

HC2 HOLDINGS, INC.  
Form 10-K  
March 12, 2019

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

FORM 10-K

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

For the fiscal year ended December 31, 2018

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  
(I.R.S.  
(State or other jurisdiction of Employer  
incorporation or organization) Identification  
No.)

450 Park Avenue, 30th Floor, New York, NY 10022  
(Address of principal executive offices) (Zip Code)

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

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

Title of each class Name of each exchange on which registered  
Common Stock, par value \$0.001 per share New York Stock Exchange

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

N/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No x

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

Indicate by check mark whether the registrant has submitted electronically, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

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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 Act). Yes  No  y

The aggregate market value of HC2's common stock held by non-affiliates of the registrant as of June 30, 2018 was approximately \$249,795,386, based on the closing sale price of the Common Stock on such date.

As of February 28, 2019, 44,971,835 shares of common stock, par value \$0.001, were outstanding.

Documents Incorporated by Reference:

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the registrant's 2019 Annual Meeting of Stockholders are incorporated by reference into Part III.

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<u>Part I</u>	
Item 1.	<u>Business</u> 2
Item 1A.	<u>Risk Factors</u> 24
Item 1B.	<u>Unresolved Staff Comments</u> 61
Item 2.	<u>Properties</u> 61
Item 3.	<u>Legal Proceedings</u> 61
Item 4.	<u>Mine Safety Disclosures</u> 62
<u>Part II</u>	
Item 5.	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 63
Item 6.	<u>Selected Financial Data</u> 64
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> 66
Item 7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 96
Item 8.	<u>Financial Statements and Supplementary Data</u> 97
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> 97
Item 9A.	<u>Controls and Procedures</u> 98
Item 9B.	<u>Other Information</u> 98
<u>Part III</u>	
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u> 99
Item 11.	<u>Executive Compensation</u> 99
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 99
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u> 99
Item 14.	<u>Principal Accountant Fees and Services</u> 99
<u>Part IV</u>	
Item 15.	<u>Exhibits, Financial Statement Schedules</u> 100
Item 16.	<u>Form 10-K Summary</u> 107

## PART I

### ITEM 1. BUSINESS

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

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

#### General

HC2 is a diversified holding company that seeks opportunities to acquire and grow businesses that can generate long-term sustainable free cash flow and attractive returns in order to maximize value for all stakeholders. As of December 31, 2018, our eight reportable operating segments based on management's organization of the enterprise included Construction, Marine Services, Energy, Telecommunications, Insurance, Life Sciences, Broadcasting and Other, which includes businesses that do not meet the separately reportable segment thresholds.

Our principal operating subsidiaries include the following assets:

- (i) DBM Global Inc. ("DBMG") (Construction), a family of companies providing fully integrated structural and steel construction services;
- (ii) Global Marine Group ("GMSL") (Marine Services), a leading provider of engineering and underwater services on submarine cables;
- (iii) American Natural Gas ("ANG") (Energy), a compressed natural gas fueling company;
- (iv) PTGi-International Carrier Services Inc. ("ICS") (Telecommunications), a provider of internet-based protocol and time-division multiplexing access for the transport of long-distance voice minutes;
- (v) Continental Insurance Group Ltd. ("CIG") (Insurance), a platform for our run-off long-term care and life and annuity business, through its insurance company, Continental General Insurance Company ("CGI" or the "Insurance Company");
- (vi) Pansend Life Sciences, LLC ("Pansend") (Life Sciences), our subsidiary focused on supporting healthcare and biotechnology product development;
- (vii) HC2 Broadcasting Holdings Inc. ("HC2 Broadcasting") and its subsidiaries, a strategic acquirer and operator of Over-The-Air ("OTA") broadcasting stations across the United States ("U.S."). In addition, 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; and
- (viii) Other, which 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.

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

#### Overall Business Strategy

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

and financial partners and seek to align our management teams' incentives with our goal of delivering sustainable long-term value to our stakeholders.

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

### Competition

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

## Employees

As of December 31, 2018, we had approximately 4,119 employees, including the employees of our operating businesses as described in more detail below. We consider our relations with our employees to be satisfactory.

## Our Operating Subsidiaries

### Construction Segment (DBMG)

DBM Global Inc. is a fully integrated 3D Building Information Modeling ("BIM") modeler, detailer, fabricator, and erector of structural steel and heavy steel plate. DBMG models, details, fabricates and erects structural steel for commercial and industrial and infrastructure construction projects such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas and stadiums, shopping malls, hospitals, dams, bridges, mines and power plants. DBMG also fabricates trusses and girders and specializes in the fabrication and erection of large-diameter water pipe and water storage tanks. Through its Aitken business ("Aitken"), DBMG manufactures pollution control scrubbers, tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products. Through its most recent acquisition, GrayWolf Industrial ("GrayWolf"), DBMG also provides specialty maintenance, repair, and installation services to a diverse set of end markets, including power, petrochemical, pulp & paper, and refinery. Headquartered in Phoenix, Arizona, DBMG has operations in Arizona, California, Georgia, Kansas, Kentucky, Texas, and Utah with construction projects primarily located in the aforementioned states.

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

## Strategy

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

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

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

well as the margin slippage that may accompany larger projects;

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

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

## Services and Customers

DBMG operates primarily within the over \$700 billion non-residential construction industry, which serves a diverse set of end markets.

DBMG consists of six business units spread across diverse steel markets: Schuff Steel Company ("SSC") (steel fabrication and erection), Schuff Steel Management Company ("SSMC") (management of smaller projects, leveraging subcontractors), PDC Global Pty Ltd. ("PDC") (steel detailing, bridge detailing, BIM modeling and BIM management services), BDS VirCon ("BDS") (steel detailing, rebar detailing and BIM modeling services), the Aitken product line ("Aitken") (manufacturing of equipment for the oil and gas industry), and GrayWolf (specialty maintenance, repair, and installation services). For the fiscal year ended December 31, 2018 revenues were as follows (in millions):

	Revenue	% of Revenue	
SSC	\$ 639.5	89.3	%
SSMC	26.5	3.7	%
PDC	22.7	3.2	%
BDS	11.1	1.5	%
Aitken	6.6	0.9	%
GrayWolf <sup>(1)</sup>	10.0	1.4	%
	\$ 716.4	100.0	%

(1) Revenue from GrayWolf since acquisition on November 30, 2018

The majority of DBMG's business is in North America, but PDC and BDS provide detailing services on five continents, and SSC provides fabricated steel to Canada and other select countries. In 2018, DBMG's two largest customers represented approximately 28.0% of revenues. In 2017, the same customers represented approximately 38.0% of revenues.

DBMG's size gives it the production capacity to complete large-scale, demanding projects, with typical utilization per facility ranging from 70%-99% and a sales pipeline that includes over \$416 million in potential revenue generation. DBMG believes it has benefited from being one of the largest players in a market that is highly-fragmented across many small firms.

DBMG achieves a highly-efficient and cost-effective construction process by focusing on collaborating with all project participants and utilizing its extensive design-build and design-assist capabilities with its clients. Additionally, DBMG has in-house fabrication and erection combined with access to a network of subcontractors for smaller projects in order to provide high-quality solutions for its customers. DBMG offers a range of services across a broad geography through its twelve fabrication shops in the United States and 32 sales and management facilities located in the United States, Australia, Canada, India, New Zealand, the Philippines, Thailand and the UK.

DBMG operates with minimal bonding requirements, with a current balance of less than 27% of DBMG's backlog (out of a total backlog of \$528.5 million) as of December 31, 2018, and bonding is reduced as projects are billed, rather than upon completion. DBMG has limited its raw material cost exposure by securing fixed prices from mills at contract bid, as well as by utilizing its purchasing power as one of the largest domestic buyers of wide flange beams in the United States.

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

-



**BIM:** DBMG uses BIM on every project to manage its role efficiently. Additionally DBMG's use of Steel Integrated Management Systems ("SIMS") in conjunction with BIM allows for real-time reporting on a project's progress and an information-rich model review;

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

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

**Steel Management:** Using DBMG's proprietary SIMS, DBMG can track any piece of steel and instantly know its location. Additionally, DBMG can help clients manage steel subcontracts, providing clients with savings on raw steel purchases and giving them access to a variety of DBMG-approved subcontractors;

**Fabrication:** Through its twelve fabrication shops in California, Arizona, Texas, Kansas, Georgia, Utah, South Carolina and Kentucky, DBMG has one of the highest fabrication capacities in the United States, with over 1.6 million square feet under roof and a maximum annual fabrication capacity of approximately 318,000 tons; and

**Erection:** Named the top steel erector in the United States for 2007, 2008, 2011, and from 2013-2018 by Engineering News-Record, DBMG knows how to add value to its projects through the safe and efficient erection of steel structures.

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

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

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

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

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

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

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

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

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

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

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

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

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

Rebar Detailing: These services, including rebar detailing and estimating, are delivered by a staff experienced in rebar installation and familiar with the construction practices and constructibility issues that arise on project sites.

Deliverables include: field placement/shop drawings, field and/or phone support, 2D and 3D modeling, connection sketches, bar listing in ASA format, DGN files, and complete rebar estimating.

GrayWolf 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. GrayWolf provides the following service types through its four major brands (Titan Contracting, Inco Services, Milco National Constructors and Titan Fabricators):

Specialty mechanical contracting services: GrayWolf offers services including plant maintenance, specialty welding, equipment rigging, and mechanical construction to customers in the power, industrial, petrochemical, water treatment, and refining markets at a national level;

Specialty construction solutions for processing markets: Customers in the pulp & paper, metals, mining & minerals, and petrochemical markets are able to receive specialized solutions including plant maintenance, process piping, equipment, and tank & vessel fabrication and erection that are catered to the needs and specifications of the customer's industry through the Inco Services brand;

Turnarounds, tank construction, and piping services: GrayWolf offers services including plant maintenance, specialty welding, piping systems, and tanks & vessels construction to the power, refining, petrochemical, and water treatment markets in the Midwest, Mid-Atlantic, and West Coast;

Custom steel fabrication: GrayWolf offers engineering, design, modularization, and additional services to the heavy industrial markets in the Midwest and Gulf Coast;

### Suppliers

DBMG currently purchases its steel from a variety of domestic and foreign steel producers but is not dependent on any one producer. During the year ended December 31, 2018, DBMG purchased approximately 50% of the total value of steel and steel components purchased from two domestic steel vendors. See Item 1A - Risk Factors - "Risks Related to the Construction segment" elsewhere in this document for discussion on DBMG's reliance on suppliers of steel and steel components.

### Sales and Distributions

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

### Marketing

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

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

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

### Competition

The principal geographic and product markets DBMG serves are highly competitive, and this intense competition is expected to continue. DBMG competes with other contractors for commercial, industrial and specialty projects on a

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

#### Employees

As of December 31, 2018, DBMG employed approximately 3,358 people across the globe, including the U.S., Canada, Australia, New Zealand, India, Philippines, Thailand, and the UK. The number of persons DBMG employs on an hourly basis fluctuates directly in relation to the amount of business DBMG performs. Certain of the fabrication and erection personnel DBMG employs are represented by the United Steelworkers of America and the International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers Union. DBMG is a party to several separate collective bargaining agreements with these unions in certain of its current operating regions, which expire (if not renewed) at various times in the future. Approximately 38% of DBMG's employees are covered under various collective bargaining agreements. As of December 31, 2018, most of DBMG's collective bargaining agreements are subject to automatic annual or other renewal unless either party elects to terminate the agreement on the scheduled expiration date. DBMG considers its relationship with its employees to be satisfactory and, other than sporadic and unauthorized work stoppages of an immaterial nature, none of which have been related to its own labor relations, DBMG has not experienced a work stoppage or other labor disturbance.

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

#### Legal, Environmental and Insurance

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

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

DBMG maintains commercial general liability insurance in the amount of \$1.0 million per occurrence and \$2.0 million in the aggregate. In addition, DBMG maintains umbrella coverage limits of \$50.0 million. DBMG also maintains insurance against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction of its facilities and property. DBM maintains professional liability insurance in the amount of \$5.0 million for professional services related to our work in steel erection and fabrication projects. All policies are subject to various deductibles and coverage limitations. Although DBMG's management believes that its insurance is adequate for its present needs, there can be no assurance that it will be able to maintain adequate insurance at premium rates that management considers commercially reasonable, nor can there be any assurance that such coverage will be adequate to cover all claims that may arise.

#### Marine Services Segment (GMSL)

The Global Marine Group (GMSL) is an innovative worldwide market leader in offshore engineering and consists of three business units:

- Global Marine providing fiber optic cable solutions to the telecommunications and oil & gas markets;
- CWind delivering construction support and asset management services topside and subsea to the offshore renewables and utilities market; and
-

Global Offshore delivering trenching and power cable lay and repair services to the offshore renewables & utilities market and oil & gas industry.

GMSL has two equity method investments in China, SB Submarine Systems and Huawei Marine. GMSL owns one of the world's largest offshore support vessel fleets. GMSL has installed over 300,000 kilometers of subsea cable.

### Strategy Overview

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. In order to accomplish these goals, GMSL has developed a comprehensive strategy which includes:

• Developing opportunities in the offshore power market;

• Diversifying the business by pursuing growth within its three market segments (telecommunications, offshore power and oil & gas), which it believes will strengthen its quality of earnings and reduce exposure to one particular market segment;

• Retaining and building its leading position in telecommunications maintenance and installation;

• Working to develop convergence of its maintenance services across all three market segments; and

• Pursuing targeted mergers and acquisitions, equity investments, partnerships and opportunities to build a larger operating platform that can benefit from increased operating efficiencies.

GMSL has a highly experienced management team with a proven track record and has demonstrated the ability to enter new markets and generate returns for investors from its three business units.

## Global Marine

Global Marine is a market leader in subsea fiber optic cable installation and maintenance solutions to the telecoms sector amongst others. Global Marine is recognized as a high quality, strategic partner with a successful track record across the industry. Global Marine has a long, well-established reputation in the telecommunications sector and is a leading provider of subsea services in the industry. It operates in a mature market and is the largest independent provider in the maintenance segment.

Global Marine provides vessels on standby to repair fiber optic telecommunications cables in defined geographic zones, and its maintenance business is provided through contracts with consortia of providers of global telecommunications services. Typically, Global Marine enters into five- to seven-year contracts to provide maintenance services to cable systems that are located in specific geographical areas. These contracts provide highly stable, predictable and recurring revenue and earnings. Additionally, Global Marine provides installation of cable systems, including route planning, mapping, route engineering, cable-laying, trenching and burial. Global Marine's installation business is project-based, with contracts typically lasting one to five months.

## CWind

CWind is part of GMSL, delivering topside, splash zone and subsea engineering services, to the offshore renewables and utilities market. With experience at over 40 UK and European offshore wind farms, supporting over 12GW power generated by the offshore wind sector.

CWind demonstrates a commitment to innovation and is well-positioned to capitalize on the growth of the offshore alternative energy market in construction, as well as on-going operations and maintenance, with a strong presence in Northern Europe and Asia (especially China). CWind has developed its strategies to realize this opportunity.

## Global Offshore

Global Offshore is part of GMSL, delivering the company's cable installation, repair and trenching services to the offshore renewables, utilities and oil & gas markets. Global Offshore has developed a reputation as a trusted partner, delivering pipeline, cable and umbilical projects, platform-to-platform connectivity and subsea services.

Global Offshore's primary activities for oil & gas include providing power from shore, enabling fiber-based communication between platforms and shore-based systems and installing permanent reservoir monitoring systems that allow customers to monitor subsea seismic data. The majority of its oil and gas business is contracted on a project-by-project basis with major energy producers or Tier I engineering, procurement and construction ("EPC") contractors.

## Global Marine Group's 2018 track record

Notable GMSL announcements during the year include the following:

- January: Global Marine's contract with the SEAIOCMA: cable maintenance agreement extended by five years to end of 2022. The zone is serviced by Global Marine vessel Cable Retriever based in Subic Bay;
- January: CWind and International Ocean Vessel Technical Consultant form joint venture, CWind Taiwan;
- April: Complete Cable Care service with dedicated cable repair barge ASV Pioneer established;
- April: Contract awarded for Sub Sea Cable Replacement in Orkney Isles for Scottish & Southern Electricity Networks;
- May: Five-year Complete Cable Care framework signed with Transmission Capital Services;



- August: ROSPA Order of Distinction awarded following 19 consecutive gold awards for health & safety practices;
- August: Global Marine completes two offshore oil field communications contracts for Tampnet;
- September: Global Offshore delivers back-to-back projects in the North Sea for major oil and gas customers;
- September: Global Offshore to provide fast-response cable repair to Vattenfall's European portfolio in five year repair framework;
- October: ASV Pioneer sails for her maiden GMSL project;
- October: CWind Taiwan Completes Inaugural Contract at Yunlin Offshore Wind Farm;
- November: Global Offshore successfully installs export cable at Kincardine Floating Offshore Wind Farm
- December: Extension of NAZ (North America Zone) telecoms maintenance contract by two years to December 2026; and
- December: Global Offshore signed a contract with Vattenfall for the inter array cable installation, burial, testing and termination at the 72 turbine Kriegers Flak site in Denmark.

#### Services and/or Products

GMSL is a pioneer in the subsea cable industry, having laid the first subsea cable in the 1850s and installed the first transatlantic fiber optic cable (TAT-8) in 1988. GMSL is positioned as a global independent market leader in subsea cable installation and maintenance services and derives approximately 45% of its total revenue from long-term, recurring maintenance contracts. GMSL has started a new phase of growth through applying its capabilities to the rapidly expanding offshore power sector into which GMSL re-entered in November 2015 (see "CWind" above), while retaining a leading position in the telecommunications sector. GMSL has major offices in the United Kingdom and Singapore, with presence in Bermuda, Canada, China, Indonesia and the Philippines. See "Item 1A - Risk Factors - Risks Related to GMSL for further details. GMSL derives a significant amount of its revenues from sales to customers outside of the United States, which poses additional risks, including economic, political and other uncertainties.

## Fleet Overview

GMSL operates one of the largest specialist cable laying fleets in the world, consisting of eight vessels (five owned, three operated through long-term leases) and 17 crew transfer vessels operated by its wholly-owned subsidiary, CWind, as of December 31, 2018. The average age of the GMSL fleet is 19 years and the CWind fleet is 4 years. Each cable vessel is equipped with specialist inspection, burial, and survey equipment. By providing oil and gas, offshore power, and telecommunications installation as well as telecommunications maintenance, GMSL can retain vessels throughout their asset lives by cascading them through different uses as they age, as older vessels can or should only be used to provide specified services. This provides a significant competitive advantage because GMSL can retain vessels for longer and reduce the frequency of capital expenditure requirements with a longer depreciation period. GMSL's fleet is operated by GMSL employees or long-term contractors.

## Fleet Details

Vessels	Ownership	Lease Expiry	Age	Flag	Base Port
Maintenance - GMSL					
Innovator	DYVI Cablesip 11 AS	May-25	23	UK	Victoria, Canada
Wave Sentinel	GMSL	N/A	23	UK	Portland, UK
Cable Retriever	ICPL	March-23	21	Singapore	Batangas, Philippines
Sovereign	GMSL	N/A	27	UK	Portland, UK
Installation - GMSL					
Networker	GMSL	N/A	19	Panama	Batam, Indonesia
CS Recorder	Maersk Supply Service UK	February-22	18	UK	Blyth, UK
Global Symphony	GMSL	N/A	7	UK	Montrose, UK
ASV Pioneer	ASV Pioneer Ltd	April-20	11	Singapore	Blyth, UK
Offshore - CWind					
Argocat	CWind Limited	N/A	8	UK	Maldon, UK
Alliance	50% CWind Limited	N/A	7	UK	Maldon, UK
Endeavour	CWind Limited	N/A	5	UK	Maldon, UK
Adventure	CWind Limited	N/A	5	UK	Maldon, UK
Fulmar	CWind Limited	N/A	4	UK	Colchester, UK
Artimus	CWind Limited	N/A	3	UK	Colchester, UK
Buzzard	CWind Limited	N/A	6	UK	London, UK
Challenger	CWind Limited	N/A	5	UK	Bideford, UK
Resolution	CWind Limited	N/A	5	UK	Southampton, UK
Sword	CWind Limited	N/A	4	UK	Ramsgate, UK
Spirit	CWind Limited	N/A	3	UK	Colchester, UK
Endurance	CWind Limited	N/A	5	UK	Maldon, UK
Tempest	CWind Limited	N/A	3	UK	Ramsgate, UK
Tornado	CWind Limited	N/A	3	UK	Ramsgate, UK
Typhoon TOW	CWind Limited	N/A	3	UK	Ramsgate, UK
Hurricane TOW	CWind Limited	N/A	3	UK	Ramsgate, UK
CWind Phantom	CWind Limited	N/A	3	UK	Maldon, UK

## Product Research and Development

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

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

## Intellectual Property

GMSL is not dependent on any specific intellectual property, but it does vigorously protect its interests in its intellectual property and closely monitors industry changes.

## Customers

GMSL's customer base is made up primarily of large, established companies. Contract lengths vary and are largely dependent on the type of services provided. Maintenance and repair contracts tend to be long-term, five- to seven-years, with a relatively high level of expected renewal rates, and the customer is typically a consortium of different cable owners such as national, regional and international telecommunication companies and others who have an ownership interest in the subsea cables covered by the maintenance contract. GMSL charges a standing fee for cost of vessels plus margin, paid in advance proportionally by each member, and an additional daily call out fee for repairs paid by the specific cable owner(s). Four maintenance vessels are engaged on GMSL's three current long-term telecommunications maintenance contracts with ACMA (Atlantic Cable Maintenance Agreement), SEAIOCMA (South East Asia and Indian Ocean Cable Maintenance Agreement), and NAZ (North American Zone). Installation contracts tend to be much shorter term (30-150 days), and the counterparty tends to be a single client. Contracts are typically bid for on a fixed-sum basis with an initial upfront payment plus subsequent installments providing working capital support. Due to the added complexity of cable installation as opposed to maintenance, GMSL generally realizes higher margins on its installation contracts in the offshore power and oil and gas sectors.

## Sales and Distributions

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

## Marketing

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

## Competition

GMSL is one of the few companies that provide subsea cable installation and maintenance services on a worldwide basis. GMSL competes for contracts with companies that have worldwide operations, as well as numerous others operating locally in various areas. There are a number of industry participants, mainly Asian based, who focus primarily on their countries of origin. Competition for GMSL's services historically has been based on vessel availability, location of or ability to deploy these vessels and associated subsea equipment, quality of service and

price. The relative importance of these factors can vary depending on the customer or specific project as well as also over time based on the prevailing market conditions. The ability to develop, train and retain skilled engineering personnel is also an important competitive factor in GMSL's markets.

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

#### Management and Employees

As of December 31, 2018, GMSL employed 460 people. GMSL's employees are not formally represented by any labor union or other trade organization, although the majority of the seafarers are members of an established trade union. GMSL considers relations with its employees to be excellent and it has never experienced a work stoppage or strike. GMSL regularly uses independent consultants and contractors to perform various professional services in different areas of the business, including in its installation and fleet operations and in certain administrative functions. Dick Fagerstal is a 2.4% interest holder, chairman and chief executive officer of Global Marine Holdings LLC, the parent holding company of Global Marine Holdings Limited, and he is the executive chairman of GMSL. Mr. Fagerstal previously served in an executive capacity for companies operating in various industries, including energy, marine services, and their related infrastructure.

## Legal, Environmental and Insurance

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

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

## Energy Segment (American Natural Gas)

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

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

## Market for Natural Gas as an Alternative Fuel for Vehicles

As of December 31, 2018, the U.S. Department of Energy estimates that there were approximately 1,683 CNG fueling stations in the United States and over 175,000 natural gas vehicles on American roads. This includes approximately 39,500 heavy-duty vehicles (such as tractors, refuse trucks and buses), 25,800 medium-duty vehicles (such as delivery vans and shuttles) and 87,000 light-duty vehicles (such as passenger cars, sport utility vehicles, trucks and vans).

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

## Benefits of Natural Gas Fuel

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

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

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

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

The newest natural gas engines with Near-Zero or "Zero Emissions Equivalent" – technology produces 90% fewer NOx emissions than the current standard. In fact, the cleanest heavy-duty truck engine in the world is powered by natural gas. And when fueled with renewable natural gas, it has up to 115% fewer greenhouse gas emissions than diesel counterparts well-to-wheel.

**Safer:** As reported by NGV America, CNG is relatively safer than gasoline and diesel because it dissipates into the air when spilled or in the event of a vehicle accident. When released, CNG is less combustible than gasoline or diesel as it ignites only at relatively high temperatures. The fuel tanks and systems used in natural gas vehicles are subjected to a number of federally required safety tests, such as fire, environmental hazard, burst pressures, and crash testing, according to the U.S. Department of Transportation National Highway Traffic Safety Administration. In addition, CNG is stored in above ground tanks, thus reducing the risk of soil or groundwater contamination. Currently, over 175,000 vehicles in the U.S. and more than 23.0 million worldwide, fuel safely with natural gas.

## Natural Gas Vehicles

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

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

## Products and Services

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

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

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

Thirty-one of ANG's fueling stations have separate public access areas for retail customers. The fill rate at each of the public stations has comparable dispensing rates equivalent to traditional gasoline and diesel fueling stations.

## Sales and Marketing

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

## Key Markets and Customers



ANG targets customers in a variety of markets, such as trucking, airports, refuse, public transit and food and beverage distributors. In 2018, approximately 71% of ANG's revenues from CNG sales came from customers with multi-year contracts based on committed fueling volumes.

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

#### Corporate Information; Acquisitions and Divestitures

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

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

### Tax Incentives

From October 2012 through December 2017, ANG has been eligible to receive the Alternative Fuels Excise Tax Credit ("AFETC") (f/k/a VETC), of \$0.50 per GGE of CNG sold as vehicle fuel. In addition, other U.S. federal and state government tax incentives are available to offset the cost of acquiring natural gas vehicles, converting vehicles to use natural gas or construct natural gas fueling stations. As of the date of this filing, the U.S. Congress did pass its omnibus budget for 2019, however, allocations to the programs remain uncertain.

### Grant Programs

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

### Competition

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

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

### Government Regulation and Environmental Matters

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

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

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

could require ANG to undertake significant capital expenditures in the future.

#### Telecommunications Segment (PTGi-International Carrier Services, Inc.)

ICS provides customers with internet-protocol-based and time-division multiplexing ("TDM") access for the transport of long-distance voice minutes.

#### Network

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

#### Switching Systems

ICS's network makes use of a domestic switch system, Internet routers and media gateways in the U.S. and points of presence throughout the world via third party interconnections.

### Foreign Carrier Agreements

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

### Network Management and Control

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

### Sales and Marketing

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

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

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

### Management Information and Billing Systems

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

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

### Competition

**Long Distance:** ICS faces significant competition as it attempts to win the business of other telecommunications carriers and resellers. ICS competes on the basis of price, service quality, financial strength, relationship and presence. Sales of wholesale long-distance voice minutes are generated by connecting one telecommunications operator to another and charging a fee to do so.

**Over-the-top ("OTT"):** OTT applications, such as WhatsApp, Skype, and FaceTime, continue to impact ICS's long distance business model. There can be no assurance that: (1) the current declines in the long-distance business globally driven by OTT application will not increase; or (2) ICS's business will not be impacted by the increased consumer adoption of OTT applications globally.

### Government Regulation

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

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

The regulatory frameworks in certain jurisdictions in which we provide services as of December 31, 2018 are described below:

#### United States

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

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

## International Service Regulation

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

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

## Domestic Service Regulation

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

On November 8, 2013, the FCC released an order related to the completion of calls to rural areas. The order applies recordkeeping, retention and reporting obligations to certain providers of retail long-distance voice service. The rules require those providers to collect and retain information on long-distance call attempts such as, but not limited to, the called number, the date and time of the call, and the use of an intermediate provider. The order also prohibits false audible ringing (the premature triggering of audible ring tones to the caller before the call setup request has reached

the terminating service provider). On April 17, 2018, the FCC issued a ruling that eliminated the obligation of providers to report data to the FCC regarding rural call completion, but kept the obligation on carriers to monitor rural call completion and retain records regarding the performance of intermediate carriers. While ICS is not directly subject to these rules, ICS may function as an intermediate provider within the meaning of these rules, which may require ICS to provide information to its customers regarding calls that it carries on their behalf. In addition, in February 2018, the "Improving Rural Call Quality and Reliability Act of 2017" became law. This statute added new Section 262 to the Communications Act of 1934, which requires intermediate providers (such as ICS) to register with the FCC. The FCC promulgated rules implementing this registration requirement in August 2018. These rules will take effect upon approval by the Office of Management and Budget, which approval was pending as of December 31, 2018. The new law also directs the FCC to establish service quality standards for voice transmission services provided by intermediate carriers, such as ICS. The FCC's rulemaking to establish such service quality rules is pending. We cannot predict whether the rules the FCC ultimately adopts will materially negatively affect ICS's operations.

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

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

#### Insurance Segment (Continental Insurance Group Ltd.)

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

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

On August 9, 2018, CGI completed the acquisition of KMG America Corporation ("KMG"), the parent company of Kanawha Insurance Company ("KIC"), Humana's long-term care insurance subsidiary for consideration of ten thousand dollars. As a condition to the approval of the acquisition by the South Carolina Department of Insurance, CGI agreed to redomesticate KIC from South Carolina to Texas and simultaneously merge KIC with and into CGI, with CGI surviving (the "Merger"), and to maintain an authorized control level risk-based capital ratio of no less than 450 percent for two years following the closing. Similarly, CGI agreed with the Texas Commissioner of Insurance that it will maintain a total adjusted capital to authorized control risk-based capital level of no less than 450 percent for two years from the date of the Merger and of no less than 400 percent for the subsequent three years.

#### Strategy

CIG currently provides long-term care, life, annuity, and other accident and health coverage to approximately 145,000 individuals through CGI. The benefits provided by CIG's insurance operations help protect policy and certificate holders from the financial hardships associated with illness, injury, loss of life, or income discontinuation.

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

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

•Future acquisitions of long-term care businesses and/or closed blocks of long-term care policies;

•Reinsurance arrangements; and

•Third party administration arrangements.

#### Products



## Long-Term Care Insurance

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

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

### Life Insurance and Annuities

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

### Other Accident & Health

CIG's accident and health products, other than Long-Term Care Insurance, include accidental death, accidental death & dismemberment disability income, hospital expense, hospital indemnity, and major medical individual insurance policies. These products provide from partial reimbursement to full reimbursement of covered medical and related expenses. All products were sold prior to the introduction of the Affordable Care Act and these product lines are closed to new business. If not otherwise exempted from the requirements of the Affordable Care Act, the policies are grandfathered under the Affordable Care Act and not subject to the requirements of the Affordable Care Act. A limited number of these policies were guaranteed issued, although the majority of the policies were issued with individual underwriting.

### Customers

CIG's long-term care insurance policies were marketed and sold to individuals between 1986 and 2010 for the purpose of providing defined levels of protection against the significant and escalating costs of long-term care services provided in the insured's home or in assisted living or nursing facilities. Though CIG no longer actively markets new long-term care insurance products, it continues to service and receive net renewal premiums on its in-force block of approximately 145,000 lives.

### Employees and Operations

As of December 31, 2018, CIG employed 123 people full-time, the majority of whom are employed on a salaried basis with some on an hourly basis. Besides eight remote employees working in various states, all other employees work out of the home office located in Austin, Texas. CIG considers its relations with its employees to be satisfactory and has never experienced a work stoppage or other labor disturbance. All operating centers maintain a cost effective and efficient operating model.

### Transition Services and Administrative Services Agreement

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

The KIC acquisition included the assumption of numerous existing, or the establishment of new, third party administrator (TPA) agreements to continue to provide services and perform processes critical (actuarial, claims processing, rate increase work etc.) to KIC's ability to continue producing outputs. All of KIC's insurance contracts are administered by these TPAs.

#### Reinsurance

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

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

## Reserves for Policy Contracts and Benefits

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

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

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

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

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

## Investments

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

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

## Regulation

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), among other things, established a Federal Insurance Office ("FIO") within the U.S. Treasury. The Dodd-Frank Act requires the promulgation of regulations for the FIO to carry out its mandate to focus on systemic risk oversight. The FIO gathered information regarding the insurance industry and submitted a report to Congress in December 2013. The report concluded that a hybrid approach to regulation, involving a combination of state and federal government action, could improve the U.S. insurance system by attaining uniformity, efficiency and consistency, particularly with respect to solvency and market conduct regulation. The FIO has issued additional reports since that time on various aspects of the insurance sector and insurance regulation. Legislative proposals currently before Congress, as well as a 2017 report from the Trump Administration, call for refinements of the FIO's mission including more coordination with state regulators. We cannot predict the extent to which any of these matters might result in changes to the current state-based system of insurance industry regulation or ultimately impact the Company's operations.

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

## Competition

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

### Life Sciences Segment (Pansend Life Sciences, LLC )

Pansend focuses on the development of innovative technologies and products in the healthcare industry. As of December 31, 2018, Pansend has invested in four companies:

R2 Dermatology, Incorporated ("R2"), a company developing medical devices for the treatment of aesthetic and medical skin conditions. In July 2017, R2 received notification from the United States Food and Drug Administration of market clearance of R2's second generation device, the R2 Dermal Cooling System. The R2 Dermal Cooling System is a cryosurgical instrument intended for use in dermatologic procedures for the removal of benign lesions of the skin, based on exclusive licensing rights to a novel technology developed at Massachusetts General Hospital and Harvard Medical School;

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

MediBeacon, Inc. ("MediBeacon"), a company developing a proprietary non-invasive real-time monitoring system for the evaluation of kidney function. This system (known as the MediBeacon Optical Renal Function Monitor system) uses an optical skin sensor combined with a proprietary agent that glows in the presence of light. It will be the first and only, non-invasive system to enable real-time, direct monitoring of renal function at point-of-care. On March 2, 2017, MediBeacon announced the successful completion of a real-time, point of care renal function clinical study on subjects with impaired kidney function at Washington University in St. Louis. On June 8, 2016, MediBeacon announced the completion of the acquisition of Mannheim Pharma & Diagnostics, a life science company based in Mannheim, Germany. Recently, MediBeacon announced a collaborative research project with scientists at Washington University School of Medicine in St. Louis, Missouri in a research project aimed at improving the understanding of childhood malnutrition and its related problems, including stunted growth. The work is funded by a Grand Challenges Explorations Phase II grant from the Bill & Melinda Gates Foundation to Washington University. It is a follow-up grant to work carried out through a Phase I Grand Challenges Explorations Award made in 2014. MediBeacon was also recently the recipient of a Small Business Innovation Research grant supported by the National Eye Institute of the National Institutes of Health (NIH). With this support, MediBeacon is pursuing research into the use of a MediBeacon fluorescent tracer agent to visualize vasculature in the eye. The focus of the NIH-supported project is to determine if a specific proprietary MediBeacon tracer agent when administered has the potential to provide additional clinical value versus the existing standard of care.

Further, on October 22, 2018, the U.S. Food and Drug Administration (FDA) granted Breakthrough Device designation to the MediBeacon's Transdermal GFR Measurement System (TGFR). The device is intended to measure Glomerular Filtration Rate (GFR) in patients with impaired or normal renal function; and

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

## Dispositions

On June 8, 2018, Pansend closed on the sale of its approximately 75.9% ownership in BeneVir Biopharm, Inc. ("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 15 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 (HC2 Broadcasting Holdings, Inc.)

HC2 Broadcasting Holdings Inc., a subsidiary of HC2 Holdings, Inc., is an owner and operator of broadcast TV stations throughout the U.S., formed in 2017. As of December 31, 2018, HC2 Broadcasting and its subsidiaries operate approximately 138 operational stations, including 8 Full-Power stations, 39 Class A stations and 91 LPTV stations. Inclusive of 29 pending operating station acquisitions, HC2 Broadcasting and its subsidiaries will operate approximately 167 operational stations, including 14 Full-Power stations, 55 Class A stations and 98 LPTV stations, collectively able to broadcast over 1,000 sub-channels. This coverage reaches over 130 markets between the U.S. and Puerto Rico, including 9 of the top 10 markets. HC2 Broadcasting's objective is to build a nationwide broadcast TV distribution platform that delivers OTA broadcast content that will reach the majority of the U.S. when fully built. HC2 Broadcasting's plan is to interconnect all of HC2 Broadcasting's stations to an IP network backbone, which will allow us to monitor and operate the stations remotely. The network backbone is moving onto cloud-based infrastructure, which we expect will offer significant cost efficiencies and redundancy.

In December 2017, HC2 Broadcasting also acquired Azteca America, formerly the US subsidiary of TV Azteca, S.A.B. de C.V., Mexico's second largest broadcast network. Today, Azteca America airs Spanish language programming targeting U.S. Hispanics and is carried mostly on HC2 Broadcasting's stations. Much of the network's programming is provided by the former parent company under a multi-year Programming Licensing Agreement (PLA) with HC2 Broadcasting. The network is carried on approximately 23 HC2 Broadcasting stations and by 25 Azteca America affiliate stations in the U.S. Unlike HC2 Broadcasting's station group, Azteca America is a linear broadcast television network that requires the development and maintenance of programming. As such, HC2 Broadcasting has dedicated employees in the U.S. and contracted employees in Mexico under a Broadcast Services Agreement ("BSA") with TV Azteca who work to maintain the content.

Station Group and Network Acquisitions

Since November 2017, HC2 Broadcasting has grown principally through acquisitions, with over 30 completed through February 28, 2019. Major acquisitions have included the following:

♦ DTV America Corporation

HC2 Broadcasting purchased the majority of shares of common stock of DTV America Corporation ("DTV") for a total consideration of \$17.7 million. DTV currently owns and operates 50 LPTV stations in more than 30 cities. DTV's distribution platform currently provides carriage for more than 30 television broadcast networks.

♣ Azteca America

In November 2017, HC2 Broadcasting acquired Azteca America, a Spanish-language broadcast network for \$33.0 million. The transaction included LPTV, Class A and Full-Power stations, as well as the BSA, and PLA.

♣ Mako Communications, LLC

Purchased all the assets of Mako Communications, LLC in connection with Mako's ownership and operation of LPTV stations that resulted in HC2 Broadcasting acquiring 38 operating stations in 28 cities, for a total consideration of \$28.4 million.

♣ Three Angels Broadcasting Network, Inc.

In December 2017, a wholly-owned subsidiary of HC2 Broadcasting closed on a transaction with Three Angels Broadcasting Network, Inc. to purchase all of its assets in connection with its ownership and operation of Class A stations that resulted in HC2 Broadcasting acquiring 14 operating stations for a total consideration of \$9.6 million.

Operating Broadcast Stations

Below are HC2 Broadcasting's operating stations as of December 31, 2018, listed here by call sign and market rank:

Market	Market	Station	Service
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	Rank (a)	
New York, NY	1	WEDW Full-Power Station WKOBLD LPTV Station
Los Angeles, CA	2	KHIZ-LD LPTV Station
Chicago, IL	3	W25DW-D LPTV Station WPVN-CD Class A Station
Philadelphia, PA	4	WDUM-LDLPTV Station W36DO-D LPTV Station WZPA-LD LPTV Station WPSJ-CD Class A Station
Dallas-Ft. Worth, TX	5	KAZD Full-Power Station KJJM-LD LPTV Station KNAV-LP LPTV Station KODF-LD LPTV Station KPFW-LD LPTV Station
Houston, TX	7	KUVM-CD Class A Station KYAZ Full-Power Station

		KEHO-LD	LPTV Station
		KUVM-LD	LPTV Station
San Francisco - Oakland - San Jose, CA	8	KTNC-TV	Full-Power Station
		KEMO-TV	Full-Power Station
		KQRO-LD	LPTV Station
		KFTY-LD	LPTV Station
Atlanta, GA	10	WUVM-LP	LPTV Station
		WDWW-LD	LPTV Station
		WYGA-CD	Class A Station
		WUEO-LD	LPTV Station
Tampa - St. Petersburg - Sarasota, FL	11	W16DQ-D	LPTV Station
		WXAX-CD	Class A Station
		WTAM-LD	LPTV Station
Phoenix - Prescott, AZ	12	K18JL-D	LPTV Station
		KMOH-TV	Full-Power Station
		KPDF-CD	Class A Station
		KEJR-LD	LPTV Station
Seattle - Tacoma, WA	13	KUSE-LD	LPTV Station
Detroit, MI	14	WUDL-LD	LPTV Station
		WDWO-CD	Class A Station
Minneapolis - St. Paul, MN	15	K33LN-D	Class A Station
		KJNK-LD	LPTV Station
Miami - Ft. Lauderdale, FL	16	W16CC-D	LPTV Station
Denver, CO	17	K05MD-D	LPTV Station
Orlando - Daytona Beach - Melbourne, FL	18	WFEF-LD	LPTV Station
Cleveland - Akron - Canton, OH	19	WQDI-LD	LPTV Station
		WEKA-LD	LPTV Station
Sacramento - Stockton - Modesto, CA	20	KBTV-CD	Class A Station
		K04QR-D	LPTV Station
		KAHC-LD	LPTV Station
		KFMS-LD	LPTV Station
St. Louis, MO	21	KPTN-LD	LPTV Station
		KBGU-LP	LPTV Station
		WODK-LD	LPTV Station
		K25NG-D	Class A Station
Charlotte, NC	23	WVEB-LD	LPTV Station
		WHEH-LD	LPTV Station
Pittsburgh, PA	24	WWLM-CD	Class A Station
		WJMB-CD	Class A Station
		WKHU-CD	Class A Station
		WWKH-CD	Class A Station
Raleigh - Durham - Fayetteville, NC	25	WNCB-LD	LPTV Station
		WIRP-LD	LPTV Station
Baltimore, MD	26	WQAW-LP	LPTV Station
Indianapolis, IN	28	WSDI-LD	LPTV Station
		WUDZ-LD	LPTV Station
Salt Lake City, UT	30	KPNZ	Full-Power Station
		KBTU-LD	LPTV Station
San Antonio, Tx	31	K17MJ-D	LPTV Station

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	KOBS-LD	LPTV Station
	KSAA-LP	LPTV Station
	K27LF-D	Class A Station
	KISA-LD	LPTV Station
	KVDF-CD	Class A Station
Kansas City, MO	32KAJF-LD	LPTV Station
	KCMN-LD	LPTV Station
Hartford - New Haven, CT	33WRNT-LD	LPTV Station
	WTXX-LD	LPTV Station

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Milwaukee, WI	36 WTSJ-LP LPTV Station
West Palm Beach - Ft. Pierce, FL	37 WXOD-LD LPTV Station
Las Vegas, NV	39 KVPX-LD LPTV Station
	K36NE-D Class A Station
	KNBX-CD Class A Station
	KHDF-CD Class A Station
	KEGS-LD LPTV Station
Austin, TX	40 KGBS-CD Class A Station
	KVAT-LD LPTV Station
Jacksonville, FL	42 WKBJ-LD LPTV Station
	WRCZ-LD LPTV Station
Birmingham - Anniston - Tuscaloosa, AL	43 WUOA-LD LPTV Station
Oklahoma City, OK	45 KTOU-LD LPTV Station
	KBZC-LD LPTV Station
Albuquerque - Santa Fe, NM	47 KQDF-LP LPTV Station
New Orleans, LA	50 WTNO-LP Class A Station
	WQDT-LD LPTV Station
Memphis, TN	51 W15EA-D Class A Station
	WQEK-LD LPTV Station
	KPMF-LD LPTV Station
Buffalo, NY	52 WWHC-LP LPTV Station
	WVTT-CD Class A Station
Fresno - Visalia, CA	54 KZMM-CD Class A Station
	K17JI-D Class A Station
Ft. Myers - Naples, FL	55 WGPS-LP LPTV Station
Tulsa, OK	61 KZLL-LD LPTV Station
	KUOC-LD LPTV Station
Wichita - Hutchinson, KS	76 KFVT-LD LPTV Station
Harlingen - Weslaco - Brownsville - Mcallen, TX	78 KNWS-LP LPTV Station
	KRZG-CD Class A Station
	KAZH-LP LPTV Station
Huntsville - Decatur - Florence, AL	79 W17DJ-D Class A Station
Rochester - Mason City - Austin, NY	80 WGCE-CD Class A Station
Madison, WI	86 WZCK-LD LPTV Station
	W23BW-D Class A Station
Paducah, KY - Cape Girardeau, MO - Harrisburg, IL	88 W29CI-D Class A Station
Waco - Temple - Bryan, TX	89 KZCZ-LD LPTV Station
Boise, ID.	100 K31FD-D Class A Station
	K17ED-D Class A Station
Ft. Smith - Fayetteville - Springdale - Rogers, AR	101 KAJL-LD LPTV Station
	KFLU-LD LPTV Station
Ft. Wayne, IN	104 WFWC-CD Class A Station
Tyler - Longview - Nacogdoches, TX	114 KCEB Full-Power Station
	KDKJ-LD LPTV Station
	KPKN-LD LPTV Station
Montgomery - Selma, AL	116 WDSF-LD LPTV Station
Yakima - Pasco - Richland - Kennewick, WA	119 K33EJ-D Class A Station
Bakersfield, CA	122 K08MM-D Class A Station
	KXBF-LD LPTV Station

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Santa Barbara - San Luis Obispo, CA

123 KDFS-CD Class A Station  
KSBO-CD Class A Station  
KZDF-LP LPTV Station  
KLDF-CD Class A Station

Corpus Christi, TX

128 KCCX-LP LPTV Station  
K20JT-D LPTV Station  
KYDF-LP LPTV Station  
K29IP-D LPTV Station

Amarillo, TX

131 KAUO-LD LPTV Station

22

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KLKW-LDLPTV Station  
Lubbock, TX 143K24GP LPTV Station  
KNKC-LD LPTV Station  
Palm Springs, CA 145K21DO-D Class A Station  
Jackson, TN 177WYJJ-LD LPTV Station  
Bowling Green, KY 181WCZU-LDLPTV Station

<sup>(a)</sup>Rankings are based on the relative size of a station's Designated Market Area (DMA) among the 210 generally recognized DAs estimated by Nielsen Media Research (Nielsen) as of December 2018.

### Broadcast Operations

HC2 Broadcasting carries more than 50 networks on its stations, distributing content across the U.S. Broadcasting provides free OTA programming to television viewing audiences in the communities it serves. The programming Broadcasting distributes includes networks targeting shopping, weather, sports and entertainment programming, as well as religious networks and networks targeting select ethnic groups.

### Revenues

For its OTA distribution business, HC2 Broadcasting's principal source of revenues are multi-year leases, which vary in price according to market size and the number of OTA TV homes in a market. HC2 currently earns higher revenues for carriage on Full-Power stations compared to Class A and LPTV stations.

While lease revenues drive HC2 Broadcasting's station group business, the primary source of revenue for Azteca America is the sale of commercial inventory on the Azteca network, digital platforms and licensing of content to streaming services. As such, Azteca America principally relies on national, local and spot advertising sales for revenues and, to a lesser extent, multichannel video programming distributor's (MVPD) retransmission fees. Pricing for advertising sales is based on viewer ratings across the U.S. Sales are handled by a dedicated HC2 Broadcasting/Azteca sales-force in the U.S.

### Strategy

HC2 Broadcasting's strategy includes the following initiatives:

• HC2 Broadcasting is principally designed to be a nationwide OTA distribution platform, targeting the growing number of OTA households in the US. According to Nielsen, these represent 16% of U.S. TV households; As they "lease up" stations around the country, HC2 Broadcasting's principal and growing revenue source will be providing national carriage for content providers under multi-year lease agreements. Pricing lease contracts is in part determined by the signal contour of the broadcast station and the number of OTA TV households in a given market as well as market supply and demand;

• Once all the operating stations are connected to HC2 Broadcasting's cloud-based IP backbone, HC2 Broadcasting's stations can be operated and monitored remotely, allowing for substantial cost savings and operating efficiencies. Recent FCC deregulation in TV broadcasting has eliminated the need for full time employees and studio facilities in markets where HC2 Broadcasting operates Full-Power and Class A stations, thus allowing us to operate these stations remotely at greater cost efficiency;

• As an anchor network tenant, Azteca America will continue to be distributed on the HC2 Broadcasting platform and MVPDs covering 57% of U.S. Hispanic homes;

• HC2 Broadcasting's major focus as HC2 Broadcasting continues to increase HC2 Broadcasting's market footprint and network efficiencies is to attract the highest quality content providers looking for nationwide distribution. With HC2 Broadcasting's national platform and cloud-based infrastructure, HC2 Broadcasting also expects to realize premium pricing for distribution on HC2 Broadcasting's station group; and

HC2 Broadcasting's vision is to capitalize on the opportunities to bring valuable content to more viewers over-the-air and to position itself for the changing media landscape. Additionally, HC2 Broadcasting is well-positioned to take advantage of the technology advances rapidly underway in the industry.

#### New Broadcast TV Technology: ATSC 3.0

In 2017, the FCC approved ATSC 3.0, a next generation broadcast platform, which HC2 Broadcasting believes will bring new opportunities. ATSC 3.0 is an enhancement to the previous broadcast standard, providing mobility, addressability, capacity, and IP connectivity. ATSC 3.0 merges linear and non-TV data services alongside OTA and over-the-top (OTT). Among the additional many emerging opportunities are hyper-local news, weather, and traffic; dynamic ad insertion; geographic and demographic targeted advertising; customizable content; better measurement and analytics; the ability to talk to devices connected to the Internet; flexibility to add streams as needed; an ultra-high definition picture quality with enhanced immersive audio; and connectivity to automobiles. In addition, ATSC 3.0 provides new emergency capabilities including advanced alerting functions which can provide evacuation routes and device wake-up features. All of these features will be available to mobile devices, allowing us to reach viewers wherever they are - including younger audiences that are tied to their mobile screens.

#### Employees

As of December 31, 2018, HC2 Broadcasting employed approximately 51 people across the U.S.

See Note 21. Operating Segment and Related Information for additional detail regarding HC2 Broadcasting's operating segments and financial information by geographic area.

#### Environmental Regulation and Laws

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

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

#### Corporate Information

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

The information required by this item relating to our executive officers, directors and code of conduct is set forth below. Information relating to beneficial ownership reporting compliance will be set forth in our 2019 Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference. Information relating to our Audit Committee and Audit Committee Financial Expert will be set forth in our 2019 Proxy Statement under the Caption "Board Committees" and is incorporated herein by reference.

#### ITEM 1A. RISK FACTORS

The following risk factors and the forward-looking statements elsewhere herein should be read carefully in connection with evaluating the business of the Company and its subsidiaries. A wide range of events and circumstances could materially affect our overall performance, the performance of particular businesses and our results of operations, and therefore, an investment in us is subject to risks and uncertainties. In addition to the important factors affecting specific business operations and the financial results of those operations identified elsewhere in this Annual Report on Form 10-K, the following important factors, among others, could adversely affect our operations. While each risk is



described separately below, some of these risks are interrelated and it is possible that certain risks could trigger the applicability of other risks described below. Also, the risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us, or that are currently deemed immaterial, could also potentially impair our overall performance, the performance of particular businesses and our results of operations. These risk factors may be amended, supplemented or superseded from time to time in filings and reports that we file with the SEC in the future.

#### Risks Related to Our Businesses

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

As a holding company, HC2's assets are its cash and cash equivalents, the equity interests in its subsidiaries and other investments. As of December 31, 2018, we had \$6.5 million in cash and cash equivalents at the corporate level at HC2.

HC2's principal source of revenue and cash flow is distributions from its subsidiaries. Thus, its ability to service its debt, including the \$470.0 million in aggregate principal amount of 11.5% Senior Secured Notes due 2021 (the "Secured Notes") and \$55.0 million aggregate principal amount of 7.5% convertible senior notes due 2022 (the "Convertible Notes"), and together with the Secured Notes, the "Notes", and to finance future acquisitions is dependent on the ability of its subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions to HC2. HC2's subsidiaries are separate legal entities, and although they may be wholly-owned or controlled by HC2, they have no obligation to make any funds available to HC2, whether in the form of loans, dividends, distributions or otherwise. The ability of HC2's subsidiaries to distribute cash to it are and will remain subject to, among other things, restrictions that are contained in its subsidiaries' financing agreements,

availability of sufficient funds and applicable state laws and regulatory restrictions. For instance, each of DBMG and GMSL are borrowers under credit facilities that restrict their ability to make distributions or loans to HC2. Specifically, DBMG is party to credit agreements that include certain financial covenants that can limit the amount of cash available to make upstream dividend payments to HC2. For additional information, See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of operations - Liquidity and Capital Resources."

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

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

Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations, including under our outstanding indebtedness, and our obligations under our outstanding shares of preferred stock, could harm our business, financial condition and results of operations. Our ability to make payments on and to refinance our indebtedness and outstanding preferred stock and to fund working capital needs and planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control. For a description of our and our subsidiaries indebtedness, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14. Debt Obligations, of the "Notes to Consolidated Financial Statements."

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

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

The agreements governing our indebtedness and Certificate of Designations for our outstanding shares of preferred stock contain various covenants that limit our discretion in the operation of our business and/or require us to meet

financial maintenance tests and other covenants. The failure to comply with such tests and covenants could have a material adverse effect on us.

The agreements governing our indebtedness and the Certificate of Designations for our outstanding shares of preferred stock contain, and any of our other future financing agreements may contain, covenants imposing operating and financial restrictions on our businesses.

The indenture governing the Secured Notes dated November 20, 2018, by and among HC2, the guarantors party thereto and U.S. Bank National Association, a national banking association ("U.S. Bank"), as trustee (the "Secured Indenture"), and the separate indenture governing the Convertible Notes dated November 20, 2018, between HC2 and U.S. Bank, as trustee (the "Convertible Indenture"), contain, and any future indentures may contain various covenants, including those that restrict our ability to, 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.

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

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

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

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

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

We have a significant amount of indebtedness and outstanding shares of preferred stock. As of December 31, 2018, our total outstanding indebtedness was \$743.9 million and the accrued value of our outstanding preferred stock was \$26.7 million inclusive of shares held by our Insurance Company which are eliminated in consolidation. We may not generate enough cash flow to satisfy our obligations under such indebtedness and other arrangements. This significant amount of indebtedness poses risks such as risk of inability to repay such indebtedness, as well as:

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

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

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

We cannot assure you that we will recognize net income in future periods. If we cannot generate net income or sufficient operating profitability, we may not be able to meet our working capital requirements or service our indebtedness. Our ability to generate sufficient cash for our operations will depend upon, among other things, the future financial and operating performance of our operating business, which will be affected by prevailing economic and related industry conditions and financial, business, regulatory and other factors, many of which are beyond our control. We recognized net income attributable to HC2 of \$155.6 million in 2018, net loss of \$49.7 million in 2017, net loss of \$105.4 million in 2016, and have incurred net losses in prior periods. Our net income in 2018 resulted from a bargain purchase gain, gains on the recapture of certain reinsurance treaties along with the sale of BeneVir.

We cannot assure you that our business will generate cash flow from operations in an amount sufficient to fund our liquidity needs. If our cash flows and capital resources are insufficient, we may be forced to reduce or delay capital expenditures, sell assets and/or seek additional capital or financings. Our ability to obtain future financings will depend on the condition of the capital markets and our financial condition at such time. Any financings could be at high interest rates and may require us to comply with covenants in addition to, or more restrictive than, covenants in our current financing documents, which could further restrict our business operations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such disposition may not be adequate to meet our obligations. We recognized cash flows from operating activities of \$341.4 million in 2018, \$6.6 million in 2017, and \$79.1 million in 2016.

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

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

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

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

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As of December 31, 2018 and 2017, management concluded that our internal control over financial reporting was effective.

In future periods, if the process required by Section 404 of the Sarbanes-Oxley Act of 2002, (the "Sarbanes-Oxley Act") reveals or we otherwise identify one or more material weaknesses or significant deficiencies, the correction of any such material weakness or significant deficiency could require additional remedial measures including additional personnel which could be costly and time-consuming. If a material weakness exists as of a future period year-end (including a material weakness identified prior to year-end for which there is an insufficient period of time to evaluate and confirm the effectiveness of the corrections or related new procedures), our management will be unable to report favorably as of such future period year-end to the effectiveness of our control over financial reporting. If we are unable to assert that our internal control over financial reporting is effective in any future period, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the trading price of our common stock and potentially subject us to additional and potentially costly litigation and governmental inquiries/investigations.

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

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

- re-measurement gains and losses from changes in the value of foreign denominated assets and liabilities;

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

We face risks related to the impact on foreign trade agreements and relations from the current administration.

Recent changes in the United States federal government have caused uncertainty about the future of trade partnerships and treaties, such as the North American Free Trade Agreement ("NAFTA") and the World Trade Organization. The current administration has formally withdrawn the United States from the Trans Pacific Partnership Agreement ("TPPA"). President Trump has also threatened to withdraw the United States from the World Trade Organization, which, if it occurred, could affect tariff rates and other trade terms between the U.S. and its trading partners as well as possibly have material consequences for the global trading system. The current administration has also initiated negotiations with Canada and Mexico aimed at re-negotiating the North American Free Trade Agreement ("NAFTA"). The U.S., Mexico, and Canada have reached a preliminary U.S.-Mexico-Canada Agreement ("USMCA") which would replace NAFTA. The USMCA maintains duty-free access for most products and leaves most key provisions of the NAFTA agreement largely intact. The USMCA still requires approval by the U.S. Congress, by Mexico's National Assembly, and by Canada's Parliament before it enters into force. In addition, the USMCA is still undergoing a legal review and, this could result in follow-up negotiations which could lead to modifications of certain provisions. It is uncertain what the outcome of the Congressional approval process, legal review, and any follow-up negotiations will be, but it is possible that revisions to NAFTA or failure to secure Congressional approval could adversely affect the Company's existing production operations in Mexico and the current and future levels of sales and earnings of the Company in all three countries. Furthermore, the current administration has threatened tougher trade terms with China and other countries. The U.S. Administration's assertive trade policies could result in further conflicts with U.S. trading partners, affecting

the Company's supply chains, sourcing, and markets. Foreign countries may impose additional burdens on U.S. companies through the use of local regulations, tariffs or other requirements which could increase our operating costs in those foreign jurisdictions. It remains unclear what additional actions, if any, the current administration will take. If the United States were to materially modify NAFTA or other international trade agreements to which it is a party, or if tariffs were raised on the foreign-sourced goods that we sell, such goods may no longer be available at a commercially attractive price, which in turn could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

Furthermore, our subsidiaries also face competition from both traditional and new market entrants that may adversely affect them as well, as discussed below in the risk factors related to DBMG, GMSL, ANG, ICS, the Insurance Company, and HC2 Broadcasting.

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

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



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

The efficient operation of our businesses is dependent on computer hardware and software systems. For instance, HC2 and its subsidiaries rely on information systems to process customer orders, manage inventory and accounts receivable collections, purchase products, manage accounts payable processes, track costs and operations, maintain client relationships and accumulate financial results. Information technology security threats - from user error to cybersecurity attacks designed to gain unauthorized access to our systems, networks and data - are increasing in frequency and sophistication. Cybersecurity attacks may range from random attempts to coordinated and targeted attacks, including sophisticated computer crime and advanced persistent threats. Cybersecurity attacks could also include attacks targeting sensitive data or the security, integrity and/or reliability of the hardware and software installed in products we use. We treat such cybersecurity risks seriously given these threats pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. We devote resources to maintain and regularly update our systems and processes that are designed to protect the security of our computer systems, software, networks and other technology assets against attempts by unauthorized parties to obtain access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, and we have implemented certain review and approval procedures internally and with our banks; and have implemented system-wide changes. Despite our implementation of industry-accepted security measures and technology, our information systems are vulnerable to and have been in the past subject to computer viruses, malicious codes, unauthorized access, phishing efforts, denial-of-service attacks and other cyber attacks and we expect to be subject to similar attacks in the future as such attacks become more sophisticated and frequent. Although to date, such attacks have not had a material impact on our financial condition, results of operations or liquidity, there

can be no assurance that our cyber-security measures and technology will adequately protect us from these and other risks, including internal and external risks such as natural disasters and power outages and internal risks such as insecure coding and human error. Attacks perpetrated against our information systems could result in loss of assets and critical information, theft of intellectual property or inappropriate disclosure of confidential information and could expose us to remediation costs and reputational damage. In addition, the unexpected or sustained unavailability of the information systems or the failure of these systems to perform as anticipated for any reason, including cyber-security attacks and other intentional hacking, could subject us to legal claims if there is loss, disclosure or misappropriation of or access to our customers' information and could result in service interruptions, safety failures, security violations, regulatory compliance failures, an inability to protect information and assets against intruders, sensitive data being lost or manipulated and could otherwise disrupt our businesses and result in decreased performance, operational difficulties and increased costs, any of which could adversely affect our business, results of operations, financial condition or liquidity.

We intend to increase our operational size in the future, and may experience difficulties in managing growth.

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

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

Our ability to utilize our NOL and other tax carryforward amounts to reduce taxable income in future years may be limited for various reasons. As a result of the enactment of the TCJA (as defined below), the deduction for NOLs arising in tax years after December 31, 2017, will be limited to 80% of taxable income, although they can be carried forward indefinitely. NOLs that arose prior to the years beginning January 1, 2018 are still subject to the same carryforward periods. In addition, our ability to fully utilize these U.S. tax assets can be adversely affected by "ownership changes" within the meaning of Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"). An ownership change is generally defined as a greater than a 50 percentage point increase in equity ownership by "5% shareholders" (as that term is defined for purposes of Sections 382 and 383 of the Code) in any three-year period.

In 2014, substantial acquisitions of our common stock were reported by new beneficial owners on Schedule 13D filings made with the SEC, and we issued shares of our preferred stock, which are convertible into a substantial number of shares of our common stock. During the second quarter of 2014, we completed a Section 382 review. The conclusions of this review indicated that an ownership change had occurred as of May 29, 2014.

As a result of our common stock offering in November 2015 and our purchase of GrayWolf in November 2018, we triggered additional ownership changes, imposing additional limitations on the use of our NOL carryforward amounts. The ownership changes may impact the timing of our ability to use these losses. There can be no assurance that future ownership changes would not further negatively impact our NOL carryforward amounts because any future annual Section 382 limitation will ultimately depend on the value of our equity as determined for these purposes and the amount of unrealized gains immediately prior to such ownership change.

We have restated certain of our financial statements in the past and may be required to do so in the future, which may lead to additional risks and uncertainties, including stockholder litigation and loss of investor confidence.

The preparation of financial statements in accordance with GAAP involves making estimates, judgments, interpretations and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and income. These estimates, judgments, interpretations and assumptions are often inherently imprecise or uncertain, and any necessary revisions to prior estimates, judgments, interpretations or assumptions could lead to a restatement of our financial statements. For example, in March 2016, we restated certain of our historical financial statements. Any such restatement or correction may be highly time consuming, may require substantial attention from management and significant accounting costs, may result in adverse regulatory actions by the SEC or NYSE, may result in stockholder litigation, may cause us to fail to meet our reporting obligations, and may cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

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

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

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

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

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

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

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

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

Deterioration of global economic conditions could adversely affect our business.

The global economy and capital and credit markets have experienced exceptional turmoil and upheaval over the past several years. Many major economies worldwide entered significant economic recessions in recent times and continue to experience economic weakness, with the potential for another economic downturn to occur. Ongoing concerns about the systemic impact of potential long-term and widespread recession and potentially prolonged economic recovery, volatile energy costs, fluctuating commodity prices and interest rates, volatile exchange rates, geopolitical issues, the availability, instability in credit markets, cost and terms of credit, consumer and business confidence and demand, a changing financial, regulatory and political environment, and substantially increased unemployment rates have all contributed to increased market volatility and diminished expectations for many established and emerging economies, including those in which we operate. Furthermore, austerity measures that certain countries may agree to as part of any debt crisis or disruptions to major financial trading markets may adversely affect world economic

conditions and have an adverse impact on our business. These general economic conditions could have a material adverse effect on our cash flow from operations, results of operations and overall financial condition.

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

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

We are subject to risks associated with our international operations.

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

- political conditions and events, including embargo;
- changing regulatory environments, including as a result of Brexit;
- restrictive actions by U.S. and foreign governments;
- the imposition of withholding or other taxes on foreign income, tariffs or restrictions on foreign trade and investment;
- adverse tax consequences;
- limitations on repatriation of earnings and cash;
- currency exchange controls and import/export quotas;

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

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

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

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

The Company has compliance policies in place for its employees with respect to FCPA, OFAC, the Bribery Act and similar laws. Our operating subsidiaries also have relevant compliance policies in place for their employees, which are tailored to their operations. However, there can be no assurance that our employees, consultants or agents, or those of our subsidiaries or investees, will not engage in conduct for which we may be held responsible. Violations of the FCPA, the Bribery Act, the rules and regulations established by OFAC and other laws, sanctions or regulations may result in severe criminal or civil penalties, and we may be subject to other liabilities, which could materially adversely affect our business, financial condition or results of operations.

Furthermore, significant developments stemming from the change in the U.S. Presidential Administration could have a material adverse effect on us. The U.S. Presidential Administration has expressed antipathy towards existing trade agreements, like NAFTA, and proposed restrictions on free trade generally and significant increases on tariffs on goods imported into the United States, particularly from China. Further changes in U.S. social, political, regulatory and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently develop and sell products, and any negative sentiments towards the United States as a result of such changes, could adversely affect our business. In addition, negative sentiments towards the United States among non-U.S. customers and among non-U.S. employees or prospective employees could adversely affect sales or hiring and retention, respectively.

Due to the fact that we have operations located within the United Kingdom (UK), our business and financial results may be negatively impacted as a result of the UK's planned exit from the European Union (EU), resulting primarily from (a) continued depression in the value of the GBP as compared to the USD; and (b) potential price increases for supplies purchased by our UK businesses from companies located in the EU or elsewhere. These risks would be heightened in the event that the UK and the EU are unable to reach a mutually satisfactory exit agreement before the current deadline of March 29, 2019.

Following the UK's vote to leave the EU in 2016 (commonly referred to as Brexit), the value of the British pound ("GBP") incurred significant fluctuations. Additionally, further actions related to Brexit may occur in the future. If the value of the British Pound Sterling continues to incur similar fluctuations, unfavorable exchange rate changes may negatively affect the value of our operations and businesses located in the UK, as translated to our reporting currency, the USD, in accordance with US GAAP, which may impact the revenue and earnings we report. For more information with respect to Exchange Rate risk applicable to us, please see Part 2 Item 7A. "Market Risk Disclosures" elsewhere in this Annual Report on Form 10-K. Continued fluctuations in the GBP may also result in the imposition of price adjustments by EU-based suppliers to our UK businesses, as those suppliers seek to compensate for the changes in value of the GBP as compared to the Euro. In addition, a so-called "Hard Brexit," where no formal agreement is made between the EU and UK prior to the UK's exit, could result in a continued deflation of the British Pound Sterling; additional increases in prices, fees, taxes or tariffs applicable to goods that are bought and sold between the UK and Europe, and a negative impact on end markets in the UK as a result of declines in consumer sentiment or decreased immigration rates into the UK. Any of these results could have a material adverse effect on the business, revenues and financial condition of our UK and European operations.

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

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

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

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

In the course of our acquisitions, we may not acquire 100% ownership of certain of our operating subsidiaries or we may face delays in completing certain acquisitions, including in acquiring full ownership of certain of our operating companies. Once we complete acquisitions or reorganizations there can be no assurance that we will realize the anticipated benefits of any transaction, including revenue growth, operational efficiencies or expected synergies. If we fail to recognize some or all of the strategic benefits and synergies expected from a transaction, goodwill and intangible assets may be impaired in future periods. The negotiations associated with the acquisition and disposition of businesses could also disrupt our ongoing business, distract management and employees or increase our expenses.

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

In the ordinary course of our business, we evaluate the potential disposition of assets and businesses that may no longer help us meet our objectives or that no longer fit with our broader strategy. When we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the accomplishment of our strategic objectives, or we may dispose of a business at a price or on terms which are less than we had anticipated. In addition, there is a risk that we sell a business whose subsequent performance exceeds our expectations, in which case our decision would have potentially sacrificed enterprise value.

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

- the difficulty of integrating acquired products, services or operations;
- difficulties in maintaining uniform standards, controls, procedures and policies;



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

We also own a minority interest in a number of entities, such as MediBeacon and Triple Ring Technologies, Inc., over which we do not exercise, or have only limited, management control and we are therefore unable to direct or manage the business to realize the anticipated benefits that we can achieve through full integration.

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

We have incurred substantial costs in connection with our prior acquisitions and expect to incur substantial costs in connection with any other transactions we complete in the future. These costs may increase our indebtedness or reduce the amount of cash otherwise available to us for acquisitions, business opportunities and other corporate purposes. There is no assurance that the actual costs associated with any such acquisitions will not exceed our estimates. Once an acquisition is consummated, we may continue to incur additional material charges reflecting additional costs associated with our investments and the integration of HC2 and our subsidiaries' acquisitions in fiscal quarters subsequent to the quarter in which such investments and acquisitions were consummated.

Our development stage companies may never produce revenues or income.

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

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

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

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

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

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

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

and partners may result in litigation or arbitration that would increase our costs and expenses and divert a substantial amount of management's time and effort away from our businesses. We may also, in certain circumstances, be liable for the actions of our third-party partners which could have a material adverse effect on us.

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

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

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

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

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

As of December 31, 2017, HC2 has 45,391,397 issued and 44,907,818 outstanding shares of its common stock, and 26,500 shares of preferred stock issued and outstanding inclusive of shares held by our Insurance Company which are eliminated in consolidation. However, the Certificate of Incorporation authorizes our board of directors (the "HC2 Board of Directors"), from time to time, subject to limitations prescribed by law and any consent rights granted to holders of outstanding shares of preferred stock, to issue additional shares of preferred stock having rights that are senior to those afforded to the holders of our common stock. We also have reserved shares of common stock for issuance pursuant to our broad-based equity incentive plans, upon exercise of stock options and other equity-based awards granted thereunder, and pursuant to other equity compensation arrangements.

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

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

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

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

Conversion of the Convertible Notes will dilute the ownership interest of existing stockholders, including holders who had previously converted their Convertible Notes, or may otherwise depress the market price of our common stock.

The conversion of some or all of HC2's Convertible Notes will dilute the ownership interests of existing stockholders. Any sales in the public market of the shares of our common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Convertible Notes may encourage short selling by market participants because the conversion of the notes could be used to satisfy short positions, or anticipated conversion of the notes into shares of our common stock could depress the market price of our common stock.

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

As of December 31, 2018, the holders of our outstanding preferred stock had certain rights to convert their Preferred Stock into approximately 3.5 million shares of our common stock, excluding shares owned by our Insurance Company, which are eliminated in consolidation.

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

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

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

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

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

Delaware law and our charter documents contain provisions that could discourage or prevent a potential takeover, even if such a transaction would be beneficial to our stockholders.

Some provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable. These include provisions:

- authorizing a board of directors to issue preferred stock;
- prohibiting cumulative voting in the election of directors;
- limiting the persons who may call special meetings of stockholders;
- prohibiting stockholder actions by written consent;
- creating a classified board of directors pursuant to which our directors are elected for staggered three-year terms;
- permitting the board of directors to increase the size of the board and to fill vacancies;
- requiring a super-majority vote of our stockholders to amend our bylaws and certain provisions of our certificate of incorporation; and
- establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law which limit the right of a corporation to engage in a business combination with a holder of 15 percent or more of the corporation's outstanding voting securities, or certain affiliated persons. We do not currently have a stockholder rights plan in place.

Although we believe that these charter and bylaw provisions, and provisions of Delaware law, provide an opportunity for the board to assure that our stockholders realize full value for their investment, they could have the effect of delaying or preventing a change of control, even under circumstances that some stockholders may consider beneficial.

#### Risks Related to American Natural Gas

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, may impact our business.

Programs and regulations that have the effect of encouraging the use of CNG as a vehicle fuel are subject to change, and could expire or be repealed or amended as a result of changes in federal, state or local political, social or economic conditions. In particular, the AFETC provided a tax credit worth \$0.50 per gasoline gallon equivalent of compressed natural gas, or diesel gallon equivalent of liquefied natural gas, which our subsidiary ANG claimed for a portion of its fuel sales each year. The AFETC tax credit has been used as an incentive for fleet operators to adopt natural gas vehicles, as it helped offset the incremental cost of a natural gas vehicle versus a similar gas- or diesel-powered version. The termination, modification or repeal of federal, state and local government tax credits, rebates, grants and similar programs and incentives that promote the use of CNG as a vehicle fuel and various

government programs that make available grant funds for the purchase and construction of natural gas vehicles and stations may have an adverse impact on our business. As of the date of this filing, the U.S. Congress did pass its omnibus budget for 2019, however, the AFETC has yet to be approved for 2018 and 2019.

Demand for natural gas vehicles may decline with advances in other alternative technologies and fuels, or with improvements in gasoline, diesel or hybrid engines.

The market for CNG vehicles may diminish with technological advances in gasoline, diesel or other alternative fuels that may be considered more cost-effective or otherwise more advantageous than CNG. Operators may perceive an inability to timely recover the additional costs of natural gas vehicles if CNG fuel is not offered at a lower price than gasoline and diesel. In addition, the adoption of CNG as a fuel for vehicle may be slowed or limited if the low prices and over-supply of gasoline and diesel continue or deteriorate further or if natural gas prices increases without corresponding increases in prices of gasoline and diesel. Advances or improvements in fuel efficiency also may offer more economical choice and deter consumers to convert their vehicles to natural gas. Growth in the use of electric commercial vehicles likewise may reduce demand for natural gas vehicles and renewable diesel, hydrogen and other alternative fuels may prove to be more economical alternatives to gasoline and diesel than natural gas, which could have an adverse impact on our business.

If there are advances in other alternative vehicle fuels or technologies, or if there are improvements in gasoline, diesel or hybrid engines, demand for natural gas vehicles may decline.

Technological advances in the production, delivery and use of gasoline, diesel or other alternative fuels that are, or are perceived to be, cleaner, more cost-effective, more readily available or otherwise more attractive than CNG, may slow or limit adoption of natural gas vehicles. For example, advances in gasoline and diesel engine technology, including efficiency improvements and further development of hybrid engines, may offer a cleaner, more cost-effective option and make fleet customers less likely to convert their vehicles to natural gas. Additionally, technological advances related to ethanol or biodiesel, which are used as an additive to, or substitute for gasoline and diesel fuel, may slow the need to diversify fuels and affect the growth of the natural gas vehicle fuel market.

Further, use of electric commercial vehicles, or the perception that such vehicles may soon be widely available and provide satisfactory performance at an acceptable cost, may reduce demand for natural gas vehicles. In addition, renewable diesel, hydrogen and other alternative fuels may prove to be cleaner, more cost-effective alternatives to gasoline and diesel than natural gas. Advances in technology that reduce demand for natural gas as a vehicle fuel or the failure of natural gas vehicle technology to advance at an equal pace could slow or curtail the growth of natural gas vehicle purchases or conversions, which would have an adverse effect on our business.

Increases, decreases and general volatility in oil, gasoline, diesel and natural gas prices could adversely affect our business.

In recent years, the prices of oil, gasoline, diesel and natural gas have been volatile, and this volatility may continue. Additionally, prices for crude oil in recent years have been low, due in part to over-production and increased supply without a corresponding increase in demand. Market adoption of CNG (which can be delivered in the form of CNG) as vehicle fuels could be slowed or limited if the low prices and over-supply of gasoline and diesel, today's most prevalent and conventional vehicle fuels, continue or worsen, or if the price of natural gas increases without equal and corresponding increases in prices of gasoline and diesel. Any of these circumstances could decrease the market's perception of a need for alternative vehicle fuels generally and could cause the success or perceived success of our industry and our business to materially suffer. In addition, low gasoline and diesel prices contribute to the differential between the cost of natural gas vehicles and gasoline or diesel-powered vehicles. Generally, natural gas vehicles cost more initially than gasoline or diesel powered vehicles, as the components needed for a vehicle to use natural gas add to the vehicle's base cost. Operators seek to recover the additional costs of acquiring or converting to natural gas vehicles over time through the lower costs of fueling natural gas vehicles; however, operators may perceive an inability to timely recover these additional costs if we do not offer CNG fuel at prices lower than gasoline and diesel. Our ability to offer our customers an attractive pricing advantage for CNG and maintain an acceptable margin on our sales becomes more difficult if prices of gasoline and diesel decrease or if prices of natural gas increase. These pricing conditions exacerbate the cost differential between natural gas vehicles and gasoline or diesel powered vehicles, which may lead operators to delay or refrain from purchasing or converting to natural gas vehicles at all. Any of these outcomes would decrease our potential customer base and harm our business prospects. Further, fluctuations in natural gas prices affect the cost to us of the natural gas commodity. High natural gas prices adversely impact our operating margins in cases where we cannot pass the increased costs through to our customers. Conversely, lower natural gas prices reduce our revenue in cases where the commodity cost is passed through to our customers. As a result, these fluctuations in natural gas prices can have a significant and adverse impact on our operating results.

Factors that can cause fluctuations in gasoline, diesel and natural gas prices include, among others, changes in supply and availability of crude oil and natural gas, government regulations and political conditions, inventory levels, consumer demand, price and availability of other alternative fuels, weather conditions, negative publicity surrounding drilling, production or importing techniques and methods for oil or natural gas, economic conditions and the price of foreign imports.



With respect to natural gas supply and use as a vehicle fuel, there have been recent efforts to place new regulatory requirements on the production of natural gas by hydraulic fracturing of shale gas reservoirs and other means and on transporting, dispensing and using natural gas. Hydraulic fracturing and horizontal drilling techniques have resulted in a substantial increase in the proven natural gas reserves in the United States. Any changes in regulations that make it more expensive or unprofitable to produce natural gas through these techniques or others, as well as any changes to the regulations relating to transporting, dispensing or using natural gas, could lead to increased natural gas prices.

If pricing conditions worsen, or if all or some combination of factors causing further volatility in natural gas, oil and diesel prices were to occur, our business and our industry would be materially harmed.

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

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

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

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

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

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

#### Risks Related to the Insurance Segment

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

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

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

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

As a condition to the approval of the Acquisition by the South Carolina Department of Insurance, CGI agreed to redomesticate KIC from South Carolina to Texas and simultaneously merge KIC with and into CGI, with CGI surviving (the "Merger"), and to maintain a risk-based capital ratio of no less than 450 percent for two years following the closing. Similarly, CGI agreed with the Texas Commissioner of Insurance that it will maintain a total adjusted capital to authorized control risk-based capital level of no less than 450 percent for two years from the date of the Merger and of no less than 400 percent for the subsequent three years.

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

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

CGI comprises the core of our insurance business segment. Our Insurance segment will endeavor to retain key personnel we believe are necessary for the success of the business. As we do not currently have substantial insurance company holdings, we also expect that our Insurance segment will add headcount as we continue to fill out the platform and grow the Insurance segment.

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

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

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

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

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

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

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

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

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

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

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

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

Because these factors are not known in advance and have the potential to change over time, they are difficult to accurately predict and inherently uncertain, which means that our Insurance segment cannot determine with precision the ultimate amounts it will pay for actual claims or the timing of those payments. In addition, our Insurance segment includes assumptions for anticipated (but not yet filed) future premium rate increases in its determination of loss recognition testing of long-term care insurance reserves under U.S. GAAP and asset adequacy testing of statutory long-term care insurance reserves. Our Insurance segment may not be able to realize these anticipated results in the future as a result of its inability to obtain required regulatory approvals or other factors. In this event, our Insurance segment would have to increase its long-term care insurance reserves by amounts that could be material. Moreover, our Insurance segment may not be able to mitigate the impact of unexpected adverse experience by increasing premiums and/or other charges to policyholders (when it has the right to do so) or alternatively by reducing benefits.

The risk that our Insurance segment's claims experience may differ significantly from its pricing assumptions is significant for its long-term care insurance products. Long-term care insurance policies provide for long-duration coverage and, therefore, actual claims experience will emerge over many years after pricing and locked-in valuation assumptions have been established. For example, changes in the economy, socio-demographics, behavioral trends (e.g., location of care and level of benefit use) and medical advances, among other factors, may have a material adverse impact on future loss trends. Moreover, long-term care insurance does not have as extensive of a claims experience history as life insurance, and as a result, our Insurance segment's ability to forecast future claim costs for long-term care insurance is more limited than for life insurance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

Our Insurance segment cedes material amounts of insurance and transfers related assets and certain liabilities to other insurance companies through reinsurance. However, notwithstanding the transfer of related assets and certain liabilities, our Insurance segment remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations it has assumed. Accordingly, our Insurance segment bears credit risk with respect to its reinsurers. Our Insurance segment currently cedes material reinsurance obligations to Loyal American Life Insurance Company ("Loyal") (rated A- by A.M. Best), Hannover Life Reassurance Company ("Hannover") (rated A+ by A.M. Best), GALIC (rated A by A.M. Best), Munich American Reassurance Company ("Munich") (rated A+), and Manhattan Life Assurance Company of America ("Manhattan") (rated B+). The failure, insolvency, inability or unwillingness of a reinsurer, including Loyal, Hannover, GALIC, Munich, and Manhattan to pay under the terms of its reinsurance agreement with our Insurance segment could materially adversely affect our Insurance segment's business, financial condition and results of operations.

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

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

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

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

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

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

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

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

An extended period of declining interest rates or a prolonged period of low interest rates may cause our Insurance segment to change its long-term view of the interest rates that our Insurance segment can earn on its investments.

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

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

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

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

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

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

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

Our Insurance segment is subject to cyber-attacks and other privacy or data security incidents. If we are unable to prevent or contain the effects of any such attacks, we may suffer exposure to substantial liability, reputational harm, loss of revenue or other damages.

Our business depends on our clients' and customers' willingness to entrust us with their sensitive personal information. Our Insurance segment and certain of our other businesses retain confidential information in their computer systems, and rely on commercial technologies to maintain the security of those systems. Nevertheless, computer systems may be vulnerable to physical break-ins, computer viruses or malware, programming errors, attacks by third parties or similar disruptive problems. We may be the target of computer viruses or other malicious codes, unauthorized access, cyber-attacks or other computer-related penetrations. Despite the implementation of network security measures, our servers could be subject to physical and electronic break-ins, and similar disruptions from unauthorized tampering with our computer systems. Anyone who is able to circumvent these security measures and penetrate our and our subsidiaries' computer systems could access, view, misappropriate, alter, or delete any information in the systems, including personally identifiable customer information and proprietary business information. In addition, an increasing number of states require that customers be notified of unauthorized access, use, or disclosure of their information. Any compromise of the security of our Insurance segment's computer systems that results in inappropriate access, use, or disclosure of personally identifiable customer information could damage our Insurance segment's reputation in the marketplace, subject our Insurance segment to significant civil and criminal liability, and require our Insurance segment to incur significant technical, legal, and other expenses.

There have been large scale cyber-attacks and other cyber-security breaches within the insurance industry. As we increase the amount of personal information that we store and share digitally, our exposure to data security and related cyber-security risks increases, including the risk of undetected attacks, damage, loss or unauthorized access or misappropriation of proprietary or personal information, and the cost of attempting to protect against these risks also increases. In addition, while we have certain standards for all vendors that provide us services, our vendors, and in turn, their own service providers, may become subject to the same type of security breaches. Finally, our offices may be vulnerable to security incidents or security attacks, acts of vandalism or theft, misplaced or lost data, human error or similar events that could negatively affect our systems and our customers' and clients' data.

The costs to eliminate or address security threats and vulnerabilities before or after a cyber-incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays, or cessation of service and loss of existing or potential customers.

In addition, breaches of our security measures and the unauthorized dissemination of sensitive personal information or proprietary information or confidential information about us, our customers or other third-parties could expose our customers' private information and our customers to the risk of identity theft, any of which could adversely affect our business, results of operations, financial condition or liquidity.

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

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

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

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

Significant continued financial and credit market volatility, changes in interest rates, credit spreads, credit defaults, real estate values, market illiquidity, declines in equity prices, acts of corporate malfeasance, ratings downgrades of the issuers or guarantors of these investments, and declines in general economic conditions, either alone or in combination, could have a material adverse impact on our Insurance segment's results of operations, financial condition, or cash flows through realized losses, other-than-temporary impairments, changes in unrealized loss positions,

and increased demands on capital. In addition, market volatility can make it difficult for our Insurance segment to value certain of its assets, especially if trading becomes less frequent.

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

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

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

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

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

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

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

Our Insurance segment must continue to evaluate the need for a valuation allowance against its deferred tax assets.

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

During 2018, the Insurance segment started to trend positively from an earnings perspective and had positive net deferred tax assets before valuation allowance. However, due to prior year losses from the newly acquired long term care business, Kanawha Insurance Company, the Insurance segment took the prudent approach by maintaining a valuation allowance.

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

There can be no assurance that the performance of the companies or blocks of business acquired will meet our Insurance segment's expectations, or that any of these acquisitions will be financially advantageous for our Insurance

segment. The evaluation and negotiation of potential acquisitions, as well as the integration of an acquired business or portfolio, could result in a substantial diversion of management resources. Acquisitions could involve numerous additional risks such as potential losses from unanticipated litigation, levels of claims or other liabilities and exposures, an inability to generate sufficient revenue to offset acquisition costs and financial exposures in the event that the sellers of the acquired entities or blocks of business are unable or unwilling to meet their indemnification, reinsurance and other obligations to our Insurance segment (if any such obligations are in place).

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

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

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

On October 7, 2013, the New York State Department of Financial Services announced that Philip A. Falcone, now our Chairman, President and Chief Executive Officer, had committed not to exercise control, within the meaning of New York insurance law, of a New York-licensed insurer for seven years (the "NYDFS Commitment"). Mr. Falcone, who at the time of the NYDFS Commitment was the Chief Executive Officer and Chairman of the Board of HRG Group Inc. ("HGI"), also committed not to serve as an officer or director of certain insurance company subsidiaries and related subsidiaries of HGI or to be involved in any investment decisions made by such subsidiaries, and agreed to recuse himself from

participating in any vote of the board of HGI relating to the election or appointment of officers or directors of such companies. However, it was also noted that in the event compliance with the NYDFS Commitment proves impracticable, including in the context of merger, acquisition or similar transactions, then the terms of the NYDFS Commitment may be reconsidered and modified or withdrawn to the extent determined to be appropriate by the NYDFS Insurance regulatory authorities may consider the NYDFS Commitment in the course of a review of any prospective acquisition of an insurance company or block of insurance business by us or our Insurance segment, increasing the risk that any such transaction may be disapproved, or that regulatory conditions will be applied to the consummation of such an acquisition which may adversely affect the economic benefits anticipated to be derived by us and/or our Insurance segment from such transaction.

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

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

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

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

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

While we own a significant amount of liquid assets, we could exhaust all sources of liquidity and be forced to obtain additional financing or liquidate assets, perhaps on unfavorable terms, if we experience unanticipated withdrawal or surrender activity. The availability of additional financing will depend on a variety of factors, such as market conditions, the availability of credit in general or more specifically in the insurance industry, the strength or weakness

of the capital markets, the volume of trading activities, our credit capacity, and the perception of our long- or short-term financial prospects if we incur large realized or unrealized investment losses or if the level of business activity declines due to a market downturn. If we are forced to dispose of assets on unfavorable terms, it could have an adverse effect on our liquidity, results of operations and financial condition.

#### Risks Related to the Construction segment

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

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

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

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

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

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

Generally, DBMG's contracts and projects vary in length from 1 to 24 months, depending on the size and complexity of the project, project owner demands and other factors. The foregoing risks are exacerbated for projects with longer-term durations because there is an increased risk that the circumstances upon which DBMG based its original estimates will change in a manner that increases costs. In addition, DBMG sometimes bears the risk of delays caused by unexpected conditions or events. To the extent there are future cost increases that DBMG cannot recover from its customers, suppliers or subcontractors, the outcome could have a material adverse effect on DBMG's results of operations, cash flows or financial condition.

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

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

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

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

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

As DBMG obtains new significant project awards, these projects may use larger sums of working capital than other projects and DBMG's backlog may become concentrated among a smaller number of customers. Approximately \$232.9 million, representing 44.1%, of DBMG's backlog at December 31, 2018 was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If any significant projects such as these currently included in DBMG's backlog or awarded in the future were to have material cost overruns, or be significantly delayed, modified or canceled, DBMG's results of operations, cash flows or financial position could be adversely impacted.

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

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

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

At December 31, 2018, DBMG's backlog was \$528.5 million, consisting of \$420.8 million under contracts or purchase orders and \$107.7 million under letters of intent or notices to proceed. Approximately \$232.9 million, representing 44.1% of DBMG's backlog at December 31, 2018, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these projects terminate or significantly reduce their scope, DBMG's backlog could decrease substantially.

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

Due to project terminations, suspensions or changes in project scope and schedule, we cannot predict with certainty when or if DBMG's backlog will be performed. From time to time, projects are canceled that appeared to have a high certainty of going forward at the time they were recorded as new awards. In the event of a project cancellation, DBMG typically has no contractual right to the total revenue reflected in its backlog. Some of the contracts in DBMG's backlog provide for cancellation fees or certain reimbursements in the event customers cancel projects. These cancellation fees usually provide for reimbursement of DBMG's out-of-pocket costs, costs associated with work performed prior to cancellation, and, to varying degrees, a percentage of the profit DBMG would have realized had the contract been completed. Although DBMG may be reimbursed for certain costs, it may be unable to recover all direct costs incurred and may incur additional unrecoverable costs due to the resulting under-utilization of DBMG's assets. Approximately \$232.9 million, representing 44.1%, of DBMG's backlog at December 31, 2018 was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these large contracts or other commitments are terminated or their scope reduced, DBMG's backlog could decrease substantially.



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

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

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

DBMG is a provider of services to U.S. government agencies and is therefore exposed to risks associated with government contracting. Government agencies typically can terminate or modify contracts to which DBMG is a party at their convenience, due to budget constraints or various other reasons. As a result, DBMG's backlog may be reduced or it may incur a loss if a government agency decides to terminate or modify a contract to which DBMG is a party. DBMG is also subject to audits, including audits of internal control systems, cost reviews and investigations by government contracting oversight agencies. As a result of an audit, the oversight agency may disallow certain costs or withhold a percentage of interim payments. Cost disallowances may result in adjustments to previously reported revenue and may require DBMG to refund a portion of previously collected amounts. In addition, failure to comply with the terms of one or more of our government contracts or government regulations and statutes could result in DBMG being suspended or debarred from future government projects for a significant period of time,

possible civil or criminal fines and penalties, the risk of public scrutiny of our performance, and potential harm to DBMG's reputation, each of which could have a material adverse effect on DBMG's results of operations, cash flows or financial condition. Other remedies that government agencies may seek for improper activities or performance issues include sanctions such as forfeiture of profit and suspension of payments.

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

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

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

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

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

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

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

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

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

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

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

While DBMG believes that it maintains a competitive advantage with respect to these factors, failure to continue to do so or to meet other competitive challenges could have a material adverse effect on DBMG's results of operations, cash flows or financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

or financial condition.

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

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

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

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

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

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

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

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

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

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

A portion of DBMG's employees are represented by labor unions, and 38% of DBMG's employees are covered under collective bargaining agreements that expire in less than one year, but are currently being renegotiated. A lengthy strike or other work stoppage at any of its facilities could have a material adverse effect on DBMG's business. There is inherent risk that ongoing or future negotiations relating to collective bargaining agreements or union representation

may not be favorable to DBMG. From time to time, DBMG also has experienced attempts to unionize its non-union facilities. Such efforts can often disrupt or delay work and present risk of labor unrest.

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

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

DBMG's acquisition of GrayWolf Industrial could lead to significant losses if it does not perform.

DBMG completed the acquisition of GrayWolf Industrial in the fourth quarter of 2018. To finance the acquisition DBMG obtained a \$80 million term loan with TCW Asset Management, revised its existing Credit Facility with Wells Fargo, and issued preferred stock to DBM Global Intermediate Co. in exchange for a \$40 million investment. DBMG is expected to make interest payments and preferred dividends of approximately \$11 million per year. The failure for GrayWolf to generate sufficient cash flow and profit to service these obligations could lead to significant losses.

#### Risks Related to the Marine Services segment

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

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

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

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

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

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

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

GMSL does business with clients in the oil and natural gas industry, which is extensively regulated by U.S. federal, state, tribal, and local authorities, and corresponding foreign governmental authorities. Legislation and regulations



affecting the oil and natural gas industry are under constant review for amendment or expansion, raising the possibility of changes that may become more stringent and, as a result, may affect, among other things, the pricing or marketing of crude oil and natural gas production. Noncompliance with statutes and regulations and more vigorous enforcement of such statutes and regulations by regulatory agencies may lead to substantial administrative, civil, and criminal penalties, including the assessment of natural resource damages, the imposition of significant investigatory and remedial obligations, and may also result in the suspension or termination of our operations.

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

In order to satisfy the requirements of Section 226 of the Pensions Act of 2004 (UK) ("UK Pensions Act 2004"), GMSL is a party to the Global Marine Pension Plan Recovery Plan, dated as of March 14, 2014 (the "Recovery Plan"). The Recovery Plan addresses GMSL's pension funding shortfall, which (on the basis of U.S. GAAP accounting estimates) was approximately \$18.6 million as of December 31, 2018, by requiring GMSL to make certain scheduled fixed monthly contributions, certain variable annual profit-related contributions and certain variable dividend-related contributions to the pension plan. The variable dividend-related contributions require GMSL to pay cash contributions to the underfunded pension plan equal to 50% of any dividend payments made to its stockholder, which reduces the amount of cash available for GMSL to make upstream dividend payments to us.

However the Global Marine Pension Plan must be valued on a triennial basis, and all valuations are dependent upon the prevailing market conditions and the actuarial methods and assumptions used as well as the expected pension liabilities at the valuation date. The next valuation is due for the Global Marine Pension Plan position as of December 31, 2019, and the valuation report will be published in 2020. There are

various risks which could adversely affect the next valuation of the Global Marine Pension Plan and, consequently, the obligations of GMSL to fund the plan, such as a significant adverse change in the market value of the pension plan assets, an increase in pension liabilities, longer life expectancy of plan members, a change in the discount rate or inflation rate used by the actuary or if the trustees of the plan recommend a material change to the investment strategy. Any increase in the deficit may result in a need for GMSL to increase its pension contributions, which would reduce the amount of cash available for GMSL to make upstream dividend payments to us. While we expect the trustees of the pension plan to renegotiate the Recovery Plan on at least a triennial basis or to dispense with the Recovery Plan if and when the funding shortfall has been eliminated, we can make no assurances in relation to this.

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

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

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

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

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

As a result of any ship or other incidents, litigation claims, enforcement actions and regulatory actions and investigations, including, but not limited to, those arising from personal injury, loss of life, loss of or damage to personal property, business interruption losses or environmental damage to any affected coastal waters and the surrounding area, may be asserted or brought against various parties including GMSL. The time and attention of

GMSL's management may also be diverted in defending such claims, actions and investigations. GMSL may also incur costs both in defending against any claims, actions and investigations and for any judgments, fines or civil or criminal penalties if such claims, actions or investigations are adversely determined and not covered by its insurance policies.

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

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

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

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

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

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

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

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

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

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

- oil and natural gas prices, including volatility of oil and natural gas prices and expectations regarding future prices;
- the inability of our customers to access capital on economically advantageous terms;
- technological advances that make subsea cable communications less attractive or obsolete;
- the consolidation of our customers;
- customer personnel changes; and
- adverse developments in the business or operations of our customers, including write-downs of reserves and borrowing base reductions under customer credit facilities.

As a result of the decreases in oil and natural gas prices, many of our customers in this industry reduced capital spending in 2016 and 2017. While customer budgets are slowly increasing in response to improved market conditions, any prolonged further reduction in commodity prices may result in further capital budget reductions in the future.

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

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

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

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

Certain of our existing and potential customers have policies regarding the minimum acceptable original build age of vessels for use on their projects. The average age of the GMSL fleet is 19 years and the CWind fleet is 4 years. One of our vessels have original build ages of over 27 years, and such policies may preclude us from participating in tenders for new contracts at all or without producing third party feasibility studies of our vessels. Any trend towards restricting the operation of vessels with older original build ages, either from our customers or under the regulations in the jurisdictions in which a particular vessel operates, could have an adverse effect on our business, financial condition or results of operations, particularly as our vessels continue to age.

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

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

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

Significant cost overruns or delays could materially affect our financial condition and results of operations.

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

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

We are exposed to claims under environmental requirements and carry insurance in accordance with international shipping agreements. In the United States and many foreign subsidiaries, environmental requirements and regulations

typically impose strict liability. Strict liability means that in some situations we could be exposed to liability for cleanup costs, natural resource damages, and other damages as a result of our conduct that was lawful at the time it occurred or the conduct of prior operators or other third parties.

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

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

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

A portion of GMSL's operations may be conducted in the U.S. coastal areas, possibly extending to cable laying and repair activities on the US continental shelf. Subject to limited exceptions, the Jones Act requires that vessels engaged in U.S. coastwise trade be built in the United States, registered under the U.S. flag, manned by predominantly U.S. crews, and owned and operated by U.S. citizens within the meaning of the Jones

Act. Under existing rules, the Jones Act exempts certain foreign construction vessels working in the offshore oil and gas sector delivering repair materials for pipelines and platforms, which may include work performed by GMSL U.S. coastal areas. In 2017, the U.S. Customs and Border Protection (CBP) requested comments for a proposal to extend the Jones Act restrictions to vessels supplying equipment to offshore facilities in the U.S. coastwise trade, which, if adopted, could prohibit GMSL from directly operating in U.S. coastal areas. Such a new interpretation would attempt to extend the Jones Act to include previously exempted foreign construction vessels working in the offshore oil and gas sector delivering repair materials for pipelines and platforms, and also to cable vessels laying and repair cables. Any such revocation or modification of Opinion rulings by the CBP of the Jones Act, if adopted, could have an adverse effect on GMSL's business.

In May 2017, CPB withdrew its proposal to amend the Jones Act in a way that would have made a bulk of international offshore construction vessels banned from working in U.S. waters in the offshore oil and gas industry. The CPB stated, "Based on the many substantive comments CBP received, both supporting and opposing the proposed action, and CBP's further research on the issue, we conclude that the Agency's notice of proposed modification and revocation of the various ruling letters relating to the Jones Act should be reconsidered. Accordingly, CBP is withdrawing its proposed action relating to the modification of HQ 101925 and revision of rulings determining certain articles are vessel equipment under T.D. 49815(4), as set forth in the January 18, 2017 notice.

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

The joint ventures in which GMSL has operating activities or interests that are located outside the United States are subject to certain risks related to the indirect ownership and development of, or investment in, foreign subsidiaries. These risks include government expropriation and nationalization, adverse changes in currency values and foreign exchange controls, foreign taxes, U.S. taxes on the repatriation of funds to the United States, and other laws and regulations, both foreign and domestic, any of which may have a material adverse effect on GMSL's investments, financial condition, results of operations, or cash flows. In particular, given our investments in joint ventures in China, there are also substantial uncertainties regarding the interpretation, application and enforcement of China's laws and regulations. The effectiveness of newly enacted laws, regulations or amendments in China may be delayed, resulting in detrimental reliance by foreign investors. Furthermore, new laws, regulations and government actions, both internationally and in the U.S., that affect existing and proposed future businesses in China may be applied retroactively and impact GMSL's investments and activities. The unpredictability of the interpretation and application of existing and new laws and regulations, in both China and in other countries, may raise additional challenges for us as our joint ventures in China develop and grow. Our failure to understand these laws or an unforeseen change in a law, or the application thereof, may have a material adverse effect on GMSL's investments, financial condition, results of operations, or cash flows.

#### Risks Related to our Telecommunications segment

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

The carrier services telecommunications industry is significantly influenced by the marketing and pricing decisions of the larger business participants. The rapid development of new technologies, services and products has eliminated many of the traditional distinctions among wireless, cable, Internet, local and long distance communication services. We face many competitors in this market, including telephone companies, cable companies, wireless service providers, satellite providers, application and device providers. ICS faces competition for its voice trading services



from telecommunication services providers' traditional processes and new companies. Once telecommunication services providers have established business relationships with competitors to ICS, it could be extremely difficult to convince them to utilize our services. These competitors may be able to develop services or processes that are superior to ICS's services or processes, or that achieve greater industry acceptance.

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

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

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

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

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

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

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

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

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

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

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

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

Our telecommunications network infrastructure has several vulnerabilities and limitations.

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

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

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

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

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

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

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

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

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

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

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

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

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

### Risks related to our Broadcasting segment

We may not be able to successfully integrate HC2 Broadcasting's recent acquisitions into our business, or realize the anticipated benefits of these acquisitions.

Following the completion of HC2 Broadcasting's recent and pending acquisitions, the integration of these businesses into our operations may be a complex and time-consuming process that may not be successful. For example, prior to the completion of HC2 Broadcasting's acquisition of Azteca America, we did not operate a Spanish-language broadcast network providing original content to the Hispanic audience in the United States. In addition, HC2 Broadcasting's pending and completed acquisitions during 2018 expanded HC2 Broadcasting's network to 167 operational stations, inclusive of 29 pending operating station acquisitions. This total includes 14 Full-Power stations, 55 Class A stations and 98 LPTV stations, collectively able to broadcast over 1,000 sub-channels in over 130 markets across the United States. In addition, the acquisitions increased Broadcasting's construction permits to 475, allowing for further build-out of coverage across the United States. This may add complexity to effectively overseeing, integrating and operating these assets.

Even if we successfully integrate these assets into our business and operations, there can be no assurance that we will realize the anticipated benefits and operating synergies. The Company's estimates regarding the earnings, operating cash flow, capital expenditures and liabilities resulting from these acquisitions may prove to be incorrect. For example, with any past or future acquisition, there is the possibility that:

- we may not have implemented company policies, procedures and cultures, in an efficient and effective manner;
- we may not be able to successfully reduce costs, increase advertising revenue or audience share;
- we may fail to retain and integrate employees and key personnel of the acquired business and assets;
- our management may be reassigned from overseeing existing operations by the need to integrate the acquired business;
- we may encounter unforeseen difficulties in extending internal control and financial reporting systems at the newly acquired business;
- we may fail to successfully implement technological integration with the newly acquired business or may exceed the capabilities of our technology infrastructure and applications;
- we may not be able to generate adequate returns;
- we may encounter and fail to address risks or other problems associated with or arising from our reliance on the representations and warranties and related indemnities, if any, provided to us by the sellers of acquired companies and assets;
- we may suffer adverse short-term effects on operating results through increased costs and may incur future impairments of goodwill associated with the acquired business;
- we may be required to increase our leverage and debt service or to assume unexpected liabilities in connection with our acquisitions; and
- we may encounter unforeseen challenges in entering new markets in which we have little or no experience.

The occurrence of any of these events or our inability generally to successfully implement our acquisition and investment strategy would have an adverse effect, which could be material, on our business, financial condition and results of operations.

Our broadcasting business conducted by HC2 Broadcasting operates in highly competitive markets and our ability to maintain market share and generate operating revenues depends on how effectively we compete with existing and new competition.

HC2 Broadcasting's broadcast stations compete for audiences and advertising revenue with other broadcast stations as well as with other media such as the Internet and radio. HC2 Broadcasting also faces competition from (i) local free over-the-air broadcast television and radio stations; (ii) telecommunication companies; (iii) cable and satellite system operators and cable networks; (iv) print media providers such as newspapers, direct mail and periodicals; (v) internet search engines, internet service providers, websites, and mobile applications; and (vi) other emerging technologies including mobile television. Some of HC2 Broadcasting's current and potential competitors have greater financial and other resources than HC2 Broadcasting does and so may be better placed to extend audience reach and expand programming. Many of HC2 Broadcasting's competitors possess greater access to capital, and its financial resources may be relatively limited when contrasted with those of such competitors. If HC2 Broadcasting needs to obtain additional funding, HC2 Broadcasting may be unable to such raise capital or, if HC2 Broadcasting is able to obtain capital it may be on unfavorable terms. If HC2 Broadcasting is unable to obtain additional funding as and when needed, it could be forced to delay its development, marketing and expansion efforts and, if it continues to experience losses, potentially cease operations.

In addition, cable companies and others have developed national advertising networks in recent years that increase the competition for national advertising. Over the past decade, cable television programming services, other emerging video distribution platforms and the Internet have captured increasing market share. Cable providers, direct broadcast satellite companies and telecommunication companies are developing new technology that allows them to transmit more channels on their existing equipment to highly targeted audiences, reducing the cost of creating channels and potentially leading to the division of the television industry into ever more specialized niche markets. The decreased cost of creating channels may also encourage new competitors to enter HC2 Broadcasting's markets and compete with us for advertising revenue. In addition, technologies that allow viewers to digitally record, store and play back television programming may decrease viewership of commercials as recorded by media measurement services and, as a result, lower Broadcasting's advertising revenues. Furthermore, technological advancements and the resulting increase in programming alternatives, such as cable television, direct broadcast satellite systems, pay-per-view, home video and entertainment systems, video-on-demand, mobile video and the Internet have also created new types of competition to television broadcast stations and will increase competition for household audiences and advertisers. We cannot provide any assurances that we will remain competitive with these developing technologies.

HC2 Broadcasting's inability to successfully respond to new and growing sources of competition in the broadcasting industry could have an adverse effect on HC2 Broadcasting's business, financial condition and results of operations.

The FCC could implement regulations or the U.S. Congress could adopt legislation that might have a significant impact on the operations of the stations we own and the stations we provide services to or the television broadcasting industry as a whole.

The FCC regulates HC2 Broadcasting's broadcasting business. We must often times obtain the FCC's approval to obtain, renew, assign or modify, a license, purchase a new station, sell an existing station or transfer the control of one of HC2 Broadcasting's subsidiaries that hold a license. HC2 Broadcasting's FCC licenses are critical to HC2 Broadcasting's operations; we cannot operate without them. We cannot be certain that the FCC will renew these licenses in the future or approve new acquisitions in a timely manner, if at all. If licenses are not renewed or acquisitions are not approved, we may lose revenue that we otherwise could have earned and this would have an adverse effect on HC2 Broadcasting's business, financial condition and results of operations.

In addition, Congress and the FCC may, in the future, adopt new laws, regulations and policies regarding a wide variety of matters (including, but not limited to, technological changes in spectrum assigned to particular services) that could, directly or indirectly, materially and adversely affect the operation and ownership of HC2 Broadcasting's broadcast properties.

Broadcasting Licenses are issued by, and subject to the jurisdiction of the Federal Communications Commission ("FCC"), pursuant to the Communications Act of 1934, as amended (the "Communications Act"). The Communications Act empowers the FCC, among other actions, to issue, renew, revoke and modify broadcasting licenses; determine stations' frequencies, locations and operating power; regulate some of the equipment used by stations; adopt other regulations to carry out the provisions of the Communications Act and other laws, including requirements affecting the content of broadcasts; and to impose penalties for violation of its regulations, including monetary forfeitures, short-term renewal of licenses and license revocation or denial of license renewals.

License Renewals. Broadcast television licenses are typically granted for standard terms of eight years. Most licenses for commercial and noncommercial TV broadcast stations, Class A TV broadcast stations, television translators and Low Power Television ("LPTV") broadcast stations are scheduled to expire between 2020 and 2022; however, the Communications Act requires the FCC to renew a broadcast license if the FCC finds that the station has served the public interest, convenience and necessity and, with respect to the station, there have been no serious violations by the licensee of either the Communications Act or the FCC's rules and regulations and there have been no other violations by the licensee of the Communications Act or the FCC's rules and regulations that, taken together, constitute a pattern of abuse. The Company has no pending renewal applications. A station remains authorized to operate while its license renewal application is pending.

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