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

FORM 10-Q

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

For the quarterly period ended March 31, 2019
OR

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

Commission File No. 001-35210

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 and post such files). Yes x 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. (Check one):

Large accelerated filer	☐	Accelerated filer	x
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 ☒

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	**HCHC**	**New York Stock Exchange**

As of April 30, 2019, 45,629,254 shares of common stock, par value $0.001, were outstanding.

HC2 HOLDINGS, INC.
INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

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

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

	Three Months Ended March 31,	
	2019	**2018**
Revenue	$ 404.9	$ 415.5
Life, accident and health earned premiums, net	29.9	20.0
Net investment income	51.1	17.7
Net realized and unrealized gains on investments	5.5	0.5
Net revenue	491.4	453.7
Operating expenses		
Cost of revenue	357.7	375.6
Policy benefits, changes in reserves, and commissions	52.7	32.3
Selling, general and administrative	52.9	52.1
Depreciation and amortization	6.9	9.7
Other operating income, net	(0.4)	(2.2)
Total operating expenses	469.8	467.5
Income (loss) from operations	21.6	(13.8)
Interest expense	(22.3)	(19.3)
Loss from equity investees	(4.9)	(5.2)
Other income, net	3.3	1.1
Loss from continuing operations before income taxes	(2.3)	(37.2)
Income tax expense	(4.0)	(1.7)
Net loss	(6.3)	(38.9)
Less: Net loss attributable to noncontrolling interest and redeemable noncontrolling interest	3.5	3.9
Net loss attributable to HC2 Holdings, Inc.	(2.8)	(35.0)
Less: Preferred dividends, deemed dividends, and repurchase gains	(1.2)	0.7
Net loss attributable to common stock and participating preferred stockholders	$ (1.6)	$ (35.7)
Loss per common share		
Basic and diluted	$ (0.04)	$ (0.81)
Weighted average common shares outstanding:		
Basic and diluted	44.8	44.3

See notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2019	**2018**
Net loss	$ (6.3)	$ (38.9)
Other comprehensive income (loss)		
Foreign currency translation adjustment	0.9	4.5
Unrealized gain (loss) on available-for-sale securities	148.2	(28.7)
Other comprehensive income (loss)	149.1	(24.2)
Comprehensive income (loss)	142.8	(63.1)
Comprehensive loss attributable to noncontrolling interests and redeemable noncontrolling interests	3.2	3.9
Comprehensive income (loss) attributable to HC2 Holdings, Inc.	$ 146.0	$ (59.2)

See notes to Condensed Consolidated Financial Statements

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

	March 31, 2019	December 31, 2018
Assets		
Investments:		
Fixed maturity securities, available-for-sale at fair value	$ 3,625.9	$ 3,391.6
Equity securities	172.7	200.5
Mortgage loans	137.2	137.6
Policy loans	19.7	19.8
Other invested assets	67.9	72.5
Total investments	4,023.4	3,822.0
Cash and cash equivalents	302.2	325.0
Accounts receivable, net	328.4	379.2
Recoverable from reinsurers	975.8	1,000.2
Deferred tax asset	1.8	2.1
Property, plant and equipment, net	376.6	376.3
Goodwill	171.7	171.7
Intangibles, net	221.7	219.2
Other assets	280.8	208.1
Total assets	$ 6,682.4	$ 6,503.8
Liabilities, temporary equity and stockholders' equity		
Life, accident and health reserves	$ 4,549.0	$ 4,562.1
Annuity reserves	241.5	245.2
Value of business acquired	238.0	244.6
Accounts payable and other current liabilities	320.3	344.9
Deferred tax liability	34.6	30.3
Debt obligations	762.0	743.9
Other liabilities	187.2	110.8
Total liabilities	6,332.6	6,281.8
Commitments and contingencies		
Temporary equity		
Preferred stock	10.3	20.3
Redeemable noncontrolling interest	7.3	8.0
Total temporary equity	17.6	28.3
Stockholders' equity		
Common stock, $.001 par value	—	—
Shares authorized: 80,000,000 at March 31, 2019 and December 31, 2018;		
Shares issued: 46,266,918 and 45,391,397 at March 31, 2019 and December 31, 2018;		
Shares outstanding: 45,563,003 and 44,907,818 at March 31, 2019 and December 31, 2018, respectively		
Additional paid-in capital	264.4	260.5
Treasury stock, at cost: 703,915 and 483,579 shares at March 31, 2019 and December 31, 2018, respectively	(3.2)	(2.6)
Accumulated deficit	(64.3)	(57.2)
Accumulated other comprehensive income (loss)	36.2	(112.6)
Total HC2 Holdings, Inc. stockholders' equity	233.1	88.1
Noncontrolling interest	99.1	105.6
Total stockholders' equity	332.2	193.7
Total liabilities, temporary equity and stockholders' equity	$ 6,682.4	$ 6,503.8

See notes to Condensed Consolidated Financial Statements

HC2 HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited, in millions)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total HC2 Stockholders' Equity	Non-controlling Interest	Total Stockholders' Equity	Temporary Equity
	Shares	Amount								
Balance as of December 31, 2018	44.9	$ —	$ 260.5	$ (2.6)	$ (57.2)	$ (112.6)	$ 88.1	$ 105.6	$ 193.7	$ 28.3
Cumulative effect of accounting for leases (1)	—	—	—	—	(4.3)	—	(4.3)	(0.7)	(5.0)	(0.1)
Share-based compensation	—	—	2.5	—	—	—	2.5	—	2.5	—
Fair value adjustment of redeemable noncontrolling interest	—	—	0.2	—	—	—	0.2	—	0.2	(0.2)
Taxes paid in lieu of shares issued for share-based compensation	(0.2)	—	—	(0.6)	—	—	(0.6)	—	(0.6)	—
Preferred stock dividend	—	—	(0.3)	—	—	—	(0.3)	—	(0.3)	—
Issuance of common stock	0.9	—	—	—	—	—	—	—	—	—
Purchase of preferred stock by subsidiary	—	—	1.7	—	—	—	1.7	—	1.7	(10.0)
Transactions with noncontrolling interests	—	—	(0.5)	—	—	—	(0.5)	(3.0)	(3.5)	—
Other	—	—	0.3	—	—	—	0.3	—	0.3	—
Net loss	—	—	—	—	(2.8)	—	(2.8)	(3.1)	(5.9)	(0.4)
Other comprehensive income	—	—	—	—	—	148.8	148.8	0.3	149.1	—
Balance as of March 31, 2019	45.6	$ —	$ 264.4	$ (3.2)	$ (64.3)	$ 36.2	$ 233.1	$ 99.1	$ 332.2	$ 17.6

	Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total HC2 Stockholders' Equity	Non-controlling Interest	Total Stockholders' Equity	Temporary Equity
	Shares	Amount								
Balance as of December 31, 2017	44.2	$ —	$ 254.7	$ (2.1)	$ (221.2)	$ 41.7	$ 73.1	$ 115.0	$ 188.1	$ 27.9
Cumulative effect of accounting for revenue recognition (1)	—	—	—	—	0.7	—	0.7	—	0.7	—
Cumulative effect of accounting for the recognition and measurement of financial assets and financial liabilities (1)	—	—	—	—	3.3	(1.7)	1.6	—	1.6	—
Share-based compensation	—	—	1.6	—	—	—	1.6	—	1.6	—
Fair value adjustment of redeemable noncontrolling interest	—	—	(2.5)	—	—	—	(2.5)	—	(2.5)	2.5
Taxes paid in lieu of shares issued for share-based compensation	(0.1)	—	—	(0.3)	—	—	(0.3)	—	(0.3)	—
Preferred stock dividend	—	—	(0.5)	—	—	—	(0.5)	—	(0.5)	—
Issuance of common stock	0.4	—	—	—	—	—	—	—	—	—
Transactions with noncontrolling interests	—	—	(0.2)	—	—	—	(0.2)	—	(0.2)	—
Net loss	—	—	—	—	(35.0)	—	(35.0)	(3.0)	(38.0)	(0.9)
Other comprehensive loss	—	—	—	—	—	(24.2)	(24.2)	—	(24.2)	—
Balance as of March 31, 2018	44.5	$ —	$ 253.1	$ (2.4)	$ (252.2)	$ 15.8	$ 14.3	$ 112.0	$ 126.3	$ 29.5

(1) See Note 2. Summary of Significant Accounting Policies for further information about adjustments resulting from the Company's adoption of new accounting standards in 2019 and 2018, respectively.

See notes to Condensed Consolidated Financial Statements

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

	Three Months Ended March 31,	
	2019	2018
Cash flows from operating activities		
Net loss	$ (6.3)	$ (38.9)
Adjustments to reconcile net loss to cash provided by operating activities		
Provision for doubtful accounts receivable	0.4	(0.3)
Share-based compensation expense	1.7	1.1
Depreciation and amortization	9.0	11.3
Amortization of deferred financing costs and debt discount	2.9	4.0
Amortization of (discount) premium on investments	1.6	1.1
Gain on sale or disposal of assets	(0.1)	(2.3)
Loss from equity investees	4.9	5.2
Net realized and unrealized gains on investments	(5.8)	(0.5)
Receipt of dividends from equity investees	1.6	1.6
Deferred income taxes	(0.6)	1.0
Annuity benefits	2.0	2.1
Other operating activities	(3.1)	0.7
Changes in assets and liabilities, net of acquisitions		
Accounts receivable	50.6	(1.9)
Recoverable from reinsurers	1.9	(3.1)
Other assets	(2.6)	(6.1)
Life, accident and health reserves	7.5	14.6
Accounts payable and other current liabilities	(21.3)	4.7
Other liabilities	(6.2)	6.5
Cash provided by operating activities	38.1	0.8
Cash flows from investing activities		
Purchase of property, plant and equipment	(6.4)	(9.2)
Disposal of property, plant and equipment	2.2	3.5
Purchase of investments	(257.9)	(106.8)
Sale of investments	199.0	73.4
Maturities and redemptions of investments	13.9	21.6
Cash paid on acquisitions	(6.0)	(37.5)
Other investing activities	(3.2)	(1.7)
Cash used in investing activities	(58.4)	(56.7)
Cash flows from financing activities		
Proceeds from debt obligations	16.4	61.5
Principal payments on debt obligations	(5.2)	(5.4)
Cash paid by subsidiary to purchase preferred stock	(8.3)	—
Annuity receipts	0.5	0.7
Annuity surrenders	(4.4)	(5.7)
Transactions with noncontrolling interests	(3.5)	(0.2)
Payment of dividends	(0.4)	(0.5)
Other financing activities	(1.5)	(1.2)
Cash (used in) provided by financing activities	(6.4)	49.2
Effects of exchange rate changes on cash, cash equivalents and restricted cash	0.1	0.7
Net change in cash, cash equivalents and restricted cash	(26.6)	(6.0)
Cash, cash equivalents and restricted cash, beginning of period	330.4	98.9
Cash, cash equivalents and restricted cash, end of period	$ 303.8	$ 92.9
Supplemental cash flow information:		
Cash paid for interest	$ 4.0	$ 4.4
Cash paid for taxes, net of refunds	$ 0.2	$ 0.1
Non-cash investing and financing activities:		
Property, plant and equipment included in accounts payable	$ 5.9	$ 1.4
Investments included in accounts payable	$ 6.9	$ 24.4
Investments included in accounts receivable	$ 7.8	$ 0.2
Declared but unpaid dividends from equity method investments included in other assets	$ 6.0	$ —

See notes to Condensed Consolidated Financial Statements

1. Organization and Business

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

The Company currently has eight reportable segments based on management's organization of the enterprise - Construction, Marine Services, Energy, Telecommunications, Insurance, Life Sciences, Broadcasting, and Other, which includes businesses that do not meet the separately reportable segment thresholds.

1. Our Construction segment is comprised of DBM Global Inc. ("DBMG") and its wholly-owned subsidiaries. DBMG is a fully integrated Building Information Modelling modeler, detailer, fabricator and erector of structural steel and heavy steel plate. DBMG models, details, fabricates and erects structural steel for commercial and industrial construction projects such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas, shopping malls, hospitals, dams, bridges, mines and power plants. DBMG also fabricates trusses and girders and specializes in the fabrication and erection of large-diameter water pipe and water storage tanks. Through GrayWolf DBMG provides services including maintenance, repair, and installation to a diverse range of end markets in order to provide high-quality outage, turnaround, and new installation services to customers. Through Aitken Manufacturing, DBMG manufactures pollution control scrubbers, tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products. The Company maintains an approximately 92% controlling interest in DBMG.

2. Our Marine Services segment is comprised of Global Marine Group ("GMSL"). GMSL is a leading provider of engineering and underwater services on submarine cables. GMSL aims to maintain its leading market position in the telecommunications maintenance segment and seeks opportunities to grow its installation activities in the three market sectors (telecommunications, offshore power, and oil and gas) while capitalizing on high market growth in the offshore power sector through expansion of its installation and maintenance services in that sector. The Company maintains an approximately 73% controlling interest in GMSL.

3. Our Energy segment is comprised of American Natural Gas, LLC ("ANG"). ANG is a premier distributor of natural gas motor fuel. ANG designs, builds, owns, acquires, operates and maintains compressed natural gas fueling stations for transportation vehicles. The Company maintains an approximately 68% controlling interest in ANG.

4. Our Telecommunications segment is comprised of PTGi International Carrier Services ("ICS"). ICS operates a telecommunications business including a network of direct routes and provides premium voice communication services for national telecommunications operators, mobile operators, wholesale carriers, prepaid operators, voice over internet protocol service operators and internet service providers. ICS provides a quality service via direct routes and by forming strong relationships with carefully selected partners. The Company maintains a 100% interest in ICS.

5. Our Insurance segment is comprised of Continental General Insurance Company ("CGI" or the "Insurance Company"). CGI provides long-term care, life, annuity, and other accident and health coverage that help protect policy and certificate holders from the financial hardships associated with illness, injury, loss of life, or income continuation. The Company maintains a 100% interest in CGI.

6. Our Life Sciences segment is comprised of Pansend Life Sciences, LLC ("Pansend"). Pansend maintains controlling interests of approximately 80% in Genovel Orthopedics, Inc. ("Genovel"), which seeks to develop products to treat early osteoarthritis of the knee and approximately 74% in R2 Dermatology Inc. ("R2"), which develops skin lightening technology. Pansend also invests in other early stage or developmental stage healthcare companies including an approximately 50% interest in Medibeacon Inc., and an investment in Triple Ring Technologies, Inc.

7. Our Broadcasting segment is comprised of HC2 Broadcasting Holdings Inc. ("HC2 Broadcasting") and its subsidiaries. HC2 Broadcasting strategically acquires and operates over-the-air broadcasting stations across the United States. In addition, HC2 Broadcasting, through its wholly-owned subsidiary, HC2 Network Inc. ("Network"), operates Azteca America, a Spanish-language broadcast network offering high quality Hispanic content to a diverse demographic across the United States. The Company maintains an approximately 98% controlling interests in HC2 Broadcasting and an approximately 50% controlling interest in DTV America Corporation ("DTV") as well as approximately 10% proxy and voting rights from minority holders.

8. Our Other segment represents all other businesses or investments we believe have significant growth potential, that do not meet the definition of a segment individually or in the aggregate.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries and all other subsidiaries over which the Company exerts control. All intercompany profits, transactions and balances have been eliminated in consolidation. As of March 31, 2019, the results of DBMG, GMSL, ANG, ICS, CGI, Genovel, R2, and HC2 Broadcasting have been consolidated into the Company's results based on guidance from the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" 810, *Consolidation)*. The remaining interests not owned by the Company are presented as a noncontrolling 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 pursuant to such rules and regulations. Certain prior amounts have been reclassified or combined to conform to the current year presentation. These reclassifications and combinations had no effect on previously reported net loss attributable to controlling interest or accumulated deficit. These interim financial statements should be read in conjunction with the Company's annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018, filed with the SEC on March 12, 2019. The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results for any subsequent periods or the entire fiscal year ending December 31, 2019.

Use of Estimates and Assumptions

The preparation of the Company's 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.

Statement of Cash Flows

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

	March 31, 2019	March 31, 2018
Cash and cash equivalents, beginning of period	$ 325.0	$ 97.9
Restricted cash included in other assets	5.4	1.0
Total cash and cash equivalents and restricted cash	$ 330.4	$ 98.9
Cash and cash equivalents, end of period	$ 302.2	$ 92.1
Restricted cash included in other assets	1.6	0.8
Total cash and cash equivalents and restricted cash	$ 303.8	$ 92.9

Accounting Pronouncements Adopted in the Current Year

The Company's 2018 Form 10-K includes discussion of significant recent accounting pronouncements that either have impacted or may impact our financial statements in the future. The following discussion provides information about recently adopted and recently issued or changed accounting guidance (applicable to the Company) that have occurred since the Company filed its 2018 Form 10-K. The Company has implemented all new accounting pronouncements that are in effect and that may impact its Condensed Consolidated Financial Statements and does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial condition, results of operations or liquidity.

Effective January 1, 2019 the Company adopted the accounting pronouncements described below.

Accounting for Leases

ASU 2016-02, *Leases,* was issued by FASB in February 2016. This standard requires the Company, as the lessee, to recognize most leases on the balance sheet thereby resulting in the recognition of right of use assets and lease obligations for those leases currently classified as operating leases. The standard became effective for the Company on January 1, 2019 and the Company elected the optional transition method as well as the package of practical expedients upon adoption. The Company recognized right of use ("ROU") assets and lease liabilities in the amount of $67.1 million and $74.1 million, respectively, within Other assets and Other liabilities lines of the Condensed Consolidated Financial Statements, respectively. Utilizing the modified retrospective approach, upon adoption, we evaluated ROU assets for impairment and determined that approximately $5.1 million of newly recognized ROU assets that existed immediately prior to the effective date were impaired. The impairment of ROU assets as of January 1, 2019, was recorded as a reduction to retained earnings and noncontrolling interests.

Accounting Pronouncements to be Adopted Subsequent to December 31, 2019

Credit Loss Standard

ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, was issued by FASB in June 2016. This standard is effective January 1, 2020 (with early adoption permitted), and will impact, at least to some extent, the Company's accounting and disclosure requirements for it's recoverable from reinsurers, accounts receivable, and mortgage loans. Available for sale fixed maturity securities are not in scope of the new credit loss model, but will undergo targeted improvements to the current reporting model including the establishment of a valuation allowance for credit losses versus the current direct write down approach. The Company will continue to identify any other financial assets not excluded from scope. The Company does not currently expect to early adopt this standard and is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

Outlined below are key areas of change, although there are other changes not noted below:

- Financial assets (or a group of financial assets) measured at amortized cost will be required to be presented at the net amount expected to be collected, with an allowance for credit losses deducted from the amortized cost basis, resulting in a net carrying value that reflects the amount the entity expects to collect on the financial asset at purchase.

- Credit losses relating to available for sale fixed maturity securities will be recorded through an allowance for credit losses, rather than reductions in the amortized cost of the securities and is anticipated to increase volatility in the Company's Consolidated Statements of Operations. The allowance methodology recognizes that value may be realized either through collection of contractual cash flows or through the sale of the security. Therefore, the amount of the allowance for credit losses will be limited to the amount by which fair value is below amortized cost because the classification as available for sale is premised on an investment strategy that recognizes that the investment could be sold at fair value, if cash collection would result in the realization of an amount less than fair value.

- The Company's Consolidated Statements of Operations will reflect the measurement of expected credit losses for newly recognized financial assets as well as the expected increases or decreases (including the reversal of previously recognized losses) of expected credit losses that have taken place during the period. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount.

- Disclosures will be required to include information around how the credit loss allowance was developed, further details on information currently disclosed about credit quality of financing receivables and net investments in leases, and a rollforward of the allowance for credit losses for available for sale fixed maturity securities as well as an aging analysis for securities that are past due.

The Company anticipates a significant impact on the systems, processes and controls. While the requirements of the new guidance represent a material change from existing GAAP, the underlying economics of items in scope and related cash flows are unchanged. Currently, the Company plans to focus on developing models and procedures in the first half of 2019 with testing and refinement of models occurring in the later part of the year 2019. Focus areas will include, but not be limited to: (i) updating procedures to reflect new guidance requiring establishment of allowance for credit losses on available for sale debt securities; (ii) establishing procedures to review reinsurance risk to include but not limited to review of reinsurer ratings, trust agreements where applicable and historical and current performance; (iii) establishing procedures to identify and review all remaining financial assets within scope; and (iv) developing, testing, and implementing controls for newly developed procedures, as well as for additional annual reporting requirements.

Long-Duration Contracts

ASU 2018-12, *Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts*, was issued by the FASB in August 2018 and is expected to have a significant impact on the Company’s Consolidated Financial Statements and Notes to Consolidated Financial Statements. The standard is effective January 1, 2021 (with early adoption permitted), and will impact, at least to some extent, Company's accounting and disclosure requirements for it's long-duration insurance contracts. The Company does not currently expect to early adopt this standard and is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

Outlined below are key areas of change, although there are other changes not noted below:

- Cash flow assumptions must be reviewed at least annually and updated if necessary. The impact of these updates will be reported through net income. Current accounting policy requires the liability assumptions for long-duration contracts and limited payment contracts be locked in at contract inception, unless the contracts project a loss position which would allow the liability assumptions to be unlocked so that the loss could be recognized.

- The rate used to discount the liability projections is to be based on an A-rated asset with observable market inputs and duration consistent with the duration of the liabilities. The discount rate is to be updated quarterly with the impact of the change in the discount rate recognized through other comprehensive income. Current accounting policy allows the use of an expected investment yield (which is not required to be observable in the market) to discount the liability projections.

- Deferred acquisition costs for long-duration contracts are to be amortized in proportion to premiums, gross profits, or gross margins and those balances must be amortized on a constant-level basis over the expected life of the contract. Current accounting policy would amortize deferred acquisition costs based on revenue and profits. The Company does not have any deferred acquisition costs but VOBA amortization will follow this new guidance.

- Market risk benefits are to be measured at fair value and presented separately in the statement of financial position. Under current accounting policy benefit features that will meet the definition of market risk benefits are accounted for as embedded derivatives or insurance liabilities via the benefit ratio model. The Company does not have any benefit features that will be categorized as market risk benefits.

- Disaggregated rollforwards of beginning to ending balances of the liability for future policy benefits, policyholder account balances, VOBA, as well as information about significant inputs, judgments, assumptions, and methods used in measurement are required to be disclosed.

The Company anticipates that the requirement to update assumptions for liability for future policy benefits will increase volatility in the Company's Consolidated Statements of Operations while the requirement to update the discount rate will increase volatility in the Company's Consolidated Statements of Stockholders' Equity. The Company anticipates a significant impact on the systems, processes and controls. While the requirements of the new guidance represent a material change from existing GAAP, the underlying economics of the Company's Insurance segment and related cash flows are unchanged.

Currently, the Company plans to focus on developing models and procedures in 2019 with testing and refinement of models occurring in 2020. Focus areas will include, but not be limited to: (i) determining an appropriate upper-medium grade fixed income instrument yield source from the market; (ii) establishing appropriate aggregation of liabilities; (iii) establishing liability models for each contract grouping identified that may be quickly updated to reflect current inforce listing and new discount rates on a quarterly basis; (iv) establishing appropriate best estimate assumptions with no provision for adverse deviation; (v) establishing procedures for annual review of assumptions including tracking of actual experience for enhanced reporting requirements; (vi) establishing new VOBA amortization that will align with new guidance for DAC amortization; and (vii) developing, testing, and implementing controls for newly developed procedures, as well as for additional annual reporting requirements.

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. See Note 22. Subsequent Events for the summary of the subsequent events.

3. Revenue

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

	Three Months Ended March 31,	
	2019	2018
Revenue [(1)]		
Construction	$ 192.1	$ 158.9
Marine Services	42.4	36.7
Energy	5.1	4.5
Telecommunications	155.5	202.3
Broadcasting	9.8	10.7
Other	—	2.4
Total revenue	$ 404.9	$ 415.5

(1) The Insurance segment does not have revenues in scope of ASC 606

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

	March 31, 2019	December 31, 2018
Accounts receivables with customers		
Construction	$ 206.1	$ 196.6
Marine Services	48.6	48.3
Energy	3.4	3.3
Telecommunications	58.1	117.6
Broadcasting	8.4	9.2
Total accounts receivables with customers	$ 324.6	$ 375.0

Construction Segment

DBMG performs its services primarily under fixed-price contracts and recognizes revenue over time using the input method to measure progress for its projects. The customer receives value over the term of the project based on the amount of work that has been completed towards the delivery of the completed project. The most reliable measure of progress is the cost incurred towards delivery of the completed project. Therefore, the input method provides the most reliable method to measure progress. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, subcontractor costs, indirect labor, and fabrication plant overhead costs, which are charged to contract costs as incurred. Revenues relating to changes in the scope of a contract are recognized when DBMG and customer or general contractor have agreed on both the scope and price of changes, the work has commenced, it is probable that the costs of the changes will be recovered and that realization of revenue exceeding the costs is assured beyond a reasonable doubt. Revisions in estimates during the course of contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

Construction contracts with customers generally provide that billings are to be made monthly in amounts which are commensurate with the extent of performance under the contracts. Contract receivables arise principally from the balance of amounts due on progress billings on jobs under construction. Retentions on contract receivables are amounts due on progress billings, which are withheld until the completed project has been accepted by the customer.

Disaggregation of Revenues

DBMG's revenues are principally derived from contracts to provide fabrication and erection services to its customers. Contracts represent majority of the revenue of the Construction segment and are generally recognized over time. A majority of contracts are domestic, fixed priced, and are in excess of one year. Disaggregation of the Construction segment, by market or type of customer, is used to evaluate its financial performance.

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

	Three Months Ended March 31,	
	2019	2018
Commercial	$ 59.4	$ 69.7
Convention	28.7	31.7
Healthcare	8.8	27.8
Industrial	53.8	9.3
Transportation	18.1	5.2
Other	23.3	15.2
Total revenue from contracts with customers	192.1	158.9
Other revenue	—	—
Total Construction segment revenue	$ 192.1	$ 158.9

Contract Assets and Contract Liabilities

The timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets include unbilled amounts from our long-term construction projects when revenue recognized under the cost-to-cost measure of progress exceed the amounts invoiced to our customers, as the amounts cannot be billed under the terms of our contracts. Such amounts are recoverable from our customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of a contract. In addition, many of our time and materials arrangements, as well as our contracts to perform turnaround services within the United States industrial services segment, are billed in arrears pursuant to contract terms that are standard within the industry, resulting in contract assets and/or unbilled receivables being recorded, as revenue is recognized in advance of billings. Also included in contract assets are amounts we seek or will seek to collect from customers or others for errors or changes in contract specifications or design, contract change orders or modifications in dispute or unapproved as to both scope and/or price or other customer-related causes of unanticipated additional contract costs (claims and unapproved change orders). Our contract assets do not include capitalized costs to obtain and fulfill a contract. Contract assets are included in Other assets in the Condensed

Consolidated Balance Sheets.

Contract liabilities from our long-term construction contracts occur when amounts invoiced to our customers exceed revenues recognized. Contract liabilities additionally include advanced payments from our customers on certain contracts. Contract liabilities decrease as we recognize revenue from the satisfaction of the related performance obligation. Contract liabilities are included in Other liabilities in the Condensed Consolidated Balance Sheets.

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

	March 31, 2019	December 31, 2018
Contract assets	$ 73.4	$ 69.0
Contract liabilities	$ (61.2)	$ (62.0)

The change in contract assets is a result of the recording of $36.9 million of costs in excess of billings driven by new commercial projects, offset by $32.5 million of costs in excess of billings transferred to receivables from contract assets recognized at the beginning of the period. The change in contract liabilities is a result of periodic billing in excess of costs of $37.7 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 $38.5 million.

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

The transaction price allocated to remaining unsatisfied performance obligations consisted of the following (in millions):

	Within one year	Within five years	Total
Commercial	$ 102.1	$ 20.5	$ 122.6
Convention	53.5	—	53.5
Healthcare	41.0	5.5	46.5
Industrial	124.8	59.4	184.2
Transportation	69.9	10.8	80.7
Other	71.1	—	71.1
Remaining unsatisfied performance obligations	$ 462.4	$ 96.2	$ 558.6

DBMG's remaining unsatisfied performance obligations, otherwise referred to as backlog, 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 over the next twenty-four months.

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.

Marine Services Segment

GMSL generally generates revenue by providing maintenance services for subsea telecommunications cabling, installing subsea cables, providing installation, maintenance and repair of fiber optic communication and power infrastructure to offshore oil and gas platforms, and installing inter-array power cables for use in offshore wind farms.

Telecommunication - Maintenance & Installation

GMSL performs its services within telecommunication market primarily under fixed-price contracts and recognizes revenue over time using the input method to measure progress for its projects. The customer receives value over the term of the project based on the amount of work that has been completed towards the delivery of the completed project. Depending on the project, the most reliable measure of progress is either the cost incurred or time elapsed towards delivery of the completed project. Therefore, the input method provides the most reliable method to measure progress. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, indirect labor, and overhead costs, which are charged to contract costs as incurred. Revisions in estimates during the course of contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

Maintenance revenues within this market are attributable to standby vessels and the provision of cable storage depots for repair of fiber optic telecommunications cables in defined geographic zones, and its maintenance business is provided through contracts with consortia of approximately 60 global telecommunications providers. These contracts are generally five to seven years long.

Installation revenues within this market are generated through installation of cable systems including route planning, mapping, route engineering, cable laying, and trenching and burial. GMSL's installation business is project-based with contracts typically lasting one to five months.

Power - Operations, Maintenance & Construction Support

Majority of revenues within this market are generated through the provision of crew transfer vessels and turbine technicians on the maintenance of offshore windfarms. Services are provided at agreed day rates and are recognized as revenues at the point in time at which the performance obligations are met. Additional revenues are generated through the provision of approved safety training courses to personnel operating on offshore wind turbines. Courses are supplied at agreed rates and recognized at the point in time at which the courses are provided.

Power - Cable Installation & Repair

Installation and repair revenues within this market are attributable to the provision of engineering solutions, which includes the charter of cable laying vessels and related subsea assets. These contracts are either charged at agreed day rates and are recognized as revenues at the point in time at which the performance obligations are met, or are under fixed-price contracts, in which case revenue is recognized over time using the input method to measure progress for its projects.

Disaggregation of Revenues

GMSL's revenues are principally derived from contracts to provide maintenance and installation services to its customers. Contracts represent a majority of revenues at the Marine Services segment of which a majority are recognized over time.

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

	Three Months Ended March 31,	
	2019	2018
Telecommunication - Maintenance	$ 21.0	$ 21.8
Telecommunication - Installation	5.4	7.3
Power - Operations, Maintenance & Construction Support	4.2	4.7
Power - Cable Installation & Repair	11.8	2.9
Total revenue from contracts with customers	42.4	36.7
Other revenue	—	—
Total Marine Services segment revenue	$ 42.4	$ 36.7

Contract Assets and Contract Liabilities

The timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets include unbilled amounts from our long-term projects when revenue recognized exceeds the amounts invoiced to our customers, as the amounts cannot be billed under the terms of our contracts. Such amounts are recoverable from our customers based upon various measures of performance, including achievement of certain milestones, completion of specified units or completion of a contract. In addition, many of our time and materials arrangements, as well as our contracts to perform services are billed in arrears pursuant to contract terms that are standard within the industry, resulting in contract assets and/or unbilled receivables being recorded, as revenue is recognized in advance of billings. Contract assets are included in Other assets in the Condensed Consolidated Balance Sheets.

Contract liabilities from our long-term construction contracts occur when amounts invoiced to our customers exceed revenues recognized. Contract liabilities additionally include advanced payments from our customers on certain contracts. Contract liabilities decrease as we recognize revenue from the satisfaction of the related performance obligation. Contract liabilities are included in Other liabilities in the Condensed Consolidated Balance Sheets.

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

	March 31, 2019	December 31, 2018
Contract assets	$ 7.1	$ 5.2
Contract liabilities	$ (15.4)	$ (1.0)

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

The transaction price allocated to remaining unsatisfied performance obligations consisted of the following (in millions):

	Within one year	Within five years	Thereafter	Total
Telecommunication - Maintenance	$ 57.5	$ 217.8	$ 60.0	$ 335.3
Telecommunication - Installation	15.0	—	—	15.0
Power - Operations, Maintenance & Construction Support	8.9	9.4	—	18.3
Power - Cable Installation & Repair	20.5	66.0	—	86.5
Remaining unsatisfied performance obligations	$ 101.9	$ 293.2	$ 60.0	$ 455.1

GMSL's remaining unsatisfied performance obligations, otherwise referred to as backlog, increase with awards of new contracts and decrease as it performs work and recognizes revenue on existing contracts. GMSL includes a project within its remaining unsatisfied performance obligations at such time the project is awarded and agreement on contract terms has been reached. GMSL'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.

Remaining unsatisfied performance obligations consist predominantly from projects within telecommunication maintenance market. These revenues are generated through long-term contracts for the provision of vessels and cable depots in maintaining and repairing subsea telecoms cables around the globe. Revenues are recognized over time to reflect both the duration that the vessels and depots are provided on standby duties and the amount of work that has been completed.

Energy Segment

ANG's revenues are principally derived from sales of compressed natural gas. ANG recognizes revenue from the sale of natural gas fuel primarily at the time the fuel is dispensed.

Disaggregation of Revenues

The following table disaggregates ANG's revenue by type (in millions):

	Three Months Ended March 31,	
	2019	2018
Volume-related	$ 4.8	$ 4.1
Total revenue from contracts with customers	4.8	4.1
RNG Incentives	0.3	0.4
Total Energy segment revenue	$ 5.1	$ 4.5

Telecommunications Segment

ICS operates an extensive network of direct routes and offers premium voice communication services for carrying a mix of business, residential and carrier long-distance traffic, data and transit traffic. Customers may have a bilateral relationship with ICS, meaning they have both a customer and vendor relationship with ICS. In these cases, ICS sells the customer access to ICS supplier routes but also purchases access to the customer’s supplier routes.

Net revenue is derived from the long-distance data and transit traffic. Net revenue is earned based on the number of minutes during a call multiplied by the price per minute, and is recorded upon completion of a call. Completed calls are billable activity while incomplete calls are non-billable. Incomplete calls may occur as a result of technical issues or because the customer’s credit limit was exceeded and thus the customer routing of traffic was prevented.

Revenue for a period is calculated from information received through ICS’s billing software, such as minutes and market rates. Customized billing software has been implemented to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides ICS with the ability to perform a timely and accurate analysis of revenue earned in a period.

ICS evaluates gross versus net revenue recognition for each of its contractual arrangements by assessing indicators of control and significant influence to determine whether the ICS acts as a principal (i.e. gross recognition) or an agent (i.e. net recognition). ICS has determined that it acts as a principal for all of its performance obligations in connection with all revenue earned. Net revenue represents gross revenue, net of allowance for doubtful accounts receivable, service credits and service adjustments. Cost of revenue includes network costs that consist of access, transport and termination costs. The majority of ICS’s cost of revenue is variable, primarily based upon minutes of use, with transmission and termination costs being the most significant expense.

Disaggregation of Revenues

ICS's revenues are predominantly derived from wholesale of international long distance minutes (in millions):

	Three Months Ended March 31,	
	2019	2018
Termination of long distance minutes	$ 155.5	$ 202.3
Total revenue from contracts with customers	155.5	202.3
Other revenue	—	—
Total Telecommunications segment revenue	$ 155.5	$ 202.3

Broadcasting Segment

Network advertising revenue is generated primarily from the sale of television airtime for programs or advertisements. Network advertising revenue is recognized when the program or advertisement is broadcast. Revenues are reported net of agency commissions, which are calculated as a stated percentage applied to gross billings. The Network advertising contracts are generally short-term in nature.

Network distribution revenue consists of payments received from cable, satellite and other multiple video program distribution systems for their retransmission of our network content. Network distribution revenue is recognized as earned over the life of the retransmission consent contract and varies from month to month. Variable fees are usage/sales based, calculated on the average number of subscribers, and recognized as revenue when the usage occurs. Transaction prices are based on the contract terms, with no material judgements or estimates.

Broadcast station revenue is generated primarily from the sale of television airtime in return for a fixed fee or a portion of the related ad sales recognized by the third party. In a typical broadcast station revenue agreement, the licensee of a station makes available, for a fee, airtime on its station to a party which supplies content to be broadcast during that airtime and collects revenue from advertising aired during such content. Broadcast station revenue is recognized over the life of the contract, when the program is broadcast. The fees that we charge can be fixed or variable and the contracts that the Company enters into are generally short-term in nature. Variable fees are usage/sales-based and recognized as revenue when the subsequent usage occurs. Transaction prices are based on the contract terms, with no material judgements or estimates.

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

	Three Months Ended March 31,	
	2019	2018
Network advertising	$ 5.4	$ 6.8
Broadcast station	2.7	2.7
Network distribution	1.5	1.0
Other	0.2	0.2
Total revenue from contracts with customers	9.8	10.7
Other revenue	—	—
Total Broadcasting segment revenue	$ 9.8	$ 10.7

Contract Liabilities

Audience deficiency units ("ADU") liability is recognized as an available return to customers as fulfillment for under-delivered guaranteed viewership per the related agreement. ADU balance was $1.1 million and $1.0 million as of March 31, 2019 and December 31, 2018, respectively. HC2 Broadcasting measures the potential obligation based on audience measurement ratings and cost per view, and is subsequently made whole in the following period.

Transaction Price Allocated to Remaining Unsatisfied Performance Obligations

The transaction price allocated to remaining unsatisfied performance obligations consisted of $6.0 million and $0.6 million of network advertising and broadcasting station revenues, respectively of which $3.5 million is expected to be recognized within one year and $3.1 million is expected to be recognized within five years.

4. Acquisitions, Dispositions, and Deconsolidations

Construction Segment

On November 30, 2018, DBMG consummated acquisition of GrayWolf Industrial ("GrayWolf"), a premier specialty maintenance, repair and installation services provider, pursuant to that certain Agreement and Plan of Merger, dated October 10, 2018, as amended by Amendment No. 1 to the Agreement and Plan of Merger, dated November 29, 2018. The aggregate fair value of the cash consideration paid in connection with the acquisition of GrayWolf was $139.8 million. The transaction was accounted for as business acquisition.

The preliminary allocation of the fair value of consideration transferred among the identified assets acquired, liabilities assumed, intangibles and residual goodwill are summarized as follows (in millions):

Other invested assets	$	0.9
Cash and cash equivalents		8.6
Accounts receivable		32.0
Property, plant and equipment		15.4
Goodwill		43.7
Intangibles		44.1
Other assets		22.2
Total assets acquired		166.9
Accounts payable and other current liabilities		(23.0)
Other liabilities		(4.1)
Total liabilities assumed		(27.1)
Total net assets acquired	$	139.8

The size and breadth of the GrayWolf acquisition necessitates use of the one year measurement period to adequately analyze all the factors used in establishing the asset and liability fair values as of the acquisition date, including, but not limited to deferred tax assets.

Goodwill was determined based on the residual differences between fair value of consideration transferred and the value assigned to tangible and intangible assets and liabilities. Among the factors that contributed to goodwill was approximately $10.9 million assigned to the assembled and trained workforce. Goodwill is not amortized and is not deductible for tax purposes.

Acquisition costs incurred by DMBG in connection with the acquisition of GrayWolf were approximately $4.2 million, which were included in selling, general and administrative expenses. The acquisition costs were primarily related to legal, accounting and valuation services.

Results of GrayWolf were included in our Consolidated Statements of Operations since the acquisition date. Pro forma results of operations have not been presented because they are not material to our consolidated results of operations.

Insurance Segment

On August 9, 2018, CGI completed the acquisition all of the outstanding shares of KMG America Corporation ("KMG"), the parent company of Kanawha Insurance Company ("KIC"), Humana Inc.'s long-term care insurance subsidiary for a cash consideration of ten thousand dollars.

The decision to acquire was made as part of CGI's core strategy to acquire additional accretive LTC run-off businesses.

The preliminary allocation of the fair value of consideration transferred among the identified assets acquired, liabilities assumed and bargain purchase gain are summarized as follows (in millions):

Fixed maturity securities, available-for-sale at fair value	$ 1,575.4
Equity securities	0.3
Mortgage loans	0.9
Policy loans	2.9
Cash and cash equivalents	806.7
Recoverable from reinsurers	901.8
Other assets	28.2
Total assets acquired	3,316.2
Life, accident and health reserves	(2,931.3)
Annuity reserves	(11.3)
Value of business acquired	(214.4)
Accounts payable and other current liabilities	(6.7)
Deferred tax liability	(25.3)
Other liabilities	(11.8)
Total liabilities assumed	(3,200.8)
Total net assets acquired	115.4
Total fair value of consideration	—
Gain on bargain purchase	$ 115.4

<u>Gain on bargain purchase</u>

Gain on bargain purchase was driven by the Tax Cuts and Jobs Act, which was not stipulated in the negotiations for the transaction and resulted in a material decline in the Value of Business Acquired balance, corresponding deferred tax position and, ultimately, recognition of the bargain purchase gain, largely driven by the following attributes:

- The Unified Loss Rules tax attribute reduction to tax value of assets and the seller tax adjustments to tax value of liabilities contribute significantly to the bargain purchase price.

- The reduction in the federal income tax rate, from 35% at the time the seller contribution was established to 21% effective January 1, 2018, effectively generates the remaining balance for the bargain purchase price.

- Changes in fair value of acquired assets and assumed liabilities between the date the deal was signed and the closing date was driven by the time it took to obtain regulatory approvals, amongst other closing conditions.

<u>Reinsurance Recoverable</u>

The reinsurance recoverable balance represents amounts recoverable from third parties. U.S. GAAP requires insurance reserves and reinsurance recoverable balances to be presented on a gross basis, as opposed to U.S. statutory accounting principles, where reserves are presented net of reinsurance. Accordingly, the Company grossed up the fair value of the net insurance contract liability for the amount of reinsurance of approximately $901.8 million, to arrive at a gross insurance liability, and recognized an offsetting reinsurance recoverable amount of approximately $901.8 million. As part of this process, management considered reinsurance counterparty credit risk and considers it to have an immaterial impact on the reinsurance fair value gross-up. To mitigate this risk substantially all reinsurance is ceded to companies with investment grade S&P ratings.

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

The Value of Business Acquired

VOBA reflects the estimated fair value of in-force contracts in a life insurance company acquisition less the amount recorded as insurance contract liabilities. It represents the portion of the purchase price that is allocated to the value of the rights to receive future cash flows from the business in force at the acquisition date. A VOBA liability (negative asset) occurs when the estimated fair value of in-force contracts in a life insurance company acquisition is less than the amount recorded as insurance contract liabilities. HC2 calculated VOBA by adjusting the purchase price, which was derived on a statutory accounting basis, for differences between statutory and US GAAP accounting requirements. Amortization is based on assumptions consistent with those used in the development of the underlying contract adjusted for emerging experience and expected trends.

Life, accident and health reserves

HC2 estimated the fair value of reserves on a fair value basis, using actuarial assumptions consistent with those used for the buyer's valuation of the acquired business, and discount rates reflecting capital market conditions. The reserve accounts for the present value of all future cash flows, net of reinsurance, of the acquired block of insurance, including premium, benefit payments, and expenses. HC2 estimated the fair value of recoverable from reinsurers using the same assumptions as those for reserves of the net retained business, but applied to business ceded through various, existing reinsurance agreements.

Life Sciences Segment

On June 8, 2018, Pansend closed on the sale of its approximately 75.9% ownership in BeneVir to Janssen Biotech, Inc. ("Janssen"). In conjunction with the closing of the transaction, Janssen made an upfront cash payment of $140.0 million. Pansend received a cash payment of $93.4 million and expects to receive an additional cash payment of $13.3 million, currently held in an escrow, for a total consideration of $106.7 million. The escrow will be released within fifteen months subsequent to the closing date, assuming there are no pending or unresolved indemnified claims. Pansend recorded a gain on the sale of $102.1 million, of which $21.7 million was allocated to noncontrolling interests. HC2 received a cash payment of $72.8 million and expects to receive an additional cash payment of $9.2 million upon the release of the escrow.

Under the terms of the merger agreement, Pansend is eligible to receive payments of up to $189.7 million upon the achievement of specified development milestones and up to $493.1 million upon the achievement of specified levels of annual net sales of licensed products. From these potential milestone payments, HC2 is eligible to receive up to $512.2 million.

Broadcasting Segment

During the three months ended March 31, 2019, HC2 Broadcasting completed a series of transactions for total cash consideration of $6.0 million. During the year ended December 31, 2018, HC2 Broadcasting completed a series of transactions for a total consideration of $71.4 million. All transactions were accounted for as asset acquisitions.

The allocation of the fair value of consideration transferred among the identified assets acquired, liabilities assumed and intangibles are summarized as follows (in millions):

	March 31, 2019	December 31, 2018
Property, plant and equipment	$ 0.3	$ 1.2
Intangibles	5.7	70.2
Other assets	0.4	—
Total assets acquired	6.4	71.4
Other liabilities	(0.4)	—
Total liabilities assumed	(0.4)	—
Total net assets acquired	$ 6.0	$ 71.4

Other Segment

On August 14, 2018, 704Games issued a 53.5% equity interest to international media and technology company Motorsport Network. As a result, HC2's ownership percentage in 704Games was diluted to 26.2% resulting in the loss of control and the deconsolidation of the entity.

Pro Forma Adjusted Summary

The following schedule presents unaudited consolidated pro forma results of operations data as if the acquisition of KMG had occurred on January 1, 2018. This information does not purport to be indicative of the actual results that would have occurred if the acquisitions had actually been completed on the date indicated, nor is it necessarily indicative of the future operating results or the financial position of the combined company (in millions):

	Three Months Ended March 31, 2018
Net revenue	$ 500.6
Net income (loss) from continuing operations	$ (9.9)
Net income (loss) attributable to HC2 Holdings, Inc.	$ (13.9)

5. Investments

Fixed Maturity Securities

The following tables provide information relating to investments in fixed maturity securities (in millions):

March 31, 2019	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government and government agencies	$ 24.2	$ 1.0	$ —	$ 25.2
States, municipalities and political subdivisions	412.9	20.2	(0.2)	432.9
Residential mortgage-backed securities	80.4	3.8	(0.7)	83.5
Commercial mortgage-backed securities	100.6	1.3	(0.1)	101.8
Asset-backed securities	522.6	0.9	(17.0)	506.5
Corporate and other	2,417.5	84.8	(26.3)	2,476.0
Total fixed maturity securities	$ 3,558.2	$ 112.0	$ (44.3)	$ 3,625.9

December 31, 2018	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government and government agencies	$ 24.7	$ 0.7	$ —	$ 25.4
States, municipalities and political subdivisions	413.7	9.6	(1.4)	421.9
Residential mortgage-backed securities	92.6	3.1	(1.3)	94.4
Commercial mortgage-backed securities	94.7	0.3	(1.1)	93.9
Asset-backed securities	540.8	0.8	(30.1)	511.5
Corporate and other	2,311.0	17.0	(83.5)	2,244.5
Total fixed maturity securities	$ 3,477.5	$ 31.5	$ (117.4)	$ 3,391.6

The amortized cost and fair value of fixed maturity securities available-for-sale as of March 31, 2019 are shown by contractual maturity in the table below (in millions). Actual maturities can differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset and mortgage-backed securities are shown separately in the table below, as they are not due at a single maturity date:

	Amortized Cost	Fair Value
Corporate, Municipal, U.S. Government and Other securities		
Due in one year or less	$ 24.6	$ 25.1
Due after one year through five years	222.1	224.5
Due after five years through ten years	344.6	354.2
Due after ten years	2,263.3	2,330.3
Subtotal	2,854.6	2,934.1
Mortgage-backed securities	181.0	185.3
Asset-backed securities	522.6	506.5
Total	$ 3,558.2	$ 3,625.9

The tables below show the major industry types of the Company's corporate and other fixed maturity securities (in millions):

	March 31, 2019			December 31, 2018		
	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
Finance, insurance, and real estate	$ 517.4	$ 523.2	21.1%	$ 469.0	$ 452.9	20.2%
Transportation, communication and other services	786.7	809.2	32.7%	758.6	734.0	32.7%
Manufacturing	733.0	751.9	30.4%	712.7	693.5	30.9%
Other	380.4	391.7	15.8%	370.7	364.1	16.2%
Total	$ 2,417.5	$ 2,476.0	100.0%	$ 2,311.0	$ 2,244.5	100.0%

A portion of certain other-than-temporary impairment ("OTTI") losses on fixed maturity securities is recognized in Accumulated Other Comprehensive Income ("AOCI"). For these securities the net amount represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The Company did not recognize any impairments on corporate and other fixed maturity securities for the three months ended March 31, 2019 or 2018.

The following table presents the total unrealized losses for the 283 and 749 fixed maturity securities held by the Company as of March 31, 2019 and December 31, 2018, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (in millions):

	March 31, 2019		December 31, 2018	
	Unrealized Losses	% of Total	Unrealized Losses	% of Total
Less than 20%	$ (43.9)	99.1%	$ (116.0)	98.8%
20% or more for less than six months	—	—%	(0.8)	0.7%
20% or more for six months or greater	(0.4)	0.9%	(0.6)	0.5%
Total	$ (44.3)	100.0%	$ (117.4)	100.0%

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

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

The Company believes it will recover its cost basis in the non-impaired securities with unrealized losses and that the Company has the ability to hold the securities until they recover in value. The Company neither intends to sell nor does it expect to be required to sell the securities with unrealized losses as of March 31, 2019. However, unforeseen facts and circumstances may cause the Company to sell fixed maturity and equity securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality and liquidity guidelines.

The following tables present the estimated fair values and gross unrealized losses for the 283 and 749 fixed maturity securities held by the Company that have estimated fair values below amortized cost as of each of March 31, 2019 and December 31, 2018, respectively. The Company does not have any OTTI losses reported in AOCI. These investments are presented by investment category and the length of time the related fair value has remained below amortized cost (in millions):

March 31, 2019	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and government agencies	$ 0.1	$ —	$ 1.6	$ —	$ 1.7	$ —
States, municipalities and political subdivisions	14.8	(0.2)	—	—	14.8	(0.2)
Residential mortgage-backed securities	14.0	(0.6)	2.7	(0.1)	16.7	(0.7)
Commercial mortgage-backed securities	27.0	(0.1)	—	—	27.0	(0.1)
Asset-backed securities	382.1	(12.4)	48.5	(4.6)	430.6	(17.0)
Corporate and other	393.0	(18.3)	169.5	(8.0)	562.5	(26.3)
Total fixed maturity securities	$ 831.0	$ (31.6)	$ 222.3	$ (12.7)	$ 1,053.3	$ (44.3)

December 31, 2018	Less than 12 months		12 months of greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and government agencies	$ 5.0	$ —	$ 3.3	$ —	$ 8.3	$ —
States, municipalities and political subdivisions	117.2	(1.3)	1.9	(0.1)	119.1	(1.4)
Residential mortgage-backed securities	22.4	(1.2)	5.7	(0.1)	28.1	(1.3)
Commercial mortgage-backed securities	57.8	(1.1)	—	—	57.8	(1.1)
Asset-backed securities	466.0	(29.6)	5.9	(0.5)	471.9	(30.1)
Corporate and other	1,418.2	(71.9)	254.6	(11.6)	1,672.8	(83.5)
Total fixed maturity securities	$ 2,086.6	$ (105.1)	$ 271.4	$ (12.3)	$ 2,358.0	$ (117.4)

As of March 31, 2019, investment grade fixed maturity securities (as determined by nationally recognized rating agencies) represented approximately 79.0% of the gross unrealized loss and 87.9% of the fair value. As of December 31, 2018, investment grade fixed maturity securities represented approximately 87.9% of the gross unrealized loss and 93.1% of the fair value. Certain risks are inherent in connection with fixed maturity securities, including loss upon default, price volatility in reaction to changes in interest rates, and general market factors and risks associated with reinvestment of proceeds due to prepayments or redemptions in a period of declining interest rates.

Equity Securities

The following tables provide information relating to investments in equity securities measured at fair value (in millions):

	March 31, 2019	December 31, 2018
Common stocks	$ 19.5	$ 15.0
Perpetual preferred stocks	153.2	185.5
Total equity securities	$ 172.7	$ 200.5

Other Invested Assets

Carrying values of other invested assets were as follows (in millions):

	March 31, 2019		December 31, 2018	
	Measurement Alternative	Equity Method	Measurement Alternative	Equity Method
Common Equity	$ —	$ 2.1	$ —	$ 2.1
Preferred Equity	1.6	8.4	1.6	9.6
Other	—	55.8	—	59.2
Total	$ 1.6	$ 66.3	$ 1.6	$ 70.9

Net Investment Income

The major sources of net investment income were as follows (in millions):

	Three Months Ended March 31,	
	2019	2018
Fixed maturity securities, available-for-sale at fair value	$ 43.6	$ 15.6
Equity securities	2.5	0.6
Mortgage loans	3.7	1.2
Policy loans	0.3	0.3
Other invested assets	1.2	0.1
Gross investment income	51.3	17.8
External investment expense	(0.2)	(0.1)
Net investment income	$ 51.1	$ 17.7

Net Realized and Unrealized Gains (Losses) on Investments

The major sources of net realized and unrealized gains and losses on investments were as follows (in millions):

	Three Months Ended March 31,	
	2019	2018
Realized gains on fixed maturity securities	$ 0.8	$ 1.3
Realized losses on fixed maturity securities	(1.7)	(0.7)
Realized gains on equity securities	0.1	—
Realized losses on equity securities	(0.9)	—
Net unrealized gains (losses) on equity securities	7.4	(0.7)
Net unrealized gains (losses) on derivative instruments	(0.2)	0.6
Net realized and unrealized gains (losses)	$ 5.5	$ 0.5

6. Fair Value of Financial Instruments

Assets by Hierarchy Level

Assets and liabilities measured at fair value on a recurring basis are summarized below (in millions):

March 31, 2019		Fair Value Measurement Using:		
	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturity securities				
U.S. Government and government agencies	$ 25.2	$ 5.8	$ 19.4	$ —
States, municipalities and political subdivisions	432.9	—	432.9	—
Residential mortgage-backed securities	83.5	—	70.4	13.1
Commercial mortgage-backed securities	101.8	—	40.0	61.8
Asset-backed securities	506.5	—	34.4	472.1
Corporate and other	2,476.0	7.1	2,270.4	198.5
Total fixed maturity securities	3,625.9	12.9	2,867.5	745.5
Equity securities				
Common stocks	19.5	13.4	—	6.1
Perpetual preferred stocks	153.2	7.4	90.7	55.1
Total equity securities	172.7	20.8	90.7	61.2
Total assets accounted for at fair value	$ 3,798.6	$ 33.7	$ 2,958.2	$ 806.7
Liabilities				
Warrant liability	$ 6.1	$ —	$ —	$ 6.1
Other	2.7	—	—	2.7
Total liabilities accounted for at fair value	$ 8.8	$ —	$ —	$ 8.8

December 31, 2018		Fair Value Measurement Using:		
	Total	Level 1	Level 2	Level 3
Assets				
Fixed maturity securities				
U.S. Government and government agencies	$ 25.4	$ 6.1	$ 19.3	$ —
States, municipalities and political subdivisions	421.9	—	421.9	—
Residential mortgage-backed securities	94.4	—	75.4	19.0
Commercial mortgage-backed securities	93.9	—	35.7	58.2
Asset-backed securities	511.5	—	33.3	478.2
Corporate and other	2,244.5	6.6	2,152.9	85.0
Total fixed maturity securities	3,391.6	12.7	2,738.5	640.4
Equity securities				
Common stocks	15.0	9.1	—	5.9
Perpetual preferred stocks	185.5	7.2	123.0	55.3
Total equity securities	200.5	16.3	123.0	61.2
Total assets accounted for at fair value	$ 3,592.1	$ 29.0	$ 2,861.5	$ 701.6
Liabilities				
Embedded derivative	$ 8.4	$ —	$ —	$ 8.4
Other	3.5	—	—	3.5
Total liabilities accounted for at fair value	$ 11.9	$ —	$ —	$ 11.9

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3 at the beginning fair value for the reporting period in which the changes occur. Availability of secondary market activity and consistency of pricing from third-party sources impacts the Company's ability to classify securities as Level 2 or Level 3. The Company's assessment resulted in a net transfer into Level 3 of $104.9 million primarily related to structured securities during the three months ended March 31, 2019. The Company's assessment resulted in a net transfer into Level 3 of $6.4 million primarily related to structured securities during the three months ended March 31, 2018.

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

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

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

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

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

When observable inputs are not available, the market standard valuation techniques for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value but that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs are sometimes based in large part on management judgment or estimation, and cannot be supported by reference to market activity. Even though unobservable, these inputs are based on assumptions deemed appropriate given the circumstances and are believed to be consistent with what other market participants would use when pricing such securities.

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

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

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

Level 3 Measurements and Transfers

The following tables summarize changes to the Company's financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the three months ended March 31, 2019 and 2018 (in millions):

		Total realized/unrealized gains (losses) included in						
	Balance at December 31, 2018	Net earnings (loss)	Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at March 31, 2019
Assets								
Fixed maturity securities								
Residential mortgage-backed securities	$ 19.0	$ —	$ 0.1	$ —	$ (0.3)	$ —	$ (5.7)	$ 13.1
Commercial mortgage-backed securities	58.2	—	1.6	2.4	(0.4)	—	—	61.8
Asset-backed securities	478.2	—	13.3	48.6	(73.6)	5.6	—	472.1
Corporate and other	85.0	—	8.5	4.6	(4.6)	105.0	—	198.5
Total fixed maturity securities	640.4	—	23.5	55.6	(78.9)	110.6	(5.7)	745.5
Equity securities								
Common stocks	5.9	0.2	—	—	—	—	—	6.1
Perpetual preferred stocks	55.3	(0.2)	—	—	—	—	—	55.1
Total equity securities	61.2	—	—	—	—	—	—	61.2
Total financial assets	$ 701.6	$ —	$ 23.5	$ 55.6	$ (78.9)	$ 110.6	$ (5.7)	$ 806.7

	Balance at December 31, 2018	Total realized/unrealized (gains) losses included in: Net (earnings) loss	Total realized/unrealized (gains) losses included in: Other comp. (income) loss	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at March 31, 2019
Liabilities								
Embedded derivative	$ 8.4	$ (2.3)	$ —	$ —	$ —	$ —	$ —	$ 6.1
Other	3.5	(0.8)	—	—	—	—	—	2.7
Total financial liabilities	$ 11.9	$ (3.1)	$ —	$ —	$ —	$ —	$ —	$ 8.8

	Balance at December 31, 2017	Total realized/unrealized gains (losses) included in: Net earnings (loss)	Total realized/unrealized gains (losses) included in: Other comp. income (loss)	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at March 31, 2018
Assets								
Fixed maturity securities								
States, municipalities and political subdivisions	$ 6.0	$ —	$ (0.1)	$ 0.1	$ —	$ 0.4	$ —	$ 6.4
Residential mortgage-backed securities	14.6	0.1	0.3	—	(4.4)	—	(3.4)	7.2
Commercial mortgage-backed securities	12.2	—	(0.1)	5.7	—	—	—	17.8
Asset-backed securities	133.7	0.7	(1.5)	49.5	(44.5)	—	—	137.9
Corporate and other	26.3	—	—	5.2	(0.4)	6.5	—	37.6
Total fixed maturity securities	192.8	0.8	(1.4)	60.5	(49.3)	6.9	(3.4)	206.9
Equity securities								
Common stocks	0.2	—	—	—	—	0.4	—	0.6
Perpetual preferred stocks	6.4	—	—	15.0	—	2.5	—	23.9
Total equity securities	6.6	—	—	15.0	—	2.9	—	24.5
Derivatives	0.3	—	—	—	—	—	—	0.3
Total financial assets	$ 199.7	$ 0.8	$ (1.4)	$ 75.5	$ (49.3)	$ 9.8	$ (3.4)	$ 231.7

	Balance at December 31, 2017	Total realized/unrealized (gains) losses included in: Net (earnings) loss	Total realized/unrealized (gains) losses included in: Other comp. (income) loss	Purchases and issuances	Sales and settlements	Transfer to Level 3	Transfer out of Level 3	Balance at March 31, 2018
Liabilities								
Other	$ 4.8	$ (0.7)	$ —	$ —	$ —	$ —	$ —	$ 4.1
Total financial liabilities	$ 4.8	$ (0.7)	$ —	$ —	$ —	$ —	$ —	$ 4.1

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

Fair Value of Financial Instruments Not Measured at Fair Value

The 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, accounts receivable, accounts payable and other current liabilities, and other assets and liabilities approximate fair value due to relatively short periods to maturity (in millions):

March 31, 2019	Carrying Value	Estimated Fair Value	Fair Value Measurement Using: Level 1	Fair Value Measurement Using: Level 2	Fair Value Measurement Using: Level 3
Assets					
Mortgage loans	$ 137.2	$ 137.2	$ —	$ —	$ 137.2
Policy loans	19.7	19.7	—	19.7	—
Other invested assets	1.6	1.6	—	—	1.6
Total assets not accounted for at fair value	$ 158.5	$ 158.5	$ —	$ 19.7	$ 138.8
Liabilities					
Annuity benefits accumulated [1]	$ 240.5	$ 237.8	$ —	$ —	$ 237.8
Debt obligations [2]	723.0	693.8	—	693.8	—
Total liabilities not accounted for at fair value	$ 963.5	$ 931.6	$ —	$ 693.8	$ 237.8

December 31, 2018			Fair Value Measurement Using:		
	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Assets					
Mortgage loans	$ 137.6	$ 137.6	$ —	$ —	$ 137.6
Policy loans	19.8	19.8	—	19.8	—
Other invested assets	1.6	1.6	—	—	1.6
Total assets not accounted for at fair value	$ 159.0	$ 159.0	$ —	$ 19.8	$ 139.2
Liabilities					
Annuity benefits accumulated (1)	$ 244.0	$ 241.7	$ —	$ —	$ 241.7
Debt obligations (2)	702.5	703.0	—	703.0	—
Total liabilities not accounted for at fair value	$ 946.5	$ 944.7	$ —	$ 703.0	$ 241.7

(1) Excludes life contingent annuities in the payout phase.
(2) Excludes certain lease obligations accounted for under ASC 842, *Leases*.

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

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

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

7. Accounts Receivable, net

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

	March 31, 2019	December 31, 2018
Contracts in progress	$ 199.6	$ 188.2
Trade receivables	67.2	127.5
Unbilled retentions	66.1	65.6
Other receivables	4.0	4.2
Allowance for doubtful accounts	(8.5)	(6.3)
Total accounts receivable, net	$ 328.4	$ 379.2

8. Recoverable from Reinsurers

Recoverable from reinsurers consists of the following (in millions):

		March 31, 2019		December 31, 2018	
Reinsurer	A.M. Best Rating	Amount	% of Total	Amount	% of Total
Hannover Life Reassurance Company of America	A+	$ 333.4	34.2%	$ 336.9	33.7%
Munich American Reassurance Company	A+	338.9	34.7%	335.0	33.5%
Loyal American Life Insurance Company	A	145.9	15.0%	146.0	14.6%
ManhattanLife Assurance Company of America	B+	67.2	6.9%	89.5	8.9%
Great American Life Insurance Company	A	55.0	5.6%	54.5	5.4%
Other		35.4	3.6%	38.3	3.9%
Total		$ 975.8	100.0%	$ 1,000.2	100.0%

9. Property, Plant and Equipment, net

Property, plant and equipment consists of the following (in millions):

	March 31, 2019	December 31, 2018
Cable-ships and submersibles	$ 248.7	$ 251.1
Equipment, furniture and fixtures, and software	155.4	148.0
Building and leasehold improvements	46.6	47.3
Land	32.7	32.8
Construction in progress	18.7	12.9
Plant and transportation equipment	12.3	12.0
	514.4	504.1
Less: Accumulated depreciation	137.8	127.8
Total	$ 376.6	$ 376.3

Depreciation expense was $12.4 million and $11.2 million for the three months ended March 31, 2019 and 2018, respectively. These amounts included $2.2 million and $1.6 million of depreciation expense within cost of revenue for the three months ended March 31, 2019 and 2018, respectively.

Total net book value of equipment, cable-ships, and submersibles under capital leases consisted of $40.5 million and $40.0 million as of March 31, 2019 and December 31, 2018, respectively.

10. Goodwill and Intangibles, net

Goodwill

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

	Construction	Marine Services	Energy	Telecom	Insurance	Broadcasting	Total
Balance at December 31, 2018 and March 31, 2019	$ 82.2	$ 14.3	$ 2.1	$ 4.4	$ 47.3	$ 21.4	$ 171.7

An interim goodwill impairment evaluation was performed on each reporting unit as of March 31, 2019. After considering all quantitative and qualitative factors, the Company has determined that it is more likely than not that the reporting units' fair values exceed carrying values as of the period end.

Indefinite-lived Intangible Assets

Balances of indefinite-lived intangible assets as of March 31, 2019 and December 31, 2018 were as follows (in millions):

	March 31, 2019	December 31, 2018
FCC licenses	$ 126.3	$ 120.6
State licenses	2.5	2.5
Total	$ 128.8	$ 123.1

Definite Lived Intangible Assets

The gross carrying amount and accumulated amortization of amortizable intangible assets by major intangible asset class is as follows:

		March 31, 2019			December 31, 2018		
	Weighted-Average Original Useful Life	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	13 Years	$ 25.9	$ (6.3)	$ 19.6	$ 25.9	$ (5.9)	$ 20.0
Customer relationships	10 Years	53.6	(9.4)	44.2	53.6	(7.2)	46.4
Channel sharing arrangements	40 Years	25.2	(0.4)	24.8	25.2	—	25.2
Developed technology	5 Years	1.2	(1.2)	—	1.2	(1.2)	—
Other	4 Years	5.5	(1.2)	4.3	5.5	(1.0)	4.5
Total		$ 111.4	$ (18.5)	$ 92.9	$ 111.4	$ (15.3)	$ 96.1

Amortization expense for definite lived intangible assets for the three months ended March 31, 2019 and 2018 was $3.2 million and $1.1 million, respectively, and was included in Depreciation and amortization in the Condensed Consolidated Statements of Operations.

Excluding the impact of any future acquisitions, dispositions or change in foreign currency, the Company estimates the annual amortization expense of amortizable intangible assets for the next five fiscal years will be as follows:

Fiscal Year	Estimated Amortization Expense
2019	$ 8.9
2020	$ 8.1
2021	$ 7.9
2022	$ 7.8
2023	$ 6.9

11. Life, Accident and Health Reserves

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

	March 31, 2019	December 31, 2018
Long-term care insurance reserves	$ 4,151.1	$ 4,142.5
Traditional life insurance reserves	186.5	222.8
Other accident and health insurance reserves	211.4	196.8
Total life, accident and health reserves	$ 4,549.0	$ 4,562.1

The following table sets forth changes in the liability for claims for the portion of our long-term care insurance reserves (in millions):

	Three Months Ended March 31,	
	2019	2018
Beginning balance	$ 738.7	$ 243.5
Less: recoverable from reinsurers	(136.4)	(100.6)
Beginning balance, net	602.3	142.9
Incurred related to insured events of:		
Current year	62.4	19.9
Prior years	(36.0)	—
Total incurred	26.4	19.9
Paid related to insured events of:		
Current year	(0.6)	(0.4)
Prior years	(36.4)	(13.3)
Total paid	(37.0)	(13.7)
Interest on liability for policy and contract claims	5.3	1.3
Ending balance, net	597.0	150.4
Add: recoverable from reinsurers	136.4	102.8
Ending balance	$ 733.4	$ 253.2

The Insurance segment experienced a favorable claims reserve development of $36.0 million for the claim reserves held at the beginning of the year for the three months ended March 31, 2019 as a result of favorable claim terminations and estimates for remaining benefits to be paid. Current experience has been favorable relative to the three months ended March 31, 2018, however it is too early to determine if this favorable development will be persistent or is the result of normal volatility in claims activity from period to period.

12. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consist of the following (in millions):

	March 31, 2019	December 31, 2018
Accounts payable	$ 132.4	$ 104.7
Accrued expenses and other current liabilities	73.8	83.4
Accrued interconnection costs	48.2	103.0
Accrued payroll and employee benefits	38.1	44.2
Accrued interest	23.8	8.8
Accrued income taxes	4.0	0.8
Total accounts payable and other current liabilities	$ 320.3	$ 344.9

13. Debt Obligations

Debt obligations consist of the following (in millions):

	March 31, 2019	December 31, 2018
Construction		
LIBOR plus 5.85% Note, due 2023	$ 79.0	$ 80.0
LIBOR plus 1.50% Line of Credit	44.0	34.0
Other	0.3	—
Marine Services		
Obligations under capital leases	38.7	40.4
7.49% Note, due 2019	14.4	14.0
Notes payable and revolving lines of credit, various maturity dates	12.5	12.9
Energy		
5.00% Term Loan due in 2022	12.1	12.4
4.50% Note due in 2022	11.0	11.3
Other, various maturity dates	3.0	3.2
Life Sciences		
Notes payable due in 2019	1.7	1.7
Broadcasting		
8.50% Note due 2019	42.5	35.0
Other, various maturity dates	12.2	11.1
Non-Operating Corporate		
11.5% Senior Secured Notes, due 2021	470.0	470.0
7.5% Convertible Senior Notes, due 2022	55.0	55.0
Total	796.4	781.0
Issuance discount, net and deferred financing costs	(34.4)	(37.1)
Debt obligations	$ 762.0	$ 743.9

Broadcasting

In January 2019, HC2 Broadcasting issued an additional $7.5 million of 8.5% notes to institutional investors, and increased the capacity of the notes by $15.0 million to $50.0 million.

Non-Operating Corporate

Subsequent to March 31, 2019, HC2 entered into a $15.0 million secured revolving credit agreement (the “Revolving Credit Agreement”) with MSD PCOF Partners IX, LLC, as lender (the “Lender”), effective April 3, 2019. HC2 intends to use the proceeds of loans under the Revolving Credit Agreement for working capital and general corporate purposes. The Revolving Credit Agreement matures on June 1, 2021. Loans under the Revolving Credit Agreement bear interest at a per annum rate equal to, at HC2's option, one, two or three month LIBOR plus a margin of 6.75%.

14. Income Taxes

Income Tax Expense

The Company used the Annual Effective Tax Rate ("ETR") approach of ASC 740-270, Interim Reporting, to calculate its 2019 interim tax provision.

Income tax was an expense of $4.0 million and $1.7 million for the three months ended March 31, 2019 and 2018, respectively. The income tax expense recorded for the three months ended March 31, 2019 relates to the projected expense as calculated under ASC 740 for taxpaying entities. Additionally, the tax benefits associated with losses generated by the HC2 Holdings, Inc. U.S. consolidated income tax return and certain other businesses have been reduced by a full valuation allowance as we do not believe it is more-likely-than-not that the losses will be utilized prior to expiration. The income tax expense recorded for March 31, 2018 relates to the projected expense as calculated under ASC 740 for taxpaying entities and because no benefit is recognized on the losses of the HC2 U.S. tax consolidated group, and the losses of their subsidiaries as valuation allowances are recorded on the deferred tax assets of these companies.

As a result of the enactment of Public Law 115-97, known informally as the Tax Cuts and Jobs Act (“TCJA”) on December 22, 2017, we are subject to several provisions of the TCJA including computations under Global Intangible Low Taxed Income (“GILTI”) and the interest limitation rules. We have included the impact of each of these provisions in our overall tax expense for the three months ended March 31, 2019.

Unrecognized Tax Benefits

The Company follows the provision of ASC 740-10, Income Taxes, which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. The Company is subject to challenge from various taxing authorities relative to certain tax planning strategies, including certain intercompany transactions as well as regulatory taxes.

Examinations

The Company conducts business globally, and as a result, the Company or one or more of its subsidiaries files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world. The open tax years contain matters that could be subject to differing interpretations of applicable tax laws and regulations as they relate to the amount, character, timing or inclusion of revenue and expenses or the applicability of income tax credits for the relevant tax period. Given the nature of tax audits there is a risk that disputes may arise. Tax years 2002 - 2018 remain open for examination.

15. Commitments and Contingencies

Future minimum operating lease payments under non-cancellable operating leases as of December 31, 2018 were as follows (in millions):

	Operating Leases
2019	$ 22.0
2020	18.7
2021	16.4
2022	8.8
2023	6.8
Thereafter	20.3
Total obligations	$ 93.0

Litigation

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

CGI Producer Litigation

On November 28, 2016, CGI, a subsidiary of the Company, Great American Financial Resource, Inc. ("GAFRI"), American Financial Group, Inc., and CIGNA Corporation were served with a putative class action complaint filed by John Fastrich and Universal Investment Services, Inc. in The United States District Court for the District of Nebraska alleging breach of contract, tortious interference with contract and unjust enrichment. The plaintiffs contend that they were agents of record under various CGI policies and that CGI allegedly instructed policyholders to switch to other CGI products and caused the plaintiffs to lose commissions, renewals, and overrides on policies that were replaced. The complaint also alleges breach of contract claims relating to allegedly unpaid commissions related to premium rate increases implemented on certain long-term care insurance policies. Finally, the complaint alleges breach of contract claims related to vesting of commissions. On August 21, 2017, the Court dismissed the plaintiffs' tortious interference with contract claim. CGI believes that the remaining allegations and claims set forth in the complaint are without merit and intends to vigorously defend against them.

The case was set for voluntary mediation, which occurred on January 26, 2018. The Court stayed discovery pending the outcome of the mediation. On February 12, 2018, the parties notified the Court that mediation did not resolve the case and that the parties' discussions regarding a possible settlement of the action were still ongoing. The Court held a status conference on March 22, 2018, during which the parties informed the Court that settlement negotiations remain ongoing. Nonetheless, the Court entered a scheduling order setting the case for trial during the week of October 15, 2019. Meanwhile, the parties' continued settlement negotiations led to a tentative settlement. On February 4, 2019, the plaintiffs executed a class settlement agreement with CGI, Loyal American Life Insurance Company, American Retirement Life Insurance Company, GAFRI, and American Financial Group, Inc. (collectively, the "Defendants"). The settlement agreement, which would require GAFRI to make a $1.25 million payment on behalf of the Defendants, is subject to final Court approval. On February 4, 2019, the plaintiffs filed a motion for preliminary approval of the class settlement in a parallel action in the Southern District of Ohio, Case No. 17-CV-00615-SJD, which motion was granted by the Southern District of Ohio on April 2, 2019. Meanwhile, the case pending before the District of Nebraska was stayed on February 6, 2019, pending final approval of the class action settlement in the Ohio action. A final settlement hearing is currently scheduled on July 23, 2019.

Further, the Company and CGI are seeking defense costs and indemnification for plaintiffs' claims from GAFRI and Continental General Corporation ("CGC") under the terms of an Amended and Restated Stock Purchase Agreement ("SPA") related to the Company's acquisition of CGI in December 2015. GAFRI and CGC rejected CGI's demand for defense and indemnification and, on January 18, 2017, the Company and CGI filed a Complaint against GAFRI and CGC in the Superior Court of Delaware seeking a declaratory judgment to enforce their indemnification rights under the SPA. On February 23, 2017, GAFRI answered CGI's complaint, denying the allegations. Meanwhile, the parties' continued settlement negotiations resulted in a settlement agreement in the Delaware action. The settlement agreement, which requires CGI to contribute $250,000 to the settlement payment made by GAFRI in the class action, is contingent on the final approval of the class action settlement in the Ohio action.

VAT assessment

On February 20, 2017, and on August 15, 2017, the Company's subsidiary, ICS, received notices from Her Majesty's Revenue and Customs office in the U.K. (the "HMRC") indicating that it was required to pay certain Value-Added Taxes ("VAT") for the 2015 and 2016 tax years. ICS disagrees with HMRC's assessments on technical and factual grounds and intends to dispute the assessed liabilities and vigorously defend its interests. We do not believe the assessment to be probable and expect to prevail based on the facts and merits of our existing VAT position.

DBMG Class Action

On November 6, 2014, a putative stockholder class action complaint challenging the tender offer by which HC2 acquired approximately 721,000 of the issued and outstanding common shares of DBMG was filed in the Court of Chancery of the State of Delaware, captioned Mark Jacobs v. Philip A. Falcone, Keith M. Hladek, Paul Voigt, Michael R. Hill, Rustin Roach, D. Ronald Yagoda, Phillip O. Elbert, HC2 Holdings, Inc., and Schuff International, Inc., Civil Action No. 10323 (the "Complaint"). On November 17, 2014, a second lawsuit was filed in the Court of Chancery of the State of Delaware, captioned Arlen Diercks v. Schuff International, Inc. Philip A. Falcone, Keith M. Hladek, Paul Voigt, Michael R. Hill, Rustin Roach, D. Ronald Yagoda, Phillip O. Elbert, HC2 Holdings, Inc., Civil Action No. 10359. On February 19, 2015, the court consolidated the actions (now designated as Schuff International, Inc. Stockholders Litigation) and appointed lead plaintiffs' counsel. The currently operative complaint is the Complaint filed by Mark Jacobs. The Complaint alleges, among other things, that in connection with the tender offer, the individual members of the DBMG Board of Directors and HC2, the now-controlling stockholder of DBMG, breached their fiduciary duties to members of the plaintiff class. The Complaint also purports to challenge a potential short-form merger based upon plaintiff's expectation that the Company would cash out the remaining public stockholders of DBMG following the completion of the tender offer. The Complaint seeks rescission of the tender offer and/or compensatory damages, as well as attorney's fees and other relief. The defendants filed answers to the Complaint on July 30, 2015.

The parties have been exploring alternative frameworks for a potential settlement. There can be no assurance that a settlement will be finalized or that the Delaware Courts would approve such a settlement even if the parties enter into a settlement agreement. If a settlement cannot be reached, the Company believes it has meritorious defenses and intends to vigorously defend this matter.

Global Marine Dispute

GMSL is in dispute with Alcatel-Lucent Submarine Networks Limited ("ASN") related to a Marine Installation Contract between the parties, dated March 11, 2016 (the "ASN Contract"). Under the ASN Contract, GMSL's obligations were to install and bury an optical fiber cable in Prudhoe Bay, Alaska. As of the date hereof, neither party has commenced legal proceedings. Pursuant to the ASN Contract any such dispute would be governed by English law and would be required to be brought in the English courts in London. ASN has alleged that GMSL committed material breaches of the ASN Contract, which entitles ASN to terminate the ASN Contract, take over the work themselves, and claim damages for their losses arising as a result of the breaches. The alleged material breaches include failure to use appropriate equipment and procedures to perform the work and failure to accurately estimate the amount of weather downtime needed. ASN has indicated to GMSL it has incurred $38.2 million in damages and $1.2 million in liquidated damages for the period from September 2016 to October 2016, plus interest and costs. GMSL believes that it has not breached the terms and conditions of the contract and also believes that ASN has not properly terminated the contract in a manner that would allow it to make a claim. However, ASN has ceased making payments to GMSL and as of March 31, 2019, the total sum of GMSL invoices raised and issued are $17.0 million, of which $8.1 million were settled by ASN and the balance of $8.9 million remains at risk. We believe that the allegations and claims by ASN are without merit, and that ASN is required to make all payments under unpaid invoices and we intend to defend our interests vigorously.

Tax Matters

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

16. Employee Retirement Plans

The following table presents the components of Net periodic benefit cost for the periods presented (in millions):

	Three Months Ended March 31,	
	2019	2018
Service cost - benefits earning during the period	$ —	$ —
Interest cost on projected benefit obligation	1.4	1.4
Expected return on assets	(1.7)	(2.0)
Actuarial gain	—	—
Foreign currency gain (loss)	—	—
Net periodic benefit	$ (0.3)	$ (0.6)

For the three months ended March 31, 2019, $2.0 million of contributions have been made to the Company's pension plans, comprising $1.7 million of fixed contributions and $0.3 million of profit-related contributions. The Company anticipates contributing an additional $5.1 million during 2019, comprising $5.1 million of fixed contributions.

Under a revised deficit recovery plan agreed between GMSL and the trustees of GMSL's pension plan dated March 20, 2018, which was subsequently submitted to the UK government's Pension Regulator, contributions of approximately $13.0 million deferred from 2016 and 2017 due in December 2017 have been further deferred. To support this second deferral, the Company has provided secured assets. These are the CWind Phantom (crew transfer vessel) and Q1000 trencher. Consistent with earlier recovery plans, the revised deficit recovery plan comprises three elements: fixed contributions, variable contributions (profit-related element) and variable contributions (dividend-related element), though the amounts and some definitions have been modified. The fixed contributions, payable in installments, comprise approximately $6.8 million in 2019, approximately $7.0 million in 2020, approximately $7.2 million in 2021 and approximately $3.1 million in 2022. The variable contributions (profit-related element) are calculated as 10% of GMSL's audited operating profit and paid two years in arrears in December each year from 2018. The variable contributions (dividend-related) equate to 50% of any future dividend paid by GMSL.

17. Share-based Compensation

On April 11, 2014, HC2's Board of Directors adopted the HC2 Holdings, Inc. Omnibus Equity Award Plan (the "2014 Plan"), which was originally approved at the annual meeting of stockholders held on June 12, 2014. On April 21, 2017, the Board of Directors, subject to stockholder approval, adopted the Amended and Restated 2014 Omnibus Equity Award Plan (the "Amended 2014 Plan"). The Amended 2014 Plan was approved by HC2's stockholders at the annual meeting of stockholders held on June 14, 2017. Subject to adjustment as provided in the Amended 2014 Plan, the Amended 2014 Plan authorized the issuance of 3,500,000 shares of common stock of HC2, plus any shares that again become available for awards under the 2014 Plan.

On April 20, 2018, the Board of Directors, subject to stockholder approval, adopted the Second Amended and Restated 2014 Omnibus Equity Award Plan (the "Second A&R 2014 Plan"). The Second A&R 2014 Plan was approved by HC2's stockholders at the annual meeting of stockholders held on June 13, 2018. Subject to adjustment as provided in the Second A&R 2014 Plan, the Second A&R 2014 Plan authorizes the issuance of up to 3,500,000 shares of common stock of HC2 plus any shares that again become available for awards under the 2014 Plan or the Amended 2014 Plan.

The Second A&R 2014 Plan provides that no further awards will be granted pursuant to the Amended 2014 Plan. However, awards previously granted under either the 2014 Plan or the Amended 2014 Plan will continue to be subject to and governed by the terms of the 2014 Plan and Amended 2014 Plan, respectively. The Compensation Committee of HC2's Board of Directors administers the 2014 Plan, the Amended 2014 Plan and the Second A&R 2014 Plan and has broad authority to administer, construe and interpret the plans.

The Second A&R 2014 Plan provides for the grant of awards of non-qualified stock options, incentive (qualified) stock options, stock appreciation rights, restricted stock awards, restricted stock units, other stock based awards, performance compensation awards (including cash bonus awards) or any combination of the foregoing. The Company typically issues new shares of common stock upon the exercise of stock options, as opposed to using treasury shares.

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

The Company granted zero options during the three months ended March 31, 2019 and 2018, respectively.

Total share-based compensation expense recognized by the Company and its subsidiaries under all equity compensation arrangements was $1.7 million and $1.1 million for the three months ended March 31, 2019 and 2018, respectively.

All grants are time based and vest either immediately or over a period established at grant. The Company recognizes compensation expense for equity awards, reduced by actual forfeitures, using the straight-line basis.

Restricted Stock

A summary of HC2's restricted stock activity is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested - December 31, 2018	3,031,469	$ 5.93
Granted	395,514	$ 2.62
Vested	(1,105,239)	$ 6.07
Forfeited	(306)	$ 5.45
Unvested - March 31, 2019	2,321,438	$ 5.30

At March 31, 2019, the total unrecognized stock-based compensation expense related to unvested restricted stock was $9.3 million. The unrecognized compensation cost is expected to be recognized over the remaining weighted average period of 1.9 years.

Stock Options

A summary of HC2's stock option activity is as follows:

	Shares	Weighted Average Exercise Price
Outstanding - December 31, 2018	7,160,861	$ 6.51
Granted	—	$ —
Exercised	—	$ —
Forfeited	—	$ —
Expired	—	$ —
Outstanding - March 31, 2019	7,160,861	$ 6.51
Eligible for exercise	6,206,367	$ 6.26

At March 31, 2019, the intrinsic value and average remaining life of the Company's outstanding options were zero and approximately 5.9 years, and intrinsic value and average remaining life of the Company's exercisable options were zero and approximately 5.7 years.

At March 31, 2019, total unrecognized stock-based compensation expense related to unvested stock options was $1.2 million. The unrecognized compensation cost is expected to be recognized over the remaining weighted average period of 1.8 years. There are 954,494 unvested stock options expected to vest, with a weighted average remaining life of 7.4 years, a weighted average exercise price of $8.10, and an intrinsic value of zero.

18. Equity

Series A Preferred Stock and Series A-2 Preferred Stock

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

	March 31, 2019	December 31, 2018
Preferred shares authorized, $0.001 par value	20,000,000	20,000,000
Series A shares issued and outstanding	6,375	6,375
Series A-2 shares issued and outstanding	4,000	14,000

Preferred Share Activity

CGI Purchase

On January 11, 2019, CGI purchased 10,000 shares of Series A-2 Preferred Stock, which are convertible into a total of 1,420,455 shares of the Company's common stock, for a total consideration of $8.3 million. The shares and dividends accrued related to the Series A-2 Preferred Stock owned by CGI are eliminated in consolidation. The shares were purchased at a discount of $1.7 million, which was recorded within the Preferred dividends, deemed dividends, and repurchase gains line item of the Condensed Consolidated Statements of Operations as a deemed dividend.

Luxor and Corrib Conversions

On August 2, 2016, the Company entered into separate agreements with each of Corrib Master Fund, Ltd. ("Corrib"), then a holder of 1,000 shares of Series A Preferred Stock, and certain investment entities managed by Luxor Capital Group, LP ("Luxor"), that together then held 9,000 shares of Series A-1 Preferred Stock. In conjunction with the conversions, the Company agreed to provide the following two forms of additional consideration for as long as the Preferred Stock remained entitled to receive dividend payments (the "Additional Share Consideration"):

- The Company agreed that in the event that Corrib and Luxor would have been entitled to any Participating Dividends payable, had they not converted the Preferred Stock (as defined in the respective Series A and Series A-1 Certificate of Designation), after the date of their Preferred Share conversion, then the Company will issue to Corrib and Luxor, on the date such Participating Dividends become payable by the Company, in a transaction exempt from the registration requirements of the Securities Act the number of shares of common stock equal to (a) the value of the Participating Dividends Corrib or Luxor would have received pursuant to Sections (2)(c) and (2)(d) of the respective Series A and Series A-1 Certificate of Designation, divided by (b) the Thirty Day VWAP (as defined in the respective Series A and Series A-1 Certificate of Designation) for the period ending two business days prior to the underlying event or transaction that would have entitled Corrib or Luxor to such Participating Dividend had Corrib's or Luxor's Preferred Stock remain unconverted.

- The Company agreed that it will issue to Corrib and Luxor, on each quarterly anniversary commencing May 29, 2017 (or, if later, the date on which the corresponding dividend payment is made to the holders of the outstanding Preferred Stock), through and until the Maturity Date (as defined in the respective Series A and Series A-1 Certificate of Designation), in a transaction exempt from the registration requirements of the Securities Act the number of shares of common stock equal to (a) 1.875% the Accrued Value (as defined in the respective Series A and Series A-1 Certificate of Designation) of Corrib's or Luxor's Preferred Stock as of the Closing Date (as defined in applicable Voluntary Conversion Agreements) divided by (b) the Thirty Day VWAP (as defined in the respective Series A and Series A-1 Certificate of Designation) for the period ending two business days prior to the applicable Dividend Payment Date (as defined in the respective Series A and Series A-1 Certificate of Designation).

For the three months ended March 31, 2019, 57,543 and 6,474 shares of the Company's common stock have been issued to Luxor and Corrib, respectively, in conjunction with the Conversion agreement.

The fair value of the Additional Share Consideration was valued by the Company at $0.2 million on the date of issuance and was recorded within Preferred stock and deemed dividends from conversion line item of the Consolidated Statements of Operations as a deemed dividend.

Preferred Share Dividends

During the three months ended March 31, 2019 and 2018, HC2's Board of Directors declared cash dividends with respect to HC2's issued and outstanding Preferred Stock, excluding Preferred Stock owned by CGI which is eliminated in consolidation, as presented in the following table (in millions):

2019

Declaration Date		March 31, 2019
Holders of Record Date		March 31, 2019
Payment Date		April 15, 2019
Total Dividend	$	0.2

2018

Declaration Date		March 31, 2018
Holders of Record Date		March 31, 2018
Payment Date		April 16, 2018
Total Dividend	$	0.5

19. Related Parties

HC2

In January 2015, the Company entered into a services agreement (the "Services Agreement") with Harbinger Capital Partners, a related party of the Company, with respect to the provision of services that may include providing office space and operational support and each party making available their respective employees to provide services as reasonably requested by the other party, subject to any limitations contained in applicable employment agreements and the terms of the Services Agreement. The Company recognized $0.9 million and $1.0 million of expenses under the Services Agreement for each of the three months ended March 31, 2019 and 2018, respectively.

GMSL

In November 2017, GMSL acquired the trenching a cable lay services business from Fugro N.V. ("Fugro"). As part of the transaction, Fugro became a 23.6% holder of GMSL's parent, Global Marine Holdings, LLC ("GMH"). GMSL, in the normal course of business, incurred revenue and expenses with Fugro for various services. For the three months ended March 31, 2019 and 2018, GMSL recognized $0.8 million and zero, respectively, of revenues and $2.2 million and $1.1 million, respectively, of expenses for such transactions with Fugro.

The parent company of GMSL, GMH, incurred management fees of $0.2 million for each of the three months ended March 31, 2019 and 2018, respectively.

GMSL also has transactions with several of their equity method investees. A summary of transactions with such equity method investees and balances outstanding are as follows (in millions):

	Three Months Ended March 31,	
	2019	2018
Net revenue	$ 2.0	$ 3.9
Operating expenses	$ 0.6	$ 0.4
Interest expense	$ 0.3	$ 0.4
Dividends	$ 1.1	$ 1.0

	March 31, 2019	December 31, 2018
Accounts receivable	$ 1.5	$ 5.0
Long-term obligations	$ 27.2	$ 28.5
Accounts payable	$ 0.5	$ 2.2

Life Sciences

As of March 31, 2019, R2's secured convertible note with Blossom Innovation, LLC had an outstanding principal balance of $1.0 million.

20. Operating Segment and Related Information

The Company currently has two primary reportable geographic segments - United States and United Kingdom. The Company has eight reportable operating segments based on management's organization of the enterprise - Construction, Marine Services, Energy, Telecommunications, Insurance, Life Sciences, Broadcasting, Other, and a Non-operating Corporate segment. Net revenue and long-lived assets by geographic segment is reported on the basis of where the entity is domiciled. All inter-segment revenues are eliminated. The Company's revenue concentrations of 10% and greater are as follows:

		Three Months Ended March 31,	
	Segment	2019	2018
Customer A	Telecommunications	10.5%	10.4%

* Less than 10% revenue concentration

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

	Three Months Ended March 31,	
	2019	2018
Net Revenue by Geographic Region		
United States	$ 440.6	$ 412.4
United Kingdom	42.2	36.4
Other	8.6	4.9
Total	$ 491.4	$ 453.7

	Three Months Ended March 31,	
	2019	2018
Net revenue		
Construction	$ 192.1	$ 158.9
Marine Services	42.4	36.7
Energy	5.1	4.5
Telecommunications	155.5	202.3
Insurance	88.8	40.2
Broadcasting	9.8	10.7
Other	—	2.4
Eliminations (*)	(2.3)	(2.0)
Total net revenue	$ 491.4	$ 453.7

(*) The Insurance segment revenues are inclusive of realized and unrealized gains and net investment income for the three months ended March 31, 2019 and 2018 which are related to entities under common control which are eliminated or are reclassified in consolidation.

	Three Months Ended March 31,	
	2019	2018
(Loss) income from operations		
Construction	$ 5.7	$ 6.1
Marine Services	(4.1)	(2.8)
Energy	(0.4)	(0.6)
Telecommunications	0.6	1.0
Insurance	34.4	3.0
Life Sciences	(1.8)	(3.3)
Broadcasting	(3.3)	(7.7)
Other	—	(0.2)
Non-operating Corporate	(7.2)	(7.3)
Eliminations (*)	(2.3)	(2.0)
Total income (loss) from operations	$ 21.6	$ (13.8)

(*) The Insurance segment revenues are inclusive of realized and unrealized gains and net investment income for the three months ended March 31, 2019 and 2018 which are related to transactions between entities under common control which are eliminated or are reclassified in consolidation.

A reconciliation of the Company's consolidated segment operating income to consolidated earnings before income taxes is as follows (in millions):

	Three Months Ended March 31,	
	2019	2018
Income (loss) from operations	$ 21.6	$ (13.8)
Interest expense	(22.3)	(19.3)
Loss from equity investees	(4.9)	(5.2)
Other income, net	3.3	1.1
Loss from continuing operations before income taxes	(2.3)	(37.2)
Income tax expense	(4.0)	(1.7)
Net loss	(6.3)	(38.9)
Less: Net loss attributable to noncontrolling interest and redeemable noncontrolling interest	3.5	3.9
Net loss attributable to HC2 Holdings, Inc.	(2.8)	(35.0)
Less: Preferred dividends, deemed dividends, and repurchase gains	(1.2)	0.7
Net loss attributable to common stock and participating preferred stockholders	$ (1.6)	$ (35.7)

	Three Months Ended March 31,	
	2019	2018
Depreciation and Amortization		
Construction	$ 3.9	$ 1.5
Marine Services	6.6	6.8
Energy	1.4	1.4
Telecommunications	0.1	0.1
Insurance (*)	(6.5)	(0.9)
Life Sciences	—	0.1
Broadcasting	1.4	0.7
Total	$ 6.9	$ 9.7

(*) Balance includes amortization of negative VOBA, which increases net income.

	Three Months Ended March 31,	
	2019	2018
Capital Expenditures (*)		
Construction	$ 2.6	$ 1.3
Marine Services	3.1	6.6
Energy	0.1	0.8
Telecommunications	—	0.1
Insurance	0.2	0.3
Broadcasting	0.4	0.1
Total	$ 6.4	$ 9.2

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

	March 31, 2019	December 31, 2018
Investments		
Construction	$ 0.9	$ 0.9
Marine Services	60.8	58.3
Insurance	4,039.0	3,821.4
Life Sciences	16.3	16.3
Other	6.0	5.6
Eliminations	(99.6)	(80.5)
Total	$ 4,023.4	$ 3,822.0

	March 31, 2019	December 31, 2018
Property, Plant and Equipment—Net		
United States	$ 179.7	$ 178.2
United Kingdom	191.7	192.7
Other	5.2	5.4
Total	$ 376.6	$ 376.3

	March 31, 2019	December 31, 2018
Total Assets		
Construction	$ 561.4	$ 537.9
Marine Services	387.6	368.6
Energy	81.9	77.6
Telecommunications	93.6	139.9
Insurance	5,384.3	5,213.1
Life Sciences	31.3	35.6
Broadcasting	232.1	202.8
Other	6.0	5.6
Non-operating Corporate	3.8	9.2
Eliminations	(99.6)	(86.5)
Total	$ 6,682.4	$ 6,503.8

21. Basic and Diluted Income (Loss) Per Common Share

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

The following potential common shares were excluded from diluted EPS for the three months ended March 31, 2019 due to the results of operations being a loss from continuing operations, net of tax: 2,168,454 for outstanding warrants to purchase the Company's stock, 2,246,396 for convertible preferred stock, 12,557,078 for convertible debt, 7,160,861 outstanding employee stock options, and 389,767 of unvested restricted stock.

The following potential common shares were excluded from diluted EPS for the three months ended March 31, 2018 due to the results of operations being a loss from continuing operations, net of tax: 2,019,972 for outstanding warrants to purchase the Company's stock, 4,787,602 for convertible preferred stock, 6,967,218 outstanding employee stock options, and 1,171,019 of unvested restricted stock.

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

	Three Months Ended March 31,	
	2019	2018
Net loss attributable to common stock and participating preferred stockholders	$ (1.6)	$ (35.7)
Earnings allocable to common shares:		
Numerator for basic and diluted earnings per share		
Participating shares at end of period:		
Weighted-average common stock outstanding	44.8	44.3
Percentage of loss allocated to:		
Common stock	100%	100%
Preferred stock	—%	—%
Net Income (loss) attributable to common stock, basic	$ (1.6)	$ (35.7)
Denominator for basic and dilutive earnings per share		
Weighted average common shares outstanding - basic and diluted	44.8	44.3
Net income (loss) attributable to participating security holders - basic and diluted	$ (0.04)	$ (0.81)

22. Subsequent Events

Subsequent to March 31, 2019, HC2 entered into a $15.0 million Revolving Credit Agreement with MSD PCOF Partners IX, LLC, as lender, effective April 3, 2019. HC2 intends to use the proceeds of loans under the Revolving Credit Agreement for working capital and general corporate purposes. The Revolving Credit Agreement matures on June 1, 2021. Loans under the Revolving Credit Agreement bear interest at a per annum rate equal to, at HC2's option, one, two or three month LIBOR plus a margin of 6.75%.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This "Management’s Discussion and Analysis of Financial Condition and Results of Operations" of HC2 Holdings, Inc. ("HC2," "we," "us," "our" and, collectively with its subsidiaries, the "Company") should be read in conjunction with our unaudited Condensed Consolidated Financial Statements and the notes thereto included herein, as well as our audited Consolidated Financial Statements and the notes thereto contained in our Form 10-K. Some of the information contained in this discussion and analysis includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 12, 2019, 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.

Our Business

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

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

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

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

Our Operations

Refer to Note 1. Organization and Business to our unaudited Condensed Consolidated Financial Statements for additional information.

Seasonality

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

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

Examples of other items that may cause our results or demand for our services to fluctuate materially from quarter to quarter include: weather or project site conditions, financial condition of our customers and their access to capital; margins of projects performed during any particular period; economic, and 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.

Marine Services

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

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

Recent Developments

Debt Obligations

Broadcasting

In January 2019, HC2 Broadcasting issued additional $7.5 million of 8.5% notes to institutional investors, and increased the capacity of the notes by $15.0 million to $50.0 million.

Non-Operating Corporate

Subsequent to March 31, 2019, HC2 entered into a $15.0 million secured revolving credit agreement (the "Revolving Credit Agreement") with MSD PCOF Partners IX, LLC, as lender (the "Lender"), effective April 3, 2019. HC2 intends to use the proceeds of loans under the Revolving Credit Agreement for working capital and general corporate purposes. The Revolving Credit Agreement matures on June 1, 2021. Loans under the Revolving Credit Agreement bear interest at a per annum rate equal to, at HC2's option, one, two or three month LIBOR plus a margin of 6.75%.

Dividends

During the three months ended March 31, 2019, HC2 received $3.5 million in dividends from its Telecommunications segment and $1.8 million in net management fees from its Insurance segment related to fees earned in the fourth quarter of 2018.

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, 2019 as compared to the three months ended March 31, 2018.

Results of Operations

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

	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Net revenue			
Construction	$ 192.1	$ 158.9	$ 33.2
Marine Services	42.4	36.7	5.7
Energy	5.1	4.5	0.6
Telecommunications	155.5	202.3	(46.8)
Insurance	88.8	40.2	48.6
Broadcasting	9.8	10.7	(0.9)
Other	—	2.4	(2.4)
Eliminations (1)	(2.3)	(2.0)	(0.3)
Total net revenue	491.4	453.7	37.7
Income (loss) from operations			
Construction	5.7	6.1	(0.4)
Marine Services	(4.1)	(2.8)	(1.3)
Energy	(0.4)	(0.6)	0.2
Telecommunications	0.6	0.9	(0.3)
Insurance	34.4	3.0	31.4
Life Sciences	(1.8)	(3.2)	1.4
Broadcasting	(3.3)	(7.7)	4.4
Other	—	(0.2)	0.2
Non-operating Corporate	(7.2)	(7.3)	0.1
Eliminations (1)	(2.3)	(2.0)	(0.3)
Total income (loss) from operations	21.6	(13.8)	35.4
Interest expense	(22.3)	(19.3)	(3.0)
Loss from equity investees	(4.9)	(5.2)	0.3
Other income, net	3.3	1.1	2.2
Loss from continuing operations before income taxes	(2.3)	(37.2)	34.9
Income tax expense	(4.0)	(1.7)	(2.3)
Net loss	(6.3)	(38.9)	32.6
Less: Net loss attributable to noncontrolling interest and redeemable noncontrolling interest	3.5	3.9	(0.4)
Net loss attributable to HC2 Holdings, Inc.	(2.8)	(35.0)	32.2
Less: Preferred dividends, deemed dividends, and repurchase gains	(1.2)	0.7	(1.9)
Net loss attributable to common stock and participating preferred stockholders	$ (1.6)	$ (35.7)	$ 34.1

(1) The Insurance segment revenues are inclusive of realized and unrealized gains and net investment income for the three months ended March 31, 2019 and 2018 which are related to transactions between entities under common control which are eliminated or are reclassified in consolidation.

Net revenue: Net revenue for the three months ended March 31, 2019 increased $37.7 million to $491.4 million from $453.7 million for the three months ended March 31, 2018. The increase in revenues was driven by improvements in our Insurance and Construction segments. The increase in the Insurance segment was driven primarily by the KIC acquisition, which contributed additional net investment income and premiums, and a rotation into higher yielding investments, particularly mortgage loans and preferred stocks. The increase in our Construction segment was driven primarily by the recent acquisition of GrayWolf in the fourth quarter of 2018. These increases were partially offset by a decrease in our Telecommunication segment, which can be attributed to changes in our customer mix and fluctuations in wholesale traffic volumes.

Income (loss) from operations: Income (loss) from operations for the three months ended March 31, 2019 increased $35.4 million to income of $21.6 million from a loss of $13.8 million for the three months ended March 31, 2018. The increase in income from operations was primarily driven by our Insurance segment, net of eliminations, due to the recent KIC acquisition, which contributed additional net investment income and premiums, net of additional policy benefits paid to policy holders, changes in reserves, and commissions.

Interest expense: Interest expense for the three months ended March 31, 2019 increased $3.0 million to $22.3 million from $19.3 million for the three months ended March 31, 2018. The increase was largely attributable to the net increase of the aggregate principal amount of our Non-operating Corporate debt.

Loss from equity investees: Loss from equity investees for the three months ended March 31, 2019 decreased $0.3 million to $4.9 million from $5.2 million for the three months ended March 31, 2018. The increases were largely due to lower equity method losses recorded from our investment in Medibeacon due to timing of clinical trials.

Other income, net: Other income, net for the three months ended March 31, 2019 increased $2.2 million to $3.3 million from $1.1 million for the three months ended March 31, 2018. The increase was driven by gains on the embedded derivative related to the Company's Convertible Senior Notes issued in the fourth quarter of 2018 and a reduction in foreign currency transaction loss.

Income tax expense: Income tax expense was $4.0 million and $1.7 million for the three months ended March 31, 2019 and 2018, respectively. The income tax expense recorded for the three months ended March 31, 2019 relates to the projected expense as calculated under ASC 740 for taxpaying entities. Additionally, the tax benefits associated with losses generated by the HC2 Holdings, Inc. U.S. consolidated income tax return and certain other businesses have been reduced by a full valuation allowance as we do not believe it is more-likely-than-not that the losses will be utilized prior to expiration. The income tax expense recorded for March 31, 2018 relates to the projected expense as calculated under ASC 740 for taxpaying entities and because no benefit is recognized on the losses of the HC2 U.S. tax consolidated group and the losses of their subsidiaries as valuation allowances are recorded on the deferred tax assets of these companies.

Preferred stock and deemed dividends: Preferred stock and deemed dividends for the three months ended March 31, 2019 increased $1.9 million to income of $1.2 million compared to an expense of $0.7 million for the three months ended March 31, 2018. The increase was driven by the Insurance segment's purchase of 10,000 shares of the Company's Series A-2 Preferred Stock at a $1.7 million discount. In addition, there was a decrease in the Preferred Stock dividends, as Preferred Stock dividends to our Insurance segment are eliminated in consolidation.

Segment Results of Operations

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

Construction Segment

	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Net revenue	$ 192.1	$ 158.9	$ 33.2
Cost of revenue	162.8	135.7	27.1
Selling, general and administrative expenses	19.8	15.2	4.6
Depreciation and amortization	3.9	1.5	2.4
Other operating (income) expense	(0.1)	0.4	(0.5)
Income from operations	$ 5.7	$ 6.1	$ (0.4)

Net revenue: Net revenue from our Construction segment for the three months ended March 31, 2019 increased $33.2 million to $192.1 million from $158.9 million for the three months ended March 31, 2018. The increase was primarily driven by increases in revenue as a result of the recent acquisition of GrayWolf which was acquired late in the fourth quarter of 2018. There were also increases in the BDS, PDC and fabrication and erection businesses driven by increased project work and backlog turnover.

Cost of revenue: Cost of revenue from our Construction segment for the three months ended March 31, 2019 increased $27.1 million to $162.8 million from $135.7 million for the three months ended March 31, 2018. The increase was primarily driven by the recent GrayWolf acquisition, which was acquired late in the fourth quarter of 2018.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Construction segment for the three months ended March 31, 2019 increased $4.6 million to $19.8 million from $15.2 million for the three months ended March 31, 2018. The increase was primarily due to increases in salary and benefits due to increases in headcount as a result of the recent acquisition of GrayWolf, which was acquired late in the fourth quarter of 2018.

Depreciation and amortization: Depreciation and amortization from our Construction segment for the three months ended March 31, 2019 increased $2.4 million to $3.9 million from $1.5 million for the three months ended March 31, 2018. The increase was largely due to the additional amortization of intangible assets obtained in the acquisition of GrayWolf in the fourth quarter of 2018.

Other operating (income) expense: Other operating (income) expense from our Construction segment for the three months ended March 31, 2019 increased by $0.5 million to income of $0.1 million from expense of $0.4 million for the three months ended March 31, 2018. The increase in income was primarily driven by gains on asset sales in the current period versus losses on such sales in the comparable period.

Marine Services Segment

	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Net revenue	$ 42.4	$ 36.7	$ 5.7
Cost of revenue	33.2	30.1	3.1
Selling, general and administrative expenses	6.1	5.2	0.9
Depreciation and amortization	6.6	6.8	(0.2)
Other operating expense (income)	0.6	(2.6)	3.2
Loss from operations	$ (4.1)	$ (2.8)	$ (1.3)

Net revenue: Net revenue from our Marine Services segment for the three months ended March 31, 2019 increased $5.7 million to $42.4 million from $36.7 million for the three months ended March 31, 2018. The growth in revenues can be primarily attributed to the increased scale and timing of cable installation projects under execution in the telecom and offshore renewables markets over the comparable period. Growth in revenues from power cable repair projects in the offshore renewables market further contributed to the increase.

Cost of revenue: Cost of revenue from our Marine Services segment for the three months ended March 31, 2019 increased $3.1 million to $33.2 million from $30.1 million for the three months ended March 31, 2018. The increase was primarily driven by the increased scale of cable installation work under execution in the telecom and offshore renewables markets, partially offset by decreases in unutilized vessel costs.

Selling, general and administrative expenses: Selling, general and administrative expenses from our Marine Services segment for the three months ended March 31, 2019 increased $0.9 million to $6.1 million from $5.2 million for the three months ended March 31, 2018. The increase was due primarily to higher compensation costs and professional fees.

Other operating expense (income): Other operating expense (income) from our Marine Services segment for the three months ended March 31, 2019 decreased $3.2 million to expense of $0.6 million from income of $2.6 million for the three months ended March 31, 2018. The decrease is largely driven by an unrepeated gain on the sale of a maintenance vessel in the comparable period.

Energy Segment

	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Net revenue	$ 5.1	$ 4.5	$ 0.6
Cost of revenue	3.2	2.9	0.3
Selling, general and administrative expenses	0.9	0.9	—
Depreciation and amortization	1.4	1.3	0.1
Loss from operations	$ (0.4)	$ (0.6)	$ 0.2

Net revenue: Net revenue from our Energy segment for the three months ended March 31, 2019 increased $0.6 million to $5.1 million from $4.5 million for the three months ended March 31, 2018. The increase was primarily driven by higher volume-related revenues attributable to increases in both CNG sales volumes and the effective price per gasoline gallon equivalent.

Cost of revenue: Cost of revenue from our Energy segment for the three months ended March 31, 2019 increased $0.3 million to $3.2 million from $2.9 million for the three months ended March 31, 2018. The increase was driven by supply and utility costs associated with the increase in sales of CNG when compared to the previous period.

Telecommunications Segment

	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Net revenue	$ 155.5	$ 202.3	$ (46.8)
Cost of revenue	152.3	198.8	(46.5)
Selling, general and administrative expenses	2.5	2.4	0.1
Depreciation and amortization	0.1	0.1	—
Income from operations	$ 0.6	$ 1.0	$ (0.4)

Net revenue: Net revenue from our Telecommunications segment for the three months ended March 31, 2019 decreased $46.8 million to $155.5 million from $202.3 million for the three months ended March 31, 2018. The decrease can be attributed to changes in our customer mix, fluctuations in wholesale traffic volumes and market pressures, which can result in period-to-period variability in revenue contribution.

Cost of revenue: Cost of revenue from our Telecommunications segment for the three months ended March 31, 2019 decreased $46.5 million to $152.3 million from $198.8 million for the three months ended March 31, 2018. The decrease is directly correlated to the fluctuations in wholesale traffic volumes, in addition to slight reductions in margin due to call termination rate changes.

Insurance Segment

	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Life, accident and health earned premiums, net	$ 29.8	$ 20.0	$ 9.8
Net investment income	53.0	17.7	35.3
Net realized and unrealized gains on investments	6.0	2.4	3.6
Net revenue	88.8	40.1	48.7
Policy benefits, changes in reserves, and commissions	52.7	32.2	20.5
Selling, general and administrative	8.2	5.8	2.4
Depreciation and amortization	(6.5)	(0.9)	(5.6)
Income from operations [1]	$ 34.4	$ 3.0	$ 31.4

[1] The Insurance segment revenues are inclusive of realized and unrealized gains and net investment income for the three months ended March 31, 2019 and 2018. Such adjustments are related to transactions between entities under common control which are eliminated or are reclassified in consolidation.

Life, accident and health earned premiums, net: Life, accident and health earned premiums, net from our Insurance segment for the three months ended March 31, 2019 increased $9.8 million to $29.8 million from $20.0 million for the three months ended March 31, 2018. The increase was primarily due to the premiums generated from the acquisition of KIC.

Net investment income: Net investment income from our Insurance segment for the three months ended March 31, 2019 increased $35.3 million to $53.0 million from $17.7 million for the three months ended March 31, 2018. The increase in net investment income was primarily due to the income generated from the assets acquired in the KIC acquisition and from higher average invested fixed maturity securities and mortgage loans from premiums received along with rotation into higher-yielding investments.

Net realized and unrealized gains on investments: Net realized and unrealized gains on investments from our Insurance segment for the three months ended March 31, 2019 increased $3.6 million to $6.0 million from $2.4 million for the three months ended March 31, 2018. The increase was predominantly driven by appreciation of equity securities, partially offset by higher realized losses on bonds and equity securities when compared to the prior period.

Policy benefits, changes in reserves, and commissions: Policy benefits, changes in reserves, and commissions from our Insurance segment for the three months ended March 31, 2019 increased $20.5 million to $52.7 million from $32.2 million for the three months ended March 31, 2018. The increase was primarily driven by the acquisition of KIC, which generated policy benefits, changes in reserves, and commissions in the three months ended March 31, 2019 but did not contribute to the three months ended March 31, 2018 as the KIC acquisition was in August 2018. The increase due to the KIC acquisition was partially driven by a decrease in benefits due to higher claim terminations in the three months ended March 31, 2019 compared to the three months ended March 31, 2018.

Selling, general and administrative: Selling, general and administrative from our Insurance segment for the three months ended March 31, 2019 increased $2.4 million to $8.2 million from $5.8 million for the three months ended March 31, 2018. The increase was driven by increases in headcount, legal, consulting, and transition service agreement fees associated with the acquisition of KIC.

Depreciation and amortization: Depreciation and amortization from our Insurance segment for the three months ended March 31, 2019 increased $5.6 million to $6.5 million from $0.9 million for the three months ended March 31, 2018. The increases is driven by the increase in negative VOBA amortization largely due to the KIC acquisition. Amortization of negative VOBA reflects an increase to net income.

Life Sciences Segment

	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Selling, general and administrative expenses	$ 1.8	$ 3.1	$ (1.3)
Depreciation and amortization	—	0.1	(0.1)
Loss from operations	$ (1.8)	$ (3.2)	$ 1.4

Selling, general and administrative expenses: Selling, general and administrative expenses from our Life Sciences segment for the three months ended March 31, 2019 decreased $1.3 million to $1.8 million from $3.1 million for the three months ended March 31, 2018. The decrease was driven by the second quarter 2018 sale of BeneVir and a corresponding reduction in expenses for the first quarter of 2019 due to the segment having one less operating entity. The decrease was partially offset by an increase in compensation expense, professional fees, and travel expenses at the Pansend holding company.

Broadcasting

	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Net revenue	$ 9.8	$ 10.7	$ (0.9)
Cost of revenue	6.2	6.8	(0.6)
Selling, general and administrative expenses	6.4	10.9	(4.5)
Depreciation and amortization	1.4	0.7	0.7
Other operating (income)	(0.9)	—	(0.9)
Loss from operations	$ (3.3)	$ (7.7)	$ 4.4

Net revenue: Net revenue from our Broadcasting segment for the three months ended March 31, 2019 decreased $0.9 million to $9.8 million from $10.7 million for the three months ended March 31, 2018. During the second half of 2018, the Broadcasting segment undertook targeted cost cutting measures, primarily at HC2 Network Inc. ("Network") where we exited certain local business operations and made strategic changes to the programming mix. The decline in net revenue was primarily due to a decrease in net advertising sales mainly driven by lower local advertising sales.

Cost of revenue: Cost of revenue from our Broadcasting segment for the three months ended March 31, 2019 decreased $0.6 million to $6.2 million from $6.8 million for the three months ended March 31, 2018. The decrease was primarily primarily driven by a reduction in audience measurement costs as a result of the exit of certain local operations and a decrease in programming costs due to changes in the programming mix referenced above, partially offset by higher cost of revenues associated with stations acquired subsequent to the comparable period.

Selling, general and administrative: Selling, general and administrative expenses from our Broadcasting segment for the three months ended March 31, 2019 decreased $4.5 million to $6.4 million from $10.9 million for the three months ended March 31, 2018. The decline in selling, general and administrative expenses was primarily due to a reduction at Network, mainly driven by the cost cutting measures discussed above that resulted in lower personnel, occupancy, advertising and other general administrative costs.

Depreciation and amortization: Depreciation and amortization from our Broadcasting segment for the three months ended March 31, 2019 increased $0.7 million to $1.4 million from $0.7 million for the three months ended March 31, 2018. The increase was driven by additional amortization of fixed assets and definite lived intangible assets which were acquired as part of transactions subsequent to the comparable period.

Other operating (income): Other operating (income) from our Broadcasting segment for the three months ended March 31, 2019 increased $0.9 million to $0.9 million from zero for the three months ended March 31, 2018. The increase was driven by reimbursements from the Federal Communications Commission (the “FCC”). The FCC requires certain television stations to change channels and/or modify their transmission facilities. The U.S. Congress passed legislation which provides the FCC with a fund to reimburse all reasonable costs incurred by stations operating under a full power license and a portion of the costs incurred by stations operating under a low power license that are reassigned to new channels.

Non-operating Corporate

	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Selling, general and administrative expenses	$ 7.2	$ 7.3	$ (0.1)
Depreciation and amortization	—	—	—
Loss from operations	$ (7.2)	$ (7.3)	$ 0.1

Selling, general and administrative expenses: Selling, general and administrative expenses from our Non-operating Corporate segment for the three months ended March 31, 2019 decreased $0.1 million to $7.2 million from $7.3 million for the three months ended March 31, 2018. The decrease was driven by a reduction in accounting and consulting fees, largely offset by an increase in compensation expense, driven by an increase in headcount and grants of prior year restricted stock awards and options.

Income (loss) from Equity Investments

	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Marine Services	(3.8)	(3.8)	—
Life Sciences	(1.1)	(1.4)	0.3
Income from equity investments	$ (4.9)	$ (5.2)	$ 0.3

Marine Services: Loss from equity investments within our Marine Services segment remained flat at a loss of $3.8 million for the three months ended March 31, 2019 and 2018 which was primarily driven by HMN in both periods.

Life Sciences: Loss from equity investments within our Life Sciences segment for the three months ended March 31, 2019 decreased $0.3 million to a loss of $1.1 million from a loss of $1.4 million for the three months ended March 31, 2018. The decrease was largely due to lower equity method losses recorded from our investment in Medibeacon due to timing of clinical trials.

Non-GAAP Financial Measures and Other Information

Adjusted EBITDA

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

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

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

(in millions)

	Three Months Ended March 31, 2019								
	Core Operating Subsidiaries				Early Stage & Other				
	Construction	Marine Services	Energy	Telecom	Life Sciences	Broadcasting	Other & Elimination	Non-operating Corporate	Total HC2
Net (loss) attributable to HC2 Holdings, Inc.									$ (2.8)
Less: Net Income attributable to HC2 Holdings Insurance segment									33.8
Less: Consolidating eliminations attributable to HC2 Holdings Insurance segment									(2.3)
Net Income (loss) attributable to HC2 Holdings, Inc., excluding Insurance Segment	$ 2.1	$ (6.4)	$ (0.6)	$ 0.6	$ (2.6)	$ (4.4)	$ 0.6	$ (23.6)	$ (34.3)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:									
Depreciation and amortization	3.9	6.6	1.4	0.1	—	1.4	—	—	13.4
Depreciation and amortization (included in cost of revenue)	2.1	—	—	—	—	—	—	—	2.1
Amortization of equity method fair value adjustment at acquisition	—	(0.4)	—	—	—	—	—	—	(0.4)
Other operating (income) expenses	(0.1)	0.6	—	—	—	(0.9)	—	—	(0.4)
Interest expense	2.5	1.1	0.4	—	—	1.6	—	16.7	22.3
Other (income) expense, net	—	—	0.1	—	—	0.1	(0.6)	(2.7)	(3.1)
Foreign currency loss (included in cost of revenue)	—	0.1	—	—	—	—	—	—	0.1
Income tax (benefit) expense	1.0	—	—	—	—	—	—	2.3	3.3
Noncontrolling interest	0.1	(2.4)	(0.3)	—	(0.3)	(0.6)	—	—	(3.5)
Share-based payment expense	—	0.4	—	—	—	0.2	—	1.1	1.7
Non-recurring items	—	—	—	—	—	—	—	—	—
Acquisition and disposition costs	0.8	0.5	—	0.1	—	0.1	—	0.1	1.6
Adjusted EBITDA	$ 12.4	$ 0.1	$ 1.0	$ 0.8	$ (2.9)	$ (2.5)	$ —	$ (6.1)	$ 2.8
Total Core Operating Subsidiaries	$ 14.3								

(in millions)

	Three Months Ended March 31, 2018								
	Core Operating Subsidiaries				Early Stage & Other				
	Construction	Marine Services	Energy	Telecom	Life Sciences	Broadcasting	Other & Elimination	Non-operating Corporate	Total HC2
Net (loss) attributable to HC2 Holdings, Inc.									$ (35.0)
Less: Net Income attributable to HC2 Holdings Insurance segment									1.2
Less: Consolidating eliminations attributable to HC2 Holdings Insurance segment									(2.0)
Net Income (loss) attributable to HC2 Holdings, Inc., excluding Insurance segment	$ 3.5	$ (6.3)	$ (0.7)	$ 1.1	$ (3.9)	$ (12.7)	$ (0.1)	$ (15.1)	$ (34.2)
Adjustments to reconcile net income (loss) to Adjusted EBITDA:									
Depreciation and amortization	1.5	6.9	1.3	0.1	0.1	0.7	—	—	10.6
Depreciation and amortization (included in cost of revenue)	1.6	—	—	—	—	—	—	—	1.6
Amortization of equity method fair value adjustment at acquisition	—	(0.4)	—	—	—	—	—	—	(0.4)
Other operating (income) expenses	0.4	(2.6)	—	—	—	—	—	—	(2.2)
Interest expense	0.4	1.2	0.3	—	—	5.7	—	11.7	19.3
Other (income) expense, net	0.1	0.9	0.1	(0.1)	—	(0.1)	—	(0.7)	0.2
Foreign currency (gain) (included in cost of revenue)	—	(0.1)	—	—	—	—	—	—	(0.1)
Income tax (benefit) expense	1.8	—	—	—	—	—	—	(3.3)	(1.5)
Noncontrolling interest	0.3	(2.4)	(0.3)	—	(0.8)	(0.6)	(0.1)	—	(3.9)
Bonus to be settled in equity	—	—	—	—	—	—	—	0.2	0.2
Share-based payment expense	—	0.4	—	—	0.1	0.3	—	0.3	1.1
Non-recurring items	—	—	—	—	—	—	—	—	—
Acquisition and disposition costs	0.4	—	—	—	0.2	1.6	—	0.2	2.4
Adjusted EBITDA	$ 10.0	$ (2.4)	$ 0.7	$ 1.1	$ (4.3)	$ (5.1)	$ (0.2)	$ (6.7)	$ (6.9)
Total Core Operating Subsidiaries	$ 9.4								

Construction: Net income from our Construction segment for the three months ended March 31, 2019 decreased $1.4 million to $2.1 million from $3.5 million. Adjusted EBITDA income from our Construction segment for the three months ended March 31, 2019 increased $2.4 million to $12.4 million from $10.0 million for the three months ended March 31, 2018. The increase in Adjusted EBITDA was driven by higher gross profit contribution from fabrication and erection project work, principally in the Western region, increased margin contribution from the BDS and PDC businesses, and additional revenues from the recent GrayWolf acquisition. These increases were partially offset by higher Selling, general and administrative expense, which is primarily attributable to the recent GrayWolf acquisition.

Marine Services: Net loss from our Marine Services segment for the three months ended March 31, 2019 decreased $0.1 million to $6.4 million from $6.3 million. Adjusted EBITDA from our Marine Services segment for the three months ended March 31, 2019 increased $2.5 million to income of $0.1 million from a loss of $2.4 million for the three months ended March 31, 2018. The increase in Adjusted EBITDA was due primarily to a net reduction in unutilized vessel costs and increased levels of project work across its business lines, most notably its offshore power cable repair business.

Energy: Net loss from our Energy segment for the three months ended March 31, 2019 decreased by $0.1 million to $0.6 million from $0.7 million. Adjusted EBITDA from our Energy segment for the three months ended March 31, 2019 increased $0.3 million to $1.0 million from $0.7 million for the three months ended March 31, 2018. The increase in Adjusted EBITDA was primarily driven by higher volume-related revenues attributable to increases in both CNG sales volumes and the effective price per gasoline gallon equivalent.

Telecommunications: Net Income from our Telecommunications segment for the three months ended March 31, 2019 decreased by $0.5 million to $0.6 million from $1.1 million. Adjusted EBITDA from our Telecommunications segment for the three months ended March 31, 2019 decreased $0.3 million to $0.8 million from $1.1 million. The decrease in Adjusted EBITDA was primarily due to the decline in revenue, which resulted in lower call termination margin contribution than in the comparable period.

Life Sciences: Net loss from our Life Sciences segment for the three months ended March 31, 2019 decreased $1.3 million to $2.6 million from $3.9 million. Adjusted EBITDA loss from our Life Sciences segment for the three months ended March 31, 2019 decreased $1.4 million to $2.9 million from $4.3 million for the three months ended March 31, 2018. The decrease in Adjusted EBITDA losses were primarily driven by R2 Dermatology, which had lower R&D expenses in the current period. In addition, due to the second quarter 2018 sale of BeneVir, expenses for the first quarter of 2019 decreased due to the segment having one less operating entity. The decrease was partially offset by an increase in compensation expense, professional fees, and travel expenses at the Pansend holding company.

Broadcasting: Net loss from our Broadcasting segment for the three months ended March 31, 2019 decreased $8.3 million to $4.4 million from $12.7 million. Adjusted EBITDA loss from our Broadcasting segment for the three months ended March 31, 2019 decreased $2.6 million to $2.5 million from $5.1 million. The decrease in Adjusted EBITDA losses was primarily driven by the reduction in costs as the segment exited certain local markets which were unprofitable at Network, partially offset by higher expenses associated with the growth of the Broadcast stations subsequent to the comparable period.

Non-operating Corporate: Net loss from our Non-operating Corporate segment for the three months ended March 31, 2019 increased $8.5 million to $23.6 million from $15.1 million. Adjusted EBITDA loss from our Non-operating Corporate segment for the three months ended March 31, 2019 decreased $0.6 million to $6.1 million from $6.7 million for the three months ended March 31, 2018. The decrease in Adjusted EBITDA losses was primarily attributable to a decrease in professional fees, partially offset by increases in compensation expense.

(in millions):	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Construction	$ 12.4	$ 10.0	$ 2.4
Marine Services	0.1	(2.4)	2.5
Energy	1.0	0.7	0.3
Telecommunications	0.8	1.1	(0.3)
Total Core Operating Subsidiaries	14.3	9.4	4.9
Life Sciences	(2.9)	(4.3)	1.4
Broadcasting	(2.5)	(5.1)	2.6
Other and Eliminations	—	(0.2)	0.2
Total Early Stage and Other	(5.4)	(9.6)	4.2
Non-Operating Corporate	(6.1)	(6.7)	0.6
Adjusted EBITDA	$ 2.8	$ (6.9)	$ 9.7

Adjusted Operating Income - Insurance

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

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

Management defines Insurance AOI as Net income (loss) for the Insurance segment adjusted to exclude the impact of net investment gains (losses), including OTTI losses recognized in operations; asset impairment; intercompany elimination; bargain purchase gains, reinsurance gain; and acquisition costs. Management defines Pre-tax Insurance AOI as Insurance AOI adjusted to exclude the impact of income tax (benefit) expense recognized during the current period. Management believes that Insurance AOI and Pre-tax Insurance AOI provide meaningful financial metrics that help investors understand certain results and profitability. While these adjustments are an integral part of the overall performance of the Insurance segment, market conditions impacting these items can overshadow the underlying performance of the business. Accordingly, we believe using a measure which excludes their impact is effective in analyzing the trends of our operations.

The table below shows the adjustments made to the reported Net income (loss) of the Insurance segment to calculate Insurance AOI and Pre-tax Insurance AOI (in millions). Refer to the analysis of the fluctuations within the results of operations section:

	Three Months Ended March 31,		
	2019	2018	Increase / (Decrease)
Net income	$ 33.8	$ 1.2	$ 32.6
Effect of investment (gains) [1]	(6.0)	(2.5)	(3.5)
Acquisition costs	0.2	0.3	(0.1)
Insurance AOI	28.0	(1.0)	29.0
Income tax expense (benefit)	0.7	3.2	(2.5)
Pre-tax Insurance AOI	$ 28.7	$ 2.2	$ 26.5

[1] The Insurance segment revenues are inclusive of realized and unrealized gains and net investment income for the three months ended March 31, 2019 and 2018. Such adjustments are related to transactions between entities under common control which are eliminated or are reclassified in consolidation.

Net income for the three months ended March 31, 2019 increased $32.6 million to $33.8 million from $1.2 million. Pretax Insurance AOI income for the three months ended March 31, 2019 increased $26.5 million to $28.7 million, as compared to $2.2 million for three months ended March 31, 2018. The increase was primarily driven by the incremental net investment income and policy premiums from the KIC block acquisition. In addition, the legacy CGI block benefited from higher net investment income, driven by both the growth and mix of the investment portfolio, including premium reinvestment and rotation into higher yield assets, as well as from a decrease in benefits and expenses related to higher claims terminations. This was partially offset by an increase in Selling, general and administrative expenses, primarily attributable to headcount additions related to the KIC acquisition.

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.

Construction Segment

At March 31, 2019, DBMG's backlog was $558.6 million, consisting of $409.3 million under contracts or purchase orders and $149.3 million under letters of intent or notices to proceed. Approximately $222.4 million, representing 39.8% of DBMG’s backlog at March 31, 2019, 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.

Marine Services Segment

At March 31, 2019, GMSL's backlog stood at $455.1 million, inclusive of $369.3 million of signed contracts and customer-approved change orders and $85.8 million of on-site repair estimates associated with its long-term maintenance contracts. Approximately $335.2 million. representing 73.7% of GMSL's backlog at March 31, 2019 was attributable to three multi-year telecom maintenance contracts which will naturally burn through to revenue as the contracts run off. GMSL's reported backlog may not be converted to revenue in any particular period and actual revenue may not equal its backlog. Therefore, GMSL's backlog may not be indicative of the level of its future revenues.

Liquidity and Capital Resources

Short- and Long-Term Liquidity Considerations and Risks

HC2 is a holding company and its liquidity needs are primarily for interest payments on its Senior Secured and Convertible Notes (as defined below), dividend payments on its Preferred Stock and recurring operational expenses.

As of March 31, 2019, the Company had $302.2 million of cash and cash equivalents compared to $325.0 million as of December 31, 2018. On a stand-alone basis, as of March 31, 2019, HC2 had cash and cash equivalents of $1.3 million compared to $6.5 million at December 31, 2018. At March 31, 2019, cash and cash equivalents in our Insurance segment was $255.6 million compared to $283.3 million at December 31, 2018.

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

As of March 31, 2019, the Company had $796.4 million of indebtedness on a consolidated basis compared to $781.0 million as of December 31, 2018. On a stand-alone basis, as of March 31, 2019 and December 31, 2018, HC2 had indebtedness of $525.0 million.

HC2's stand-alone debt consists of the $470.0 million aggregate principal amount of 11.5% senior secured notes due 2021 (the "Senior Secured Notes") and $55.0 million aggregate principal amount of 7.5% convertible senior notes due 2022 (the "Convertible Notes"). HC2 is required to make semi-annual interest payments on its outstanding debt on June 1st and December 1st of each year.

HC2 is required to make dividend payments on its outstanding Preferred Stock on January 15th, April 15th, July 15th, and October 15th of each year.

During the three months ended March 31, 2019, HC2 received $3.5 million in dividends from its Telecommunications segment. During the three months ended March 31, 2019, HC2 received $1.8 million in net management fees related to fees earned in the fourth quarter of 2018.

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

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

Indebtedness

See Note 13. Debt Obligations and Note 22. Subsequent Events, to the Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for a description of our long-term debt.

Restrictive Covenants

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; (2) collateral coverage; (3) secured net leverage ratio; and (4) fixed charge coverage ratio.

The maintenance of liquidity covenant provides that the Company will not permit the aggregate amount of (i) all unrestricted cash and Cash Equivalents of the Company and the Subsidiary Guarantors, (ii) amounts available for drawing under revolving credit facilities and undrawn letters of credit of the Company and the Subsidiary Guarantors and (iii) dividends, distributions or payments that are immediately available to be paid to the Company by any of its Restricted Subsidiaries to be less than the Company's obligation to pay interest on the Senior Secured Notes and all other Debt, including Convertible Preferred Stock mandatory cash dividends or any other mandatory cash pay Preferred Stock but excluding any obligation to pay interest on Convertible Preferred Stock or any other mandatory cash pay Preferred Stock which, in each case, may be paid by accretion or in-kind in accordance with its terms of the Company and its Subsidiary Guarantors for the next six months. As of December 31, 2018, 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, 2019, the Company was in compliance with this covenant.

The maintenance of secured net leverage ratio provides that the Company's Secured Net Leverage Ratio (as defined in the Secured Indenture) as of any date of determination calculated on a pro forma basis after accounting for the net proceeds from any Asset Sale which the Company has determined to apply to the repayment of any Debt to exceed 7.75 to 1.00. As of March 31, 2019, the Company was in compliance with this covenant.

The maintenance of fixed charge coverage ratio provides that commencing with the fiscal year ending December 31, 2019, that the Company will not permit the Fixed Charge Coverage Ratio (as defined in the Secured Indenture) calculated as of the last day of each fiscal year of the Company to be less than 1.00 to 1.00 or that the Company's "HC2 Corporate Overhead" (as defined in the Secured Indenture) in any fiscal year not exceed the sum of $29.0 million for such fiscal year.

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

Summary of Consolidated Cash Flows

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

	Three Months Ended March 31,		Increase /
	2019	2018	(Decrease)
Operating activities	$ 38.1	$ 0.8	$ 37.3
Investing activities	(58.4)	(56.7)	(1.7)
Financing activities	(6.4)	49.2	(55.6)
Effect of exchange rate changes on cash and cash equivalents	0.1	0.7	(0.6)
Net decrease in cash,cash equivalents and restricted cash	$ (26.6)	$ (6.0)	$ (20.6)

Operating Activities

Cash provided by operating activities totaled $38.1 million for the three months ended March 31, 2019 as compared to cash provided of $0.8 million for the three months ended March 31, 2018. The $37.3 million increase was the result of our Insurance segment, which experienced increase in operating cash flows driven by performance results of KIC, which was acquired in 2018. Further, there was an increase in working capital of $15.2 million, largely driven by the Telecommunication segment's timing of vendor payments and receivables collections.

Investing Activities

Cash used in investing activities totaled $58.4 million for the three months ended March 31, 2019 as compared to cash used of $56.7 million for the three months ended March 31, 2018. The $1.7 million decrease was a result of a $31.5 million reduction in cash used for business combinations by our Broadcasting segment, largely offset by a $33.2 million increase in net purchases of investments predominantly by our Insurance segment.

Financing Activities

Cash used in financing activities totaled $6.4 million for the three months ended March 31, 2019 as compared to cash provided of $49.2 million for the three months ended March 31, 2018. The $55.6 million change was a result of a $44.9 million decrease in net borrowings by our Broadcasting and Construction segments, and $8.3 million in cash used by our Insurance segment to purchase 10,000 shares of Series A-2 Preferred Stock.

Other Invested Assets

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

	March 31, 2019		December 31, 2018	
	Measurement Alternative	Equity Method	Measurement Alternative	Equity Method
Common Equity	$ —	$ 2.1	$ —	$ 2.1
Preferred Equity	1.6	8.4	1.6	9.6
Other	—	55.8	—	59.2
Total	$ 1.6	$ 66.3	$ 1.6	$ 70.9

Construction

Cash Flows

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

DBMG is required to make monthly or quarterly interest payments on all of its debt. Based upon the March 31, 2019 debt balance, DBMG anticipates that its interest payments will be approximately $1.8 million each quarter.

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

Marine Services

Cash Flows

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

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

Market Environment

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

Insurance

Cash flows

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

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

Market environment

As of March 31, 2019, CIG was in a position to hold any investment security showing an unrealized loss until recovery, provided it remains comfortable with the credit of the issuer. CIG does not rely on short-term funding or commercial paper and to date it has experienced no liquidity pressure, nor does it anticipate such pressure in the foreseeable future. CIG projects its reserves to be sufficient and believes its current capital base is adequate to support its business.

Dividend Limitations

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

The ability of CIG’s insurance subsidiary to pay dividends and to make such other payments is limited by applicable laws and regulations of the state in which its subsidiary is domiciled, which subject its subsidiary to significant regulatory restrictions. These laws and regulations require, among other things, CIG’s insurance subsidiary to maintain minimum solvency requirements and limit the amount of dividends this subsidiary can pay. Along with solvency regulations, the primary driver in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength in the form of its subsidiary Risk-Based Capital ("RBC") ratio. CIG monitors its insurance subsidiary's compliance with the RBC requirements specified by the National Association of Insurance Commissioners. As of December 31, 2018, CIG’s insurance subsidiary exceeded the minimum RBC requirements.

Insurance Companies Capital Contributions

The Company has an agreement with the Texas Department of Insurance (“TDOI”) that, for two years from August 9, 2018, CIG will contribute to Continental General Insurance Company (“CGI” or the “Insurance Company” cash or marketable securities acceptable to the TDOI to the extent required for CGI’s total adjusted capital to be not less than 450% of CGI’s authorized control level risk-based capital and for three years from August 9, 2020, CIG will contribute to CGI cash or marketable securities acceptable to the TDOI to the extent required for CGI’s total adjusted capital to be not less than 400% of CGI’s authorized control level risk-based capital (each as defined under Texas law and reported in CGI’s statutory statements filed with the TDOI).

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

Asset Liability Management

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

Investments

At March 31, 2019 and December 31, 2018, CIG's investment portfolio is comprised of the following (in millions):

	March 31, 2019		December 31, 2018	
	Fair Value	Percent	Fair Value	Percent
U.S. Government and government agencies	$ 25.2	0.6%	$ 25.4	0.7%
States, municipalities and political subdivisions	432.9	10.7%	421.9	11.0%
Residential mortgage-backed securities	83.5	2.1%	94.4	2.5%
Commercial mortgage-backed securities	101.8	2.5%	93.9	2.5%
Asset-backed securities	506.5	12.5%	511.5	13.4%
Corporate and other (*)	2,493.4	61.8%	2,250.5	58.8%
Common stocks (*)	29.8	0.7%	25.5	0.7%
Perpetual preferred stocks	209.0	5.2%	240.9	6.3%
Mortgage loans	137.2	3.4%	137.6	3.6%
Policy loans	19.7	0.5%	19.8	0.5%
Total	$ 4,039.0	100.0%	$ 3,821.4	100.0%

(*) Balance includes fair value of certain securities held by the Company, which are eliminated in consolidation.

Credit Quality

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

The following table summarizes the credit quality, by NRSRO rating, of CIG's fixed income portfolio (in millions):

	March 31, 2019		December 31, 2018	
	Fair Value	Percent	Fair Value	Percent
AAA, AA, A	$ 1,834.5	50.3%	$ 1,742.4	51.4%
BBB	1,578.2	43.3%	1,444.1	42.5%
Total investment grade	3,412.7	93.6%	3,186.5	93.9%
BB	155.0	4.3%	143.8	4.2%
B	14.5	0.4%	14.7	0.4%
CCC, CC, C	49.3	1.4%	44.4	1.3%
D	11.8	0.3%	8.2	0.2%
Total non-investment grade	230.6	6.4%	211.1	6.1%
Total	$ 3,643.3	100.0%	$ 3,397.6	100.0%

Off-Balance Sheet Arrangements

DBMG

DBMG's off-balance sheet arrangements at March 31, 2019 included letters of credit of $8.5 million under Credit and Security Agreements and performance bonds of $163.5 million.

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

Corporate

In September 2018, HC2 entered into a 75 month lease for office space. As part of the agreement, HC2 was able to pay a lower security deposit and lease payments, and received a favorable lease term as consideration for landlord required cross default language in the event of default by Harbinger Capital Partners, a related party.

New Accounting Pronouncements

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

Critical Accounting Policies

There have been no material changes in the Company's critical accounting policies during the quarter ended March 31, 2019. For information about critical accounting policies, refer to "Critical Accounting Policies" under Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

Related Party Transactions

For a discussion of our Related Party Transactions, refer to Note 19. Related Parties to our Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Corporate Information

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

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains or incorporates a number of "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based on current expectations, and are not strictly historical statements. In some cases, you can identify forward-looking statements by terminology such as "if," "may," "should," "believe," "anticipate," "future," "forward," "potential," "estimate," "opportunity," "goal," "objective," "growth," "outcome," "could," "expect," "intend," "plan," "strategy," "provide," "commitment," "result," "seek," "pursue," "ongoing," "include" or in the negative of such terms or comparable terminology. These forward-looking statements inherently involve certain risks and uncertainties and are not guarantees of performance, results, or the creation of 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 HC2 or the applicable subsidiary of HC2, completing future acquisitions and dispositions, litigation, potential and contingent liabilities, management's plans, changes in regulations and taxes.

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

Forward-looking statements are not guarantees of performance. You should understand that the following important factors, in addition to those discussed under the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018 and in the documents incorporated by reference, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. You should also understand that many factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As a result, you should consider all of the following factors, together with all of the other information presented herein, in evaluating our business and that of our subsidiaries.

HC2 Holdings, Inc. and Subsidiaries

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

- limitations on our ability to successfully identify any strategic acquisitions or business opportunities and to compete for these opportunities with others who have greater resources;
- our possible inability to generate sufficient liquidity, margins, earnings per share, cash flow and working capital from our operating segments;
- our dependence on distributions from our subsidiaries to fund our operations and payments on our obligations;
- the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we may incur;
- the impact of covenants in the Indenture governing HC2’s Notes, the Certificates of Designation governing HC2’s Preferred Stock and all other subsidiary debt obligations as summarized in Note 13. Debt Obligations and future financing agreements on our ability to operate our business and finance our pursuit of acquisition opportunities;
- our dependence on certain key personnel, in particular, our Chief Executive Officer, Philip Falcone;
- uncertain global economic conditions in the markets in which our operating segments conduct their businesses;
- the ability of our operating segments to attract and retain customers;
- increased competition in the markets in which our operating segments conduct their businesses;
- our expectations regarding the timing, extent and effectiveness of our cost reduction initiatives and management’s ability to moderate or control discretionary spending;
- management’s plans, goals, forecasts, expectations, guidance, objectives, strategies and timing for future operations, acquisitions, synergies, asset dispositions, fixed asset and goodwill impairment charges, tax and withholding expense, selling, general and administrative expenses, product plans, performance and results;
- management’s assessment of market factors and competitive developments, including pricing actions and regulatory rulings;
- the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;
- the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;
- our expectations and timing with respect to our ordinary course acquisition activity and whether such acquisitions are accretive or dilutive to stockholders;
- our expectations and timing with respect to any strategic dispositions and sales of our operating subsidiaries including GMSL, or businesses that we may make in the future and the effect of any such dispositions or sales on our results of operations;
- our expectations and timing with respect to any strategic dispositions and sales of our operating subsidiaries or businesses 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;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- the effect any interests our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;
- our ability to effectively increase the size of our organization, if needed, and manage our growth;
- the potential for, and our ability to, remediate future material weaknesses in our internal controls over financial reporting;
- our possible inability to raise additional capital when needed or refinance our existing debt, on attractive terms, or at all; and
- our possible inability to hire and retain qualified executive management, sales, technical and other personnel.

Construction / DBM Global Inc.

Our actual results or other outcomes of DBM Global, Inc. and its wholly-owned subsidiaries ("DBMG"), and, thus, our Construction 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:

- its ability to realize cost savings from expected performance of contracts, whether as a result of improper estimates, performance, or otherwise;
- potential impediments and limitations on our ability to complete ordinary course acquisitions in anticipated time frames or at all;
- uncertain timing and funding of new contract awards, as well as project cancellations;

- cost overruns on fixed-price or similar contracts or failure to receive timely or proper payments on cost-reimbursable contracts, whether as a result of improper estimates, performance, disputes, or otherwise;
- risks associated with labor productivity, including performance of subcontractors that DBMG hires to complete projects;
- its ability to settle or negotiate unapproved change orders and claims;
- changes in the costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;
- adverse impacts from weather affecting DBMG’s performance and timeliness of completion of projects, which could lead to increased costs and affect the quality, costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;
- fluctuating revenue resulting from a number of factors, including the cyclical nature of the individual markets in which our customers operate;
- adverse outcomes of pending claims or litigation or the possibility of new claims or litigation, and the potential effect of such claims or litigation on DBMG’s business, financial condition, results of operations or cash flow; and
- lack of necessary liquidity to provide bid, performance, advance payment and retention bonds, guarantees, or letters of credit securing DBMG’s obligations under bids and contracts or to finance expenditures prior to the receipt of payment for the performance of contracts.

Marine Services / Global Marine Group

Our actual results or other outcomes of Global Marine Group ("GMSL"), and, thus, our Marine Services 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:

- its ability to realize cost savings from expected performance of contracts, whether as a result of improper estimates, performance, or otherwise;
- the possibility of global recession or market downturn with a reduction in capital spending within the targeted market segments in which the business operates;
- project implementation issues and possible subsequent overruns;
- risks associated with operating outside of core competencies when moving into different market segments;
- possible loss or severe damage to marine assets;
- vessel equipment aging or reduced reliability;
- risks associated with two equity method investments that operate in China (i.e., Huawei Marine Systems Co. Limited, a Hong Kong holding company with a Chinese operating subsidiary and SB Submarine Systems Co. Ltd.);
- risks related to noncompliance with a wide variety of anti-corruption laws;
- changes to the local laws and regulatory environment in different geographical regions;
- loss of key senior employees;
- difficulties attracting enough skilled technical personnel;
- foreign exchange rate risk;
- liquidity risk; and
- potential for financial loss arising from the failure by customers to fulfill their obligations as and when these obligations come due.

Energy / ANG Holdings, Inc.

Our actual results or other outcomes of ANG, and, thus, our Energy 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:

- automobile and engine manufacturers’ limited production of originally manufactured natural gas vehicles and engines for the markets in which ANG participates;
- environmental regulations and programs mandating the use of cleaner burning fuels;
- competition from oil and gas companies, retail fuel providers, industrial gas companies, natural gas utilities and other organizations;
- the infrastructure for natural gas vehicle fuels;
- the safety and environmental risks of natural gas fueling operations and vehicle conversions;
- our Energy segment’s ability to implement its business plan in a regulated environment;
- the adoption, modification or repeal in environmental, tax, government regulations, and other programs and incentives that encourage the use of clean fuel and alternative vehicles;
- demand for natural gas vehicles;
- advances in other alternative vehicle fuels or technologies, or improvements in gasoline, diesel or hybrid engines; and
- increases, decreases and general volatility in oil, gasoline, diesel and natural gas prices.

Telecommunications / PTGi International Carrier Services, Inc.

Our actual results or other outcomes of PTGi International Carrier Services, Inc. ("ICS"), and, thus, our Telecommunications segment, may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

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

Insurance / Continental Insurance Group Ltd.

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

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; and
- governmental regulation in the healthcare industry.

Broadcasting / HC2 Broadcasting Holdings Inc.

Our actual results or other outcomes of HC2 Broadcasting Holdings Inc., and, thus, our Broadcasting 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 Broadcasting segment's ability to integrate our recent and pending broadcasting acquisitions;
- our Broadcasting segment's ability to operate in highly competitive markets and maintain market share;
- our Broadcasting segment's ability to effectively implement its business strategy or be successful in the operation of its business;
- new and growing sources of competition in the broadcasting industry; and
- FCC regulation of the television broadcasting industry.

Other

Our actual results or other outcomes of our Other 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 Other segment's ability to operate in highly competitive markets and maintain market share; and
- our Other segment's ability to effectively implement its business strategy or be successful in the operation of its business.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Factors

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

Equity Price Risk

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

Market prices for fixed maturity and equity securities are subject to fluctuation, as a result, and consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions. Because HC2's fixed maturity are classified as available-for-sale, the hypothetical decline would not affect current earnings except to the extent that the decline reflects OTTI, however with respect to Equity Securities, as of January 1, 2018, due to the adoption of ASU 2016-01, would affect earnings due to a hypothetical decline.

A means of assessing exposure to changes in market prices is to estimate the potential changes in market values on the fixed maturity and equity securities resulting from a hypothetical decline in equity market prices. As of March 31, 2019, assuming all other factors are constant, we estimate that a 10.0%, 20.0%, and 30.0% decline in equity market prices would have the following impact (in millions):

	Decline in equity market prices		
	10%	20%	30%
Fixed Maturity Securities	$ 362.6	$ 725.2	$ 1,087.8
Equity Securities	$ 17.3	$ 34.5	$ 51.8

Foreign Currency Exchange Rate Risk

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

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

Foreign Currency

We translate the local currency statements of operations of our foreign subsidiaries into the United States dollar ("USD") using the average exchange rate during the reporting period. DBMG, GMSL and ICS are exposed to market risk from foreign entities' currency price changes that could have a significant and potentially adverse impact on gains and losses as a result of translating the operating results and financial position of international subsidiaries into USD. By way of example, when the USD strengthens compared to the British pound sterling ("GBP"), there could be a negative or positive effect on the reported results for our Telecommunications segment, depending upon whether such businesses are operating profitably or at a loss. More profits in GBP are required to generate the same amount of profits in USD and a greater loss in GBP to generate the same amount of loss in USD, and vice versa. For instance, when the USD weakens against the GBP, there is a positive effect on reported profits and a negative effect on reported losses.

During the three months ended March 31, 2019 and 2018, approximately 10.4% and 9.1%, respectively, of our net revenue from continuing operations was derived from sales and operations outside the U.S. The reporting currency for our Consolidated Financial Statements is the USD. The local currency of each country is the functional currency for each of our respective entities operating in that country.

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

Interest Rate Risk

GMSL, DBMG, and ANG are exposed to the market risk from changes in interest rates through their borrowings, which bear variable rates based on LIBOR. Changes in LIBOR could result in an increase or decrease in interest expense recorded. A 100, 200, and 300 basis point increase in LIBOR based on our floating rate borrowings outstanding as of March 31, 2019 of $135.5 million, would result in an increase in the recorded interest expense of $1.4 million, $2.7 million, and $4.1 million per year, respectively.

Commodity Price Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2019, our disclosure controls and procedures were effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control

There have been no changes in our internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

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. See Note 15. Commitments and Contingencies to our unaudited financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There have been no additional material changes to the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 12, 2019.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

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 HC2 Holdings, Inc. or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement that have been made solely for the benefit of the other parties to the applicable agreement and may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (filed herewith).
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (filed herewith).
32*	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer
101	The following materials from the registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2019, formatted in extensible business reporting language (XBRL); (i) Condensed Consolidated Statements of Operations for the three months ended March 31, 2019 and 2018, (ii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2019 and 2018 (iii) Condensed Consolidated Balance Sheets at March 31, 2019 and December 31, 2018, (iv) Condensed Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2019 and 2018, (v) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018, and (vi) Notes to Condensed Consolidated Financial Statements (filed herewith).

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

SIGNATURES

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

HC2 Holdings, Inc.

Date: May 7, 2019	By:	/s/ Michael J. Sena
		Michael J. Sena
		Chief Financial Officer
		(Duly Authorized Officer and Principal Financial and Accounting Officer)

CERTIFICATIONS

I, Philip A. Falcone, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HC2 Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 7, 2019	By:	/s/ Philip A. Falcone	
		Name:	Philip A. Falcone
		Title:	Chairman, 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 HC2 Holdings, Inc.;

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

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

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

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

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

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

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

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

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

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

Dated: May 7, 2019	By:	/s/ Michael J. Sena	
		Name:	Michael J. Sena
		Title:	Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32

CERTIFICATION

Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002 (18 U.S.C. §1350, as adopted), Philip A. Falcone, the Chairman, President and Chief Executive Officer (Principal Executive Officer) of HC2 Holdings, Inc. (the "Company"), and Michael 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 quarterly period ended March 31, 2019, 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, 2019

/s/ Philip A. Falcone	/s/ Michael J. Sena
Philip A. Falcone	**Michael J. Sena**
Chairman, President and Chief Executive Officer (Principal Executive Officer)	**Chief Financial Officer (Principal Financial and Accounting Officer)**