UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 8-K

## CURRENT REPORT

**Pursuant to Section 13 or 15(d) of The Securities and Exchange Act of 1934**

**Date of Report (Date of earliest event reported): May 3, 2018**

# HC2 HOLDINGS, INC.

| **Delaware** | **001-35210** | **54-1708481** |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

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

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

**Not Applicable**
**(Former name or former address, if changed since last report.)**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

## Item 7.01 Regulation FD Disclosure

On May 3, 2018, HC2 Holdings, Inc. (the "Company" or "HC2") announced that it priced an offering of $110 million aggregate principal amount of its 11.000% Senior Secured Notes due 2019 (the "Notes") at an issue price of 102.000% plus accrued interest from December 1, 2017 (the "Notes Offering"). A copy of the press release is furnished with this Current Report on Form 8-K as Exhibit 99.1 and is incorporated herein by reference.

The Company entered into a Purchase Agreement (the "Purchase Agreement") with Jefferies LLC, the initial purchaser named therein (the "Initial Purchaser"). Pursuant to the Purchase Agreement, the Initial Purchaser has agreed to purchase, and the Company has agreed to sell, $110 million aggregate principal amount of the Company's Notes. The Purchase Agreement contains representations and warranties, covenants and closing conditions that are customary for transactions of this type. The Company expects to use the net proceeds from the issuance of the notes to refinance all of its outstanding senior secured bridge loans (the "Bridge Loans"), for working capital for the Company and its subsidiaries and for general corporate purposes, including the financing of future acquisitions and investments. The offering is expected to close on May 7, 2018, subject to certain closing conditions. The Notes are to be issued under the same indenture as, and will constitute part of a single class of securities with, the Company's existing 11.000% Senior Secured Notes due 2019.

The Notes will be offered solely by means of a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and to certain persons in offshore transactions pursuant to Regulation S under the Securities Act. The Notes to be issued in this offering have not been and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act. This Current Report on Form 8-K does not constitute an offer to sell or the solicitation of an offer to buy any security and shall not constitute an offer, solicitation or sale of any security in any jurisdiction in which such offering, solicitation or sale would be unlawful. This Current Report on Form 8- K contains information about pending transactions, and there can be no assurance that these transactions will be completed.

In connection with the Notes Offering, HC2 is providing investors with certain financial and other information of HC2, which HC2 is furnishing with this report. This information, which has not been previously reported, is excerpted from a final offering memorandum that is being disseminated in connection with the Notes Offering, as outlined below.

| Information | Furnished as Exhibit |
|---|---|
| Unaudited Pro Forma and Historical Condensed Combined Financial Statements | 99.2 |

This Current Report on Form 8-K does not constitute an offer to sell or the solicitation of an offer to buy any security and shall not constitute an offer, solicitation or sale of any security in any jurisdiction in which such offering, solicitation or sale would be unlawful.

This information shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, and shall not be deemed to be incorporated by reference into any of the Company's filings under the Securities Act or the Exchange Act, whether made before or after the date hereof and regardless of any general incorporation language in such filings, except to the extent expressly set forth by specific reference in such a filing.

**Forward Looking Statements**

This Current Report on Form 8-K, including Exhibits 99.1 and 99.2, contains forward-looking statements. Actual results, events or developments may differ materially from those anticipated or discussed in any forward-looking statement. These statements are subject to risks, uncertainties and other factors, as discussed further in the press release attached hereto as Exhibit 99.1.

## Item 9.01 Financial Statements and Exhibits

### (d) Exhibits

| Exhibit No. | |
|---|---|
| 99.1 | Press release dated May 3, 2018 titled "HC2 Holdings Announces Pricing of $110 Million Senior Secured Notes Offering to Refinance Senior Secured Bridge Loans" |
| 99.2 | Unaudited Pro Forma Condensed Consolidated Financial Statements of HC2 Holdings, Inc. |

## SIGNATURES

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

| | |
|---|---|
| | **HC2 Holdings, Inc.** |
| May 4, 2018 | By: */s/ Michael J. Sena* |
| | Name: Michael J. Sena |
| | Title: Chief Financial Officer |

Exhibit 99.1

**FOR IMMEDIATE RELEASE**

## HC2 Holdings Announces Pricing of Private Offering of $110 Million Senior Secured Notes to Refinance Senior Secured Bridge Loans

**New York, May 3, 2018 (GlobeNewswire) -** HC2 Holdings, Inc. ("HC2") (NYSE: HCHC), a diversified holding company, announced today the pricing of $110 million aggregate principal amount of 11.000% Senior Secured Notes due 2019 (the "Notes"), representing an upsize from a previously announced proposed offering of $105 million aggregate principal amount. The Company expects to use the net proceeds from the issuance of the Notes to refinance all of its outstanding senior secured bridge loans (the "Bridge Loans"), for working capital for the Company and its subsidiaries and for general corporate purposes, including the financing of future acquisitions and investments. The Notes are to be issued at an issue price of 102.000% plus accrued interest from December 1, 2017. The offering is expected to close on May 7, 2018, subject to certain closing conditions.

The net proceeds from the Bridge Loans were used by HC2 to complete various acquisitions, including the majority equity interest in DTV America Corporation, the assets of Mako Communications, LLC and Three Angels Broadcasting Network, Inc., as well as certain assets from OTA Broadcasting, LLC, Azteca America, and the acquisition of substantially all of the assets of Northstar and to pay fees and expenses relating to these acquisitions.

The Notes will be issued under the same indenture as the Company's existing 11.000% Senior Secured Notes due 2019 (the "Existing Notes"). The Notes will constitute part of a single class of securities with the Existing Notes. The offering of Notes is subject to market conditions and other factors.

The Notes will be offered only to "qualified institutional buyers" in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and outside the United States to non-U.S. persons in compliance with Regulation S under the Securities Act.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act.

This press release does not constitute an offer to sell or the solicitation of an offer to buy any security and shall not constitute an offer, solicitation or sale of any security in any jurisdiction in which such offering, solicitation or sale would be unlawful.

**About HC2**

HC2 Holdings, Inc. is a publicly traded (NYSE: HCHC) diversified holding company, which 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. HC2 has a diverse array of operating subsidiaries across eight reportable segments, including Construction, Marine Services, Energy, Telecommunications, Life Sciences, Broadcasting, Insurance and Other. HC2's largest operating subsidiaries include DBM Global Inc., a family of companies providing fully integrated structural and steel construction services, and Global Marine Systems Limited, a leading provider of engineering and underwater services on submarine cables. Founded in 1994, HC2 is headquartered in New York, New York. Learn more about HC2 and its portfolio companies at www.hc2.com.

**Cautionary Statement Regarding Forward Looking Statements**

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995: This release contains, and certain oral statements made by our representatives from time to time may contain, forward-looking statements, including statements regarding the commencement or completion of the offering. Generally, forward-looking statements include information describing the offering and other actions, events, results, strategies and expectations and are generally identifiable by use of the words "believes," "expects," "intends," "anticipates," "plans," "seeks," "estimates," "projects," "may," "will," "could," "might," or "continues" or similar expressions. The forward-looking statements in this press release include, without limitation, statements regarding our expectation regarding building shareholder value. Such statements are based on the beliefs and assumptions of HC2's management and the management of HC2's subsidiaries and portfolio companies. The Company believes these judgments are reasonable, but you should understand that these statements are not guarantees of performance or results, and the Company's actual results could differ materially from those expressed or implied in the forward-looking statements due to a variety of important factors, both positive and negative, that may be revised or supplemented in subsequent reports on Forms 10-K, 10-Q and 8-K. Such important factors include, without limitation, the ability of our subsidiaries (including target businesses following their acquisition) to generate sufficient net income and cash flows to make upstream cash distributions, capital market conditions, our subsidiaries' ability to identify any suitable future acquisition opportunities, efficiencies/cost avoidance, cost savings, income and margins, growth, economies of scale, combined operations, future economic performance, conditions to, and the timetable for, completing the integration of financial reporting of acquired or target businesses with HC2 or the applicable subsidiary of HC2, completing future acquisitions and dispositions, litigation, potential and contingent liabilities, management's plans, changes in regulations and taxes. These risks and other important factors discussed under the caption "Risk Factors" in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"), and our other reports filed with the SEC could cause actual results to differ materially from those indicated by the forward-looking statements made in this press release.

You should not place undue reliance on forward-looking statements. All forward-looking statements attributable to HC2 or persons acting on its behalf are expressly qualified in their entirety by the foregoing cautionary statements. All such statements speak only as of the date made, and HC2 undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

For information on HC2 Holdings, Inc., please contact:

Andrew G. Backman
Managing Director
Investor Relations & Public Relations
abackman@hc2.com
212-339-5836

**Exhibit 99.2**

**HC2 HOLDINGS, INC.**
**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**

The following unaudited pro forma condensed combined balance sheet as of December 31, 2017 and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2017 of HC2 Holdings, Inc. ("HC2", "we", "us", "the Company", or "our") give effect to the following acquisition of Humana Inc.'s (NYSE:HUM) ("Humana") long-term care insurance business of KMG America Corporation ("KMG") which KMG operates through it's wholly owned subsidiary Kanawha Insurance Company ("KIC") (the "KMG Acquisition"), acquisition of the trenching and cable laying business ("Furrow") from Fugro N.V. ("Fugro") (the "Furrow Acquisition"), the issuance of $110,000,000 aggregate principal amount of 11.000% Senior Secured Notes due 2019, the issuance of $42,000,000 aggregate principal amount of Bridge Loans in connection with the $33,000,000 acquisition of certain assets affiliated with Azteca International Corporation and Northstar Media, LLC, and refinancing of all of our then outstanding Bridge Loans totaling $102,000,000 (collectively, the "Transactions").

The unaudited pro forma condensed combined balance sheet as of December 31, 2017 gives effect to the Transactions as if they had occurred on December 31, 2017. The unaudited pro forma condensed combined balance sheet is derived from the audited historical financial statements of HC2 and KMG as of December 31, 2017.

The unaudited pro forma condensed combined statements of operations for the year ended December 31, 2017 give effect to the Transactions as if they had occurred on January 1, 2017. The unaudited pro forma condensed combined statements of operations are derived from the audited historical financial statements of HC2 and KMG and unaudited historic financial statements of Furrow as of and for the eleven months period ended November 30, 2017.

The unaudited pro forma condensed combined financial statements and the notes to the unaudited pro forma condensed combined financial statements are based on, and should be read in conjunction with:

- Our historical audited consolidated financial statements, related notes, and the sections entitled Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed on March 14, 2018.

- Furrow's historical unaudited condensed combined and carve-out interim financial statements and related notes as of and for the nine month periods ended September 30, 2017 (incorporated by reference as Exhibit 99.2 to HC2's Current Report on Form 8-K, filed on December 19, 2017) (File No. 001-35210) and stub period from October 1, 2017 through November 30, 2017.

- KMG's historical audited consolidated financial statements and related notes as of and for the year ended December 31, 2017 (incorporated by reference as Exhibit 99.1 to HC2's Current Report on Form 8-K, filed on May 3, 2018).

The unaudited pro forma condensed combined financial statements have been prepared by HC2's management using the acquisition method of accounting for business combinations under accounting principles generally accepted in the United States of America and are not necessarily indicative of the combined financial position or results of operations that would have been realized had the acquisitions been completed as of the dates indicated, nor are they meant to be indicative of the Company's anticipated combined financial position or future results of operations that the Company will experience after the acquisitions.

The historical consolidated financial statements have been adjusted to reflect factually supportable items that are directly attributable to the acquisitions and, with respect to the unaudited pro forma condensed combined statements of operations, are expected to have a continuing impact on the results of operations of the combined company.

In connection with the post-acquisition integration of the operations of KMG, HC2 anticipates that nonrecurring integration charges will be incurred. HC2 is not able to determine the timing, nature, and amount of these charges as of the date of this filing. However, these charges will impact the results of operations of the combined company in the period in which they are incurred.

**HC2 HOLDINGS, INC. AND SUBSIDIARIES**
**UNAUDITED PRO FORMA COMBINED BALANCE SHEET**
**As of December 31, 2017 (in thousands)**

| | HC2 | KMG | Pro Forma Adjustments KMG | Ref. | Financing Adjustments | Ref. | Total Pro Forma |
|---|---|---|---|---|---|---|---|
| **Assets** | | (4a) | | | | | |
| Investments: | | | | | | | |
| Fixed maturity securities, available-for-sale at fair value | $ 1,340,626 | $2,337,241 | $ — | | $ — | | $3,677,867 |
| Equity securities, available-for-sale at fair value | 47,500 | — | — | | — | | 47,500 |
| Mortgage loans | 52,109 | 1,216 | — | | — | | 53,325 |
| Policy loans | 17,944 | 10,644 | (7,317) | (6a) | — | | 21,271 |
| Other invested assets | 85,419 | — | — | | — | | 85,419 |
| Total investments | 1,543,598 | 2,349,101 | (7,317) | | — | | 3,885,382 |
| Cash and cash equivalents | 97,885 | 210,797 | (41,845) | (6b) | 17,144 | (6m) | 283,981 |
| Accounts receivable, net | 322,446 | 2,897 | — | | — | | 325,343 |
| Recoverable from reinsurers | 526,337 | 559,059 | 320,600 | (6c) | — | | 1,405,996 |
| Deferred tax asset | 1,661 | 170,072 | (170,072) | (6d) | — | | 1,661 |
| Property, plant and equipment, net | 374,660 | — | — | | — | | 374,660 |
| Goodwill | 131,741 | — | — | | — | | 131,741 |
| Intangibles, net | 117,105 | 84,579 | (84,579) | (6e) | — | | 117,105 |
| Other assets | 102,258 | 35,394 | — | | — | | 137,652 |
| Total assets | $ 3,217,691 | $3,411,899 | $ 16,787 | | $ 17,144 | | $6,663,521 |
| **Liabilities, temporary equity and stockholders' equity** | | | | | | | |
| Life, accident and health reserves | $ 1,693,961 | $2,820,125 | $ 150,662 | (6f) | $ — | | $4,664,748 |
| Annuity reserves | 243,156 | — | — | | — | | 243,156 |
| Value of business acquired | 42,969 | — | 300,810 | (6g) | — | | 343,779 |
| Accounts payable and other current liabilities | 347,492 | 22,252 | (6,858) | (6h) | (28,552) | (6n) | 334,334 |
| Deferred tax liability | 10,740 | — | 52,470 | (6i) | — | | 63,210 |
| Debt obligations | 593,172 | — | — | | 49,044 | (6o) | 642,216 |
| Other liabilities | 70,174 | 921 | — | | — | | 71,095 |
| Total liabilities | 3,001,664 | 2,843,298 | 497,084 | | 20,492 | | 6,362,538 |
| Commitments and contingencies | | | | | | | |
| Temporary equity | | | | | | | |
| Preferred stock | 26,296 | — | — | | — | | 26,296 |
| Redeemable noncontrolling interest | 1,609 | — | — | | — | | 1,609 |
| Total temporary equity | 27,905 | — | — | | — | | 27,905 |
| Stockholders' equity | | | | | | | |
| Common stock | 44 | — | — | | — | | 44 |
| Additional paid-in capital | 254,685 | 1,667,487 | (1,667,487) | (6j) | — | | 254,685 |
| Treasury stock, at cost | (2,057) | — | — | | — | | (2,057) |
| Accumulated deficit | (221,189) | (1,125,700) | 1,214,004 | (6k) | (3,348) | (6p) | (136,233) |
| Accumulated other comprehensive income | 41,688 | 26,814 | (26,814) | (6l) | — | | 41,688 |
| Total HC2 Holdings, Inc. stockholders' equity | 73,171 | 568,601 | (480,297) | | (3,348) | | 158,127 |
| Noncontrolling interest | 114,951 | — | — | | — | | 114,951 |
| Total stockholders' equity | 188,122 | 568,601 | (480,297) | | (3,348) | | 273,078 |
| Total liabilities, temporary equity and stockholders' equity | $ 3,217,691 | $3,411,899 | $ 16,787 | | $ 17,144 | | $6,663,521 |

*See notes to unaudited pro forma condensed combined financial statements*

**HC2 HOLDINGS, INC. AND SUBSIDIARIES**
**UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS**
**For the Year Ended December 31, 2017**
**(in thousands, except per share data amounts)**

| | | | | Pro Forma Adjustments | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | HC2 | KMG | Furrow | KMG | Ref. | Furrow | Ref. | Financing Adjustments | Ref. | Total Pro Forma |
| | | (4a) | (4c) | | | | | | | |
| Revenue | $ 1,482,546 | $ — | $ 40,894 | $ — | | $ — | | $ — | | $1,523,440 |
| Life, accident and health earned premiums, net | 80,524 | 156,058 | — | (120,259) | (7a) | — | | — | | 116,323 |
| Net investment income | 66,070 | 97,580 | — | (9,198) | (7b) | — | | — | | 154,452 |
| Net realized and unrealized gains on investments | 4,983 | 7,685 | — | — | | — | | — | | 12,668 |
| Net revenue | 1,634,123 | 261,323 | 40,894 | (129,457) | | — | | — | | 1,806,883 |
| Operating expenses | | | — | | | — | | | | — |
| Cost of revenue | 1,313,069 | — | 42,140 | — | | (8,116) | (7h) | — | | 1,347,093 |
| Policy benefits, changes in reserves, and commissions | 108,695 | 188,825 | — | (70,221) | (7c) | — | | — | | 227,299 |
| Selling, general and administrative | 182,880 | 77,363 | 4,160 | (68,888) | (7d) | (1,767) | (7i) | — | | 193,748 |
| Depreciation and amortization | 31,315 | 27,248 | 6,482 | (47,939) | (7e) | (1,428) | (7j) | — | | 15,678 |
| Other operating (income) expenses | (704) | — | (6) | — | | — | | — | | (710) |
| Total operating expenses | 1,635,255 | 293,436 | 52,776 | (187,048) | | (11,311) | | — | | 1,783,108 |
| Income (loss) from operations | (1,132) | (32,113) | (11,882) | 57,591 | | 11,311 | | — | | 23,775 |
| Interest expense | (55,098) | — | — | — | | (636) | (7k) | (11,100) | (7l) | (66,834) |
| Gain on contingent consideration | 11,411 | — | — | — | | — | | — | | 11,411 |
| Gain on bargain purchase | — | — | — | 88,407 | (7f) | — | | — | | 88,407 |
| Income from equity investees | 17,840 | — | — | — | | — | | — | | 17,840 |
| Other income (expenses) | (12,772) | 9 | (31) | — | | — | | — | | (12,794) |
| Income (loss) before income taxes | (39,751) | (32,104) | (11,913) | 145,998 | | 10,675 | | (11,100) | | 61,805 |
| Income tax (expense) benefit | (10,740) | (85,484) | (189) | (12,094) | (7g) | — | | — | (7m) | (108,507) |
| Net loss | (50,491) | (117,588) | (12,102) | 133,904 | | 10,675 | | (11,100) | | (46,702) |
| Less: Net loss attributable to noncontrolling interest and redeemable noncontrolling interest | 3,580 | — | — | — | | — | | — | | 3,580 |
| Net loss attributable to HC2 Holdings, Inc. | (46,911) | (117,588) | (12,102) | 133,904 | | 10,675 | | (11,100) | | (43,122) |
| Less: Preferred stock and deemed dividends from conversions | 2,767 | — | — | — | | — | | — | | 2,767 |
| Net loss attributable to common stock and participating preferred stockholders | $ (49,678) | $ (117,588) | $ (12,102) | $ 133,904 | | $ 10,675 | | $ (11,100) | | $ (45,889) |
| | | | | | | | | | | |
| Basic and diluted loss per common share | $ (1.16) | | | | | | | | | $ (1.07) |
| | | | | | | | | | | |
| Basic and diluted weighted average common shares outstanding | 42,824 | | | | | | | | | 42,824 |

*See notes to unaudited pro forma condensed combined financial statements*

**HC2 HOLDINGS, INC.**
**NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS**
(in thousands, except as noted otherwise)

**1. Description of the Transaction**

*Acquisition of KMG America Corporation*

On November 6, 2017, Continental General Insurance Company ("CGI"), an indirect subsidiary of the Company, entered into a Stock Purchase Agreement (the "SPA") with Humana (the "KMG Acquisition"). Pursuant to the SPA, CGI agreed to acquire Humana's long-term care insurance business, KMG. KMG's wholly owned subsidiary KIC is a life and accident and health insurance company domiciled in the state of South Carolina and is authorized to sell life, accident and health products therein and in 47 states including the District of Columbia. KIC's primary business is life and health insurance risk assumption, third-party administration and medical management services. Included in the risk assumptions are the KIC's traditional product lines of supplemental health, short-term disability, individual life, and annuity, as well as products specifically directed at the senior market including Medicare supplement, final expenses life insurance and a closed block of long-term care products.

As consideration for the KMG Acquisition, (a) CGI agreed to pay $10.0 thousand to Humana for all outstanding KMG shares, and (b) Humana agreed to make a capital contribution of $203.0 million to KIC prior to the closing of the KMG Acquisition.

The obligation of each party to consummate the KMG Acquisition is subject to customary closing conditions, including, among others, receipt of regulatory approvals by the South Carolina and Texas insurance departments, redomestication of KIC to Texas, merger of KIC into CGI, the delivery of a coinsurance and administrative services agreement with respect to the coinsured business between Humana and KIC, customary conditions relating to the accuracy of the other party's representations and warranties (subject to certain materiality exceptions), and each party having performed in all material respects its obligations under the SPA.

*Previous acquisition of Furrow*

On November 30, 2017, Global Marine Systems Limited ("GMSL"), an indirect subsidiary of the Company, consummated the transaction contemplated by a Business Purchase Agreement (the "BPA") and a Warranty and Indemnity Agreement, in each case by and among Fugro N.V., a public limited liability company incorporated in the Netherlands ("Fugro"), GMSL and Global Marine Holdings LLC ("GMHL"), an indirect subsidiary of the Company and an indirect parent company of GMSL. Pursuant to the BPA, GMSL acquired the trenching and cable laying business ("Furrow") of Fugro (the "Furrow Acquisition"), consisting of, among other things, 19 employees, one vessel, two trenching systems and two work class remotely operated vehicles ("ROV") and working capital.

As consideration for the Furrow Acquisition, GMSL paid $7.5 million (the "Cash Consideration") to Fugro for a Q1400 Trenching System (the "Trencher"), and (b) GMHL issued to a subsidiary of Fugro (the "Fugro Member") membership units representing a 23.6% equity interest in GMHL (excluding management incentive units), valued at $79.7 million based on the preliminary purchase price allocation. The limited liability company agreement of GMHL was amended and restated upon consummation of the Furrow Acquisition to reflect such issuance and to provide the Fugro Member with certain rights, including the right to designate two of the up to seven members of GMHL's board of directors, the right to approve certain actions outside the ordinary course of business, certain "tag-along" rights to participate in sales of membership units by other members and, after five years and subject to the Fugro Member first offering its membership units to the other members at a price based upon independent valuations, the right to cause GMHL to be put up for sale in a process led by an investment banking firm.

In order to finance the Cash Consideration, GMSL incurred a loan of $7.5 million from a subsidiary of Fugro pursuant to a Vendor Loan Agreement, dated as of November 30, 2017, by and between Fugro Financial Resources B.V. and GMSL (the "Vendor Loan Agreement"). The loan bears interest, payable quarterly, at 4% per annum through December 31, 2017, and at 10% per annum thereafter, and matures 363 days following the closing of the Furrow Acquisition. The Trencher serves as collateral security for the repayment of the loan pursuant to the terms of a lien agreement.

**2. Basis of Presentation**

The KMG Acquisition and the Furrow Acquisition are accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") Topic 805, Business Combinations ("ASC 805").

*Acquisition of KMG America Corporation*

At this preliminary stage, no identifiable finite lived intangible assets were identified for the KMG Acquisition. Reserves were calculated using actuarial assumptions for future morbidity, persistency, premiums and future expenses as of December 31, 2017. In addition, the reserves reflect current and forward interest rates based on the current economic environment. A provision for adverse deviation was included on future interest rates and premiums. Bargain purchase represents the excess of the estimated fair value of the Target's assets and liabilities over the estimated purchase price and will be recognized as income. Upon consummation of the KMG Acquisition, the estimated fair value of the assets and liabilities will be updated.

*Previous Furrow Acquisition*

The Furrow Acquisition was accounted for under ASC 805. There were no intangible assets identified. The goodwill recorded represents the excess of the purchase price over the estimated fair value of Furrow’s assets and will not be amortized but will be subject to periodic impairment testing.

Furrow is the aggregate of various parts of legal entities which have not previously been represented by one separate legal reporting entity. Consequently, Fugro management has never prepared a single set of financial statements which represented the Furrow business. Accordingly, to meet the filing requirements of HC2, audited combined and carve-out financial statements as of and for the years ended December 31, 2016 and 2015, and unaudited condensed combined and carve-out financial statements as of September 30, 2017 and for the nine month periods ended September 30, 2017 and 2016 have been prepared in accordance with IFRS as issued by the IASB. The combined and carve-out financial statements reflect income and expenses, assets and liabilities and cash flows of those entities that have historically formed the Furrow business within Fugro and those which can be allocated to the Furrow business.

The Furrow business consisted of one wholly identifiable legal entity and two legal entities that had shared activities and operations with Furrow and other Fugro businesses; these are considered commingled legal entities. As such, the combined and carve-out financial statements of Furrow include the combined financial information of the wholly identifiable legal entity and the respective specifically identifiable assets, liabilities, revenues, and expenses of Furrow within commingled legal entities.

The historical combined and carve-out financial statements reflect the actual historical activities of Furrow and therefore also include certain assets that were not part of the acquisition. Consequently, the combined and carve-out financial statements may not be indicative of Furrow’s future performance. Furthermore, the combined and carve-out financial statements do not necessarily reflect what its combined results of operations, financial position and cash flows would have been had Furrow operated as an independent legal group and had it presented stand-alone financial statements during the periods presented.

The unaudited combined and carve-out financial statements of Furrow as of and for the nine months ended September 30, 2017 were issued on December 19, 2017. As the Furrow Acquisition closed on November 30, 2017, the results of the two months ended November 30, 2017 are included in the pro forma statements of operations within this current filing.

**3. Accounting Policies**

*Acquisition of KMG America Corporation*

As part of preparing the unaudited pro forma condensed combined financial statements, the Company conducted a review of the accounting policies of KMG to determine if differences in accounting policies require restatement or reclassification of results of operations or reclassification of assets or liabilities to conform to HC2’s accounting policies and classifications. The Company did not become aware of any material differences between the accounting policies of HC2 and KMG during the preparation of these unaudited pro forma condensed combined financial statements. Accordingly, these unaudited pro forma condensed combined financial statements do not assume any material differences in accounting policies between HC2 and KMG. The results of this review are included in Note 4. Upon consummation of the the KMG Acquisition, a more comprehensive review of the accounting policies of KMG will be performed which may identify other differences among the accounting policies of HC2 and KMG that, when conformed, could have a material impact on the unaudited pro forma condensed combined financial statements.

*Previous acquisition of Furrow*

As part of preparing the unaudited pro forma condensed combined financial statements, the Company conducted a review of the accounting policies of Furrow to determine if differences in accounting policies require restatement or reclassification of results of operations or reclassification of assets or liabilities to conform to HC2’s accounting policies and classifications.

Furrow's audited combined and carve-out financial statements as of and for the years ended December 31, 2016, unaudited condensed combined and carve-out financial statements as of and for the nine month periods ended September 30, 2017, and unaudited results for the two months ended 30 November 2017 were presented under IFRS. See Note 4 for details of the historical IFRS to US GAAP adjustments.

Other than to conform to HC2's financial presentation, the Company did not become aware of any further material differences between the accounting policies of HC2 and Furrow during the preparation of these unaudited pro forma condensed combined financial statements. The adjustments are detailed in Note 4.

### 4. Conforming adjustments

*Acquisition of KMG America Corporation*

*(4a)* Both HC2 and KMG's consolidated balance sheets are reported on an unclassified basis, and are generally based on the SEC's Regulation §S-X 210-7.03. Financial information of KMG was reclassified to conform to the presentation of HC2's condensed consolidated financial statements as set forth below. Unless otherwise indicated, defined line items included in the notes have the meanings given to them in the historical financial statements of the KMG.

| **For the year ended December 31, 2017** | **Historical** | **Presentation Adjustment** | **Historical, as adjusted** | **Ref.** |
|---|---|---|---|---|
| Net premiums | $ 156,058 | $ (156,058) | $ — | 1 |
| Life, accident and health earned premiums, net | $ — | $ 156,058 | $ 156,058 | 1 |
| Net investment and interest income | $ 105,264 | $ (105,264) | $ — | 1 |
| Net investment income | $ — | $ 97,580 | $ 97,580 | 1 |
| Net realized and unrealized gains on investments | $ — | $ 7,685 | $ 7,685 | 1 |
| Net benefits expense | $ 190,819 | $ (190,819) | $ — | 1 |
| Commission allowance on reinsurance ceded | $ (1,994) | $ 1,994 | $ — | 1 |
| Policy benefits, changes in reserves, and commissions | $ — | $ 188,825 | $ 188,825 | 1 |
| Other revenue | $ 9 | $ (9) | $ — | 1 |
| Other income (expenses) | $ — | $ 9 | $ 9 | 1 |

| **As of December 31, 2017** | **Historical** | **Presentation Adjustment** | **Historical, as adjusted** | **Ref.** |
|---|---|---|---|---|
| Debt securities, available for sale | $ 2,289,882 | $ (2,289,882) | $ — | 1 |
| Restricted assets | $ 52,877 | $ (52,877) | $ — | 1 |
| Fixed maturity securities, available-for-sale at fair value | $ — | $ 2,337,241 | $ 2,337,241 | 1 |
| Cash and cash equivalents | $ 205,279 | $ 5,518 | $ 210,797 | 1 |
| Deferred policy acquisition costs | $ 73,646 | $ (73,646) | $ — | 1 |
| Intangibles, net | $ 10,933 | $ 73,646 | $ 84,579 | 1 |
| Current income tax receivable | $ 6,332 | $ (6,332) | $ — | 1 |
| Other assets | $ 29,062 | $ 6,332 | $ 35,394 | 1 |
| Benefits payable | $ 54,376 | $ (54,376) | $ — | 1 |
| Future policy benefits payable | $ 2,761,703 | $ (2,761,703) | $ — | 1 |
| Advance premiums | $ 4,046 | $ (4,046) | $ — | 1 |
| Life, accident and health reserves | $ — | $ 2,820,125 | $ 2,820,125 | 1 |
| Book overdraft | $ 5,928 | $ (5,928) | $ — | 1 |
| Due to Humana Inc. | $ 5,120 | $ (5,120) | $ — | 1 |
| Accounts payable and other current liabilities | $ 11,204 | $ 11,048 | $ 22,252 | 1 |

1. Adjustment to reclassify historical KMG financial statement presentation to HC2 financial statement presentation.

*Previous acquisition of Furrow*

*(4b)* The financial information of Furrow was prepared in accordance with IFRS and presented in British pounds sterling. The historical financial information was translated from British pounds sterling to US dollars using the following historical exchange rates:

| | **Year ended December 31, 2017** |
|---|---|
| Average exchange rate ($ / £) | $1.29 |
| Period end exchange rate ($ / £) | NA[(1)] |

[(1)] As of December 31, 2017, the Balance Sheet of Furrow were integrated into the Marine Services Segment.

*(4c)* The following adjustments conform Furrow's results to the presentation of HC2's consolidated financial statements. Unless otherwise indicated, defined line items included in the notes have the meanings given to them in the historical financial statements of Furrow. References to "Marine Services" are to the Marine Services segment of HC2 as reported in HC2's historical financial statements.

| For the eleven months ended November 30, 2017 | Historical: Nine Months Ended September 30, 2017 (GBP) | Historical: Two Months Ended November 30, 2017 (GBP) | Presentation Adjustment (GBP) | Historical, as adjusted (GBP) | Ref. | US GAAP Adjustments (GBP) | Ref. | US GAAP (GBP) | US GAAP (USD) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | (4b) |
| Revenue | 30,243 | 1,501 | — | 31,744 | | — | | 31,744 | 40,894 |
| Third party costs | 24,572 | 1,207 | (25,779) | — | 1 | — | | — | — |
| Cost of revenue | — | — | 28,070 | 28,070 | 1 | 4,641 | 2 | 32,711 | 42,140 |
| Personnel expenses | 3,113 | 363 | (3,476) | — | 1 | — | | — | — |
| Selling, general and administrative | — | — | 3,229 | 3,229 | 1 | — | | 3,229 | 4,160 |
| Depreciation and amortization | 4,858 | 174 | — | 5,032 | | — | | 5,032 | 6,482 |
| Other (income) | (9) | — | 9 | — | 1 | — | | — | — |
| Other expenses | 1,822 | 226 | (2,048) | — | 1 | — | | — | — |
| Other operating (income) expenses | — | — | (5) | (5) | 1 | — | | (5) | (6) |
| Net finance income / (expenses) | 165 | (6) | (159) | — | 1 | — | | — | — |
| Other (expenses), net | — | — | 159 | 159 | 1 | (183) | 3 | (24) | (31) |
| Income tax (expense) benefit | (146) | 1 | — | (145) | | — | | (145) | (189) |

1 Adjustment to reclassify historical Furrow financial statement presentation to HC2 financial statement presentation.

2 This adjustment reflects conversion from IFRS to US GAAP for onerous contract provision ("OCP"), for the Saltire cable-ship, a leased cable-ship within the Furrow business. This cable-ship is not being acquired as part of the Furrow Acquisition. ASC paragraph 420-10-10-1 states that a liability for a cost associated with an exit or disposal activity is recognized and measured at fair value only when the liability has been incurred. Therefore, a liability for costs to terminate a contract before the end of its term shall be recognized when the entity terminates the contract in accordance with the contract terms. A liability for costs that will continue to be incurred under a contract for its remaining term without economic benefit to the entity shall be recognized at the cease-use date. Therefore, a commitment to a plan and exit / cease of activities is not sufficient to recognize a liability. Also, future operating losses to be incurred in connection with an exit or disposal activity should be recognized when incurred.

Using this criteria of US GAAP, the OCP does not meet the recognition criteria under US GAAP, until the moment that Furrow is committed to the termination of the lease contract. The cease-use criteria is also not met earlier as the Saltire cable-ship was used for projects until the summer of 2017. This commitment has been communicated in 2017. Therefore, the recognized onerous contract provision should be recognized 2017. In the period ended November 30, 2017 the OCP was not adjusted for under IFRS and should have been under US GAAP, therefore this adjustment reflects the costs incurred under US GAAP.

3 This adjustment reflects the reversal of Foreign Currency transaction expense as a result of the conversion of IFRS to US GAAP for onerous contract provision.

## 5. Purchase Price Allocation

Under ASC 805, assets acquired and liabilities assumed are recorded at fair value based on the provisions of ASC Topic 820, Fair Value Measurements and Disclosures, ("ASC 820"). ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

*Acquisition of KMG America Corporation*

Fair Value of Consideration

Fair value of consideration to be transferred for the KMG Acquisition will be $10 payable in cash.

Preliminary Purchase Price Allocation

For the purposes of the unaudited pro forma condensed combined financial statements, HC2 made preliminary estimates of the fair value of the assets to be acquired and liabilities to be assumed in the KMG Acquisition. These estimates have been recognized in preparing the unaudited pro forma condensed combined financial statements. The final determination of the fair values of assets to be acquired and liabilities to be assumed will be based on the net assets of KMG that exist as of the date of completion of the transaction. Preliminary amounts could change significantly from those allocations used in the unaudited pro forma condensed combined financial statements presented and could result in a material change.

Allocation of fair value of consideration among identified assets to be acquired, liabilities to be assumed, and residual bargain purchase gain to be recognized for the acquisition of KMG is as follows:

| Purchase price allocation | | |
|---|---|---|
| Fixed maturity securities, available-for-sale at fair value | $ | 2,337,241 |
| Mortgage loans | | 1,216 |
| Policy loans | | 3,327 |
| Cash and cash equivalents | | 168,962 |
| Accounts receivable, net | | 2,897 |
| Recoverable from reinsurers | | 879,659 |
| Other assets | | 35,394 |
| Total assets to be acquired | | 3,428,696 |
| Life, accident and health reserves | | 2,970,787 |
| Value of business acquired | | 300,810 |
| Accounts payable and other current liabilities | | 15,291 |
| Deferred tax liability | | 52,470 |
| Other liabilities | | 921 |
| Total liabilities to be assumed | | 3,340,279 |
| Bargain purchase gain | | (88,407) |
| Total net assets acquired | $ | 10 |

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

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

The expected amortization related to the preliminary fair value of VOBA and benefit of fair value adjustment to acquire life accident and health reserves for the five years following the acquisition is reflected in as follows:

| | | | | Year following the acquisition | | | | |
|---|---|---|---|---|---|---|---|---|
| | | December 31, 2017 | Estimated remaining useful life | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| VOBA | $ | 300,810 | 40 years | $ (20,691) | $ (22,053) | $ (23,010) | $ (22,755) | $ (21,336) |
| Benefit of fair value adjustment to acquire life accident and health reserves | $ | 150,662 | 40 years | (10,363) | (11,045) | (11,525) | (11,397) | (10,686) |
| Total expected amortization, after-tax | | | | $ (24,533) | $ (26,147) | $ (27,283) | $ (26,980) | $ (25,297) |

***Taxes***

As a result of the application of the unified loss rules to the sale of KMG by Humana, KIC's pre-closing unamortized deductions relating to changes in basis for computing reserves and the unamortized deferred policy acquisition costs, in each case as determined for US federal income tax purposes, were eliminated, and the tax basis of the assets of KIC as determined for US federal income tax purposes was stepped down. Such step-down is reflected in the net deferred tax liability of $52.5 million with respect to differences between the book fair value and tax bases of the acquired assets. Included in the estimated deferred tax liability is a valuation allowance of $23.0 million due to uncertainty with respect to the future earnings and the realization of KIC's deferred tax assets.

On December 22, 2017, the President signed into law H.R. 1/Public Law 115-97, commonly known as the Tax Cuts and Jobs Act (the "Act"). The proforma includes the impacts of the reduction in the corporate income tax rate from 35% to 21%, as well as changes to the net operating loss rules for life insurance companies. Other provisions of the Act, including modifications to the computation of life insurance tax reserves, are still being assessed by management. The law existing prior to the enactment of the Act is being applied to those items in the proforma. The Tax Cuts and Jobs Acts was not stipulated in the negotiations for the KMG Acquisition and resulted in a material decline in VOBA balance, corresponding deferred tax position and, ultimately, recognition of a bargain purchase gain.

*Previous acquisition of Furrow*

Fair Value of Consideration

Fair value of consideration transfered for the Furrow Acquisition is as follows:

| | | |
|---|---|---|
| Notes | $ | 7,500 |
| Equity (43,882,283 Class A-2 Units of GMHL) | | 79,735 |
| Total Preliminary purchase price | $ | 87,235 |

The fair value of the Class A-2 units was estimated utilizing a contingent claims analysis ("CCA") based on the amended LLC agreement for GMHL. In order to value the combined entity, the following was considered as of the transaction date: (a) fair value of stand-alone GMHL; (b) fair value of the Project Furrow's Trenching Business ("Trenching Business"); and (c) fair value of the synergies from the transaction.

(a) A combination of the income approach and market approach was used to estimate the fair value of the stand-alone GMHL. A discounted cash flow analysis was used to estimate the enterprise value of Global Marine Holdings Limited and Huawei Marine Network based on projections prepared by GMHL's management. The weighted average cost of capital, used to discount the projected cash flows, was estimated utilizing public companies considered to be comparable to Global Marine Holdings Limited and Huawei Marine Network.

(b) The income approach was used to estimate the fair value of the Trenching Business. A discounted cash flow analysis was utilized to estimate the present value of future cash flows for the Trenching Business based on the expected life of the acquired assets, discounted at a rate of return that considered the relative risk of achieving those cash flows and the time value of money.

(c) The income approach was used to estimate the fair value of the synergies from the Furrow Acquisition. The synergies primarily relate to the stand-alone GMHL no longer needing to purchase the flagship vessel and trenchers, which were included in the stand-alone valuation of GMHL.

A CCA was utilized to estimate the fair value per share of the Class A-2 units. Values were ascribed to the various equity securities of GMHL capital structure based on the Black-Scholes Option Pricing Model, with each participating breakpoint considered as one of a series of call options on the proceeds expected from a liquidation event.

Purchase Price Allocation

Allocation of fair value of consideration among acquired assets and residual goodwill is as follows:

| | | |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ | 2,212 |
| Property, plant and equipment | | 73,320 |
| Goodwill | | 11,783 |
| Other assets | | 596 |
| Total assets acquired | | 87,911 |
| Accounts payable and other current liabilities | | 676 |
| Total liabilities assumed | | 676 |
| Total net assets acquired | $ | 87,235 |

The fair value was estimated as follows:

(a) A combination of the income approach and market approach was used to estimate the Fugro Symphony vessel, considering, among other factors (i) estimates of the current market value of the vessel from a number of ship-brokers active in the offshore support vessel sector; (ii) a selection of comparable vessels that had recently been sold, or were being actively marketed for sale, along with the prices achieved / asking prices and; (iii) the current and future state of the market in which the vessel is expected to operate. A discounted cash flow analysis was completed to provide an estimate of the present value of estimated future cash flows for the expected life of the vessel, discounted at a rate of return that considered the relative risk of achieving those cash flows and the time value of money.

(b) A cost approach was used to estimate the fair value of the trenchers, considering, among other factors, the current quote for the construction of replacement assets and for estimated useful working life from the manufacturer of the trenchers. Additionally, a depreciated replacement cost of the assets was calculated.

(c) A combination of the cost approach and market approach was used to estimate the fair value of the ROVs, considering, among other factors, (i) estimates of replacement cost, estimated normal useful lives, and residual values from a number of subsea equipment manufacturers and brokers and; (ii) a selection of comparable new build and secondhand assets currently being marketed for sale.

The expected depreciation related to the fair value of the acquired assets for the five years following the acquisition is as follows:

| | December 31, 2017 | Estimated remaining useful life | Year following the acquisition Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|---|---|---|
| Property, plant, and equipment | | | | | | | |
| Cable-ships and submersibles | $ 71,018 | Various (1) | $ 4,499 | $ 3,851 | $ 3,851 | $ 3,851 | $ 3,851 |
| Equipment | 2,302 | Various (2) | 663 | 663 | 663 | 63 | 63 |
| Total expected depreciation (3) | $ 73,320 | | $ 5,162 | $ 4,514 | $ 4,514 | $ 3,914 | $ 3,914 |

(1) Cable-ship and submersibles range from 28 years for the Fugro Symphony vessel to 10 years for Trenchers and 1 year for Trenching modules.

(2) Range from 8 years for accessories to 3 years for ROVs.

(3) There is no income tax effect expected to be recognized on the depreciation amounts as the operating activities are expected to fall within the UK tonnage tax regime. The majority of the GMSL business operations fall within the UK tonnage tax regime and is therefore not subject to income taxes. The Furrow business is also within the UK tonnage tax regime, and accordingly, no current or deferred income tax expense or benefit is expected to be recognized.

## 6. Unaudited Pro Forma Condensed Combined Balance Sheet Adjustments

The unaudited pro forma condensed combined financial statements are not necessarily indicative of what the financial position and results from operations actually would have been had the Acquisition been completed at the date indicated and includes adjustments which are preliminary and may be revised. Such revisions may result in material changes. The financial position shown herein is not necessarily indicative of what the past financial position of the combined companies would have been, nor necessarily indicative of the financial position of the combined Company in the future. The unaudited pro forma condensed combined financial statements do not give consideration to the impact of expense efficiencies, synergies, integration costs, asset dispositions, or other actions that may result from the Acquisition.

*Acquisition of KMG America Corporation*

Adjustments included in the "Pro Forma Adjustments" column in the accompanying unaudited pro forma condensed combined balance sheet as of December 31, 2017 are as follows:

| | | Increase (decrease) |
|---|---|---|
| Assets | | |
| (6a) | *Adjustments to Policy loans* | |
| | This adjustment reflects the exclusion of policy loans included within the historical KMG financial statements that are not included in the Acquisition. This is driven by the coinsurance agreement which will be in place prior to the closing in which approximately $245 million in reserves will be ceded to Humana. | $ (7,317) |
| (6b) | *Adjustments to Cash and cash equivalents* | |
| | This adjustment reflects a capital contribution to KIC prior to the closing of the KMG Acquisition. | 203,000 |
| | This adjustment reflects the exclusion of investments included within the historical KMG financial statements that are not included in the Acquisition. This is driven by the coinsurance agreement which will be in place prior to the closing in which approximately $245 million in reserves will be ceded to Humana. | (239,715) |
| | This adjustment reflects a settlement of historical intercompany payable between KIC and Humana. | (5,120) |
| | This adjustment reflects the purchase price to be paid by CGI at closing. | (10) |
| | | $ (41,845) |
| (6c) | *Adjustments to Recoverable from reinsurers* | |
| | This adjustment reflects the reinsurance recoverable not included within the historical KMG financial statements. This is driven by the coinsurance agreement which will be in place prior to the closing in which approximately $245 million in reserves will be ceded to Humana. | 245,189 |
| | This adjustment reflects the Fair Value of recoverable from reinsurers as a result of the KMG Acquisition. | 75,411 |
| | | $ 320,600 |
| (6d) | *Adjustments to Deferred tax asset* | |
| | This adjustment eliminates the historical deferred tax asset of KMG. | $ (170,072) |
| (6e) | *Adjustment to Intangibles, net* | |
| | This adjustment reflects the exclusion of Intangibles and Deferred Acquisition Costs, net included within the historical KMG financial statements that are not included in the Acquisition. | (84,579) |
| | Total adjustments to assets | $ 16,787 |

| | | | |
|---|---|---|---|
| | | | **Increase (decrease)** |
| Liabilities | | | |
| (6f) | *Adjustments to Life, accident and health reserves at fair value* | | |
| | This adjustment reflects Life, accident and health reserves at fair value. | $ | 150,662 |
| (6g) | *Adjustments to Value of business acquired* | | |
| | This adjustment reflects fair value of business acquired for PGAAP calculations. | $ | 300,810 |
| (6h) | *Adjustments to Accounts payable and other current liabilities* | | |
| | This adjustment reflects the transaction costs not reflected in the historical financial statements that are directly attributable to the KMG Acquisition and factually supportable but nonrecurring. | | 103 |
| | This adjustment reflects a settlement of historical intercompany payable between KIC and Humana. | | (5,120) |
| | This adjustment reflects the accounts payable and other current liabilities not included within the historical KMG financial statements. This is driven by the coinsurance agreement which will be in place prior to the closing in which approximately $245 million in reserves will be ceded to Humana. | | (1,841) |
| | | $ | (6,858) |
| (6i) | *Adjustments to Deferred tax liability* | | |
| | This adjustment establishes the Deferred tax liability associated with the newly acquired entity. | $ | 52,470 |
| | Total adjustments to liabilities | $ | 497,084 |
| Stockholders' equity | | | |
| (6j) | *Adjustments to Additional paid-in capital* | | |
| | This adjustment reflects a capital contribution to KIC prior to the closing of the KMG Acquisition. | | 203,000 |
| | This adjustment reflects the elimination of historical equity of KMG. | | (1,870,487) |
| | | $ | (1,667,487) |
| (6k) | *Adjustments to Accumulated Deficit* | | |
| | This adjustment reflects the elimination of historical equity of KMG. | | 1,125,700 |
| | The adjustment reflects the anticipated bargain purchase gain the Company expects to recognize as a resulting of the Transaction, based on the preliminary purchase price allocation. | | 88,407 |
| | This adjustment reflects the transaction costs not reflected in the historical financial statements that are directly attributable to the KMG Acquisition and factually supportable but nonrecurring. | | (103) |
| | | $ | 1,214,004 |
| (6l) | *Adjustments to Accumulated other comprehensive income (loss)* | | |
| | This adjustment reflects the elimination of historical fair value adjustments of KMG. | | (210,853) |
| | This adjustment reflects the elimination of the historical shadow reserves of KMG. | | 184,039 |
| | | $ | (26,814) |
| | Total adjustments to stockholders' equity | $ | (480,297) |
| | Total adjustments to liabilities and stockholders' equity | $ | 16,787 |

*Financing Adjustments*

Adjustments included in the "Financing Adjustments" column in the accompanying unaudited pro forma condensed combined balance sheet as of December 31, 2017 are as follows:

| | | Increase (decrease) | | |
|---|---|---|---|---|
| | | **Bridge Loan** | **New Notes** | **Total** |
| *(6m)* | *Adjustments to Cash and cash equivalents* | | | |
| | Adjustment to reflect gross borrowings | $ 42,000 | $ 110,000 | $ 152,000 |
| | Adjustment to reflect accrued interest from 12/1/17 to 5/7/2018 | — | 5,243 | 5,243 |
| | Adjustment to reflect original issue premium and deferred financing cost | (2,403) | (1,901) | (4,304) |
| | | 39,597 | 113,342 | 152,939 |
| | | | | |
| | Adjustment to reflect repayment of the Bridge Loan | — | (102,000) | (102,000) |
| | Adjustment to reflect settlement of accrued interest | — | (795) | (795) |
| | Adjustment to reflect close of Azteca | (33,000) | — | (33,000) |
| | | (33,000) | (102,795) | (135,795) |
| | | | | |
| | Total financing adjustments to cash and cash equivalents | 6,597 | 10,547 | 17,144 |
| | | | | |
| | Total financing adjustments to assets | $ 6,597 | $ 10,547 | $ 17,144 |
| | | | | |
| *(6n)* | *Adjustments to Accounts payable and other current liabilities:* | | | |
| | Adjustment to reflect settlement of accrued interest | $ — | $ (795) | $ (795) |
| | Adjustment to reflect close of Azteca | (33,000) | — | (33,000) |
| | Adjustment to reflect accrued interest from 12/1/17 to 5/7/2018 | — | 5,243 | 5,243 |
| | | (33,000) | 4,448 | (28,552) |
| | | | | |
| | Total financing adjustments to accounts payable and other current liabilities | (33,000) | 4,448 | (28,552) |
| | | | | |
| *(6o)* | *Adjustments to Debt obligations:* | | | |
| | Adjustment to reflect gross borrowings | 42,000 | 110,000 | 152,000 |
| | Adjustment to reflect original issue discount and deferred financing cost | 945 | (1,901) | (956) |
| | Adjustment to reflect repayment of the Bridge Loan | — | (102,000) | (102,000) |
| | | 42,945 | 6,099 | 49,044 |
| | | | | |
| | Total financing adjustments to debt obligations | 42,945 | 6,099 | 49,044 |
| | | | | |
| | Total financing adjustments to liabilities | 9,945 | 10,547 | 20,492 |
| | | | | |
| *(6p)* | *Adjustments to Accumulated deficit:* | | | |
| | Adjustment to reflect amortization of deferred financing cost | (3,348) | — | (3,348) |
| | | (3,348) | — | (3,348) |
| | | | | |
| | Total financing adjustments to accumulated deficit | (3,348) | — | (3,348) |
| | | | | |
| | Total financing adjustments to stockholders' equity | (3,348) | — | (3,348) |
| | | | | |
| | Total financing adjustments to liabilities and stockholders' equity | $ 6,597 | $ 10,547 | $ 17,144 |

**7. Unaudited Pro Forma Condensed Combined Statements of Operations Adjustments**

*Acquisition of KMG America Corporation*

Adjustments included in the "Pro Forma Adjustments" column in the accompanying unaudited pro forma condensed combined statements of operations for the year ended December 31, 2017 are as follows:

| | | | Increase (decrease) |
|---|---|---|---|
| (7a) | This adjustment reflects the Life, accident and health earned premiums, net included within the historical KMG financial statements generated by approximately $245 million in reserves that would be ceded to Humana as part of the coinsurance agreement which will be in place prior to the closing. | $ | (120,259) |
| (7b) | Adjustment to net investment income to amortize the fair value adjustment to KMG's investments. | $ | (9,198) |
| (7c) | *Adjustments to Policy benefits, changes in reserves, and commissions* | | |
| | Adjustment to amortize the difference between the estimated fair value and the historical value of KMG's Life, accident, and health reserves. | | (10,363) |
| | This adjustment reflects the Policy benefits, changes in reserves, and commissions included within the historical KMG financial statements generated by approximately $245 million in reserves that would be ceded to Humana as part of the coinsurance agreement which will be in place prior to the closing. | | (59,858) |
| | | $ | (70,221) |
| (7d) | *Adjustment to Selling, general and administrative* | | |
| | This adjustment represents transaction costs that were recognized in the historical financial statements, and should be eliminated as they are nonrecurring charges that are directly attributable to the KMG Acquisition and do not reflect expenses of the combined entity on an ongoing basis. | | (2,529) |
| | This adjustment reflects the *S*elling, general and administrative included within the historical KMG financial statements generated by approximately $245 million in reserves that would be ceded to Humana as part of the coinsurance agreement which will be in place prior to the closing. | | (66,359) |
| | | $ | (68,888) |
| (7e) | *Adjustment to Depreciation and amortization expense* | | |
| | Adjustment to eliminate KMG's historical policy acquisition costs following the write-off of the deferred policy acquisition costs asset. | | (27,248) |
| | This adjustment reflects the amortization of VOBA due to the estimated fair value of in-force contracts being less than the amount recorded as insurance contract liabilities. | | (20,691) |
| | | $ | (47,939) |
| (7f) | The adjustment reflects the anticipated bargain purchase gain the Company expects to recognize as a resulting of the Transaction, based on the preliminary purchase price allocation. | $ | 88,407 |
| (7g) | Adjustment to reflect the income tax impact on the unaudited pro forma adjustments. | $ | (12,094) |
| | Impact of adjustments to Net Income (loss) | $ | 133,904 |

*Previous acquisition of Furrow*

Adjustments included in the "Pro Forma Adjustments" column in the accompanying unaudited pro forma condensed combined statements of operations for the eleven months ended November 30, 2017 are as follows:

| | | | Increase (decrease) |
|---|---|---|---|
| (7h) | This adjustment reflects the exclusion of operations included within the historical Furrow financial statements that are not included in the Furrow Acquisition. Specifically an accrued lease termination expense associated with Saltire, a cable-ship which is included within the historical Furrow financial statements that is not included in the Furrow Acquisition. | $ | (8,116) |
| (7i) | This adjustment represents transaction costs that were recognized in the historical financial statements, and should be eliminated as they are nonrecurring charges that are directly attributable to the Furrow Acquisition and do not reflect expenses of the combined entity on an ongoing basis. | $ | (1,767) |
| (7j) | This adjustment reflects the elimination of historical depreciation expense associated with the Property, plant, and equipment of the Furrow business. | $ | (6,482) |
| | This adjustment reflects the depreciation expense incurred as a result of the adjustment to record the Furrow Property, plant and equipment at fair value as a result of the preliminary Purchase Price Allocation. | | 5,054 |
| | | $ | (1,428) |
| (7k) | This adjustment reflects the net increase to interest expense resulting from interest on the loan GMSL incurred from a subsidiary of Fugro pursuant to the Vendor Loan Agreement. The loan matures within one year, and as such, is reflected in the proforma financial statements as if it were acquired on January, 1, 2017. | $ | 636 |
| | Impact of adjustments to Net Income (loss) | $ | 10,675 |

*Financing Adjustments*

Adjustments included in the "Financing Adjustments" column in the accompanying unaudited pro forma condensed combined statements of operations for the year ended December 31, 2017 are as follows:

| | | | Increase (decrease) |
|---|---|---|---|
| Interest Expense | | | |
| (7l) | Adjustment to reflect interest expense on the notes at 11% per annum | | (11,464) |
| | Adjustment to reflect amortization expense of original issue premium and deferred financing cost. | | 364 |
| | | $ | (11,100) |
| Income Tax | | | |
| (7m) | To reflect the income tax impact of the financing adjustments. [1] | $ | — |
| | Total financing adjustments to net loss | $ | (11,100) |

[1] For the year ended December 31, 2017 the company does not record a benefit due to their valuation allowance position.