HC2 Holdings, Inc.
Form 10-Q
May 09, 2016

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, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File No. 001-35210

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

Delaware	54-1708481
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
505 Huntmar Park Drive, Suite 325	
Herndon, VA	20170
(Address of principal executive offices)	(Zip Code)

(703) 865-0700
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer ¨ Accelerated filer x

Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

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

Class	Outstanding as of April 30, 2016
Common Stock, $0.001 par value	35,520,967

HC2 HOLDINGS, INC.
INDEX TO FORM 10-Q

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

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

	Three Months Ended March 31,	
	2016	2015
Services revenue	$182,109	$73,718
Sales revenue	120,497	128,090
Life, accident and health earned premiums, net	19,934	—
Net investment income	14,079	—
Realized losses on investments	(4,875)	—
Net revenue	331,744	201,808
Operating expenses		
Cost of revenue - services	174,873	61,920
Cost of revenue - sales	99,677	110,536
Policy benefits, changes in reserves, and commissions	34,139	—
Selling, general and administrative	36,302	23,512
Depreciation and amortization	5,597	5,255
Loss on sale or disposal of assets	887	473
Total operating expenses	351,475	201,696
Income (loss) from operations	(19,731)	112
Interest expense	(10,326)	(8,700)
Other income (expense), net	110	(227)
Loss from equity investees	(3,934)	(2,688)
Loss from continuing operations before income taxes	(33,881)	(11,503)
Income tax benefit	2,539	6,014
Loss from continuing operations	(31,342)	(5,489)
Loss from discontinued operations	—	(9)
Net loss	(31,342)	(5,498)
Less: Net income attributable to noncontrolling interest and redeemable noncontrolling interest	880	261
Net loss attributable to HC2 Holdings, Inc.	(30,462)	(5,237)
Less: Preferred stock dividends and accretion	1,069	1,088
Net loss attributable to common stock and participating preferred stockholders	$(31,531)	$(6,325)
Basic loss per common share:		
Loss from continuing operations	$(0.89)	$(0.26)
Loss from discontinued operations	—	—
Net loss attributable to common stock and participating preferred stockholders	$(0.89)	$(0.26)
Diluted loss per common share:		
Loss from continuing operations	$(0.89)	$(0.26)
Loss from discontinued operations	—	—
Net loss attributable to common stock and participating preferred stockholders	$(0.89)	$(0.26)
Weighted average common shares outstanding:		
Basic	35,262	24,146

Diluted	35,262	24,146

See accompanying notes to condensed consolidated financial statements.

3

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

	Three Months Ended March 31,	
	2016	2015
Net loss	$(31,342)	$(5,498)
Other comprehensive income (loss)		
Foreign currency translation adjustment	1,823	(4,361)
Unrealized gain (loss) on available-for-sale securities, net of tax	18,617	149
Less: Comprehensive income attributable to the noncontrolling interest and redeemable noncontrolling interest	880	261
Comprehensive loss attributable to HC2 Holdings, Inc.	$(10,022)	$(9,449)

See accompanying notes to condensed consolidated financial statements.

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

	March 31, 2016	December 31, 2015
Assets		
Investments:		
Fixed maturity securities, available-for-sale at fair value	$1,278,031	$1,231,841
Equity securities, available-for-sale at fair value	47,557	49,682
Mortgage loans	1,145	1,252
Policy loans	18,360	18,476
Other invested assets	46,009	53,119
Total investments	1,391,102	1,354,370
Cash and cash equivalents	137,700	158,624
Restricted cash	589	538
Accounts receivable (net of allowance for doubtful accounts of $1,621 and $794 at March 31, 2016 and December 31, 2015, respectively)	192,607	210,853
Costs and recognized earnings in excess of billings on uncompleted contracts	33,143	39,310
Inventory	10,636	12,120
Recoverable from reinsurers	526,251	522,562
Accrued investment income	16,420	15,300
Deferred tax asset	44,245	52,511
Property, plant and equipment, net	241,848	214,466
Goodwill	83,766	61,178
Intangibles	37,539	29,409
Other assets	44,142	65,206
Assets held for sale	4,976	6,065
Total assets	$2,764,964	$2,742,512
Liabilities, temporary equity and stockholders' equity		
Life, accident and health reserves	$1,614,244	$1,593,330
Annuity reserves	258,644	259,460
Value of business acquired	51,130	50,761
Accounts payable and other current liabilities	193,137	225,389
Billings in excess of costs and recognized earnings on uncompleted contracts	24,643	21,201
Deferred tax liability	18,249	4,281
Long-term obligations	394,242	371,876
Pension liability	22,982	25,156
Other liabilities	16,986	17,793
Total liabilities	2,594,257	2,569,247
Commitments and contingencies		
Temporary equity:		
Preferred stock, $.001 par value - 20,000,000 shares authorized; Series A - 29,172 shares issued and outstanding at March 31, 2016 and December 31, 2015; Series A-1 - 10,000 shares issued and outstanding at March 31, 2016 and December 31, 2015; Series A-2 - 14,000 shares issued and outstanding at March 31, 2016 and December 31, 2015	52,674	52,619
Redeemable noncontrolling interest	3,090	3,122
Total temporary equity	55,764	55,741

Stockholders’ equity:		
Common stock, $.001 par value - 80,000,000 shares authorized; 35,346,536 and 35,281,375 shares issued and 35,314,910 and 35,249,749 shares outstanding at March 31, 2016 and December 31, 2015, respectively	35	35
Additional paid-in capital	211,713	209,477
Accumulated deficit	(110,191)	(79,729)
Treasury stock, at cost	(378)	(378)
Accumulated other comprehensive loss	(14,935)	(35,375)
Total HC2 Holdings, Inc. stockholders’ equity before noncontrolling interest	86,244	94,030
Noncontrolling interest	28,699	23,494
Total stockholders’ equity	114,943	117,524
Total liabilities, temporary equity and stockholders’ equity	$2,764,964	$2,742,512

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock Shares	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
Balance as of December 31, 2014	23,813	$ 24	$ 141,948	$ (378)	$ (44,164)	$ (18,243)	$ 25,208	$ 104,395
Share-based compensation expense	—	—	2,694	—	—	—	—	2,694
Preferred stock dividends and accretion	—	—	(1,088)	—	—	—	—	(1,088)
Issuance of common stock	2	—	—	—	—	—	—	—
Issuance of restricted stock	1,436	1	—	—	—	—	—	1
Conversion of preferred stock to common stock	118	—	500	—	—	—	—	500
Acquisition of noncontrolling interest	—	—	—	—	—	—	(271)	(271)
Excess book value over fair value of purchased noncontrolling interest	—	—	34	—	—	—	(34)	—
Net (loss) income	—	—	—	—	(5,237)	—	(261)	(5,498)
Foreign currency translation adjustment	—	—	—	—	—	(4,361)	—	(4,361)
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	—	149	—	149
Balance as of March 31, 2015	25,369	$ 25	$ 144,088	$ (378)	$ (49,401)	$ (22,455)	$ 24,642	$ 96,521

	Common Stock Shares	Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
Balance as of December 31, 2015	35,250	$ 35	$ 209,477	$ (378)	$ (79,729)	$ (35,375)	$ 23,494	$ 117,524
Share-based compensation expense	—	—	2,582	—	—	—	609	3,191
Preferred stock dividend and accretion	—	—	(1,014)	—	—	—	—	(1,014)
Preferred stock beneficial conversion feature	—	—	(55)	—	—	—	—	(55)
Issuance of common stock	65	—	—	—	—	—	—	—
Acquisition of noncontrolling interest	—	—	—	—	—	—	822	822

Sale of controlling interest	—	—	—	—	—	—	5,345	5,345
Excess fair value over book value of noncontrolling interest sold	—	—	723	—	—	—	(723)	—
Net (loss) income	—	—	—	—	(30,462)	—	(880)	(31,342)
Net income (loss) attributable to noncontrolling interest and redeemable noncontrolling interest	—	—	—	—	—	—	32	32
Foreign currency translation adjustment	—	—	—	—	—	1,823	—	1,823
Unrealized gain (loss) on available-for-sale securities, net of tax	—	—	—	—	—	18,617	—	18,617
Balance as of March 31, 2016	35,315	$ 35	$211,713	$(378)	$(110,191)	$ (14,935)	$28,699	$114,943

See accompanying notes to condensed consolidated financial statements.

6

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

	Three Months Ended March 31, 2016	2015
Cash flows from operating activities:		
Net loss	$(31,342)	$(5,498)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for doubtful accounts receivable	112	95
Share-based compensation expense	3,191	2,694
Depreciation and amortization	7,526	7,130
Amortization of deferred financing costs and debt discount	495	421
Amortization of fixed maturities discount/premium	3,361	—
(Gain) loss on sale or disposal of assets	887	473
Realized (gain) loss on investments	4,649	(515)
Unrealized (gain) loss on investments	(1,582)	—
Impairment of investments	2,686	—
Equity investment (income)/loss	3,934	2,688
Deferred income taxes	(12,311)	(568)
Receipt of dividends from equity investees	7,214	—
Other	2,368	172
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	18,900	(45,764)
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	6,167	3,468
(Increase) decrease in inventory	2,012	(2,355)
(Increase) decrease in other assets	18,700	(3,614)
Increase (decrease) in life, accident and health reserves	20,914	—
Increase (decrease) in accounts payable, current and other liabilities	(42,324)	3,455
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	3,442	(10,116)
Increase (decrease) in pension liability	(2,174)	(1,125)
Net change in cash due to operating activities	16,825	(48,959)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(6,512)	(3,124)
Sale of property and equipment and other assets	471	998
Purchase of investments	(73,606)	(18,558)
Sale of investments	51,040	1,026
Cash paid for business acquisitions, net of cash acquired	(6,469)	—
Purchase of noncontrolling interest	—	(222)
Sale of controlling interest	2,000	—
(Increase) decrease in restricted cash	(51)	(893)
Net change in cash due to investing activities	(33,127)	(20,773)
Cash flows from financing activities:		
Proceeds from long-term obligations	2,360	50,250
Principal payments on long-term obligations	(2,538)	(2,082)

Borrowings on line of credit, net	(618)	29,445
Payment of deferred financing costs	—	(1,136)
Annuity receipts	785	—
Annuity surrenders	(5,149)	—
Proceeds from sale of preferred stock, net	—	14,032
Payment of dividends	(1,014)	—

7

Net change in cash due to financing activities	(6,174)	90,509
Effects of exchange rate changes on cash and cash equivalents	1,552	117
Net change in cash and cash equivalents	(20,924)	20,894
Cash and cash equivalents, beginning of period	158,624	107,978
Cash and cash equivalents, end of period	$137,700	$128,872
Supplemental cash flow information:		
Cash paid for interest	$1,465	$1,287
Cash paid for taxes	$639	$112
Preferred stock dividends and accretion	$55	$67
Non-cash investing and financing activities:		
Purchases of property, plant and equipment under financing arrangements	$—	$1,808
Property, plant and equipment included in accounts payable	$946	$1,632
Conversion of preferred stock to common stock	$—	$500

See accompanying notes to condensed consolidated financial statements.

8

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

1. Organization and Business

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

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

1.Our Manufacturing segment includes Schuff International, Inc. ("Schuff") and its wholly-owned subsidiaries. Schuff is an integrated fabricator and erector of structural steel and heavy steel plates with headquarters in Phoenix, Arizona. Schuff has operations in Arizona, Georgia, Texas, Kansas and California, with its construction projects primarily located in the aforementioned states. In addition, Schuff has construction projects in select international markets, primarily Panama through, Schuff Hopsa Engineering, Inc., a Panamanian joint venture with Empresas Hopsa, S.A. that provides steel fabrication services. The Company maintains a 91% controlling interest in Schuff.

2.Our Marine Services segment includes Global Marine Systems Limited ("GMSL"). GMSL is a leading provider of engineering and underwater services on submarine cables. In conjunction with the acquisition of GMSL, approximately 3% of the Company’s interest in GMSL was purchased by a group of individuals. The Company maintains a 97% controlling interest in GMSL.

3.Our Insurance segment includes United Teacher Associates Insurance Company ("UTA") and Continental General Insurance Company ("CGI", and together with UTA, "CII" or the "Insurance Companies"). Insurance Companies provide long-term care, life and annuity coverage to approximately 99,000 individuals. The benefits provided help protect our policy and certificate holders from the financial hardships associated with illness, injury, loss of life, or income continuation.

4.Our Utilities segment includes American Natural Gas ("ANG"). ANG is a premier distributor of natural gas motor fuel headquartered in the Northeast. ANG designs, builds, owns, acquires, operates and maintains compressed natural gas fueling stations for transportation vehicles. ANG’s team is comprised of industry, legal, construction, engineering and entrepreneurial experts who are working directly with the leading natural gas companies to seek out opportunities for building successful natural gas fueling stations. Vehicle manufacturers and fleet operators are pursuing natural gas vehicles in the US markets to reduce carbon emissions and environmental impacts while providing a cost-effective alternative to foreign crude oil. The Company maintains a 55% controlling interest in ANG.

5.In our Telecommunications segment, we operate a telecommunications business including a network of direct routes and provide premium voice communication services for national telecom operators, mobile operators, wholesale carriers, prepaid operators, Voice over Internet Protocol service operators and Internet service providers from our International Carrier Services ("ICS") business unit. We provide premium voice communications services for National Telecom operators, Mobile operators, wholesale carriers, Prepaid operators, VARS & VOIP service operators. ICS provides a quality service via direct routes & by forming strong relationships with carefully selected partners.

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

7.In our Other segment, we invest in and grow developmental stage companies where we believe growth potential is significant. In this segment, we currently have a 72% ownership interest in DMi, Inc. ("DMi"), which owns licenses to create and distribute NASCAR® video games. See footnotes 17. Related Parties and 21. Subsequent Events.

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

2. Summary of Significant Accounting Policies

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial reporting and Securities and Exchange Commission (“SEC”) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the Company’s three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in the Company’s most recently filed Annual Report on Form 10-K.

Principles of Consolidation - The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and all other subsidiaries over which the Company exerts control. All intercompany profits, transactions and balances have been eliminated in consolidation. As of March 31, 2016, the Company has a 100% interest in the Insurance Companies, a 97% interest in GMSL, a 91% interest in Schuff, a 55% interest in ANG and a 72% interest in DMi, Inc. Through its subsidiary, Pansend, the Company has a 77% interest in Genovel Orthopedics, Inc., a 61% interest in R2 Dermatology and a 60% interest in Benevir Biopharm, Inc. The results of each of these entities are consolidated with the Company’s results from and after their respective acquisition dates based on guidance from the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 810, “Consolidation” (“ASC 810”). The remaining interests not owned by the Company are presented as a noncontrolling interest component of total equity. Schuff uses a 4-4-5 week quarterly cycle, which for the first quarter of 2016 ended on April 2, 2016.

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

Newly Adopted Accounting Principles

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

In August 2015, the FASB issued ASU 2015-15, “Interest - Imputation of Interest Subtopic No. 835-30: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements”, which codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line-of-credit arrangements as assets, rather than as a direct offset to the liability as is required now under ASU 2015-03. On January 1, 2016, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

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

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

In May 2015, the FASB issued ASU 2015-8, “Business Combinations Topic No. 805: Pushdown Accounting-Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115 (SEC Update)”, which rescinds certain SEC guidance in order

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

to confirm with ASU 2014-17, “Pushdown Accounting” (“ASU 2014-17”). ASU 2014-17 was issued in November 2014 and provides a reporting entity that is a business or nonprofit activity (an “acquiree”) the option to apply pushdown accounting to its separate financial statements when an acquirer obtains control of the acquiree. On January 1, 2016, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

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

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

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

New Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" (Topic 718), which introduces targeted amendments intended to simplify the accounting for stock compensation. Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. Early adoption is permitted. The Company's effective date for adoption is January 1, 2017. The Company is currently evaluating the impact of the accounting update on its condensed consolidated financial statements.

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

In March 2016, the FASB issued ASU 2016-07, "Simplifying the Transition to the Equity Method of Accounting" (Topic 323), which requires an investor to initially apply the equity method of accounting from the date it qualifies for that method, i.e., the date the investor obtains significant influence over the operating and financial policies of an investee. The ASU eliminates the previous requirement to retroactively adjust the investment and record a cumulative catch up for the periods that the investment had been held, but did not qualify for the equity method of accounting.

Early adoption is permitted. The Company's effective date for adoption is January 1, 2017. The Company is currently evaluating the impact of the accounting update on its condensed consolidated financial statements.

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

1, 2017. The Company is currently evaluating the impact of the accounting update on its condensed consolidated financial statements.

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

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

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

3. Business Combinations

The Company’s acquisitions were accounted for using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date. Estimates of fair value included in the condensed consolidated financial statements, in conformity with ASC No. 820, “Fair Value Measurements and Disclosures” (“ASC 820”), represent the Company’s best estimates and valuations developed with the assistance of independent appraisers and, where such valuations have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The following estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially.

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

Insurance Companies

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

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

The aggregate consideration provided in connection with the acquisition of the Insurance Companies and related transactions and agreements was valued at $18.6 million and consisted of $7.0 million of cash, $2.0 million in aggregate principal amount of the Company’s 11.0% Senior Secured Notes due 2019, 1,007,422 shares of the Company's common stock and five years warrants to purchase 2,000,000 shares of the Company's common stock at an exercise price of $7.08 per share (subject to customary adjustments upon stock splits or similar transactions) exercisable on or after February 3, 2016 (the "Warrant").

Purchase Price Allocation

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

Fair value of consideration transferred	
Cash	$6,981
Company’s Senior Secured Notes	1,879
Company's common stock	5,380
Warrant	4,332
Total fair value of consideration transferred	$18,572
Purchase price allocation	
Fixed maturities, available for sale at fair value	$1,230,038
Equity securities, available for sale at fair value	35,697
Mortgage loans	1,252
Policy loans	18,354
Other investments	183
Cash and cash equivalents	48,525
Recoverable from reinsurers	523,076
Accrued investment income	14,417
Goodwill	46,448
Intangibles	4,850
Other assets	12,869
Total assets acquired	1,935,709
Life, accident and health reserves	(1,592,722)
Annuity reserves	(259,675)
Value of business acquired	(51,870)
Deferred tax liability	(1,704)
Other liabilities	(11,166)
Total liabilities assumed	(1,917,137)
Total net assets acquired	$18,572

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

The acquisition of the Insurance Companies resulted in goodwill of approximately $46.4 million. Goodwill was the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The Insurance Companies were recognized as a new stand-alone reporting unit. Goodwill is not amortized and is not deductible for tax purposes.

The Value of Business Acquired ("VOBA")

The VOBA was derived using a “Becker-ized” Present Value of Distributable Earnings (“PVDE”) method. The PVDE was derived using the statutory after tax profits. The VOBA was valued at $51.9 million and is amortized over the anticipated remaining

13

future lifetime of the acquired long term care blocks of business. VOBA is amortized in relation to the projected future premium of the acquired long term care blocks of business.

Reinsurance Recoverable

The reinsurance recoverable balance represents amounts recoverable from third party. 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 $515.9 million, to arrive at a gross insurance liability, and recognized an offsetting reinsurance recoverable amount of approximately $515.9 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 represents 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.

Contingent Liability

Pursuant to the purchase agreement, the Company also agreed to pay to the sellers, on an annual basis with respect to the years 2015 through 2019, the amount, if any, by which the Insurance Companies' cash flow testing and premium deficiency reserves decrease from the amount of such reserves as of December 31, 2014. Such payments are capped at $13.0 million. The balance is calculated based on the fluctuation of the statutory cash flow testing and premium deficiency reserves annually following each of the Insurance Companies' filing with its domiciliary insurance regulator of its annual statutory statements for each calendar year ending December 31, 2015 through and including December 31, 2019. Based on the 2015 statutory statements, the Company does not have a payment due. Further, the Company's current estimate is that the obligation will not be incurred up through the year ended December 31, 2019. This expectation is primarily driven by the following factors (i) less confidence that treasury rates will be increasing back to historical averages any time soon; (ii) uncertainty around future operating expenses historically performed by sellers; and (iii) the premium deficiency reserve as reported at December 31, 2015 increased by approximately $8.0 million and because the balance is cumulative over the period, a decrease of approximately $8.0 million would be required first before there would be any obligation to the sellers. The Company will re-perform this assessment at each reporting period through December 31, 2019 or until the $13.0 million is paid in full.

Control Level Risk-Based Capital

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

of UTA’s authorized control level risk-based capital (each as defined under Texas law and reported in UTA’s statutory statements filed with the TDOI).

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

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

to the purchase agreement, the Company will indemnify GAFRI for the amount of any payments made by it under the Capital Maintenance Agreements.

Through March 31, 2016, total capital and surplus to be reported in the Insurance Companies' quarterly statutory statements, decreased by less than $1.0 million and remains in excess of 400% of the authorized control level risk-based capital.

Pro Forma Adjusted Summary

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

The following schedule presents unaudited consolidated pro forma results of operations data as if the acquisition of the Insurance Companies had occurred on January 1, 2015. This information neither purports to be indicative of the actual results that would have occurred if 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 thousands, except per share amounts):

	Three Months Ended March 31, 2015
Net revenue	$237,612
Net income (loss) from continuing operations	(8,142)
Gain (loss) from discontinued operations	(9)
Net income (loss) attributable to HC2	$(8,151)
Per share amounts:	
Income (loss) from continuing operations	$(0.34)
Gain (loss) from discontinued operations	—
Net income (loss) attributable to HC2	$(0.34)

Transaction costs incurred in connection with the Insurance Companies acquisition were $0.5 million and zero during the three months ended March 31, 2016 and 2015 and were included within selling, general and administrative expenses. The Company recorded net revenue of $29.1 million and net loss of $12.3 million from the Insurance Companies for the three month ended March 31, 2016.

Other Acquisitions

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

On February 3, 2016, GMSL acquired a 60% majority interest in CWind Limited ("CWind") for $7.8 million with a commitment to purchase the remaining 40% in equal amounts on September 30, 2016 and September 30, 2017 based on agreed upon financial targets. The results of CWind's operations since February 3, 2016 are included in the Company’s Condensed Consolidated Statements of Operations. GMSL performed a preliminary valuation of the acquired assets, assumed liabilities, and a contingent liability at February 3, 2015.

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

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

	Benevir	CWind
Consideration		
Cash	$1,000	$7,783
Fair value of previously held interest	4,272	—
Contingent asset	—	(2,992)
Deferred consideration	—	2,589
Total fair value of consideration transferred	$5,272	$7,380
Purchase price allocation		
Cash and cash equivalents	$1,122	$1,188
Accounts receivable	—	6,397
Inventory	—	528
Property, plant and equipment, net	187	27,675
Goodwill	3,633	1,528
Intangibles	6,392	2,626
Other assets	37	2,298
Total assets acquired	11,371	42,240
Accounts payable and other current liabilities	(161)	(10,891)
Deferred tax liability	(2,580)	(2,341)
Long-term obligations	—	(20,813)
Other liabilities	(12)	—
Noncontrolling interest	—	(815)
Total liabilities assumed	(2,753)	(34,860)
Enterprise value	8,618	7,380
Less fair value of noncontrolling interest	3,346	—
Purchase price attributable to controlling interest	$5,272	$7,380

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

4. Investments

Fixed Maturity and Equity Securities Available-for-Sale

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

March 31, 2016	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Fixed maturity securities				
U.S. Government and government agencies	$17,819	$ 412	$(4)	$18,227
States, municipalities and political subdivisions	383,829	11,485	(198)	395,116
Foreign government	6,415	—	(183)	6,232
Residential mortgage-backed securities	158,353	1,214	(1,398)	158,169
Commercial mortgage-backed securities	68,653	901	(129)	69,425
Asset-backed securities	56,955	184	(662)	56,477
Corporate and other	563,929	18,332	(7,876)	574,385
Total fixed maturity securities	$1,255,953	$ 32,528	$(10,450)	$1,278,031

Equity securities

16

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

Common stocks	$17,369	$794	$(831)	$17,332
Perpetual preferred stocks	30,912	156	(843)	30,225
Total equity securities	$48,281	$950	$(1,674)	$47,557

December 31, 2015	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Fixed maturity securities				
U.S. Government and government agencies	$17,131	$ 1	$ (49)	$17,083
States, municipalities and political subdivisions	387,427	60	(1,227)	386,260
Foreign government	6,426	3	—	6,429
Residential mortgage-backed securities	166,324	579	(588)	166,315
Commercial mortgage-backed securities	74,898	233	(96)	75,035
Asset-backed securities	34,396	106	(51)	34,451
Corporate and other	553,487	318	(7,537)	546,268
Total fixed maturity securities	$1,240,089	$ 1,300	$ (9,548)	$1,231,841
Equity securities				
Common stocks	$19,935	$ 1	$ (1,311)	$18,625
Perpetual preferred stocks	30,901	162	(6)	31,057
Total equity securities	$50,836	$ 163	$ (1,317)	$49,682

The Company has investments in mortgage backed securities ("MBS") that contain embedded derivatives (primarily interest-only MBS) that do not qualify for hedge accounting. The Company records the entire change in the fair value of these securities in earnings at period end. These investments had a fair value of $18.1 million and $21.0 million as of March 31, 2016 and December 31, 2015, respectively. The change in fair value related these securities resulted in a loss of approximately $1.7 million and $0 for the three months ended March 31, 2016 and 2015, respectively.

Maturities of Fixed Maturity Securities Available-for-Sale

The amortized cost and fair value of fixed maturity securities available-for-sale at March 31, 2016 are shown by contractual maturity in the table below (dollars in thousands). Actual maturities can differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset and mortgage-backed securities are shown separately in the table below, as they are not due at a single maturity date (in thousands).

	Amortized Cost	Fair Value
Corporate, Municipal, U.S. Government and Other securities		
Due in one year or less	$12,085	$12,096
Due after one year through five years	140,767	135,432
Due after five years through ten years	166,554	170,593
Due after ten years	652,586	675,839
Subtotal	971,992	993,960
Mortgage-backed securities	227,006	227,594
Asset-backed securities	56,955	56,477
Total	$1,255,953	$1,278,031

Corporate Fixed Maturity Securities

The tables below show the major industry types of the Company's Corporate and other fixed maturity holdings as of March 31, 2016 and December 31, 2015 (in thousands):

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

	March 31, 2016			December 31, 2015		
	Amortized Cost	Fair Value	% of Total	Amortized Cost	Fair Value	% of Total
Finance, insurance, and real estate	$218,523	$214,873	37.4 %	$223,144	$217,377	39.8 %
Transportation, communication and other services	156,501	162,155	28.2 %	156,022	155,175	28.4 %
Manufacturing	102,979	108,113	18.8 %	95,138	94,792	17.4 %
Other	85,926	89,244	15.5 %	79,183	78,924	14.4 %
Total	$563,929	$574,385	100.0%	$553,487	$546,268	100.0%

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

A portion of certain other-than-temporary impairment ("OTTI") losses on fixed maturity securities is recognized in AOCI. For these securities the net amount recognized in the Condensed Consolidated Statements of Operations ("credit loss impairments") represent 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 recorded a $1.0 million impairment related to one fixed maturity security during the three months ended March 31, 2016 within other income (expense). The Company did not record any impairments on fixed maturity or equity securities during the three months ended March 31, 2015.

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

The following table presents the total unrealized losses for the 228 and 528 fixed maturity and equity securities as of March 31, 2016 and December 31, 2015, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (in thousands):

	March 31, 2016		December 31, 2015	
	Unrealized Losses	% of Total	Unrealized Losses	% of Total
Fixed maturity securities				
Less than 20%	$(4,613)	38.0 %	$(5,667)	52.2 %
20% or more for less than six months	(70)	0.6 %	—	— %
20% or more for six months or greater	(7,441)	61.4 %	(5,198)	47.8 %
Total	$(12,124)	100.0%	$(10,865)	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 (a) whether the unrealized loss is credit-driven or a result of changes in market interest rates (b) the extent to which fair value is less than cost basis (c) cash flow projections received from independent sources (d) historical operating, balance sheet and cash flow data contained in issuer SEC filings and news releases (e) near-term prospects for improvement in the issuer and/or its industry (f) third party research and communications with industry specialists (g) financial models and forecasts (h) the continuity of dividend payments, maintenance of investment grade ratings and hybrid nature of certain investments (i) discussions with issuer management, and (j) ability and intent to hold the investment for a period of time sufficient to allow for anticipated recovery in fair value.

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

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

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

The following tables present the estimated fair values and gross unrealized losses for 228 and 528 fixed maturity and equity securities that have estimated fair values below amortized cost as of March 31, 2016 and December 31, 2015, respectively. The Company does not have any other-than-temporary impairment losses reported in AOCI. These investments are presented by investment category and the length of time the related fair value has remained below amortized cost (in thousands):

March 31, 2016	Less than 12 months		12 months of greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities						
U.S. Government and government agencies	$53	$(4)	$ —	$ —	$53	$(4)
States, municipalities and political subdivisions	7,978	(198)	—	—	7,978	(198)
Foreign government	6,232	(183)	—	—	6,232	(183)
Residential mortgage-backed securities	93,363	(1,398)	—	—	93,363	(1,398)
Commercial mortgage-backed securities	16,857	(129)	—	—	16,857	(129)
Asset-backed securities	38,407	(662)	—	—	38,407	(662)
Corporate and other	92,922	(7,876)	—	—	92,922	(7,876)
Total fixed maturity securities	$255,812	$(10,450)	$ —	$ —	$255,812	$(10,450)
Equity securities						
Common stocks	$7,891	$(831)	$ —	$ —	$7,891	$(831)
Perpetual preferred stocks	18,078	(843)	—	—	18,078	(843)
Total equity securities	$25,969	$(1,674)	$ —	$ —	$25,969	$(1,674)

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

At March 31, 2016, investment grade fixed maturity securities (as determined by nationally recognized rating agencies) represented approximately 20.3% of the gross unrealized loss and 56.9% of the fair value. At December 31, 2015, investment grade fixed maturity securities represented approximately 33.2% of the gross unrealized loss and 88.3% of the fair value.

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

Other Invested Assets

Other invested assets represent approximately 3.3% and 3.9% of the Company’s total investments as of March 31, 2016 and December 31, 2015, respectively. Carrying values of other invested assets as of March 31, 2016 and December 31, 2015 are as follows (in thousands):

19

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

March 31, 2016 Cost Method	December 31, 2015