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

FORM 10-Q

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

For the quarterly period ended March 31, 2024
OR

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

Commission File No. 001-35210

INNOVATE

INNOVATE CORP.
(Exact name of registrant as specified in its charter)

Delaware	**54-1708481**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
295 Madison Ave., 12th Floor, New York, NY	**10017**
(Address of principal executive offices)	**(Zip Code)**

(212) 235-2691
(Registrant’s telephone number, including area code)

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

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

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

None.

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

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

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

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

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

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

As of May 3, 2024, 85,192,032 shares of common stock, par value $0.001, were outstanding.

INNOVATE CORP.

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PART 1. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION
Item 1. Unaudited Financial Statements

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

	Three Months Ended March 31,	
	2024	**2023**
Revenue	$ 315.2	$ 317.9
Cost of revenue	266.6	274.3
Gross profit	48.6	43.6
Operating expenses:		
Selling, general and administrative	39.5	41.7
Depreciation and amortization	4.4	6.3
Other operating loss (income)	1.9	(0.4)
Income (loss) from operations	2.8	(4.0)
Other (expense) income:		
Interest expense	(17.2)	(15.6)
Loss from equity investees	(1.2)	(4.0)
Other (expense) income, net	(1.2)	16.5
Loss from operations before income taxes	(16.8)	(7.1)
Income tax expense	(3.3)	(0.9)
Net loss	(20.1)	(8.0)
Net loss (income) attributable to non-controlling interests and redeemable non-controlling interests	2.7	(1.0)
Net loss attributable to INNOVATE Corp.	(17.4)	(9.0)
Less: Preferred dividends	0.3	1.2
Net loss attributable to common stockholders	$ (17.7)	$ (10.2)
Loss per share - basic and diluted	$ (0.22)	$ (0.13)
Weighted average common shares outstanding - basic and diluted	78.7	77.7

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

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

	Three Months Ended March 31,	
	2024	**2023**
Net loss	$ (20.1)	$ (8.0)
Other comprehensive loss		
Foreign currency translation adjustment, net of tax	(1.1)	(1.0)
Disposition of equity method investment, net of tax	—	(9.1)
Other comprehensive loss	$ (1.1)	$ (10.1)
Comprehensive loss	(21.2)	(18.1)
Comprehensive loss attributable to non-controlling interests and redeemable non-controlling interests	2.8	1.7
Comprehensive loss attributable to INNOVATE Corp.	$ (18.4)	$ (16.4)

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

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

	March 31, 2024	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 38.4	$ 80.8
Accounts receivable, net	269.3	278.4
Contract assets	82.2	118.6
Inventory	21.8	22.4
Assets held for sale	3.8	3.1
Other current assets	13.1	14.6
Total current assets	428.6	517.9
Investments	1.8	1.8
Deferred tax asset	1.9	2.0
Property, plant and equipment, net	146.8	154.6
Goodwill	126.9	127.1
Intangibles, net	177.1	178.9
Other assets	60.4	61.3
Total assets	$ 943.5	$ 1,043.6
Liabilities, temporary equity and stockholders' deficit		
Current liabilities		
Accounts payable	$ 122.9	$ 142.9
Accrued liabilities	50.5	70.8
Current portion of debt obligations	34.2	30.5
Contract liabilities	125.4	153.5
Other current liabilities	16.0	16.1
Total current liabilities	349.0	413.8
Deferred tax liability	4.2	4.1
Debt obligations	641.5	679.3
Other liabilities	83.4	82.7
Total liabilities	1,078.1	1,179.9
Commitments and contingencies		
Temporary equity		
Preferred Stock Series A-3, Preferred Stock Series A-4, and Preferred Stock Series C, $0.001 par value	39.8	16.4
Shares authorized: 20,000,000 as of both March 31, 2024 and December 31, 2023		
Shares issued and outstanding: 6,125 of Series A-3, 10,000 of Series A-4 and 25,000 of Series C as of March 31, 2024; and 6,125 of Series A-3, 10,000 of Series A-4 and zero of Series C as of December 31, 2023		
Redeemable non-controlling interest	(1.2)	(1.0)
Total temporary equity	38.6	15.4
Stockholders' deficit		
Common stock, $0.001 par value	0.1	0.1
Shares authorized: 160,000,000 as of both March 31, 2024 and December 31, 2023		
Shares issued: 81,373,919 and 80,722,983 as of March 31, 2024 and December 31, 2023, respectively		
Shares outstanding: 79,885,927 and 79,234,991 as of March 31, 2024 and December 31, 2023, respectively		
Additional paid-in capital	327.7	328.2
Treasury stock, at cost: 1,487,992 shares as of both March 31, 2024 and December 31, 2023	(5.4)	(5.4)
Accumulated deficit	(504.7)	(487.3)
Accumulated other comprehensive loss	(2.1)	(1.1)
Total INNOVATE Corp. stockholders' deficit	(184.4)	(165.5)
Non-controlling interest	11.2	13.8
Total stockholders' deficit	(173.2)	(151.7)
Total liabilities, temporary equity and stockholders' deficit	$ 943.5	$ 1,043.6

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

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

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Comprehensive Income (Loss) (a)	Total INNOVATE Stockholders' (Deficit) Equity	Non-controlling Interest	Total Stockholders' (Deficit) Equity	Temporary Equity
	Shares	Amount								
Balance as of December 31, 2023	79.2	0.1	$ 328.2	$ (5.4)	$ (487.3)	$ (1.1)	$ (165.5)	$ 13.8	$ (151.7)	$ 15.4
Share-based compensation	—	—	0.4	—	—	—	0.4	—	0.4	—
Preferred stock dividends - accrued	—	—	(0.3)	—	—	—	(0.3)	—	(0.3)	—
Preferred stock dividends - paid	—	—	—	—	—	—	—	—	—	(0.3)
Issuance of common stock	0.7	—	—	—	—	—	—	—	—	—
Issuance of preferred stock in private placement	—	—	—	—	—	—	—	—	—	25.0
Rights offering and private placement transaction costs	—	—	(0.5)	—	—	—	(0.5)	—	(0.5)	(1.3)
Other	—	—	(0.1)	—	—	—	(0.1)	—	(0.1)	—
Net loss	—	—	—	—	(17.4)	—	(17.4)	(2.5)	(19.9)	(0.2)
Other comprehensive loss	—	—	—	—	—	(1.0)	(1.0)	(0.1)	(1.1)	—
Balance as of March 31, 2024	79.9	0.1	$ 327.7	$ (5.4)	$ (504.7)	$ (2.1)	$ (184.4)	$ 11.2	$ (173.2)	$ 38.6

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Comprehensive Income (Loss) (a)	Total INNOVATE Stockholders' (Deficit) Equity	Non-controlling Interest	Total Stockholders' (Deficit) Equity	Temporary Equity
	Shares	Amount								
Balance as of December 31, 2022	78.8	0.1	$ 330.1	$ (5.3)	$ (452.1)	$ 5.9	$ (121.3)	$ 30.7	$ (90.6)	$ 61.0
Share-based compensation	—	—	0.5	—	—	—	0.5	—	0.5	—
Taxes paid in lieu of shares issued for share-based compensation	(0.1)	—	—	(0.1)	—	—	(0.1)	—	(0.1)	—
Preferred stock dividends	—	—	(0.9)	—	—	—	(0.9)	—	(0.9)	(0.3)
Issuance of common stock	0.3	—	—	—	—	—	—	—	—	—
Distributions to non-controlling interests	—	—	—	—	—	—	—	(10.7)	(10.7)	(5.2)
Transactions with non-controlling interests	—	—	(2.9)	—	—	—	(2.9)	3.0	0.1	0.1
DBMGi preferred stock reclass to liability	—	—	—	—	—	—	—	—	—	(41.8)
Net (loss) income	—	—	—	—	(9.0)	—	(9.0)	2.2	(6.8)	(1.2)
Other comprehensive loss	—	—	—	—	—	(7.4)	(7.4)	(2.2)	(9.6)	(0.5)
Balance as of March 31, 2023	79.0	0.1	$ 326.8	$ (5.4)	$ (461.1)	$ (1.5)	$ (141.1)	$ 23.0	$ (118.1)	$ 12.1

(a) Inclusive of other comprehensive loss, foreign currency cumulative translation adjustments totaled a loss of $3.3 million and $2.4 million as of March 31, 2024 and December 31, 2023, respectively.

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

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

	Three Months Ended March 31,	
	2024	**2023**
Cash flows from operating activities		
Net loss	$ (20.1)	$ (8.0)
Adjustments to reconcile net loss to cash used in operating activities		
Share-based compensation expense	0.4	0.5
Depreciation and amortization (including amounts in cost of revenue)	8.4	10.2
Amortization of deferred financing costs and debt discount	1.7	1.6
Loss on debt extinguishment	2.2	—
Loss from equity investees	1.2	4.0
Realized and unrealized gains on equity method investments	—	(16.1)
Deferred income tax expense (benefit)	0.1	(5.4)
Other operating activities, net	1.2	(0.5)
Changes in assets and liabilities:		
Accounts receivable	9.0	1.6
Contract assets	36.4	(15.1)
Other current assets	0.6	(1.1)
Inventory	0.6	(2.4)
Other assets	2.8	2.5
Accounts payable	(20.0)	(36.3)
Accrued liabilities	(20.6)	(19.0)
Contract liabilities	(28.1)	6.3
Other current liabilities	0.3	(1.4)
Other liabilities	(1.5)	1.6
Cash used in operating activities	(25.4)	(77.0)
Cash flows from investing activities		
Purchase of property, plant and equipment	(5.6)	(3.7)
Proceeds from disposal of property, plant and equipment	3.1	0.3
Loans to equity method investee	(1.2)	—
Proceeds from sale of equity method investments	—	54.2
Other investing activities	0.4	0.4
Cash (used in) provided by investing activities	(3.3)	51.2
Cash flows from financing activities		
Proceeds from issuance of preferred stock	25.0	—
Proceeds from lines of credit	—	40.0
Payments on lines of credit	(30.0)	(57.0)
Proceeds from other debt obligations, net of deferred financing costs	—	0.9
Principal payments on other debt obligations	(7.6)	(4.6)
Payments to non-controlling interests and redeemable non-controlling interests related to sale of equity method investment	—	(15.9)
Dividend payments	(0.3)	(1.2)
Other financing activities	—	(0.2)
Cash used in financing activities	(12.9)	(38.0)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(0.8)	(0.4)
Net decrease in cash and cash equivalents, including restricted cash	(42.4)	(64.2)
Cash, cash equivalents and restricted cash, beginning of period	82.3	82.2
Cash, cash equivalents and restricted cash, end of period	$ 39.9	$ 18.0

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

1. Organization and Business

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

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

1. Our Infrastructure segment is comprised of DBM Global Inc. ("DBMG") and its wholly-owned subsidiaries. DBMG is a fully integrated industrial construction, structural steel and facility maintenance provider that provides fabrication and erection of structural steel and heavy steel plate services and also fabricates trusses and girders and specializes in the fabrication and erection of large-diameter water pipe and water storage tanks, as well as 3-D Building Information Modeling ("BIM") and detailing. DBMG provides these services on commercial, industrial, and infrastructure construction projects such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas and stadiums, shopping malls, hospitals, dams, bridges, mines, metal processing, refineries, pulp and paper mills and power plants. Through GrayWolf Industrial Inc. ("GrayWolf"), DBMG provides integrated solutions for digital engineering, modeling and detailing, construction, heavy equipment installation and facility services including maintenance, repair, and installation to a diverse range of end markets. Through Aitken Manufacturing, Inc., DBMG manufactures pollution control scrubbers, tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products. Through Banker Steel Holdco, LLC ("Banker Steel"), DBMG provides full-service fabricated structural steel and erection services primarily for the East Coast and Southeast commercial and industrial construction market, in addition to full design-assist services. The Company maintains a 91.2% controlling interest in DBMG.

2. Our Life Sciences segment is comprised of Pansend Life Sciences, LLC ("Pansend"), its subsidiaries and its equity investments. Pansend maintains controlling interests of 80.0% in Genovel Orthopedics, Inc. ("Genovel"), which seeks to develop products to treat early osteoarthritis of the knee and 56.8% in R2 Technologies, Inc. ("R2 Technologies"), which develops aesthetic and medical technologies for the skin. Pansend also invests in other early stage or developmental stage healthcare companies and, as of March 31, 2024, had a 46.0% interest in MediBeacon Inc. ("MediBeacon"), a medical technology company specializing in the advances of fluorescent tracer agents and transdermal measurement, potentially enabling real-time, direct monitoring of kidney function, a 1.9% fully diluted interest in Triple Ring Technologies, Inc. ("Triple Ring"), a science and technology co-development company, and a 20.1% interest in Scaled Cell Solutions, Inc. ("Scaled Cell"), an immunotherapy company developing a novel autologous cell therapy system to potentially improve current CAR-T treatments.

3. Our Spectrum segment is comprised of HC2 Broadcasting Holdings Inc. ("Broadcasting") and its subsidiaries. Broadcasting strategically acquired and operates over-the-air broadcasting stations across the United States. The Company maintains a 98.0% controlling interest in Broadcasting and maintains a controlling interest of approximately 69.2%, inclusive of 2.8% proxy rights from minority holders of DTV America Corporation ("DTV"). On a fully diluted basis, the Company would have a 85.8% controlling interest in Broadcasting.

4. Our Other segment represents all other businesses or investments that do not meet the definition of a segment individually or in the aggregate. Included in the Other segment is TIC Holdco, Inc. ("TIC"), and the former Marine Services segment, which includes its holding company, Global Marine Holdings, LLC ("GMH"), in which the Company maintains a 72.8% controlling interest. GMH's prior period results included its subsidiary's prior 19.0% equity method investment in HMN International Co., Ltd., formerly known as Huawei Marine Networks Co. ("HMN"), until it was sold on March 6, 2023. Refer to Note 6. Investments for additional information.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries and all other subsidiaries over which the Company exerts control. All intercompany profits, transactions and balances have been eliminated in consolidation. The remaining interests not owned by the Company are presented as a non-controlling interest component of total equity.

Basis of Presentation

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

These interim financial statements should be read in conjunction with the Company's annual audited Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023, filed with the SEC on March 6, 2024. The results of operations for the three months ended March 31, 2024 are not necessarily indicative of the results for any subsequent periods or the entire fiscal year ending December 31, 2024.

Liquidity

On March 8, 2024, the Company commenced a $19.0 million rights offering ("Rights Offering") for its common stock. Pursuant to the Rights Offering, the Company distributed to each holder of the Company's common stock, Series A-3 Convertible Participating Preferred Stock, Series A-4 Convertible Participating Preferred Stock and the 2026 Convertible Notes as of March 6, 2024 (the "rights offering record date"), transferable subscription rights to purchase 0.2858 shares of the Company's common stock at a price of $0.70 per whole share.

Per the concurrent investment agreement entered into with Lancer Capital (the "Investment Agreement"), the Rights Offering was backstopped by Lancer Capital, an investment fund led by Avram A. Glazer, the Chairman of the Board and the Company's largest stockholder. Due to limitations on the common stock that can be issued to Lancer Capital under the rules of the New York Stock Exchange ("NYSE"), in lieu of exercising its subscription rights, pursuant to the Investment Agreement, Lancer Capital would purchase up to $19.0 million of the Company's newly issued Series C Non-Voting Participating Convertible Preferred Stock (the "Series C Preferred Stock"), for an issue price of $1,000 per share. In connection with the backstop commitment, and as a result of limitations in the amount common equity that can be raised under the Company's effective shelf registration statement on Form S-3, Lancer Capital also agreed to purchase an additional $16.0 million of Series C Preferred Stock in a private placement transaction ("Concurrent Private Placement") to close concurrently with the settlement of the Rights Offering. Lancer Capital did not receive any compensation or other consideration for entering into or consummating the Investment Agreement.

As the Rights Offering had not yet settled by March 28, 2024, in accordance with the Investment Agreement, Lancer Capital purchased $25.0 million of Series C Preferred Stock, referred to as the "equity advance." Subsequent to quarter end, on April 24, 2024, the Company completed and closed on the Rights Offering and issued a total of 5,306,105 shares of common stock for approximately $3.7 million. Based on the number of shares of common stock actually sold upon exercise of the rights to third party investors, there were no excess shares of Series C Preferred Stock purchased by Lancer Capital under the equity advance that the Company was required to redeem, and Lancer Capital purchased an additional approximately 6,286 Series C Preferred Stock for $6.3 million under the backstop commitment. The total gross proceeds received subsequent to quarter end were $10.0 million.

The Company received $35.0 million in aggregate gross proceeds related to the Rights Offering and Concurrent Private Placement. As of March 31, 2024, the Company had incurred $1.8 million in dealer manager fees and other costs related to the Rights Offering and Concurrent Private Placement, of which $1.3 million was allocated to the Series C Preferred Stock and $0.5 million was recognized as an offset to Additional paid in capital. An additional $0.3 million in costs were incurred subsequent to quarter end. INNOVATE expects to use the net proceeds from the Rights Offering for general corporate purposes, including debt service and for working capital. As a result of the closing of the Rights Offering and Concurrent Private Placement, a mandatory prepayment was required on the CGIC Unsecured Note, in the amount of the greater of $3.0 million or 12.5% of the net proceeds. Subsequent to quarter end, on April 26, 2024, INNOVATE redeemed $4.1 million of the CGIC Unsecured Note.

At this time, management believes that the Company will be able to continue to meet its liquidity requirements and fund its fixed obligations (such as debt service and operating leases) and other cash needs for its operations for at least the next twelve months from the issuance of these unaudited Condensed Consolidated Financial Statements through a combination of available cash on hand, distributions from the Company's subsidiaries and the rights offering together with the back-stop and private placement commitments from Lancer Capital under the Investment Agreement. The ability of INNOVATE's subsidiaries to make distributions to INNOVATE is subject to numerous factors, including restrictions contained in each subsidiary's financing agreements, availability of sufficient funds at each subsidiary and the approval of such payment by each subsidiary's board of directors, which must consider various factors, including general economic and business conditions, tax considerations, strategic plans, financial results and condition, expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends, and such other factors each subsidiary's board of directors considers relevant. Although the Company believes, to the extent needed, that it will be able to raise additional debt or equity capital, refinance indebtedness or preferred stock, enter into other financing arrangements or engage in asset sales and sales of certain investments sufficient to fund any cash needs that the Company is not able to satisfy with the funds on hand or expected to be provided by our subsidiaries, there can be no assurance that it will be able to do so on terms satisfactory to the Company, if at all. Such financing options, if pursued, may also ultimately have the effect of negatively impacting our liquidity profile and prospects over the long-term and dilute holders of common stock. Our ability to sell assets and certain of our investments to meet our existing financing needs may also be limited by our existing financing instruments. In addition, the sale of assets or the Company's investments may also make the Company less attractive to potential investors or future financing partners.

Use of Estimates and Assumptions

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

Recent Accounting Pronouncements

Accounting Pronouncements Adopted in the Current Year

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842): Common Control Arrangements (“ASU 2023-01”)* to improve the guidance for applying Topic 842, Leases, to related party arrangements between entities under common control. ASU 2023-01 improves current GAAP by clarifying the accounting for leasehold improvements associated with common control leases, thereby reducing diversity in practice. The provisions of this ASU that apply to public companies include a requirement for entities to amortize leasehold improvements associated with common control leases over the useful life of the common control group. The Company adopted this update as of January 1, 2024, and the update did not have an impact on the Company's Condensed Consolidated Financial Statements.

Accounting Pronouncements Issued But Pending Adoption

On December 14, 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09")*. ASU 2023-09 improves income tax disclosure requirements related to rate reconciliation income taxes paid and other miscellaneous tax disclosures to enhance their transparency and decision usefulness to investors. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating this ASU, which will only have an effect on the disclosures within the Company’s Condensed Consolidated Financial Statements.

On November 27, 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07")*. ASU 2023-07 improves reportable segment disclosure requirements to enable investors to better understand an entity's overall performance, primarily through enhanced disclosures about significant segment expenses. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating this ASU, which will only have an effect on the disclosures within the Company’s Condensed Consolidated Financial Statements.

On October 9, 2023, the FASB issued ASU 2023-06 *Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative ("ASU 2023-06")*, which modifies certain disclosure and presentation requirements of a variety of Topics in the Codification and is intended to both clarify or improve such requirements and align the requirements with the SEC's regulations. The Company is in the process of evaluating the amendments provided in this ASU and believes certain of the disclosure improvements may be applicable to the Company's interim or annual disclosures, for example, disclosures related to: earnings-per-share computation for dilutive securities, preferred stock, amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on short-term borrowings. The effective date for each amendment is the effective date of the removal of the related disclosure from Regulation S-X or Regulation S-K, with early adoption prohibited. The Company will apply the provisions prospectively as such provisions become effective and does not expect ASU 2023-06 to have a material impact on the Company's Condensed Consolidated Financial Statements.

Recent Climate Related Disclosures

On March 6, 2024, the Securities and Exchange Commission (“SEC”) published final rules mandating climate-related disclosures in companies’ annual reports and registration statements. The quantitative and qualitative disclosures required for registrants include the material impacts of climate-related risks over their business strategy and operations; their risk management and governance process over climate-related risks; climate-related goals material to their business strategy and operations, if any; material expenditures and impact on financial estimates resulting from their climate-related risk management process; financial information regarding severe weather events as well as carbon offsets and renewable energy credits, if applicable; and metrics surrounding Greenhouse Gas ("GHG") emissions. Of these disclosures, the requirement surrounding GHG emissions does not apply to smaller reporting companies ("SRCs"). In October 2023, California passed climate-related disclosure mandates which are similar to but broader than the SEC’s proposed rules. The SEC's final rules applicable to SRCs are effective as of January 1, 2027, while the regulations under California's disclosure mandates are effective as of January 1, 2026. The Company is currently evaluating these pending climate-related disclosure requirements which will only have an impact on the disclosures within the Company's annual reports and registration statements.

Subsequent Events

ASC 855, *Subsequent Events* requires the Company to evaluate events that occur after the balance sheet date as of which the financial statements are issued, and to determine whether adjustments to or additional disclosures in the financial statements are necessary. Refer to Note 21. Subsequent Events.

3. Revenue and Contracts in Process

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

	Three Months Ended March 31,	
	2024	2023
Infrastructure	$ 307.9	$ 311.7
Life Sciences	1.0	0.5
Spectrum	6.3	5.7
Total revenue	$ 315.2	$ 317.9

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

	March 31, 2024	December 31, 2023
Infrastructure	$ 262.6	$ 271.5
Life Sciences	0.5	0.3
Spectrum	1.6	1.4
Total accounts receivables with customers	$ 264.7	$ 273.2

As of January 1, 2023, total accounts receivable, net, from contracts with customers were $250.4 million.

Infrastructure Segment

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

	Three Months Ended March 31,	
	2024	2023
Transportation	$ 100.4	$ 41.5
Industrial	84.1	91.3
Commercial	77.3	112.5
Healthcare	34.3	31.4
Convention	5.5	25.4
Government	2.7	3.7
Energy	2.2	2.7
Leisure	1.0	3.2
Total revenue from contracts with customers	$ 307.5	$ 311.7
Other revenue	0.4	—
Total Infrastructure segment revenue	$ 307.9	$ 311.7

Contract assets and contract liabilities and recognized earnings consisted of the following (in millions):

	March 31, 2024	December 31, 2023
Costs incurred on contracts in progress	$ 2,979.0	$ 2,811.8
Estimated earnings	548.2	510.1
Contract revenue earned on uncompleted contracts	3,527.2	3,321.9
Less: progress billings	3,570.4	3,356.8
	$ (43.2)	$ (34.9)
The above is included in the accompanying Condensed Consolidated Balance Sheets under the following line items:		
Contract assets	$ 82.2	$ 118.6
Contract liabilities	(125.4)	(153.5)
	$ (43.2)	$ (34.9)

	March 31, 2024	December 31, 2023
Cost in excess of billings and estimated earnings	$ 46.4	$ 73.8
Conditional retainage	35.8	44.8
Contract assets	$ 82.2	$ 118.6
Billings in excess of costs and estimated earnings	$ (194.5)	$ (229.3)
Conditional retainage	69.1	75.8
Contract liabilities	$ (125.4)	$ (153.5)

As of January 1, 2023, contract assets were $165.1 million and contract liabilities were $98.6 million.

The change in contract assets during the three months ended March 31, 2024 is a result of the recording of $15.7 million of contract assets driven by new commercial projects, offset by $52.1 million of contract assets transferred to receivables from contract assets recognized at the beginning of the period.

The change in contract liabilities during the three months ended March 31, 2024 is a result of the recording of periodic contract liabilities of $62.9 million driven largely by new commercial projects, offset by revenue recognized that was included in the contract liability balance at the beginning of the period in the amount of $91.0 million.

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

As of March 31, 2024, the transaction price allocated to remaining unsatisfied performance obligations consisted of the following (in millions):

	Within One Year	Within Five Years	Total
Healthcare	$ 175.0	$ 194.5	$ 369.5
Commercial	219.0	0.4	219.4
Industrial	174.3	0.4	174.7
Transportation	107.0	32.1	139.1
Government	9.8	—	9.8
Convention	8.2	—	8.2
Energy	1.9	—	1.9
Leisure	2.6	—	2.6
Remaining unsatisfied performance obligations	$ 697.8	$ 227.4	$ 925.2

DBMG's remaining unsatisfied performance obligations increase with awards of new contracts and decrease as it performs work and recognizes revenue on existing contracts. DBMG includes a project within its remaining unsatisfied performance obligations at such time the project is awarded and agreement on contract terms has been reached. DBMG's remaining unsatisfied performance obligations include amounts related to contracts for which a fixed price contract value is not assigned when a reasonable estimate of total transaction price can be made. DBMG expects to recognize this revenue approximately within the next 3.0 years.

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

Life Sciences Segment

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Systems and consumables revenue	$ 1.0	$ 0.5
Total Life Sciences segment revenue	$ 1.0	$ 0.5

Spectrum Segment

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

	Three Months Ended March 31,	
	2024	2023
Broadcast station	$ 6.3	$ 5.2
Other	—	0.5
Total Spectrum segment revenue	$ 6.3	$ 5.7

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

As of March 31, 2024, the transaction price allocated to remaining unsatisfied performance obligations consisted of $15.3 million of broadcast station revenues of which $8.5 million is expected to be recognized within one year and $6.8 million is expected to be recognized within the next 3 years.

4. Accounts Receivable, Net

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

	March 31, 2024	December 31, 2023
Contracts in progress	$ 262.7	$ 271.7
Unbilled retentions	0.1	—
Trade receivables	2.0	1.9
Other receivables	4.6	5.2
Allowance for expected credit losses (1)	(0.1)	(0.4)
Total	$ 269.3	$ 278.4

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

As of January 1, 2023, total accounts receivable, net were $254.9 million.

For both the three months ended March 31, 2024 and 2023, the Company recognized a reversal of provisions for expected credit losses of $0.1 million. Direct write-downs of accounts receivable charged against the allowance totaled $0.2 million and zero for the three months ended March 31, 2024 and 2023, respectively.

5. Inventory

Inventory consisted of the following (in millions):

	March 31, 2024	December 31, 2023
Raw materials and consumables	$ 20.3	$ 21.0
Work in process	0.7	0.6
Finished goods	0.8	0.8
Total inventory	$ 21.8	$ 22.4

6. Investments

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

	Common Stock Investments			
	Measurement Alternative(1)	Equity Method	Fair Value	Total
March 31, 2024	$ 0.9	$ 0.9	$ —	$ 1.8
December 31, 2023	$ 0.9	$ 0.9	$ —	$ 1.8

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

The Company's investments as of both March 31, 2024 and December 31, 2023 are comprised of investments in MediBeacon, Triple Ring and Scaled Cell. The Company's investments in Scaled Cell and MediBeacon are measured using the equity method of accounting and the Company's investment in Triple Ring is measured using the measurement alternative method.

The Company's share of net losses from its equity method investments totaled $1.2 million and $4.0 million for the three months ended March 31, 2024 and 2023, respectively.

MediBeacon

Pansend accounts for its preferred stock investment in MediBeacon under the equity method of accounting, inclusive of any fixed maturity securities (notes) issued by MediBeacon to Pansend. During the first quarter of 2024, MediBeacon issued an aggregate $1.2 million of 12% convertible notes to Pansend, increasing the total outstanding principal due to Pansend to $10.9 million. As a result of these note issuances with MediBeacon during the three months ended March 31, 2024, Pansend recognized $1.2 million of equity method losses which were previously unrecognized because Pansend's carrying amount of its investment in MediBeacon had been previously reduced to zero. Subsequent to quarter end, during April 2024, MediBeacon issued an additional aggregate $1.1 million of 12.0% convertible notes to Pansend, with each note due to Pansend in three years from date of issuance.

For the three months ended March 31, 2024 and 2023, Pansend earned $0.3 million and $0.1 million, respectively, of interest income from the MediBeacon convertible notes.

As a result of an equity transaction at MediBeacon with Huadong Medicine Co. Ltd ("Huadong"), a publicly traded company on the Shenzhen Stock Exchange, in the first quarter of 2023, Pansend's ownership in MediBeacon decreased from approximately 47.2% as of December 31, 2022 to approximately 46.2%, and as a result, Pansend recognized a gain of $3.8 million in Other (expense) income, net in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2023, which increased Pansend's carrying amount of its investment in MediBeacon. Concurrently, Pansend recognized equity method losses of $3.8 million which were previously unrecognized because Pansend's carrying amount of its investment in MediBeacon had been previously reduced to zero.

As of March 31, 2024, Pansend's carrying amount of its investment in MediBeacon remains at zero, inclusive of the $10.9 million in convertible and secured promissory notes which have been offset against recognized losses, and has cumulative unrecognized equity method losses relating to MediBeacon of $8.7 million.

HMN

On March 6, 2023, the Company, through New Saxon 2019 Limited (“New Saxon”), an indirect subsidiary of GMH, closed on the sale of its remaining 19% interest in HMN to subsidiaries and an affiliate of Hengtong Optic-Electric Co Ltd. The sale was consummated pursuant to the terms of a supplemental agreement entered into by the parties in June 2022. New Saxon received gross proceeds of $54.2 million and interest income of $0.5 million, of which $4.4 million was withheld for a foreign tax payment, and $15.9 million was distributed to GMH's non-controlling interest holders and redeemable non-controlling interest holders pursuant to the partnership agreement. New Saxon recognized a gain on sale of $12.3 million, which is included in Other (expense) income, net in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2023.

7. Property, Plant and Equipment, Net

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

	March 31, 2024	December 31, 2023
Equipment, furniture and fixtures, and software	$ 208.2	$ 210.7
Building and leasehold improvements	40.8	42.9
Land	24.6	25.8
Construction in progress	7.1	4.8
Plant and transportation equipment	8.0	8.1
	$ 288.7	$ 292.3
Less: Accumulated depreciation	141.9	137.7
Total	$ 146.8	$ 154.6

Depreciation expense was $6.5 million and $6.3 million for the three months ended March 31, 2024 and 2023, respectively. These amounts included $4.0 million and $3.9 million of depreciation expense recognized within cost of revenue for the three months ended March 31, 2024 and 2023, respectively.

As of March 31, 2024 and December 31, 2023, the net book value of equipment under finance leases included in PP&E was $0.9 million and $2.3 million, respectively.

As of March 31, 2024 and December 31, 2023, $3.8 million and $3.1 million in assets held-for-sale were presented separately in the Consolidated Balance Sheet. As of March 31, 2024 assets held-for-sale primarily consisted of a building and land and their associated improvements at the Company's Infrastructure segment. As of December 31, 2023, assets held-for-sale primarily consisted of two buildings and their associated building improvements at the Company's Infrastructure segment.

8. Goodwill and Intangibles, Net

Goodwill

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

	Infrastructure	Spectrum	Total
Balance at December 31, 2023	$ 105.7	$ 21.4	$ 127.1
Translation	(0.2)	—	(0.2)
Balance as of March 31, 2024	$ 105.5	$ 21.4	$ 126.9

Indefinite-lived Intangible Assets

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

	March 31, 2024	December 31, 2023
FCC licenses	$ 106.3	$ 106.3
Total	$ 106.3	$ 106.3

There were no impairment charges recorded to definite lived intangible assets for the three months ended March 31, 2024 and 2023.

Definite Lived Intangible Assets

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

		March 31, 2024			December 31, 2023		
	Weighted-Average Original Useful Life	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	15 years	$ 25.1	$ (9.7)	$ 15.4	$ 25.2	$ (9.4)	$ 15.8
Customer relationships and contracts	11 years	87.5	(45.3)	42.2	87.6	(44.2)	43.4
Channel sharing arrangements	35 years	12.6	(1.9)	10.7	12.6	(1.8)	10.8
Other	12 years	3.9	(1.4)	2.5	3.9	(1.3)	2.6
Total		$ 129.1	$ (58.3)	$ 70.8	$ 129.3	$ (56.7)	$ 72.6

There were no impairment charges recorded to definite lived intangible assets for the three months ended March 31, 2024 and 2023.

Amortization expense for definite lived intangible assets was $1.9 million and $3.9 million for the three months ended March 31, 2024 and 2023, respectively, and was included in Depreciation and amortization in the Condensed Consolidated Statements of Operations.

9. Leases

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

	March 31, 2024	December 31, 2023
Right-of-use assets:		
Operating lease (Other assets)	$ 57.0	$ 58.0
Finance lease (Property, plant and equipment, net)	0.9	2.3
Total right-of-use assets	$ 57.9	$ 60.3
Lease liabilities:		
Current portion of operating lease (Other current liabilities)	$ 13.5	$ 13.5
Non-current portion of operating lease (Other liabilities)	46.8	48.6
Finance lease (Debt obligations)	0.9	2.4
Total lease liabilities	$ 61.2	$ 64.5

The Company has entered into operating and finance lease agreements primarily for land, office space, equipment and vehicles, expiring between 2024 and 2045. The tables below present financial information associated with the Company's leases for the three months ended March 31, 2024 and 2023.

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

	Three Months Ended March 31,	
	2024	2023
Finance lease cost:		
Amortization of right-of-use assets	$ 0.1	$ 0.1
Net finance lease cost	0.1	0.1
Operating lease cost	4.5	5.9
Variable lease cost	0.1	0.1
Sublease income	(0.2)	(0.2)
Total lease cost	$ 4.5	$ 5.9

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

	Three Months Ended March 31,	
	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows from finance leases	$ 0.1	$ 0.1
Operating cash flows from operating leases	$ 5.0	$ 6.3
Right-of-use assets obtained in exchange for new lease liabilities:		
Finance leases	$ —	$ 0.6
Operating leases	$ 2.6	$ 3.9

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

	March 31, 2024	December 31, 2023
Weighted-average remaining lease term (years) - operating leases	7.4	7.5
Weighted-average remaining lease term (years) - finance leases	3.0	1.6
Weighted-average discount rate - operating leases	5.6 %	5.6 %
Weighted-average discount rate - finance leases	5.3 %	6.8 %

Future minimum lease commitments (undiscounted) as of March 31, 2024, were as follows (in millions):

	Operating Leases	Finance Leases
2024	$ 12.5	$ 0.3
2025	13.6	0.3
2026	10.1	0.2
2027	7.5	0.2
2028	5.9	—
Thereafter	24.0	—
Total future minimum lease payments	73.6	1.0
Less: amounts representing interest	(13.3)	(0.1)
Total lease liability balance	$ 60.3	$ 0.9

In November 2021, INNOVATE Corp. entered into a ten-year lease arrangement for a special purpose space in Palm Beach, Florida, which was amended in February 2023 to extend the term of the lease to 15 years, with future monthly lease payments of approximately $0.2 million over the entire lease term and annual common area maintenance charges of $0.6 million, both of which are subject to a 3% annual upward adjustment, with total square footage of 25,184, as amended. The lease had not yet commenced for accounting purposes as the space is still under construction, and, therefore, future lease payments were not recorded on the Company's Consolidated Balance Sheets. In December 2023, the Company entered into a sublease agreement with Palm Beach Cultural Innovation Center, Inc. ("PBCIC"), a Florida not-for-profit corporation and related party to Avram A. Glazer, the Chairman of INNOVATE's Board of Directors, who is also on the board of directors of PBCIC. Pursuant to the sublease, PBCIC would have use of the underlying space and, as consideration, PBCIC agreed to undertake all of the tenant's build-out costs and related obligations under the lease agreement between the Company, as tenant, and RPP Palm Beach Property LP, as landlord. Effective March 29, 2024, the Company assigned the lease, as amended, and the sublease to an affiliate of Avram A. Glazer, releasing the Company of all obligations under the lease, as amended, and the sublease. The Company previously recorded $1.1 million in prepaid rent related to this lease, which was written-off in December 2023 upon the execution of the sublease to PBCIC. While there have been no new expenses incurred during 2024, the Company also previously incurred other expenses of $1.1 million since inception related to the special purpose space and PBCIC, of which $0.2 million is reflected in Selling, general and administrative in the Condensed Consolidated Statement of Operations for the three months ended March 31, 2023.

In December 2021, the Company entered into a five-year lease agreement for corporate office space in West Palm Beach, Florida, that would, on commencement of the lease, require future monthly lease payments of approximately $0.1 million over the entire lease term, subject to 3% annual upward adjustment. This lease had not yet commenced as the building is still under construction, and therefore, other than a $0.2 million deposit included in Other assets as of December 31, 2023, future lease payments were not recorded on the Company's Consolidated Balance Sheets. On March 29, 2024, the Company assigned the lease to Lancer Capital, LLC ("Lancer Capital"), an entity controlled by Avram A. Glazer, releasing the Company of all obligations under the lease. The $0.2 million security deposit on the lease was also assigned to Lancer and written-off in March 2024.

10. Other Assets, Accrued Liabilities and Other Liabilities

Other Current Assets

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

	March 31, 2024	December 31, 2023
Prepaid assets	$ 10.4	$ 11.2
Income tax receivable	1.4	2.1
Restricted cash - current	0.9	0.9
Other	0.4	0.4
Total other current assets	$ 13.1	$ 14.6

Other Assets

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

	March 31, 2024	December 31, 2023
Right-of-use assets	$ 57.0	$ 58.0
Restricted cash - non-current	0.6	0.6
Other	2.8	2.7
Total other assets	$ 60.4	$ 61.3

Accrued Liabilities

Accrued liabilities consisted of the following (in millions):

	March 31, 2024	December 31, 2023
Accrued expenses	$ 10.7	$ 14.3
Accrued payroll and employee benefits	26.8	29.2
Accrued interest and exit fees	9.1	17.1
Accrued sales and use taxes	—	9.8
Accrued income taxes	3.9	0.4
Total accrued liabilities	$ 50.5	$ 70.8

Other Liabilities

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

	March 31, 2024	December 31, 2023
Operating lease liability, current	$ 13.5	$ 13.5
Other current liabilities	2.5	2.6
Total other current liabilities	$ 16.0	$ 16.1

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

	March 31, 2024	December 31, 2023
Operating lease liability, net of current portion	$ 46.8	$ 48.6
Other	36.6	34.1
Total other liabilities	$ 83.4	$ 82.7

As of March 31, 2024, there was $17.6 million of non-current accrued interest and $15.9 million of exit fees payable included in Other liabilities. As of December 31, 2023, there was $14.9 million of non-current accrued interest and $15.9 million of exit fees payable included in Other liabilities.

11. Debt Obligations

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

Infrastructure	March 31, 2024	December 31, 2023
PRIME minus 0.75% Line of Credit due 2025	$ 70.0	$ 100.0
3.25% Term Loan due 2026	86.3	91.4
4.00% Note due 2024	2.5	5.0
Obligations under finance leases	0.9	2.4
Total Infrastructure	$ 159.7	$ 198.8
Spectrum		
8.50% Note due 2025	$ 19.3	$ 19.3
11.45% Notes due 2025	50.4	50.4
Total Spectrum	$ 69.7	$ 69.7
Life Sciences		
20.00% Note due 2024	$ 20.7	17.4
Total Life Sciences	$ 20.7	$ 17.4
Non-Operating Corporate		
8.50% Senior Secured Notes due 2026	$ 330.0	$ 330.0
7.50% Convertible Senior Notes due 2026	51.8	51.8
SOFR plus 5.75% Line of Credit	20.0	20.0
CGIC Unsecured Note due 2026	35.1	35.1
Total Non-Operating Corporate	$ 436.9	$ 436.9
Total outstanding principal	$ 687.0	$ 722.8
Unamortized issuance discount, issuance premium, and deferred financing costs	(11.3)	(13.0)
Less: current portion of debt obligations	(34.2)	(30.5)
Debt obligations, net of current portion	$ 641.5	$ 679.3

As of March 31, 2024, estimated future aggregate finance lease and debt payments, including interest, were as follows (in millions):

	Finance Leases	Debt	Total
2024	$ 0.3	$ 68.2	$ 68.5
2025	0.3	239.6	239.9
2026	0.2	494.2	494.4
2027	0.2	—	0.2
2028	—	—	—
Total minimum principal and interest payments	1.0	802.0	803.0
Less: Amount representing interest	(0.1)	(115.9)	(116.0)
Total aggregate finance lease and debt payments	$ 0.9	$ 686.1	$ 687.0

The interest rates on finance leases ranged from approximately 3.0% to 8.5%.

Infrastructure

DBMG has a $135.0 million Revolving Line with UMB that bears interest at a Prime Rate minus a spread with an interest rate floor of 4.25%. The effective interest rate on the Revolving Line with UMB was 8.06% and 8.33% as of March 31, 2024 and December 31, 2023, respectively. The Revolving Line with UMB matures on August 15, 2025, and interest is paid monthly. The Revolving Line with UMB also includes a commitment fee equal to 0.25% per annum times the average daily unused availability under the line. DBMG also has a $86.3 million UMB Term Loan, which expires May 31, 2026, and bears interest at an annual rate of 3.25% with an effective interest rate of 3.3%. Interest is paid monthly. The UMB Term Loan and Revolving Line with UMB associated with the Infrastructure segment contain customary restrictive and financial covenants related to debt levels and performance, including a Fixed Charge Coverage Ratio covenant, as defined in their agreements.

The $2.5 million 4.00% note matured on March 31, 2024 and was fully redeemed on April 2, 2024. Refer to Note 16. Related Parties for additional information.

Spectrum

The maturity date of Spectrum's 8.50% and 11.45% Notes, as amended, is August 15, 2025. The exit fees associated with the notes, which are payable on the earlier of maturity or repayment of the principal, were recorded as original issue discount and are amortized over the remaining life of the notes. A corresponding liability is reflected in Other Liabilities in the Condensed Consolidated Balance Sheets. As of both March 31, 2024 and December 31, 2023, the Company had total capitalized estimated exit fees of $15.9 million, which are reflected in Other Liabilities (non-current) in the Condensed Consolidated Balance Sheet. Interest is capitalized and payable upon maturity of the notes. As of March 31, 2024, the effective interest rates on the notes, as amended, ranged from 20.6% to 24.0% per annum.

During November 2023, concurrently with Broadcasting's execution of the Ninth Amendment to Secured Notes, which among other things extended the maturity of the notes, INNOVATE Corp. entered into a related side letter with the lenders, whereby INNOVATE Corp. has agreed to utilize proceeds from the sale of certain of its existing operations, as allowable under the Company's current agreements and indentures and after all other required payments have been made, for repayment of a portion of Broadcasting's Senior Secured Notes. Assuming there are sufficient proceeds remaining after such repayment, an additional $1.0 million fee is payable if repayment occurs by November 9, 2024, or $2.0 million if repayment occurs after that date. In exchange for the additional fee, the institutional investors will return their equity interests in HC2 Broadcasting Holdings, Inc. and equity interests in DTV America.

Life Sciences

During 2023, R2 Technologies entered into additional notes and amendments with Lancer Capital, and on November 15, 2023, the maturity date of all outstanding prior existing notes was extended to the earlier of January 31, 2024 or within five business days of the date on which R2 Technologies receives an aggregate $20.0 million from the consummation of a debt or equity financing. The notes expired on January 31, 2024 and, effective January 31, 2024, a new 20% note with an aggregate original principal amount of $20.0 million was issued, which is comprised of the prior outstanding principal amounts and unpaid accrued interest of $2.6 million which was capitalized into the new principal balance. Future interest is payable monthly in arrears, in cash or, if not paid in cash, accrued and unpaid interest will be capitalized monthly into the principal balance.

The new note also includes an exit fee payable upon the earliest of the maturity date, the acceleration date of the principal amount of the note, for any reason as defined in the agreement, or the date upon which any prepayment is made. The exit fee shall be equal to 10.5% of the principal amount being repaid if payment is made anytime from April 1, 2024 through April 30, 2024. As a result of the addition of the exit fee, the modification was determined to be an extinguishment under ASC 470-50 and the amount of the new exit fee payable to the existing lender of $2.2 million is included in Other (expense) income, net on the Condensed Consolidated Statement of Operations.

The maturity date of the new note is April 30, 2024 or within five business days of the date on which R2 Technologies receives an aggregate $20.0 million from the consummation of a debt or equity financing or has a change in control, as defined in the agreement, with an optional prepayment of the entire then-outstanding and unpaid principal and accrued interest upon five-days written notice to Lancer Capital. Subsequent to quarter end, effective April 30, 2024, the note was extended to May 17, 2024, and the exit fee payable was updated to 10.71% of the principal amount for repayments made after May 1, 2024.

As of March 31, 2024, the per annum interest rate on the outstanding principal balance is 20%. For the three months ended March 31, 2024 and 2023, R2 Technologies recognized interest expense of $0.9 million and $0.5 million, respectively, related to the contractual interest coupon on the notes with Lancer Capital. As part of the agreement, all unpaid accrued interest on the new note is capitalized into the principal balance on a monthly basis. As a result, an additional $0.7 million of unpaid accrued interest incurred subsequent to January 31, 2024, was capitalized into the principal balance during the three months ended March 31, 2024. As of March 31, 2024, all unpaid accrued interest on the new note had been capitalized into the principal balance, and there was no accrued interest payable. As of December 31, 2023, the related accrued interest payable not capitalized into the principal balance was $2.4 million. The accrued exit fee was $2.2 million as of March 31, 2024, which is included in Accrued liabilities on the Condensed Consolidated Balance Sheet.

Non-Operating Corporate

2026 Senior Secured Notes

The $330.0 million aggregate principal amount of 8.50% senior secured notes due February 1, 2026 (the "2026 Senior Secured Notes") was issued in 2021 at 100% of par, with a stated annual interest rate of 8.50% and an effective interest rate of 9.3%, which reflects $10.8 million of deferred financing fees, including underwriting fees. For the three months ended March 31, 2024 and 2023, aggregate interest expense, including the contractual interest coupon and amortization of the deferred financing fees, was $7.6 million and $7.5 million, respectively.

2026 Convertible Notes

The $51.8 million of 7.50% convertible notes (the "2026 Convertible Notes") were issued under a separate indenture dated February 1, 2021, between the Company and U.S. Bank, as trustee (the "Convertible Indenture"). The 2026 Convertible Notes were issued at 100% of par with a stated annual interest rate of 7.50%. The fair value of the embedded conversion feature contained in the 2026 Convertible Notes had a fair value of $12.3 million, which was recorded as a premium on the 2026 Convertible Notes. The 2026 Convertible Notes mature on August 1, 2026 unless earlier converted, redeemed or purchased. The 2026 Convertible Notes have an effective interest rate of 3.21%, which reflects the initial $12.3 million premium and $1.1 million of deferred financing fees.

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

As of March 31, 2024, the 2026 Convertible Notes had a net carrying value of $56.7 million inclusive of an unamortized premium of $5.5 million and unamortized deferred financing costs of $0.5 million. Based on the closing price of our common stock of $0.70 on March 31, 2024, the if-converted value of the 2026 Convertible Notes did not exceed its principal value.

For both the three months ended March 31, 2024 and 2023, aggregate interest expense recognized relating to both the contractual interest coupon and amortization of discount net of premium and deferred financing costs was $0.5 million.

Revolving Line of Credit

The Company has a revolving credit agreement with MSD PCOF Partners IX, LLC ("MSD"), which has a maximum commitment of $20.0 million ("Revolving Line of Credit"). The Revolving Line of Credit has an interest rate margin applicable to loans borrowed under the Revolving Line of Credit of 5.75%, and interest is paid quarterly. The Revolving Line of Credit also includes a commitment fee at a per annum rate of 1.0% calculated based off the actual daily amount of unused availability under the revolving credit line with MSD. On April 25, 2023, the Company and MSD extended the maturity date of its Revolving Line of Credit from February 23, 2024, to March 16, 2025, and also changed the benchmark rates for interest to SOFR-based rates and lowered the amount of net cash proceeds from certain asset sales in excess of which a prepayment is required from $50.0 million to $10.0 million. The affirmative and negative covenants governing the Revolving Line of Credit are substantially consistent with the affirmative and negative covenants contained in the indenture that governs the 2026 Senior Secured Notes. As of both March 31, 2024 and December 31, 2023, the outstanding balance was $20.0 million. Subsequent to quarter end, on May 6, 2024, the Company and MSD extended the maturity date of its Revolving Line of Credit from March 16, 2025 to May 16, 2025.

CGIC Unsecured Note Due 2026

On May 9, 2023, in connection with the redemption of the DBMGi Preferred Stock, the Company issued a subordinated unsecured promissory note to Continental General Insurance Company ("CGIC") in the principal amount of $35.1 million (the "CGIC Unsecured Note"). Refer to Note 15. Temporary Equity and Equity for additional information. The CGIC Note is due February 28, 2026, and bears interest at 9.0% per annum through May 8, 2024, 16.0% per annum from May 9, 2024 to May 8, 2025, and 32.0% per annum thereafter, and the effective interest rate on the note is 18.1%. The CGIC Unsecured Note also requires a mandatory prepayment from the proceeds from certain asset sales and the greater of $3.0 million or 12.5% of the net proceeds from certain equity sales. Other covenants in the CGIC Unsecured Note are generally consistent with the Company's Indenture governing the 8.50% Senior Secured Notes due 2026, dated as of February 1, 2021, by and among the Company, the guarantors party thereto and U.S. Bank National Association. For the three months ended March 31, 2024, interest expense recognized relating to the CGIC Unsecured Note was $1.6 million and cash paid for interest to CGIC was $0.8 million. Subsequent to the quarter end, as a result of the closing of the Rights Offering on April 24, 2024, INNOVATE redeemed $4.1 million of the CGIC Unsecured Note on April 26, 2024.

INNOVATE is in compliance with its debt covenants as of March 31, 2024.

12. Income Taxes

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

Income tax expense of $3.3 million and $0.9 million for the three months ended March 31, 2024 and 2023, respectively, primarily relates to tax expense as calculated under ASC 740 for taxpaying entities. For the three months ended March 31, 2024, the annual effective tax rate calculation for the interim tax provision included the tax expense associated with the INNOVATE Corp. U.S. consolidated group due to the Tax Cut and Jobs Act's 80 percent limitation on net operating losses incurred after 2017. Additionally, the tax benefits associated with losses generated by certain other businesses have been reduced by a full valuation allowance as management does not believe it is more-likely-than-not that the losses will be utilized. The annual effective tax rate calculated for the three months ended March 31, 2023 interim tax provision included an unrepeated $1.1 million tax benefit, consisting of a current tax expense of $4.4 million related to a foreign tax payment and a deferred tax benefit of $5.5 million related to the reversal of the deferred tax liability associated with the $11.3 million put option, both of which were related to the sale of New Saxon's 19% investment in HMN on March 6, 2023. Additionally, for the three months ended March 31, 2023, the tax benefits associated with losses generated by the INNOVATE Corp. U.S. consolidated group and certain other businesses have been reduced by a full valuation allowance as management does not believe it is more-likely-than-not that the losses will be utilized.

Net Operating Losses

At December 31, 2023, the Company had gross U.S. net operating loss carryforwards available to reduce future taxable income of the U.S. consolidated group in the amount of $179.2 million. The Company expects that approximately $119.2 million of the gross U.S. net operating loss carryforwards would be available to offset taxable income in 2024 and later periods. This estimate may change based on changes to actual results reported on the 2023 U.S. tax return. The amount of U.S. net operating loss carryforwards reflected in the financial statements differ from the amounts reported on the U.S. tax return due to uncertain tax positions related to tax laws and regulations that are subject to varied interpretation by the IRS.

Additionally, the Company has $138.0 million of gross U.S. net operating loss carryforwards from its subsidiaries that do not qualify to be included in the INNOVATE Corp. U.S. consolidated income tax return, including $92.9 million from R2 Technologies, $42.7 million from DTV America, and other entities of $2.4 million. Of the $138.0 million of gross U.S. net operating loss carryforwards, $101.9 million was generated after 2017 and will have an indefinite carryforward period; the remaining $36.1 million was generated prior to 2018 and will expire, if unused, by 2037.

Unrecognized Tax Benefits

The Company follows the provision of ASC 740 which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. The Company is subject to challenge from various taxing authorities relative to certain tax planning strategies, including certain intercompany transactions as well as regulatory taxes.

The Company did not have any unrecognized tax benefits as of March 31, 2024 and 2023 related to uncertain tax positions that would impact the effective income tax rate if recognized. The Company has reduced the net operating loss carryforward by $58.7 million for uncertain tax positions based on our interpretation of tax laws and regulations that are subject to varied interpretation by the IRS.

Examinations

The Company conducts business globally, and as a result, INNOVATE or one or more of its subsidiaries files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. Tax years 2002-2022 remain open for examination.

The Company is currently under examination in various domestic and foreign tax jurisdictions. The open tax years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as they relate to the amount, character, timing or inclusion of revenue and expenses or the applicability of income tax credits for the relevant tax period. Given the nature of tax audits, there is a risk that disputes may arise.

13. Commitments and Contingencies

Litigation

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

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

DTV Derivative Litigation

On March 15, 2021, 22 DTV stockholders and eight holders of DTV stock options filed a stockholder class action and derivative complaint in the Delaware Court of Chancery in an action styled Bocock, et al., v. HC2 Holdings, Inc. et al., C.A. No. 2021-0224 (Del. Ch.). Plaintiffs named as defendants INNOVATE Corp. (f/k/a HC2 Holdings, Inc.), HC2 Broadcasting Holdings, Inc., HC2 Broadcasting Inc., and Continental General Insurance Corporation (the "INNOVATE Entities") and certain current and former officers and directors of the INNOVATE Entities and DTV, including Philip Falcone, Michael Sena, Wayne Barr, Jr., Les Levi, Paul Voigt, Ivan Minkov, and Paul Robinson (the "Individual Defendants"). Plaintiffs principally allege that the defendants breached their fiduciary duties and/or aided and abetted breaches of fiduciary duty by participating in a "scheme" in which the INNOVATE Entities (i) acquired majority voting and operating control over DTV; (ii) exploited that control to misappropriate DTV's assets and business opportunities for the benefit of the INNOVATE Entities; and (iii) purchased DTV stock at a discount to fair value and diminished the value of DTV stock options. Plaintiffs allege that the Individual Defendants (i) "prompted" the INNOVATE Entities to purchase more than 100 low-power television ("LPTV") broadcast stations originally identified for potential acquisition by DTV, (ii) allowed the INNOVATE Entities to misappropriate DTV technology, known as "DTV Cast," (iii) caused DTV to transfer unspecified LPTV broadcasting station licenses to INNOVATE affiliates "without paying any value," and (iv) transferred to the INNOVATE Entities unspecified DTV broadcasting stations that had been "repacked" by the FCC. Defendants moved to dismiss the Complaint on May 19, 2021. On June 23, 2021, plaintiffs amended their complaint. In the amended complaint, plaintiffs assert the same claims they asserted in their initial complaint, added a claim for waste associated with DTV's purported transfer of licenses and construction permits for less than fair value, and dropped Paul Robinson as a defendant. Defendants moved to dismiss the amended complaint in its entirety on August 25, 2021, and the parties completed briefing on the motions to dismiss on November 10, 2021. The Court heard argument on the motions to dismiss on March 29, 2022. On June 28, 2022, the Court requested that the parties submit supplemental briefing on the motions to dismiss by July 20, 2022. The parties completed the supplemental briefing on July 20, 2022.

On October 28, 2022, the Court issued a Memorandum Opinion on Defendants' motion to dismiss the Complaint. First, the Court dismissed all claims against Continental General Insurance Corporation for lack of personal jurisdiction. Second, the Court dismissed all claims the stockholder plaintiffs purported to assert directly. Third, the Court dismissed as time-barred all claims challenging conduct that occurred before March 15, 2018, including claims challenging (i) the November 2017 acquisition of Azteca America by INNOVATE; (ii) INNOVATE's purported usurpation of the so-called "DTV Cast" technology; and (iii) the WFWC-CD Station acquisition. Fourth, the Court dismissed claims associated with the INNOVATE Entities' purported purchases of unidentified broadcasting stations. Fifth, the Court dismissed all claims challenging the Expense Sharing Agreement, and the Right to Use Agreement between INNOVATE and DTV, and certain Stock-Based Compensation Agreements. Sixth, the Court dismissed the aiding and abetting claim against the INNOVATE Entities. Seventh, the Court dismissed the civil conspiracy claim as to all defendants. Lastly, the Court dismissed the option-holders' claim for tortious interference with prospective business opportunities. Thus, after the Court issued its October 28, 2022 Memorandum Opinion, the only claims to survive Defendants' motion to dismiss are (i) a derivative claim against the INNOVATE Entities (other than Continental General), Levi, and Falcone for breach of fiduciary duty in connection with the $0.1 million Frank Digital acquisition; (ii) a derivative claim for breach of fiduciary duty against the INNOVATE Entities (other than Continental General), in their capacities as DTV's controlling stockholders, relating to the sale of six licenses (for less than $0.5 million) in connection with the Gray Media sale (the "Gray Media Claim"); (iii) a derivative claim for breach of fiduciary duty against the INNOVATE Entities (other than Continental General) and Levi in connection with the transfer of licenses ultimately sold to TV-49 for $0.1 million; and (iv) a derivative claim for waste against Levi and Falcone in connection with the sale of two stations to Lowcountry, which Lowcountry later sold for $0.2 million and $0.4 million, respectively.

On February 8, 2024, the Court granted Plaintiffs' motion for leave to file a second amended complaint. The proposed second amended complaint (i) names DTV as a nominal defendant, (ii) removes the Gray Media Claim, and (iii) removes all Plaintiffs other than James Bocock and Stan V. Smith on Behalf of the Stan V. Smith Trust dated April 30, 1993. The Court ordered Plaintiffs to file their second amended complaint on or before February 13, 2024. On February 14, 2024, Plaintiffs filed their second amended complaint. The INNOVATE Entities and Levi answered the second amended complaint on February 26, 2024. On April 22, 2024, the Court entered a case schedule culminating in a three-day trial from February 10-12, 2025.

The Company believes these remaining claims are without merit, and the Company intends to vigorously defend this litigation and cannot reasonably estimate any range of potential loss, if any, at this time.

Marin Hospital Replacement Litigation

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

Meruelo Television Litigation

On August 8, 2023, Meruelo Television, LLC ("Plaintiff") commenced a lawsuit in the Superior Court of the State of California, Los Angeles County, with the filing of a complaint naming as defendants HC2 Network, Inc. ("HC2") and INNOVATE Corp. ("INNOVATE" or the "Company" and, together with HC2, the "Defendants"), and Does 1 through 20, in the matter titled Meruelo Television, LLC v. HC2 Network, Inc., et al. (Cal. Supr. Ct.) Case No. 23ST-cv-18552.

On September 29, 2023, Defendants filed a Notice of Removal, removing the case from California state court to federal court in the U.S. District Court for the Central District of California, where it has been assigned Case No. 2:23-cv-08184-AB-BFM (the "Lawsuit").

On February 20, 2024, Plaintiff filed its present and operative Second Amended Complaint (the "SAC"). The SAC asserts only one cause of action, Count I for breach of the contract, as against both HC2 and the Company. Whereas the Company is a non-party to the contract at issue, the SAC asserts that INNOVATE can be held liable for Count I as the alleged alter ego of HC2.

On April 9, 2024, Plaintiff and Defendants filed in the Lawsuit a Stipulation of Dismissal, as so-ordered by the Court on April 16, 2024, whereby Plaintiff dismissed without prejudice its claims as against INNOVATE, while retaining its claim against HC2. HC2 believes that the claim is without merit and intends to vigorously defend the claim.

Although Plaintiff's dismissal against the Company was without prejudice, at this time it appears that there exists a low probability of loss to INNOVATE resulting from this Lawsuit.

Other Commitments and Contingencies

Letters of Credit and Performance Bonds

As of March 31, 2024, DBMG had outstanding letters of credit of $0.1 million under credit and security agreements and performance bonds of $263.9 million. As of December 31, 2023, DBMG had outstanding letters of credit of $0.1 million under credit and security agreements and performance bonds of $360.8 million. DBMG's contract arrangements with customers sometimes require DBMG to provide performance bonds to partially secure its obligations under its contracts. Bonding requirements typically arise in connection with private contracts and sometimes with respect to certain public work projects. DBMG's performance bonds are obtained through surety companies and typically cover the entire project price. The ratings of the bonding companies utilized by DBMG are highly rated, ranging from A-, A, A+ and AA.

14. Share-based Compensation

Total share-based compensation expense recognized by the Company and its subsidiaries under all equity compensation arrangements was $0.4 million and $0.5 million for the three months ended March 31, 2024 and 2023, respectively.

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

Restricted Stock

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

	Shares	Weighted Average Grant Date Fair Value
Unvested - December 31, 2022	1,141,806	$ 2.56
Granted	506,955	$ 2.57
Vested	(1,023,032)	$ 2.32
Unvested - December 31, 2023	625,729	$ 2.95
Granted	650,936	$ 0.61
Vested	(208,614)	$ 3.46
Unvested - March 31, 2024	1,068,051	$ 1.43

The aggregate vesting date fair value of the restricted stock awards which vested during the three months ended March 31, 2024 and 2023 was $0.2 million and $0.8 million, respectively. As of March 31, 2024, the total unrecognized stock-based compensation expense related to unvested restricted stock awards was $1.2 million and is expected to be recognized over the remaining weighted-average period of 1.8 years.

Stock Options

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

	Shares	Weighted Average Exercise Price
Outstanding - December 31, 2022	4,995,150	$ 5.02
Expired	(352,339)	$ 3.12
Outstanding and exercisable- December 31, 2023	4,642,811	$ 5.17
Expired	(8,521)	$ 1.46
Outstanding and exercisable - March 31, 2024	4,634,290	$ 5.17

As of March 31, 2024, the intrinsic value and weighted-average remaining life of the Company's outstanding and exercisable stock options were zero and approximately 0.3 years, respectively. The maximum contractual term of the Company's exercisable stock options is approximately ten years. As of March 31, 2024, there were no unvested stock options and no unrecognized stock-based compensation expense related to unvested stock options.

15. Temporary Equity and Equity

Rights Offering

On March 8, 2024, the Company commenced a $19.0 million rights offering ("Rights Offering") for its common stock. Pursuant to the Rights Offering, the Company distributed to each holder of the Company's common stock, Series A-3 Convertible Participating Preferred Stock, Series A-4 Convertible Participating Preferred Stock and the 2026 Convertible Notes as of March 6, 2024 (the "rights offering record date"), transferable subscription rights to purchase 0.2858 shares of the Company's common stock at a price of $0.70 per whole share.

Per the concurrent investment agreement entered into with Lancer Capital (the "Investment Agreement"), the Rights Offering was backstopped by Lancer Capital, an investment fund led by Avram A. Glazer, the Chairman of the Board and the Company's largest stockholder. Due to limitations on the common stock that can be issued to Lancer Capital under the rules of the New York Stock Exchange ("NYSE"), in lieu of exercising its subscription rights, pursuant to the Investment Agreement, Lancer Capital would purchase up to $19.0 million of the Company's newly issued Series C Non-Voting Participating Convertible Preferred Stock (the "Series C Preferred Stock"), for an issue price of $1,000 per share. In connection with the backstop commitment, and as a result of limitations in the amount common equity that can be raised under the Company's effective shelf registration statement on Form S-3, Lancer Capital also agreed to purchase an additional $16.0 million of Series C Preferred Stock in a private placement transaction ("Concurrent Private Placement") to close concurrently with the settlement of the Rights Offering. Lancer Capital did not receive any compensation or other consideration for entering into or consummating the Investment Agreement.

As the Rights Offering had not yet settled by March 28, 2024, in accordance with the Investment Agreement, Lancer Capital purchased $25.0 million of Series C Preferred Stock, referred to as the "equity advance." Subsequent to quarter end, on April 24, 2024, the Company completed and closed on the Rights Offering and issued a total of 5,306,105 shares of common stock for $3.7 million. Based on the number of shares of common stock actually sold upon exercise of the rights to third party investors, there were no excess shares of Series C Preferred Stock purchased by Lancer Capital under the equity advance that the Company was required to redeem, and Lancer Capital purchased an additional approximately 6,286 Series C Preferred Stock for $6.3 million under the backstop commitment. The total gross proceeds received subsequent to quarter end were $10.0 million.

The Company received $35.0 million in aggregate gross proceeds related to the Rights Offering and Concurrent Private Placement. As of March 31, 2024, the Company had incurred $1.8 million in dealer manager fees and other costs related to the Rights Offering and Concurrent Private Placement, of which $1.3 million was allocated to the Series C Preferred Stock and $0.5 million was capitalized into Additional paid in capital ("APIC"). An additional $0.3 million in costs were incurred subsequent to quarter end. INNOVATE expects to use the net proceeds from the Rights Offering for general corporate purposes, including debt service and for working capital. As a result of the closing of the Rights Offering and Concurrent Private Placement, a mandatory prepayment was required on the CGIC Unsecured Note, in the amount of the greater of $3.0 million or 12.5% of the net proceeds. Subsequent to quarter end, on April 26, 2024, INNOVATE redeemed $4.1 million of the CGIC Unsecured Note.

Under the rules of the NYSE, because the shares purchased by Lancer Capital are greater than 20% of the Company's common stock outstanding before the issuance of the Series C Preferred Stock, those shares of Series C Preferred Stock may not be converted unless stockholder approval of such issuance is obtained. The Series C Preferred Stock are convertible into common stock at the price equivalent to the subscription price under the Rights Offering contingent on shareholder approval, which will be voted on at the next annual meeting. If the Series C Preferred Stock is not converted to common stock, it may be redeemed at the Company's option or on the sixth anniversary of issuance plus accrued interest of 8% which is only due upon redemption and not conversion. See "*Series C Preferred Stock*" below for additional information on the terms.

The Company waived its Tax Benefits Preservation Plan to permit persons exercising rights to acquire 4.9% or more of the outstanding common stock upon the exercise thereof without becoming an Acquiring Person (as defined in the Tax Benefits Preservation Plan).

The Backstop Commitment is defined as a financial instrument and is measurable at fair value at each reporting period. The transaction was negotiated by a special committee of independent members of the Company's board of directors at arm's-length, based on outside expert financial advice. The Company used both market observable inputs and unobservable data to derive the fair value as of the reporting date, and it is therefore classified as a Level 3 fair value measurement. The Series C shares issued in connection with the cash equity advance on March 28, 2024 are convertible into common shares at $0.70 per share, which price is equal to the closing price of the Company's stock on March 28, 2024, the last business day of the quarter, and was also equal to the public Rights Offering purchase price per share. The fair value of the Backstop Commitment as of March 31, 2024, was therefore determined to be zero. The Backstop Commitment ceased upon the consummation of the Rights Offering.

Preferred Shares

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

	March 31, 2024	December 31, 2023
Preferred shares authorized, $0.001 par value	20,000,000	20,000,000
Series A-3 shares issued and outstanding	6,125	6,125
Series A-4 shares issued and outstanding	10,000	10,000
Series C shares issued and outstanding	25,000	—

Series C Preferred Stock

On March 5, 2024 the Company issued a Certificate of Designation for 35,000 Series C Non-Voting participating Convertible Preferred Shares (the "Series C Preferred Stock"). The certificate of designation authorized the existing 20,000,000 shares of preferred stock, par value $0.001 to apply to this series. On March 28, 2024, the Company amended its amended and restated certificate of incorporation by filing the Certificate of Designations of the Series C Preferred Stock (the "Series C Certificate of Designations") with the Secretary of State of the State of Delaware. The following summary of the terms of the Series C Preferred Stock is qualified in its entirety by reference to the complete Series C Preferred Stock certificate of designation.

The Series C Preferred Stock is intended to be the economic equivalent of common stock, participating on an as-converted basis in all dividends, distributions, merger consideration and all other consideration receivable by holders of common stock, and a means through which the Backstop Arrangement and Concurrent Private Placement can be effected prior to the completion of the stockholder vote and the satisfaction of any other regulatory requirements.

Issuance. On March 28, 2024, INNOVATE Corp. issued and sold 25,000 shares of its Series C Non-Voting Participating Convertible Preferred Stock, par value $0.001 per share ("Series C Preferred Stock") for the aggregate purchase price of $25.0 million to Lancer Capital. The Series C Preferred Stock, was recognized at fair value upon issuance, net of issuance costs of $1.3 million.

The Series C Preferred Stock has been classified as temporary equity in the Company's Condensed Consolidated Balance Sheet with a redemption value of $25.0 million and with a current carrying value of $23.7 million as of March 31, 2024. The issued Series C Preferred Stock is classified as temporary equity as it is not mandatorily redeemable due to the presence of substantive conversion features, and will become mandatorily redeemable on the sixth anniversary of initial issuance if not previously converted. As the Series C Preferred Stock is contingently redeemable, subsequent accretion to redemption value including accreted dividends will only occur if the contingency is resolved and the redemption becomes probable (i.e., stockholder approval is no longer reasonably possible).

Dividends. The amount of dividends payable for each share of Series C Preferred Stock is equal to (a) the number of shares (including fractions) of common stock into which such share of Series C Preferred Stock is (or, but for the failure to obtain stockholder approval, would be) convertible on an applicable record date multiplied by (b) the amount of dividends declared and paid on each share of the Company's common stock; provided, however, that if the Company declares and pays a dividend on the common stock consisting in whole or in part of common stock, then no such dividend shall be payable in respect of the Series C Preferred Stock on account of the portion of such dividend on the common stock payable in common stock, and in lieu thereof, certain anti-dilution adjustments as discussed below will apply. If dividends are declared in respect of common stock that are payable in rights, options, warrants, or other convertible or exchangeable securities that entitle holders to acquires shares of common stock, the dividends payable to the Series C Preferred Stock will consist of substantially identical rights, options, warrants, or other securities that instead are convertible into, exercisable, or exchangeable for shares of convertible preferred stock with substantially identical terms and provisions as the Series C Preferred Stock.

Conversion. Prior to the approval by holders of the common stock of a proposal (the "Rights Offering Proposal") to approve the issuance of the common stock upon conversion of all of the Series C Preferred Stock in accordance with the rules of the NYSE, each holder of Series C Preferred Stock has the right to convert the Series C Preferred Stock held by such holder into a number of shares of common stock up to an amount permitted by the NYSE. The number of shares of common stock issuable upon conversion of each share of Series C Preferred Stock is equal to the result obtained by dividing (a) $1,000 by (b) the conversion price then in effect (the "Series C Conversion Ratio"). The initial conversion price is $0.70. The holders of Series C Preferred Stock have the option to convert the Series C Preferred Stock into common stock prior to the consummation of any merger, sale of all or substantially all assets of the Company, or other change of control transaction with a third party unaffiliated with any holder of the Series C Preferred Stock pursuant to which the Company will be delisted from the NYSE, following prior written notice. Pursuant to the Investment Agreement, the Company currently intends to seek stockholder approval for the conversion of the Series C Preferred Stock into shares of our common stock at its 2024 annual stockholders meeting.

Upon stockholder approval of the Rights Offering Proposal, each share of Series C Preferred Stock shall be automatically converted into such number of shares of common stock as described in the Series C Conversion Ratio, subject to any ownership or issuance limits imposed by the applicable rules and regulations to which the Company is then subject. As of the date of the prospectus supplement, there are no such ownership or issuance limits except for the NYSE rules described above.

If the Company (i) pays a dividend or makes any other distribution on or in respect of the common stock payable in common stock, (ii) subdivides or combines its outstanding shares of common stock into a greater or smaller number of shares, or (iii) issues or distributes any equity securities by reclassification of its common stock (other than any issuance constituting a dividend in which the holders of the Series C Preferred Stock participate), the applicable conversion price shall be adjusted as of the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or distribution or at the opening of business on the day following the day on which such subdivision, combination or reclassification becomes effective, as the case may be, so that the holders of the Series C Preferred Stock shall, upon surrender thereafter of any shares of Series C Preferred Stock for conversion, be entitled to receive the number of shares of common stock that such holder would have owned or have been entitled to receive after the happening of any of the events described above had such Series C Preferred Stock been converted immediately prior to the record date in the case of a dividend or distribution or the effective date in the case of a subdivision, combination or reclassification. In the case of any consolidation or merger of the Company with another entity, as a result of which shares of common stock shall be changed into the same or a different number of shares of the same or another class or classes of stock or securities of the Company or another entity or any other property or assets, then the holders of Series C Preferred Stock shall thereafter have the right to receive upon surrender thereafter of their shares of Series C Preferred Stock for conversion, such shares of common stock and/or securities and/or other property or assets as may be issued or payable with respect to or in exchange for the number of shares of common stock that would otherwise have been received by such holders had they converted the Series C Preferred Stock immediately prior to the effective date of such merger or consolidation.

Redemption by the Holders / Automatic Conversion. At any time prior to conversion of the shares of Series C Preferred Stock into common stock, the Company may, at its option, redeem the shares of Series C Preferred Stock, in whole or in part, at a redemption price per share of Series C Preferred Stock in cash and equal to $1,000 plus 8.0% per annum uncompounded for the period from the issuance date to the applicable redemption date (the "Series C Redemption Price"). The Series C Preferred Stock shall be redeemed on the sixth anniversary of the initial issuance of shares of the Series C Preferred Stock at a price per share payable in cash and equal to the Series C Redemption Price.

Liquidation Preference. In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, the holders of Series C Preferred Stock will be entitled to receive, after payments to the holders of outstanding shares of the Company's Series A-3 Preferred Stock and Series A-4 Preferred Stock, the holders of the Series C Preferred Stock shall be entitled to share ratably with the holders of the Common Stock (and all other classes and series of stock entitled to participate with the Common Stock) in the remaining assets of the Company on the basis that such holders would share if all outstanding shares of Series C Preferred Stock were then converted into Common Stock; provided, that in the event that such payment would be less than $0.001 per share of Series C Preferred Stock, the holders of the Series C Preferred Stock shall instead be entitled to receive out of the assets of the Company available for distribution to its stockholders, whether from capital, surplus or earnings, an amount per share of Series C Preferred Stock equal to $0.001 per share (or if less than $0.001 per share is available for distribution in respect of the Series C Preferred Stock, then all such remaining funds shall be distributed pro rata in respect of the Series C Preferred Stock), before any payment or distribution shall be made to the holders of the common stock (or any other class or series of stock entitled to participate with the common stock). For this purpose, neither a consolidation nor merger of the Company with one or more other corporations, nor a sale or a transfer of all or substantially all of the assets of the Company, shall be deemed to be a liquidation, winding-up or dissolution, voluntary or involuntary, of the Company.

Voting Rights. The holders of record of shares of the Series C Preferred Stock shall have no voting rights, except as prescribed by General Corporation Law of the State of Delaware or as may be required by the NYSE.

Consent Rights. For so long as any of the Series C Preferred Stock is outstanding, consent of the holders of shares representing a majority of the Series C Preferred Stock then outstanding is required for certain material actions.

As of March 31, 2024, the 25,000 Series C Preferred Stock was convertible into 35,714,285 of INNOVATE's common stock. Subsequent to quarter end, on and as of April 24, 2024, upon completion of the Rights Offering and Concurrent Private Placement, approximately 6,286 shares of Series C Preferred Stock were issued, and the approximate 31,286 Series C Preferred Stock are convertible into 44,693,895 of INNOVATE's common stock.

Series A-3 and Series A-4 Shares

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

Upon issuance of the Series A-3 and Series A-4 Preferred Stock on July 1, 2021, the Series A-3 and Series A-4 have been classified as temporary equity in the Company's Consolidated Balance Sheet with a combined redemption value of $16.1 million and with a current fair value of $16.4 million as of March 31, 2024, which is inclusive of $0.3 million of accrued dividends payable.

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

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

Optional Conversion. Each share of Series A-3 and Series A-4 may be converted by the holder into shares of the Company's common stock at any time based on the then-applicable Conversion Price. Each share of Series A-3 is initially convertible at a conversion price of $4.25 (as it may be adjusted from time to time, the "Series A-3 Conversion Price"), and each share of Series A-4 is initially convertible at a conversion price of $8.25 (as it may be adjusted from time to time, the "Series A-4 Conversion Price") ("collectively the "Conversion Prices"). The Conversion Prices are subject to adjustment for dividends, certain distributions, stock splits, combinations, reclassifications, reorganizations, mergers, recapitalizations and similar events, as well as in connection with issuances of equity or equity-linked or other comparable securities by the Company at a price per share (or with a conversion or exercise price or effective issue price) that is below the Conversion Prices' (which adjustment shall be made on a weighted average basis). Actual conversion prices at the time of the exchange in 2021 were $3.52 for the Series A and $5.33 for the Series A-2. As a result of the Rights Offering and due to the anti-dilution provisions contained in the terms of the Series A-3 Preferred Stock and Series A-4 Preferred Stock, as of March 31, 2024, the conversion prices of the Series A-3 Preferred Stock was $2.71 and the conversion price of the Series A-4 Preferred Stock was $4.02. Subsequent to quarter end, upon completion of the Rights Offering and Concurrent Private Placement, as a result of the anti-dilution provisions contained in the terms of the Series A-3 Preferred Stock and Series A-4 Preferred Stock, the conversion prices were further adjusted and, as of April 24, 2024, the conversion price of the Series A-3 Preferred Stock was $2.38 and the conversion price of the Series A-4 Preferred Stock was $3.47.

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

Redemption by the Company / "Company Call Option". At any time, the Company may redeem the Series A-3/Series A-4, in whole but not in part, at a price per share generally equal to 150% of the accrued value per share, plus accrued but unpaid dividends (to the extent not included in the accrued value of the Series A-3/Series A-4), subject to the holder's right to convert prior to such redemption.

Forced Conversion. The Company may force conversion of the Series A-3 and Series A-4 into shares of the Company's common stock if the common stock's thirty-day VWAP exceeds 150% of the then-applicable Conversion Price and the Common Stock's daily VWAP exceeds 150% of the then-applicable Conversion Price for at least 20 trading days out of the thirty trading day period used to calculate the 30-day VWAP. In the event of a forced conversion, the holders of Series A-3 and Series A-4 will have the ability to elect cash settlement in lieu of conversion if certain market liquidity thresholds for the Company's common stock are not achieved.

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

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

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

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

As of December 31, 2023, the Series A-3 Preferred Stock and Series A-4 Preferred Stock were convertible into 1,740,700 and 1,875,533 shares, respectively, of INNOVATE's common stock. As a result of the issuance of the Series C Preferred Stock in 2024, due to the anti-dilution provisions contained in the terms of the Series A-3 Preferred Stock and Series A-4 Preferred Stock, the conversion prices were adjusted, and as of March 31, 2024, the Series A-3 Preferred Stock and Series A-4 Preferred Stock were convertible into 2,256,983 and 2,488,367 shares, respectively, of INNOVATE's common stock. Subsequent to quarter end, upon completion of the Rights Offering and Concurrent Private Placement, as a result of the anti-dilution provisions contained in the terms of the Series A-3 Preferred Stock and Series A-4 Preferred Stock, the conversion prices were further adjusted and, as of April 24, 2024, the Series A-3 Preferred Stock and Series A-4 Preferred Stock were convertible into 2,569,858 and 2,881,761 shares, respectively, of INNOVATE's common stock.

Series A-3 and Series A-4 Preferred Share Dividends

During the three months ended March 31, 2024 and 2023, INNOVATE's Board of Directors (the "Board") declared cash dividends with respect to INNOVATE’s issued and outstanding Series A-3 Preferred Stock and Series A-4 Preferred Stock, as presented in the following table (in millions):

2024		
Declaration Date and Holders of Record Date		March 31, 2024
Payment Date		April 15, 2024
Total Dividend	$	0.3
2023		
Declaration Date and Holders of Record Date		March 31, 2023
Payment Date		April 17, 2023
Total Dividend	$	0.3

DBMGi Series A Preferred Stock

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

Redemption. The DBMGi Series A Preferred Stock was redeemable at any time, in whole or in part, at the option of the Company, or at any time or by the holder prior to July 2026. On March 15, 2023, DBMGi received a redemption notice from CGIC requesting that DBMGi redeem 41,820.25 shares of DBMGi Series A Preferred Stock, representing all of the issued and outstanding shares of DBMGi Series A Preferred Stock, within 60 days of the notice, or by May 15, 2023. On May 9, 2023, the Company entered into a Stock Purchase Agreement and Subordinated Unsecured Promissory Note with CGIC whereby INNOVATE purchased the 41,820.25 shares of DBMGi Series A Preferred Stock for full satisfaction of the redemption notice. In full consideration of the DBMGi Series A Preferred Stock as well as the accrued dividend of $0.4 million, the Company paid CGIC $7.1 million on May 9, 2023, and issued a subordinated unsecured promissory note to CGIC in the principal amount of $35.1 million. The promissory note is due February 28, 2026, and bears interest at 9.0% per annum through May 8, 2024, 16.0% per annum from May 9, 2024 to May 8, 2025, and 32.0% per annum thereafter. Refer to Note 11. Debt Obligations for additional information on the promissory note.

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

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

During the three months ended March 31, 2023, DBMGi's Board of Directors declared dividends with respect to DBMGi's issued and outstanding DBMGi Series A Preferred Stock, as presented in the following table (in millions):

2023		
Declaration Date and Holders of Record Date		March 31, 2023
Payment Date		April 17, 2023
Total Dividend	$	0.9

The above dividend was paid in cash. In addition to this cash dividend, in connection with the Stock Purchase Agreement entered into with CGIC on May 9, 2023, an equivalent amount dividend of $0.4 million that had accrued through May 8, 2023 was settled with CGIC as part of the purchase price.

R2 Technologies Non-Controlling Interests

The Company has redeemable and non-redeemable non-controlling interests related to R2 Technologies in the form of convertible preferred stock that is redeemable upon the occurrence of a change in control, as defined in the respective agreements. If an event is not solely within the control of the Company, it is classified outside of permanent equity in the mezzanine section of the Company's Condensed Consolidated Balance Sheets. The Company adjusts the carrying value of the non-controlling interests based on an allocation of subsidiary earnings (losses) based on ownership interests. As of March 31, 2024 and December 31, 2023, it was not deemed probable that the amounts in non-controlling interests will become redeemable as no change in control has occurred or is expected to occur; therefore, no additional adjustments or remeasurement was required under ASC 480-10. As a result of the allocation of losses in accordance with ASC 810, the redeemable non-controlling interest related to R2 Technologies was negative $1.2 million and negative $1.0 million as of March 31, 2024, and December 31, 2023, respectively. As of March 31, 2024 and December 31, 2023, the Company had negative $12.9 million and negative $10.5 million, respectively, of R2 Technologies non-controlling interests reflected within Non-controlling interests within the Consolidated Balance sheets.

Liquidation Preference

R2 Technologies has issued multiple A, B, and C-series participating convertible preferred stock (the "R2 Technologies Preferred Shares"), all of which contain a liquidation preference. In the event of a liquidation event, each Preferred Share has a liquidation preference to be paid out of the assets legally available for distribution, which entitles the holder of each series A and series C R2 Technologies Preferred Share to receive, before any payments to holders of junior securities, the sum of the following: (i) the accrued value in cash; (ii) all accrued and unpaid dividends, including basic dividends and accreting dividends, if any, and (iii) an amount, in cash or otherwise, equivalent to what the holder would receive if they had converted the R2 Technologies Preferred Shares into R2 Technologies common stock or reference property just before the liquidation event. Series B R2 Technologies Preferred Shareholders would be entitled to receive, before any payments to holders of junior securities, the greater of (i) the sum of (A) the accrued value in cash, plus (B) all accrued and unpaid dividends, including basic dividends and accreting dividends, if any, or (ii) an amount, in cash or otherwise, equivalent to what the holder would receive if they had converted the R2 Technologies Preferred Shares into R2 Technologies common stock or reference property just before the liquidation event.

If the assets of R2 Technologies legally available for distribution are insufficient to pay these obligations in full, R2 Technologies Preferred Shareholders and holders of any parity securities share the remaining assets in proportion to the full respective amounts to which they are entitled. After receiving the full liquidation preference, R2 Technologies Preferred Shareholders have no further claim to R2 Technologies' assets, except for any new securities or instruments received as part of the liquidation preference. The value of non-cash assets distributed equals their fair market value on the distribution date. No holder of junior securities receives any payment unless the entire liquidation preference of R2 Technologies Preferred Shares is paid. If there is insufficient cash to pay the entire liquidation preference and any liquidation preference in respect of any parity securities in full in cash upon a liquidation event, R2 Technologies Preferred Shareholders and parity securities holders will share available cash proportionally.

R2 Technologies' total liquidation preference upon a hypothetical liquidation event, including the liquidation preference for Pansend Life Sciences, LLC was $114.5 million and $112.3 million as of March 31, 2024 and December 31, 2023 respectively, of which $48.9 million and $48.0 million as of March 31, 2024 and December 31, 2023, respectively, was attributable to redeemable and non-redeemable non-controlling interests, inclusive of initial preferred stock and unpaid accreted dividends. However, as of both March 31, 2024 and December 31, 2023, R2 Technologies had negative net assets after consideration of intercompany and third party debt, and, therefore, there would be no legally available funds to satisfy such liquidation preferences upon a hypothetical liquidation event.

Stockholders' Rights Agreement - Tax Benefits Preservation Plan

Subsequent to quarter end, on May 6, 2024, the Company terminated its Tax Benefits Preservation Plan entered into on April 1, 2023 (the "2023 Preservation Plan") because the Company's Board of Directors determined that the 2023 Preservation Plan was no longer necessary or desirable for the preservation of the Company's ability to use its tax net operating losses and other certain tax assets.

In connection with the termination of the 2023 Preservation Plan, the Company will be taking routine actions to deregister the related preferred stock purchase rights under the Securities Exchange Act of 1934, and to delist the preferred stock purchase rights from the NYSE These actions are administrative in nature and will have no effect on the Company's common stock, which will continue to be listed on the NYSE.

16. Related Parties

Non-Operating Corporate

In September 2018, the Company entered into a 75-month lease for office space which expires in December 2024. As part of the agreement, INNOVATE was able to pay a lower security deposit and lease payments, and received favorable lease terms as consideration for landlord required cross default language in the event of default of the shared space leased by Harbinger Capital Partners, a company controlled by a former CEO of INNOVATE and formerly a related party, in the same building. With the adoption of ASC 842, as of January 1, 2019, this lease was recognized as a right-of-use asset and lease liability on the Condensed Consolidated Balance Sheets.

On May 9, 2023, the Company entered into a Stock Purchase Agreement and Subordinated Unsecured Promissory Note with CGIC, a significant shareholder, in the principal amount of $35.1 million. Refer to Note 11. Debt Obligations and Note 15. Temporary Equity and Equity for additional information.

In December 2023, the Company had entered into a sublease agreement for a special purpose space with PBCIC, a Florida not-for-profit corporation and related party to Avram A. Glazer, the Chairman of INNOVATE's Board of Directors and a significant shareholder, who is also on the board of directors of PBCIC. In March 2024, the Company assigned this lease to an entity controlled by Mr. Glazer. In addition, in March 2024, the Company assigned a lease for office space to an entity controlled by Mr. Glazer. Refer to Note 9. Leases for additional information.

Lancer Capital, an entity controlled by Avram A. Glazer, held $2.0 million of principal amount of the Company's $51.8 million 7.5% 2026 Convertible Notes, as of both March 31, 2024 and December 31, 2023. The $2.0 million in notes are convertible into 468,594 shares of common stock of INNOVATE Corp. Refer to Note 11. Debt Obligations for additional information on the 2026 Convertible Notes. During both the three months ended March 31, 2024 and , 2023, Lancer Capital earned $37.5 thousand in interest relating to these notes.

As detailed in Note 15. Temporary Equity and Equity, during the first quarter of 2024, in connection with the Rights Offering, the Company entered into an Investment Agreement with Lancer Capital, pursuant to which Lancer Capital agreed to the Backstop Commitment to purchase up to $19.0 million of Series C Preferred Stock in connection with the Rights Offering and to purchase $16.0 million of Series C Preferred Stock in a Concurrent Private Placement, of which $25.0 million would be purchased before the closing of the Rights Offering if the Rights Offering did not close by March 28, 2024. As a result of the extension of the Rights Offering, on March 28, 2024, Lancer Capital funded $25.0 million to the Company and received 25,000 shares of Series C Preferred Stock. As a result, Lancer Capital's beneficial ownership increased from 29.1% as of March 5, 2024 immediately prior to the start of the Rights Offering to 48.8% as of March 31, 2024. Subsequent to quarter end, on April 24, 2024, as a result of the closing of the Rights Offering and Concurrent Private Placement, Lancer Capital purchased approximately 6,286 shares of Series C Preferred Stock, increasing Lancer Capital's beneficial ownership to 52.1%. Refer to Note 15. Temporary Equity and Equity for additional details.

Infrastructure

Banker Steel previously leased two planes from Banker Aviation, LLC, a former related party and entity that is owned by Donald Banker, who was the CEO of Banker Steel until December 2023. Both leases had been terminated by the fourth quarter of 2023. For the three months ended March 31, 2023, DBMG incurred related lease expenses of $0.3 million.

DBMG and Banker Steel, jointly and severally, have a subordinated 4.0% note payable to Banker Steel's former owner, in which Donald Banker's family trust has a 25% interest, and jointly and severally also had a subordinated 8.0% note payable to Donald Banker's family trust, the latter of which was fully paid off in December 2023. During the three months ended March 31, 2024, DBMG made $2.5 million in scheduled payments on the 4.0% note. For the three months ended March 31, 2024 and 2023, DBMG incurred aggregate interest expense related to these notes of approximately $25 thousand and $0.5 million, respectively. There was $24 thousand accrued interest as of March 31, 2024, and accrued interest was $0.1 million as of December 31, 2023. The 4.0% note and associated accrued interest matured on March 31, 2024, and was fully redeemed on April 2, 2024.

Life Sciences

As of March 31, 2024 and December 31, 2023, R2 Technologies had $20.7 million and $17.4 million, respectively, in principal amount of 20.0% senior secured promissory notes due to Lancer Capital. For the three months ended March 31, 2024 and 2023, R2 Technologies recognized interest expense of $0.9 million and $0.5 million, respectively, related to the contractual interest coupon on the notes due to Lancer Capital. As part of the agreement, all unpaid accrued interest on the new note is capitalized into the principal balance on a monthly basis. As a result, an additional $0.7 million of unpaid accrued interest incurred subsequent to January 31, 2024, was capitalized into the principal balance during the three months ended March 31, 2024. As of March 31, 2024, all unpaid accrued interest on the new note had been capitalized into the principal balance, and there was no accrued interest payable. As of December 31, 2023, the related accrued interest payable not capitalized into the principal balance was $2.4 million. The accrued exit fee was $2.2 million as of March 31, 2024. Subsequent to quarter end, effective April 30, 2024, the note was extended to May 17, 2024, and the exit fee payable was updated to 10.71% of the principal amount for repayments made after May 1, 2024. Refer to Note 11. Debt Obligations for additional information.

For both the three months ended March 31, 2024 and 2023, R2 Technologies recognized revenues of $0.2 million from sales and profit sharing agreements from a subsidiary of Huadong, a related party of R2 Technologies. As of March 31, 2024 related receivables from this subsidiary of Huadong totaled $0.1 million, and there were no related receivables from this subsidiary of Huadong as of December 31, 2023.

For both the three months ended March 31, 2024 and 2023, R2 Technologies incurred approximately $0.1 million of stock compensation and royalty expenses related to Blossom Innovations, LLC, an investor of R2 Technologies since 2014.

Refer to Note 6. Investments for transactions with equity method investees of the Company.

17. Operating Segments and Related Information

The Company currently has one primary reportable geographic segment - United States, and primarily all revenue is derived in the United States. The Company has three reportable operating segments, plus our Other segment, based on management's organization of the enterprise - Infrastructure, Life Sciences, Spectrum, and Other. The Company also has a Non-Operating Corporate segment. All inter-segment transactions are eliminated on consolidation. There are no inter-segment revenues.

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

		Three Months Ended March 31,	
	Segment	2024	2023
Customer A	Infrastructure	27.6%	28.1%

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

	Three Months Ended March 31,	
	2024	2023
Revenue		
Infrastructure	$ 307.9	$ 311.7
Life Sciences	1.0	0.5
Spectrum	6.3	5.7
Total revenue	$ 315.2	$ 317.9

	Three Months Ended March 31,	
	2024	2023
Income (loss) from operations		
Infrastructure	$ 9.3	$ 6.3
Life Sciences	(3.2)	(4.4)
Spectrum	0.2	(0.5)
Other	—	(1.4)
Non-Operating Corporate	(3.5)	(4.0)
Total income (loss) from operations	$ 2.8	$ (4.0)

	Three Months Ended March 31,	
	2024	2023
Reconciliation of the consolidated segment income (loss) from operations to consolidated loss from operations before income taxes:		
Income (loss) from operations	$ 2.8	$ (4.0)
Interest expense	(17.2)	(15.6)
Loss from equity investees	(1.2)	(4.0)
Other (expense) income, net	(1.2)	16.5
Loss from operations before income taxes	$ (16.8)	$ (7.1)

	Three Months Ended March 31,	
	2024	2023
Depreciation and Amortization		
Infrastructure	$ 3.0	$ 4.9
Infrastructure recognized within cost of revenue	4.0	3.9
Total Infrastructure	7.0	8.8
Life Sciences	0.1	0.1
Spectrum	1.3	1.3
Total depreciation and amortization	$ 8.4	$ 10.2

	Three Months Ended March 31,	
	2024	2023
Capital Expenditures (*)		
Infrastructure	$ 5.2	$ 3.0
Life Sciences	0.1	0.1
Spectrum	0.3	0.3
Non-Operating Corporate	—	0.3
Total	$ 5.6	$ 3.7

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

	March 31, 2024	December 31, 2023
Investments		
Life Sciences	$ 1.8	$ 1.8
Total	$ 1.8	$ 1.8

The Company's equity method investments in the Life Sciences segment included in the table above totaled $0.9 million as of both March 31, 2024 and December 31, 2023.

	March 31, 2024	December 31, 2023
Total Assets		
Infrastructure	$ 746.6	$ 851.4
Life Sciences	8.2	8.3
Spectrum	175.5	176.6
Non-Operating Corporate	13.2	7.3
Total	$ 943.5	$ 1,043.6

18. Basic and Diluted Loss Per Common Share

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

The Company had no dilutive common stock equivalents during the three months ended March 31, 2024 and 2023 due to the results from continuing operations being a loss, net of tax. For the three months ended March 31, 2024, and 2023, 702,988 and 1,145,796, respectively, of common stock equivalents from unvested restricted stock were excluded from the weighted average number of shares used to calculate diluted loss per share as their inclusion would have been anti-dilutive. Other instruments that may, in the future, if the average market price of the Company's stock exceeds the conversion prices, have a dilutive effect on earnings per share, but were excluded from the computation of diluted net loss per share for the three months ended March 31, 2024 and 2023 are: preferred stock, convertible debt and stock options. The following table presents a reconciliation of net loss used in the basic and diluted EPS calculations (in millions, except per share amounts):

	Three Months Ended March 31,	
	2024	2023
Net loss	$ (20.1)	$ (8.0)
Net loss (income) attributable to non-controlling interest and redeemable non-controlling interest	2.7	(1.0)
Net loss attributable to INNOVATE Corp.	(17.4)	(9.0)
Less: Preferred dividends	0.3	1.2
Net loss attributable to common stockholders	$ (17.7)	$ (10.2)
Weighted average common shares outstanding - basic and diluted	78.7	77.7
Loss per share - basic and diluted	$ (0.22)	$ (0.13)

19. Fair Value of Financial Instruments

Fair Value of Financial Instruments Not Measured at Fair Value

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

March 31, 2024			Fair Value Measurement Using:		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Assets					
Measurement alternative investment [(1)]	$ 0.9	$ 0.9	$ —	$ —	$ 0.9
Total assets not accounted for at fair value	$ 0.9	$ 0.9	$ —	$ —	$ 0.9
Liabilities					
Debt obligations [(2)]	$ 674.8	$ 570.2	$ 265.9	$ 304.3	$ —
Total liabilities not accounted for at fair value	$ 674.8	$ 570.2	$ 265.9	$ 304.3	$ —

(1) Refer to Note 6. Investments for additional information.
(2) Excludes lease obligations accounted for under ASC 842, *Leases*.

December 31, 2023			Fair Value Measurement Using:		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Assets					
Measurement alternative investment [(1)]	$ 0.9	$ 0.9	$ —	$ 0.9	$ —
Total assets not accounted for at fair value	$ 0.9	$ 0.9	$ —	$ 0.9	$ —
Liabilities					
Debt obligations [(2)]	$ 707.4	$ 621.8	$ 283.2	$ 338.6	$ —
Total liabilities not accounted for at fair value	$ 707.4	$ 621.8	$ 283.2	$ 338.6	$ —

(1) Refer to Note 6. Investments for additional information.
(2) Excludes lease obligations accounted for under ASC 842, *Leases*.

Debt Obligations. The fair value of the Company’s long-term obligations was determined using reporting from externally quoted market prices for INNOVATE's 8.50% 2026 Senior Secured Notes and for INNOVATE's 7.50% Convertible Senior Notes due 2026, which are reflected as Level 1 fair value measurements. All other long-term obligations of the Company are reflected as Level 2 fair value measurements, as this methodology combines direct recent transaction activity or, if available, market observations from contributed sources with quantitative pricing models or fair value reports from valuation providers to generate evaluated prices and are classified as Level 2 fair value measurements. Certain long-term obligations have a fair value estimate equal to their carrying value due to recent transaction activity. The fair value of the debt instruments is disclosed for informational purposes and does not necessarily represent the amount that would be realized upon settlement or transfer.

20. Supplementary Financial Information

Other (expense) income, net

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

	Three months ended March 31,	
	2024	2023
Gain on sale of investment	$ —	$ 12.3
Gain on step-up of equity method investment	—	3.8
Loss on debt extinguishment	(2.2)	—
Other	1.0	0.4
Total	$ (1.2)	$ 16.5

Supplemental Cash Flow Information

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

	Three months ended March 31,	
	2024	2023
Cash and cash equivalents, beginning of the period	$ 80.8	$ 80.4
Restricted cash included in other current assets	0.9	0.3
Restricted cash included in other assets (non-current)	0.6	1.5
Total cash, cash equivalents and restricted cash, beginning of the period	$ 82.3	$ 82.2
Cash and cash equivalents, end of the period	$ 38.4	$ 16.6
Restricted cash included in other current assets	0.9	—
Restricted cash included in other assets (non-current)	0.6	1.4
Total cash and cash equivalents and restricted cash, end of the period	$ 39.9	$ 18.0
Supplemental cash flow information:		
Cash paid for interest	$ 19.6	$ 19.5
(Proceeds from tax refunds) cash paid for income taxes, net	$ (0.8)	$ 5.0
Non-cash investing and financing activities:		
Accrued interest, exit fees and other fees capitalized into principal debt	$ 3.3	$ —
Property, plant and equipment included in accounts payable or accrued expenses	0.9	$ 1.4

21. Subsequent Events

Refer to Note 15. Temporary Equity and Equity for information on the closing of the Rights Offering on April 24, 2024, and the termination of the Tax Benefits Preservation plan on May 6, 2024. Refer to Note 11. Debt Obligations for information on the extension of the maturities of certain debt instruments.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the consolidated annual audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 6, 2024 (the "2023 Annual Report") and the unaudited condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section in our 2023 Annual Report as well as the section below entitled "Special Note Regarding Forward-Looking Statements" for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Unless the context otherwise requires, in this Quarterly Report on Form 10-Q, "INNOVATE" means INNOVATE Corp. and the "Company," "we" and "our" mean INNOVATE together with its consolidated subsidiaries. "U.S. GAAP" means accounting principles accepted in the United States of America.

Our Business and Our Operations

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

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

Cyclical Patterns

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

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

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

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

Recent Developments

We continually evaluate strategic and business alternatives within our operating segments, which may include the following: operating, growing or acquiring additional assets or businesses related to current or historical operations; or winding down or selling our existing operations. In the longer-term, we may evaluate opportunities to acquire assets or businesses unrelated to our current or historical operations. In the event we were to enter into a strategic transaction to sell any of our existing operations, our intention is to use available proceeds from such transaction to address our capital structure at our Non-Operating Corporate and Spectrum segments.

In 2024, including subsequent to the first quarter end, as part of our strategic process, we engaged in several transactions that had or will have an effect on the results of operations and financial condition of our business and individual segments.

Rights Offering and Private Placement

On March 8, 2024, the Company commenced a $19.0 million rights offering ("Rights Offering") for its common stock. Pursuant to the Rights Offering, the Company distributed to each holder of the Company’s common stock, Series A-3 Convertible Participating Preferred Stock, Series A-4 Convertible Participating Preferred Stock and the 2026 Convertible Notes as of March 6, 2024 (the “rights offering record date”), transferable subscription rights to purchase 0.2858 shares of the Company’s common stock at a price of $0.70 per whole share.

Per the concurrent investment agreement entered into with Lancer Capital (the "Investment Agreement"), the Rights Offering was backstopped by Lancer Capital, an investment fund led by Avram A. Glazer, the Chairman of the Board and the Company's largest stockholder. Due to limitations on the common stock that can be issued to Lancer Capital under the rules of the New York Stock Exchange ("NYSE"), in lieu of exercising its subscription rights, pursuant to the Investment Agreement, Lancer Capital would purchase up to $19.0 million of the Company's newly issued Series C Non-Voting Participating Convertible Preferred Stock (the "Series C Preferred Stock"), for an issue price of $1,000 per share. In connection with the backstop commitment, and as a result of limitations in the amount common equity that can be raised under the Company's effective shelf registration statement on Form S-3, Lancer Capital also agreed to purchase an additional $16.0 million of Series C Preferred Stock in a private placement transaction ("Concurrent Private Placement") to close concurrently with the settlement of the Rights Offering. Lancer Capital did not receive any compensation or other consideration for entering into or consummating the Investment Agreement.

As the Rights Offering had not yet settled by March 28, 2024, in accordance with the Investment Agreement, Lancer Capital purchased $25.0 million of Series C Preferred Stock, referred to as the "equity advance." Subsequent to quarter end, on April 24, 2024, the Company completed and closed on the Rights Offering and issued a total of 5,306,105 shares of common stock for approximately $3.7 million. Based on the number of shares of common stock actually sold upon exercise of the rights to third party investors, there were no excess shares of Series C Preferred Stock purchased by Lancer Capital under the equity advance that the Company was required to redeem, and Lancer Capital purchased an additional approximately 6,286 Series C Preferred Stock for $6.3 million under the backstop commitment. The total gross proceeds received subsequent to quarter end were $10.0 million.

The Company received $35.0 million in aggregate gross proceeds related to the Rights Offering and Concurrent Private Placement. As of March 31, 2024, the Company had incurred $1.8 million in dealer manager fees and other costs related to the Rights Offering and Concurrent Private Placement, of which $1.3 million was allocated to the Series C Preferred Stock and $0.5 million was capitalized as Additional paid in capital. An additional $0.3 million in costs were incurred subsequent to quarter end. INNOVATE expects to use the net proceeds from the Rights Offering for general corporate purposes, including debt service and for working capital. As a result of the closing of the Rights Offering and Concurrent Private Placement, a mandatory prepayment was required on the CGIC Unsecured Note, in the amount of the greater of $3.0 million or 12.5% of the net proceeds. Subsequent to quarter end, on April 26, 2024, INNOVATE redeemed $4.1 million of the CGIC Unsecured Note.

Under the rules of the NYSE, because the shares purchased by Lancer Capital are greater than 20% of the Company's common stock outstanding before the issuance of the Series C Preferred Stock, those shares of Series C Preferred Stock may not be converted unless stockholder approval of such issuance is obtained. The Series C Preferred Stock are convertible into common stock at the price equivalent to the subscription price under the Rights Offering contingent on shareholder approval, which will be voted on at the next annual meeting. If the Series C Preferred Stock is not converted to common stock, it may be redeemed at the Company's option or on the sixth anniversary of issuance plus accrued interest of 8% which is only due upon redemption and not conversion. See Note 15. Temporary Equity and Equity for additional information on the terms.

The Company waived its Tax Benefits Preservation Plan to permit persons exercising rights to acquire 4.9% or more of the outstanding common stock upon the exercise thereof without becoming an Acquiring Person (as defined in the Tax Benefits Preservation Plan).

INNOVATE expects to use the net proceeds from the Rights Offering for general corporate purposes, including debt service and for working capital. As a result of the closing of the Rights Offering and Concurrent Private Placement, a mandatory prepayment was required on the CGIC Unsecured Note, in the amount of the greater of $3.0 million or 12.5% of the net proceeds. Subsequent to quarter end, on April 26, 2024, INNOVATE redeemed $4.1 million of the CGIC Unsecured Note.

Stockholders' Rights Agreement - Tax Benefits Preservation Plan

Subsequent to quarter end, on May 6, 2024, the Company terminated its Tax Benefits Preservation Plan entered into on April 1, 2023 (the "2023 Preservation Plan") because the Company's Board of Directors determined that the 2023 Preservation Plan was no longer necessary or desirable for the preservation of the Company's ability to use its tax net operating losses and other certain tax assets.

In connection with the termination of the 2023 Preservation Plan, the Company will be taking routine actions to deregister the related preferred stock purchase rights under the Securities Exchange Act of 1934, and to delist the preferred stock purchase rights from the NYSE These actions are administrative in nature and will have no effect on the Company's common stock, which will continue to be listed on the NYSE.

Debt Obligations and Financing

In addition to the Rights Offering and Concurrent Private Placement at the Non-Operating Corporate segment discussed above, during 2024 thus far, we have refinanced some of our debt and obtained new capital financing at the subsidiary level. This financing helped us provide needed capital for our operations and the operations of our subsidiaries.

Infrastructure

DBMG and Banker Steel, jointly and severally, have a subordinated 4.0% note payable to Banker Steel's former owner, in which Donald Banker's family trust has a 25% interest, and jointly and severally also had a subordinated 8.0% note payable to Donald Banker's family trust, the latter of which was fully paid off in December 2023. During the three months ended March 31, 2024, DBMG made $2.5 million in scheduled payments on the 4.0% note. The 4.0% note matured on March 31, 2024 and was fully redeemed on April 2, 2024.

Life Sciences

On January 31, 2024, R2 Technologies and Lancer Capital issued a new 20% note with an aggregate original principal amount of $20.0 million, which is comprised of the prior outstanding principal amounts and unpaid accrued interest of $2.6 million, which was capitalized into the new principal balance, with future interest payable monthly in arrears, in cash or, if not paid in cash, accrued and unpaid interest will be capitalized monthly into the principal balance. The new note also includes an exit fee payable upon the earliest of the maturity date, the acceleration date of the principal amount of the note, for any reason as defined in the agreement, or the date upon which any prepayment is made. The exit fee shall be equal to 10.5% of the principal if payment is made anytime from April 1, 2024 through April 30, 2024. As a result of the addition of the exit fee, the modification was determined to be an extinguishment under ASC 470-50 and the new exit fee payable to the existing lender is included in Other (expense) income, net on the Condensed Consolidated Statement of Operations. The maturity date of the new note is April 30, 2024 or within five business days of the date on which R2 Technologies receives an aggregate $20.0 million from the consummation of a debt or equity financing or has a change in control, as defined in the agreement, with an optional prepayment of the entire then-outstanding and unpaid principal and accrued interest upon five-days written notice to Lancer Capital. Subsequent to quarter end, effective April 30, 2024, the note was extended to May 17, 2024, and the exit fee payable was updated to 10.71% of the principal amount for repayments made after May 1, 2024.

As of March 31, 2024, the per annum interest rate on the outstanding principal balance is 20%. For the three months ended March 31, 2024 and 2023, R2 Technologies recognized interest expense of $0.9 million and $0.5 million, respectively, related to the contractual interest coupon on the notes with Lancer Capital. As part of the agreement, all unpaid accrued interest on the new note is capitalized into the principal balance on a monthly basis. As a result, an additional $0.7 million of unpaid accrued interest incurred subsequent to January 31, 2024, was capitalized into the principal balance during the three months ended March 31, 2024. As of March 31, 2024, all unpaid accrued interest on the new note had been capitalized into the principal balance, and there was no accrued interest payable. The accrued exit fee was $2.2 million as of March 31, 2024, which is included in Accrued liabilities on the Condensed Consolidated Balance Sheet. Refer to Note 11. Debt Obligations in the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference for additional information on R2 Technologies' debt obligations.

Non-Operating Corporate

Subsequent to quarter end, on May 6, 2024, the Company and MSD extended the maturity date of its Revolving Line of Credit from March 16, 2025 to May 16, 2025.

Equity Method Investments

During the first quarter of 2024, MediBeacon issued to Pansend an aggregate $1.2 million of 12% convertible notes payable, increasing Pansend's total outstanding principal receivable to $10.9 million.

As a result of these note issuances by MediBeacon during the three months ended March 31, 2024, Pansend recognized $1.2 million of equity method losses which were previously unrecognized because Pansend's carrying amount of its investment in MediBeacon had been previously reduced to zero.

As of March 31, 2024, Pansend's carrying amount of its investment in MediBeacon remains at zero, inclusive of the $10.9 million in convertible notes which have been offset against recognized losses, and has cumulative unrecognized equity method losses relating to MediBeacon of $8.7 million.

Subsequent to quarter end, in April 2024, MediBeacon issued an additional aggregate $1.1 million of 12.0% convertible notes to Pansend, with each due to Pansend in three years from date of issuance.

Financial Presentation Background

In the below section within this Management’s Discussion and Analysis of Financial Condition and Results of Operations, we compare, pursuant to U.S. GAAP and SEC disclosure rules, the Company’s results of operations for the three months ended March 31, 2024 as compared to the three months ended March 31, 2023.

Results of Operations

The following table summarizes our results of operations (in millions):

	Three Months Ended March 31,		
	2024	2023	Increase / (Decrease)
Revenue			
Infrastructure	$ 307.9	$ 311.7	$ (3.8)
Life Sciences	1.0	0.5	0.5
Spectrum	6.3	5.7	0.6
Total revenue	$ 315.2	$ 317.9	$ (2.7)
Income (loss) from operations			
Infrastructure	$ 9.3	$ 6.3	$ 3.0
Life Sciences	(3.2)	(4.4)	1.2
Spectrum	0.2	(0.5)	0.7
Other	—	(1.4)	1.4
Non-Operating Corporate	(3.5)	(4.0)	0.5
Total income (loss) from operations	$ 2.8	$ (4.0)	$ 6.8
Interest expense	(17.2)	(15.6)	(1.6)
Loss from equity investees	(1.2)	(4.0)	2.8
Other (expense) income, net	(1.2)	16.5	(17.7)
Loss from operations before income taxes	$ (16.8)	$ (7.1)	$ (9.7)
Income tax expense	(3.3)	(0.9)	(2.4)
Net loss	$ (20.1)	$ (8.0)	$ (12.1)
Net loss (income) attributable to non-controlling interests and redeemable non-controlling interests	2.7	(1.0)	3.7
Net loss attributable to INNOVATE Corp.	$ (17.4)	$ (9.0)	$ (8.4)
Less: Preferred dividends	0.3	1.2	(0.9)
Net loss attributable to common stockholders	$ (17.7)	$ (10.2)	$ (7.5)

Revenue: Revenue for the three months ended March 31, 2024 decreased $2.7 million to $315.2 million from $317.9 million for the three months ended March 31, 2023. The decrease was driven by a decrease at our Infrastructure segment, which was partially offset by increases at our Spectrum and Life Sciences segments. The decrease at our Infrastructure segment was primarily driven by the timing and size of projects at DBMG's commercial structural steel fabrication and erection business and Banker Steel, which was partially offset by an increase at the industrial maintenance and repair business due to the timing and size of projects. The increase at our Spectrum segment was primarily driven by network launches and expanded coverage with existing customers. The increase at our Life Sciences segment was attributable to R2 Technologies, primarily due to the launch of the Glacial fx system in the second half of 2023 and an increase in Glacial Rx units sold.

Income (loss) from operations: Income (loss) from operations for the three months ended March 31, 2024, increased $6.8 million to income of $2.8 million from a loss of $4.0 million for the three months ended March 31, 2023. The increase was due to a net increase in gross profit of $5.0 million, a decrease in selling, general and administrative expenses ("SG&A") of $2.2 million and a decrease in depreciation and amortization of $1.9 million, which was partially offset by an increase in other operating expense of $2.3 million. The increase in gross profit was primarily driven by our Infrastructure segment due to timing of projects and, to a lesser extent, our Spectrum and Life Sciences segments. The overall decrease in SG&A was driven by unrepeated transaction expenses related to the sale of New Saxon's 19% investment in HMN in the comparable period, a decrease in compensation-related expenses at R2 Technologies, and our Non-Operating Corporate and our Spectrum segments, a decrease in marketing expenses and other costs as a result of cost reduction initiatives at R2 Technologies and decreases in consulting fees, disposition and acquisition expenses, and insurance expense at our Non-Operating Corporate segment, which was partially offset by an increase in compensation-related expenses at our Infrastructure segment. The overall decrease in depreciation and amortization was primarily driven by our Infrastructure segment, as certain customer contract intangibles became fully amortized in the second quarter of 2023. The increase in income from operations was partially offset by a loss on a disposal related to a plant closure in the first quarter of 2024 at our Infrastructure segment.

Interest expense: Interest expense for the three months ended March 31, 2024, increased $1.6 million to $17.2 million from $15.6 million for the three months ended March 31, 2023. The increase was primarily attributable to higher outstanding principal balances at our Non-Operating Corporate and Life Sciences segments as a result of new debt issued subsequent to the comparable period. This was partially offset by our Infrastructure segment due to a decrease in outstanding principal balances.

Loss from equity investees: Loss from equity investees for the three months ended March 31, 2024 decreased $2.8 million to $1.2 million from $4.0 million for the three months ended March 31, 2023. The decrease in loss was primarily due to a reduction in losses from MediBeacon, primarily due to an unrepeated equity transaction with Huadong in the comparable period, which resulted in a $3.8 million increase in Pansend's basis in MediBeacon and a corresponding $3.8 million of additional equity method losses that were previously unrecognized, whereas, during the first quarter 2024, as a result of additional convertible note investments in MediBeacon by Pansend, Pansend's basis in MediBeacon increased by $1.2 million and Pansend recognized $1.2 million of equity method losses which were previously unrecognized. As of both March 31, 2024 and 2023, Pansend's net carrying amount of its investment in MediBeacon was zero and Pansend had unrecognized losses from this investment. Additionally contributing to the decrease in equity loss was our previous investment in HMN, which was sold on March 6, 2023 and had losses for the approximately two months of ownership in 2023. Refer to Note 6. Investments of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for additional information on our equity investments.

Other (expense) income, net: Other (expense) income, net for the three months ended March 31, 2024 decreased $17.7 million to an expense $1.2 million from income of $16.5 million for the three months ended March 31, 2023. The decrease was primarily driven by the unrepeated gain on the sale of the equity investment in HMN of $12.3 million in the comparable period, an unrepeated $3.8 million step-up gain from the increase in Pansend's basis as a result of MediBeacon issuing $7.5 million of its preferred stock to Huadong in the comparable period and a $2.2 million loss on debt extinguishment at R2 Technologies in the current period. The decrease in other income was partially offset by an increase in foreign currency translation gains at our Infrastructure segment.

Income tax expense: Income tax expense for the three months ended March 31, 2024 increased $2.4 million to $3.3 million from $0.9 million for the three months ended March 31, 2023. The increase was primarily driven by the tax expense of INNOVATE Corp's U.S. consolidated group as a result of utilizing its remaining unlimited NOLs in 2024 and due to the Tax Cut and Jobs Act's 80 percent limitation on net operating losses incurred after 2018. Additionally, the annual effective tax rate calculated for three months ended March 31, 2023 interim tax provision included an unrepeated a $1.1 million tax benefit, consisting of a current tax expense of $4.4 million related to a foreign tax payment and a deferred tax benefit of $5.5 million related to the reversal of the deferred tax liability associated with the $11.3 million put option, both of which were related to the sale of New Saxon's 19% investment in HMN on March 6, 2023.

The Organization for Economic Cooperation and Development ("OECD") has announced an Inclusive Framework on Base Erosion and Profit Shifting including a Pillar Two Model to provide for a 15% global minimum tax on the earnings of multinational corporations with consolidated revenue over €750 million. Many jurisdictions have enacted Pillar Two legislation that will start to become effective in 2024. The OECD, and its member countries, continue to release new guidance and legislation on Pillar Two. Based on current enacted laws, Pillar Two is not expected to materially impact our effective tax rate or cash flows in the next year. We will continue to evaluate the impact on our financial position as new legislation or guidance is introduced which could change our current assessment.

Segment Results of Operations

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

Infrastructure Segment

	Three months ended March 31,		
	2024	2023	Increase / (Decrease)
Revenue	$ 307.9	$ 311.7	$ (3.8)
Cost of revenue	263.1	270.9	(7.8)
Selling, general and administrative	30.9	29.7	1.2
Depreciation and amortization	3.0	4.9	(1.9)
Other operating loss (income)	1.6	(0.1)	1.7
Income from operations	$ 9.3	$ 6.3	$ 3.0

Revenue: Revenue for the three months ended March 31, 2024 decreased $3.8 million to $307.9 million from $311.7 million for the three months ended March 31, 2023. The decrease was primarily driven by the timing and size of projects at DBMG's commercial structural steel fabrication and erection business and Banker Steel, which was partially offset by an increase at the industrial maintenance and repair business due to the timing and size of projects.

Cost of revenue: Cost of revenue for the three months ended March 31, 2024 decreased $7.8 million to $263.1 million from $270.9 million for the three months ended March 31, 2023. The decrease was primarily driven by the decrease in revenues from the timing and size of projects at DBMG's commercial structural steel fabrication and erection business and Banker Steel, which was partially offset by an increase at the industrial maintenance and repair business due to the increase in revenues from the timing and size of projects.

Selling, general and administrative: Selling, general and administrative expense for the three months ended March 31, 2024 increased $1.2 million to $30.9 million from $29.7 million for the three months ended March 31, 2023. The increase was primarily driven by an increase in compensation-related expenses, which was partially offset primarily by a decrease in facility-related expenses and unrepeated accounting expenses.

Depreciation and amortization: Depreciation and amortization for the three months ended March 31, 2024 decreased $1.9 million to $3.0 million from $4.9 million for the three months ended March 31, 2023. The decrease was primarily driven by Banker Steel, as certain customer contract intangibles became fully amortized in the second quarter of 2023.

Other operating loss (income): Other operating income (loss) for the three months ended March 31, 2024 decreased $1.7 million to a loss of $1.6 million from income of $0.1 million for the three months ended March 31, 2023. The decrease in income was primarily driven by a loss on a disposal related to a plant closure in the first quarter of 2024.

Life Sciences Segment

	Three months ended March 31,		
	2024	2023	Increase / (Decrease)
Revenue	$ 1.0	$ 0.5	$ 0.5
Cost of revenue	0.6	0.5	0.1
Selling, general and administrative	3.5	4.3	(0.8)
Depreciation and amortization	0.1	0.1	—
Loss from operations	$ (3.2)	$ (4.4)	$ 1.2

Revenue: Revenue for the three months ended March 31, 2024 increased $0.5 million to $1.0 million from $0.5 million for the three months ended March 31, 2023. The increase in revenue was attributable to R2 Technologies, primarily due to increased unit sales from the launch of the Glacial fx system in the second half of 2023 and an increase in Glacial Rx units sold compared to the prior year period.

Selling, general and administrative: Selling, general and administrative expense for the three months ended March 31, 2024 decreased $0.8 million to $3.5 million from $4.3 million for the three months ended March 31, 2023. The decrease was primarily driven by decreases from R2 Technologies in compensation-related expenses net of consultant expenses, marketing expenses, travel expenses and other general and administrative expenses as a result of cost reduction initiatives.

Spectrum Segment

	Three months ended March 31,		
	2024	2023	Increase / (Decrease)
Revenue	$ 6.3	$ 5.7	$ 0.6
Cost of revenue	2.9	2.9	—
Selling, general and administrative	1.9	2.3	(0.4)
Depreciation and amortization	1.3	1.3	—
Other operating income	—	(0.3)	0.3
Income (loss) from operations	$ 0.2	$ (0.5)	$ 0.7

Revenue: Revenue for the three months ended March 31, 2024 increased $0.6 million to $6.3 million from $5.7 million for the three months ended March 31, 2023. The increase was primarily driven by network launches, and expanded coverage with existing customers. The increase was partially offset by the termination of a number of smaller networks and individual markets subsequent to the comparable period.

Selling, general and administrative: Selling, general and administrative expense for the three months ended March 31, 2024 decreased $0.4 million to $1.9 million from $2.3 million for the three months ended March 31, 2023. The decrease was primarily driven by a decrease in salaries and benefits expense.

Other operating income: Other operating income for the three months ended March 31, 2024 decreased $0.3 million to zero from $0.3 million for the three months ended March 31, 2023. Other income for the three months ended March 31, 2023 was comprised of FCC reimbursements.

Non-Operating Corporate

	Three months ended March 31,		
	2024	2023	Increase / (Decrease)
Selling, general and administrative	$ 3.2	$ 4.0	$ (0.8)
Other operating loss	0.3	—	0.3
Loss from operations	$ (3.5)	$ (4.0)	$ 0.5

Selling, general and administrative: Selling, general and administrative expenses for the three months ended March 31, 2024 decreased $0.8 million to $3.2 million from $4.0 million for the three months ended March 31, 2023, primarily driven by decreases in compensation-related expenses, consulting fees, disposition and acquisition expenses, and insurance expense, which was partially offset by an increase in legal fees.

Other operating loss: Other operating loss for the three months ended March 31, 2024 increased to $0.3 million from zero for the three months ended March 31, 2023. Other operating loss in 2024 related to lease termination costs related to two leases the Company exited in the current period.

Loss from Equity Investees

	Three months ended March 31,		
	2024	2023	Increase / (Decrease)
Life Sciences	$ (1.2)	$ (3.7)	$ 2.5
Other	—	(0.3)	0.3
Loss from equity investees	$ (1.2)	$ (4.0)	$ 2.8

Life Sciences: Loss from equity investees within our Life Sciences segment for the three months ended March 31, 2024 decreased $2.5 million to $1.2 million from $3.7 million for the three months ended March 31, 2023. The decrease in loss from equity investees was due to a reduction in losses from MediBeacon, primarily due to an unrepeated equity transaction with Huadong in the comparable period, which resulted in a $3.8 million increase in Pansend's basis in MediBeacon and a corresponding $3.8 million of additional equity method losses that were previously unrecognized, whereas, during the first quarter 2024, as a result of additional convertible note investments in MediBeacon by Pansend, Pansend's basis in MediBeacon increased by $1.2 million and Pansend recognized $1.2 million of equity method losses which were previously unrecognized. As of both March 31, 2024 and 2023, Pansend's net carrying amount of its investment in MediBeacon was zero and Pansend had unrecognized losses from this investment.

Other: Loss from equity investees within our Other segment for the three months ended March 31, 2024 decreased $0.3 million to zero from a loss of $0.3 million for the three months ended March 31, 2023. Loss from equity investees for the three months ended March 31, 2023 was driven by our previous investment in HMN, which was sold on March 6, 2023 and had losses for the approximately two months of ownership in 2023.

Refer to Note 6. Investments of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, for additional information on our equity investments.

Non-GAAP Financial Measures and Other Information

Adjusted EBITDA

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

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

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

(in millions)	Three months ended March 31, 2024					
	Infrastructure	Life Sciences	Spectrum	Non-Operating Corporate	Other and Eliminations	INNOVATE
Net income (loss) attributable to INNOVATE Corp.	$ 4.4	$ (4.5)	$ (4.8)	$ (12.5)	$ —	$ (17.4)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:						
Depreciation and amortization	3.0	0.1	1.3	—	—	4.4
Depreciation and amortization (included in cost of revenue)	4.0	—	—	—	—	4.0
Other operating loss	1.6	—	—	0.3	—	1.9
Interest expense	2.7	0.9	3.4	10.2	—	17.2
Other (income) expense, net	(0.8)	2.0	2.0	(2.0)	—	1.2
Income tax expense	2.5	—	—	0.8	—	3.3
Non-controlling interest	0.4	(2.8)	(0.3)	—	—	(2.7)
Share-based compensation expense	—	0.1	—	0.3	—	0.4
Restructuring and exit costs	0.5	—	—	—	—	0.5
Adjusted EBITDA	$ 18.3	$ (4.2)	$ 1.6	$ (2.9)	$ —	$ 12.8

(in millions)	Three months ended March 31, 2023					
	Infrastructure	Life Sciences	Spectrum	Non-Operating Corporate	Other and Eliminations	INNOVATE
Net income (loss) attributable to INNOVATE Corp.	$ 2.0	$ (2.8)	$ (5.0)	$ (11.9)	$ 8.7	$ (9.0)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:						
Depreciation and amortization	4.9	0.1	1.3	—	—	6.3
Depreciation and amortization (included in cost of revenue)	3.9	—	—	—	—	3.9
Other operating income	(0.1)	—	(0.3)	—	—	(0.4)
Interest expense	3.4	0.5	3.2	8.5	—	15.6
Other (income) expense, net	(0.2)	(3.9)	1.8	(1.6)	(12.6)	(16.5)
Income tax expense (benefit)	1.1	—	—	1.0	(1.2)	0.9
Non-controlling interest	0.2	(1.9)	(0.6)	—	3.3	1.0
Share-based compensation expense	—	0.2	—	0.3	—	0.5
Restructuring and exit costs	0.5	—	—	—	—	0.5
Acquisition and disposition costs	0.6	—	—	0.2	1.3	2.1
Adjusted EBITDA	$ 16.3	$ (7.8)	$ 0.4	$ (3.5)	$ (0.5)	$ 4.9

Adjusted EBITDA by segment is summarized as follows:

(in millions):	Three Months Ended March 31,		
	2024	2023	Increase / (Decrease)
Infrastructure	$ 18.3	$ 16.3	$ 2.0
Life Sciences	(4.2)	(7.8)	3.6
Spectrum	1.6	0.4	1.2
Non-Operating Corporate	(2.9)	(3.5)	0.6
Other and Eliminations	—	(0.5)	0.5
Adjusted EBITDA	$ 12.8	$ 4.9	$ 7.9

Infrastructure: Net income from our Infrastructure segment for the three months ended March 31, 2024 increased $2.4 million to $4.4 million from $2.0 million for the three months ended March 31, 2023. Adjusted EBITDA from our Infrastructure segment for the three months ended March 31, 2024 increased $2.0 million to $18.3 million from $16.3 million for the three months ended March 31, 2023. The increase in Adjusted EBITDA was primarily driven by higher margins at DBMG's commercial structural steel fabrication and erection and the industrial maintenance and repair businesses, which was partially offset by an increase in recurring SG&A, primarily as a result of compensation-related expenses and a decrease in margin at the construction modeling and detailing business.

Life Sciences: Net loss from our Life Sciences segment for the three months ended March 31, 2024 increased $1.7 million to $4.5 million from $2.8 million for the three months ended March 31, 2023. Adjusted EBITDA loss from our Life Sciences segment for the three months ended March 31, 2024 decreased $3.6 million to $4.2 million from $7.8 million for the three months ended March 31, 2023. The decrease in Adjusted EBITDA loss was primarily due to lower equity method losses recognized from our investment in MediBeacon primarily due to an unrepeated equity transaction with Huadong in the comparable period, which resulted in a $3.8 million increase in Pansend's basis in MediBeacon and a corresponding $3.8 million of additional equity method losses that were previously unrecognized, whereas, during the first quarter 2024, as a result of additional convertible note investments in MediBeacon by Pansend, Pansend's basis in MediBeacon increased by $1.2 million and Pansend recognized $1.2 million of equity method losses which were previously unrecognized. As of both March 31, 2024 and 2023, Pansend's net carrying amount of its investment in MediBeacon was zero and Pansend had unrecognized losses from this investment. Refer to Note 6. Investments of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, for additional information on our equity investments. Additionally contributing to the decrease in Adjusted EBITDA loss was R2 Technologies, driven by a decrease in SG&A expenses primarily from decreases in compensation-related expenses, marketing costs, and other general and administrative expenses as a result of cost reduction initiatives, as well as an increase in revenue primarily due to an increase in Glacial fx unit sales, which launched in the second half of 2023, and an increase in Glacial Rx unit sales.

Spectrum: Net loss from our Spectrum segment for the three months ended March 31, 2024 decreased $0.2 million to $4.8 million from $5.0 million for the three months ended March 31, 2023. Adjusted EBITDA from our Spectrum segment for the three months ended March 31, 2024 increased $1.2 million to $1.6 million from $0.4 million for the three months ended March 31, 2023. The increase in Adjusted EBITDA was primarily due to an increase in revenue primarily driven by network launches and expanded coverage with existing customers, as well as a decrease in salaries and benefits expense. This was partially offset by the termination of a number of smaller networks and individual markets subsequent to the comparable period.

Non-Operating Corporate: Net loss from our Non-Operating Corporate segment for the three months ended March 31, 2024 increased $0.6 million to $12.5 million from $11.9 million for the three months ended March 31, 2023. Adjusted EBITDA loss from our Non-Operating Corporate segment for the three months ended March 31, 2024 decreased $0.6 million to $2.9 million from $3.5 million for the three months ended March 31, 2023. The decrease in Adjusted EBITDA loss was primarily driven by decreases in compensation-related expenses, consulting fees, and insurance expense, which was partially offset by an increase in legal fees.

Other and Eliminations: Net income from our Other segment and Eliminations for the three months ended March 31, 2024 decreased $8.7 million to zero from $8.7 million for the three months ended March 31, 2023. Adjusted EBITDA losses from our Other segment for the three months ended March 31, 2024 decreased $0.5 million to zero from an Adjusted EBITDA loss of $0.5 million for the three months ended March 31, 2023. The decrease in Adjusted EBITDA loss was driven primarily by our previous investment in HMN, which was sold on March 6, 2023 and had losses for the approximately two months of ownership in 2023.

Backlog

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

Infrastructure Segment

As of March 31, 2024, DBMG's backlog was $939.1 million, consisting of $835.2 million under contracts or purchase orders and $103.9 million under letters of intent or notices to proceed. Approximately $402.7 million, representing 42.9% of DBMG’s backlog as of March 31, 2024, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these projects terminate or reduce their scope, DBMG’s backlog could decrease substantially. DBMG includes an additional $13.9 million in its backlog that is not included in the remaining unsatisfied performance obligations disclosed in Note 3. Revenue and Contracts in Process. This additional backlog includes commitments under master service agreements that are estimated amounts of work to be performed based on customer communications, historic performance and knowledge of our customers' intentions.

Liquidity and Capital Resources

Short- and Long-Term Liquidity Considerations and Risks

Our Non-Operating Corporate segment consists of holding companies, and its liquidity needs are primarily for interest payments on its 2026 Senior Secured Notes, 2026 Convertible Notes, Revolving Line of Credit, CGIC Unsecured Note, and dividend payments on its Series A-3 and Series A-4 Preferred Stock and recurring operational expenses.

On a consolidated basis, as of March 31, 2024, we had $38.4 million of cash and cash equivalents, excluding restricted cash, compared to $80.8 million as of December 31, 2023. On a stand-alone basis, as of March 31, 2024, our Non-Operating Corporate segment had cash and cash equivalents, excluding restricted cash, of $9.2 million compared to $2.5 million as of December 31, 2023.

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

As of March 31, 2024, we had $687.0 million of principal indebtedness on a consolidated basis compared to $722.8 million as of December 31, 2023, a net decrease of $35.8 million, which was primarily due to a $39.1 million net decrease in debt at our Infrastructure segment, mostly offset by the issuance of additional debt at R2 Technologies in principal amount of $3.3 million.

On a stand-alone basis, our Non-operating Corporate segment indebtedness remained at $436.9 million as of both March 31, 2024 and December 31, 2023 and consists of the $330.0 million aggregate principal amount of 2026 Senior Secured Notes, $51.8 million aggregate principal amount of 2026 Convertible Notes, $35.1 million principal amount CGIC Unsecured Note and $20.0 million aggregate principal amount drawn on our Revolving Line of Credit. Our Non-Operating Corporate segment is required to make semi-annual interest payments on the 2026 Senior Secured Notes and 2026 Convertible Notes on February 1st and August 1st of each year, quarterly interest payments on the Revolving Line of Credit, and monthly interest payments on the CGIC Unsecured Note. As described below, the interest rate on the CGIC Unsecured Note will increase from 9.0% per annum to 16.0% per annum on May 9, 2024 and from 16.0% per annum to 32.0% per annum on May 9, 2025. As a result of the closing of the Rights Offering and Concurrent Private Placement, a mandatory prepayment was required on the CGIC Unsecured Note, in the amount of the greater of $3.0 million or 12.5% of the net proceeds. Subsequent to quarter end, on April 26, 2024, INNOVATE redeemed $4.1 million of the CGIC Unsecured Note.

We are required to make dividend payments on our outstanding Series A-3 and Series A-4 Preferred Stock on January 15^{th}, April 15^{th}, July 15^{th}, and October 15^{th} of each year.

Our Non-Operating Corporate segment received a net $3.8 million in tax sharing payments from our Infrastructure segment for the three months ended March 31, 2024.

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

Rights Offering and Concurrent Private Placement

On March 8, 2024, the Company commenced a $19.0 million rights offering ("Rights Offering") for its common stock. Pursuant to the Rights Offering, the Company distributed to each holder of the Company's common stock, Series A-3 Convertible Participating Preferred Stock, Series A-4 Convertible Participating Preferred Stock and the 2026 Convertible Notes as of March 6, 2024 (the "rights offering record date"), transferable subscription rights to purchase 0.2858 shares of the Company's common stock at a price of $0.70 per whole share.

Per the concurrent investment agreement entered into with Lancer Capital (the "Investment Agreement"), the Rights Offering was backstopped by Lancer Capital, an investment fund led by Avram A. Glazer, the Chairman of the Board and the Company's largest stockholder. Due to limitations on the common stock that can be issued to Lancer Capital under the rules of the New York Stock Exchange ("NYSE"), in lieu of exercising its subscription rights, pursuant to the Investment Agreement, Lancer Capital would purchase up to $19.0 million of the Company's newly issued Series C Non-Voting Participating Convertible Preferred Stock (the "Series C Preferred Stock"), for an issue price of $1,000 per share. In connection with the backstop commitment, and as a result of limitations in the amount common equity that can be raised under the Company's effective shelf registration statement on Form S-3, Lancer Capital also agreed to purchase an additional $16.0 million of Series C Preferred Stock in a private placement transaction ("Concurrent Private Placement") to close concurrently with the settlement of the Rights Offering. Lancer Capital did not receive any compensation or other consideration for entering into or consummating the Investment Agreement.

As the Rights Offering had not yet settled by March 28, 2024, in accordance with the Investment Agreement, Lancer Capital purchased $25.0 million of Series C Preferred Stock, referred to as the "equity advance." Subsequent to quarter end, on April 24, 2024, the Company completed and closed on the Rights Offering and issued a total of 5,306,105 shares of common stock for approximately $3.7 million. Based on the number of shares of common stock actually sold upon exercise of the rights to third party investors, there were no excess shares of Series C Preferred Stock purchased by Lancer Capital under the equity advance that the Company was required to redeem, and Lancer Capital purchased an additional approximately 6,286 Series C Preferred Stock for $6.3 million under the backstop commitment. The total gross proceeds received subsequent to quarter end were $10.0 million.

The Company received $35.0 million in aggregate gross proceeds related to the Rights Offering and Concurrent Private Placement. As of March 31, 2024, the Company had incurred $1.8 million in dealer manager fees and other costs related to the Rights Offering and Concurrent Private Placement, of which $1.3 million was allocated to the Series C Preferred Stock and $0.5 million was capitalized as Additional paid in capital. An additional $0.3 million in costs were incurred subsequent to quarter end. INNOVATE expects to use the net proceeds from the Rights Offering for general corporate purposes, including debt service and for working capital. As a result of the closing of the Rights Offering and Concurrent Private Placement, a mandatory prepayment was required on the CGIC Unsecured Note, in the amount of the greater of $3.0 million or 12.5% of the net proceeds. Subsequent to quarter end, on April 26, 2024, INNOVATE redeemed $4.1 million of the CGIC Unsecured Note. For more information regarding the Rights Offering, refer to Note 15. Temporary Equity and Equity of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

The ability of INNOVATE's subsidiaries to make distributions to INNOVATE is subject to numerous factors, including restrictions contained in each subsidiary's financing agreements, availability of sufficient funds at each subsidiary and the approval of such payment by each subsidiary's board of directors, which must consider various factors, including general economic and business conditions, tax considerations, strategic plans, financial results and condition, expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends, and such other factors each subsidiary's board of directors considers relevant. Although the Company believes that it will be able, to the extent needed, to raise additional debt or equity capital, refinance indebtedness or preferred stock, enter into other financing arrangements or engage in asset sales and sales of certain investments sufficient to fund any cash needs that we are not able to satisfy with the funds on hand or expected to be provided by our subsidiaries, there can be no assurance that it will be able to do so on terms satisfactory to the Company, if at all. Such financing options, if pursued, may also ultimately have the effect of negatively impacting our liquidity profile and prospects over the long-term and dilute the holders of common stock. Our ability to sell assets and certain of our investments to meet our existing financing needs may also be limited by our existing financing instruments. In addition, the sale of assets or the Company's investments may also make the Company less attractive to potential investors or future financing partners.

Capital Expenditures

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

	Three months ended March 31, 2024	Three months ended March 31, 2023
Infrastructure	$ 5.2	$ 3.0
Life Sciences	0.1	0.1
Spectrum	0.3	0.3
Non-Operating Corporate	—	0.3
Total	$ 5.6	$ 3.7

Indebtedness

Non-Operating Corporate

2026 Senior Secured Notes

On February 1, 2021, our Non-Operating Corporate segment repaid the senior secured notes that were due in 2021 and issued $330.0 million aggregate principal amount of 8.50% senior secured notes due February 1, 2026 (the "2026 Senior Secured Notes"). The 2026 Senior Secured Notes mature on February 1, 2026, and accrue interest at a rate of 8.50% per year, which interest is paid semi-annually on February 1st and August 1st of each year. For additional information on the terms and conditions of the 2026 Senior Secured Notes, including guarantees, ranking and collateral, refer to Note 11. Debt Obligations included in the Consolidated Financial Statements included in our 2023 Annual Report on Form 10-K, which was filed with the SEC on March 6, 2024.

2026 Convertible Notes - Terms and Conditions

As of March 31, 2024, we had $51.8 million 2026 Convertible Notes outstanding. The 2026 Convertible Notes were issued under a separate indenture dated February 1, 2021, between the Company and U.S. Bank, as trustee (the "Convertible Indenture"). The 2026 Convertible Notes mature on August 1, 2026 unless earlier converted, redeemed or purchased. The 2026 Convertible Notes accrue interest at a rate of 7.5% per year, which interest is paid semi-annually on February 1st and August 1st of each year. For additional information on the terms and conditions of the 2026 Convertible Notes, including optional redemption, conversion rights guarantees, ranking and collateral, refer to Note 11. Debt Obligations included in the Consolidated Financial Statements included in our 2023 Annual Report on Form 10-K, which was filed with the SEC on March 6, 2024.

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

Revolving Line of Credit

We have a revolving credit agreement with MSD PCOF Partners IX, LLC ("MSD") which has a maximum commitment of $20.0 million ("Revolving Line of Credit"), of which $20.0 million had been drawn as of March 31, 2024. Interest on loans under the Revolving Line of Credit accrues at SOFR plus 5.75% and is payable quarterly. The Revolving Line of Credit also includes a commitment fee at a per annum rate of 1.0% calculated based off the actual daily amount of unused availability under the revolving credit line with MSD. The maturity date of the Revolving Line of Credit is March 16, 2025. The amount outstanding under the Revolving Line of Credit is subject to mandatory prepayment from the net cash proceeds from certain asset sales in excess of $10.0 million. Subsequent to quarter end, on May 6, 2024, the Company and MSD extended the maturity date of its Revolving Line of Credit from March 16, 2025 to May 16, 2025.

For additional information on the terms and conditions of the Revolving Line of Credit, including guarantees and ranking and collateral, refer to Note 11. Debt Obligations included in the Consolidated Financial Statements included in our 2023 Annual Report on Form 10-K, which was filed with the SEC on March 6, 2024.

CGIC Unsecured Note

On May 9, 2023, in connection with the redemption of the DBMGi Series A Preferred Stock, the Company issued a subordinated unsecured promissory note to CGIC in the principal amount of $35.1 million (the "CGIC Unsecured Note"). The CGIC Unsecured Note is due February 28, 2026, and bears interest at 9.0% per annum through May 8, 2024, 16.0% per annum from May 9, 2024 to May 8, 2025, and 32.0% per annum thereafter. As a result of the closing of the Rights Offering and Concurrent Private placement, a mandatory prepayment was required on the CGIC Unsecured Note, in the amount of the greater of $3.0 million or 12.5% of the net proceeds. Subsequent to quarter end, on April 26, 2024, INNOVATE redeemed $4.1 million of the CGIC Unsecured Note. Refer to Note 15. Temporary Equity and Equity and to Note 11. Debt Obligations included in the Consolidated Financial Statements included in our 2023 Annual Report on Form 10-K, which was filed with the SEC on March 6, 2024, as well as Note 15. Temporary Equity and Equity included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for additional details regarding the $4.1 million partial redemption.

Infrastructure

DBMG and Banker Steel, jointly and severally, have a subordinated 4.0% note payable to Banker Steel's former owner, in which Donald Banker's family trust has a 25% interest, and jointly and severally also had a subordinated 8.0% note payable to Donald Banker's family trust, the latter of which was fully paid off in December 2023. During the three months ended March 31, 2024, DBMG made $2.5 million in scheduled payments on the 4.0% note. The 4.0% note expired March 31, 2024 and was fully redeemed on April 2, 2024.

Refer to Note 11. Debt Obligations of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q which is incorporated herein by reference, for additional details regarding the indebtedness of our Infrastructure segment.

Life Sciences

As of March 31, 2024, our Life Sciences segment has aggregate principal outstanding debt of $20.7 million.

On January 31, 2024, R2 Technologies and Lancer Capital issued a new 20% note with an aggregate original principal amount of $20.0 million, which is comprised of the prior outstanding principal amounts and unpaid accrued interest of $2.6 million, which was capitalized into the new principal balance, with future interest payable monthly in arrears, in cash or, if not paid in cash, accrued and unpaid interest will be capitalized monthly into the principal balance. The new note also includes an exit fee payable upon the earliest of the maturity date, the acceleration date of the principal amount of the note, for any reason as defined in the agreement, or the date upon which any prepayment is made. The exit fee shall be equal to 10.5% of the principal if payment is made anytime from April 1, 2024 through April 30, 2024. As a result of the addition of the exit fee, the modification was determined to be an extinguishment under ASC 470-50 and the new exit fee payable to the existing lender is included in Other (expense) income, net on the Condensed Consolidated Statement of Operations. The maturity date of the new note is April 30, 2024 or within five business days of the date on which R2 Technologies receives an aggregate $20.0 million from the consummation of a debt or equity financing or has a change in control, as defined in the agreement, with an optional prepayment of the entire then-outstanding and unpaid principal and accrued interest upon five-days written notice to Lancer Capital. Subsequent to quarter end, effective April 30, 2024, the note was extended to May 17, 2024, and the exit fee payable was updated to 10.71% of the principal amount for repayments made after May 1, 2024.

As of March 31, 2024, the per annum interest rate on the outstanding principal balance is 20%. For the three months ended March 31, 2024 and 2023, R2 Technologies recognized interest expense of $0.9 million and $0.5 million, respectively, related to the contractual interest coupon on the notes with Lancer Capital. As of December 31, 2023, the related accrued interest payable not capitalized into the principal balance was $2.4 million. As part of the agreement, all unpaid accrued interest on the new note is capitalized into the principal balance on a monthly basis. As a result, an additional $0.7 million of unpaid accrued interest incurred subsequent to January 31, 2024, was capitalized into the principal balance during the three months ended March 31, 2024. As of March 31, 2024, all unpaid accrued interest on the new note had been capitalized into the principal balance, and there was no accrued interest payable. The accrued exit fee was $2.2 million as of March 31, 2024, which is included in Accrued liabilities on the Condensed Consolidated Balance Sheet. Refer to Note 16. Related Parties in the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q, which is incorporated herein by reference for additional information on R2 Technologies' related party debt transactions.

Spectrum

As of March 31, 2024, our Spectrum segment has aggregate principal outstanding debt of $69.7 million.

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

Restrictive Covenants

The indenture governing the 2026 Senior Secured Notes dated February 1, 2021, by and among INNOVATE, the guarantors party thereto and U.S. Bank National Association, a national banking association, as trustee (the "Secured Indenture"), contains certain affirmative and negative covenants limiting, among other things, the ability of the Company, and, in certain cases, the Company's subsidiaries, to incur additional indebtedness; create liens; engage in sale-leaseback transactions; pay dividends or make distributions in respect of capital stock; make certain restricted payments; sell assets; engage in transactions with affiliates; or consolidate or merge with, or sell substantially all of its assets to, another person. These covenants are subject to a number of important exceptions and qualifications.

The Company is also required to comply with certain financial maintenance covenants, which are similarly subject to a number of important exceptions and qualifications. These covenants include maintenance of (1) liquidity and (2) collateral coverage.

The maintenance of liquidity covenant provides that the Company will not permit the aggregate amount of (i) all unrestricted cash and Cash Equivalents of the Company and the Subsidiary Guarantors, (ii) amounts available for drawing under revolving credit facilities and undrawn letters of credit of the Company and the Subsidiary Guarantors and (iii) dividends, distributions or payments that are immediately available to be paid to the Company by any of its Restricted Subsidiaries to be less than the Company's obligation to pay interest for the next six months on the 2026 Senior Secured Notes and all other Debt, including Convertible Series A-3 and Series A-4 Preferred Stock mandatory cash dividends or any other mandatory cash pay Series A-3 and Series A-4 Preferred Stock but excluding any obligation to pay interest on Series A-3 and Series A-4 Preferred Stock or any other mandatory cash payments on Series A-3 and Series A-4 Preferred Stock which, in each case, may be paid by accretion or in-kind in accordance with its terms of the Company and its Subsidiary Guarantors. As of March 31, 2024, the Company was in compliance with this covenant.

The maintenance of collateral coverage provides that the certain subsidiaries' Collateral Coverage Ratio (as defined in the Secured Indenture as the ratio of (i) the Loan Collateral to (ii) Consolidated Secured Debt (each as defined therein)) calculated on a pro forma basis as of the last day of each fiscal quarter may not be less than 1.50 to 1.00. As of March 31, 2024, the Company was in compliance with this covenant.

The instruments governing the Company's Series A-3 and Series A-4 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 Series A-3 and Series A-4 Preferred Stock; engage in transactions with affiliates; and make certain restricted payments. These limitations are subject to a number of important exceptions and qualifications.

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

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

As of March 31, 2024, we were in compliance with the covenants of our debt agreements.

Summary of Consolidated Cash Flows

The below table summarizes the cash provided by or used in our activities (in millions):

	Three Months Ended March 31,		Increase / (Decrease)
	2024	2023	
Cash used in operating activities	(25.4)	(77.0)	51.6
Cash (used in) provided by investing activities	(3.3)	51.2	(54.5)
Cash used in financing activities	(12.9)	(38.0)	25.1
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(0.8)	(0.4)	(0.4)
Net decrease in cash and cash equivalents, including restricted cash	$ (42.4)	$ (64.2)	$ 21.8

Operating Activities

Cash used in operating activities was $25.4 million for the three months ended March 31, 2024, as compared to $77.0 million for the three months ended March 31, 2023, an improvement of $51.6 million. Cash flows from operations are primarily influenced by changes in the timing of demand for services and operating margins, but can also be affected by working capital needs associated with our operations. For the three months ended March 31, 2024, the improvement in operating cash flows was primarily due to an improvement in working capital cash flows at our Infrastructure segment, primarily from changes in contract-related assets and liabilities, accounts receivable and accounts payable at our Infrastructure segment, as well as from improvements in working capital cash flows at our Non-Operating Corporate segment, driven by reductions in SG&A expenses and our Other segment, which had an unrepeated $4.4 million foreign tax payment related to the sale of New Saxon's 19% investment in HMN on March 6, 2023.

Investing Activities

Cash used in investing activities was $3.3 million for the three months ended March 31, 2024 as compared to cash provided by investing activities of $51.2 million for the three months ended March 31, 2023, a decrease of $54.5 million. The decline was primarily driven by the $54.2 million of gross cash proceeds received from the sale of New Saxon's 19% investment in HMN on March 6, 2023. Capital expenditures for the three months ended March 31, 2024 were $5.6 million, as compared to $3.7 million, an increase in cash used of $1.9 million primarily due to the purchase of land and additional software implementation by our Infrastructure segment. For the three months ended March 31, 2024 proceeds from the disposal of PPE were $3.1 million and related to a plant closure by our Infrastructure segment, as compared to $0.3 million for the three months ended March 31, 2023. Additionally, loans made by our Life Sciences segment to MediBeacon totaled $1.2 million for the three months ended March 31, 2024 as compared to none for the three months ended March 31, 2023.

Financing Activities

Cash used in financing activities was $12.9 million for the three months ended March 31, 2024 as compared to $38.0 million for the three months ended March 31, 2023, an improvement in financing cash flows of $25.1 million. The improvement was primarily driven by our Non-Operating Corporate segment, which received $25.0 million in gross proceeds from the issuance of the Convertible Preferred Series C Stock in the current period related to the Rights Offering and Concurrent Private Placement. In addition, during the three months ended March 31, 2023, we made $15.9 million in distributions to non-controlling interests and redeemable non-controlling interests related to the sale of New Saxon's 19% investment in HMN on March 6, 2023, and there was a reduction of $0.9 million as compared to the prior period in dividend payments from our DBMGi Series A Preferred Stock, which was repurchased on May 9, 2023 from CGIC and subsequently eliminated in consolidation. These improvements were partially offset by an increase in net outflows from credit facility activity of $13.0 million for the three months ended March 31, 2024 as compared to three months ended March 31, 2023, which resulted from an increase of $28.0 million in payments on our Infrastructure segment's Revolving Line with UMB in the current period, partially offset by our Non-Operating Corporate segment which repaid $15.0 million on the Corporate Revolving Line of Credit in the prior year period. In addition, for the three months ended March 31, 2024, net payments on other debt obligations increased by $3.9 million.

Infrastructure

Cash Flows

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

DBMG is required to make monthly or quarterly interest payments on all of its debt. Based upon the March 31, 2024 debt balance, DBMG anticipates that its interest payments will be approximately $2.0 million for each quarter of 2024.

Off- Balance Sheet Arrangements

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

New Accounting Pronouncements

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

Critical Accounting Estimates

There have been no material changes in the Company’s critical accounting policies during the period ended March 31, 2024. For information about critical accounting policies and estimates, refer to “Critical Accounting Estimates” under Item 7 of our 2023 Annual Report on Form 10-K for the year ended December 31, 2023, which was filed with the SEC on March 6, 2024.

Related Party Transactions

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

Special Note Regarding Forward-Looking Statements

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

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

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

Forward-looking statements are not guarantees of performance. You should understand that the following important factors, in addition to those discussed under the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 6, 2024 and the documents incorporated herein by reference, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. You should also understand that many factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As a result, you should consider all of the following factors, together with all of the other information presented herein, in evaluating our business and that of our subsidiaries.

INNOVATE Corp. and Subsidiaries

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

- the passing in 2023 of Mr. Barr, our former Chief Executive Officer, President and Director and the successful transition of his management responsibilities;
- our dependence on distributions from our subsidiaries to fund our operations and payments on our obligations;
- the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we may incur;
- the impact of covenants in the Indenture governing INNOVATE's 2026 Senior Secured Notes, 2026 Convertible Notes, CGIC Unsecured Note and Revolving Line of Credit, the Certificates of Designation governing INNOVATE's Series A-3 and Series A-4 Preferred Stock and all other subsidiary debt obligations as summarized in Note 11. Debt Obligations to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC March 6, 2024 and future financing agreements on our ability to operate our business and finance our pursuit of acquisition opportunities;
- our possible inability to generate sufficient liquidity, margins, earnings per share, cash flow and working capital from our operating segments;
- our dependence on certain key personnel;
- bank failures or other similar events that could adversely affect our and our customers' and vendors' liquidity and financial performance;
- our possible inability to hire and retain qualified executive management, sales, technical and other personnel;
- the potential for, and our ability to, remediate future material weaknesses in our internal controls over financial reporting;
- the impact of recent supply chain disruptions, labor shortages and increases in overall price levels, including in transportation costs;
- the impact of a higher interest rate environment;
- the effects related to or resulting from military actions in the Middle East, including Israel and the Gaza Strip, and Russia's military action in Ukraine, including the imposition of additional sanctions and export controls, as well as the broader impact to financial markets and the global macroeconomic and geopolitical environment;
- increased competition in the markets in which our operating segments conduct their businesses;
- limitations on our ability to successfully identify any strategic acquisitions or business opportunities and to compete for these opportunities with others who have greater resources;
- our ability to effectively increase the size of our organization, if needed, and manage our growth;
- the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;
- our expectations and timing with respect to our ordinary course acquisition activity and whether such acquisitions are accretive or dilutive to stockholders;

- the effect any interests our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;
- uncertain global economic conditions in the markets in which our operating segments conduct their businesses;
- the impact of catastrophic events, including natural disasters, pandemic illness and the outbreak of war, or acts of terrorism;
- potential impacts on our business resulting from climate change, greenhouse gas regulations, and the impact of climate change-related changes in the frequency and severity of weather patterns;
- the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- our ability to remain in compliance with the listing standards of the New York Stock Exchange;
- the ability of our operating segments to attract and retain customers;
- our expectations regarding the timing, extent and effectiveness of our cost reduction initiatives and management's ability to moderate or control discretionary spending;
- management's plans, goals, forecasts, expectations, guidance, objectives, strategies and timing for future operations, acquisitions, synergies, asset dispositions, fixed asset and goodwill impairment charges, tax and withholding expense, selling, general and administrative expenses, product plans, performance and results;
- management's assessment of market factors and competitive developments, including pricing actions and regulatory rulings;
- our expectations and timing with respect to any strategic dispositions and sales of our operating subsidiaries, or businesses, including the shut-down of our Network business by our Spectrum segment, that we may make in the future and the effect of any such dispositions or sales on our results of operations;
- the possibility of indemnification claims arising out of divestitures of businesses; and
- our possible inability to raise additional capital when needed or refinance our existing debt, on attractive terms, or at all.

Infrastructure / DBM Global Inc.

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

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

Life Sciences / Pansend Life Sciences, LLC

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

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

Spectrum / HC2 Broadcasting Holdings Inc.

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

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

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Interim Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as amended (the "Exchange Act") as of the end of the period covered by this report. Based on this evaluation, our Interim Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2024, our disclosure controls and procedures were effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part 1, Item 1A of our Fiscal Year 2023 Form 10-K, which was filed with the SEC on March 6, 2024. See "Risk Factors" in Item 1A of Part I of such Fiscal Year 2023 Form 10-K for a complete description of the material risks we face.

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

Issuer Purchases of Equity Securities

Equity Award Share Withholding

Shares of common stock withheld as payment of withholding taxes in connection with the vesting or exercise of equity awards are treated as common stock repurchases. Those withheld shares of common stock are not considered common stock repurchases under an authorized common stock repurchase plan. During the three months ended March 31, 2024, there were no shares withheld in connection with the vesting of employee equity awards.

Unregistered Sales of Equity Securities

Series C Private Placement

On March 28, 2024, the "Company issued and sold 25,000 shares of its Series C Non-Voting Participating Convertible Preferred Stock, par value $0.001 per share ("Series C Preferred Stock") for the aggregate purchase price of $25.0 million to Lancer Capital LLC ("Lancer Capital"), an investment fund led by Avram A. Glazer, the Chairman of the Company's board of directors, pursuant to that Investment Agreement dated as of March 5, 2024 (the "Investment Agreement") by and between the Company and Lancer Capital. The related Rights Offering and the Company's entry into the Investment Agreement was disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the Securities and Exchange Commission on March 6, 2024.

Subsequent to quarter end, on April 24, 2024, in connection with the closing of the Rights Offering, the Company sold approximately 6,286 additional shares of Series C Preferred Stock to Lancer Capital in consideration of Lancer Capital funding $6.3 million pursuant to the Investment Agreement.

These issuances and sales were consummated without registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon an exemption from the registration requirements of the Securities Act under Section 4(a)(2) of the Securities Act. The Company is basing such reliance upon representations made by Lancer Capital, including, but not limited to, representations as to Lancer Capital's status as an "accredited investor" (as defined in Rule 501(a) under the Securities Act) and Lancer Capital's investment intent. The Series C Preferred Stock was not offered or sold by any form of general solicitation or general advertising (as such terms are used in Rule 502 under the Securities Act). The Series C Preferred Stock and the shares of common stock issuable upon conversion thereof may not be re-offered or sold in the United States absent an effective registration statement or an exemption from the registration requirements under applicable federal and state securities laws.

Use of Proceeds

INNOVATE expects to use the net proceeds from the Series C Private Placement for general corporate purposes, including debt service and for working capital. As a result of the closing of the Rights Offering and Concurrent Private Placement, a mandatory prepayment was required on the CGIC Unsecured Note, in the amount of the greater of $3.0 million or 12.5% of the net proceeds. Subsequent to quarter end, on April 26, 2024, INNOVATE redeemed $4.1 million of the CGIC Unsecured Note.

ITEM 6. EXHIBITS

(a) *Exhibits*

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

Exhibit Number	Description
4.1	Certificate of Designations of Series C Non-Voting Participating Convertible Preferred Stock of INNOVATE Corp. dated March 28, 2024 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on March 28, 2024 (File No. 001-35210)
10.1	Investment Agreement dated as of March 5, 2024 by and between INNOVATE Corp. and Lancer Capital LLC (incorporated by reference to Exhibit 10.70 to the Annual Report on Form 10-K filed on March 6, 2024 (File No. 001-35210)
10.2	Registration Rights Agreement dated as of March 5, 2024 by and between INNOVATE Corp. and Lancer Capital LLC (incorporated by reference to Exhibit 10.71 to the Annual Report on Form 10-K filed on March 6, 2024 (File No. 001-35210).
10.3	Amended and Restated Senior Secured Promissory Note dated January 31, 2024 by and between R2 Technologies, Inc. and Lancer Capital LLC (incorporated by reference to Exhibit 10.72 to the Annual Report on Form 10-K filed on March 6, 2024 (File No. 001-35210)
10.4	Amendment of Senior Secured Promissory Note dated effective as of April 30, 2024 by and between R2 Technologies, Inc. and Lancer Capital LLC (filed herewith).
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (filed herewith).
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (filed herewith).
32.1*	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer (furnished herewith).
101	The following materials from the registrant’s Quarterly Report on Form 10-Q for the fiscal periods ended March 31, 2024 and 2023, formatted in extensible business reporting language (XBRL); (i) Condensed Consolidated Statements of Operations for the three months ended March 31, 2024 and 2023, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2024 and 2023, (iii) Condensed Consolidated Balance Sheets at March 31, 2024 and December 31, 2023, (iv) Condensed Consolidated Statements of Stockholders’ Equity (Deficit) for the three months ended March 31, 2024 and 2023, (v) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2024 and 2023, and (vi) Notes to Condensed Consolidated Financial Statements (filed herewith).
104	The cover page from the Company’s Quarterly Report on Form 10-Q for the three months ended March 31, 2024, formatted in Inline XBRL (included as Exhibit 101).

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

^ Indicates management contract or compensatory plan or arrangement.

SIGNATURES

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

INNOVATE Corp.

By:	/S/ MICHAEL J. SENA
	Michael J. Sena **Chief Financial Officer** **(Duly Authorized Officer and Principal Financial and Accounting Officer)**
Date:	**May 7, 2024**

AMENDMENT OF SENIOR SECURED PROMISSORY NOTE

This Amendment of Senior Secured Promissory Note (this "**Amendment**"), dated effective as of April 30, 2024 (the "**Effective Date**"), is entered into by and between R2 Technologies, Inc., a Delaware corporation (the "**Company**"), and Lancer Capital LLC ("**Investor**"). Capitalized terms used herein, but not otherwise defined herein, shall have the meaning assigned to them in the Note (as defined below).

RECITALS

WHEREAS, the Company and Investor are parties to that certain Senior Secured Promissory Note, dated January 31, 2024, in the principal amount of $20,000,000.00 (the "**Note**"); and

WHEREAS, the Company and the undersigned Investors desire to amend the Note to extend the Maturity Date as provided herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and for other valuable consideration the receipt of which is hereby acknowledged, the Company and Investor hereby agree as follows:

1. Maturity Date. Section 1(c)(i) of the Note is hereby amended to read "May 17, 2024."

2. Schedule A. Schedule A of the Note is hereby amended to provide that if a principal payment is made on or after May 1, 2024, then an Exit Fee equal to the principal repaid times 10.71% shall be payable.

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

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

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

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

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

[Signature Page Follows]

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

COMPANY

R2 TECHNOLOGIES, INC.

By: *<u>/s/ Tim Holt</u>*
Name: Timothy Holt
Title: Chief Executive Officer

LANCER CAPITAL LLC

By: Avram Glazer Irrevocable Exempt Trust,
its Sole Member

By: *<u>/s/ Avram Glazer</u>*
Name: Avram Glazer
Title: Trustee

Exhibit 31.1

CERTIFICATIONS

I, Paul K. Voigt, certify that:

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

Dated: May 7, 2024	By:	/s/ Paul K. Voigt	
		Name:	Paul K. Voigt
		Title:	Interim President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Michael J. Sena, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of INNOVATE Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: May 7, 2024	By:	/s/ Michael J. Sena	
		Name:	Michael J. Sena
		Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION

Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002 (18 U.S.C. §1350, as adopted), Paul K. Voigt, the Interim President and Chief Executive Officer (Principal Executive Officer) of INNOVATE Corp. (the "Company"), and Michael J. Sena, the Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2024, to which this Certification is attached as Exhibit 32 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Dated: May 7, 2024

/s/ Paul K. Voigt	/s/ Michael J. Sena
Paul K. Voigt	**Michael J. Sena**
Interim President and Chief Executive Officer (Principal Executive Officer)	**Chief Financial Officer (Principal Financial and Accounting Officer)**