CWind Limited	N/A	0	UK	Hull, UK

Product Research and Development

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

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

Intellectual Property

GMSL is not dependent on any specific intellectual property, but it does vigorously protect its interests in its intellectual property and closely monitors industry changes, including with respect to GEOCABLE and Universal Joint.

Customers

GMSL’s customer base is made up primarily of large, established companies. Within the two kinds of services provided by GMSL, maintenance and repair and installation, contract length varies. Maintenance and repair contracts tend to be long-term (5-7 years), with a relatively high level of expected renewal rates, and the customer is typically a consortium of different cable owners such as national, regional and international telecommunication companies and others who have an ownership interest in the subsea cables covered by the maintenance contract. GMSL charges a standing fee for cost of vessels in port plus margin, paid in advance proportionally by each member, and an additional daily call out fee for repairs paid by the specific cable owner(s). All four maintenance vessels are engaged on GMSL’s three current long-term telecommunications maintenance contracts with ACMA (Atlantic Cable Maintenance Agreement), SEAIOCMA (South East Asia and Indian Ocean Cable Maintenance Agreement), and NAZ (North American Zone). Installation contracts tend to be much shorter term (30-150 days), and the counterparty tends to be a single client. Contracts are typically bid for on a fixed-sum basis with an initial upfront payment plus subsequent installments providing working capital support. Due to the added complexity of cable installation as opposed to maintenance, GMSL generally realizes higher margins on its installation contracts in the oil and gas and offshore power sectors. In 2016, GMSL experienced lower margins on its installation contracts as a result of the general downturn in the Oil and Gas market and competitive pressures supporting the aggressive market share expansion of GMSL’s most significant customer and the operations of GMSL’s joint venture with Huawei Marine Networks ("HMN"), Huawei Marine Systems Co. Limited, a turnkey installer of fiber optic cable and telecommunications systems.

Sales and Distributions

In the telecommunications cable market, cable maintenance is most often accomplished by zone maintenance contracts in which a consortium of telecommunications operators or cable owners contract with a maintenance provider like GMSL, over a long-term period of approximately five to seven years. GMSL has three cable maintenance agreements, which are a steady, high-quality source of revenue for GMSL. These maintenance contracts are usually re-awarded to incumbent providers unless there are significant performance issues, which may mean that GMSL will not be required to expend extra capital to retain these contracts, although no assurance can be given that GMSL will be able to renew any specific contract. GMSL constantly has a focused sales plan to build relationships with current and potential customers at regional and corporate offices and readily leverages Huawei Technologies’ large sales organization.

Marketing

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

Competition

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

GMSL believes that its ability to provide a wide range of subsea cable installation and maintenance services in the telecommunications, oil and gas and offshore power sectors on a worldwide basis enables it to compete effectively in the industry in which it operates. However, in some cases involving projects that require less sophisticated vessel and subsea equipment, smaller companies may be able to bid for contracts at prices uneconomical to GMSL. In addition, GMSL’s competitors generally have the capability to move their vessels to where GMSL operates from other locations with relative ease, which may impact competition in the markets it serves.

Management and Employees

As of December 31, 2016, GMSL employed 413 people. GMSL’s employees are not formally represented by any labor union or other trade organization, although the majority of the seafarers are members of an established trade union. GMSL considers relations with its employees to be satisfactory and it has never experienced a work stoppage or strike. GMSL regularly uses independent consultants and contractors to perform various professional services in different areas of the business, including in its installation and fleet operations and in certain administrative functions. Dick Fagerstal is a 3% interest holder, chairman and chief executive officer of Global Marine Holdings LLC, the parent holding company of Global Marine Holdings Limited (f/k/a Bridgehouse Marine Limited), and he is the executive chairman of GMSL. Mr. Fagerstal previously served in an executive capacity for companies operating in various industries, including energy, marine services, and their related infrastructure.

Legal, Environmental and Insurance

GMSL is from time to time subject to claims and legal proceedings that arise in the ordinary course of business. Such matters are inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to GMSL or that the resolution of any such matter will not have a material adverse effect upon GMSL’s business, consolidated financial position, results of operations or cash flows. GMSL does not believe that any of such pending claims and legal proceedings will have a material adverse effect on its business, consolidated financial position, results of operations or cash flows.

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

Insurance Segment (Continental Insurance Group Ltd.)

On December 24, 2015, we completed the acquisitions of United Teacher Associates Insurance Company ("UTA") and CGI (together the "Insurance Companies") for aggregate consideration of approximately $18.6 million. The operations of the Insurance Companies were consolidated into our insurance operating segment, Continental Insurance Group Ltd. (“CIG”).

The Insurance Companies filed applications with the Ohio Department of Insurance (“ODOI”) and the Texas Department of Insurance (“TDOI”) to redomesticate CGI from Ohio to Texas. In conjunction with the redomestication, the Insurance Companies filed a request with the TDOI to merge the two companies (with CGI as the surviving entity), which was approved as of December 31, 2016.

Strategy

CIG currently provides long-term care, life and annuity coverage to approximately 93,000 individuals through CGI. The benefits provided by CIG's insurance operations help protect policy and certificate holders from the financial hardships associated with illness, injury, loss of life, or income discontinuation.

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

CIG’s plan is to leverage its existing platform and industry expertise to identify strategic growth opportunities for managing closed blocks of long-term care business. Growth opportunities are expected to come from:

- Future acquisitions of long-term care businesses and/or closed blocks of long-term care policies;
- Reinsurance arrangements; and
- Third party administration arrangements.

Products

Long-Term Care Insurance

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

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

Life Insurance and Annuities

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

Customers

CIG's long-term care insurance policies were marketed and sold to individuals between 1986 and 2010 for the purpose of providing defined levels of protection against the significant and escalating costs of long-term care services provided in the insured’s home or in assisted living or nursing facilities. Though CIG no longer actively markets new long-term care insurance products, it continues to service and receive net renewal premiums on its in-force block of approximately 93,000 lives.

Employees and Operations

As of December 31, 2016, CIG employed 87 people full-time, the majority of whom are employed on a salaried basis with some on an hourly basis. Besides two remote employees working in California and Indiana, all other employees work out of the home office located in Austin, Texas. CIG considers its relations with its employees to be satisfactory and has never experienced a work stoppage or other labor disturbance. All operating centers maintain a cost effective and efficient operating model.

Transition Services and Administrative Services Agreement

Upon the purchase of the Insurance Companies on December 24, 2015 a transition services agreement “(the “Transition Services Agreement”) was entered into with the prior owner, Great American Financial Resources (“Great American”) in Cincinnati, Ohio, pursuant to which Great American agreed to continue to perform certain business functions such as IT, finance, investment, and accounting for a period of 12 to 16 months to allow us time to secure the resources needed to take over those duties. IT, finance, investment and accounting roles were filled and/or outsourced in fiscal year 2016, and services being received under the Transition Services Agreement are expected to end on March 31, 2017. Simultaneously, an Administrative Services Agreement (the "Administrative Services Agreement") was entered into with Great American, pursuant to which Great American Life Insurance Company (“GALIC”) agreed to continue to administer the Insurance Companies’ life and annuity businesses for a period of no less than five years.

Reinsurance

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

Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse CIG for the ceded amount in the event a claim is paid. Cessions under reinsurance agreements do not discharge CIG's obligations as the primary insurer. In the event that reinsurers do not meet their obligations under the terms of the reinsurance agreements, reinsurance recoverable balances could become uncollectible. CIG's amounts recoverable from reinsurers represent receivables from and/or reserves ceded to reinsurers.

Reserves for Policy Contracts and Benefits

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

CIG calculates reserves in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which calculations can differ from those specified by the laws of the various states and reported in the statutory financial statements. These differences result from the use of mortality and morbidity tables and interest assumptions which CIG believes are more representative of the expected experience for these policies than those required for statutory accounting purposes and also result from differences in actuarial reserving methods.

The assumptions CIG uses to calculate its reserves are intended to represent an estimate of experience for the period that policy benefits are payable. If actual experience is more favorable than our reserve assumptions, then reserves should be adequate to provide for future benefits and expenses. If experience is less favorable than the reserve assumptions, additional reserves may be required. The key experience assumptions include claim incidence rates, claim resolution rates, mortality and morbidity rates, policy persistency, interest rates, crediting spreads, and premium rate increases. CIG periodically reviews its experience and updates its policy reserves and reserves for all claims incurred, as it believes appropriate.

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

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

Investments

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

Under the Transition Services Agreement, American Money Management, a subsidiary of American Financial Group, has agreed to continue to perform investment management services related to the Insurance Company for a period of 12 to 16 months.

The Company filed an Investment Management Agreement Form D application with the TDOI to appoint CIG, an affiliate, as investment manager effective January 1, 2017. The TDOI issued a “no action” letter dated December 19, 2016 with regard to the Form D application.

Regulation

The Company’s insurance company subsidiary is subject to regulations in the jurisdictions where it does business. In general, the insurance laws of the various states establish regulatory agencies with broad administrative powers governing, among other things, premium rates, solvency standards, licensing of insurers, agents and brokers, trade practices, forms of policies, maintenance of specified reserves and capital for the protection of policyholders, deposits of securities for the benefit of policyholders, investment activities and relationships between insurance subsidiaries and their parents and affiliates. Material transactions between insurance subsidiaries and their parents and affiliates generally must receive prior approval of the applicable insurance regulatory authorities and be disclosed. In addition, while differing from state to state, these regulations typically restrict the maximum amount of dividends that may be paid by an insurer to its shareholders in any twelve-month period without advance regulatory approval. Such limitations are generally based on net earnings or statutory surplus.

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

Most states have created insurance guaranty associations that assess solvent insurers to pay claims of insurance companies that become insolvent. Financial impact of annual guaranty assessments for CGI has not been material.

Competition

CIG competes with financial services firms with respect to the acquisition of insurance companies and/or blocks of insurance businesses through merger, stock purchase, or reinsurance transactions or otherwise.

Telecommunications Segment (PTGI-International Carrier Services, Inc.)

Services and Customers

The PTGi-International Carrier Services, Inc. ("ICS") business unit provides customers with internet-based protocol and time-division multiplexing (TDM) access and transport of long-distance voice minutes.

Competition

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

Network

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

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

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

Network Management and Control: ICS owns and operates network management systems in Herndon, Virginia which are used to monitor and control our switching systems, global data network, and other digital transmission equipment used in our network. Additional network monitoring, network management, and traffic management services are supported from our contingent Network Management Center located in Guatemala City, Guatemala. The network management control centers are constantly online.

Sales and Marketing

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

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

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

Management Information and Billing Systems

ICS operates management information, network and customer billing systems supporting the functions of network and traffic management, customer service and customer billing. For financial reporting, ICS consolidates information from each of our markets into a single database.

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

Government Regulation

ICS is subject to varying degrees of regulation in each of the jurisdictions in which it operates. Local laws and regulations, and the interpretation of such laws and regulations, differ among those jurisdictions. There can be no assurance that (1) future regulatory, judicial and legislative changes will not have a material adverse effect on it; (2) domestic or international regulators or third parties will not raise material issues with regard to its compliance or noncompliance with applicable regulations; or (3) regulatory activities will not have a material adverse effect on it.

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

The regulatory frameworks in certain jurisdictions in which we provide services as of December 31, 2016 are described below:

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

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

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

On November 29, 2012, the FCC released an order removing the requirement for facilities-based U.S. carriers, like ICS, with operating agreements with dominant foreign carriers, to abide by the FCC’s International Settlements Policy by following uniform accounting rates, an even split in settlement rates, and proportionate return of traffic, for agreements with carriers on all remaining U.S.-international routes with the exception of Cuba, thereby allowing carriers to negotiate market-based arrangements on those routes. The November 29, 2012 order also adopted a requirement for U.S. carriers to provide information about any above-benchmark settlement rates to the FCC on an as-needed basis in connection with an investigation or competition problems on selected routes or review of high consumer rates on either multiple or selected routes. ICS may take advantage of these more flexible arrangements with non-dominant foreign carriers, and the greater pricing flexibility that may result, but ICS may also face greater price competition from other international service carriers. On November 9, 2015, the FCC issued a Public Notice indicating that it has begun the process of including Cuba within the liberalized settlements policy established in 2012. In January 2016 the FCC’s International Bureau removed Cuba from the “exclusion list” applicable to international Section 214 authorizations, which is intended to facilitate the provision of facilities-based competition between the United States and Cuba. In February 2016, the FCC formally proposed to remove certain non-discrimination requirements for traffic along the US-Cuba route. We cannot predict the actions the FCC will take in the future or their potential effect on international termination rates, costs, or revenues.

Domestic Service Regulation. With respect to ICS's domestic U.S. telecommunications services, ICS is considered a non-dominant interstate carrier subject to regulation by the FCC. FCC rules provide ICS significant authority to initiate or expand its domestic interstate operations, but ICS is required to obtain FCC approval to assume control of another telecommunications carrier or its assets, to transfer control of our operations to another entity, or to discontinue service. ICS is also required to file various reports and pay various fees and assessments to the FCC and various state commissions. Among other things, interstate common carriers must offer service on a nondiscriminatory basis at just and reasonable rates. The FCC has jurisdiction to hear complaints regarding our compliance or non-compliance with these and other requirements of the Communications Act and the FCC’s rules. Among other regulations, ICS is subject to the Communications Assistance for Law Enforcement Act (“CALEA”) and associated FCC regulations which require telecommunications carriers to configure their networks to facilitate law enforcement authorities to perform electronic surveillance.

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

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

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

Energy Segment (American Natural Gas)

American Natural Gas (“ANG”) is a premier retailer of compressed natural gas (“CNG”) that designs, builds, owns, operates and maintains natural gas fueling stations for the transportation industry. ANG’s principal business is supplying CNG for light-, medium- and heavy-duty vehicles.

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

Market for Natural Gas as an Alternative Fuel for Vehicles

As of December 31, 2016, the U.S. Department of Energy estimates that there were approximately 1,712 CNG fueling stations in the United States and over 150,000 natural gas vehicles on American roads, including 39,500 heavy-duty vehicles (such as tractors, refuse trucks and buses), 25,800 medium-duty vehicles (such as delivery vans and shuttles) and 87,000 light-duty vehicles (such as passenger cars, sport utility vehicles, trucks and vans).

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

Benefits of Natural Gas Fuel

Domestic and Plentiful Supply: Technological advances in natural gas drilling and production have unlocked vast natural gas reserves. The U.S. is now the number one producer of natural gas in the world, with proven, abundant and growing reserves of natural gas.

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

ANG believes that natural gas used as a transportation fuel will remain cheaper than gasoline and diesel for the foreseeable future. In addition, because the price of the commodity (natural gas) makes up a smaller portion of the cost of a gasoline gallon equivalent (GGE) of CNG relative to the commodity portion of the cost of gallon of diesel or gasoline, the price of CNG is less sensitive to increases in the underlying commodity cost.

Cleaner: Natural gas contains less carbon than any other fossil fuel and thus, produces fewer carbon dioxide emissions when burned. The California Air Resources Board (CARB) has concluded that a CNG fueled vehicle emits 20 to 29 percent fewer greenhouse gas ("GHG") emissions than a comparable gasoline or diesel-fueled vehicle on a well-to-wheel basis. Additionally, a study from Argonne National Laboratory, a research laboratory operated by the University of Chicago for the U.S. Department of Energy, indicates that natural gas vehicles produce at least 13 to 21 percent fewer GHG emissions than comparable gasoline and diesel-fueled vehicles. In addition, ANG is working towards supplying its stations with renewable natural gas ("RNG"), which offers 115% fewer greenhouse gasses over diesel.

Safer: As reported by NGV America, CNG is relatively safer than gasoline and diesel because it dissipates into the air when spilled or in the event of a vehicle accident. When released, CNG is less combustible than gasoline or diesel as it ignites only at relatively high temperatures. The fuel tanks and systems used in natural gas vehicles are subjected to a number of federally required safety tests, such as fire, environmental hazard, burst pressures, and crash testing, according to the U.S. Department of Transportation National Highway Traffic Safety Administration. In addition, CNG is stored in above ground tanks, thus reducing the risk of soil or groundwater contamination. Currently, over 150,000 vehicles in the U.S. and 15.2 million worldwide, fuel safely with natural gas.

Natural Gas Vehicles

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

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

Products and Services

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

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

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

Twenty-seven of ANG’s 34 fueling stations (excluding seven stations currently under development) have separate public access areas for retail customers. The fill rate at each of the public stations has comparable dispensing rates equivalent to traditional gasoline and diesel fueling stations.

Sales and Marketing

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

Key Markets and Customers

ANG targets customers in a variety of markets, such as trucking, airports, refuse, public transit and food and beverage distributors. In 2016, approximately 86% of ANG’s revenues from CNG sales came from customers with multi-year contracts based on committed fueling volumes.

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

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

Corporate Information; Acquisitions and Divestitures

ANG was originally formed in 2011. In August 2014, HC2 acquired a 51% interest in ANG. In October 2014, ANG acquired Northville Natural Gas, which owned three stations in Indiana. In May 2016 ANG acquired Southwestern Energy NGV Services, LLC, which included two stations in Arkansas. In September 2016 ANG purchased the assets of American CNG, Inc. and K&K SWD #1, LLC, which was comprised of one station in Arkansas. In December 2016 ANG acquired Questar Fueling Company and Constellation CNG, LLC. These acquisitions further expanded ANG's network by adding 17 stations in Arizona, California, Utah, Colorado, Texas, Kansas, Indiana and Ohio.

ANG intends to continue to pursue additional acquisitions, divestitures, partnerships and investments as ANG becomes aware of opportunities that it believes will increase its competitive advantage, take advantage of industry developments, or enhance their market position.

Tax Incentives

Since October 2012, ANG has been eligible to receive the volumetric excise tax credit ("VETC") federal alternative fuel tax credit of $0.50 per GGE of CNG sold as vehicle fuel. In addition, other U.S. federal and state government tax incentives are available to offset the cost of acquiring natural gas vehicles, converting vehicles to use natural gas or construct natural gas fueling stations.

Grant Programs

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

Competition

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

A significant number of established businesses, including oil and gas companies, alternative vehicle and alternative fuel companies, natural gas utilities and their affiliates, industrial gas companies, truck stop and fuel station operators, fuel providers and other organizations have entered or are planning to enter the market for natural gas and other alternatives for use as vehicle fuels. Many of these current and potential competitors have substantially greater financial, marketing, research and other resources than ANG has. Several natural gas utilities and their affiliates own and operate public access CNG stations that compete with ANG’s stations.

Government Regulation and Environmental Matters

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

CNG Stations: To construct a CNG fueling station, ANG must satisfy permitting and other requirements and either ANG or a third-party contractor must be licensed as a general engineering contractor. Each CNG fueling station must be constructed in accordance with federal, state, NFPA-52 and local regulations pertaining to station design, environmental health, accidental release prevention, above-ground storage tanks, hazardous waste and hazardous materials. ANG is also required to register with certain state agencies as a retailer/wholesaler of CNG.

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

Life Sciences Segment (Pansend Life Sciences, LLC)

Pansend Life Sciences, LLC ("Pansend") focuses on the development of innovative technologies and products in the healthcare industry. As of December 31, 2016, Pansend has invested in the following five companies:

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

- R2 Dermatology, Incorporated ("R2"), a company developing medical devices for the treatment of aesthetic and medical skin conditions. On October 5, 2016, R2 received notification from the United States Food and Drug Administration of market clearance of R2's initial device, the R2 Dermal Cooling System. The R2 Dermal Cooling

System is a cryosurgical instrument intended for use in dermatologic procedures for the treatment of benign lesions of the skin utilizes exclusive licensing rights to a novel technology developed at Massachusetts General Hospital and Harvard Medical School;

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

- MediBeacon, Inc. ("MediBeacon"), a company developing a proprietary non-invasive real-time monitoring system for the evaluation of kidney function. This system (known as the MediBeacon Optical Renal Function Monitor system) uses an optical skin sensor combined with a proprietary agent that glows in the presence of light. It will be the first and only, non-invasive system to enable real-time, direct monitoring of renal function at point-of-care. On June 8, 2016, MediBeacon announced the completion of the acquisition of Mannheim Pharma & Diagnostics, a life science company based in Mannheim, Germany. Recently, MediBeacon announced a collaborative research project with scientists at Washington University School of Medicine in St. Louis, Missouri in a research project aimed at improving the understanding of childhood malnutrition and its related problems, including stunted growth. The work is funded by a Grand Challenges Explorations Phase II grant from the Bill & Melinda Gates Foundation to Washington University. It is a follow-up grant to work carried out through a Phase I Grand Challenges Explorations Award made in 2014. MediBeacon was also recently the recipient of a Small Business Innovation Research grant supported by the National Eye Institute of the National Institutes of Health (NIH). With this support, MediBeacon is pursuing research into the use of a MediBeacon fluorescent tracer agent to visualize vasculature in the eye. The focus of the NIH-supported project is to determine if a specific proprietary MediBeacon tracer agent when administered has the potential to provide additional clinical value versus the existing standard of care; and

- Triple Ring Technologies, a research and development engineering company specializing in medical devices, homeland security, imaging sensors, optics, fluidics, robotics and mobile healthcare.

Other Businesses and Investments

Other is HC2's segment which is made up of controlling interests in DMi. which owns licenses to create and distribute NASCAR® video games, and NerVve, which provides analytics on broadcast TV, digital and social media online platforms. NerVve is an information technology ("IT") company that has developed the unique capability to search an hour of video in less than five seconds. NerVve's core technology utilizes a search-by-example methodology to automatically search massive amounts of video and image data for objects of interest.

In addition, Other includes non-controlling interests in various investments.

See Note 21. Operating Segment and Related Information for additional detail regarding our operating segments and financial information by geographic area.

Legal and Environmental Regulation

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

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

Corporate Information

HC2, a Delaware corporation was incorporated in 1994. The Company's executive offices are located at 450 Park Avenue, 30th Floor, New York, NY, 10022. The Company's telephone number is (212) 235-2690. Our Internet address is www.hc2.com. We make available free of charge through our Internet website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission (the "SEC"). The information on our website is not a part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Businesses

HC2 is a holding company and its only material assets are its equity interests in its operating subsidiaries and its other investments. As a result, HC2's principal source of revenue and cash flow is distributions from its subsidiaries and its subsidiaries may be limited by law and by contract in making distributions to HC2.

As a holding company, HC2's only material assets are its cash on hand, the equity interests in its subsidiaries and other investments. As of December 31, 2016, we had $21.7 million in cash and cash equivalents at the corporate level at HC2.

HC2's principal source of revenue and cash flow is distributions from its subsidiaries. Thus, its ability to service its debt, including the $307 million in aggregate principal amount of 11.0% Senior Secured Notes due 2019 (the 11.0% Notes") and $35 million of 11.0% Bridge Note outstanding, and to finance future acquisitions is dependent on the ability of its subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions to HC2. HC2's subsidiaries are and will be separate legal entities, and although they may be wholly-owned or controlled by HC2, they have no obligation to make any funds available to HC2, whether in the form of loans, dividends, distributions or otherwise. The ability of HC2's subsidiaries to distribute cash to it will also be subject to, among other things, restrictions that are contained in its subsidiaries' financing agreements, availability of sufficient funds and applicable state laws and regulatory restrictions. For instance, each of DBMG and GMSL are borrowers under credit facilities that restrict their ability to make distributions or loans to HC2, Specifically, DBMG is party to credit agreements that include certain financial covenants that can limit the amount of cash available to make upstream dividend payments to HC2. DBMG has a Credit and Security Agreement with Wells Fargo Credit, Inc. ("Wells Fargo"), dated as of August 14, 2013 (the "DBMG Facility"), that allows dividends to be paid to DBMG shareholders up to four times a year, subject to the following conditions: (a) the consent of Wells Fargo, which is the DBMG Facility lender (which consent shall not be unreasonably withheld); (b) maintenance of a fixed charge coverage ratio of 1.20 to 1; (c) a minimum excess availability under the DBMG Facility of $10 million before and after the payment of a dividend and (d) DBMG not being in default under the DBMG Facility at the time of the dividend payment. For additional information, See "Management's Discussion and Analysis of Financial Condition and Results of operations - Liquidity and Capital Resources."

Claims of creditors of our subsidiaries generally will have priority as to the assets of such subsidiaries over our claims and claims of our creditors and stockholders. To the extent the ability of HC2's subsidiaries to distribute dividends or other payments to HC2 could be limited in any way, our ability to grow, pursue business opportunities or make acquisitions that could be beneficial to our businesses, or otherwise fund and conduct our business could be materially limited. In addition, if HC2 depends on distributions and loans from its subsidiaries to make payments on its debt, and if such subsidiaries were unable to distribute or loan money to HC2, HC2 could default on its debt, which would permit the holders to accelerate the maturity of the debt and other debt of ours with cross-default or cross-acceleration provisions.

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

Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations, including under the 11.0% Notes, the 11.0% Bridge Note (as defined), the DBMG Facility, the ANG Facilities (as defined), the GMSL Facility (as defined) and the CWind Facility (as defined), as well as the obligations with respect to (i) 30,000 shares of Series A Preferred Stock issued on May 29, 2014 (of which 14,364 shares have been converted into common stock as of December 31, 2016), (ii) 11,000 shares of Series A-1 Preferred Stock issued on September 22, 2014 (of which 10,000 shares have been converted into common stock as of December 31, 2016), and (iii) 14,000 shares of Series A-2 Preferred Stock (together with the Series A Preferred Stock and Series A-1 Preferred Stock, the "Preferred Stock") issued on January 5, 2015, each of which is governed by a certificate of designation forming a part of HC2's Certificate of Incorporation (collectively, the "Certificates of Designation"), could harm our business, financial condition and results of operations. Our ability to make payments on and to refinance our indebtedness and Preferred Stock and to fund working capital needs and planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control. For a description of our and our subsidiaries indebtedness, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 13. Long-term Obligations to the Consolidated Financial Statements."

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

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

The agreements governing our indebtedness and Certificate of Designations for the Preferred Stock contain various covenants that limit our discretion in the operation of our business and/or require us to meet financial maintenance tests and other covenants. The failure to comply with such tests and covenants could have a material adverse effect on us.

The agreements governing our indebtedness and Preferred Stock, including the 11.0% Notes Indenture, the DBMG Facility, the CWind Facility, the ANG Facilities, as well as the Certificates of Designation with respect to the Preferred Stock, contain, and any of our other future financing agreements may contain, covenants imposing operating and financial restrictions on our businesses.

The indenture governing the 11.0% Notes dated November 20, 2014, by and among HC2, the guarantors party thereto and U.S. Bank National Association, a national banking association ("U.S. Bank"), as trustee (the "11.0% Notes Indenture") and the 11.0% Senior Secured Bridge Note due 2019 (the "11.0% Bridge Note"), which was repaid in January 2017, contain various covenants, including those that restrict our ability to, among other things:

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

The debt facilities at our subsidiaries contain similar covenants applicable to each respective subsidiary. These covenants may limit our ability to effectively operate our businesses. The DBMG has an indemnity agreement with its surety bond provider that also contains covenants on retention of capital and working capital requirements for DBMG, which may limit the amount of dividends DBMG can make to its shareholders.

In addition, the 11.0% Notes Indenture requires that we meet certain financial tests, including a collateral coverage ratio and minimum liquidity test. Our ability to satisfy these tests may be affected by factors and events beyond our control, and we may be unable to meet such tests in the future.

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

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

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

We have a significant amount of indebtedness and Preferred Stock. As of December 31, 2016, our total outstanding indebtedness was $428.5 million and the accrued value of our Preferred Stock was $29.5 million. We may not generate enough cash flow to satisfy our obligations under such indebtedness and other arrangements. In addition, in February 2017 we incurred an additional $55 million of indebtedness under the 11.0% Notes Indenture (of which $35 million was used to refinance the 11.0% Bridge Note, with the remainder used for working capital and general corporate purposes). This significant amount of indebtedness poses risks such as risk of inability to repay such indebtedness, as well as:

- increased vulnerability to general adverse economic and industry conditions;
- higher interest expense if interest rates increase on our floating rate borrowings are not effective to mitigate the effects of these increases;
- our 11.0% Notes and the 11.0% Bridge Note are secured by substantially all of HC2's assets and those of certain of HC2's subsidiaries that have guaranteed the 11.0% Notes and the 11.0% Bridge Note, including certain equity interests in our other subsidiaries and other investments, as well as certain intellectual property and trademarks, and those assets cannot be pledged to secure other financings;
- certain assets of our subsidiaries are pledged to secure their indebtedness, and those assets cannot be pledged to secure other financings;
- our having to divert a significant portion of our cash flow from operations to payments on our indebtedness and other arrangements, thereby reducing the availability of cash to fund working capital, capital expenditures, acquisitions, investments and other general corporate purposes;
- limiting our ability to obtain additional financing, on terms we find acceptable, if needed, for working capital, capital expenditures, expansion plans and other investments, which may limit our ability to implement our business strategy;
- limiting our flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate or to take advantage of market opportunities; and
- placing us at a competitive disadvantage compared to our competitors that have less debt and fewer other outstanding obligations.

In addition, it is possible that we may need to incur additional indebtedness or enter into additional financing arrangements in the future in the ordinary course of business. The terms of the 11.0% Notes Indenture, the 11.0% Bridge Note and our subsidiaries other financing arrangements allow us to incur additional debt and issue additional shares of preferred stock, subject to certain limitations. If additional indebtedness is incurred or equity is issued, the risks described above could intensify. In addition, our inability to maintain certain leverage ratios could result in acceleration of a portion of our debt obligations and could cause us to be in default if we are unable to repay the accelerated obligations.

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

We cannot assure you that we will recognize net income in future periods. If we cannot generate net income or sufficient operating profitability, we may not be able to meet our working capital requirements or service our indebtedness. Our ability to generate sufficient cash for our operations will depend upon, among other things, the future financial and operating performance of our operating business, which will be affected by prevailing economic and related industry conditions and financial, business, regulatory and other factors, many of which are beyond our control. We recognized a net loss attributable to HC2 of $94.5 million in 2016 and a net loss of $35.6 million in 2015 and have incurred net losses in prior periods.

We cannot assure you that our business will generate cash flow from operations in an amount sufficient to fund our liquidity needs. If our cash flows and capital resources are insufficient, we may be forced to reduce or delay capital expenditures, sell assets and/or seek additional capital or financings. Our ability to obtain financings will depend on the condition of the capital markets and our financial condition at such time. Any financings could be at high interest rates and may require us to comply with covenants in addition to, or more restrictive than, covenants in our current financing documents, which could further restrict our business operations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such disposition may not be adequate to meet our obligations. We recognized cash flows from operating activities of $79.1 million in 2016, ($27.9) million in 2015 and $5.7 million in 2014.

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

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

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

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

We have restated certain of our prior period financial statements, which may lead to additional risks and uncertainties, including shareholder litigation and loss of investor confidence.

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

The fact that we have restated our prior consolidated financial statements may subject us to shareholder or other litigation and lead to a loss of investor confidence.

We may identify a material weaknesses in our internal control over financial reporting which could adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As of December 31, 2016 and 2015, management concluded that our internal control over financial reporting was effective.

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

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

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

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

Material modifications of U.S. laws and regulations and existing trade agreements by the new U.S. Presidential Administration could adversely affect our business, financial condition and results of operations.

There may be significant changes in U.S. laws and regulations and existing international trade agreements, including the North American Free Trade Agreement and the Trans-Pacific Partnership, by the new Presidential Administration that could affect a wide variety of industries and businesses, including those businesses we own and operate. It remains unclear what the new U.S. Presidential Administration will do, if anything, with respect to existing laws, regulations or trade agreements. If the new Presidential Administration materially modifies U.S. laws and regulations and international trade agreements, our business, financial condition and results of operations could be adversely affected.

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

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

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

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

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

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

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

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

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

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

In 2014, substantial acquisitions of our common stock were reported by new beneficial owners on Schedule 13D filings made with the SEC, and we issued shares of our Preferred Stock, which are convertible into a substantial number of shares of our common stock. During the second quarter of 2014, we completed a Section 382 review. The conclusions of this review indicated that an ownership change had occurred as of May 29, 2014. Our annual Section 382 base limit following the ownership change is estimated to be $2.3 million per year as of December 31, 2016 on $46.1 million of pre-change NOL carryforwards.

As a result of our common stock offering in November 2015, we triggered another ownership change, imposing an additional limitation on the use of our NOL carryforward amounts. While this ownership change may impact the timing of our ability to use these losses, we currently do not expect this additional limitation to further reduce the total amount of NOL carryforward amounts. However, there can be no assurance that future ownership changes would not negatively impact our NOL carryforward amounts because any future annual Section 382 limitation will ultimately depend on the value of our equity as determined for these purposes and the amount of unrealized gains immediately prior to such ownership change.

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

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

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

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

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

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

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

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

Deterioration of global economic conditions could adversely affect our business.

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

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

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

We are subject to risks associated with our international operations.

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

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

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

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

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

The Company has compliance policies in place for its employees with respect to FCPA, OFAC, the Bribery Act and similar laws. Our operating subsidiaries also have relevant compliance policies in place for their employees, which are tailored to their operations. However, there can be no assurance that our employees, consultants or agents, or those of our subsidiaries or investees, will not engage in conduct for which we may be held responsible. Violations of the FCPA, the Bribery Act, the rules and regulations established by OFAC and other laws, sanctions or regulations may result in severe criminal or civil penalties, and we may be subject to other liabilities, which could materially adversely affect our business, financial condition or results of operations.
Furthermore, significant developments stemming from the recent U.S. presidential election could have a material adverse effect on us. The new U.S. presidential administration has expressed antipathy towards existing trade agreements, like NAFTA, and proposed trade agreements, like TPP, greater restrictions on free trade generally and significant increases on tariffs on goods imported into the United States, particularly from China. Changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently develop and sell products, and any negative sentiments towards the United States as a result of such changes, could adversely affect our business. In addition, negative sentiments towards the United States among non-U.S. customers and among non-U.S. employees or prospective employees could adversely affect sales or hiring and retention, respectively.

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

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

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

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

We may face delays in completing acquisitions, including in acquiring full ownership of our operating companies. For example, while we intend to complete the short form merger of DBMG to acquire 8% of DBMG that we do not already own, the timing of such merger is uncertain and we cannot assure you that we will complete such merger in the near term or at all.

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

In addition, we may not be able to integrate acquisitions successfully and we could incur or assume unknown or unanticipated liabilities or contingencies, which may impact our results of operations. If we dispose of or otherwise exit certain businesses, there can be no assurance that we will not incur certain disposition related charges, or that we will be able to reduce overhead related to the divested assets.

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

•the difficulty of integrating acquired products, services or operations;

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

We also own a minority interest in a number of entities, such as DTV America Corporation, Inseego Corp. ("Inseego", f/k/a Novatel Wireless, Inc.), MediBeacon and Triple Ring Technologies, Inc., over which we do not exercise or have only limited management control and we are therefore unable to direct or manage the business to realize the anticipated benefits that we can achieve through full integration.

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

We have incurred substantial costs in connection with our prior acquisitions and expect to incur substantial costs in connection with any other transactions we complete in the future. These costs may increase our indebtedness or reduce the amount of cash otherwise available to us for acquisitions, business opportunities and other corporate purposes. There is no assurance that the actual costs will not exceed our estimates. Once an acquisition is consummated, we may continue to incur additional material charges reflecting additional costs associated with our investments and the integration of our acquisitions, including our acquisition of GMSL and CGI, DBMG's acquisition of the Detailing and Building Information Modeling management businesses of PDC and BDS, and GMSL's acquisition of CWind, in fiscal quarters subsequent to the quarter in which such investments and acquisitions were consummated.

Our development stage companies may never produce revenues or income.

We have made investments in and own a majority stake in or a number of development stage companies, primarily in our Life Sciences segment. Each of these companies is at an early stage of development and is subject to all business risks associated with a new enterprise, including constraints on their financial and personnel resources, lack of established credit, the need to establish meaningful and beneficial vendor and customer relationships and uncertainties regarding product development and future revenues. We anticipate that many of these companies will continue to incur substantial additional operating losses for at least the next several years and expect their losses to increase as research and development efforts expand. There can be no assurance as to when or whether any of these companies will be able to develop significant sources of revenue or that its operations will become profitable, even any of them is able to commercialize any products. As a result, we may not realize any returns on our investments in these companies.

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

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

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

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

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

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

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

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

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

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

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

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

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

A disaster, such as a natural or man-made catastrophe, terrorist acts, industrial accidents, a blackout, a computer virus, a terrorist attack or war, could materially adversely affect our operations and results. In addition, our operations may be suspended or our computer systems may be inaccessible to our employees, customers, or business partners for an extended period of time. Even if our employees are able to report to work, they may be unable to perform their duties for an extended period of time if our facilities, data or systems are disabled or destroyed.

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

The United Kingdom held a referendum on June 23, 2016 in which a majority of voters voted to exit the European Union ("Brexit"). Negotiations are expected to commence to determine the future terms of the United Kingdom's relationship with the European Union, including, among other things, the terms of trade between the United Kingdom and the European Union. The Company's Marine Services and Telecommunications segments' operations in the United Kingdom contributed 9.4% and 17.4% of our net revenues for the year ended December 31, 2016, respectively. The effects of Brexit will depend on the agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or more permanently. Brexit could adversely affect European and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the Euro. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

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

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

As of December 31, 2016, HC2 has 41,811,288 shares of its common stock issued and outstanding, and 29,808 shares of Preferred Stock issued and outstanding. However, the Certificate of Incorporation authorizes our board of directors (the “HC2 Board of Directors”) to, from time to time, subject to limitations prescribed by law and any consent rights granted to holders of outstanding shares of Preferred Stock, to issue additional shares of preferred stock having rights that are senior to those afforded to the holders of our common stock. We also have reserved shares of common stock for issuance pursuant to our broad-based equity incentive plans, upon exercise of stock options and other equity-based awards granted thereunder, and pursuant to other equity compensation arrangements.

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

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

- significantly dilute the equity interest and voting power of all other stockholders;
- subordinate the rights of holders of our outstanding common stock and/or Preferred Stock if preferred stock is issued with rights senior to those afforded to holders of our common stock and/or Preferred Stock;
- trigger an adjustment to the price at which all or a portion of our outstanding Preferred Stock converts into our common stock, if such stock is issued at a price lower than the then-applicable conversion price;
- entitle our existing holders of Preferred Stock to purchase a portion of such issuance to maintain their ownership percentage, subject to certain exceptions;
- call for us to make dividend or other payments not available to the holders of our common stock; and
- cause a change in control of our company if a substantial number of shares of our common stock are issued and/or if additional shares of preferred stock having substantial voting rights are issued.

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

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

As of December 31, 2016, the holders of our outstanding Preferred Stock had certain rights to convert their Preferred Stock into an aggregate amount of 5,559,692 shares of our common stock.

Pursuant to a second amended and restated registration rights agreement, dated January 5, 2015, entered into in connection with the issuance of the Preferred Stock (the “Registration Rights Agreement”), we have granted registration rights to the purchasers of our Preferred Stock and certain of their transferees with respect to HC2 common stock held by them and common stock underlying the Preferred Stock. This Registration Rights Agreement allows these holders, subject to certain conditions, to require us to register the sale of their shares under the federal securities laws. Furthermore, the shares of our common stock held by these holders, as well as other significant stockholders, may be sold into the public market under Rule 144 of the Securities Act of 1933, as amended.

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

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

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

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

Risks Related to American Natural Gas

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

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

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

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

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

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

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

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

Risks Related to the Insurance Segment

Our acquisitions of the Insurance Companies are subject to certain post-closing adjustments.

In December 2015, pursuant to the SPA between us, Great American Financial Resources, Inc. ("GAFRI") and Continental General Corp. ("CGC," and together with Great American, the "Seller Parties"), we purchased all of the issued and outstanding shares of common stock of UTA and CGI, as well as all assets owned by the Seller Parties or their affiliates that are used exclusively or primarily in the business of the Insurance Companies, subject to certain exceptions. On December 31, 2016, UTA merged into and with CGI, with CGI being the survivor ("Merger").

Pursuant to the purchase agreement, the Company also agreed to pay to the Seller Parties, on an annual basis with respect to the years 2015 through 2019, the amount, if any, by which the Insurance Companies' cash flow testing and premium deficiency reserves decrease from the amount of such reserves as of December 31, 2014, up to $13.0 million. The balance is calculated based on the annual fluctuation of the statutory cash flow testing and premium deficiency reserves following each of the Insurance Companies' filings with its domiciliary insurance regulator of its annual statutory statements for each calendar year ending December 31, 2015 through and including December 31, 2019. The Company did not set up a contingent liability at acquisition primarily due to the following factors: (i) reduced confidence that treasury rates will increase to historical averages over the near term; (ii) uncertainty around future operating expenses historically performed by the Seller Parties; and (iii) the increase in the premium deficiency reserve as reported at December 31, 2015 of approximately $8.0 million. Because the balance is cumulative over the period at issue, a decrease of approximately $8.0 million is required before any obligation existed to the Seller Parties under the earn-out).

On February 22, 2017 the Company received a significantly higher rate increase from the TDOI than had been assumed in the cash flow testing performed by the Company for the year ended December 31, 2016. As a result of this rate increase, the probability of a payment to the Seller Parties has increased and the Company has estimated that the fair value of the obligation as of December 31, 2016 is $11.4 million, which was recorded in the current period earnings and is presented within net loss on contingent consideration line of the consolidate statements of operations. The Company will update this assessment at each reporting period through December 31, 2019 or until the $13.0 million is paid in full.

If our Insurance segment is unable to retain, attract and motivate qualified employees, its results of operations and financial condition may be adversely impacted and it may incur additional costs to recruit replacement and additional personnel.

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

CGI comprises the core of our insurance business segment. Our Insurance segment will endeavor to retain key personnel we believe are necessary for the success of the business. As we do not currently have substantial insurance company holdings, we also expect that our Insurance segment will add headcount as it fills out its platform to handle aspects of the business that are currently under its Transition Services Agreement.

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

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

The amount of statutory capital our Insurance segment has and the amount of statutory capital that it must hold to maintain its financial strength and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of our Insurance segment's control.

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

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, including the following: the amount of statutory income or losses generated by our Insurance segment (which are sensitive to equity market and credit market conditions), the amount of additional capital our Insurance segment must hold to support business growth, changes in reserve requirements applicable to our Insurance segment, our Insurance segment's ability to secure capital market solutions to provide reserve relief, changes in equity market levels, the value of certain fixed-income and equity securities in its investment portfolio, the credit ratings of investments held in its portfolio, changes in interest rates, credit market volatility, changes in consumer behavior, as well as changes to the National Association of Insurance Commissioners' ("NAIC") RBC formula. Many of these factors are outside of our Insurance segment's control. The financial strength of our Insurance segment is significantly influenced by its statutory surplus amounts and capital adequacy ratios.

Additionally, in connection with the consummation of the acquisition and as updated by the Merger, the Company agreed with the TDOI that, for five years following the closing of the transaction, it will contribute to CGI cash or marketable securities acceptable to the TDOI to the extent required for CGI's total adjusted capital to be not less than 400% of CGI's authorized control level risk-based capital (each as defined under Texas law and reported in CGI's statutory statements filed with the TDOI). Any such contributions could affect HC2's liquidity.

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

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

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

The calculations our Insurance segment uses to estimate various components of its balance sheet and consolidated statements of operations are necessarily complex and involve analyzing and interpreting large quantities of data. Our Insurance segment currently employs various techniques for such calculations including engaging third-party studies and from time to time will develop and implement more sophisticated administrative systems and procedures capable of facilitating the calculation of more precise estimates.

However, assumptions and estimates involve judgment, and by their nature are imprecise and subject to changes and revisions over time. Accordingly, our Insurance segment’s results may be adversely affected from time to time, by actual results differing from assumptions, by changes in estimates, and by changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates.

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

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

Because these factors are not known in advance and have the potential to change over time, they are difficult to accurately predict and inherently uncertain, which means that our Insurance segment cannot determine with precision the ultimate amounts it will pay for actual claims or the timing of those payments. In addition, our Insurance segment includes assumptions for anticipated (but not yet filed) future premium rate increases in its determination of loss recognition testing of long-term care insurance reserves under U.S. GAAP and asset adequacy testing of statutory long-term care insurance reserves. Our Insurance segment may not be able to realize these anticipated results in the future as a result of its inability to obtain required regulatory approvals or other factors. In this event, our Insurance segment would have to increase its long-term care insurance reserves by amounts that could be material. Moreover, our Insurance segment may not be able to mitigate the impact of unexpected adverse experience by increasing premiums and/or other charges to policyholders (when it has the right to do so) or alternatively by reducing benefits. The risk that our Insurance segment's claims experience may differ significantly from its pricing assumptions is significant for its long-term care insurance products. Long-term care insurance policies provide for long-duration coverage and, therefore, actual claims experience will emerge over many years after pricing and locked-in valuation assumptions have been established. For example, changes in the economy, socio-demographics, behavioral trends (e.g., location of care and level of benefit use) and medical advances, among other factors, may have a material adverse impact on future loss trends. Moreover, long-term care insurance does not have as extensive of a claims experience history as life insurance, and as a result, our Insurance segment's ability to forecast future claim costs for long-term care insurance is more limited than for life insurance.

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

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

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

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

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

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

Our Insurance segment is highly regulated and subject to numerous legal restrictions and regulations.

Our Insurance segment conducts its business throughout the United States, excluding New York State. Our Insurance segment is subject to government regulation in each of the states in which it conducts business. Such regulation is vested in state agencies having broad administrative, and in some instances discretionary, authority with respect to many aspects of our Insurance segment's business, which may include, among other things, premium rates and increases thereto, privacy, claims denial practices, policy forms, reinsurance reserve requirements, acquisitions, mergers, and capital adequacy, and is concerned primarily with the protection of policyholders and other customers as opposed to other stakeholders. At any given time, a number of financial and/or market conduct examinations of our Insurance segment may be ongoing. From time to time, regulators raise issues during examinations or audits of our Insurance segment that could, if determined adversely, have a material impact on our Insurance segment.

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

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

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

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

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

Currently, the U.S. federal government does not directly regulate the business of insurance. However, Dodd-Frank established the FIO within the Department of the Treasury, which has the authority to participate in the negotiations of international insurance agreements with foreign regulators for the U.S., as well as to collect information about the insurance industry and recommend prudential standards. On December 12, 2013, the FIO issued a report, mandated by Dodd-Frank, which, among other things, urged the states to modernize and promote greater uniformity in insurance regulation. The report raised the possibility of a greater role for the federal government if states do not achieve greater uniformity in their laws and regulations. We cannot predict whether any such legislation or regulatory changes will be adopted, or what impact they will have on our business, financial condition or results of operations.

Federal legislation and administrative policies can significantly and adversely affect insurance companies, including policies regarding financial services regulation, securities regulation, derivatives regulation, pension regulation, health care regulation, privacy, tort reform legislation and taxation. In addition, various forms of direct and indirect federal regulation of insurance have been proposed from time to time, including proposals for the establishment of an optional federal charter for insurance companies.

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

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

Our Insurance segment’s reinsurers could fail to meet assumed obligations or be subject to adverse developments that could materially adversely affect our Insurance segment’s business, financial condition and results of operations.

Our Insurance segment cedes material amounts of insurance and transfers related assets and certain liabilities to other insurance companies through reinsurance. However, notwithstanding the transfer of related assets and certain liabilities, our Insurance segment remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations it has assumed. Accordingly, our Insurance segment bears credit risk with respect to its reinsurers. Our Insurance segment currently cedes material reinsurance obligations to Loyal American Life Insurance Company (“Loyal”) (rated A- by A.M. Best), Hannover Life Reassurance Company (“Hannover”) (rated A+ by A.M. Best) and GALIC (rated A by A.M.

Best). The failure, insolvency, inability or unwillingness of a reinsurer, including Loyal, Hannover or GALIC, to pay under the terms of its reinsurance agreement with our Insurance segment could materially adversely affect our Insurance segment’s business, financial condition and results of operations.

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

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

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

In addition, expectations that our Insurance segment’s investments in corporate securities and/or debt obligations will continue to perform in accordance with their contractual terms are based on evidence gathered through its normal credit surveillance process. It is possible that issuers of the corporate securities in which our Insurance segment has invested will perform more poorly than current expectations. Such events may lead our Insurance segment to recognize potential future other-than-temporary impairments within its portfolio of corporate securities and may also have an adverse effect on its liquidity and ability to meet its obligations. It is also possible that such unanticipated events would lead our Insurance segment to dispose of certain of those holdings and recognize the effects of any market movements in its financial statements. Furthermore, actual values may differ from our Insurance segment’s assumptions. Such events could result in a material change in the value of our Insurance segment’s investments, business, operations and financial condition.

Interest rate fluctuations and withdrawal demands in excess of assumptions could negatively affect our Insurance segment’s business, financial condition and results of operations.

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

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

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

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

Some of our products, principally traditional whole life insurance and deferred annuities expose us to the risk that changes in interest rates will reduce our “spread,” or the difference between the amounts we are required to pay under our contracts to policyholders and the rate of return we are able to earn on our investments intended to support obligations under the contracts. Spread is an integral component of our Insurance Company's net income.

As interest rates decrease or remain at low levels, we may be forced to reinvest proceeds from investments that have matured, prepaid, been sold, or called at lower yields, reducing our investment margin. Our fixed income bond portfolio is exposed to interest rate risk as a significant portion of the portfolio is callable. Lowering interest crediting rates can help offset decreases in investment margins on some of our products.

Our Insurance segment is subject to financial disintermediation risks in rising interest rate environments.

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

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

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

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

Our Insurance segment’s invested assets are subject to risks of credit defaults and changes in market values. Periods of extreme volatility or disruption in the financial and credit markets could increase these risks.

Stressed conditions, volatility and disruptions in financial asset classes or various markets, including global capital markets, can have an adverse effect on us, in part because we have a large investment portfolio and our insurance liabilities are sensitive to changing market factors. Global market factors, including interest rates, credit spreads, equity prices, real estate markets, foreign currency exchange rates, consumer spending, business investment, government spending, the volatility and strength of the capital markets, deflation and inflation, all affect our financial condition, as well as the volume, profitability and results of our business operations, either directly or by virtue of their impact on the business and economic environment generally and on general levels of economic activity, employment and customer behavior specifically. Disruptions in one market or asset class can also spread to other markets or asset classes. Upheavals in the financial markets can also affect our financial condition (including our liquidity and capital levels) as a result of mismatched impacts on the value of our assets and our liabilities.

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

Significant continued financial and credit market volatility, changes in interest rates, credit spreads, credit defaults, real estate values, market illiquidity, declines in equity prices, acts of corporate malfeasance, ratings downgrades of the issuers or guarantors of these investments, and declines in general economic conditions, either alone or in combination, could have a material adverse impact on our Insurance segment’s results of operations, financial condition, or cash flows through realized losses, other-than-temporary impairments, changes in unrealized loss positions, and increased demands on capital. In addition, market volatility can make it difficult for our Insurance segment to value certain of its assets, especially if trading becomes less frequent.

Also, in the event of extreme prolonged market events, such as the global credit crisis, we could incur significant capital and/or operating losses due to, among other reasons, losses incurred in our general account and as a result of the impact on us of guarantees, capital maintenance obligations and/or collateral requirements associated with our affiliated reinsurers and other similar arrangements. Even in the absence of a market downturn, we are exposed to substantial risk of loss due to market volatility, which may also increase the cost.

Valuations may include assumptions or estimates that may have significant period-to-period changes that could have an adverse impact on our Insurance segment's results of operations or financial condition. Moreover, difficult conditions in the global capital markets and the economy may continue to raise the possibility of legislative, judicial, regulatory and other governmental actions.

Credit spreads could adversely affect our Insurance segment's investment portfolio and financial position.

Our exposure to credit spreads primarily relates to market price volatility and cash flow variability associated with changes in such spreads. Market price volatility can make it difficult to value certain of our securities if trading becomes less frequent. In such case, valuations may include assumptions or estimates that may have significant period-to-period changes, which could have a material adverse effect on our results of operations or financial condition. If there is a resumption of significant volatility in the markets, it could cause changes in credit spreads and defaults and a lack of pricing transparency which, individually or in tandem, could have a material adverse effect on our results of operations, financial condition, liquidity or cash flows.

Significant volatility or disruption in credit markets could have a material adverse effect on our Insurance segment's investment portfolio, and, as a result, our Insurance segment's business, financial condition and results of operations. Changes in interest rates and credit spreads could cause market price and cash flow variability in the fixed income instruments in our Insurance segment's investment portfolio. Significant volatility and lack of liquidity in the credit markets could cause issuers of the fixed-income securities in our Insurance segment's investment portfolio to default on either principal or interest payments on these securities.

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

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

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

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

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

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

Our Insurance segment operates in an industry in which various practices are subject to scrutiny and potential litigation, including class actions. Civil jury verdicts have been returned against insurers and other financial services companies involving sales, underwriting practices, product design, product disclosure, administration, denial or delay of benefits, charging excessive or impermissible fees, recommending unsuitable products to customers, breaching fiduciary or other duties to customers, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the insurer does business, payment of sales or other contingent commissions, and other matters. For example, a class action lawsuit was filed against CGI in November 2016 alleging breach of contract, tortious interference with contract and unjust enrichment in relation to the introduction of new products to existing policyholders and the replacement of in-force policies. Such lawsuits can result in the award of substantial judgments that are disproportionate to the actual damages, including material amounts of punitive or non-economic compensatory damages. In some states, juries, judges, and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, financial services companies have made material settlement payments.

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

The financial services industry, including insurance companies, is sometimes the target of law enforcement and regulatory investigations relating to the numerous laws and regulations that govern such companies. Some financial services companies have been the subject of law enforcement or other actions resulting from such investigations. Resulting publicity about one company may generate inquiries into or litigation against other financial services companies, even those who do not engage in the business lines or practices at issue in the original action. It is impossible to predict the outcome of such investigations or actions, whether they will expand into other areas not yet contemplated, whether they will result in changes in insurance regulation, whether activities currently thought to be lawful will be characterized as unlawful, or the impact, if any, of such scrutiny on the financial services and insurance industry or our Insurance segment.

Our Insurance segment is dependent on the performance of others under the Transition Services and Administrative Services Agreements and on an ongoing basis as part of its business.

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

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

Any failure by any of the Seller Parties or such other third-party providers to provide such services could have a material adverse effect on our Insurance segment's business or financial results.

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

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

Our Insurance segment's ability to grow depends in large part upon the continued availability of capital.

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

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

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

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

In addition, our Insurance segment is required to comply with statutory accounting principles ("SAP"). SAP and various components of SAP (such as actuarial reserving methodology) are subject to ongoing review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve financial reporting. Various proposals are currently or have previously been pending before committees and task forces of the NAIC, some of which, if enacted, would negatively affect our Insurance segment. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves and the accounting for such reserves.

Our Insurance segment cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect our Insurance segment. In addition, the NAIC Accounting Practices and Procedures manual provides that state insurance departments may permit insurance companies domiciled therein to depart from SAP by granting them permitted accounting practices. Our Insurance segment cannot predict whether or when the insurance departments of the states of domicile of its competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which is not permitted by the insurance department of CGI's state of domicile (Texas). With respect to regulations and guidelines, states sometimes defer to the interpretation of the insurance department of the state of domicile. Neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. Our Insurance segment can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to its competitors will not have a negative impact on our Insurance segment.

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

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

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

Future acquisition transactions may not be financially beneficial to our Insurance segment.

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

There can be no assurance that the performance of the companies or blocks of business acquired will meet our Insurance segment's expectations, or that any of these acquisitions will be financially advantageous for our Insurance segment. The evaluation and negotiation of potential acquisitions, as well as the integration of an acquired business or portfolio, could result in a substantial diversion of management resources. Acquisitions could involve numerous additional risks such as potential losses from unanticipated litigation, levels of claims or other liabilities and exposures, an inability to generate sufficient revenue to offset acquisition costs and financial exposures in the event that the sellers of the acquired entities or blocks of business are unable or unwilling to meet their indemnification, reinsurance and other obligations to our Insurance segment (if any such obligations are in place).

Our Insurance segment's ability to manage its growth through acquisitions will depend, in part, on its success in addressing these risks. Any failure to effectively implement our Insurance segment's acquisition strategies could have a material adverse effect on our Insurance segment's business, financial condition or results of operations.

Our Insurance segment may be unable to execute acquisition transactions in accordance with its strategy.

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

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

Our Insurance segment’s investment portfolio is subject to various risks that may result in realized investment losses. In particular, decreases in the fair value of fixed maturities may significantly reduce the value of our investments, and as a result, our financial condition may suffer.

We are subject to credit risk in our investment portfolio. Defaults by third parties in the payment or performance of their obligations under these securities could reduce our investment income and realized investment gains or result in the recognition of investment losses. The value of our investments may be materially adversely affected by increases in interest rates, downgrades in the bonds included in our portfolio and by other factors that may result in the recognition of other-than-temporary impairments. Each of these events may cause us to reduce the carrying value of our investment portfolio.

The fair value of fixed maturities and the related investment income fluctuates depending on general economic and market conditions. The fair value of these investments generally increases or decreases in an inverse relationship with fluctuations in interest rates, while net investment income realized by us will generally increase or decrease in line with changes in market interest rates. In addition, actual net investment income and/or cash flows from investments that carry prepayment risk, such as mortgage-backed and other asset-backed securities, may differ from those anticipated at the time of investment as a result of interest rate fluctuations. The impact of value fluctuations affects our consolidated financial statements, as a large portion of our fixed maturities are classified as available-for- sale, with changes in fair value reflected in our stockholders’ equity (accumulated other comprehensive income or loss). No similar adjustment is made for liabilities to reflect a change in interest rates. Therefore, interest rate fluctuations and economic conditions could adversely affect our stockholders’ equity, total comprehensive income and/or cash flows. All of our fixed maturities are subject to credit risk. If any of the issuers of our fixed maturities suffer financial setbacks, the ratings on the fixed maturities could fall (with a concurrent fall in fair value) and, in a worst-case scenario, the issuer could default on its financial obligations. If the issuer defaults, we could have realized losses associated with the impairment of the securities.

Unanticipated increases in policyholder withdrawals or surrenders could negatively impact liquidity.

A primary liquidity concern is the risk of unanticipated or extraordinary policyholder withdrawals or surrenders. We track and manage liabilities and attempt to align our investment portfolio to maintain sufficient liquidity to support anticipated withdrawal demands. However, withdrawal and surrender levels may differ from anticipated levels for a variety of reasons, including changes in economic conditions, changes in policyholder behavior or financial needs, or changes in our claims-paying ability. Any of these occurrences could adversely affect our liquidity, profitability and financial condition.

While we own a significant amount of liquid assets, we could exhaust all sources of liquidity and be forced to obtain additional financing or liquidate assets, perhaps on unfavorable terms, if we experience unanticipated withdrawal or surrender activity. The availability of additional financing will depend on a variety of factors, such as market conditions, the availability of credit in general or more specifically in the insurance industry, the strength or weakness of the capital markets, the volume of trading activities, our credit capacity, and the perception of our long- or short-term financial prospects if we incur large realized or unrealized investment losses or if the level of business activity declines due to a market downturn. If we are forced to dispose of assets on unfavorable terms, it could have an adverse effect on our liquidity, results of operations and financial condition.

Risks Related to the Construction segment

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

DBMG’s cash flow is dependent upon obtaining major construction contracts primarily from general contractors and engineering firms responsible for commercial and industrial construction projects, such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas, shopping malls, hospitals, dams, bridges, mines and power plants. The timing of or failure to obtain contracts, delays in awards of contracts, cancellations of contracts, delays in completion of contracts, or failure to obtain timely payment from DBMG’s customers, could result in significant periodic fluctuations in cash flows from DBMG’s operations. In addition, many of DBMG’s contracts require it to satisfy specific progress or performance milestones in order to receive payment from the customer. As a result, DBMG may incur significant costs for engineering, materials, components, equipment, labor or subcontractors prior to receipt of payment from a customer. Such expenditures could have a material adverse effect on DBMG’s results of operations, cash flows or financial condition

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

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

- failure to properly estimate costs of materials, including steel and steel components, engineering services, equipment, labor or subcontractors;
- costs incurred in connection with modifications to a contract that may be unapproved by the customer as to scope, schedule, and/or price;
- unanticipated technical problems with the structures, equipment or systems we supply;
- unanticipated costs or claims, including costs for project modifications, customer-caused delays, errors or changes in specifications or designs, or contract termination;
- changes in the costs of materials, engineering services, equipment, labor or subcontractors;
- changes in labor conditions, including the availability and productivity of labor;
- productivity and other delays caused by weather conditions;
- failure to engage necessary suppliers or subcontractors, or failure of such suppliers or subcontractors to perform;
- difficulties in obtaining required governmental permits or approvals;
- changes in laws and regulations; and
- changes in general economic conditions.

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

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

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

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

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

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

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

As DBMG obtains new significant project awards, these projects may use larger sums of working capital than other projects and DBMG's backlog may become concentrated among a smaller number of customers. Approximately $296.4 million, representing 58.9%, of DBMG's backlog at December 31, 2016 was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If any significant projects such as these currently included in DBMG's backlog or awarded in the future were to have material cost overruns, or be significantly delayed, modified or canceled, DBMG's results of operations, cash flows or financial position could be adversely impacted.

Moreover, DBMG may be unable to replace the projects that it executes in its backlog. Additionally, as DBMG converts its significant projects from backlog into active construction, it may face significantly greater requirements for the provision of letters of credit or other forms of credit enhancements.

We can provide no assurance that DBMG would be able to access such capital and credit as needed or that it would be able to do so on economically attractive terms.

DBMG may not be able to fully realize the revenue value reported in its backlog, a substantial portion of which is attributable to a relatively small number of large contracts or other commitments.

As of December 31, 2016, DBMG had a backlog of work to be completed of approximately $503.5 million ($441.1 million under contracts or purchase orders and $62.4 million under letters of intent). Backlog develops as a result of new awards, which represent the revenue value of new project commitments received by DBMG during a given period, including legally binding commitments without a defined scope.

Commitments may be in the form of written contracts, letters of intent, notices to proceed and purchase orders. New awards may also include estimated amounts of work to be performed based on customer communication and historic experience and knowledge of our customers' intentions. Backlog consists of projects which have either not yet been started or are in progress but are not yet complete. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been completed, which increases or decreases to reflect modifications in the work to be performed under a given commitment. The revenue projected in DBMG's backlog may not be realized or, if realized, may not be profitable as a result of poor contract terms or performance.

Due to project terminations, suspensions or changes in project scope and schedule, we cannot predict with certainty when or if DBMG's backlog will be performed. From time to time, projects are canceled that appeared to have a high certainty of going forward at the time they were recorded as new awards. In the event of a project cancellation, DBMG typically has no contractual right to the total revenue reflected in its backlog. Some of the contracts in DBMG's backlog provide for cancellation fees or certain reimbursements in the event customers cancel projects. These cancellation fees usually provide for reimbursement of DBMG's out-of-pocket costs, costs associated with work performed prior to cancellation, and, to varying degrees, a percentage of the profit DBMG would have realized had the contract been completed. Although DBMG may be reimbursed for certain costs, it may be unable to recover all direct costs incurred and may incur additional unrecoverable costs due to the resulting under-utilization of DBMG's assets. Approximately $296.4 million, representing 58.9%, of DBMG's backlog at December 31, 2016 was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these large contracts or other commitments are terminated or their scope reduced, DBMG's backlog could decrease substantially.

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

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

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

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

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

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

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

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

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

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

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

- its ability to identify and develop relationships with qualified suppliers;
- the terms and conditions upon which it purchases products from its suppliers, including applicable exchange rates, transport costs and other costs, its suppliers' willingness to extend credit to it to finance its inventory purchases and other factors beyond its control;
- financial condition of its suppliers;

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•political instability in the countries in which its suppliers are located;
•its ability to import products;
•its suppliers' noncompliance with applicable laws, trade restrictions and tariffs;
•its inability to find replacement suppliers in the event of a deterioration of the relationship with current suppliers; or
•its suppliers' ability to manufacture and deliver products according to its standards of quality on a timely and efficient basis.

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

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

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

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

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

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

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

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

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

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

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

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

DBMG’s projects expose it to potential professional liability, product liability, warranty and other claims.

DBMG’s operations are subject to the usual hazards inherent in providing engineering and construction services for the construction of often large commercial industrial facilities, such as the risk of accidents, fires and explosions. These hazards can cause personal injury and loss of life, business interruptions, property damage and pollution and environmental damage. DBMG may be subject to claims as a result of these hazards. In addition, the failure of any of DBMG’s products to conform to customer specifications could result in warranty claims against it for significant replacement or rework costs, which could have a material adverse effect on DBMG’s results of operations, cash flows or financial condition.

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

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

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

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

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

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

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

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

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

Work stoppages, union negotiations and other labor problems could adversely affect DBMG’s business.

A portion of DBMG’s employees are represented by labor unions, and 13% of DBMG’s employees are covered under collective bargaining agreements that expire in less than one year, but are currently being renegotiated. A lengthy strike or other work stoppage at any of its facilities could have a material adverse effect on DBMG’s business. There is inherent risk that ongoing or future negotiations relating to collective bargaining agreements or union representation may not be favorable to DBMG. From time to time, DBMG also has experienced attempts to unionize its non-union facilities. Such efforts can often disrupt or delay work and present risk of labor unrest.

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

DBMG often works on large-scale and complex projects, frequently in geographically remote locations. Such involvement often places DBMG's employees and others near large equipment, dangerous processes or highly regulated materials. If DBMG or other parties fail to implement appropriate safety procedures for which they are responsible or if such procedures fail, DBMG's employees or others may suffer injuries. In addition to being subject to state and federal regulations concerning health and safety, many of DBMG's customers require that it meet certain safety criteria to be eligible to bid on contracts, and some of DBMG's contract fees or profits are subject to satisfying safety criteria. Unsafe work conditions also have the potential of increasing employee turnover, project costs and operating costs. The failure to comply with safety policies, customer contracts or applicable regulations could subject DBMG to losses and liability and could result in a variety of administrative, civil and criminal enforcement measures.

Risks Related to the Marine Services segment

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

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

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

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

- damage or destruction of a vessel due to marine disaster such as a collision or grounding;
- the loss of a vessel due to piracy and terrorism;
- compliance with laws and regulations governing the discharge of oil, hazardous substances, ballast water and other substances;
- cargo and property losses or damage as a result of the foregoing or less drastic causes such as human error, mechanical failure and bad weather;
- environmental accidents as a result of the foregoing;
- the availability of insurance at reasonable rates; and
- business interruptions and delivery delays caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions.

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

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

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

Global Maine has material obligations under the Global Marine Pension Plan and related Recovery Plan.

In order to satisfy the requirements of Section 226 of the Pensions Act of 2004 (UK) ("UK Pensions Act 2004"), GMSL is a party to the Global Marine Pension Plan Recovery Plan, dated as of March 28, 2014 (the "Recovery Plan"). The Recovery Plan addresses GMSL's pension funding shortfall, which (on the basis of US GAAP accounting estimates) was approximately GBP 17.9 million as of December 31, 2016, by requiring GMSL to make certain scheduled fixed monthly contributions, certain variable annual profit-related contributions and certain variable dividend-related contributions to the pension plan. The variable dividend-related contributions require GMSL to pay cash contributions to the underfunded pension plan equal to 50% of any dividend payments made to its shareholder, which reduces the amount of cash available for GMSL to make upstream dividend payments to us.

The Recovery Plan provides for the funding shortfall to be eliminated on or before June 30, 2021. However the Global Marine Pension Plan must be valued on a triennial basis, and all valuations are dependent upon the prevailing market conditions and the actuarial methods and assumptions used as well as the expected pension liabilities at the valuation date. The next valuation is due for the Global Marine Pension Plan position as of December 31, 2016, and the valuation report will be published around the middle of 2017. There are various risks which could adversely affect the next valuation of the Global Marine Pension Plan and, consequently, the obligations of GMSL to fund the plan, such as a significant adverse change in the market value of the pension plan assets, an increase in pension liabilities, longer life expectancy of plan members, a change in the discount rate or inflation rate used by the actuary or if the trustees of the plan recommend a material change to the investment strategy. Any increase in the deficit may result in a need for GMSL to increase its pension contributions, which would reduce the amount of cash available for GMSL to make upstream dividend payments to us. While we expect the trustees of the pension plan to renegotiate the Recovery Plan on at least a triennial basis or to dispense with the Recovery Plan if and when the funding shortfall has been eliminated, we can make no assurances in relation to this.

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

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

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

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

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

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

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

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

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

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

GMSL derives a significant amount of its revenues from sales to customers outside of the United States, which poses additional risks, including economic, political and other uncertainties.

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

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

The oil and gas market has experienced an exceptional upheaval since early 2014 with the price of oil falling dramatically and this economic weakness could continue into the foreseeable future. Oil prices can be very volatile and are subject to international supply and demand, political developments, increased supply from new sources and the influence of OPEC in particular. The major operators are reviewing their overall capital spending and this trend is likely to reduce the size and number of projects carried out in the medium term as the project viability comes under greater scrutiny. This is especially true of offshore oil and gas industry, which is our focus in the oil and gas space as it is a relatively expensive method of drilling for oil and natural gas. Ongoing concerns about the systemic impact of lower oil prices and the continued uncertainty of possible reductions in long-term capital expenditure could have a material adverse effect on the planned growth of GMSL and eventually curtail the anticipated cash flow and results from operations.

Delay or inability to obtain appropriate certifications for our vessels may result in us being unable to win new contracts and fulfill our obligations under our existing contracts.

Our customers require that our vessels are inspected and certified by a recognized independent third party in order for us to be able to participate in tenders for their projects. In addition, we are required under our contracts with our customers to maintain such certifications. Each of our vessels is certified by the American Bureau of Shipping ("ABS"). The ABS's certification process generally involves regularly scheduled extensive vessel surveys by marine engineers evaluating the integrity and seaworthiness of our vessels. If we are unable to maintain or obtain these certifications, we may be unable to service our customers under our existing contracts and may not be eligible to participate in future tenders, which could have an adverse effect on our business, financial condition or results of operations.

GMSL's business is dependent on capital spending by our customers, and reductions in capital spending could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition.

Our business is directly affected by changes in capital expenditures by our customers, and further reductions in their capital spending could reduce demand for our services and products and have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition. Some of the items that may impact our customer's capital spending include:

•oil and natural gas prices, including volatility of oil and natural gas prices and expectations regarding future prices;
•the inability of our customers to access capital on economically advantageous terms;
•technological advances that make subsea cable communications less attractive or obsolete;
•the consolidation of our customers;

- customer personnel changes; and
- adverse developments in the business or operations of our customers, including write-downs of reserves and borrowing base reductions under customer credit facilities.

As a result of the decreases in oil and natural gas prices, many of our customers in this industry reduced capital spending in 2015 and 2016. While customer budgets are slowly increasing in response to improved market conditions, any prolonged further reduction in commodity prices may result in further capital budget reductions in the future.

Some of our customers require bids for contracts in the form of long-term, fixed pricing contracts that may require us to assume additional risks associated with cost over-runs, operating cost inflation, labor availability and productivity, supplier and contractor pricing and performance, and potential claims for liquidated damages.

Some of our customers may require bids for contracts in the form of long-term, fixed pricing contracts that may require us to provide integrated project management services outside our normal discrete business to act as project managers as well as service providers, and may require us to assume additional risks associated with cost over-runs. These customers may provide us with inaccurate information. These issues may also result in cost over-runs, delays, and project losses.

GMSL’s operations require us to comply with a number of United States and international regulations, violations of which could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition.

Our operations require us to comply with a number of United States and international regulations. For example, our operations in countries outside the United States are subject to the United States Foreign Corrupt Practices Act (FCPA), which prohibits United States companies and their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity, or obtain any unfair advantage. Our activities create the risk of unauthorized payments or offers of payments by our employees, agents, or joint venture partners that could be in violation of anti-corruption laws, even though some of these parties are not subject to our control. We have internal control policies and procedures and have implemented training and compliance programs for our employees and agents with respect to the FCPA. However, we cannot assure that our policies, procedures, and programs always will protect us from reckless or criminal acts committed by our employees or agents. Allegations of violations of applicable anti-corruption laws have resulted and may in the future result in internal, independent, or government investigations. Violations of anti-corruption laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition. The age of GMSL’s fleet vessels may restrict us from doing business with certain customers.

Certain of our existing and potential customers have policies regarding the minimum acceptable original build age of vessels for use on their projects. Our vessels have an average original build age of approximately 25 years as of December 31, 2016. Two of our ten vessels have original build ages of over 30 years, and such policies may preclude us from participating in tenders for new contracts at all or without producing third party feasibility studies of our vessels. Any trend towards restricting the operation of vessels with older original build ages, either from our customers or under the regulations in the jurisdictions in which a particular vessel operates, could have an adverse effect on our business, financial condition or results of operations, particularly as our vessels continue to age.

Vessel construction, upgrade, refurbishment and repair projects are subject to risks, including delays and cost overruns, which could have an adverse impact on our available cash resources and results of operations.

GMSL expects to incur significant new construction and/or upgrade, refurbishment and repair expenditures for our vessel fleet from time to time, particularly in light of the aging nature of our vessels and requests for upgraded equipment from our customers. Some of these expenditures may be unplanned. Vessel construction, upgrade, refurbishment and repair projects may be subject to the risks of delay or cost overruns, including delays or cost overruns resulting from any one or more of the following:

- unexpectedly long delivery times for, or shortages of, key equipment, parts or materials;
- shortages of skilled labor and other shipyard personnel necessary to perform the work;
- shipyard delays and performance issues;
- failures or delays of third-party equipment vendors or service providers;
- unforeseen increases in the cost of equipment, labor and raw materials, particularly steel;
- work stoppages and other labor disputes;
- unanticipated actual or purported change orders;
- disputes with shipyards and suppliers;
- design and engineering problems;
- latent damages or deterioration to equipment and machinery in excess of engineering estimates and assumptions;
- financial or other difficulties at shipyards;

- interference from adverse weather conditions;
- difficulties in obtaining necessary permits or in meeting permit conditions; and
- customer acceptance delays.
- Significant cost overruns or delays could materially affect our financial condition and results of operations.

Additionally, capital expenditures for vessel upgrade, refurbishment and repair projects could materially exceed our planned capital expenditures. The failure to complete such a project on time, or the inability to complete it in accordance with our design specifications, may, in some circumstances, result in loss of revenues, penalties and/or delay, as well as renegotiation or cancellation of one or more contracts. In the event of termination of one of these contracts, we may not be able to secure a replacement contract on as-favorable terms. Moreover, our vessels undergoing upgrade, refurbishment and repair will typically not earn revenue during periods when they are out of service.

Liability for cleanup costs, natural resource damages, and other damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

We are exposed to claims under environmental requirements and carry insurance in accordance with international shipping agreements. In the United States and many foreign subsidiaries, environmental requirements and regulations typically impose strict liability. Strict liability means that in some situations we could be exposed to liability for cleanup costs, natural resource damages, and other damages as a result of our conduct that was lawful at the time it occurred or the conduct of prior operators or other third parties.

Liability for damages arising as a result of environmental laws could be substantial and could have a material adverse effect on our liquidity, consolidated results of operations, and consolidated financial condition.

A revocation or modification of Opinion rulings by the Customs and Border Patrol (CBP) of the Jones Act could result in restrictions on GMSL's services to U.S. Coastal areas in the United States.

GMSL is subject to U.S. cabotage laws that impose certain restrictions on the ownership and operation of vessels in the U.S. coastwise trade (i.e., the transportation of passengers and merchandise between points in the United States), including the transportation of cargo. These laws are principally contained in 46 U.S.C. § 50501 and 46 U.S.C. Chapter 551 and related regulations and are commonly referred to collectively as the "Jones Act." Subject to limited exceptions, the Jones Act requires that vessels engaged in U.S. coastwise trade be built in the United States, registered under the U.S. flag, manned by predominantly U.S. crews, and owned and operated by U.S. citizens within the meaning of the Jones Act. Should GMSL be required to comply with the U.S. citizenship requirements of the Jones Act, it may be prohibited from operating its vessels in the U.S. coastwise trade.

A portion of GMSL's operations may be conducted in the U.S. coastal areas, possibly extending to cable laying and repair activities on the US continental shelf. Subject to limited exceptions, the Jones Act requires that vessels engaged in U.S. coastwise trade be built in the United States, registered under the U.S. flag, manned by predominantly U.S. crews, and owned and operated by U.S. citizens within the meaning of the Jones Act. Under existing rules, the Jones Act exempts certain foreign construction vessels working in the offshore oil and gas sector delivering repair materials for pipelines and platforms, which may include work performed by GMSL U.S. coastal areas. In 2017, the U.S. Customs and Border Protection (CBP) requested comments for a proposal to extend the Jones Act restrictions to vessels supplying equipment to offshore facilities in the U.S. coastwise trade, which, if adopted, could prohibit GMSL from directly operating in U.S. coastal areas. Such a new interpretation would attempt to extend the Jones Act to include previously exempted foreign construction vessels working in the offshore oil and gas sector delivering repair materials for pipelines and platforms, and also to cable vessels laying and repair cables. Any such revocation or modification of Opinion rulings by the CBP of the Jones Act, if adopted, could have an adverse effect on GMSL's business.

Risks Related to our Telecommunications segment

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

The carrier services telecommunications industry is significantly influenced by the marketing and pricing decisions of the larger business participants. The rapid development of new technologies, services and products has eliminated many of the traditional distinctions among wireless, cable, Internet, local and long distance communication services. We face many competitors in this market, including telephone companies, cable companies, wireless service providers, satellite providers, application and device providers. ICS faces competition for its voice trading services from telecommunication services providers' traditional processes and new companies. Once telecommunication services providers have established business relationships with competitors to ICS, it could be extremely difficult to convince them to utilize our services. These competitors may be able to develop services or processes that are superior to ICS's services or processes, or that achieve greater industry acceptance.

Many of our competitors are significantly larger than us and have substantially greater financial, technical and marketing resources, larger networks, a broader portfolio of service offerings, greater control over network and transmission lines, stronger name recognition and customer loyalty and long-standing relationships with our target customers. As a result, our ability to attract and retain customers may be adversely affected. Many of our competitors enjoy economies of scale that result in low cost structures for transmission and related costs that could cause significant pricing pressures within the industry.

Our ability to compete effectively will depend on, among other things, our network quality, capacity and coverage, the pricing of our products and services, the quality of our customer service, our development of new and enhanced products and services, the reach and quality of our sales and distribution channels and our capital resources. It will also depend on how successfully we anticipate and respond to various factors affecting our industry, including new technologies and business models, changes in consumer preferences and demand for existing services, demographic trends and economic conditions. While growth through acquisitions is a possible strategy for ICS, there are no guarantees that any acquisitions will occur, nor are there any assurances that any acquisitions by ICS would improve the financial results of its business. If we are not able to respond successfully to these competitive challenges, we could experience reduced revenues.

ICS suppliers may not be able to obtain credit insurance on ICS, which could have a material adverse effect on ICS’s business.

ICS makes purchases from its suppliers, who may rely on the ability to obtain credit insurance on ICS in determining whether or not to extend short-term credit to ICS in the form of accounts receivables. To the extent that these suppliers are unable to obtain such insurance they may be unwilling to extend credit. In early 2016, two significant insurers of this type of credit, Euler and Coface, determined that they will not insure ICS credit, and that the existing policies on its credit were cancelled based on their analysis of the financial condition of HC2, including its indebtedness levels, recent net losses and negative cash flow. As a result, we expect ICS’s suppliers to find it difficult to obtain credit insurance on ICS, which could have a material adverse effect on ICS’s business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

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

Our telecommunications network infrastructure has several vulnerabilities and limitations.

Our telecommunications network is the source of most of ICS's revenues and any damages to or loss of our equipment or any problem with or limitation of ICS's network whether accidental or otherwise, including network, hardware and software failures may result in a reduction in the number of our customers or usage level by our customers, our inability to attract new customers or increased maintenance costs, all of which would have a negative impact on our results of operations. The development and operation of our network is subject to problems and technological risks, including:

- physical damage;

- power surges or outages;
- capacity limitations;
- software defects as well as hardware and software obsolescence;
- breaches of security, whether by computer virus, break-in or otherwise;
- denial of access to our sites for failure to obtain required municipal or other regulatory approvals; and
- other factors which may cause interruptions in service or reduced capacity for our customers.

Our operations also rely on a stable supply of utilities service. We cannot assure you that future supply instability will not impair our ability to procure required utility services in the future, which could adversely impact our business, financial condition and results of operations.

ICS may be unable to maintain or expand its network in a timely manner or without undue cost.

Our ability to achieve our strategic objectives will depend in large part upon the successful, timely and cost effective expansion of our network. Factors that could affect such build-out include:

- municipal or regional political events or local rulings;
- our ability to obtain permits to use public rights of way;
- state municipal elections and change of local government administration;
- our ability to generate cash flow or to obtain future financing necessary for such build-out;
- unforeseen delays, costs or impediments relating to the granting of municipal and state permits for our build-out; and
- delays or disruptions resulting from physical damage, power loss, defective equipment or the failure of third party suppliers or contractors to meet their obligations in a timely and cost–effective manner; and regulatory and political risks, such as the revocation or termination of our concessions, the temporary seizure or permanent expropriation of assets, import and export controls, political instability, changes

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in the regulation of telecommunications and any future restrictions or easing of restrictions on the repatriation of profits or on foreign investment.

Although we believe that our cost estimates and expansion schedule are reasonable, we cannot assure you that the actual construction costs or time required to complete the build-out will not substantially exceed our current estimates. Any significant cost overrun or delay could hinder or prevent the successful implementation of our business plan, including the development of a significantly larger customer base, and result in revenues and net income being less than expected.

Changes in the regulatory framework under which we operate could adversely affect our business prospects or results of operations.

Our domestic operations are subject to regulation by federal and state agencies, and our international operations are regulated by various foreign governments and international bodies. These regulatory regimes may restrict or impose conditions on our ability to operate in designated areas and to provide specified products or services. We are frequently required to maintain licenses for our operations and conduct our operations in accordance with prescribed standards. We are from time to time involved in regulatory and other governmental proceedings or inquiries related to the application of these requirements. It is impossible to predict with any certainty the outcome of pending federal and state regulatory proceedings relating to our operations, or the reviews by federal or state courts of regulatory rulings. Moreover, new laws or regulations or changes to the existing regulatory framework could affect how we manage our wireline and wireless networks, impose additional costs, impair revenue opportunities, and potentially impede our ability to provide services in a manner that would be attractive to us and our customers.

Service interruptions due to natural disasters or unanticipated problems with our network infrastructure could result in customer loss.

Natural disasters or unanticipated problems with our network infrastructure could cause interruptions in the services we provide. The failure of a switch and our back-up system would result in the interruption of service to the customers served by that switch until necessary repairs are completed or replacement equipment is installed. The successful operation of our network and its components is highly dependent upon our ability to maintain the network and its components in reliable enough working order to provide sufficient quality of service to attract and maintain customers. Any damage or failure that causes interruptions in our operations or lack of adequate maintenance of our network could result in the loss of customers and increased maintenance costs that would adversely impact our results of operations and financial condition.

We have backup data for our key information and data processing systems that could be used in the event of a catastrophe or a failure of our primary systems, and have established alternative communication networks where available. However, we cannot assure you that our business activities would not be materially disrupted if there were a partial or complete failure of any of these primary information technology systems or communication networks. Such failures could be caused by, among other things, software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorized access to information or systems, or intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, could have a material adverse effect on our business, results of operations and financial condition.

Our insurance coverage may not adequately cover losses resulting from the risks for which we are insured.

We maintain insurance policies for our network facilities and all of our corporate assets. This insurance coverage protects us in the event we suffer losses resulting from theft, fraud, natural disasters or other similar events or from business interruptions caused by such events. In addition, we maintain insurance policies for our directors and officers. We cannot assure you however, that such insurance will be sufficient or will adequately cover potential losses.

We could be adversely affected if major suppliers fail to provide needed equipment and services on a timely or cost-efficient basis or are unwilling to provide us credit on favorable terms or at all.

We rely on a few strategic suppliers and vendors to provide us with equipment, materials and services that we need in order to expand and to operate our business. There are a limited number of suppliers with the capability of providing the network equipment and platforms that our operations and expansion plans require or the services that we require to maintain our extensive and geographically widespread networks. In addition, because the supply of network equipment and platforms requires detailed supply planning and this equipment is technologically complex, it would be difficult for us to replace the suppliers of this equipment. Suppliers of cables that we need to extend and maintain our networks may suffer capacity constraints or difficulties in obtaining the raw materials required to manufacture these cables.

We also depend on network installation and maintenance services providers, equipment suppliers, call centers, collection agencies and sales agents, for network infrastructure, and services to satisfy our operating needs. Many suppliers rely heavily on labor; therefore, any work stoppage or labor relations problems affecting our suppliers could adversely affect our operations. Suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Similarly, interruptions in the supply of telecommunications equipment for networks could impede network development and expansion. If these suppliers fail to deliver products and services on a timely and cost-efficient basis that satisfies our demands or are unwilling to sell to us on favorable credit terms or at all, we could experience disruptions, which could have an adverse effect on our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently lease our corporate headquarters facility, which is located in New York, New York. Additionally, we lease administrative, technical and sales office space in various locations in the countries in which we operate. GMSL is headquartered in Chelmsford, United Kingdom, DBMG is headquartered in Phoenix, Arizona. We also lease space for switches operated by our Telecommunications segment. As of December 31, 2016, total leased space approximates 666,632 square feet and the total annual lease costs are approximately $5.4 million. The operating leases expire at various times, with the longest commitment expiring in 2027. In addition, DBMG owns operations, administrative, and sales offices located throughout the United States approximating 1,319,833 square feet. We believe that our present administrative, technical and sales office facilities are adequate for our anticipated operations and that similar space can be obtained readily as needed.

We own substantially all of the equipment required for our businesses which includes cable-ships and submersibles (used in our Marine Services segment), steel machinery and equipment (used in our Construction segment), and communications equipment (used in our Telecommunications segment), except that we lease certain vessels (as described under the "Business - Marine Services Segment" section). See Note 9. Property, Plant and Equipment, net, for additional detail regarding our property and equipment. HC2's 11.0% Notes as well as the 11.0% Bridge Note are secured by substantially all of the Company's assets. In addition, the DBMG Facility and GMSL Facility are secured by certain of the assets of DBMG and GMSL, respectively. See Note 13. Long-term Obligations, for additional detail regarding encumbrances affecting our property and equipment.

ITEM 3. LEGAL PROCEEDINGS

Litigation

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

Primus/Xplornet License Matters

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

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

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

DBMG Class Action

On November 6, 2014, a putative stockholder class action complaint challenging the tender offer by which HC2 acquired approximately 721,000 of the issued and outstanding common shares of DBMG was filed in the Court of Chancery of the State of Delaware, captioned Mark Jacobs v. Philip A. Falcone, Keith M. Hladek, Paul Voigt, Michael R. Hill, Rustin Roach, D. Ronald Yagoda, Phillip O. Elbert, HC2 Holdings, Inc., and Schuff International, Inc., Civil Action No. 10323 (the “Complaint”). On November 17, 2014, a second lawsuit was filed in the Court of Chancery of the State of Delaware, captioned Arlen Diercks v. Schuff International, Inc. Philip A. Falcone, Keith M. Hladek, Paul Voigt, Michael R. Hill, Rustin Roach, D. Ronald Yagoda, Phillip O. Elbert, HC2 Holdings, Inc., Civil Action No. 10359. On February 19, 2015, the court consolidated the actions (now designated as Schuff International, Inc. Stockholders Litigation) and appointed lead plaintiff and counsel. The currently operative complaint is the Complaint filed by Mark Jacobs. The Complaint alleges, among other things, that in connection with the tender offer, the individual members of the DBMG's Board of Directors and HC2, the now-controlling stockholder of DBMG, breached their fiduciary duties to members of the plaintiff class. The Complaint also purports to challenge a potential short-form merger based upon plaintiff’s expectation that the Company would cash out the remaining public stockholders of DBMG following the completion of the tender offer. The Complaint seeks rescission of the tender offer and/or compensatory damages, as well as attorney’s fees and other relief. The defendants filed answers to the Complaint on July 30, 2015. On February 24, 2017, the parties agreed to a framework for the potential settlement of the litigation. On February 28, 2017, the Court entered an order vacating the current scheduling order and deadlines and giving the parties until April 21, 2017 to submit a stipulation of settlement or status report to the Court. There can be no assurance that a settlement will be finalized or that the Court would approve such a settlement even if the parties were to enter into a settlement stipulation or agreement. The Company believes that the settlement under discussion would not have a material effect on the Company's financial condition or operating results.

DBMG Wage and Hours Claims

On July 9, 2015, a putative class action wage and hour lawsuit was filed against SSC and Schuff International (now d/b/a DBMG) (collectively “Schuff”) in the Los Angeles County Superior Court BC587322, captioned Dylan Leonard, individually and on behalf of other members of the general public v. Schuff Steel Company and Schuff International, Inc. The complaint makes generic allegations of numerous violations of the California wage and hour laws and claims that Schuff failed to: pay for overtime, pay for meal and rest breaks, to fulfill its obligations under minimum wage laws, to timely pay business expenses, wages and final wages, to keep requisite payroll records, and to provide compliant wage statements. On August 11, 2015, another putative class action wage and hour lawsuit was filed against SSC in San Joaquin County Superior Court, 39-2015-003282720CU-OE-STK, captioned Pablo Dominguez, on behalf of himself and all other similarly situated v. Schuff Steel Company. The complaint alleges non-compliant wage statements and demands penalties pursuant to the California Labor Code. On October 11, 2015, an amended complaint was filed in the Dominguez claim pursuing only the statutory claim based on the non-compliant wage statements. On December 17, 2015, the matters were designated as the Schuff Steel Wage and Hour Cases and assigned a coordination trial judge. On August 4, 2016, the Court denied the Dominguez motion for continuance and determined that the claim for civil penalties ended when Mr. Dominguez passed away on August 10, 2015. The Company settled the remaining Dominguez claims under a confidential agreement which we believe will have no material adverse effect on us, and the case was dismissed on December 20, 2016. On January 17, 2017, counsel for Leonard agreed to dismiss the individual claims with prejudice and the class-action claims without prejudice; however the dismissal was not approved by Court due to failure to obtain the appropriate consent of the plaintiff. The Company believes that the allegations and claims set forth in the Complaint are without merit and intends to defend them vigorously, and that the matter will be disposed of.

Chemours Demand for Arbitration

On December 28, 2015, the Chemours Company Mexico S. de R.L de C.V. ("Chemours") filed a Demand for Arbitration (the "Demand") against SSC with the American Arbitration Association, International Centre for Dispute Resolution Case No. 01-15-0006-0956. SSC had a purchase order to provide fabricated steel for the expansion of Line 2 at DuPont's chemical plant in Altamira, Mexico (the "Project"). The Demand seeks recovery of an alleged mistaken payment of approximately $5 million to SSC and additional damages in excess of $18 million for alleged breaches, including delays, failure to expedite, assignment of subcontracting clauses, and backcharges for additional costs and rework of fabricated steel provided for the Project. On January 25, 2016, SSC filed an answer and counterclaim denying liability alleged by Chemours and seeking to recover the principal sum of approximately $0.3 million for unpaid work on the Project as well as an additional sum for damages due to alleged delays, impacts, and other wrongful conduct by Chemours and its agents. Document discovery has begun and an arbitration hearing is scheduled for March 2018. The Company believes that the allegations and claims set forth in the Demand are without merit and intends to defend them vigorously and aggressively pursue Chemours for additional monies owed and damages sustained.

CGI Class Action

On November, 28 2016, CGI, a subsidiary of the Company GAFRI, American Financial Group, Inc., and CIGNA Corporation were served with a class action complaint filed by John Fastrich and Universal Investment Services, Inc. in the United States District Court for the District of Nebraska alleging breach of contract, tortious interference with contract and unjust enrichment. The plaintiffs contend that they were agents of record under various CGI policies and that CGI allegedly instructed policyholders to switch to other CGI products and caused the plaintiffs to lose commissions, renewals, and overrides on policies that were replaced. The complaint also alleges breach of contract claims relating to vesting of commissions. CGI believes that the allegations and claims set forth in the complaint are without merit and intends to vigorously defend against them. To that end, CGI, GAFRI and CIGNA Corporation filed a joint motion to dismiss the complaint on February 27, 2017. The motion is pending and is not yet fully briefed.

Further, the Company and CGI are seeking defense costs and indemnification for any losses that may stem from the claims from GAFRI and Continental General Corporation ("CGC"). GAFRI and CGC rejected CGI's demand for defense and indemnification and, on January 18, 2017, the Company and CGI filed a complaint against GAFRI and CGC in the Superior Court of Delaware seeking a declaratory judgment to enforce their indemnification rights under the SPA. GAFRI and CGC filed their answer on February 23, 2017. The dispute is ongoing.

VAT assessment

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

Global Marine Dispute

GMSL is in dispute with Alcatel-Lucent Submarine Networks Limited ("ASN") related to a Marine Installation Contract between the parties, dated March 11, 2016 (the "ASN Contract"). Under the ASN Contract, GMSL's obligations were to install and bury an optical fibre cable in Prudhoe Bay, Alaska. As of the date hereof, neither party has commenced legal proceedings. Pursuant to the ASN Contract any such dispute would be governed by English law and would be required to be brought in the English courts in London. ASN has alleged that GMSL committed material breaches of the ASN Contract, which entitles ASN to terminate the ASN Contract, take over the work themselves, and claim damages for their losses arising as a result of the breaches. The alleged material breaches include failure to use appropriate equipment and procedures to perform the work and failure to accurately estimate the amount of weather downtime needed. ASN has indicated to GMSL it has incurred $3.1 million in damages for overpayment to GSML and $1.2 million in liquidated damages for the period September 2016 to October 2016, plus interest and costs. GMSL believes that it has not breached the terms and conditions of the contract and also believes that ASN has not properly terminated the contract in manner that would allow it to make a claim. However, ASN has ceased making payments to GMSL and as of December 31, 2016, the total sum of GMSL invoices rejected by ASN are $10.7 million. ASN has also reserved their position on an additional $1.4 million of invoices already submitted to ASN and has indicated it will do so for future invoices. We believe that the allegations and claims by ASN are without merit, that ASN is required to make all payments under unpaid invoices and we intend to defend our interests vigorously.

Tax Matters

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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

Common Stock

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

The following table provides the intraday high and low sales prices for HC2's common stock as reported by the NYSE MKT for each quarterly period for the last two fiscal years.

	Common Stock	
	High	Low
2016		
1st Quarter	$5.29	$3.25
2nd Quarter	$4.81	$3.29
3rd Quarter	$5.49	$4.06
4th Quarter	$6.07	$3.80
2015		
1st Quarter	$13.28	$7.04
2nd Quarter	$12.50	$8.16
3rd Quarter	$8.97	$5.20
4th Quarter	$8.09	$5.05

Holders of Common Stock

As of February 28, 2017, HC2 had approximately 3,350 holders of record of its common stock. This number does not include stockholders for whom shares were held in “nominee” or “street” name.

Dividends

HC2 paid no dividends on its common stock in 2016 or 2015, and the HC2 Board of Directors has no current intention of paying any dividends on HC2 common stock in the near future. The payment of dividends, if any, in the future is within the discretion of the HC2 Board of Directors and will depend on our earnings, our capital requirements, financial condition, the ability to comply with the requirements of the law and agreements governing our and our subsidiaries indebtedness. The 11.0% Notes Indenture and 11.0% Bridge Note contain covenants that, among other things, limit or restrict our ability to make certain restricted payments, including the payment of cash dividends with respect to HC2’s common stock. The DBMG Facility and the GMSL Facility contain similar covenants applicable to DBMG and GMSL, respectively. See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources and Note 13. Long-term Obligations to our consolidated financial statements for more detail concerning our 11.0% Notes, our 11.0% Bridge Note and other financing arrangements. Moreover, dividends may be restricted by other arrangements entered into in the future by us.

Issuer Purchases of Equity Securities

HC2 did not repurchase any of its equity securities in the year ended December 31, 2016.

Stock Performance Graph

The following graph compares the cumulative total returns on our common stock during the period from December 31, 2011 to December 31, 2016, to the Standard & Poor's Midcap 400 Index and the iShares S&P Global Telecommunications Sector Index. The comparison assumes $100 was invested on December 31, 2011 in the common stock of HC2 as well as the indices and assumes further that all dividends were reinvested. HC2's common stock began trading on the OTC Bulletin Board on July 1, 2009, on the NYSE on June 23, 2011, on the OTCQB on November 18, 2013, and on the NYSE MKT on December 29, 2014.

	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015	December 31, 2016
HC2 Holdings, Inc. (HCHC)	$ 100.00	$ 117.16	$ 51.79	$ 153.19	$ 96.13	$ 107.76
Standard & Poor's Midcap 400 Index (^MID)	$ 100.00	$ 116.07	$ 152.71	$ 165.21	$ 159.08	$ 188.88
iShares S&P Global Telecommunications Sector Index Fund (IXP)	$ 100.00	$ 107.45	$ 130.30	$ 128.72	$ 128.66	$ 135.77

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

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with (i) Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, (ii) our consolidated audited annual financial statements and the notes thereto, each of which are contained in Item 8 "Financial Statements and Supplementary Data" and (iii) the information described below under "—Discontinued Operations."

Statement of Operations Data (in thousands, except per share amounts):

	Years Ended December 31,				
	2016	2015	2014	2013	2012
Net revenue	$1,558,126	$1,120,806	$547,438	$230,686	$302,959
Income (loss) from operations	(1,421)	713	(13,991)	(39,136)	(51,896)
Loss from continuing operations	(97,431)	(35,741)	(11,686)	(17,612)	(44,871)
Income (loss) from discontinued operations	—	(21)	(146)	129,218	72,740
Net loss	(97,431)	(35,762)	(11,832)	111,606	27,869
Net loss attributable to HC2 Holdings, Inc.	(94,549)	(35,565)	(14,391)	111,606	27,887
Net loss attributable to common stock and participating preferred stockholders	(105,398)	(39,850)	(16,440)	111,606	27,887
Interest expense	(43,375)	(39,017)	(12,347)	(8)	(27)
Income tax (expense) benefit	(51,638)	10,882	22,869	7,442	3,132
Per Share Data:					
Income (loss) per common share:					
Basic loss per share	$(2.83)	$(1.50)	$(0.82)	$(1.25)	$(3.24)
Diluted loss per share	$(2.83)	$(1.50)	$(0.83)	$7.95	$2.02

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Weighted average common shares outstanding:					
Basic	37,260	26,482	19,729	14,047	13,844
Diluted	37,260	26,482	19,729	14,047	13,844
Dividends declared per basic weighted average common shares outstanding	—	$ —	$ —	$ 8.58	$ 4.09

Balance Sheet Data (in thousands):

	As of December 31,				
	2016	2015	2014	2013	2012
Cash and cash equivalents	$115,371	$158,624	$107,978	$8,997	$23,197
Total assets	$2,835,276	$2,742,512	$712,163	$87,680	$301,190
Total long-term obligations	$428,496	$371,876	$335,531	$—	$127,112
Total liabilities	$2,735,852	$2,569,247	$563,919	$33,271	$232,687
Total HC2 Holdings, Inc. stockholders' equity, before noncontrolling interest	$44,215	$94,030	$79,187	$54,409	$68,503

Cash Flow and Related Data (in thousands):

	Years Ended December 31,				
	2016	2015	2014	2013	2012
Net cash (used in) provided by operating activities	$79,148	$(27,914)	$5,744	$(20,315)	$23,569
Purchases of property, plant and equipment	$(29,048)	$(21,324)	$(5,819)	$(12,577)	$(31,747)
Depreciation and amortization	$28,863	$32,455	$11,069	$23,964	$43,239

Discontinued Operations Data

In 2012 and 2013, we reclassified several segments as discontinued operations. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. As it pertains to ICS, we reclassified ICS's operations as a continuing operation effective as of the fourth quarter of 2013; accordingly, the revenue, costs and expenses are now included in the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income or loss, as applicable, from discontinued operations. There have been no reclassifications of any of our subsidiaries as discontinued operations in 2014, 2015 or 2016 in the consolidated statement of operations. The following provides information about the operations that are classified as discontinued operations in the consolidated statement of operations for certain prior periods.

ICS. During the second quarter of 2012, the HC2 Board of Directors committed to dispose of ICS and as a result classified ICS as a discontinued operation. In December 2013, based on management's assessment of the requirements under ASC No. 360, "Property, Plant and Equipment" ("ASC 360"), it was determined that ICS no longer met the criteria of a held for sale asset. On February 11, 2014, the HC2 Board of Directors officially ratified management's December 2013 assessment, and reclassified ICS from held for sale to held and used, effective December 31, 2013. As a result, the Company has applied retrospective adjustments for 2012 to reflect the effects of the Company's decision to cease its sale process of ICS that occurred as of December 31, 2013.

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

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

Australia. During the second quarter of 2012, the Company sold its Australian segment. As a result, the Company has reflected the effects of the discontinued operations that occurred subsequent to such date.

Summarized operating results of the discontinued operations are as follows (in thousands):

	Years Ended December 31,				
	2016	2015	2014	2013	2012
Net revenue	$—	$—	$7,530	$132,515	$375,264
Operating expenses	—	38	7,610	119,392	343,263
Income (loss) from operations	—	(38)	(80)	13,123	32,001
Interest expense	—	—	(17)	(11,362)	(24,621)
Loss on early extinguishment or restructuring of debt	—	—	—	(21,124)	(21,682)
Other income (expense), net	—	4	(60)	(51)	283
Foreign currency transaction loss	—	—	—	(378)	(2,550)
Loss before income tax (expense) benefit	—	(34)	(157)	(19,792)	(16,569)
Income tax (expense) benefit	—	13	132	171	(4,956)
Loss from discontinued operations	$—	$(21)	$(25)	$(19,621)	$(21,525)

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

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

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

Our Business

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

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

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

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

Our Operations

Refer to Note 1. Organization and Business to our audited financial statements included elsewhere in this Report on Form 10-K for additional information.

Seasonality

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

Marine Services

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

Telecommunications

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

Recent Developments

Debt Issuance

In January 2017, HC2 issued $55.0 million in aggregate principal amount of 11.0% Notes. These new notes were issued as additional notes under the 11.0% Notes Indenture, pursuant to which HC2 had previously issued $307 million in aggregate principal amount of 11.0% Notes. These new notes constitute part of a single class of securities with the existing 11.0% Notes for all purposes and have the same terms as the existing 11.0% Notes. The net proceeds from these new 11.0% Notes were used to refinance all $35 million in aggregate principal amount of the 11.0% Bridge Note, for working capital, and for general corporate purposes (including the financing of potential future acquisitions and investments). Refer to Note 26. Subsequent Events for further details.

Acquisitions

DBMG

In October 2016, DBMG acquired the detailing and Building Information Modeling ("BIM") management business of PDC. The new businesses provide steel detailing, BIM modelling and BIM management services for industrial and commercial construction projects in Australia and North America.

In November 2016, DBMG acquired BDS. BDS provides steel detailing, rebar detailing and BIM modelling services for industrial and commercial projects in Australia, New Zealand, North America and Europe. The acquisition closed on November 1, 2016.

ANG

ANG has acquired Questar Fueling Company, a subsidiary of Questar Corporation, and Constellation CNG, LLC, formerly a subsidiary of Constellation, in two separate transactions, which closed on December 16, 2016, and December 20, 2016, respectively. As a result of the acquisitions ANG acquired 18 CNG fueling stations, and it now owns and operates 40 fueling stations in 13 states across the United States, including stations in process and under development, an increase from the two stations owned at the time of HC2's initial investment in ANG in August 2014.

GMSL

In February 2016, the Company purchased a 60% controlling interest in CWind. Subsequently, on November 1, 2016, we completed the renegotiation of the deferred purchase obligation to purchase the outstanding 40% minority interest of CWind.

Step-up Acquisitions

During the year ended December 31, 2016, the Company completed the acquisitions of additional interests in and thereby control of NerVve and BeneVir.

Refer to Note 3. Business Combinations, for further detail regarding acquisitions completed during the years ended December 31, 2016 and 2015.

Preferred Share Conversions

On August 19, 2016, the Company converted 9,000 shares of the Company's Series A-1 Convertible Participating Preferred Stock held by affiliates of Luxor Capital Partners, LP ("Luxor") into 2,119,765 shares of the Company's common stock and 1,000 shares of the Company's Series A Convertible Participating Preferred Stock held by Corrib Master Fund, Ltd. ("Corrib") into 238,492 shares of the Company's common stock.

On October 7, 2016, the Company converted and exchanged all of Hudson Bay Absolute Return Credit Opportunities Master Fund, LTD.'s ("Hudson") 12,500 shares of the Company's Series A Convertible Participating Preferred Stock into a total of 3,751,838 shares of HC2's common stock.

Refer to Note 19. Equity, for further detail of the Preferred Share conversions and equity activity completed during the years ended December 31, 2016 and 2015.

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 accounting principles generally accepted in the United States of America (“U.S. GAAP”) and SEC disclosure rules, the Company’s results of operations for the year ended December 31, 2016 as compared to the year ended December 31, 2015, and the year ended December 31, 2015 as compared to the year ended December 31, 2014.

Results of Operations

Year ended December 31, 2016 compared to the year ended December 31, 2015, and the year ended December 31, 2015 compared to the year ended December 31, 2014

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

	Years Ended December 31,			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Net revenue					
Construction	$502,658	$513,770	$348,318	$(11,112)	$165,452
Marine Services	161,864	134,926	35,328	26,938	99,598
Insurance	142,457	2,865	—	139,592	2,865
Telecommunications	735,043	460,355	161,953	274,688	298,402
Energy	6,430	6,765	1,839	(335)	4,926
Other	9,674	2,125	—	7,549	2,125
Total net revenue	1,558,126	1,120,806	547,438	437,320	573,368
Income (loss) from operations					
Construction	49,639	42,114	26,358	7,525	15,756
Marine Services	(323)	10,898	(3,779)	(11,221)	14,677
Insurance	(812)	(176)	—	(636)	(176)
Telecommunications	4,150	238	(1,840)	3,912	2,078
Energy	(330)	(888)	(491)	558	(397)

Life Sciences	(10,389)	(6,404)	(4,762)	(3,985)	(1,642)
Other	(5,756)	(6,198)	(221)	442	(5,977)
Non-operating Corporate	(37,600)	(38,871)	(29,256)	1,271	(9,615)
Total income (loss) from operations	(1,421)	713	(13,991)	(2,134)	14,704
Interest expense	(43,375)	(39,017)	(12,347)	(4,358)	(26,670)
Loss on early extinguishment or restructuring of debt	—	—	(11,969)	—	11,969
Net loss on contingent consideration	(8,929)	—	—	(8,929)	—
Income (loss) from equity investees	10,768	(1,499)	3,050	12,267	(4,549)
Other income (expense), net	(2,836)	(6,820)	702	3,984	(7,522)
Loss from continuing operations before income taxes	(45,793)	(46,623)	(34,555)	830	(12,068)

Income tax (expense) benefit	(51,638)	10,882	22,869	(62,520)	(11,987)
Loss from continuing operations	(97,431)	(35,741)	(11,686)	(61,690)	(24,055)
Loss from discontinued operations	—	(21)	(146)	21	125
Net loss	(97,431)	(35,762)	(11,832)	(61,669)	(23,930)
Less: Net (income) loss attributable to noncontrolling interest and redeemable noncontrolling interest	2,882	197	(2,559)	2,685	2,756
Net loss attributable to HC2 Holdings, Inc.	(94,549)	(35,565)	(14,391)	(58,984)	(21,174)
Less: Preferred stock and deemed dividends from conversions	10,849	4,285	2,049	6,564	2,236
Net loss attributable to common stock and participating preferred stockholders	$(105,398)	$(39,850)	$(16,440)	$(65,548)	$(23,410)

Net revenue: Net revenue for the year ended December 31, 2016 increased by $437.3 million, or 39.0% from $1,120.8 million for the year ended December 31, 2015 to $1,558.1 million for the year ended December 31, 2016. This increase was due primarily to our Telecommunications segment, as a result of growth in wholesale traffic volumes, the addition of revenues associated with our Insurance Company which was acquired in December 2015, and an increase in revenue in our Marine Services segment driven by increased maintenance revenues as a result of the CWind acquisition.

Net revenue for the year ended December 31, 2015 increased $573.4 million, or 104.7%, to $1,120.8 million from $547.4 million for the year ended December 31, 2014. This increase was primarily due to the growth in the Telecommunications segment along with the added contributions from our Construction and Marine Services segments, both of which were acquired in 2014.

Income (loss) from operations: Income from operations for the year ended December 31, 2016 decreased $2.1 million to a loss of $1.4 million from income of $0.7 million for the year ended December 31, 2015. The decrease was due primarily to a reduction in operating income of our Marine Services segment, primarily due to unutilized vessel costs due to timing of projects, and losses from telecommunications installation projects, and an increase in operating loss in our Life Sciences segment due to increased research and development costs. This was partially offset by an increase in operating profit in our Construction segment driven by higher margins through continued focus on more complex projects and an increase in operating profit of our Telecommunications segment driven by higher revenues.

Income (loss) from operations for the year ended December 31, 2015 increased to income of $0.7 million from an operating loss of $14.0 million for the year ended December 31, 2014. The positive results were primarily due to increased contributions from our Construction and Marine Services segments of $30.4 million, partially offset by decreases in our remaining segments of $15.7 million.

Interest expense: Interest expense was $43.4 million and $39.0 million for the year ended December 31, 2016 and 2015, respectively. The increase was primarily due to the full year impact of the increase in the amount of our 11.0% Notes outstanding when compared to the same period last year, and additional debt assumed as a result of the CWind acquisition.

Interest expense was $39.0 million and $12.3 million for the year ended December 31, 2015 and 2014, respectively. The increase in interest expense was primarily due to the full year impact of the issuance of the initial $250 million of HC2's 11.0% Notes and other 11.0% Notes throughout 2015.

Net loss on contingent consideration: Net loss on contingent consideration was $8.9 million, largely driven by a contingency reserve established by the Company related to the Insurance acquisition, offset by a gain recognized by our Marine segment related to settlement of contingent consideration upon the purchase of the remaining interest of

CWind.

Income (loss) from equity investees: Income (loss) from equity investees was income of $10.8 million and a loss of $1.5 million for the years ended December 31, 2016 and 2015, respectively. The increase in income was driven by growth in joint venture income in our Marine Services segment, principally from its equity interests in HMN and S.B. Submarine Systems ("SBSS") which have increased income through sustained growth in the period, and by our Other segment as a result of a reduction in our share of losses recognized from our Inseego (f/k/a Novatel Wireless) investment. This was offset in part by our Life Sciences segment driven by increased losses of our equity investment in MediBeacon.

Income (loss) from equity investees was a loss of $1.5 million and income of $3.1 million for the years ended December 31, 2015 and 2014, respectively. The change was due primarily due to the full year impact of investments within our Other segment that were made in the second half of 2014 which operated at a net loss.

Other income (expense), net: Other expense decreased to $2.8 million from $6.8 million for the years ended December 31, 2016 and 2015, respectively. The decrease in expense was partly driven by net gains on step acquisitions, net gain on mark to market adjustments of derivative instruments, an increase in foreign currency transaction gains and the one-time settlement payment to our preferred holders in 2015, partially offset by impairments of investments.

Other income (expense), net was an expense of $6.8 million and income of $0.7 million for the years ended December 31, 2015 and 2014, respectively. The increase in expense was due to the settlement payment to our preferred holders, partially offset by interest income and net gains related to our long-term investments.

Income tax (expense) benefit: Income tax benefit (expense) was ($51.6) million and $10.9 million for the years ended December 31, 2016 and 2015, respectively. The amount recorded primarily relates to the establishment of valuation allowances on the deferred tax assets of the HC2 Holdings, Inc. U.S. consolidated filing group and Insurance Companies through continuing operations. Additionally, the tax benefits associated with losses generated by certain businesses that do not qualify to be included in the HC2 Holdings, Inc. U.S. consolidated income tax return 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.

Income tax benefits were $10.9 million and $22.9 million for the years ended December 31, 2015 and 2014, respectively. The benefit recorded in both periods relate to losses generated for which we expected to obtain benefits in the future. The tax benefit associated with losses generated by certain businesses that do not qualify to be included in the U.S. consolidated income tax return are being reduced by a full valuation allowance as we do not believe it is more-likely-than-not that the losses will be utilized prior to expiration. In addition, Genovel was no longer eligible to be included in the HC2's U.S. consolidated income tax return in July 2015, therefore, a full valuation allowance was recorded against the Genovel deferred tax assets during the third quarter of 2015.

Preferred stock dividends and accretion: Preferred stock dividends and accretion was $10.8 million and $4.3 million for the years ended December 31, 2016 and 2015, respectively. The increase is a result of inducements to certain preferred shareholders for the conversion of their Preferred Stock into the Company's common stock.

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

Segment Results of Operations

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

In the following tables, other operating (income) expense includes (i) (gain) loss on sale or disposal of assets, (ii) lease termination costs and (iii) asset impairment expense, which are presented as individual lines within Consolidated Statements of Operations.

Construction Segment

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

	Years Ended December 31,			Increase / (Decrease)
	2016	2015	2014	

				2014 Pro Forma	2016 compared to 2015	2015 compared to 2014 Pro Forma
Net revenue	$502,658	$513,770	$348,318	$526,059	$(11,112)	$(12,289)
Cost of revenue	399,972	430,133	295,706	445,882	(30,161)	(15,749)
Selling, general and administrative expenses	49,490	39,249	25,203	39,500	10,241	(251)
Depreciation and amortization	1,894	2,016	1,053	4,313	(122)	(2,297)
Other operating (income) expense	1,663	258	(2)	206	1,405	52
Income (loss) from operations	$49,639	$42,114	$26,358	$36,158	$7,525	$5,956
Pro Forma adjustments included above:						
Net revenue				$(177,741)		
Cost of revenue				(150,176)		
Selling, general and administrative expenses				(14,297)		
Depreciation and amortization				(3,260)		
Other operating income (expense)				(208)		
Income (loss) from operations				$26,358		

Net revenue: Net revenue from our Construction segment for the year ended December 31, 2016 decreased $11.1 million, or 2.2%, to $502.7

59

million from $513.8 million for the year ended December 31, 2015. The decrease was primarily due to continued softness in industrial market opportunities, particularly impacting the Gulf Coast region, as well as from the delayed start of several large-scale commercial projects in the Southwest and Pacific regions, which are currently in the design phase.

Net revenue from our Construction segment for the year ended December 31, 2015 increased $165.5 million, to $513.8 million from $348.3 million for the year ended December 31, 2014. On a pro forma basis, net revenue from our Construction segment for the year ended December 31, 2015 decreased $12.3 million to $513.8 million from $526.1 million for the year ended December 31, 2014. The decrease was primarily due to softness in industrial market opportunities, including automotive plant and oil and gas projects in the Midwest and Gulf Coast regions as well as decreases in the Southeast and Southwest regions, partially offset by an increase in the Pacific region's large scale commercial projects.

Cost of revenue: Cost of revenue from our Construction segment for the year ended December 31, 2016 decreased $30.2 million, or 7.0%, to $400.0 million from $430.1 million for the year ended December 31, 2015. The decrease was primarily due to better than bid performance on large commercial projects completed in 2016.

Cost of revenue from our Construction segment for the year ended December 31, 2015 increased $134.4 million, to $430.1 million from $295.7 million for the year ended December 31, 2014. On a pro forma basis, cost of revenue from our Construction segment for the year ended December 31, 2015 decreased $15.7 million, to $430.1 million from $445.9 million for the year ended December 31, 2014. The decrease was primarily due to the increase in revenues and cost savings in the Pacific regions.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Construction segment for the year ended December 31, 2016 increased $10.2 million, or 26.1%, to $49.5 million from $39.2 million for the year ended December 31, 2015. The increase was due primarily to acquisition expenses, higher compensation expense and professional fees.

Selling, general and administrative expenses from our Construction segment for the year ended December 31, 2015 increased $14.0 million, to $39.2 million from $25.2 million for the year ended December 31, 2014. On a pro forma basis, selling, general and administrative expenses from our Construction segment for the year ended December 31, 2015 decreased $0.3 million to $39.2 million from $39.5 million for the year ended December 31, 2014.

Depreciation and amortization: Depreciation and amortization from our Construction segment for the year ended December 31, 2016 decreased $0.1 million, to $1.9 million from $2.0 million for the year ended December 31, 2015.

Depreciation and amortization from our Construction segment for the year ended December 31, 2015 increased $1.0 million, to $2.0 million from $1.1 million for the year ended December 31, 2014. On a pro forma basis, depreciation and amortization from our Construction segment for the year ended December 31, 2015 decreased $2.3 million to $2.0 million from $4.3 million for the year ended December 31, 2014.

Other operating (income) expense: Other operating (income) expense from our Construction segment for the year ended December 31, 2016 increased by $1.4 million to an expense of $1.7 million from an expense of $0.3 million in the year ended December 31, 2015. The increase was primarily driven by an increased loss on disposal of assets held for sale in the current year when compared to the year ended December 31, 2015.

Other operating (income) expense from our Construction segment for the year ended December 31, 2015 increased by $0.3 million to an expense of $0.3 million from income of less than $0.1 million in the year ended December 31, 2014. On a pro forma basis, other operating income from our Construction segment for the year ended December 31, 2015 increased $0.1 million to an expense of $0.3 million from an expense of $0.2 million for the year ended December 31, 2014.

Marine Services Segment

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

	Years Ended December 31,				Increase / (Decrease)	
	2016	2015	2014	2014 Pro Forma	2016 compared to 2015	2015 compared to 2014 Pro Forma
Net revenue	$161,864	$134,926	$35,328	$163,595	$26,938	$(28,669)
Cost of revenue	121,687	92,959	23,466	109,914	28,728	(16,955)
Selling, general and administrative expenses	18,501	11,889	10,832	11,934	6,612	(45)
Depreciation and amortization	22,008	18,771	4,809	18,630	3,237	141
Other operating (income) expense	(9)	409	—	104	(418)	305
Income (loss) from operations	$(323)	$10,898	$(3,779)	$23,013	$(11,221)	$(12,115)
Pro Forma adjustments included above:						

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Net revenue	$(128,267)
Cost of revenue	(86,448)
Selling, general and administrative expenses	(1,102)
Depreciation and amortization	(13,821)
Other operating income (expense)	(104)
	$(3,779)

Net revenue: Net revenue from our Marine Services segment for the year ended December 31, 2016 increased $26.9 million to $161.9 million from $134.9 million for the year ended December 31, 2015. The increase is due primarily to increased maintenance contract revenues driven by the addition of offshore maintenance and services revenues primarily from CWind which was acquired in February 2016.

Net revenue from our Marine Services segment for the year ended December 31, 2015 increased $99.6 million to $134.9 million from $35.3 million for the year ended December 31, 2014. On a pro forma basis, net revenue from our Marine Services segment for the year ended December 31, 2015 decreased $28.7 million to $134.9 million from $163.6 million for the year ended December 31, 2014. The decrease can be primarily attributed to a reduction in the number of installation projects as a result of market conditions along with an unfavorable movement in foreign currency, which was partially offset by an increase in telecommunications maintenance contract revenues.

Cost of revenue: Cost of revenue from our Marine Services segment for the year ended December 31, 2016 increased $28.7 million to $121.7 million from $93.0 million for the year ended December 31, 2015. The increase in cost of revenue was due partly to the addition of resource and vessel costs of CWind, unutilized vessel costs due to timing of installation projects, and losses on telecommunications installation projects which resulted from administrative delays by the customers and adverse weather conditions arriving earlier in the season.

Cost of revenue from our Marine Services segment for the year ended December 31, 2015 increased $69.5 million to $93.0 million from $23.5 million for the year ended December 31, 2014. On a pro forma basis, cost of revenue from our Marine Services segment for the year ended December 31, 2015 decreased $17.0 million to $93.0 million from $109.9 million for the year ended December 31, 2014. The decrease was primarily due to the reduced number of installation projects compared to the previous period.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Marine Services segment for the year ended December 31, 2016 increased $6.6 million to $18.5 million from $11.9 million for the year ended December 31, 2015. The increase was due primarily to the addition of selling, general and administrative expenses of CWind.

Selling, general and administrative expenses from our Marine Services segment for the year ended December 31, 2015 increased $1.1 million to $11.9 million from $10.8 million for the year ended December 31, 2014. On a pro forma basis, selling, general and administrative expenses from our Marine Services segment for the year ended December 31, 2015 remained flat at $11.9 million when compared to the prior year.

Depreciation and amortization: Depreciation and amortization from our Marine Services segment for the year ended December 31, 2016 increased $3.2 million, or 17.2%, to $22.0 million from $18.8 million for the year ended December 31, 2015. The increase was due primarily to the acquired CWind assets.

Depreciation and amortization from our Marine Services segment for the year ended December 31, 2015 increased $14.0 million to $18.8 million from $4.8 million for the year ended December 31, 2014. On a pro forma basis, depreciation and amortization from our Marine Services segment for the year ended December 31, 2015 increased $0.1 million to $18.8 million from $18.6 million for the year ended December 31, 2014.

Insurance Segment

We acquired our Insurance operations on December 24, 2015 and consequently, results for 2015 in the table below only represent six days of activity. Presented below is a table that summarizes the results of operations of our Insurance segment and describes the activity for the year-ended December 31, 2016 (in thousands):

	Year Ended December 31,	
	2016	2015
Life, accident and health earned premiums, net	$79,406	$1,578
Net investment income	58,032	1,031
Net realized gains on investments	5,019	256
Net revenue	142,457	2,865
Policy benefits, changes in reserves, and commissions	123,182	2,245
Selling, general and administrative	21,456	794
Depreciation and amortization	(3,769)	2
Other operating expense	2,400	—
Income from operations	$(812)	$(176)

Life, accident and health earned premiums, net: Life, accident and health earned premiums, net were $79.4 million for the year ended December 31, 2016 and consisted primarily of premiums earned on long-term care insurance policies totaling $70.6 million.

Net investment income: Net investment income consists primarily of interest income and dividends earned from investments in fixed maturity and equity securities, respectively. The $58.0 million of net investment income for the year ended December 31, 2016 was primarily driven by interest income, net of amortization of the discount or premium of $54.7 million, and dividends of $2.3 million.

Net realized gains on investments: Realized gains on investments of $5.0 million for the year ended December 31, 2016 resulted primarily from sales of low yield fixed maturity securities, fixed maturity securities with a risk of credit downgrades, and mark to market adjustments on certain securities accounted for under ASC 815. Sales resulted in net realized gains of $6.7 million and changes in fair value of securities resulted in net realized losses of $1.5 million.

Policy benefits, changes in reserves, and commissions: Policy benefits, changes in reserves, and commissions for the year ended December 31, 2016, were $123.2 million which consisted of benefit expenses and reserve changes for long-term care, life and annuity policies, and renewal commissions paid to agents. The reserve has increased during the period due primarily to the interest earned on the beginning reserve balances plus premiums received during period exceeding benefits paid out during the periods.

Selling, general and administrative: Selling, general and administrative expenses of $21.5 million for the year ended December 31, 2016 were primarily the result of (i) salaries and benefits of $10.2 million, (ii) post-acquisition transaction services provided by the Seller Parties of $4.8 million pursuant to the Transition Services Agreement and the Administrative Services Agreement, (iii) accounting, actuarial, legal and tax consulting services of $4.2 million, and (iv) premium taxes of $0.9 million, all respectively.

Depreciation and amortization: Depreciation and amortization of $3.8 million for the year ended December 31, 2016 was largely driven by the amortization of negative value of business acquired ("VOBA"). For a description of the VOBA recognized with respect to the acquisition of the Insurance Companies, see Note 2. Summary of Significant Accounting Policies.

Telecommunications Segment

Beginning in 2015, the Telecommunications segment undertook a change in strategy and a shift in sales focus towards larger telecommunications carriers with higher volume opportunity and characteristically lower credit risk. As a result, the significant increase in volumes and revenue have been accompanied by a reduction in collectability risk and costs to collect, but at a lower average margin contribution than in prior periods.

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

	Years Ended December 31,			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Net revenue	$735,043	$460,355	$161,953	$274,688	$298,402
Cost of revenue	721,219	451,697	154,346	269,522	297,351
Selling, general and administrative expenses	8,280	6,769	8,788	1,511	(2,019)
Depreciation and amortization	507	417	528	90	(111)
Other operating expense	887	1,234	131	(347)	1,103
Income (loss) from operations	$4,150	$238	$(1,840)	$3,912	$2,078

Net revenue: Net revenue from our Telecommunications segment for the year ended December 31, 2016 increased $274.7 million, or 59.7%, to $735.0 million from $460.4 million for the year ended December 31, 2015. The increase was due primarily to growth in wholesale traffic volumes driven by the changing regulatory environment throughout the European market combined with continued business growth in the Middle East region.

Net revenue from our Telecommunications segment for the year ended December 31, 2015 increased $298.4 million, or 184.3%, to $460.4 million from $162.0 million for the year ended December 31, 2014. The increase is primarily attributable to growth in wholesale traffic volumes due to continued expansion in the scale and number of customer relationships.

Cost of revenue: Cost of revenue from our Telecommunications segment for the year ended December 31, 2016 increased $269.5 million, or 59.7%, to $721.2 million from $451.7 million for the year ended December 31, 2015. The increase is directly correlated to the growth in wholesale traffic volumes.

Cost of revenue from our Telecommunications segment for the year ended December 31, 2015 increased $297.4 million, or 192.7%, to $451.7 million from $154.3 million for the year ended December 31, 2014. The increase is directly correlated to the growth in wholesale traffic volumes.

Selling, general and administrative: Selling, general and administrative expenses from our Telecommunications segment for the year ended December 31, 2016 increased $1.5 million, or 22.3%, to $8.3 million from $6.8 million for the year ended December 31, 2015. The increase was due primarily to a higher bonus and commission expense as a result of improved sales force performance, as well as from an increase in operational support costs.

Selling, general and administrative expenses from our Telecommunications segment for the year ended December 31, 2015 decreased $2.0 million, or 23.0%, to $6.8 million from $8.8 million for the year ended December 31, 2014. The decrease was primarily due to the consolidation of functions with a focus on cost savings.

Depreciation and amortization: Depreciation and amortization from our Telecommunications segment for the year ended December 31, 2016 increased $0.1 million, or 21.6%, to $0.5 million from $0.4 million for the year ended December 31, 2015.

Depreciation and amortization from our Telecommunications segment for the year ended December 31, 2015 decreased $0.1 million, or 21.0%, to $0.4 million from $0.5 million for the year ended December 31, 2014. The decrease was primarily due to non-comparative equipment disposal in 2014.

Other operating (income) expense: Other operating expense from our Telecommunications segment for the year ended December 31, 2016 decreased $0.3 million. In 2015, the Telecommunications segment recognized a lease impairment on a legacy switch site recorded in fiscal year 2015 that was no longer in effect for the corresponding period for 2016.

Other operating (income) expense from our Telecommunications segment for the year ended December 31, 2015 increased $1.1 million, to $1.2 million of expense from $0.1 million of expense for the year ended December 31, 2014. The increase was primarily due to a lease impairment on a legacy switch site.

Energy Segment

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

	Years Ended December 31,				Increase / (Decrease)	
	2016	2015	2014	2014 Pro Forma	2016 compared to 2015	2015 compared to 2014 Pro Forma
Net revenue	$6,430	$6,765	$1,839	$2,545	$(335)	$ 4,220
Cost of revenue	2,553	3,871	824	1,287	(1,318)	2,584
Selling, general and administrative expenses	1,958	2,147	1,178	1,616	(189)	531
Depreciation and amortization	2,249	1,635	328	1,009	614	626
Income (loss) from operations	$(330)	$(888)	$(491)	$(1,367)	$558	$ 479
Pro Forma adjustments included above:						
Net revenue				$(706)		
Cost of revenue				(463)		
Selling, general and administrative expenses				(438)		
Depreciation and amortization				(681)		
				$(491)		

Net revenue: Net revenue from our Energy segment for the year ended December 31, 2016 decreased $0.3 million to $6.4 million from $6.8 million for the year ended December 31, 2015. The decrease was driven by a reduction in design and build project revenues, which was largely offset by an increase in CNG sales volumes, resulting largely from the inclusion of sales from newly developed and acquired fueling stations.

Net revenue from our Energy segment for the year ended December 31, 2015 increased $4.9 million to $6.8 million from $1.8 million for the year ended December 31, 2014. On a pro forma basis, net revenue from our Energy segment for the year ended December 31, 2015 increased $4.2 million to $6.8 million from $2.5 million for the year ended December 31, 2014. The actual and pro forma increases were primarily due to an increase in design and build project revenues and an increase in the number of fueling stations driving increased CNG sales volumes.

Cost of revenue: Cost of revenue from our Energy segment for the year ended December 31, 2016 decreased $1.3 million to $2.6 million from $3.9 million for the year ended December 31, 2015. The decrease was due primarily to the reduction in design and build project revenues, which typically generate higher cost of revenue and lower margin than recurring revenues generated through compressed natural gas sales from our owned, operated and maintained fueling stations.

Cost of revenue from our Energy segment for the year ended December 31, 2015 increased $3.0 million to $3.9 million from $0.8 million for the year ended December 31, 2014. On a pro forma basis, cost of revenue from our Energy segment for the year ended December 31, 2015 increased $2.6 million to $3.9 million from $1.3 million for the year ended December 31, 2014. The increase across all actual and pro forma comparative periods was primarily due to the increase in net revenue.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Energy segment for the year ended December 31, 2016 decreased $0.2 million to $2.0 million from $2.1 million for the year ended December 31, 2015, driven by lower salary costs.

Selling, general and administrative expenses from our Energy segment for the year ended December 31, 2015 increased $1.0 million to $2.1 million from $1.2 million for the year ended December 31, 2014. On a pro forma basis, selling, general and administrative expenses from our Energy segment for the year ended December 31, 2015 increased $0.5 million to $2.1 million from $1.6 million for the year ended December 31, 2014. The actual and pro forma increases were primarily due to an increase in payroll and benefits as a result of increased employee headcount, as well as increases in insurance costs and professional fees that can be attributed to growth in the business.

Depreciation and amortization: Depreciation and amortization from our Energy segment for the year ended December 31, 2016 increased $0.6 million to $2.2 million from $1.6 million for the year ended December 31, 2015. The increase was primarily due to the increase in the number of natural gas fueling stations placed in service.

Depreciation and amortization from our Energy segment for the year ended December 31, 2015 increased $1.3 million to $1.6 million from $0.3 million for the year ended December 31, 2014. On a pro forma basis, depreciation and amortization from our Energy segment for the year ended December 31, 2015 increased $0.6 million to $1.6 million from $1.0 million for the year ended December 31, 2014. The actual and pro forma increases were primarily due to the increase in the number of natural gas filling stations placed in service.

Life Sciences Segment

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

	Years Ended December 31,			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Selling, general and administrative expenses	$10,265	$6,383	$4,761	$3,882	$1,622
Depreciation and amortization	124	21	1	103	20
Income (loss) from operations	$(10,389)	$(6,404)	$(4,762)	$(3,985)	$(1,642)

Selling, general and administrative expenses: Selling, general and administrative expenses from our Life Sciences segment for the year ended December 31, 2016 increased $3.9 million, or 60.8%, to $10.3 million from $6.4 million for the year ended December 31, 2015. The increase was primarily due to progress driven increases in clinical expenses, research and development, and payroll and benefits at R2, and the impact of BeneVir as a consolidating entity during the three months ended March 31, 2016 as a result of HC2's additional investment.

Selling, general and administrative expenses from our Life Sciences segment for the year ended December 31, 2015 increased $1.6 million, or 34.1%, to $6.4 million from $4.8 million for the year ended December 31, 2014. The increase was primarily due to headcount additions, professional fees, research and development and travel expenses associated with early-stage companies formed in 2014.

Other Segment

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

	Years Ended December 31,			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Net revenue	$9,674	$2,125	$—	$7,549	$2,125
Cost of revenue	8,610	3,963	—	4,647	3,963
Selling, general and administrative expenses	5,340	2,426	221	2,914	2,205
Depreciation and amortization	1,480	1,934	—	(454)	1,934
Income (loss) from operations	$(5,756)	$(6,198)	$(221)	$442	$(5,977)

Net revenue: Net revenue from our Other segment for the year ended December 31, 2016 increased $7.5 million, or 355.2%, to $9.7 million from $2.1 million for the year ended December 31, 2015. The increase was primarily driven by the release of the NASCAR® Heat Evolution game in September 2016.

Cost of revenue: Cost of revenue from our Other segment for the year ended December 31, 2016 increased $4.6 million, or 117.3%, to $8.6 million from $4.0 million for the year ended December 31, 2015. The increase was primarily driven by an increase in royalties, disc manufacturing, and game development costs related to the NASCAR® Heat Evolution game.

Selling, general and administrative: Selling, general and administrative expenses from our Other segment for the year ended December 31, 2016 increased $2.9 million, or 120.1%, to $5.3 million from $2.4 million for the year ended December 31, 2015. The increase was due to compensation, marketing and advertising expenses associated with the release of console and PC versions of the NASCAR® Heat Evolution game.

Selling, general and administrative expenses from our Other segment for the year ended December 31, 2015 increased $2.2 million to $2.4 million from $0.2 million for the year ended December 31, 2014. The increase was primarily due to the growth of the business through increases in headcount, professional fees and travel and entertainment associated with the release of DMi's first game in 2015.

Depreciation and amortization: Depreciation and amortization from our Other segment for the year ended December 31, 2016 decreased $0.5 million, or 23.5%, to $1.5 million from $1.9 million for the year ended December 31, 2015. The decrease was primarily due to the impact of intangible assets that were fully amortized in 2015.

Non-operating Corporate

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

	Years Ended December 31,			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Selling, general and administrative expenses	$37,600	$38,869	$29,256	$(1,269)	$ 9,613
Other operating (income) expense	—	2	—	(2)	2
Income (loss) from operations	$(37,600)	$(38,871)	$(29,256)	$(1,271)	$ 9,615

Selling, general and administrative expenses: Selling, general and administrative expenses from our Non-operating Corporate segment for the year ended December 31, 2016 decreased $1.3 million to $37.6 million from $38.9 million for the year ended December 31, 2015. The decrease was primarily attributable to a reduction in acquisition related expenses and share-based payment expense, partially offset by an increase in bonus expense and costs associated with continued growth in the Company, including headcount-driven increases in payroll and rent expense, and increased professional fees.

Selling, general and administrative expenses from our Non-operating Corporate segment for the year ended December 31, 2015 increased $9.6 million, to $38.9 million from $29.3 million for the year ended December 31, 2014. The increase was primarily due to a $9.9 million increase in professional fees, primarily attributable to legal and accounting fees for acquisition-related activities, and a $2.9 million increase in payroll and benefits as a result of an increase in employee headcount, partially offset by decreases in bonus amounts and share-based payment expense.

Income (loss) from Equity Investments

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

	Years Ended December 31,			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Marine Services	$20,007	$13,437	$3,937	$6,570	$9,500
Life Sciences	(2,024)	(891)	(35)	(1,133)	(856)
Other	(7,215)	(14,045)	(852)	6,830	(13,193)
Income (loss) from equity investments	$10,768	$(1,499)	$3,050	$12,267	$(4,549)

Marine Services: Income from equity investments in our Marine Services segment for the year ended December 31, 2016 increased $6.6 million to $20.0 million from $13.4 million for the year ended December 31, 2015. The increase in income was due to growth in GMSL's joint venture income, principally HMN and SBSS, which have increased income through sustained growth.

Income from equity investments from our Marine Services segment for the year ended December 31, 2015 increased $9.5 million to income of $13.4 million from income of $3.9 million for the year ended December 31, 2014. The increase was primarily due to the full-year impact of its joint ventures and an improvement in their performance.

Life Sciences: Loss from equity investments from our Life Sciences segment for the year ended December 31, 2016 increased $1.1 million to a loss of $2.0 million from a loss of $0.9 million for the year ended December 31, 2015. The increase was due to higher equity method losses recorded from our investment in MediBeacon as a result of our additional investment in 2016 compared to the prior year, as well as an increase in MediBeacon expenses following successful completion of developmental milestones, offset in part by a reduction in equity method loss of our investment in BeneVir, which we began to consolidate on February 1, 2016.

Loss from equity investments from our Life Sciences segment for the year ended December 31, 2015 increased $0.9 million to a loss of $0.9 million from $35.0 thousand for the year ended December 31, 2014. The increase was primarily due to various equity investments made in the fourth quarter of 2014.

Other: Loss from equity investments from our Other segment for the year ended December 31, 2016 decreased $6.8 million to a loss of $7.2 million from a loss of $14.0 million for the year ended December 31, 2015. The change was largely driven by the performance of Inseego, as well as by a decrease in equity losses related to NerVve, prior to its consolidation on August 17, 2016.

Loss from equity investments from our Other segment for the year ended December 31, 2015 increased $13.2 million to a loss of $14.0 million from a loss of $0.9 million for the year ended December 31, 2014. The increase was primarily due to losses from the September 2014 acquisition of Inseego.

Non-GAAP Financial Measures and Other Information

Adjusted EBITDA

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.

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

Our Adjusted EBITDA was $60.2 million and $52.1 million for the years ended December 31, 2016 and 2015, respectively. The increase is primarily due to organic growth in our Construction and Telecommunications segments, mergers and acquisitions ("M&A") activity in our Energy segment, and improved equity method income in our Marine Services segment, particularly in our JV investments in HMN and SBSS. These increases were offset by increased losses from our Life Sciences and Other segments as our early stage companies continue to develop their businesses, along with increased losses from our Non-operating Corporate segment due to growth in head count and an increase in corporate bonus.

	Year Ended December 31, 2016							
	Construction	Marine Services	Telecom	Energy	Life Sciences	Other and Eliminations	Non-operating Corporate	HC2
Net Income (loss) attributable to HC2 Holdings, Inc.								$(94,549)
Less: Net Income (loss) attributable to HC2 Holdings Insurance Segment								(14,028)
Net Income (loss) attributable to HC2 Holdings, Inc., excluding Insurance Segment	$28,002	$17,447	$1,435	$7	$(7,646)	$(24,800)	$(94,966)	$(80,521)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:								
Depreciation and amortization	1,892	22,007	504	2,248	124	1,480	9	28,264
Depreciation and amortization (included in cost of revenue)	4,370	—	—	—	—	—	—	4,370

Amortization of equity method fair value adjustments at acquisition	—	(1,371)	—	—	—	—	—	(1,371)
(Gain) loss on sale or disposal of assets	1,663	(9)	708	—	—	—	—	2,362
Lease termination costs	—	—	179	—	—	—	—	179
Interest expense	1,239	4,774	—	211	—	1,164	35,987	43,375
Net loss on contingent consideration	—	(2,482)	—	—	—	—	11,411	8,929
Other (income) expense, net	(163)	(2,424)	(87)	(8)	(3,213)	9,987	(1,277)	2,815
Foreign currency (gain) loss (included in cost of revenue)	—	(1,106)	—	—	—	—	—	(1,106)
Income tax (benefit) expense	18,727	1,394	2,803	(535)	1,558	3,250	11,245	38,442
Noncontrolling interest	1,834	974	—	(4)	(3,111)	(2,575)	—	(2,882)
Bonus to be settled in equity	—	—	—	—	—	—	2,503	2,503
Share-based payment expense	—	1,682	—	597	251	273	5,545	8,348
Acquisition and nonrecurring items	2,296	290	18	27	—	—	3,825	6,456
Adjusted EBITDA	$59,860	$41,176	$5,560	$2,543	$(12,037)	$(11,221)	$(25,718)	$60,163

	Year ended December 31, 2015							
	Construction	Marine Services	Telecom	Energy	Life Sciences	Other and Eliminations	Non-operating Corporate	HC2
Net Income (loss) attributable to HC2 Holdings, Inc.								(35,565)
Less: Net Income (loss) attributable to HC2 Holdings Insurance Segment								1,327
Net Income (loss) attributable to HC2 Holdings, Inc., excluding Insurance Segment	$24,451	$20,855	$2,779	$(274)	$(4,575)	$ (18,276)	$ (61,852)	$(36,892)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:								
Depreciation and amortization	2,016	18,772	417	1,635	20	1,934	—	24,794
Depreciation and amortization (included in cost of revenue)	7,659	—	—	—	—	—	—	7,659
Amortization of equity method fair value adjustments at acquisition	—	(1,516)	—	—	—	—	—	(1,516)
(Gain) loss on sale or disposal of assets	257	(138)	50	—	—	1	—	170
Lease termination costs	—	—	1,184	—	—	1	—	1,185
Asset impairment expense	—	547	—	—	—	—	—	547
Interest expense	1,379	3,803	—	42	—	—	33,793	39,017
Other (income) expense, net	(443)	(1,340)	(2,304)	(42)	(1)	5,764	5,242	6,876
Foreign currency (gain) loss (included in cost of revenue)	—	(2,039)	—	—	—	—	—	(2,039)
Income tax (benefit) expense	15,572	400	(237)	(347)	(1,037)	(7,733)	(16,052)	(9,434)
Loss from discontinued operations	20	—	—	—	—	1	—	21
Noncontrolling interest	1,136	616	—	(267)	(1,681)	(1)	—	(197)
Share-based payment expense	—	—	—	49	71	—	10,982	11,102
Acquisition and nonrecurring items	—	2,181	121	70	23	—	8,362	10,757
Adjusted EBITDA	$52,047	$42,141	$2,010	$866	$(7,180)	$ (18,309)	$ (19,525)	$52,050

Construction: Adjusted EBITDA from our Construction segment for the year ended December 31, 2016 increased $7.8 million to $59.9 million from $52.0 million for the year ended December 31, 2015. The increase was primarily due to growth in gross profit driven by efficiencies realized and better than bid performance on large commercial market projects completed in 2016.

Marine Services: Adjusted EBITDA from our Marine Services segment for the year ended December 31, 2016 decreased $1.0 million to 41.2 million from $42.1 million for the year ended December 31, 2015. The decrease was due primarily to reductions in gross margin and increased SG&A expense driven by the CWind acquisition, largely offset by an increase in income from equity method investments, principally our HMN and SBSS joint ventures, which have increased income through sustained growth over the last year.

Telecommunications: Adjusted EBITDA from our Telecommunications segment for the year ended December 31, 2016 increased $3.6 million to $5.6 million from $2.0 million for the year ended December 31, 2015. The increase was due primarily to volume-driven revenue growth, in part delivered by the changing regulatory environment throughout the European market combined with business growth in the Middle East region, partially offset by increased SG&A as a result of a higher bonus and commission expense as a result of improved sales force performance, as well as from an increase in operational support costs.

Energy: Adjusted EBITDA from our Energy segment for the year ended December 31, 2016 increased $1.7 million to $2.5 million from $0.9 million for the year ended December 31, 2015 due to increased margins from the reduction of design and build projects and an increase in owned, operated and maintained fueling stations, including the impact of sales from newly developed and acquired fueling stations.

Life Sciences: Adjusted EBITDA loss from our Life Sciences segment for the year ended December 31, 2016 increased $4.9 million to a loss of $12.0 million from a loss of $7.2 million due to a progress driven increase in costs at early stage consolidating subsidiaries, principally R2, and an increase in equity method losses recorded for Medibeacon as a result of increased investment compared to the prior year and increased expenses resulting from Medibeacon’s successful completion of key developmental milestones.

Other and Eliminations: Adjusted EBITDA loss from the Other segment and eliminations for the year ended December 31, 2016 decreased $7.1 million to $11.2 million from $18.3 million for the year ended December 31, 2015. The decrease in loss was due primarily to a reduction in losses recognized from our equity method investments, principally Inseego Corporation.

Non-operating Corporate: Adjusted EBITDA loss from our Non-operating Corporate segment for the year ended December 31, 2016 increased $6.2 million to $25.7 million from $19.5 million for the year ended December 31, 2015. The increase was primarily due to an increase in bonus expense and costs associated with continued growth in the company including headcount-driven increases in payroll and rent expense, and increased professional fees.

Adjusted Operating Income - Insurance

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

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

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

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

	Year ended December 31, 2016
Net loss - Insurance Segment	$(14,028)
Effect of investment (gains) losses	(5,019)
Asset impairment expense	2,400
Acquisition and non-recurring items	714
Insurance AOI	$(15,933)

Discontinued Operations

2015 and 2014 Developments—The closing of the sale of PTI was completed on July 31, 2014. Prior to the closing, PTI had been included in discontinued operations as a result of being held for sale. There were no additional discontinued operations in 2015 or 2014 and none in 2016.

Summarized operating results of the discontinued operations are as follows (in thousands):

	Years Ended December 31,	
	2015	2014

Net revenue	$—	$7,530
Operating expenses	38	7,610
Income (loss) from operations	(38)	(80)
Interest expense	—	(17)
Other income (expense), net	4	(60)
Loss before income tax (expense) benefit	(34)	(157)
Income tax (expense) benefit	13	132
Loss from discontinued operations	$(21)	$(25)

Liquidity and Capital Resources

Short- and Long-Term Liquidity Considerations and Risks

HC2 is a holding company and its liquidity needs are primarily for interest payments on its 11.0% Notes, the 11.0% Bridge Note, and dividend payments on our Preferred Stock. We also have liquidity needs related to recurring operational expenses.

As of December 31, 2016, we had $115.4 million of cash and cash equivalents compared to $158.6 million as of December 31, 2015. On a stand-alone basis, as of December 31, 2016, HC2 had cash and cash equivalents of $21.7 million compared to $41.1 million at December 31,

2015. At December 31, 2016, cash and cash equivalents in our Insurance segment was $24.5 million compared to $49.6 million at December 31, 2015.

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

As of December 31, 2016, we had $428.5 million of indebtedness on a consolidated basis compared to $371.9 million as of December 31, 2015. On a stand-alone basis, as of December 31, 2016, we had $29.5 million in liquidation value of outstanding Preferred Stock compared to $52.6 million as of December 31, 2015. We are required to make semi-annual interest payments on our outstanding 11.0% Notes on June 1st and December 1st of each year. We are required to make dividend payments on our outstanding Preferred Stock on January 15th, April 15th, July 15th, and October 15th of each year.

In January 2017, the Company issued $55.0 million in aggregate principal amount of 11.0% Senior Secured Notes due 2019. The new notes were issued as additional notes under the 11.0% notes indenture pursuant to which we previously issued $307 million aggregate principal amount of the 11.0% Notes. The net proceeds from these new 11.0% Notes were used to refinance all $35 million in aggregate principal amount of the 11.0% Bridge Note, for working capital, and for general corporate purposes (including the financing of potential future acquisitions and investments). The new notes constitute part of a single class of securities with the 11.0% Notes for all purposes and have the same terms as the 11.0% Notess. Refer to Note 26. Subsequent Events for further details.

Under a tax sharing agreement, DBMG reimburses HC2 for use of our Net Operating Losses. In 2016, HC2 received $39.9 million from DBMG under this tax sharing agreement.

In 2016, we received $1.5 million in dividends from our Telecommunications segment. Subsequent to year end, we received a $9.2 million dividend from DBMG.

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

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

Capital Expenditures

Capital expenditures for the years ended December 31, 2016, 2015 and 2014 are set forth in the table below. Capital expenditures for the year ended December 31, 2014 include pro forma financial information for the Construction and Marine Services operating segments. We have also included pro forma capital expenditures give effect to the acquisitions of DBMG and GMSL as if they had occurred on January 1, 2014.

	As Reported			Pro Forma
	Years Ended December 31,			
	2016	2015	2014	2014
Construction	$8,243	$4,969	$5,039	$10,858
Marine Services	12,231	10,651	(863)	3,345
Telecommunications	831	449	42	42
Energy	7,211	4,750	803	803
Life Sciences	195	271	—	—
Insurance	128	—	—	—
Other	45	234	798	798
Non operating corporate	164	$—	$—	$—
Total	$29,048	$21,324	$5,819	$15,846

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

Insurance Companies Capital Contributions

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

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

Additionally, CGI entered into a capital maintenance agreement with Great American. Under the agreement, if the applicable acquired company's total adjusted capital reported in its annual statutory financial statements is less than 400% of its authorized control level risk-based capital, Great American has agreed to pay cash or assets to the applicable acquired company as required to eliminate such shortfall (after giving effect to any capital contributions made by the Company or its affiliates since the date of the relevant annual statutory financial statement). Great American's obligation to make such payments is capped at $35.0 million under the capital maintenance agreement. The capital maintenance agreements will remain in effect from January 1, 2016 to January 1, 2021 or until payments by Great American under the applicable agreement equal the applicable cap. Pursuant to the purchase agreement, the Company is required to indemnify Great American for the amount of any payments made by Great American under the capital maintenance agreements.

Indebtedness

See Note 13. Long-term Obligations, to the Consolidated Financial Statements included elsewhere in the Annual Report on Form 10-K for a description of our long-term debt.

Restrictive Covenants

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

The 11.0% Notes Indenture also includes two maintenance covenants: (1) a liquidity covenant; and (2) a collateral coverage covenant.

The liquidity covenant provides that the Company will not permit the aggregate amount of all unrestricted cash and cash equivalents of the Company and the Guarantors to be less than the Company's obligations to pay interest on the 11.0% Notes and all other debt of the Company and the Guarantors, plus mandatory cash dividends on the Company's Preferred Stock, for the next (i) 6 months if our collateral coverage ratio is greater than 2.0x or (ii) 12 months if our collateral coverage ratio is less than 2.0x. As of December 31, 2016, our collateral coverage ratio was greater than 2.0x and therefore the liquidity covenant requires the Company to maintain 6 months of debt service and preferred dividend obligations. If the collateral coverage ratio subsequently becomes lower than 2:1 in the future, the maintenance of liquidity requirement under the 11.0% Notes will be increased back to 12 months of debt service and preferred dividend obligations. As of December 31, 2016, the Company was in compliance with this covenant.

The collateral coverage covenant provides that the Company’s Collateral Coverage Ratio (defined in the 11.0% Notes Indenture as the ratio of (i) the Loan Collateral to (ii) Consolidated Secured Debt (each as defined therein)) calculated on a pro forma basis as of the last day of each fiscal quarter may not be less than 1.25:1. As of December 31, 2016, the Company was in compliance with this covenant.

The 11.0% Bridge Notes are pari-passu with the 11.0% Notes Indenture restrictive covenants.

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

Summary of Consolidated Cash Flows

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

	Years Ended December 31,			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Operating activities	$79,148	$(27,914)	$5,744	$107,062	$(33,658)
Investing activities	(140,218)	(18,914)	(148,902)	(121,304)	129,988
Financing activities	18,788	102,693	244,140	(83,905)	(141,447)
Effect of exchange rate changes on cash and cash equivalents	(971)	(5,219)	(2,001)	4,248	(3,218)
Net (decrease) increase in cash and cash equivalents	$(43,253)	$50,646	$98,981	$(93,899)	$(48,335)

Operating Activities

Cash provided by operating activities totaled $79.1 million for fiscal 2016 as compared to cash used of $27.9 million for fiscal 2015. The $107.1 million increase was the result an increase in working capital, driven by $55.6 million increases in insurance reserves from premiums collected in 2016, $78.5 million net increase on contracts in progress and a $24.3 million reduction in accounts payable.

Cash used in operating activities totaled $27.9 million for fiscal 2015 as compared to cash provided of $5.7 million for fiscal 2014. The $33.7 million change was the result of a $54.2 million decrease in working capital, partially offset by an $18.2 million increase in net income and receipt of $4.6 million in dividends from equity investees, net of non-cash operating activity, resulting from the full year impact of our 2014 acquisitions offset in part by an increase in interest expense and the impact of our early stage subsidiaries.

Investing Activities

Cash used in investing activities during fiscal 2016 was $140.2 million compared to $18.9 million during fiscal 2015, primarily driven by a $106.1 million increase in cash paid for acquisitions and a $10.8 million increase in net investment activity primarily due to the purchase of investments in our Insurance segment.

Cash used in investing activities during fiscal 2015 was $18.9 million compared to $148.9 million during fiscal 2014, primarily driven by a $154.1 million decrease in cash paid for acquisitions and an $11.7 million increase in net investment activity.

Financing Activities

Cash provided by financing activities during fiscal 2016 was $18.8 million compared to $102.7 million during fiscal 2015, primarily driven by a $68.0 million decrease in proceeds from the issuance of equity securities and an increase of $21.0 million in payments on annuity surrenders.

Cash provided by financing activities during fiscal 2015 was $102.7 million compared to $244.1 million during fiscal 2014, primarily driven by a decrease of $191.4 million of net proceeds from debt instruments, a $22.0 million decrease in proceeds from the issuance of equity securities and a $37.9 million decrease in purchase of non-controlling interest.

Contractual Obligations:

The obligations set forth in the table below reflect the contractual payments of principal and interest that existed as of December 31, 2016 (in thousands):

	Payments Due By Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Life, accident and health liabilities (1)	$1,170,244	$ 73,592	$99,788	$90,224	$ 906,640
Annuities [(1)]	251,270	25,463	42,364	33,596	149,847
Operating leases	34,155	7,018	11,881	8,289	6,967
Capital leases	61,745	6,639	18,994	18,868	17,244
Purchase Obligations	54,751	54,751	—	—	—
Notes payable [(2)]	493,604	80,823	390,337	9,175	13,269
Total contractual obligations	$2,065,769	$ 248,286	$563,364	$160,152	$ 1,093,967

[(1)] Net of reinsurance recoverable

[(2)] Interest is calculated using stated interest rates as shown in Note 13. Long-term Obligations, to our consolidated financial statements.

Other Invested Assets

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

	December 31, 2016		December 31, 2015	
	Cost Method	Equity Method	Cost Method	Equity Method
Common Equity	$138	$1,047	$249	$6,475
Preferred Equity	2,484	9,971	1,655	7,522
Warrants	3,097	—	3,880	—
Limited Partnerships	—	1,116	—	1,171
Joint Ventures	—	40,697	—	27,324
Total	$5,719	$52,831	$5,784	$42,492

Construction

Cash Flows

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

DBMG is required to make monthly or quarterly interest payments on all of its debt. Based upon the December 31, 2016 debt balance, DBMG anticipates that its interest payments will be approximately $0.1 million each quarter.

DBMG estimates that its capital expenditures for 2017 will be approximately $7.5 million. It believes that its available funds, cash generated by operating activities and funds available under its bank credit facilities will be sufficient to fund these capital expenditures and its working capital needs. However, DBMG may expand its operations through future acquisitions and may require additional equity or debt financing.

Marine Services

Cash Flows

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

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

Market Environment

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

Insurance

Cash flows

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

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

Market environment

As of December 31, 2016, CIG was in a position to hold any investment security showing an unrealized loss until recovery, provided it remains comfortable with the credit of the issuer. CIG does not rely on short-term funding or commercial paper and to date it has experienced no liquidity pressure, nor does it anticipate such pressure in the foreseeable future. CIG projects its reserves to be sufficient and believes its current capital base is adequate to support its business.

Dividend Limitations

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

The ability of CIG’s subsidiaries to pay dividends and to make such other payments is limited by applicable laws and regulations of the states in which its subsidiaries are domiciled, which subject its subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, CIG’s insurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay. Along with solvency regulations, the primary driver in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength in the form of its subsidiaries Risk-Based Capital ("RBC") ratio. CIG monitors its insurance subsidiaries' compliance with the RBC requirements specified by the National Association of Insurance Commissioners. As of December 31, 2016, each of CIG's insurance subsidiaries exceeds the minimum RBC requirements. CIG's insurance subsidiaries paid no dividends to CIG in fiscal year 2016 and have further each agreed with each of their respective state regulators to not pay dividends for three years following the completion of the acquisition on December 24, 2015.

Asset Liability Management

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

Investments

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

	December 31, 2016		December 31, 2015	
	Fair Value	Percent	Fair Value	Percent
U.S. Government and government agencies	$15,950	1.1 %	$17,083	1.3 %
States, municipalities and political subdivisions	375,077	26.6 %	386,260	29.4 %
Foreign government	5,978	0.4 %	6,429	0.5 %
Residential mortgage-backed securities	138,196	9.8 %	166,315	12.7 %
Commercial mortgage-backed securities	49,053	3.5 %	75,035	5.7 %
Asset-backed securities	77,665	5.5 %	34,451	2.6 %
Corporate and other	617,039	44.0 %	545,825	41.5 %
Common stocks (*)	53,892	3.8 %	32,081	2.4 %
Perpetual preferred stocks	36,654	2.6 %	31,057	2.4 %
Mortgage loans	16,831	1.2 %	1,252	0.1 %
Policy loans	18,247	1.3 %	18,476	1.4 %
Other invested assets	3,415	0.2 %	183	— %
Total	$1,407,997	100.0%	$1,314,447	100.0%

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

Credit Quality

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

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

	December 31, 2016		December 31, 2015	
	Fair Value	Percent	Fair Value	Percent
AAA, AA, A	$738,509	57.8 %	$790,215	64.2 %
BBB	382,555	29.9 %	286,861	23.3 %
Total investment grade	1,121,064	87.7 %	1,077,076	87.5 %
BB	37,093	2.9 %	36,190	2.9 %
B	20,214	1.6 %	18,659	1.5 %
CCC, CC, C	35,021	2.7 %	34,785	2.8 %
D	17,075	1.3 %	25,261	2.1 %
NR	48,491	3.8 %	39,427	3.2 %
Total non-investment grade	157,894	12.3 %	154,322	12.5 %
Total	$1,278,958	100.0%	$1,231,398	100.0%

Foreign Currency

Foreign currency translation can impact our financial results. During the years ended December 31, 2016, 2015 and 2014, approximately 28.4%, 36.4% and 19.2% respectively, of our net revenue from continuing operations was derived from sales and operations outside the U.S. The reporting currency for our Consolidated Financial Statements is the United States dollar (“USD”). The local currency of each country is the functional currency for each of our respective entities operating in that country.

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

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

Off-Balance Sheet Arrangements

DBMG

DBMG’s off-balance sheet arrangements at December 31, 2016 included letters of credit of $4.0 million under a Credit and Security Agreement and performance bonds of $154.4 million.

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

New Accounting Pronouncements

For a discussion of our New Accounting Pronouncements, refer to Note 2. Summary of Significant Accounting Policies to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

Critical Accounting Policies

Our significant accounting policies are described in Note 2. Summary of Significant Accounting Policies, to the consolidated financial statements. Our consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Among others, estimates are used when accounting for valuation of investments and pension expense. Estimates used in determining fair value measurements include, but are not limited to, expected future cash flow assumptions, market rate assumptions for contractual obligations, actuarial assumptions for benefit plans, settlement plans for litigation and contingencies, and appropriate discount rates. Estimates and assumptions are evaluated on an ongoing basis and are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates.

We believe the following accounting policies are critical to our business operations and the understanding of results of operations and affect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

Fair Value Measurements

General accounting principles for Fair Value Measurements and Disclosures define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. These principles also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and describes three levels of inputs that may be used to measure fair value:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are defined as having the following characteristics for the measured asset/liability: (i) many transactions, (ii) current prices, (iii) price quotes not varying substantially among market makers, (iv) narrow bid/ask spreads and (v) most information publicly available. The Company’s Level 1 financial instruments consist primarily of publicly traded equity securities and highly liquid government bonds for which quoted market prices in active markets are available.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or market standard valuation techniques and assumptions with significant inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Such observable inputs include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market. The Company’s Level 2 financial instruments include corporate and municipal fixed maturity securities, mortgage-backed non-affiliated common stocks priced using observable inputs. Level 2 inputs include benchmark yields, reported trades, corroborated broker/dealer quotes, issuer spreads and benchmark securities. When non-binding broker quotes can be corroborated by comparison to similar securities priced using observable inputs, they are classified as Level 2.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. Level 3 assets and liabilities include those whose value is determined using market standard valuation techniques. When observable inputs are not available, the market standard techniques for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation and cannot be supported by reference to market activity. Even though unobservable, management believes these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing similar assets and liabilities. For the Company's invested assets, this category primarily includes private placements, asset-backed securities, and to a lesser extent, certain residential and commercial mortgage-backed securities, among others. Prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company's understanding of the market, and are generally considered Level 3. Under certain circumstances, based on its observations of transactions in active markets, the Company may conclude the prices received from independent third-party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company would apply internally developed valuation techniques to the related assets or liabilities.

Other than transactions described within Note 3. Business Combinations, the Company did not have any significant nonrecurring fair value measurements of non-financial assets and liabilities in 2015 or 2014.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

The Company may utilize information from third parties, such as pricing services and brokers, to assist in determining the fair value for certain assets and liabilities; however, management is ultimately responsible for all fair values presented in the Company's financial statements. This includes responsibility for monitoring the fair value process, ensuring objective and reliable valuation practices and pricing of assets and liabilities, and approving changes to valuation methodologies and pricing sources. The selection of the valuation technique(s) to apply considers the definition of an exit price and the nature of the asset or liability being valued and significant expertise and judgment is required.

Reinsurance

Premium revenue and benefits are reported net of the amounts related to reinsurance ceded to and assumed from other companies. Expense allowances from reinsurers are included in other operating and general expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies.

Accounting for Income Taxes

We recognize deferred tax assets and liabilities for the expected future tax consequences of transactions and events. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement bases and the tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. If necessary, deferred tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable. We must make significant estimates and assumptions about future taxable income and future tax consequences when determining the amount of the valuation allowance. The additional guidance provided by ASC No. 740, "Income Taxes" ("ASC 740"), clarifies the accounting for uncertainty in income taxes recognized in the financial statements. Expected outcomes of current or anticipated tax examinations, refund claims and tax-related litigation and estimates regarding additional tax liability (including interest and penalties thereon) or refunds resulting therefrom will be recorded based on the guidance provided by ASC 740 to the extent applicable.

At December 31, 2016, our U.S. and foreign companies have significant deferred tax assets resulting from tax loss carryforwards. The foreign deferred tax assets with minor exceptions are fully offset with valuation allowances. Additionally, the deferred tax assets generated by certain businesses that do not qualify to be included in the HC2 U.S. consolidated income tax return have been reduced by a full valuation allowance. We assessed whether a valuation allowance should be established against the HC2 U.S. consolidated filing group’s and Insurance Companies’ deferred tax assets based on consideration of both positive and negative evidence and determined that it was more likely than not that the net deferred tax assets will not be realized. Therefore, a full valuation allowance was established against the HC2 U.S. consolidated filing group’s and Insurance Companies’ net deferred tax assets during the first and fourth quarters of 2016, respectively. The appropriateness and amount of these valuation allowances are based on cumulative history of losses and our assumptions about the future taxable income of each affiliate and the timing of the reversal of deferred tax assets and liabilities.

Goodwill and Other Intangible Assets

Under ASC 350, Intangibles—Goodwill and Other (“ASC 350”), goodwill and indefinite lived intangible assets are not amortized but are reviewed annually for impairment, or more frequently, if impairment indicators arise. Intangible assets that have finite lives are amortized over their estimated useful lives and are subject to the provisions of ASC 360.

Goodwill impairment is tested at least annually (October 1st) or when factors indicate potential impairment using a two-step process that begins with a qualitative evaluation of each reporting unit. If such test indicates potential for impairment, a Step 1 test is performed. Step 1 is a screen for potential impairment pursuant to which the estimated fair value of each reporting unit is compared to its carrying value. The Company estimates the fair values of each reporting unit by an estimation of the discounted cash flows of each of the reporting units based on projected earnings in the future (the income approach). If there is a deficiency (the estimated fair value of a reporting unit is less than its carrying value), a Step 2 test is required.

Step 2 measures the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit's goodwill with its carrying amount. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined; i.e., through an allocation of the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

The Company also may utilize the provisions of Accounting Standards Update ("ASU") No. 2011-8, "Testing Goodwill for Impairment" ("ASU 2011-8"), which allows the Company to use qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Estimating the fair value of a reporting unit requires various assumptions including projections of future cash flows, perpetual growth rates and discount rates. The assumptions about future cash flows and growth rates are based on the Company's assessment of a number of factors, including the reporting unit's recent performance against budget, performance in the market that the reporting unit serves, and industry and general economic data from third-party sources. Discount rate assumptions are based on an assessment of the risk inherent in those future cash flows. Changes to the underlying businesses could affect the future cash flows, which in turn could affect the fair value of the reporting unit.

Intangible assets not subject to amortization consist of certain licenses. Such indefinite lived intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test shall consist of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to the excess.

Intangible assets subject to amortization consists of certain trade names, customer contracts and developed technology. These finite lived intangible assets are amortized based on their estimated useful lives. Such assets are subject to the impairment provisions of ASC 360, wherein impairment is recognized and measured only if there are events and circumstances that indicate that the carrying amount may not be recoverable. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset group. An impairment loss is recorded if after determining that it is not recoverable, the carrying amount exceeds the fair value of the asset.

In addition to the foregoing, the Company reviews its goodwill and intangible assets for possible impairment whenever events or circumstances indicate that the carrying amounts of assets may not be recoverable. The factors that the Company considers important, and which could trigger an impairment review, include, but are not limited to: a more likely than not expectation of selling or disposing all, or a portion, of a reporting unit; a significant decline in the market value of our common stock or debt securities for a sustained period; a material adverse change in economic, financial market, industry or sector trends; a material failure to achieve operating results relative to historical levels or projected future levels; and significant changes in operations or business strategy.

Valuation of Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes indicate that the carrying amount of an asset may not be recoverable. In making such evaluations, the Company compares the expected undiscounted future cash flows to the carrying amount of the assets. If the total of the expected undiscounted future cash flows is less than the carrying amount of the assets, the Company is required to make estimates of the fair value of the long-lived assets in order to calculate the impairment loss equal to the difference between the fair value and carrying value of the assets.

The Company makes significant assumptions and estimates in this process regarding matters that are inherently uncertain, such as determining asset groups and estimating future cash flows, remaining useful lives, discount rates and growth rates. The resulting undiscounted cash flows are projected over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While the Company believes that its estimates are reasonable, different assumptions could materially affect the valuation of the long-lived assets. The Company derives future cash flow estimates from its historical experience and its internal business plans, which include consideration of industry trends, competitive actions, technology changes, regulatory actions, available financial resources for marketing and capital expenditures and changes in its underlying cost structure.

The Company makes assumptions about the remaining useful life of its long-lived assets. The assumptions are based on the average life of its historical capital asset additions and its historical asset purchase trend. In some cases, due to the nature of a particular industry in which the company operates, the Company may assume that technology changes in such industry render all associated assets, including equipment, obsolete with no salvage value after their useful lives. In certain circumstances in which the underlying assets could be leased for an additional period of time or salvaged, the Company includes such estimated cash flows in its estimate.

The estimate of the appropriate discount rate to be used to apply the present value technique in determining fair value was the Company’s weighted average cost of capital which is based on the effective rate of its long-term debt obligations at the current market values (for periods during which the Company had long-term debt obligations) as well as the current volatility and trading value of the Company’s common stock.

Annuity Benefits Accumulated

Annuity receipts and benefit payments are recorded as increases or decreases in annuity benefits accumulated rather than as revenue and expense. Increases in this liability (primarily interest credited) are charged to expense and decreases for charges are credited to annuity policy charges revenue. Reserves for traditional fixed annuities are generally recorded at the stated account value.

Life, Accident and Health Reserves

Liabilities for future policy benefits under traditional life, accident and health policies are computed using the net level premium method. Computations are based on the original projections of investment yields, mortality, morbidity and surrenders and include provisions for unfavorable deviations unless a loss recognition event (premium deficiency) occurs. Claim reserves and liabilities established for accident and health claims are modified as necessary to reflect actual experience and developing trends.

For long-duration contracts (such as traditional life and long-term care insurance policies), loss recognition occurs when, based on current expectations as of the measurement date, existing contract liabilities plus the present value of future premiums (including reasonably expected rate increases) are not expected to cover the present value of future claims payments and related settlement and maintenance costs (excluding overhead) as well as unamortized acquisition costs. If a block of business is determined to be in loss recognition, a charge is recorded in earnings in an amount equal to the excess of the present value of expected future claims costs and unamortized acquisition costs over existing reserves plus the present value of expected future premiums (with no provision for adverse deviation). The charge is recorded as an additional reserve (if unamortized acquisition costs have been eliminated).

In addition, reserves for traditional life and long-term care insurance policies are subject to adjustment for loss recognition charges that would have been recorded if the unrealized gains from securities had actually been realized. This adjustment is included in unrealized gains (losses) on marketable securities, a component of AOCI.

Revenue and Cost Recognition

DBMG - DBMG performs its services primarily under fixed-price contracts and recognizes revenues and costs from construction projects using the percentage of completion method. Under this method, revenue is recognized based upon either the ratio of the costs incurred to date to the total estimated costs to complete the project or the ratio of tons fabricated to date to total estimated tons. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, subcontractor costs, indirect labor, and fabrication plant overhead costs, which are charged to contract costs as incurred. Revenues relating to changes in the scope of a contract are recognized when the work has commenced. DBMG has made an estimate of the amount that is probable of being paid for the change and there is a high degree of probability that the charges will be approved by the customer or general contractor. At December 31, 2016, DBMG had $70.9 million of unapproved change orders on open projects, for which it has recognized revenues on a percentage of completion basis. While DBMG has been successful in having the majority of its change orders approved in prior years, there is no guarantee that the unapproved change orders at December 31, 2016 will be approved. Revisions in estimates during the course of contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

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

Costs and recognized earnings in excess of billings on uncompleted contracts primarily represent revenue earned under the percentage of completion method which has not been billed. Billings in excess of related costs and recognized earnings on uncompleted contracts represent amounts billed on contracts in excess of the revenue allowed to be recognized under the percentage of completion method on those contracts.

GMSL generates revenue by providing maintenance services for subsea telecommunications cabling, as well as revenues from the design and installation of subsea cables under contracts. GMSL also installs inter-array power cables for use in offshore wind farms and in the offshore wind market, and maintenance and repair of fiber optic communication and power infrastructure to offshore oil and gas platforms.

Telecommunication/Maintenance - GMSL provides vessels on standby to repair fiber optic telecommunications cables in defined geographic zones, and its maintenance business is provided through contracts with consortia of up to 60 global telecommunications providers. Typically, GMSL enters into five to seven year contracts to provide maintenance to cable systems that are located in specific geographical areas. Revenue from these maintenance agreements is recognized on a straight line basis unless the pattern of costs associated with repairs indicates otherwise.

Telecommunications/Installation - GMSL provides installation of cable systems including route planning, mapping, route engineering, cable laying, and trenching and burial. GMSL’s installation business is project-based with fixed price contracts typically lasting one to five months. Revenue is recognized on a time apportioned basis over the length of installation.

Charter hire - rentals from short-term operating leases in respect of vessels are recognized as revenue on a straight line basis over the term of the lease.

Oil and Gas - GMSL provides installation, maintenance and repair of fiber optic communication and power infrastructure to offshore platforms. Its primary activities include providing power from shore, enabling fiber-based communication between platforms and shore-based systems and installing permanent reservoir monitoring systems which allow customers to monitor subsea seismic data. The majority of GMSL's oil and gas business is contracted on a project-by-project basis with major energy producers or tier I EPC contractors. Revenue is recognized as time and costs are incurred.

A loss is recognized immediately if the expected costs during any contract exceed expected revenues. Amounts billed in advance of revenue recognition are recorded as deferred revenue.

ICS - Net revenue is derived from carrying a mix of business, residential and carrier long-distance traffic, data and Internet traffic. For certain voice services, net revenue is earned based on the number of minutes during a call, and is recorded upon completion of a call. Revenue for a period is calculated from information received through the Company's network switches. Customized software has been designed to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides the Company the ability to do a timely and accurate analysis of revenue earned in a period. Net revenue represents gross revenue, net of allowance for doubtful accounts receivable, service credits and service adjustments. Cost of revenue includes network costs that consist of access, transport and termination costs. The majority of the Company's cost of revenue is variable, primarily based upon minutes of use, with transmission and termination costs being the most significant expense.

Related Party Transactions

For a discussion of our Related Party Transactions, refer to Note 20. Related Parties to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K 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," "inte "strategy," "provide," "commitment," "result," "seek," "pursue," "ongoing," "include" or in the negative of such terms or com terminology. These forward-looking statements inherently involve certain risks and uncertainties and are not guarantees of performance, results, or the creation of shareholder value, although they are based on our current plans or assessments which we believe to be reasonable as of the date hereof.

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

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

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

HC2 Holdings, Inc. and Subsidiaries

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

- limitations on our ability to successfully identify any strategic acquisitions or business opportunities and to compete for these opportunities with others who have greater resources;
- our possible inability to generate sufficient liquidity, margins, earnings per share, cash flow and working capital from our operating segments;
- our dependence on distributions from our subsidiaries to fund our operations and payments on our obligations;
- the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we may incur;
- the impact of covenants in the Certificates of Designation governing HC2’s preferred stock, the 11.0% Notes Indenture, the Credit and Security Agreement governing the DBMG Facility (as defined herein), the CWind line of credit with Barclays (“CWind Facility”),

the ANG term loans and notes with Signature Financial and Pioneer Savings Bank ("ANG Facilities"), and future financing agreements, on our ability to operate our business and finance our pursuit of acquisition opportunities;
- our dependence on certain key personnel, in particular, our Chief Executive Officer, Philip Falcone;
- the potential for, and our ability to, remediate future material weaknesses in our internal controls over financial reporting;
- uncertain global economic conditions in the markets in which our operating segments conduct their businesses;
- the ability of our operating segments to attract and retain customers;
- increased competition in the markets in which our operating segments conduct their businesses;
- our expectations regarding the timing, extent and effectiveness of our cost reduction initiatives and management's ability to moderate or control discretionary spending;
- management's plans, goals, forecasts, expectations, guidance, objectives, strategies and timing for future operations, acquisitions, synergies, asset dispositions, fixed asset and goodwill impairment charges, tax and withholding expense, selling, general and administrative expenses, product plans, performance and results;
- management's assessment of market factors and competitive developments, including pricing actions and regulatory rulings;
- the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;
- the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;
- the possibility of indemnification claims arising out of divestitures of businesses;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- the effect any interests our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;
- the impact on the holders of HC2's common stock if we issue additional shares of HC2 common stock or preferred stock;
- the impact of decisions by HC2's significant stockholders, whose interest may differ from those of HC2's other stockholders, or their ceasing to remain significant stockholders;
- our ability to effectively increase the size of our organization, if needed, and manage our growth;
- our possible inability to raise additional capital when needed or refinance our existing debt, on attractive terms, or at all; and
- our possible inability to hire and retain qualified executive management, sales, technical and other personnel.

Construction / DBM Global Inc.

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

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

adverse impacts from weather affecting DBMG's performance and timeliness of completion of projects, which could lead to increased costs and affect the quality, costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;

- fluctuating revenue resulting from a number of factors, including the cyclical nature of the individual markets in which our customers operate;
- adverse outcomes of pending claims or litigation or the possibility of new claims or litigation, and the potential effect of such claims or litigation on DBMG's business, financial condition, results of operations or cash flow; and lack of necessary liquidity to provide bid, performance, advance payment and retention bonds, guarantees, or letters of credit securing DBMG's obligations under bids and contracts or to finance expenditures prior to the receipt of payment for the performance of contracts.

Marine Services / Global Marine Systems Limited

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

- the possibility of global recession or market downturn with a reduction in capital spending within the targeted market segments in which the business operates;
- project implementation issues and possible subsequent overruns;
- risks associated with operating outside of core competencies when moving into different market segments;
- possible loss or severe damage to marine assets;
- vessel equipment aging or reduced reliability;
- risks associated with operating two joint ventures in China (i.e., Huawei Marine Systems Co. Limited, a Hong Kong holding company with a Chinese operating subsidiary and SB Submarine Systems Co. Ltd.);
- risks related to noncompliance with a wide variety of anti-corruption laws;

- changes to the local laws and regulatory environment in different geographical regions;
- loss of key senior employees;
- difficulties attracting enough skilled technical personnel;
- foreign exchange rate risk;
- liquidity risk; and
- potential for financial loss arising from the failure by customers to fulfill their obligations as and when these obligations come due.

Telecommunications / PTGi International Carrier Services, Inc.

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

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

Insurance / Continental Insurance Group Ltd.

Our actual results or other outcomes of Continental Insurance Group Ltd. (“CIG”), the parent operating company of CGI (and the formerly separate operating subsidiary UTA, which merged into CGI on December 31, 2016), and together comprise our Insurance segment, may differ from those expressed or implied by forward-looking statements contained or incorporated herein due to a variety of important factors, including, without limitation, the following:

- our Insurance segment’s ability to maintain statutory capital and maintain or improve their financial strength;
- our Insurance segment’s reserve adequacy, including the effect of changes to accounting or actuarial assumptions or methodologies;
- the accuracy of our Insurance segment’s assumptions and estimates regarding future events and ability to respond effectively to such events, including mortality, morbidity, persistency, expenses, interest rates, tax liability, business mix, frequency of claims, severity of claims, contingent liabilities, investment performance, and other factors related to its business and anticipated results;
- availability, affordability and adequacy of reinsurance and credit risk associated with reinsurance;
- extensive regulation and numerous legal restrictions on our Insurance segment;
- our Insurance segment’s ability to defend itself against litigation, inherent in the insurance business (including class action litigation) and respond to enforcement investigations or regulatory scrutiny;
- the performance of third parties, including distributors and technology service providers, and providers of outsourced services;
- the impact of changes in accounting and reporting standards;
- our Insurance segment’s ability to protect its intellectual property;
- general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance which may affect, among other things. our Insurance segment’s ability to access capital resources and the costs associated therewith, the fair value of our Insurance segment’s investments, which could result in impairments and other-than-temporary impairments, and certain liabilities;

- our Insurance segment's exposure to any particular sector of the economy or type of asset through concentrations in its investment portfolio;
- the ability to increase sufficiently, and in a timely manner, premiums on in-force long-term care insurance policies and/or reduce in-force benefits, as may be required from time to time in the future (including as a result of our Insurance segment's failure to obtain any necessary regulatory approvals or unwillingness or inability of policyholders to pay increased premiums);
- other regulatory changes or actions, including those relating to regulation of financial services affecting, among other things, regulation of the sale, underwriting and pricing of products, and minimum capitalization, risk-based capital and statutory reserve requirements for our Insurance segment, and our Insurance segment's ability to mitigate such requirements;
- our Insurance segment's ability to effectively implement its business strategy or be successful in the operation of its business;
- our Insurance segment's ability to retain, attract and motivate qualified employees;
- interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems;
- medical advances, such as genetic research and diagnostic imaging, and related legislation; and
- the occurrence of natural or man-made disasters or a pandemic.

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Factors

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

Equity Price Risk

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

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

A means of assessing exposure to changes in market prices is to estimate the potential changes in market values on the fixed maturity and equity securities resulting from a hypothetical decline in equity market prices. As of December 31, 2016, assuming all other factors are constant, we estimate that a 10.0%, 20.0%, and 30.0% decline in equity market prices would have an $133.0 million, $266.1 million, and $399.1 million adverse impact on HC2's portfolio of fixed maturity and equity securities, respectively.

Foreign Currency Exchange Rate Risk

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

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

Interest Rate Risk

GMSL, DBMG and ANG are exposed to the market risk from changes in interest rates through their borrowings, which bear variable rates based on LIBOR. Changes in LIBOR could result in an increase or decrease in interest expense recorded. A 100, 200, and 300 basis point increase in LIBOR based on the borrowings outstanding as of December 31, 2016 of 36.5 million, would result in an increase in the recorded interest expense of $0.4 million, $0.7 million, and $1.1 million per year.

Commodity Price Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of the independent registered public accounting firm and financial statements listed in the accompanying index are included in Item 15 of this report. See Index to the consolidated financial statements on page F-1 of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision of and with the participation of the Chief Executive Officer and Chief Financial Officer, the Company's management evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”) as of December 31, 2016. Based on their evaluation of our disclosure controls and procedures as of December 31, 2016, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed or submitted by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that information required to be disclosed by the Company is accumulated and communicated to the Company's management to allow timely decisions regarding the required disclosure.

Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance as to the reliability of its financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Because of the inherent limitations in any internal control, no matter how well designed, misstatements may occur and not be prevented or detected. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, the evaluation of the effectiveness of internal control over financial reporting described below was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. This assessment was based on updated criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission Internal Control-Integrated Framework (2013). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth quarter of the year ended December 31, 2016 that materially affected, or are reasonably likely to affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

Certain of the information required by Part III will be provided in our definitive proxy statement for our 2017 annual meeting of stockholders ("2017 Proxy Statement"), which is incorporated herein by reference.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item relating to our executive officers, directors and code of conduct is set forth below. Information relating to beneficial ownership reporting compliance is set forth in our 2017 Proxy Statement under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” and is incorporated herein by reference. Information relating to our Audit Committee and Audit Committee Financial Expert is set forth in our 2017 Proxy Statement under the Caption “Board Committees” and is incorporated herein by reference.

Executive Officers of the Registrant

Set forth below is information regarding our executive officers as of March 9, 2017.

Name	Age	Position
Philip A. Falcone	54	Chairman, President and Chief Executive Officer
Michael J. Sena	43	Chief Financial Officer
Paul K. Voigt	58	Senior Managing Director of Investments
Paul L. Robinson	50	Chief Legal Officer and Corporate Secretary
Suzi Raftery Herbst	41	Chief Administrative Officer
Andrea L. Mancuso	46	Deputy General Counsel and Assistant Corporate Secretary
Andrew G. Backman	49	Managing Director Investor Relations and Public Relations

Philip A. Falcone, 54, has served as a director of HC2 since January 2014, and as Chairman, President, and Chief Executive Officer of HC2 since May 2014. Mr. Falcone served as a director, Chairman of the Board and Chief Executive Officer of HRG Group, Inc. (f/k/a Harbinger Group Inc., “HRG”) from July 2009 to November 2014. From July 2009 to July 2011, Mr. Falcone also served as the President of HRG. Mr. Falcone is also the Chief Investment Officer and Chief Executive Officer of Harbinger Capital Partners LLC (“Harbinger Capital”), and is the Chief Investment Officer of other Harbinger Capital affiliated funds. Mr. Falcone co-founded the funds affiliated with Harbinger Capital in 2001. Mr. Falcone has over two decades of experience in leveraged finance, distressed debt and special situations. Prior to joining the predecessor of Harbinger Capital, Mr. Falcone served as Head of High Yield trading for Barclays Capital. From 1998 to 2000, he managed the Barclays High Yield and Distressed trading operations. Mr. Falcone held a similar position with Gleacher Natwest, Inc., from 1997 to 1998. Mr. Falcone began his career in 1985, trading high yield and distressed securities at Kidder, Peabody & Co. Mr. Falcone currently serves on the board of directors of Inseego Corp. (NASDAQ: INSG), a provider of intelligent wireless solutions for the worldwide mobile communications market, and he also serves as a director at several of HC2's subsidiaries. Mr. Falcone received an A.B. in Economics from Harvard University.

Michael J. Sena, 43, has been HC2's Chief Financial Officer since June 2015 and is a director of several of HC2’s subsidiaries. Prior to joining the Company, Mr. Sena was the Senior Vice President and Chief Accounting Officer of HRG Group, Inc. from October 2014 to June 2015, and had previously served as the Vice President and Chief Accounting Officer, from November 2012 to October 2014. Mr. Sena was also the Vice President and Chief Accounting Officer of Zap.Com, a subsidiary of HRG Group, Inc., from November 2012 to October 2014, and served as a director of Zap.Com from December 2014 until June 2015. From January 2009 until November 2012, Mr. Sena held various accounting and financial reporting positions with Reader’s Digest Association, Inc., last serving as Vice President and North American Controller. Before joining Reader’s Digest Association, Inc., Mr. Sena served as Director of Reporting and Business Processes for Barr Pharmaceuticals from July 2007 until January 2009. Prior to that, Mr. Sena held various positions with PricewaterhouseCoopers, LLP. Mr. Sena is a Certified Public Accountant and holds a B.S. in Accounting from Syracuse University.

Paul K. Voigt, 58, has been the Senior Managing Director of Investments of HC2 since October 2014 and is a director of several of HC2's subsidiaries. Mr. Voigt is involved with sourcing deals and capital raising. Previously, Mr. Voigt served as Executive Vice President on the sales and trading desk at Jefferies and Company from 1996 to 2013. Prior to joining Jefferies, Mr. Voigt was Managing Director on the high yield sales desk at Prudential Securities from 1988 to 1996. Prior to 1988, Mr. Voigt played professional baseball. Mr. Voigt attended the University of Virginia from 1976 to 1980 where he received a B.S. in electrical engineering, and the University of Southern California where he received an MBA in 1988.

Paul L. Robinson, 50, has been Chief Legal Officer and Corporate Secretary of HC2 since March 2016. Mr. Robinson brings nearly 25 years of diverse corporate, government and private legal experience to HC2 and is responsible for all legal, M&A, securities, commercial, employment, corporate governance and regulatory activities. Prior to joining HC2, Mr. Robinson was the Executive Vice President, Chief Legal Officer and Corporate Secretary for SEACOR Holdings, Inc. (NYSE: CKH) from February 2015 through February 2016 and was Senior Vice President, General Counsel from November 2007 through February 2015. From 1999 through June 2007, Mr. Robinson held various positions at Comverse Technology, Inc. (NASDAQ: CMVT), including Chief Operating Officer, Executive Vice President, General Counsel and Corporate Secretary. Prior to joining Comverse Technology, Mr. Robinson was counsel to the United States Senate Committee on Governmental Affairs with respect to its special investigation into illegal and improper campaign fund-raising activities during the 1996 federal election and an associate attorney at Kramer, Levin, Naftalis & Frankel, LLP. Mr. Robinson also served as counsel to the United States Senate Committee on Governmental

Affairs with respect to its special investigation into illegal and improper campaign fund-raising activities during the 1996 federal election. From June 1994 through January 1997, Mr. Robinson was an associate attorney at Skadden, Arps, Slate, Meagher & Flom LLP. Mr. Robinson was also previously a director at Verint Systems Inc. (NASDAQ: VRNT) and Ulticom, Inc. (NASDAQ: ULC). Mr. Robinson earned a Bachelor of Arts degree in Political Science and was Phi Beta Kappa from State University of New York at Binghamton in 1989 and a J.D., cum laude, from Boston University School of Law in 1992.

Suzi Raftery Herbst, 41, has been Chief Administrative Officer of HC2 since March 2015. Ms. Herbst has over 17 years of diverse human resources, recruiting, equity and foreign exchange sales experience. Prior to joining HC2, Ms. Herbst was the Senior Vice President and Director of Human Resources of Harbinger Capital and HRG from March 2010 through March 2015. Before joining Harbinger Capital and HRG, Ms. Herbst was the Head of Recruiting at Knight Capital Group. Prior to Knight, Ms. Herbst held various positions in the Human Resources and Foreign Exchange Sales departments at Cantor Fitzgerald. Ms. Herbst started her career in the Equity Sales department at Merrill Lynch. Ms. Herbst earned a Bachelor of Arts degree in Communications and Studio Art from Marist College.

Andrea L. Mancuso, 46, has served as HC2’s Deputy General Counsel and Assistant Corporate Secretary since March 2016. Ms. Mancuso brings a diverse experience to HC2 in general business and corporate law matters, with a particular emphasis on securities, M&A and financing transactions. Previously, Ms. Mancuso served as HC2's General Counsel and Corporate Secretary from March 2015 through March 2016, Acting General Counsel and Corporate Secretary from September 2013 to March 2015, Associate General Counsel & Assistant Corporate Secretary from 2012 to 2013 and Associate General Counsel from 2011 to 2012. Prior to joining HC2, from August 2010 to September 2011, Ms. Mancuso was Senior Counsel and Assistant Corporate Secretary of SRA International, Inc. (n/k/a CSRA Inc.) (NYSE:CSRA), a provider of IT solutions and professional services to the federal government, and provided leadership and expertise to expedite the sale of SRA to a private equity firm. From March 2002 to September 2009, Ms. Mancuso was a Corporate & Securities Associate at Arnold & Porter LLP, a law firm, advising private and publicly traded companies across multiple industries on securities law matters and corporate transactions. Ms. Mancuso is a certified public accountant and, prior to becoming an attorney, held various accounting positions. Ms. Mancuso holds a Juris Doctor from Georgetown Law Center and a Bachelor of Science from Lehigh University.

Andrew G. Backman, 49, has been Managing Director of Investor Relations and Public Relations since April 2016. Mr. Backman, a Global Investor Relations and Public Relations executive with 20+ years of financial and operational experience leading high-profile financial services, telecommunications, media and entertainment and commercial real estate finance organizations, is responsible for building and further expanding a leading Investor Relations and Public Relations platform to support HC2 Holdings and its domestic and international strategies. Prior to joining HC2, Mr. Backman served as Managing Director of Investor Relations and Public Relations for RCS Capital and AR Capital, now AR Global. Previously, Mr. Backman was Chief Executive Officer of InVision Investor Relations Inc., a New York-based Investor Relations advisory firm he founded in 2011. From 2004 - 2010, Mr. Backman served as Senior Vice President, Investor Relations & Marketing for iStar Financial. From 2000 to 2004, Mr. Backman served as Vice President, Investor Relations and Marketing Communications for Corvis Corporation / Broadwing Communications, where he was responsible for leading the company through one of the most successful and highly publicized initial public offerings in history. Mr. Backman spent the first 10 years of his career at Lucent Technologies, Inc. and AT&T Corp. where he held various domestic and international positions within the Finance, Accounting, Investor Relations, Public Relations and Mergers and Acquisitions departments. Mr. Backman earned a Bachelor of Arts degree in Economics from Boston College and was a graduate of the prestigious Financial Leadership Program (FLP) founded by AT&T / Lucent Technologies, which is a highly-selective and competitive, two-year rotational and academic program for highest performing finance and accounting executives.

BOARD OF DIRECTORS

Information Regarding Directors

Set forth below is certain information with respect to our directors as of March 9, 2017.

Directors

Name	Age	Director Since
Philip A. Falcone	54	2014
Wayne Barr, Jr.	53	2014
Warren H. Gfeller	64	2016
Lee Hillman	61	2016
Robert V. Leffler	71	2014

Philip A. Falcone, Mr. Falcone's biography can be found above.

Wayne Barr, Jr., 52, has served as a director of HC2 since January 2014 and is a director of several of HC2' subsidiaries. Mr. Barr is managing director of Alliance Group of NC, LLC, a full service real estate firm providing brokerage, planning and consulting services throughout North Carolina to a wide variety of stakeholders including landowners, developers, builders and investors, a position he has held since 2013. Mr. Barr is also the principal of Oakleaf Consulting Group LLC, a management consulting firm focusing on technology and telecommunications companies, which he founded in 2001. Mr. Barr also co-founded and was president from 2003 to 2008 of Capital & Technology Advisors, a management consulting and restructuring firm. Mr. Barr has previously served on the boards of directors of several companies and is currently on the Board of Concurrent Computer Corporation (NASDAQ: CCUR) and Avia Networks, Inc. (NASDAQ: AVNW). Mr. Barr received his J.D. degree from

Albany Law School of Union University and is admitted to practice law in New York State. He is also a licensed real estate broker in the state of North Carolina.

Warren Gfeller, 64, has served as a director of HC2 since June 2016. He has been a member of Crestwood Equity GP LLC’s board of directors since March 2001. He served as a director of Crestwood Midstream GP LLC from December 2011 to October 2015. He has engaged in private investments since 1991. From 1984 to 1991, Mr. Gfeller served as president and chief executive officer of Ferrellgas, Inc. ("Ferrellgas"), a retail and wholesale marketer of propane and other natural gas liquids. Mr. Gfeller began his career with Ferrellgas in 1983, as an executive vice president and financial officer. Prior to joining Ferrellgas, Mr. Gfeller was the chief financial officer of Energy Sources, Inc. and a CPA at Arthur Young & Co. He also served as a director of Inergy Holdings GP, LLC, Zapata Corporation and Duckwall-Alco Stores, Inc. Mr. Gfeller received a Bachelor of Arts degree from Kansas State University.

Lee Hillman, 61, has served as a director of HC2 since June 2016. He has served as President of Liberation Advisory Group, a private management consulting firm, since 2003. Mr. Hillman has served as Chief Executive Officer of Performance Health Systems, LLC and certain of its predecessors, the manufacturer and distributor of Power Plate® and bioDensity® branded, advanced technology health and exercise equipment, since 2006. Mr. Hillman currently serves as a director at Lawson Products, Inc., where he chairs the compensation and financial strategies committees of the board and serves as a member of its audit committee. Mr. Hillman also serves as a director and chair of the audit committee of Professional Diversity Network, Inc. and as a trustee and member of the audit committee at Adelphia Recovery Trust. He also serves as a director of Business Development Corporation of America. Mr. Hillman has served as a member of the board of directors as well as a member of the audit committees of: HealthSouth Corporation, Wyndham International, and RCN Corporation (where he also served as Chairman of the Board). From 1996 to 2002, Mr. Hillman led the successful turnaround of Bally Total Fitness Corp. as its CEO. Previously, from 1991 to 1996, he was instrumental as the CFO in the turnaround of Bally Entertainment Corp. Mr. Hillman received a Masters of Business Administration from the University of Chicago’s Booth Graduate School of Business and a Bachelor of Science from the Wharton School of Finance, University of Pennsylvania.

Robert V. Leffler, Jr., 71, has served as a director of HC2 since September 2014. Mr. Leffler is retired but formerly owned The Leffler Agency, Inc., a full service advertising agency, from 1984 to 2016. The firm specialized in the areas of sports/entertainment and media. Previously, headquartered in Baltimore, the agency also had an office in Tampa and operated in 20 U.S. markets. Leffler Agency also had a subsidiary media buying service, Media Moguls, LLC, which specialized in mass retail media buying. Mr. Leffler served as a director and Chairman of the Compensation Committee of HRG from 2008 to 2013 and a director and Chairman of the Compensation Committee of Zapata, Inc. from 1995 to 2008. Mr. Leffler holds a B.A. in social science/history from Towson University and an M.A. in Urban Studies and Popular Culture History from Morgan State University.

Code of Conduct

We have adopted a Code of Conduct applicable to all directors, officers and employees, including the CEO, senior financial officers and other persons performing similar functions. The Code of Conduct is a statement of business practices and principles of behavior that support our commitment to conducting business in accordance with the highest standards of business conduct and ethics. Our Code of Conduct covers, among other things, compliance resources, conflicts of interest, compliance with laws, rules and regulations, internal reporting of violations and accountability for adherence to the Code of Conduct. A copy of the Code of Conduct is available under the “Investor Relations-Corporate Governance” section of our website at www.hc2.com. Any amendment of the Code of Conduct or any waiver of its provisions for a director or executive officer must be approved by the Board or a duly authorized committee thereof. We intend to post on our website all disclosures that are required by law or the rules of the NYSE MKT concerning any amendments to, or waivers from, any provision of the Code of Conduct.

ITEM 11. EXECUTIVE COMPENSATION

The information regarding this item is set forth under the captions entitled “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Compensation Committee Interlocks and Insider Participation,” “Compensation Tables,” and “Employment Arrangements and Potential Payments upon Termination or Change of Control” in our 2017 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding this item is set forth under the captions entitled “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in our 2017 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding this item is set forth under the captions entitled “Board of Directors” and “Transactions with Related Persons” in our 2017 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accountant fees and services is set forth under the caption entitled “Independent Registered Public Accounting Firm Fees” in our 2017 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) List of Documents Filed

1) Financial Statements and Schedules

The financial statements as set forth under Item 8 of this Annual Report on Form 10-K are incorporated herein.

2) Financial Statement Schedules

Schedule I — Summary of Investments — Other than Investments in Related Parties
Schedule II— Condensed Financial Information of the Registrant
Schedule III — Supplementary Insurance Information
Schedule IV — Reinsurance
Schedule V — Valuation and Qualifying Accounts

All other schedules have been omitted since they are either not applicable or the information is contained within the accompanying consolidated financial statements.

(b) Exhibit Index

The following is a list of exhibits filed as part of this Annual Report on Form 10-K.

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

Exhibit Number	Description
2.1	Sale and Purchase Agreement, dated September 22, 2014, by and between Global Marine Holdings, LLC and the Sellers party thereto (incorporated by reference to Exhibit 2.1 to HC2 Holdings, Inc.'s ("HC2") Current Report on Form 8-K, filed on September 26, 2014) (File No. 001-35210).
2.2	Amended and Restated Stock Purchase Agreement, dated as of December 24, 2015, by and among HC2, Continental General Corporation and Great American Financial Resources, Inc. (incorporated by reference to Exhibit 2.1 to HC2's Current Report on Form 8-K, filed on December 28, 2015)(File No. 001-35210).
3.1	Second Amended and Restated Certificate of Incorporation of HC2 (incorporated by reference to Exhibit 3.1 to HC2's Form 8-A, filed on June 20, 2011) (File No. 001-35210).
3.2	Certificate of Ownership of HC2 (incorporated by reference to Exhibit 3.1 to HC2's Current Report on Form 8-K, filed on October 18, 2013) (File No. 001-35210).
3.3	Certificate of Ownership and Merger of HC2 (incorporated by reference to Exhibit 3.1 to HC2's Current Report on Form 8-K, filed on April 11, 2014) (File No. 001-35210).
3.4	Certificate of Amendment to Second Amended and Restated Certificate of Incorporation of HC2 (incorporated by reference to Exhibit 3.1 to HC2's Current Report on Form 8-K, filed on June 18, 2014) (File No. 001-35210).
3.5	Second Amended and Restated By-laws of HC2 (incorporated by reference to Exhibit 3.2 to HC2's Current Report on Form 8-K, filed on April 27, 2012) (File No. 001-35210).
4.1	Indenture, dated as of November 20, 2014, by and among HC2, the guarantors party thereto and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to HC2's Current Report on Form 8-K, filed on November 21, 2014) (File No. 001-35210).
4.2	Certificate of Amendment to the Certificate of Designation of Series A Convertible Participating Preferred Stock of HC2 (incorporated by reference to Exhibit 4.2 to HC2's Current Report on Form 8-K, filed on January 9, 2015) (File No. 001-35210).
4.3	Certificate of Amendment to the Certificate of Designation of Series A-1 Convertible Participating Preferred Stock of HC2 (incorporated by reference to Exhibit 4.3 to HC2's Current Report on Form 8-K, filed on January 9, 2015) (File No. 001-35210).
4.4	Certificate of Designation of Series A-2 Convertible Participating Preferred Stock of HC2 (incorporated by reference to Exhibit 4.1 to HC2's Current Report on Form 8-K, filed on January 9, 2015) (File No. 001-35210).
4.5	

	Certificate of Correction of the Certificate of Amendment to the Certificate of Designation of Series A Convertible Participating Preferred Stock of HC2, filed on January 5, 2015 (incorporated by reference to Exhibit 4.1 on HC2's Quarterly Report on Form 10-Q, filed on August 10, 2015) (File No. 001-35210).
4.6	Certificate of Correction of the Certificate of Amendment to the Certificate of Designation of Series A Convertible Participating Preferred Stock of HC2, filed on January 5, 2015 (incorporated by reference to Exhibit 4.2 on HC2's Quarterly Report on Form 10-Q, filed on August 10, 2015) (File No. 001-35210).
4.7	Certificate of Correction of the Certificate of Amendment to the Certificate of Designation of Series A Convertible Participating Preferred Stock of HC2, filed on May 29, 2014 (incorporated by reference to Exhibit 4.3 on HC2's Quarterly Report on Form 10-Q, filed on August 10, 2015) (File No. 001-35210).
4.8	Certificate of Correction of the Certificate of Amendment to the Certificate of Designation of Series A-1 Convertible Participating Preferred Stock of HC2, filed on January 5, 2015 (incorporated by reference to Exhibit 4.4 on HC2's Quarterly Report on Form 10-Q, filed on August 10, 2015) (File No. 001-35210).
4.9	Certificate of Correction of the Certificate of Amendment to the Certificate of Designation of Series A-1 Convertible Participating Preferred Stock of HC2, filed on September 22, 2014 (incorporated by reference to Exhibit 4.5 on HC2's Quarterly Report on Form 10-Q, filed on August 10, 2015) (File No. 001-35210).
4.10	Certificate of Correction of the Certificate of Amendment to the Certificate of Designation of Series A-2 Convertible Participating Preferred Stock of HC2, filed on January 5, 2015 (incorporated by reference to Exhibit 4.6 on HC2's Quarterly Report on Form 10-Q, filed on August 10, 2015) (File No. 001-35210).
4.11	Warrant Agreement, dated as of December 24, 2015, between HC2 and Great American Financial Resources, Inc. (incorporated by reference to Exhibit 4.1 to HC2's Current Report on Form 8-K, filed on December 28, 2015)(File No. 001-35210)
4.12	11% Senior Secured Bridge Note due 2019, dated as of December 16, 2016, among HC2 Holdings 2, Inc., as the issuer, HC2 as guarantor, and certain other guarantors party thereto (incorporated by reference to Exhibit 4.1 to HC2's Current Report on Form 8-K, filed December 20, 2016) (File No. 001-35210).
4.13	Amended and Restated Certificate of Designation of Series A-1 Convertible Participating Preferred Stock of HC2 (incorporated by reference to Exhibit 10.1 on HC2's Quarterly Report on Form 10-Q, filed on August 9, 2016) (File No. 001-35210).

Exhibit Number	Description
10.1	Stock Purchase Agreement, dated May 12, 2014, by and between HC2 and SAS Venture LLC (incorporated by reference to Exhibit 10.1 to HC2's Current Report on Form 8-K, filed on May 13, 2014) (File No. 001-35210).
10.2^	Employment Agreement, dated May 21, 2014, by and between HC2 and Philip Falcone (incorporated by reference to Exhibit 10.2 on HC2's Quarterly Report on Form 10-Q, filed on August 11, 2014) (File No. 001-35210).
10.3^	Employment Agreement, dated May 21, 2014, by and between HC2 and Robert Pons (incorporated by reference to Exhibit 10.4 on HC2's Quarterly Report on Form 10-Q, filed on August 11, 2014) (File No. 001-35210).
10.4^	Employment Agreement, dated May 21, 2014, by and between HC2 and Keith Hladek (incorporated by reference to Exhibit 10.5 on HC2's Quarterly Report on Form 10-Q, filed on August 11, 2014) (File No. 001-35210).
10.5	Securities Purchase Agreement, dated as of May 29, 2014, by and among HC2 and affiliates of Hudson Bay Capital Management LP, Benefit Street Partners L.L.C. and DG Capital Management, LLC (the "Purchasers") (incorporated by reference to Exhibit 10.1 to HC2's Current Report on Form 8-K, filed on June 4, 2014) (File No. 001-35210).
10.6^	HC2 2014 Omnibus Equity Award Plan (incorporated by reference to Exhibit A to HC2's Definitive Proxy Statement, filed on April 30, 2014) (File No. 001-35210).
10.7^	2014 HC2 Executive Bonus Plan (incorporated by reference to Exhibit 10.1 to HC2's Current Report on Form 8-K, filed on June 18, 2014) (File No. 001-35210).
10.8	Second Amended and Restated Credit and Security Agreement, dated as of August 14, 2013, by and among DBMG, as Borrower, and Wells Fargo Credit, Inc. (incorporated by reference to Exhibit 10.12 on HC2's Quarterly Report on Form 10-Q, filed on August 11, 2014) (File No. 001-35210).
10.9	Amendment to Second Amended and Restated Credit and Security Agreement, dated as of September 24, 2013, by and among DBMG, as Borrower, and Wells Fargo Credit, Inc. (incorporated by reference to Exhibit 10.13 on HC2's Quarterly Report on Form 10-Q, filed on August 11, 2014) (File No. 001-35210).
10.10	Second Amendment to Second Amended and Restated Credit and Security Agreement, dated as of February 3, 2014, by and among DBMG, as Borrower, and Wells Fargo Credit, Inc. (incorporated by reference to Exhibit 10.14 on HC2's Quarterly Report on Form 10-Q, filed on August 11, 2014) (File No. 001-35210).
10.11	Third Amendment to Second Amended and Restated Credit and Security Agreement, dated as of May 5, 2014, by and among DBMG, as Borrower, and Wells Fargo Credit, Inc. (incorporated by reference to Exhibit 10.15 on HC2's Quarterly Report on Form 10-Q, filed on August 11, 2014) (File No. 001-35210).
10.12	Fourth Amendment to Second Amended and Restated Credit and Security Agreement, dated as of September 26, 2014, by and among DBMG, as Borrower, and Wells Fargo Credit, Inc. (incorporated by

	reference to Exhibit 10.7 on HC2’s Quarterly Report on Form 10-Q, filed on November 10, 2014) (File No. 001-35210).
10.13	Fifth Amendment to Second Amended and Restated Credit and Security Agreement, dated as of October 21, 2014, by and among DBMG, as Borrower, and Wells Fargo Credit, Inc. (incorporated by reference to Exhibit 10.9.6 on HC2's Annual Report on Form 10-K, filed on March 16, 2015) (File No. 001-35210).
10.14	Sixth Amendment to Second Amended and Restated Credit and Security Agreement, dated as of January 23, 2015, by and among DBMG, as Borrower, and Wells Fargo Credit, Inc. (incorporated by reference to Exhibit 10.14 to HC2's Annual Report on Form 10-K, filed on March 15, 2016) (File No.001-35210).
10.15	Seventh Amendment to Second Amended and Restated Credit and Security Agreement, dated as of February 19, 2015, by and among DBMG, as Borrower, and Wells Fargo Credit, Inc. (incorporated by reference to Exhibit 10.1.1 on HC2’s Quarterly Report on Form 10-Q, filed on May 11, 2015) (File No. 001-35210).
10.16	Eighth Amendment to Second Amended and Restated Credit and Security Agreement, dated as of June 15, 2015, by and among DBMG, as Borrower, and Wells Fargo Credit, Inc. (incorporated by reference to Exhibit 10.16 to HC2's Annual Report on Form 10-K, filed on March 15, 2016) (File No. 001-35210).
10.17^	Employment Agreement, dated September 9, 2014, by and between HC2 and Andrea Mancuso (incorporated by reference to Exhibit 10.1 on HC2’s Quarterly Report on Form 10-Q, filed on November 10, 2014) (File No. 001-35210).
10.18^	Employment Agreement, dated September 11, 2014, by and between HC2 and Mesfin Demise (incorporated by reference to Exhibit 10.2 on HC2’s Quarterly Report on Form 10-Q, filed on November 10, 2014) (File No. 001-35210).

Exhibit Number	Description
10.19	Securities Purchase Agreement, dated as of September 22, 2014, by and among HC2 and affiliates of DG Capital Management, LLC and Luxor Capital Partners, LP (incorporated by reference to Exhibit 10.3 to HC2's Current Report on Form 8-K, filed on September 26, 2014) (File No. 001-35210).
10.20	Securities Purchase Agreement, dated as of January 5, 2015, by and among HC2 and the purchasers thereto (incorporated by reference to Exhibit 10.1 on HC2's Current Report on Form 8-K, filed on January 9, 2015) (File No. 001-35210).
10.21	Second Amended and Restated Registration Rights Agreement, dated as of January 5, 2015, by and among HC2 Holdings, the initial purchasers of the Series A Preferred Stock, the initial purchasers of the Series A-1 Preferred Stock and the purchasers of the Series A-2 Preferred Stock (incorporated by reference to Exhibit 10.2 on HC2's Current Report on Form 8-K, filed on January 9, 2015) (File No. 001-35210).
10.22	Secured Loan Agreement, dated as of January 20, 2014, by and among Global Marine Systems (Vessels) Limited, as Borrower, Global Marine Systems Limited, as Guarantor, and DVB Bank SE Nordic Branch, as Lender (incorporated by reference to Exhibit 10.8 on HC2's Quarterly Report on Form 10-Q, filed on November 10, 2014) (File No. 001-35210).
10.23	Supplemental Charter Agreement, dated as of March 21, 2012, by and among Global Marine Systems Limited, as Charterer, and International Cableship PTE LTD, as Owner (incorporated by reference to Exhibit 10.9.1 on HC2's Quarterly Report on Form 10-Q, filed on November 10, 2014) (File No. 001-35210).
10.24	Bareboat Charter, dated as of September 24, 1992, between International Cableship Pte Ltd and Global Marine Systems Limited (as successor-in-interest to Cable & Wireless (Marine) Ltd) (incorporated by reference to Exhibit 10.9.2 on HC2's Quarterly Report on Form 10-Q, filed on November 10, 2014) (File No. 001-35210).
10.25	Deed of Covenant, dated as of March 14, 2006, by and among Global Marine Systems Limited, as Mortgagee, and DYVI Cable Ship, as Mortgagor (incorporated by reference to Exhibit 10.10.1 on HC2's Quarterly Report on Form 10-Q, filed on November 10, 2014) (File No. 001-35210).
10.26	Bareboat Charter, dated as of March 14, 2006, between DYVI Cable Ship AS and Global Marine Systems Limited (incorporated by reference to Exhibit 10.10.2 on HC2's Quarterly Report on Form 10-Q, filed on November 10, 2014) (File No. 001-35210).
10.27	Mortgage, dated as of March 14, 2006, of DYVI Cable Ship AS, as mortgagor, in favor of Global Marine Systems Limited, as mortgagee (incorporated by reference to Exhibit 10.10.3 on HC2's Quarterly Report on Form 10-Q, filed on November 10, 2014) (File No. 001-35210).
10.28	Consent and Waiver, dated as of October 9, 2014 to Securities Purchase Agreement, dated as of May 29, 2014, by and among HC2 and affiliates of Hudson Bay Capital Management LP, Benefit Street Partners L.L.C. and DG Capital Management, LLC (incorporated by reference to Exhibit 10.14 on HC2's Quarterly Report on Form 10-Q, filed on November 10, 2014) (File No. 001-35210).
10.29	Consent, Waiver and Amendment, dated as of September 22, 2014 to Securities Purchase Agreement, dated as of May 29, 2014, by and among HC2 and affiliates of Hudson Bay Capital Management LP, Benefit

	Street Partners L.L.C. and DG Capital Management, LLC (incorporated by reference to Exhibit 10.15 on HC2's Quarterly Report on Form 10-Q, filed on November 10, 2014) (File No. 001-35210).
10.30^	Reformed and Clarified Option Agreement, dated May 12, 2014, by and between HC2 and Philip Falcone (incorporated by reference to Exhibit 10.18.1 on HC2's Annual Report on Form 10-K, filed on March 16, 2015) (File No. 001-35210).
10.31^	Form of Option Agreement (Additional Time Contingent Option) by and between HC2 and Philip Falcone (incorporated by reference to Exhibit 10.18.2 on HC2's Annual Report on Form 10-K, filed on March 16, 2015) (File No. 001-35210).
10.32^	Form of Option Agreement (Contingent Option) by and between HC2 and Philip Falcone (incorporated by reference to Exhibit 10.18.3 on HC2's Annual Report on Form 10-K, filed on March 16, 2015) (File No. 001-35210).
10.33^	Form of Non-Qualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.1 on HC2's Current Report on Form 8-K, filed on September 22, 2014). File No. 001-35210)
10.34^	Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 on HC2's Current Report on Form 8-K, filed on September 22, 2014). File No. 001-35210)
10.35^	Employment Agreement, dated October 1, 2014, by and between HC2 and Paul Voigt (incorporated by reference to Exhibit 10.2 on HC2's Quarterly Report on Form 10-Q, filed on May 11, 2015) (File No. 001-35210).
10.36^	Employment Agreement, dated May 12, 2014, by and between HC2 and Ian Estus (incorporated by reference to Exhibit 10.3 on HC2's Quarterly Report on Form 10-Q, filed on May 11, 2015) (File No. 001-35210).
10.37^	Employment Agreement, dated May 20, 2015, by and between HC2 and Mesfin Demise (incorporated by reference to Exhibit 10.1 on HC2's Quarterly Report on Form 10-Q, filed on August 10, 2015) (File No. 001-35210).
10.38^	Employment Agreement, dated May 20, 2015, by and between HC2 and Michael Sena (incorporated by reference to Exhibit 10.2 on HC2's Quarterly Report on Form 10-Q, filed on August 10, 2015) (File No. 001-35210).
10.39^	Non-Qualified Stock Option Award Agreement dated April 18, 2016, by and between HC2 and Philip A. Falcone (incorporated by reference to Exhibit 10.1 on HC2's Quarterly Report on Form 10-Q, filed on May 9, 2016) (File No. 001-35210).
10.40^	Employment Agreement, dated May 5, 2016, by and between PTGi International Carrier Services, Inc. and Robert Pons (incorporated by reference to Exhibit 10.2 on HC2's Quarterly Report on Form 10-Q, filed on May 9, 2016) (File No. 001-35210).

Exhibit Number	Description
10.41^	Separation and Release Agreement, dated May 5, 2016, by and between HC2 and Robert Pons (incorporated by reference to Exhibit 10.3 on HC2's Quarterly Report on Form 10-Q, filed on May 9, 2016) (File No. 001-35210).
10.42	Voluntary Conversion Agreement, dated August 2, 2016, by and among HC2 and Luxor Capital Group, LP, as investment manager of the exchanging entities, holders of the Company's Series A-1 Convertible Participating Preferred Stock, par value $0.01 per share (incorporated by reference to Exhibit 10.2 on HC2's Quarterly Report on Form 10-Q, filed on August 9, 2016) (File No. 001-35210).
10.43	Voluntary Conversion Agreement, dated August 2, 2016, by and between HC2 and Corrib Master Fund, Ltd., a holder of the Company's Series A Participating Preferred Stock, par value ($0.01 per share) (incorporated by reference to Exhibit 10.3 on HC2's Quarterly Report on Form 10-Q, filed on August 9, 2016) (File No. 001-35210).
10.44^	Form of Employee Nonqualified Option Award Agreement (incorporated by reference to Exhibit 10.4 on HC2's Quarterly Report on Form 10-Q, filed on August 9, 2016) (File No. 001-35210).
10.45	Voluntary Conversion Agreement, dated as of October 7, 2016, by and between Hudson Bay Absolute Return Credit Opportunities Master Fund, LTD. and HC2 (incorporated by reference to Exhibit 10.1 on HC2's Current Report on Form 8-K, filed on October 11, 2016) (File No. 001-35210).
10.46^	Revised Form of Indemnification Agreement of HC2 (incorporated by reference to Exhibit 10.1 on HC2's Quarterly Report on Form 10-Q, filed on November 9, 2016) (File No. 001-35210).
10.47	Voluntary Conversion Agreement, dated as of August 2, 2016, by and between Luxor Capital Group, LP and HC2 (incorporated by reference to Exhibit 10.2 on HC2's Quarterly Report on Form 10-Q, filed on August 9, 2016) (File No. 001-35210).
10.48	Registration Rights Agreement, dated as of August 2, 2016, by and between Luxor Capital Group, LP and HC2 (incorporated by reference to Exhibit 10.3 on HC2's Quarterly Report on Form 10-Q, filed on August 9, 2016) (File No. 001-35210).
10.49	Voluntary Conversion Agreement, dated as of August 2, 2016, by and between Corrib Master Fund, Ltd. and HC2 (incorporated by reference to Exhibit 10.4 on HC2's Quarterly Report on Form 10-Q, filed on August 9, 2016) (File No. 001-35210).
10.50	Registration Rights Agreement, dated as of August 2, 2016, by and between Corrib Master Fund, Ltd. and HC2 (incorporated by reference to Exhibit 10.5 on HC2's Quarterly Report on Form 10-Q, filed on August 9, 2016) (File No. 001-35210).
10.51^	Independent Consulting Services Agreement, effective as of July 1, 2016 and dated as of July 11, 2016, by and between Wayne Barr, Jr. and HC2 (incorporated by reference to Exhibit 10.1 on HC2's Current Report on Form 8-K, filed on July 14, 2016) (File No. 001-35210).
10.52^	Separation and Release Agreement, dated July 20, 2016 by and between PTGi International Carrier Services, Inc. and Mesfin Demise (incorporated by reference to Exhibit 10.1 on HC2's Current Report on Form 8-K,

	filed on July 21, 2016) (File No. 001-35210).
10.53^	Separation and Release Agreement, dated January 5, 2017, by and between HC2 and Keith Hladek (incorporated by reference to Exhibit 10.1 to HC2's Current Report on Form 8-K, filed on January 9, 2017) (File No. 001-35210).
10.54^	Employment Agreement, dated February 26, 2016, by and between HC2 and Paul L. Robinson (filed herewith) (File No. 001-35210).
10.55^	Employment Agreement, dated March 1, 2015, by and between HC2 and Suzi R. Herbst (filed herewith) (File No. 001-35210).
21.1	Subsidiaries of HC2 (filed herewith).
23.1	Consent of BDO USA, LLP, an independent registered public accounting firm (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
101	The following materials from the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, formatted in extensible business reporting language (XBRL); (i) Consolidated Statements of Operations for the years ended December 31, 2015, 2014 and 2013, (ii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2015, 2014 and 2013, (iii) Consolidated Balance Sheets at December 31, 2015 and 2014, (iv) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013, and (vi) Notes to Consolidated Financial Statements (filed herewith).

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

^ Indicates management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HC2 HOLDINGS, INC.

By: /S/ PHILIP A. FALCONE
Philip A. Falcone
Chairman, President
and Chief Executive Officer
(Principal Executive Officer)

Date: March 9, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ PHILIP A. FALCONE Philip A. Falcone	Director and Chairman, President and Chief Executive Officer (Principal Executive Officer)	March 9, 2017
/S/ MICHAEL J. SENA Michael J. Sena	Chief Financial Officer (Principal Financial and Accounting Officer)	March 9, 2017
/S/ WAYNE BARR, JR. Wayne Barr, Jr.	Director	March 9, 2017
/S/ ROBERT LEFFLER Robert Leffler	Director	March 9, 2017
/S/ LEE HILLMAN Lee Hillman	Director	March 9, 2017
/S/ WARREN H. GFELLER Warren H. Gfeller	Director	March 9, 2017

HC2 HOLDINGS, INC.

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
HC2 Holdings, Inc.
New York, NY

We have audited the accompanying consolidated balance sheets of HC2 Holdings, Inc. as of December 31, 2016 and 2015 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HC2 Holdings, Inc. at December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), HC2 Holdings, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 9, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
March 9, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
HC2 Holdings, Inc.
New York, NY

We have audited HC2 Holdings Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). HC2 Holdings, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, HC2 Holdings, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of HC2 Holdings, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 9, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
New York, New York
March 9, 2017

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

	Years Ended December 31,		
	2016	2015	2014
Services revenue	$897,055	$595,280	$197,280
Sales revenue	518,614	522,661	350,158
Life, accident and health earned premiums, net	79,406	1,578	—
Net investment income	58,032	1,031	—
Net realized gains on investments	5,019	256	—
Net revenue	1,558,126	1,120,806	547,438
Operating expenses			
Cost of revenue - services	842,977	544,655	177,812
Cost of revenue - sales	411,064	437,968	296,530
Policy benefits, changes in reserves, and commissions	123,182	2,245	—
Selling, general and administrative	152,890	108,527	80,239
Depreciation and amortization	24,493	24,796	6,719
(Gain) loss on sale or disposal of assets	2,362	170	(162)
Lease termination costs	179	1,185	—
Asset impairment expense	2,400	547	291
Total operating expenses	1,559,547	1,120,093	561,429
Income (loss) from operations	(1,421)	713	(13,991)
Interest expense	(43,375)	(39,017)	(12,347)
Loss on early extinguishment or restructuring of debt	—	—	(11,969)
Net loss on contingent consideration	(8,929)	—	—
Income (loss) from equity investees	10,768	(1,499)	3,050
Other income (expense), net	(2,836)	(6,820)	702
Loss from continuing operations before income taxes	(45,793)	(46,623)	(34,555)
Income tax (expense) benefit	(51,638)	10,882	22,869
Loss from continuing operations	(97,431)	(35,741)	(11,686)
Loss from discontinued operations	—	(21)	(146)
Net loss	(97,431)	(35,762)	(11,832)
Less: Net (income) loss attributable to noncontrolling interest and redeemable noncontrolling interest	2,882	197	(2,559)
Net loss attributable to HC2 Holdings, Inc.	(94,549)	(35,565)	(14,391)
Less: Preferred stock and deemed dividends from conversions	10,849	4,285	2,049
Net loss attributable to common stock and participating preferred stockholders	$(105,398)	$(39,850)	$(16,440)
Basic loss per common share:			
Loss from continuing operations	$(2.83)	$(1.50)	$(0.82)
Loss from discontinued operations	—	—	(0.01)
Basic loss per share	$(2.83)	$(1.50)	$(0.83)
Diluted loss per common share:			
Loss from continuing operations	$(2.83)	$(1.50)	$(0.82)
Loss from discontinued operations	—	—	(0.01)
Diluted loss per share	$(2.83)	$(1.50)	$(0.83)

Weighted average common shares outstanding:			
Basic	37,260	26,482	19,729
Diluted	37,260	26,482	19,729

See notes to consolidated financial statements.

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

	Years Ended December 31,		
	2016	2015	2014
Net loss	$(97,431)	$(35,762)	$(11,832)
Other comprehensive income (loss)			
Foreign currency translation adjustment	(4,911)	(8,591)	(6,168)
Unrealized gain (loss) on available-for-sale securities	21,245	(8,029)	1,551
Actuarial benefit (loss) on pension plan	(2,606)	(512)	426
Less: Net (income) loss attributable to noncontrolling interest and redeemable noncontrolling interest	2,882	197	(2,559)
Comprehensive loss attributable to HC2 Holdings, Inc.	$(80,821)	$(52,697)	$(18,582)

See notes to consolidated financial statements.

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

	December 31,	
	2016	2015
Assets		
Investments:		
Fixed maturities, available-for-sale at fair value	$1,278,958	$1,231,841
Equity securities, available-for-sale at fair value	51,519	49,682
Mortgage loans	16,831	1,252
Policy loans	18,247	18,476
Other invested assets	62,363	53,119
Total investments	1,427,918	1,354,370
Cash and cash equivalents	115,371	158,624
Restricted cash	498	538
Accounts receivable (net of allowance for doubtful accounts of $3,619 and $794 at December 31, 2016 and 2015, respectively)	267,598	210,853
Costs and recognized earnings in excess of billings on uncompleted contracts	15,188	39,310
Inventory	9,648	12,120
Recoverable from reinsurers	524,201	522,562
Accrued investment income	15,948	15,300
Deferred tax asset	1,108	52,511
Property, plant and equipment, net	286,458	214,466
Goodwill	98,086	61,178
Intangibles	39,722	29,409
Other assets	33,024	65,206
Assets held for sale	508	6,065
Total assets	$2,835,276	$2,742,512
Liabilities, temporary equity and stockholders’ equity		
Life, accident and health reserves	$1,648,565	$1,591,937
Annuity reserves	251,270	260,853
Value of business acquired	47,613	50,761
Accounts payable and other current liabilities	251,733	225,389
Billings in excess of costs and recognized earnings on uncompleted contracts	43,221	21,201
Deferred tax liability	15,304	4,281
Long-term obligations	428,496	371,876
Pension liability	22,252	25,156
Other liabilities	27,398	17,793
Total liabilities	2,735,852	2,569,247
Commitments and contingencies		
Temporary equity:		
Preferred stock, $.001 par value - 20,000,000 shares authorized; Series A - 14,808 and 29,172 shares issued and outstanding at December 31, 2016 and 2015, respectively; Series A-1 - 1,000 and 10,000 shares issued and outstanding at December 31, 2016 and 2015, respectively; Series A-2 - 14,000 shares issued and outstanding at December 31, 2016 and 2015, respectively	29,459	52,619
Redeemable noncontrolling interest	2,526	3,122
Total temporary equity	31,985	55,741

Stockholders’ equity:		
Common stock, $.001 par value - 80,000,000 shares authorized; 42,070,675 and 35,281,375 shares issued and 41,811,288 and 35,249,749 shares outstanding at December 31, 2016 and 2015, respectively	42	35
Additional paid-in capital	241,485	209,477
Treasury stock, at cost - 259,387 and 31,626 shares at December 31, 2016 and 2015, respectively	(1,387)	(378)
Accumulated deficit	(174,278)	(79,729)
Accumulated other comprehensive loss	(21,647)	(35,375)
Total HC2 Holdings, Inc. stockholders’ equity before noncontrolling interest	44,215	94,030
Noncontrolling interest	23,224	23,494
Total stockholders’ equity	67,439	117,524
Total liabilities, temporary equity and stockholders’ equity	$2,835,276	$2,742,512

See notes to consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
Balance as of December 31, 2013	14,226	$ 14	$ 98,598	$ (378)	$ (29,773)	$ (14,052)	$ —	$ 54,409
Share-based compensation expense	—	—	11,028	—	—	—	—	11,028
Exercise of warrants and stock options	7,589	8	24,340	—	—	—	—	24,348
Taxes paid in lieu of shares issued for share-based compensation	—	—	(47)	—	—	—	—	(47)
Preferred stock dividend and accretion	—	—	(2,049)	—	—	—	—	(2,049)
Preferred stock beneficial conversion feature	—	—	659	—	—	—	—	659
Issuance of common stock	1,500	2	5,998	—	—	—	—	6,000
Issuance of restricted stock	498	—	—	—	—	—	—	—
Acquisition of noncontrolling interest	—	—	—	—	—	—	67,106	67,106
Additional acquisition of noncontrolling interest	—	—	—	—	—	—	(41,036)	(41,036)
Excess fair value over book value of purchased noncontrolling interest	—	—	3,421	—	—	—	(3,421)	—
Actuarial benefit on pension plan	—	—	—	—	—	426	—	426
Net income (loss)	—	—	—	—	(14,391)	—	2,559	(11,832)
Foreign currency translation adjustment	—	—	—	—	—	(6,168)	—	(6,168)
Unrealized gain on available-for-sale securities	—	—	—	—	—	1,551	—	1,551
Balance as of December 31, 2014	23,813	$ 24	$ 141,948	$ (378)	$ (44,164)	$ (18,243)	$ 25,208	$ 104,395
Share-based compensation expense	—	—	11,102	—	—	—	—	11,102
Dividend to noncontrolling interest	—	—	—	—	—	—	(1,835)	(1,835)
Preferred stock dividend and accretion	—	—	(4,285)	—	—	—	—	(4,285)
Preferred stock beneficial conversion feature	—	—	(375)	—	—	—	—	(375)
Issuance of common stock	8,459	8	53,779	—	—	—	—	53,787
Issuance of common stock for acquisition of business	1,007	1	5,380	—	—	—	—	5,381
Issuance of restricted stock	1,539	2	—	—	—	—	—	2

Conversion of preferred stock to common stock	432		1,839	—	—	—	—	1,839
Acquisition of noncontrolling interest	—	—	—	—	—	—	(475)	(475)
Excess fair value over book value of purchased noncontrolling interest	—	—	89	—	—	—	(89)	—
Actuarial loss on pension plan	—	—	—	—	—	(512)	—	(512)
Net loss	—	—	—	—	(35,565)	—	(197)	(35,762)
Net income attributable to redeemable noncontrolling interest	—	—	—	—	—	—	882	882
Foreign currency translation adjustment	—	—	—	—	—	(8,591)	—	(8,591)
Unrealized loss on available-for-sale securities	—	—	—	—	—	(8,029)	—	(8,029)
Balance as of December 31, 2015	35,250	$ 35	$ 209,477	$ (378)	$ (79,729)	$ (35,375)	$ 23,494	$ 117,524

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

	Common Stock Shares	Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
Balance as of December 31, 2015	35,250	$ 35	$ 209,477	$ (378)	$ (79,729)	$ (35,375)	$ 23,494	$ 117,524
Dividend to noncontrolling interest	—	—	—	—		—	(759)	(759)
Share-based compensation expense	—	—	8,348	—	—	—	—	8,348
Fair value adjustment of redeemable noncontrolling interest	—	—	(489)	—	—	—	—	(489)
Exercise of stock options	2	—	8	—	—	—	—	8
Taxes paid in lieu of shares issued for share-based compensation	(228)	—	—	(1,009)	—	—	—	(1,009)
Preferred stock dividend and accretion	—	—	(2,948)	—	—	—	—	(2,948)
Amortization of issuance costs and beneficial conversion feature	—	—	(608)	—	—	—	—	(608)
Issuance of restricted stock	269	—	—	—	—	—	—	—
Conversion of preferred stock to common stock	6,518	7	21,365	—	—	—	—	21,372
Acquisition of noncontrolling interest	—	—	200	—	—	—	2,014	2,214
Sale of controlling interest	—	—	—	—	—	—	6,069	6,069
Excess fair value over book value of purchased noncontrolling interest	—	—	6,132	—	—	—	(6,132)	—
Actuarial loss on pension plan	—	—	—	—	—	(2,606)	—	(2,606)
Net loss	—	—	—	—	(94,549)	—	(2,882)	(97,431)
Net income attributable to redeemable noncontrolling interest	—	—	—	—	—	—	1,420	1,420
Foreign currency translation adjustment	—	—	—	—	—	(4,911)	—	(4,911)
Unrealized gain on available-for-sale securities	—	—	—	—	—	21,245	—	21,245
Balance as of December 31, 2016	41,811	$ 42	$ 241,485	$ (1,387)	$ (174,278)	$ (21,647)	$ 23,224	$ 67,439

See notes to consolidated financial statements.

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

	Years Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net loss	$(97,431)	$(35,762)	$(11,832)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:			
Provision for doubtful accounts receivable	2,862	99	403
Share-based compensation expense	8,348	11,102	11,028
Depreciation and amortization	28,863	32,455	11,069
Amortization of deferred financing costs and debt discount	3,253	1,420	240
Amortization of (discount) premium on investments	11,373	301	1,593
(Gain) loss on sale or disposal of assets	2,362	170	816
Lease termination costs	179	1,185	—
Asset impairment expense	2,400	547	291
Loss on early extinguishment or restructuring of debt	—	—	11,969
(Income) loss from equity investees	(10,768)	1,499	(3,050)
Impairment of investments	4,322	—	—
Realized (gain) loss on investments	(2,528)	6,053	1,174
Net loss on contingent consideration	8,929	—	—
Receipt of dividends from equity investees	8,723	4,647	2,081
Deferred income taxes	27,136	(13,102)	(30,223)
Annuity benefits	8,962	—	—
Other operating activities	(878)	5,451	(65)
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable	(55,907)	(60,720)	18,349
Costs and recognized earnings in excess of billings on uncompleted contracts	24,529	(11,579)	(1,139)
Inventory	2,220	2,610	6,616
Recoverable from reinsurers	(1,947)	—	—
Accrued investment income	(649)	—	—
Other assets	20,657	17,032	764
Life, accident and health reserves	56,338	608	—
Accounts payable and other current liabilities	11,905	36,216	18,968
Billings in excess of costs and recognized earnings on uncompleted contracts	21,643	(20,767)	(23,793)
Pension liability	(4,629)	(10,638)	(7,564)
Other liabilities	(1,119)	3,259	(1,951)
Cash provided by (used in) operating activities:	79,148	(27,914)	5,744
Cash flows from investing activities:			
Purchases of property, plant and equipment	(29,048)	(21,324)	(5,819)
Disposal of property, plant and equipment	8,824	5,034	3,706
Purchases of investments	(239,941)	(54,598)	(33,034)
Sale of investments	89,392	12,248	2,411
Maturities and redemptions of investments	97,375	—	—
Cash from disposition of business, net of cash disposed	—	—	31,645
Cash paid for business acquisitions, net of cash acquired	(66,346)	39,726	(146,026)
Change in restricted cash	44	—	(1,785)

Other investing activities	(518)	—	—
Cash used in investing activities:	(140,218)	(18,914)	(148,902)
Cash flows from financing activities:			
Proceeds from long-term obligations	56,058	54,042	374,815
Principal payments on long-term obligations	(22,252)	(19,287)	(148,664)
Annuity receipts	3,399	78	—
Annuity surrenders	(21,654)	—	—

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

Payment of fees on restructuring of debt	—	—	(12,333)
Proceeds from sale of preferred stock, net	—	14,033	40,050
Proceeds from sale of common stock, net	—	53,975	6,000
Purchase of noncontrolling interest	(1,833)	(475)	(38,403)
Sale of noncontrolling interests	8,000	—	—
Change in restricted cash	—	6,014	—
Payment of dividends	(4,220)	(5,687)	(1,626)
Net cash received for contingent consideration	2,335	—	—
Taxes paid in lieu of shares issued for share-based compensation	(1,009)	—	(47)
Proceeds from the exercise of warrants and stock options	8	—	24,348
Other Financing activities	(44)	—	—
Cash provided by financing activities:	18,788	102,693	244,140
Effects of exchange rate changes on cash and cash equivalents	(971)	(5,219)	(2,001)
Net change in cash and cash equivalents	(43,253)	50,646	98,981
Cash and cash equivalents, beginning of period	158,624	107,978	8,997
Cash and cash equivalents, end of period	$115,371	$158,624	$107,978
Supplemental cash flow information:			
Cash paid for interest	$39,193	$39,451	$7,527
Cash paid for taxes	$20,859	$1,134	$8,792
Non-cash investing and financing activities:			
Purchases of property, plant and equipment under financing arrangements	$—	$1,808	$4,400
Property, plant and equipment included in accounts payable	$1,581	$911	$2,544
Investments in accounts payable	$2,494	$—	$—
Reacquisition of shares from a noncontrolling interest	$—	$—	$1,700
Conversion of preferred stock to common stock	$28,534	$1,839	$—
Deemed dividend from conversion of preferred stock	$6,867	$—	$—
Dividends payable to shareholders	$1,322	$1,005	$777
Business acquisition through the issuance of common stock, long-term debt and warrants	$—	$11,591	$—
Issuance of long-term debt	$—	$5,000	$—
Fair value of contingent asset assumed in other acquisitions	$2,992	$—	$—
Fair value of deferred liability assumed in other acquisitions	$2,995	$—	$—
Debt assumed in acquisitions	$20,813	$—	$—

See notes to consolidated financial statements.

HC2 HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

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

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

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

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

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

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

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

6.Our Life Sciences segment includes Pansend Life Sciences, LLC (“Pansend”). Pansend owns a (i) 77% interest in Genovel Orthopedics, Inc. ("Genovel"), which seeks to develop products to treat early osteoarthritis of the knee, (ii) 67% interest in R2 Dermatology Inc. ("R2", f/k/a GemDerm Aesthetics, Inc.), which develops skin lightening technology, and (iii) 80% interest in BeneVir Biopharm, Inc. ("BeneVir"), which focuses on immunotherapy for the treatment of solid tumors. Pansend also invests in other early stage or developmental stage healthcare companies including Medibeacon Inc. and Triple Ring Technologies, Inc.

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

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries and all other subsidiaries over which the Company exerts control. All intercompany profits, transactions and balances have been eliminated in consolidation. As of December 31, 2016, the Company owns a 100% interest in CGI, a 100% interest in ICS, a 95% interest in GMSL, a 92% interest in DBMG, a 56% interest in DMi, a 72% interest in NerVve, and board control of, and a 49.99% interest in ANG. Through its subsidiary, Pansend, the Company owns a 77% interest in Genovel, a 67% interest in R2 and an 80% interest in BeneVir. The results of each of these entities are consolidated with the Company’s results from and after their respective acquisition dates based on guidance from the FASB ASC 810, “Consolidation” (“ASC 810”). The remaining interests not owned by the Company are presented as a noncontrolling interest component of total equity. DBMG uses a 4-4-5 week quarterly cycle, which for the fourth quarter of 2016 ended on January 2, 2017.

Cash and Cash Equivalents

Cash and cash equivalents are comprised principally of amounts in money market accounts, operating accounts, certificates of deposit, and overnight repurchase agreements with original maturities of three months or less.

Acquisitions

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

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

Investments

The Company determines the appropriate classification of investments in fixed maturity and equity securities at the acquisition date and re-evaluates the classification at each balance sheet date. Substantially all of our investments in equity and fixed maturity securities are classified as available-for-sale.

The Company utilizes the equity method to account for investments when it possesses the ability to exercise significant influence, but not control, over the operating and financial policies of the investee. The ability to exercise significant influence is presumed when an investor possesses more than 20% of the voting interests of the investee. This presumption may be overcome based on specific facts and circumstances that demonstrate that the ability to exercise significant influence is restricted. The Company applies the equity method to investments in common stock and to other investments when such other investments possess substantially identical subordinated interests to common stock. In applying the equity method, the Company records the investment at cost and subsequently increases or decreases the carrying amount of the investment by its proportionate share of the net earnings or losses and other comprehensive income of the investee. The Company records dividends or other equity distributions as reductions in the carrying value of the investment. In the event that net losses of the investee reduce the carrying amount to zero, additional net losses may be recorded if other investments in the investee are at-risk, even if the Company has not committed to provide financial support to the investee. Such additional equity method losses, if any, are based upon the change in the Company's claim on the investee’s book value.

Fixed maturities, available-for-sale at fair value include bonds and redeemable preferred stocks. The Company carries these investments at fair value with net unrealized gains or losses, net of tax and related adjustments, reported as a component of accumulated other comprehensive income (loss) (“AOCI”).

Equity securities, available-for-sale at fair value include investments in common stock and non-redeemable preferred stock. The Company carries these investments at fair value with net unrealized gains or losses, net of tax and related adjustments, reported as a component of AOCI.

Mortgage loans are carried at amortized unpaid balances, net of provisions for estimated losses. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate.

Policy loans are stated at current unpaid principal balances. Policy loans are collateralized by the cash surrender value of the policy. Interest income is recorded as earned using the contractual interest rate.

Other invested assets include (i) common stock of publicly traded companies accounted for using the equity method; (ii) common and preferred stock of privately held companies accounted for using the equity or cost method; (ii) limited partnerships and joint ventures accounted for using the equity method; (iii) equity purchase warrants and call options accounted for as a derivative (as discussed below); and, (iv) equity purchase warrants accounted for under the cost method.

Premiums and discounts on fixed maturity securities are amortized using the interest method; mortgage-backed securities are amortized over a period based on estimated future principal payments, including prepayments. Prepayment assumptions are reviewed periodically and adjusted to reflect actual prepayments and changes in expectations. Dividends on equity securities are recognized when declared. When the Company sells a security, the difference between the sale proceeds and amortized cost (determined based on specific identification) is reported as a realized investment gain or loss. When a decline in the value of a specific investment is considered to be other-than-temporary at the balance sheet date, a provision for impairment is charged to earnings (included in realized gains (losses) on investments) and the cost basis of that investment is reduced. If the Company can assert that it does not intend to sell an impaired fixed maturity security and it is not more likely than not that it will have to sell the security before recovery of its amortized cost basis, then the other-than-temporary impairment is separated into two components: (i) the amount related to credit losses (recorded in earnings) and (ii) the amount related to all other factors (recorded in AOCI). The credit-related portion of an other-than-temporary impairment is measured by comparing a security’s amortized cost to the present value of its current expected cash flows discounted at its effective yield prior to the impairment charge. If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the security before recovery, an impairment charge to earnings is recorded to reduce the amortized cost of that security to fair value.

Derivatives

Equity purchase warrants, equity call options and the Company's issued warrant to purchase its common stock qualify as a derivative under ASC 815, Derivatives and Hedging ("ASC 815"). All of such derivative instruments are recognized as either assets or liabilities at fair value. Subsequent changes in fair value are recognized within earnings.

Fair Value Measurements

General accounting principles for Fair Value Measurements and Disclosures define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. These principles also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and describes three levels of inputs that may be used to measure fair value:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are defined as having the following characteristics for the measured asset/liability: (i) many transactions, (ii) current prices, (iii) price quotes not varying substantially among market makers, (iv) narrow bid/ask spreads and (v) most information publicly available. The Company’s Level 1 financial instruments consist primarily of publicly traded equity securities and highly liquid government bonds for which quoted market prices in active markets are available.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or market standard valuation techniques and assumptions with significant inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Such observable inputs include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market. The Company’s Level 2 financial instruments include corporate and municipal fixed maturity securities, mortgage-backed non-affiliated common stocks priced using observable inputs. Level 2 inputs include benchmark yields, reported trades, corroborated broker/dealer quotes, issuer spreads and benchmark securities. When non-binding broker quotes can be corroborated by comparison to similar securities priced using observable inputs, they are classified as Level 2.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. Level 3 assets and liabilities include those whose value is determined using market standard valuation techniques. When observable inputs are not available, the market standard techniques for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation and cannot be supported by reference to market activity. Even though unobservable, management believes these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing similar assets and liabilities. For the Company’s invested assets, this category primarily includes private placements, asset-backed securities, and to a lesser extent, certain residential and commercial mortgage-backed securities, among others. Prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company’s understanding of the market, and are generally considered Level 3. Under certain circumstances, based on its observations of transactions in active markets, the Company may conclude the prices received from independent third-party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company would apply internally developed valuation techniques to the related assets or liabilities.

Other than transactions described within Note 3. Business Combinations, the Company did not have any significant nonrecurring fair value measurements of non-financial assets and liabilities in 2016 or 2015.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

The Company may utilize information from third parties, such as pricing services and brokers, to assist in determining the fair value for certain assets and liabilities; however, management is ultimately responsible for all fair values presented in the Company's financial statements. This includes responsibility for monitoring the fair value process, ensuring objective and reliable valuation practices and pricing of assets and liabilities, and approving changes to valuation methodologies and pricing sources. The selection of the valuation technique(s) to apply considers the definition of an exit price and the nature of the asset or liability being valued and significant expertise and judgment is required.

Accounts Receivable

Accounts receivable are stated at amounts due from customers net of an allowance for doubtful accounts. Our allowance for doubtful accounts considers historical experience, the age of certain receivable balances, credit history, current economic conditions and other factors that may affect the counterparty's ability to pay.

Inventory

Inventory is valued at the lower of cost or market value under the first-in, first-out method. Provision for obsolescence is made where appropriate and is charged to cost of revenue in the consolidated statements of operations. Short-term work in progress on contracts is stated at cost less foreseeable losses. These costs include only direct labor and expenses incurred to date and exclude any allocation of overhead. The policy for long-term work in progress contracts is disclosed within the Revenue and Cost Recognition accounting policy.

Reinsurance