

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2021

OR

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

Commission File No. 001-35210



**INNOVATE**

**INNOVATE CORP.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

295 Madison Avenue, 12th Floor, New York, NY

(Address of principal executive offices)

54-1708481

(I.R.S. Employer  
Identification No.)

10017

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

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

None.

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of INNOVATE's common stock held by non-affiliates of the registrant as of June 30, 2021 was approximately \$193.7 million, based on the closing sale price of the Common Stock on such date.

As of February 28, 2022, 77,836,748 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 2022 Annual Meeting of Stockholders are incorporated by reference into Part III.



**INNOVATE CORP.  
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SIGNATURES

## PART I

### ITEM 1. BUSINESS

*Unless the context otherwise requires, in this Annual Report on Form 10-K, "INNOVATE," means INNOVATE Corp. and the "Company," "we" and "our" mean INNOVATE 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

INNOVATE is a diversified holding company that has a portfolio of subsidiaries in a variety of operating segments. We seek to grow these businesses so that they can generate long-term sustainable free cash flow and attractive returns in order to maximize value for all stakeholders. As of December 31, 2021, our three operating platforms or reportable segments, based on management's organization of the enterprise, are Infrastructure, Life Sciences and Spectrum, plus our Other segment, 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") (Infrastructure), a family of companies providing fully integrated structural and steel construction services;
- (ii) Pansend Life Sciences, LLC ("Pansend") (Life Sciences), our subsidiary focused on supporting healthcare and biotechnology product development;
- (iii) HC2 Broadcasting Holdings Inc. and its subsidiaries ("Broadcasting") (Spectrum), a strategic operator of Over-The-Air ("OTA") broadcasting stations across the United States ("U.S.") and Puerto Rico. In addition, Spectrum, 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 U.S.; and
- (iv) Other, which represents all other businesses or investments that do not meet the definition of a segment individually or in the aggregate.

We expect to focus on operating and managing our portfolio of companies and building value in Infrastructure, Life Sciences and Spectrum in the future. We believe these segments are well positioned to take advantage of current trends in today's economy and that there is opportunity to build value organically and inorganically in these three segments. We may consider opportunities outside of these businesses in the longer term to acquire and invest in businesses with attractive assets that we consider to be undervalued or fairly valued.

#### Overall Business Strategy

We continually evaluate strategic and business alternatives within our operating segments, which may include the following: operating, growing or acquiring additional assets or businesses related to current or historical operations; or winding down or selling our existing operations. In the longer-term, we may evaluate opportunities to acquire assets or businesses unrelated to our current or historical operations. We have generally pursued either controlling positions in durable, cash-flow generating businesses, assets that will enhance our current businesses in Infrastructure, Life Sciences and Spectrum or companies we believe exhibit substantial growth potential, which may be unrelated to the Company's then-current operating segments. In connection with any such acquisition, 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, while we intend to focus on Infrastructure, Life Science and Spectrum, we may exercise our broad discretion to identify and select an industry and the possible acquisition or business combination opportunity unrelated to our current operating segments. 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.

Our strategic process includes a continual evaluation of our existing businesses which may include a sale of businesses or operating segments. We consider many factors as we go through our evaluation, which include but are not limited to market factors and opportunity, growth prospects and internal needs. In connection with evaluating these strategic and business alternatives, we may at any time be engaged in ongoing discussions with respect to possible dispositions, mergers and public 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. Competitive conditions affecting our operating businesses are described in the discussions below.

## Employees

As of December 31, 2021, we had approximately 3,902 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

### *Infrastructure Segment (DBMG)*

DBM Global Inc. is a fully integrated Industrial Construction, Structural Steel, and Facility Maintenance provider, primarily through its subsidiary, Schuff Steel Company ("SSC"), who provides 3D Building Information Modeling ("BIM"), detailing, fabrication, and erection of structural steel and heavy steel plate, and heavy mechanical and facility maintenance services. DBMG provides these services on commercial, industrial, and infrastructure construction projects such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas and stadiums, shopping malls, hospitals, dams, bridges, mines, metal processing, refineries, pulp and paper mills, and power plants. 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 tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products. Through its GrayWolf Industrial business ("GrayWolf"), DBMG also provides integrated solutions for digital engineering, modeling and detailing, construction, heavy equipment installation and facility services including maintenance, repair, and installation to a diverse range of end markets. Through its Banker Steel business ("Banker"), DBMG provides full-service fabricated structural steel and erection services primarily for the East Coast and Southeast commercial and industrial construction market, in addition to full design-assist services. Headquartered in Phoenix, Arizona, DBMG has domestic operations in Alabama, Arizona, California, Florida, Georgia, Kansas, Kentucky, New Jersey, New York, Oregon, South Carolina, Texas, Utah, Virginia, and Washington with construction projects primarily located in the aforementioned states. In addition, through its DBM Vircon business ("DBM Vircon"), DBMG also has international operations located in Australia, Canada, India, New Zealand, the Philippines, Thailand, and the United Kingdom, providing steel detailing, rebar detailing, BIM modeling, and BIM management services.

DBMG's results of operations are affected primarily by (i) the level of commercial, industrial and infrastructure construction as well as the need for mechanical and maintenance services 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, original equipment manufacturers ("OEMs"), industrial owners, 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, digital engineering, design-build, engineering, detailing, fabrication, erection, and construction 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, piping, machinery rigging and setting, deep foundations, and specialty welding. These service capabilities have enabled DBMG to address such design-sensitive projects as stadiums and uniquely designed hotels and casinos;

- *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; and,
- *Ensure Project Delivery Success through Predictive Technologies:* DBMG uses resources including data analytics, modeling and detailing, laser scan to BIM, and augmented and virtual reality to provide fully integrated solutions for a project's lifecycle from design through to fabrication and construction, as well as providing mechanical and facility services. DBMG is thus able to deliver optimal value and reliable outcomes that are on schedule and on budget across a wide variety of services and geographic regions.

#### Services and Customers

DBMG consists of five business units spread across diverse markets: SSC (steel fabrication and erection), Banker (steel fabrication and erection), DBM Vircon (steel detailing, rebar detailing, bridge detailing, BIM modeling services and BIM management services), the Aitken product line (manufacturing of equipment for the oil and gas industry), and GrayWolf (steel fabrication and erection, specialty facility maintenance, repair, and installation services, as well as management of smaller structural steel projects, leveraging subcontractors). For the year ended December 31, 2021 revenues were as follows (in millions):

	Revenue	% of Total Revenue
SSC	\$ 586.1	50.5 %
Banker Steel	265.9	22.9 %
GrayWolf	258.3	22.3 %
DBM Vircon	43.5	3.8 %
Aitken	5.9	0.5 %
Total	<u>\$ 1,159.7</u>	<u>100.0 %</u>

The majority of DBMG's business is in North America, but DBM Vircon provides detailing services on five continents, and SSC provides fabricated steel to Canada and other select countries. In 2021, DBMG's two largest customers represented approximately 23.4% of revenues. In 2020, DBMG's two largest customers represented approximately 18.6% of revenues.

DBMG's size gives it the production capacity to complete large-scale, demanding projects, with typical utilization per facility ranging from 62% - 82% and a sales pipeline that includes over \$1,876 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 digital engineering, design-build and design-assist capabilities with its clients. Additionally, DBMG has in-house fabrication and erection capabilities 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 fifteen fabrication shops in the United States and thirty-five 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 57% of DBMG's backlog (out of a total backlog of \$1,580.9 million) as of December 31, 2021, 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.

SSC 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:

- *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 Steel Integrated Management System ("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 six fabrication shops in Arizona, California, Kansas, and Utah, SSC has one of the highest fabrication capacities in the United States, with over 1.1 million square feet under roof and a maximum annual fabrication capacity of approximately 256,000 tons;

- *Erection:* Named the top steel erector in the United States for 2007, 2008, 2011, and from 2013-2020 and the second top steel erector for 2021 by Engineering News-Record, SSC knows how to add value to its projects through the safe and efficient erection of steel structures; and
- *BIM:* DBMG uses BIM on every project to manage its role efficiently. Additionally, DBMG's use of SIMS in conjunction with its BIM platform Visualizer allows for real-time reporting on a project's progress and an information-rich model review.

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.

DBM Vircon provides steel detailing, rebar detailing, BIM modeling and BIM management services for industrial and infrastructure and commercial construction projects in Australia, New Zealand, Europe and North America.

- *Steel Detailing:* Utilizing industry leading technologies, DBM Vircon 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;
- *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 constructability 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;
- *BIM Modeling:* Through multidisciplinary teams, DBM Vircon 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 using DBM Vircon's proprietary application, Visualizer. 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:* DBM Vircon 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. DBM Vircon'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, DBM Vircon, 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.

GrayWolf provides services including steel fabrication, steel management, maintenance, repair, erection, 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 services through its two major brands: GrayWolf Integrated Construction (formerly Titan Contracting, Titan Fabricators, and Inco Services), and Milco National Constructors.

- *Specialty mechanical contracting services:* GrayWolf offers specialty mechanical contracting services to the power, petrochemical, refining and other industrial markets. Its 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 and paper, metals, mining and minerals, and petrochemical markets utilize GrayWolf's specialized solutions including plant maintenance, process piping, equipment, and tank and vessel fabrication and erection that are catered to the needs and specifications of the customer's industry;
- *Turnarounds, tank construction, and piping services:* GrayWolf offers services including plant maintenance, specialty welding, piping systems, and tanks and vessels construction to the power, pulp and paper, refining, petrochemical, and water treatment markets in the Midwest, Mid-Atlantic, Southeast, and West Coast;

- *Custom steel fabrication and erection:* GrayWolf offers engineering, design, fabrication, modularization, erection and additional services to the heavy commercial and industrial markets in the Southwest, Midwest, Gulf Coast and Southeast; and
- *Structural steel management:* GrayWolf provides turn-key steel fabrication and erection services with expertise in project management. Leveraging such strengths, GrayWolf uses its relationships with reliable subcontractors and erectors, along with state-of-the-art management systems, to deliver excellence to clients.

Banker Steel provides full-service fabricated structural steel and erection services primarily for the East Coast and Southeast commercial and industrial construction market in addition to full design-assist services. Banker Steel offers a variety of services to its customers, which it believes enhances its ability to obtain and successfully complete projects. These services fall into four distinct groups: design-assist/design-build, pre-construction design and budgeting, fabrication, and erection:

- *Design-Assist/Design-Build:* Using the latest technology, Banker Steel helps developers plan, schedule, model and price projects from start to finish resulting in cost-effective steel designs;
- *Pre-Construction/Design and Budgeting:* Clients who contact Banker Steel in the early stages of planning can receive a detailed analysis of the structure and cost breakdown. Both of these tools allow clients to accurately plan and budget for any upcoming project;
- *Fabrication:* Through its five fabrication shops in Florida, New Jersey, South Carolina and Virginia, Banker Steel has maximum annual fabrication capacity of approximately 189,000 tons with over 0.5 million square feet of space; typically focusing on complex, non-commoditized jobs with intensive fabrication requirements; and
- *Erection:* Banker offers a full suite of erection services including horizontal and vertical erection services.

#### *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, 2021, DBMG, through SSC and Bankers, purchased approximately 52% of the total value of steel and steel components purchased from two domestic steel vendors. See Item 1A - Risk Factors - "Risks Related to the Infrastructure 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, unit cost, or time and material arrangements. Bidding and negotiations require DBMG to estimate the costs of the project up front, with most projects typically lasting from one to twelve months. However, large and more complex projects can often last two years or more.

#### *Marketing*

General managers along with sales managers lead DBMG's sales and marketing efforts. Each general manager is primarily responsible for sales, estimating, 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, OEMs, industrial owners, 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, engineering, and strategic sales and marketing personnel, who have substantial experience in the design, detailing, modeling, fabrication, industrial construction, maintenance, 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 manufacturing and industrial plants, data centers, warehouse and distribution centers, and other industrial and commercial facilities.

Upon selection of projects to bid or price, DBMG's estimating departments review and prepare 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, 2021, DBMG employed approximately 3,794 people across the globe, including the U.S., Canada, Australia, New Zealand, India, the 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, the International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers Union, the Ironworkers Union, the International Union of Operating Engineers, and the Texas Ironworkers 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 27% of DBMG's employees are covered under various collective bargaining agreements. As of December 31, 2021, 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 \$2.0 million per occurrence and \$4.0 million in the aggregate. In addition, DBMG maintains umbrella coverage limits of \$75.0 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. DBMG maintains professional liability insurance in the amount of \$10.0 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.

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

Our Life Sciences segment is comprised of Pansend Life Sciences, LLC ("Pansend"). Pansend maintains controlling interests of approximately 80% in Genovel Orthopedics, Inc. ("Genovel"), which seeks to develop products to treat early osteoarthritis of the knee and approximately 56% in R2 Technologies, Inc. ("R2"), which develops aesthetic and medical technologies for the skin. Pansend also invests in other early stage or developmental stage healthcare companies including an approximately 47% interest in MediBeacon Inc. ("MediBeacon"), and an approximately 26% interest in Triple Ring Technologies, Inc ("Triple Ring").

#### *R2 Technologies, Inc.*

R2 develops and commercializes breakthrough aesthetic medical and non-medical devices in the aesthetic dermatology market. Founded in 2014 by Pansend and Blossom Innovations, LLC, R2 exclusively licenses intellectual property developed at Massachusetts General Hospital and Harvard Medical School.

Skin lightening and brightening is a large and fast-growing segment of aesthetic dermatology. Current lightening products and/or procedures may be ineffective, unpredictable or even harmful, and patients often must compensate for lack of efficacy by using makeup or concealers. R2 has developed breakthrough CryoAesthetic technologies that uniquely deliver treatments that provide patients skin lightening, brightening, skin tone evening and reduction or elimination of hyperpigmentation and inflammation. R2's patented CryoModulation technology uses controlled cooling to suppress melanin, inflammation and discomfort by precisely controlling time and temperature to deliver an effective treatment with little social downtime.

In 2019, R2 closed its Series B "Commercialization" round with its strategic partner, Huadong Medicine Company, Ltd., ("Huadong") and, in exchange for a staged \$30 million investment, entered into an exclusive distribution agreement with Huadong for the Asia-Pacific region. As a part of this agreement, R2 will receive a share of the residual profits from such sales.

In 2021, Pansend invested \$15 million in R2's Series C Preferred Stock at a post-money valuation of \$150 million for R2.

R2 currently has three products in various stages of commercialization and development:

1. Glacial Rx – Launched in the first quarter of 2021 in the United States after receiving U.S. Food and Drug Administration ("FDA") clearance for use in dermatologic procedures for the removal of benign lesions of the skin and for use when cooling is intended for the temporary reduction of pain, swelling, inflammation, and hematoma from minor surgical procedures. When used with R2 Dermabrasion Tips, the intended use includes general dermabrasion, scar revision, acne scar revision and tattoo removal. The Glacial Rx system effectively and comfortably addresses these conditions, leaving the skin with a smoother and brighter appearance with little downtime for the patient. The Glacial Rx system is sold to dermatologists and plastic surgeons and operated by trained healthcare professionals.
2. Glacial Spa – Launching in the first half of 2022 in China after receiving China Non-Medical Classification, the Glacial Spa is a cooling experience used to even skin tone, and brighten and lighten skin. The Glacial Spa system will be sold by Huadong's existing sales force to spas and is intended to be operated by a trained aesthetician.
3. Glacial AI – Currently undergoing research and development, the Glacial AI is an autonomous, robotic cooling device focused on whole-body skin lightening and brightening.

#### *MediBeacon, Inc.*

MediBeacon is developing a proprietary non-invasive real-time monitoring system for the evaluation of kidney function. Current methods to evaluate kidney function are indirect estimates that may be inaccurate and are not real-time. Chronic kidney disease is estimated to affect more than 850 million people worldwide.

MediBeacon's Transdermal GFR Measurement System ("TGFR"), which uses an optical skin sensor combined with Lumitrace, a proprietary agent that glows in the presence of light, will be the first non-invasive system to enable real-time, direct monitoring of kidney function at point-of-care. On October 22, 2018, the FDA granted Breakthrough Device designation to the TGFR for the measurement of Glomerular Filtration Rate ("GFR") in patients with impaired or normal kidney function. Under the Breakthrough Device program, the FDA works with companies to expedite regulatory review in order to give patients more timely access to innovative diagnostic and therapeutic technologies. MediBeacon is expected to begin its U.S. pivotal study in the second half of 2022.

In 2019, MediBeacon closed its Series B financing round with its strategic partner, Huadong, providing Huadong with exclusive rights to MediBeacon's portfolio of assets in Greater China in exchange for a staged \$30 million investment. Further, Huadong will be responsible for funding clinical trials, commercial and regulatory activities in 25 countries in the Asia-Pacific region, including Greater China. In exchange, MediBeacon will receive royalty payments on net sales of the TGFR system. As of December 31, 2021, MediBeacon has received \$15 million from Huadong at a pre-money valuation of approximately \$300 million. Contingent upon the regulatory approval of the TGFR system by the FDA, Huadong will make a second \$15 million investment at a pre-money valuation of approximately \$400 million. In 2020, Huadong amended its commercial agreement to provide an additional \$20 million prepayment of future China royalties over the next two years to pursue Class 1 status in China, allowing the device to immediately enter the Chinese hospital system. As of December 31, 2021, MediBeacon has received approximately \$17.1 million to include China in MediBeacon's global pivotal study.

MediBeacon is also exploring additional clinical applications of the patented Lumitrace technology, including:

1. Gastrointestinal permeability, which has the potential to transform management of autoimmune and inflammatory diseases, including Crohn's disease. Grants from the Bill and Melinda Gates Foundation, in collaboration with scientists at Washington University School of Medicine in St. Louis and the Mayo Clinic, have supported MediBeacon's research in this area. The first in-human clinical studies were recently completed to study the feasibility of fluorescent tracer agent-based systems to quantify the permeability of the gastrointestinal tract in patients with active Crohn's disease.
2. Ocular angiography, which has the potential to diagnose and monitor vasculature leakage in the eye, a key factor in diagnosing and monitoring various diseases, including macular degeneration, diabetic retinopathy and retinal vasculitis while avoiding current potential clinical side effects such as allergic reactions, nausea and vomiting. MediBeacon was 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, having recently received FDA approval in 2020 to begin clinical studies.
3. Surgical visualization feasibility, which has the potential to be used in open, laparoscopic and robotic surgeries to identify critical structures, tumor margins and blood flow in tissues in real-time. Clinical research in this area is still underway.

#### *Genovel Orthopedics, Inc.*

Genovel is a medical device company developing novel partial and total knee replacements for the treatment of osteoarthritis of the knee based on patented technology developed at New York University School of Medicine.

#### *Triple Ring Technologies*

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

#### ***Spectrum Segment (HC2 Broadcasting Holdings Inc.)***

HC2 Broadcasting Holdings Inc., ("HC2B" and together with its subsidiaries, "Broadcasting"), a majority-owned subsidiary of INNOVATE, is an owner and operator of broadcast TV stations throughout the U.S. and an avenue for high-end content providers to deliver their product OTA to more homes and, ultimately, mobile devices. Broadcasting's stations are interconnected to an internet protocol network backbone, which allows Broadcasting to monitor and operate the stations remotely, resulting in significant cost efficiencies.

As of December 31, 2021, Broadcasting operated approximately 246 stations, including 3 Full-Power stations, 53 Class A stations and 190 LPTV stations. Broadcasting stations are collectively able to broadcast over 1,500 sub-channels and reach 103 markets in the U.S. and Puerto Rico, including 34 of the top 35 markets. HC2B has approximately 100 stations concentrated in the top 35 markets. Broadcasting also owns approximately 19 construction permits for broadcast stations, a portion of which may be selectively built and licensed over the next 24 months, increasing Broadcasting's footprint to approximately 110 markets.

Broadcasting includes Azteca America. Azteca America airs Spanish language programming targeting U.S. Hispanics. The majority of the network's programming is provided by TV Azteca, S.A.B. de C.V. ("TV Azteca"), Mexico's second largest broadcast network, under a multi-year Programming Licensing Agreement ("PLA"). As of December 31, 2021, Azteca America was carried on approximately 88 Broadcasting stations. Broadcasting has employees in the U.S. and contracted employees in Mexico under a Broadcast Services Agreement ("BSA") with TV Azteca dedicated to the operations of Azteca America.

#### *Operating Broadcast Stations*

Below are Broadcasting's operating stations as of December 31, 2021, listed by call sign and market rank:

<b>Market</b>	<b>Market Rank<sup>(a)</sup></b>	<b>Station</b>	<b>Service</b>
New York, NY	1	W28ES-D	LPTV Station
		WKOBLD	LPTV Station

Los Angeles, CA	2	KHIZ-LD	LPTV Station
		KSKJ-CD	Class A Station
Chicago, IL	3	W31EZ-D	LPTV Station
		WPVN-CD	Class A Station
Philadelphia, PA	4	W25FG-D	LPTV Station
		WDUM-LD	LPTV Station
		WPSJ-CD	Class A Station
		WZPA-LD	LPTV Station
Dallas - Ft. Worth, TX	5	K07AAD-D	LPTV Station
		KHPK-LD	LPTV Station
		KJMM-LD	LPTV Station
		KNAV-LD	LPTV Station
		KODF-LD	LPTV Station
		KPFW-LD	LPTV Station
Houston, TX	6	KBMN-LD	LPTV Station
		KEHO-LD	LPTV Station
		KUGB-CD	Class A Station
		KUVM-CD	Class A Station
		KUVM-LD	LPTV Station
San Francisco - Oakland - San Jose, CA	7	KEMO-TV	Full-Power Station
		KQRO-LD	LPTV Station
Atlanta, GA	8	WDWW-LD	LPTV Station
		WUEO-LD	LPTV Station
		WUVM-LP	LPTV Station
		WYGA-CD	Class A Station
Boston, MA	10	WLEK-LD	LPTV Station
Phoenix - Prescott, AZ	11	K12XP-D	LPTV Station
		KPDF-CD	Class A Station
		KTVP-LD	LPTV Station
Tampa - St Petersburg - Sarasota, FL	12	W16DQ-D	LPTV Station
		W31EG-D	LPTV Station
		WTAM-LD	LPTV Station
		WXAX-CD	Class A Station
Seattle, WA	13	KUSE-LD	LPTV Station
Minneapolis - St. Paul, MN	14	K28PQ-D	LPTV Station
		K33LN-D	Class A Station
		KJNK-LD	LPTV Station
		KMBD-LD	LPTV Station
		KMQV-LD	LPTV Station
		KWJM-LD	LPTV Station
Detroit, MI	15	WDWO-CD	Class A Station
		WUDL-LD	LPTV Station
Miami - Ft. Lauderdale, FL	16	W16CC-D	LPTV Station
Denver, CO	17	KRDH-LD	LPTV Station
Orlando - Daytona Beach - Melbourne, FL	18	WATV-LD	LPTV Station
		WFEF-LD	LPTV Station
Cleveland - Akron - Canton, OH	19	KONV-LD	LPTV Station
		WEKA-LD	LPTV Station
		WQDI-LD	LPTV Station
		WUEK-LD	LPTV Station
Sacramento - Stockton - Modesto, CA	20	K04QR-D	LPTV Station
		K12XJ-D	LPTV Station
		KAHC-LD	LPTV Station
		KBIS-LD	LPTV Station
		KBTV-CD	Class A Station
		KFKK-LD	LPTV Station
		KFMS-LD	LPTV Station

St. Louis, MO	21	KFTY-LD	LPTV Station		
		K25NG-D	Class A Station		
		K35OY-D	LPTV Station		
		KBGU-LD	LPTV Station		
		KPTN-LD	LPTV Station		
Portland, OR	22	W09DL-D	LPTV Station		
		WLEH-LD	LPTV Station		
		WODK-LD	LPTV Station		
		KOXI-CD	Class A Station		
		Charlotte, NC	23	W15EB-D	Class A Station
Pittsburgh, PA	24	WHEH-LD	LPTV Station		
		WVEB-LD	LPTV Station		
		WJMB-CD	Class A Station		
		WKHU-CD	Class A Station		
		Indianapolis, IN	25	WMVH-CD	Class A Station
Baltimore, MD	26	WWKH-CD	Class A Station		
		WQDE-LD	LPTV Station		
		WSDI-LD	LPTV Station		
		WUDZ-LD	LPTV Station		
		Raleigh - Durham - Fayetteville, NC	27	WQAW-LP	LPTV Station
San Diego, CA	28	WIRP-LD	LPTV Station		
		WNCB-LD	LPTV Station		
		KSKT-CD	Class A Station		
		Nashville, TN	29	WCTZ-LD	LPTV Station
		Columbus, OH	30	WKUW-LD	LPTV Station
WDEM-CD	Class A Station				
San Antonio, TX	31			K17MJ-D	LPTV Station
K25OB-D	LPTV Station				
Kansas City, MO	32			KISA-LD	LPTV Station
		KOBS-LD	LPTV Station		
		KSAA-LP	LPTV Station		
		KSSJ-LD	LPTV Station		
		KVDF-CD	Class A Station		
Hartford - New Haven, CT	33	KAJF-LD	LPTV Station		
		KCMN-LD	LPTV Station		
		KQML-LD	LPTV Station		
		WRNT-LD	LPTV Station		
		Salt Lake City, UT	34	WTXX-LD	LPTV Station
Milwaukee, WI	35	KBTU-LD	LPTV Station		
		WTSJ-LD	LPTV Station		
West Palm Beach - Ft. Pierce, FL	36	WDOX-LD	LPTV Station		
		WWCI-CD	Class A Station		
		WXOD-LD	LPTV Station		
		Las Vegas, NV	39	K36NE-D	Class A Station
				KEGS-LD	LPTV Station
KHDF-CD	Class A Station				
KNBX-CD	Class A Station				
KVPX-LD	LPTV Station				
Austin, TX	41	KGBS-CD	Class A Station		
Jacksonville, FL	42	KVAT-LD	LPTV Station		
		WJXE-LD	LPTV Station		
		WKBJ-LD	LPTV Station		
		WODH-LD	LPTV Station		
		WRCZ-LD	LPTV Station		
Oklahoma City, OK	43	KBZC-LD	LPTV Station		
		KOHC-CD	Class A Station		

		KTOU-LD	LPTV Station
Albuquerque - Santa Fe, NM	45	KQDF-LP	LPTV Station
		KWPL-LD	LPTV Station
Birmingham - Anniston - Tuscaloosa, AL	47	WUDX-LD	LPTV Station
		WUOA-LD	LPTV Station
New Orleans, LA	50	WQDT-LD	LPTV Station
		WTNO-LP	Class A Station
Ft. Myers - Naples, FL	51	WGPS-LD	LPTV Station
Memphis, TN	53	KPMF-LD	LPTV Station
		W15EA-D	Class A Station
		WPED-LD	LPTV Station
		WQEK-LD	LPTV Station
		WQEO-LD	LPTV Station
Buffalo, NY	54	WVTT-CD	Class A Station
		WWHC-LD	LPTV Station
Richmond - Petersburg, VA	55	WFWG-LD	LPTV Station
		WUDW-LD	LPTV Station
		WWBK-LD	LPTV Station
Mobile, AL - Pensacola, FL	56	WEDS-LD	LPTV Station
		WWBH-LP	LPTV Station
Fresno - Visalia, CA	57	K17JI-D	Class A Station
		KZMM-CD	Class A Station
Tulsa, OK	60	KUOC-LD	LPTV Station
		KZLL-LD	LPTV Station
Little Rock - Pine Bluff, AR	61	K23OW-D	LPTV Station
		KENH-LD	LPTV Station
		KWMO-LD	LPTV Station
Flint - Saginaw - Bay City, MI	67	W35DQ-D	LPTV Station
		WFFC-LD	LPTV Station
Des Moines - Ames, IA	69	KAJR-LD	LPTV Station
		KCYM-LD	LPTV Station
		KRPG-LD	LPTV Station
Wichita - Hutchinson, KS	71	KFVT-LD	LPTV Station
Omaha, NE	73	KAJS-LD	LPTV Station
		KQMK-LD	LPTV Station
Springfield, MO	74	KCNH-LD	LPTV Station
		KFKY-LD	LPTV Station
Charleston - Huntington, WV	76	WOCW-LD	LPTV Station
Huntsville - Decatur - Florence, AL	77	W34EY-D	Class A Station
Madison, WI	79	W23BW-D	Class A Station
		WZCK-LD	LPTV Station
Rochester, NY	80	WGCE-CD	Class A Station
Paducah, KY - Cape Girardeau, MO - Harrisburg, IL	82	W29CI-D	Class A Station
Charleston, SC	83	WBSE-LD	LPTV Station
Waco - Temple - Bryan, TX	84	KAXW-LD	LPTV Station
		KZCZ-LD	LPTV Station
Shreveport, LA	86	K36MU-D	LPTV Station
Champaign - Springfield - Decatur, IL	87	W23EW-D	LPTV Station
		WCQA-LD	LPTV Station
		WEAE-LD	LPTV Station
Chattanooga, TN	89	WYHB-CD	Class A Station
Savannah, GA	90	WDID-LD	LPTV Station
		WUET-LD	LPTV Station
Cedar Rapids - Waterloo - Iowa City, IA	91	K17MH-D	LPTV Station
		KFKZ-LD	LPTV Station
Harlingen - Weslaco - Brownsville - McAllen, TX	92	KAZH-LP	LPTV Station
		KNWS-LD	LPTV Station

Baton Rouge, LA	93	KRZG-CD	Class A Station
		K27NB-D	LPTV Station
		K29LR-D	LPTV Station
South Bend - Elkhart, IN	96	KPDS-LD	LPTV Station
Ft. Smith - Fayetteville - Springdale - Rogers, AR	98	KAJL-LD	LPTV Station
		KFLU-LD	LPTV Station
Greenville - New Bern - Washington, NC	100	W35DW-D	LPTV Station
Boise, ID	103	K17ED-D	LPTV Station
		K31FD-D	Class A Station
		KBKI-LD	LPTV Station
		KFLL-LD	LPTV Station
Reno, NV	104	K07AAI-D	LPTV Station
Evansville, IN	105	WDLH-LD	LPTV Station
		WEIN-LD	LPTV Station
		WELW-LD	LPTV Station
Tallahassee, FL - Thomasville, GA	107	W21EL-D	LPTV Station
Lincoln - Hastings - Kearney, NE	108	KIUA-LD	LPTV Station
Ft. Wayne, IN	109	W25FH-D	LPTV Station
		W30EH-D	LPTV Station
		WCUH-LD	LPTV Station
		WFWC-CD	Class A Station
		WODP-LD	LPTV Station
Augusta, GA - Aiken, SC	110	WIEF-LD	LPTV Station
Tyler - Longview- Nacogdoches, TX	113	KBJE-LD	LPTV Station
		KCEB	Full-Power Station
		KDKJ-LD	LPTV Station
		KKPD-LD	LPTV Station
		KPKN-LD	LPTV Station
Eugene, OR	116	K06QR-D	LPTV Station
		KORY-CD	Class A Station
Yakima - Pasco - Richland - Kennewick, WA	118	K28QK-D	LPTV Station
		K33EJ-D	Class A Station
Fargo - Valley City, ND	119	K15MR-D	LPTV Station
Lafayette, LA	120	K21OM-D	LPTV Station
Macon, GA	121	W28EU-D	LPTV Station
		WJDO-LD	LPTV Station
Peoria - Bloomington, IL	122	W27EQ-D	LPTV Station
Santa Barbara - San Luis Obispo, CA	123	KDFS-CD	Class A Station
		KLDF-CD	Class A Station
		KQMM-CD	Class A Station
		KSBO-CD	Class A Station
		KVMM-CD	Class A Station
		KZDF-LD	LPTV Station
Montgomery - Selma, AL	125	WDSF-LD	LPTV Station
		WQAP-LD	LPTV Station
Bakersfield, CA	126	KTLD-CD	Class A Station
		KXBF-LD	LPTV Station
Wilmington, NC	127	WQDH-LD	LPTV Station
La Crosse - Eau Claire, WI	128	W23FC-D	LPTV Station
Columbus, GA - Opelika - Auburn, AL	129	W29FD-D	LPTV Station
		W31EU-D	LPTV Station
Corpus Christi, TX	130	K21OC-D	LPTV Station
		K32OC-D	LPTV Station
		KCCX-LD	LPTV Station
		KYDF-LD	LPTV Station
Amarillo, TX	134	KAUO-LD	LPTV Station
		KLKW-LD	LPTV Station

Palm Springs, CA	140	K21DO-D	Class A Station
Lubbock, TX	141	K32OV-D	LPTV Station
		KNKC-LD	LPTV Station
Topeka, KS	146	K35KX-D	LPTV Station
Joplin, MO - Pittsburg, KS	153	KPJO-LD	LPTV Station
		KRLJ-LD	LPTV Station
Biloxi-Gulfport, MS	155	W33EG-D	LPTV Station
Quincy, IL - Hannibal, MO - Keokuk, IA	173	WVDM-LD	LPTV Station
Jackson, TN	175	WYJJ-LD	LPTV Station
Bowling Green, KY	179	WCZU-LD	LPTV Station
		WKUT-LD	LPTV Station
Puerto Rico	NA	W20EJ-D	LPTV Station
		W27DZ-D	LPTV Station
		WOST	Full-Power Station
		WQQZ-CD	Class A Station
		WWKQ-LD	LPTV Station

<sup>(a)</sup> Rankings are based on the relative size of a station's Designated Market Area ("DMA") among the 210 generally recognized DMAs in the United States as estimated by Nielsen Media Research as of December 31, 2021.

### *Broadcast Operations*

Broadcasting carries more than 70 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*

Broadcasting generates broadcast station revenue and network advertising revenue from its operations. Broadcast station revenue is generated primarily from the sale of television airtime in return for a fixed fee or a portion of the related ad sales. In a typical broadcast station revenue agreement, the owner of a station makes available, for a fee, airtime on a station subchannel to a third party. The third party broadcasts during that airtime and collects revenue from advertising aired during such content. Broadcast station revenue is recognized over the life of the contract. The fees charged can be fixed or variable and the contracts that the Company enters into are generally short-term in nature. Variable fees are usage/sales-based and are recognized as revenue when the subsequent usage occurs.

Network advertising revenue is generated primarily from the sale of television airtime for advertisements or paid programming. Network advertising inventory is sold in the upfront and scatter markets and is offered at market rates, based on a number of factors such as available inventory, network programming and ratings, and economic conditions. In the upfront market, advertisers buy advertising time for the upcoming season. In the scatter market, advertisers buy advertising time close to when the commercials will be run and varies quarter over quarter. In some cases, the network advertising sales are subject to impressions guarantees that require the Broadcasting to provide additional advertising time if the guaranteed audience levels are not achieved. Network advertising revenue is recognized when advertising spots are aired, and as impression guarantees, if any, are achieved. Impressions are defined as the number of times that an advertisement is viewed by users. The achievement of performance guarantees is based on audience viewership from an independent research company. If there is a guarantee to deliver a targeted audience number of impressions, revenues are recognized based on the proportion of the audience impressions delivered to the total guaranteed in the contract.

For the local inventory, Broadcasting sells national spot advertising and local advertising. National spot advertising represents time sold to advertisers that advertise in more than one DMA. Local advertising revenue is generated from local merchants and service providers. National and local advertising spots are generally sold without guaranteed ratings, and revenue is recognized when spots are aired.

Network distribution revenue consists of fees charged and payments received from cable, satellite and other multiple video program distribution ("MVPD") systems for their retransmission of our network content. Broadcasting's network is aired on MVPDs pursuant to multi-year carriage agreements that provide for the level of carriage that the Company's network will receive. Carriage of the network is generally determined by package, such as whether the network is included in the more widely distributed, general entertainment packages offered or lesser-distributed, specialized packages, such as U.S. Hispanic-targeted or Spanish language package. Network distribution revenue is determined on the contractual rate-per-subscriber negotiated in the agreements, the average number of subscribers that receive content, and the market demand for the content that Broadcasting provides. Network distribution fees received from MVPDs are recognized as revenue in the period that services are provided.

### *Strategy*

Broadcasting's strategy includes the following initiatives:

- Broadcasting is principally designed to be a nationwide OTA distribution platform, targeting the growing number of OTA households in the U.S.;



- 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 and to take advantage of the technology advances rapidly underway in the industry;
- As of December 31, 2021, 232 operating stations are connected to Broadcasting's cloud-based IP backbone and can be operated and monitored remotely, allowing for substantial cost savings and operating efficiencies. In 2018, FCC deregulation in TV broadcasting eliminated the need for full time employees and studio facilities in markets where Broadcasting operates Full-Power and Class A stations, thus allowing Broadcasting to operate these stations remotely at greater cost efficiency;
- Broadcasting's major focus is to attract the highest quality content providers looking for nationwide distribution. With its national footprint and cloud-based infrastructure, Broadcasting also expects to realize premium pricing for content distribution;
- Broadcasting's growing revenue source is from providing national carriage to content providers. Carriage contracts pricing 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; and,
- As an anchor network tenant, Azteca America is distributed on the Broadcasting platform in 60+ markets.

#### *New Broadcast TV Technology: ATSC 3.0*

In 2017, the FCC approved ATSC 3.0, next generation broadcast standards defining how television signals are broadcast and interpreted. ATSC 3.0 is an enhancement to previous broadcast standards, providing enhanced picture and audio quality, mobility, addressability, increased capacity, and IP connectivity. ATSC 3.0 will offer a platform to merge linear programming and non-TV data services alongside OTA and over-the-top ("OTT"). Among the many emerging opportunities will be hyper-local news, weather, and traffic; dynamic ad insertion; geographic and demographic targeted advertising; customizable content; better measurement and analytics; the ability to share data with 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 will provide new emergency capabilities including advanced alerting functions which can relay evacuation routes and device wake-up features. Many of these features will be available to mobile devices.

#### *Employees*

As of December 31, 2021, Broadcasting employed approximately 55 people across the U.S.

See Note 17. Operating Segment and Related Information for additional detail regarding our Segment's operations and financial information.

#### ***Environmental Regulation and Laws***

Our operations and properties, including those of DBMG, 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**

INNOVATE, a Delaware corporation, was incorporated in 1994. The Company's executive offices are located at 295 Madison Avenue, 12th Floor, New York, NY, 10017. The Company's telephone number is (212) 235-2690. Our Internet address is [www.innovatecorp.com](http://www.innovatecorp.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 in Item 10. Information relating to our Audit Committee and Audit Committee Financial Expert will be set forth in our 2022 Proxy Statement under the Caption "Board Committees" and is incorporated herein by reference.

## ITEM 1A. RISK FACTORS

### *Summary of Risk Factors*

Investing in our common stock involves a high degree of risk. These risks are discussed more fully below and include, but are not limited to, the following, any of which could have a material adverse effect on our financial condition, results of operations and cash flows:

#### **Risks Related to the COVID-19 Pandemic**

- The COVID-19 pandemic and its effects on our liquidity, business, financial condition and results of operations.

#### **Risks Related to Our Businesses**

- The ability of our subsidiaries to make distributions, our principal source of revenue
- Our levels of indebtedness, financing arrangements and other obligations
- Restrictive covenants in our debt and preferred stock instruments
- Ability to meet working capital requirements
- Dependence on key personnel and ability to attract and retain skilled personnel
- Impact of supply chain delays and disruptions
- Impact of inflationary pressures
- Constraints in the labor market and increases in labor costs
- Any identified material weaknesses in our internal controls
- Foreign exchange rate volatility
- Changes in United States trade policy
- Impact of competition on our business
- Impact of any potential future acquisitions and ability to manage future growth and the incurrence of substantial costs in connection with acquisitions
- Cyber-attacks and other privacy or data security incidents
- Stability and security of our information technology systems
- Ability to fully utilize net operating loss and other tax carryforwards
- Presentation of corporate opportunities by certain current and former directors and officers and the impact of related party transactions
- Our status as a non-investment company
- Impact of potential litigation
- Deterioration of global economic conditions and the impact of operating globally
- Compliance costs related to our acquired businesses
- Ability of our development stage companies to produce revenues or income
- Adverse tax impact of our acquisitions or dispositions
- Lack of sole control in joint venture investments
- Ability to protect our intellectual property
- Potential dilution of our current stockholders
- Status as a “smaller reporting company”
- Impact of our recently reconstituted board and change in management

#### **Risks Related to the Infrastructure segment**

- Unpredictability in timing of DBMG’s construction contracts and payments thereunder
- Impact of construction contract pricing terms, including fixed-price and cost-plus pricing
- Termination or cancellation of construction projects
- Increased concentration of construction projects in backlog
- Ability to realize revenue value reported in backlog
- Ability to meet contractual schedule or performance requirements
- Modification or termination of government contracts
- Reliability of subcontractors and third-party vendors
- Volatility in the supply and demand for steel and steel components
- Dependability of steel component suppliers
- Intense competition in construction markets
- Ability of customers to receive applicable regulatory and environmental approvals
- Impact of failure to obtain or maintain required licenses
- Impact of bonding and letter of credit capacity
- Variability in liquidity over time
- Exposure to professional liability, product liability, warranty and other claims
- Impact of environmental compliance costs
- Labor disruptions that would interfere with operations
- Ability to maintain safe work environment

### **Risks related to the Life Sciences segment**

- Significant fluctuations in Pansend's operating results
- High levels of competition in the life sciences space
- Reliance on third parties for sales, marketing, manufacturing and/or distribution
- Limited current and historical operating revenue
- Impact of a failure to obtain or maintain necessary FDA (or foreign equivalent) clearances and approvals
- Risks associated with the misuse by customers, physicians and technicians of Pansend's products
- Pansend's limited manufacturing experience
- Competition for skilled technical professional personnel
- Obsolescence of Pansend's products
- Ability of Pansend to effectively protect its intellectual property and the impact of a failure to do so
- Patient satisfaction with R2's procedures
- Impact of third party intellectual property infringement claims

### **Risks related to the Spectrum segment**

- Effectiveness of our operations in a highly competitive market
- Impact of FCC regulations, including with respect to broadcasting licenses, or Congressional legislation

### **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.

To the extent that the COVID-19 pandemic adversely affects the Company's business, financial condition, results of operations, cash flows and liquidity, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section, such as those relating to the Company's level of indebtedness, its ability to comply with the financial covenants contained in the agreements that govern the Company's indebtedness and volatility of the Company's common stock price.

### **Risks Related to the COVID-19 Pandemic**

#### ***Our business, operating results and financial condition may be adversely impacted by COVID-19.***

We are monitoring and continue to assess the ongoing effects of the COVID-19 pandemic on our businesses and operations. We operate in a number of industries and geographies that have been and are expected to continue to be impacted materially by the COVID-19 pandemic. The scope of the effects of the COVID-19 pandemic and its related economic impact on our businesses depends on many factors beyond our control. While the full extent to which the COVID-19 pandemic may adversely impact our results is uncertain, the adverse impact of the COVID-19 pandemic may be material to our businesses.

The pandemic has resulted in a widespread health crisis that is adversely affecting the economies and financial markets of many countries. During the COVID-19 pandemic and even after it has subsided, the Company may continue to experience adverse impacts to the Company's business as a result of the pandemic's global economic impact, including any recession, economic downturn, government spending cuts, tightening of credit markets or increased unemployment that has occurred or may occur in the future, which could cause our ultimate customers and potential customers to postpone or reduce spending on our products or put downward pressure on prices. In addition, the illness, incapacitation or death due to COVID-19 of any key personnel of our businesses can have a material impact on our financial condition and results of operations.

Many governments have implemented policies intended to stop or slow the further spread of COVID-19, such as shelter-in-place orders, travel bans, declarations of states of emergency, business closures, manufacturing and other commercial restrictions and closure of schools and non-essential businesses. While many countries have begun lifting restrictions, there could be additional restrictions enacted in the future in response to changes in the ongoing pandemic.

COVID-19 has continued to cause supply chain challenges related to labor shortages and supply chain disruptions, which may create significant delays in our ability to complete projects or deliver products. The receipt of material from impacted areas has been slowed or disrupted and our suppliers are expected to face similar challenges in fulfilling orders. In addition, reductions in the number of ocean carrier voyages, ocean freight capacity issues, congestion at major international gateways and other economic factors continue to persist worldwide due to COVID-19 and worldwide supply impacts as there is much greater demand for shipping and reduced capacity and equipment, which has resulted in recent price increases per shipping container. In addition, in the United States, trucking costs have risen dramatically due to driver shortages and increased labor costs, as well as new federal and state safety, environmental and labor regulations. These changes, as well as COVID-19 related state and local restrictions on domestic trucking and the operation of distribution centers, may disrupt our supply chain, which may result in a delay in the completion of our projects and cause us to incur significant additional costs. Although we may attempt to pass on certain of these increased costs to our customers, we may not be able to pass all of these cost increases on to our customers. As a result, our margins may be adversely impacted by such cost increases. These supply chain disruptions and transportation challenges could have a material adverse effect on our results of operations or financial condition.

The Company's top priority has been to protect our employees and their families, and those of the Company's customers. The Company is taking precautionary measures as directed by health authorities and local governments, including changing operational procedures as necessary, providing additional protective gear and cleaning to protect personnel and customers, which has resulted and may continue to result in disruptions to and increased costs of the Company's operations. We may take further action as may be required by government authorities or that we determine are in the best interests of our employees, customers, partners, vendors, and suppliers. Work-from-home and other measures introduce additional operational risks, including cybersecurity risks, and have affected the way we conduct our operations. As the vaccine rollout has commenced, certain employees have begun to return to the office, either full-time or part-time. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, including any new strains of the virus, and illness and workforce disruptions could lead to unavailability of key personnel and harm our ability to perform critical functions.

Individually and collectively, the consequences of the COVID-19 pandemic could adversely impact the Company's business, financial condition, results of operations, cash flows and liquidity. The extent to which the COVID-19 pandemic ultimately impacts the Company's business, financial condition, results of operations, cash flows, and liquidity may differ from management's current estimates due to inherent uncertainties regarding the duration and further spread of the outbreak, its severity, actions taken to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

#### *Infrastructure Segment*

DBMG is dependent on its workforce to carry out its services. Developments resulting from governmental responses to COVID-19, such as social distancing and shelter-in-place directives, have impacted, and will continue to impact, DBMG's ability to deploy its workforce in its facilities and project sites efficiently. The nature of DBMG's business does not permit alternative workforce arrangements in its facilities and project sites such as remote work schemes to be implemented effectively, and as a result of potential workforce disruptions, DBMG may experience delays or suspensions of projects. During the years ended December 31, 2021 and 2020, \$8.6 million and \$19.4 million of COVID-19 related expenses were incurred, respectively. The majority of these expenses related to payroll costs for safety and cleaning procedures in DBMG's shops and in the field, and personal protective equipment for employees. DBMG may also experience disruptions in the supply chain depending on the spread of COVID-19 and related governmental orders. These delays, suspensions, and impacts to supply chain, may negatively impact DBMG's results of operations, cash flows or financial condition. This could cause the timing of revenue to be delayed and possibly impact earnings and backlog. Persistent delays, suspensions or cancellations of projects under contract may occur while governments implement policies designed to respond to the COVID-19 pandemic. Any such continued loss or suspension of projects under contract may negatively impact DBMG's results of operations, cash flows or financial condition.

#### *Life Sciences Segment*

Our Life Sciences segment may be adversely disrupted by the effects of the COVID-19 pandemic. For example, requirements to implement COVID-19 operational measures at clinical trial sites may result in clinical studies in some locations being delayed. Such delays may slow progress towards regulatory clearances and approval of our products in the U.S. and globally. In addition, stay-in-place orders of governmental authorities have impacted the ability of our employees to continue to conduct research and development activities despite our work-from-home policies. Disruptions in the availability of semiconductors, our labor force and in the labor force of our suppliers may also lead to delays in our manufacturing scale up, which in turn could result in delays in our product launch plans and ultimate customer adoption of our products. In the event that we are unable to achieve anticipated regulatory clearances or commence certain clinical trials in a timely manner due to the ongoing pandemic, we could fail to achieve the final milestones under our stock purchase agreements with Huadong Medicine Company Limited ("Huadong") which in turn could result in Huadong determining not to purchase the final \$15.0 million of preferred stock for MediBeacon, and our inability to continue our operations.

The ultimate impact of the COVID-19 pandemic on the business operations of our Life Sciences segment is highly uncertain and subject to change and will depend on future developments, which cannot be accurately predicted, including the duration of the pandemic, additional or modified government actions, new information that will emerge concerning the severity and impact of COVID-19 and the actions taken to contain or address its impact in the short and long term, among others.

## *Spectrum Segment*

Our Spectrum segment has been, and may continue to be, impacted by the COVID-19 pandemic in several ways. Spectrum is dependent on advertising revenue, and, earlier in the pandemic, numerous advertisers reduced or suspended their purchase of television advertising time, primarily due to the cessation of local consumer business activity mandated by state governors, much of which has subsided. Many of the top industries that are heavy television advertisers suffered earlier in the pandemic from these business shut downs, including the significant industry sectors relating to travel, entertainment and theme parks, auto sales, all consumer retail, casual dining and quick serve restaurants. We may also be indirectly impacted by the slow-down in television advertising by our spectrum lease clients. These clients pay us lease fees to air their programming on our television stations, and many of them rely on advertising revenue from those television stations to pay such spectrum lease fees. Losses in our clients' advertising revenue could expose us to consequential loss of broadcast station revenue.

### **Risks Related to Our Businesses**

***INNOVATE is a holding company and its only material assets are its cash on hand, equity interests in its operating subsidiaries and its other investments. As a result, INNOVATE'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 INNOVATE.***

As a holding company, INNOVATE's assets are its cash and cash equivalents, the equity interests in its subsidiaries and other investments. As of December 31, 2021, we had \$22.0 million in cash and cash equivalents at the corporate level at INNOVATE.

INNOVATE's principal source of revenue and cash flow is distributions from its subsidiaries. Thus, its ability to service its debt, including the \$330.0 million in aggregate principal amount of 8.50% Senior Secured Notes due 2026 (the "Secured Notes"), \$3.2 million aggregate principal amount of 7.50% convertible senior notes due 2022 (the "2022 Convertible Notes"), \$51.8 million aggregate principal of 7.50% convertible senior notes due 2026 (the "2026 Convertible Notes", and, together with the 2022 Convertible Notes, the "Convertible Notes"), and \$15.0 million secured revolving credit agreement (the "Revolving Credit Agreement"), of which \$5.0 million was drawn as of December 31, 2021, 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 INNOVATE. INNOVATE's subsidiaries are separate legal entities, and although they may be wholly-owned or controlled by INNOVATE, they have no obligation to make any funds available to INNOVATE, whether in the form of loans, dividends, distributions or otherwise. The ability of INNOVATE's subsidiaries to distribute cash to it is 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, DBMG is a borrower under credit facilities that restrict their ability to make distributions or loans to INNOVATE. 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 INNOVATE. 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 INNOVATE's subsidiaries to distribute dividends or other payments to INNOVATE 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 INNOVATE depends on distributions and loans from its subsidiaries to make payments on INNOVATE's debt, and if such subsidiaries were unable to distribute or loan money to INNOVATE, INNOVATE 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 9. 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 Certificates of Designation 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 Certificates of Designation 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 indentures governing our outstanding senior secured notes and convertible notes 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. These covenants are subject to a number of important exceptions and qualifications.

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 requirements for DBMG, which may limit the amount of dividends DBMG may pay to its stockholders.

In addition, the indenture governing our 2026 Senior Secured Notes dated February 1, 2021, by and among INNOVATE, the guarantors party thereto and U.S. Bank National Association, a national banking association, as trustee (the "Secured Indenture") 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, 2021, our total outstanding indebtedness was \$630.8 million and the accrued value of our outstanding preferred stock has a combined redemption value of \$16.1 million with a current fair value as of December 31, 2021 of \$18.8 million. 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 INNOVATE's assets and those of certain of INNOVATE'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 loss attributable to INNOVATE of \$227.5 million in 2021 and net loss attributable to INNOVATE of \$92.0 million in 2020, and have incurred net losses in prior periods.

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 flow uses from continuing operating activities of \$6.5 million in 2021 and \$55.2 million in 2020.

***We are dependent on Wayne Barr, Jr., our President and Chief Executive Officer, and certain other key personnel, the loss or distraction of whom may adversely affect our financial condition or results of operations.***

We believe that the future success of INNOVATE and its operating subsidiaries depends and will depend to a significant extent upon the performance of Wayne Barr, Jr., our President and Chief Executive Officer ("CEO"), who has served as a director of INNOVATE since January 2014, as Lead Director during March 2020, as interim CEO from June 2020 to November 2020 and as President and CEO of INNOVATE since November 2020, as well as the services of other key personnel at INNOVATE and its operating subsidiaries, 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, whether due to competition, distraction caused by personal matters or otherwise, 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 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, 2021 and 2020, 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.

***Prolonged inflation could result in higher costs and decreased margins and earnings.***

A majority of our products are manufactured and sold inside of the United States, which increases our exposure to, among other things, domestic inflation and fuel price increases. Recent inflationary pressures have resulted in increased interest rates, fuel, wages, freight and container expenses and other costs which, if they continue for a prolonged period, may adversely affect our results of operations. If our costs remain subject to continuing significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, and results of operation.

***Overall tightening of the labor market increases in labor costs or any possible labor unrest may adversely affect our business and results of operations.***

Our business requires a substantial number of personnel. Any failure to retain stable and dedicated labor by us may lead to disruption to our business operations. Although we have not experienced any labor shortages to date, we have observed an overall tightening and increasingly competitive labor market. We have experienced, and expect to continue to experience, increases in labor costs due to increases in salary and wages, social benefits and employee headcount. We compete with other companies in our industry and other labor-intensive industries for labor, and we may not be able to offer competitive remuneration and benefits compared to them. If we are unable to manage and control our labor costs, our business, financial condition and results of operations may be materially and adversely affected.

***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. 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.

***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 the Infrastructure, Life Sciences and Spectrum segments.

***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.

***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, INNOVATE 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 net operating loss ("NOL") and other tax carryforward amounts, such as Section 163(j) disallowed interest carryforwards, to reduce taxable income in future years may be limited for various reasons. As a result of the enactment of the Tax Cuts and Jobs Act ("TCJA"), 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.

As of December 31, 2021, we had approximately \$164.5 million of federal net operating loss carryforwards ("NOLs") and \$223.2 million of Code Section 163(j) interest limitation carryforwards available to offset our future taxable income, which NOLs will begin to expire in 2034. Pursuant to the Code Sections 382 and 383, use of our NOLs and certain other tax attributes may be limited by an "ownership change" within the meaning of Code Section 382 and applicable Treasury Regulations. If a corporation undergoes an "ownership change," which is generally defined as an increase of more than 50% of the value of a corporation's stock owned by certain "5-percent shareholders" (as such term is defined in Internal Revenue Code Section 382) over a rolling three-year period, the corporation's ability to use its pre-change NOLs and certain other pre-change tax attributes to offset its post-change income or taxes may be limited.

On August 30, 2021, the Company entered into a Tax Benefits Preservation Plan (the "Plan"). The Plan is intended to help protect the Company's ability to use its tax net operating losses and other certain tax assets ("Tax Benefits") by deterring an "ownership change," as defined under the Code, by a person or group of affiliated or associated persons from acquiring beneficial ownership of 4.9% or more of the outstanding common shares. This may adversely affect the marketability of our common stock by discouraging any individual, firm, corporation, partnership or other person or group of affiliated or associated persons from acquiring beneficial ownership of 4.9% or more shares of our common stock then outstanding. In addition, although the Rights Agreement is intended to reduce the likelihood of an ownership change that could adversely affect utilization of our NOLs, there is no assurance that the Plan will prevent all transfers that could result in such an ownership change. We may experience ownership changes in the future as a result of subsequent shifts in our common stock ownership, some of which may be outside of our control. If the Company were to experience an ownership change as defined in Code Section 382, its ability to utilize these tax attributes would be substantially limited.

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 at GrayWolf, imposing additional limitations on the use of the acquired 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 may be required to restate certain of our financial statements 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. 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 (for example, the 2021 sale of CIG to Continental General Holdings LLC, an entity controlled by Michael Gorzynski, a director of the Company) 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. 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, including the recent outbreak of armed conflict in Ukraine, natural disasters and pandemic illness, 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.

***Climate change may have an impact on our business.***

While we seek to mitigate our business risks associated with climate change by establishing robust environmental programs and partnering with organizations who are also focused on mitigating their own climate-related risks, we recognize that there are inherent climate change-related risks wherever business is conducted. Any of our primary locations may be vulnerable to the adverse effects of climate change. For example, our offices globally have historically experienced, and are projected to continue to experience, climate-related events at an increasing frequency, including drought, water scarcity, heat waves, wildfires and resultant air quality impacts and power shutoffs associated with wildfire prevention. Furthermore, it is more difficult to mitigate the impact of these events on our employees while they work from home as a result of the COVID-19 pandemic. Changing market dynamics, global policy developments and the increasing frequency and impact of extreme weather events on critical infrastructure in the U.S. and elsewhere have the potential to disrupt our business, the business of our third-party suppliers and the business of our customers, and may cause us to experience higher attrition, losses and additional costs to maintain or resume operations.

***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;
- outbreaks of pandemic diseases, including new COVID-19 variants, or fear of such outbreaks;
- inflationary pressures;
- 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;
- 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 current U.S. administration's trade policies could have a material adverse effect on us. For example, the administration has expressed a desire to alter existing trade agreements and proposed increases in 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.

***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, such as the dispositions of our Clean Energy and Insurance segments in 2021 or the acquisition of Banker Steel by our Infrastructure segment in 2021. 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 INNOVATE 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 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. 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 160,000,000 shares of common stock and 20,000,000 shares of preferred stock.

As of December 31, 2021, INNOVATE has 79,225,964 issued and 77,836,748 outstanding shares of its common stock, and 16,125 shares of Series A-3 and Series A-4 preferred stock issued and outstanding. However, the Certificate of Incorporation authorizes our board of directors (the "INNOVATE 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 INNOVATE'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, 2021, the holders of our outstanding preferred stock had certain rights to convert their Preferred Stock into approximately 3.6 million shares of our common stock.

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 INNOVATE 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;
- outbreaks of pandemic diseases, including coronavirus, or fear of such outbreaks; 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.



***We are a “smaller reporting company” and we cannot be certain whether the reduced requirements applicable to smaller reporting companies will make our common stock less attractive to investors.***

We are a “smaller reporting company” under the rules of the Securities Act and the Exchange Act. As a result, we may choose to take advantage of certain scaled disclosure requirements available specifically to smaller reporting companies. For example, we are not required to provide market risk disclosures, a contractual obligations table in our management’s discussion and analysis of our financial condition and results of operations or selected financial data in our annual report. Additionally, as long as we continue to be a smaller reporting company, we may continue to use reduced compensation disclosure obligations. We will remain a smaller reporting company until the fiscal year following the determination that our public float is \$250 million or more measured on the last business day of our second fiscal quarter, or our annual revenues are \$100 million or more during the most recently completed fiscal year and our public float is \$700 million or more measured on the last business day of our second fiscal quarter.

We cannot predict or otherwise determine if investors will find our securities less attractive as a result of our reliance on exemptions as a smaller reporting company. If some investors find our securities less attractive as a result, there may be a less active trading market for our common stock and the price of our common stock may be more volatile.

***Actions of activist stockholders, including a proxy contest, could be disruptive and potentially costly and the possibility that activist stockholders may contest, or seek changes that conflict with, our strategic direction could cause uncertainty about the strategic direction of our business. Such actions may also trigger a change in control under certain agreements to which the Company is party, which could materially and adversely affect our business.***

Under certain circumstances arising out of, or related to, certain actions of activist stockholders, including a proxy contest or consent solicitation, a change in a majority of our Board of Directors may trigger the requirement that we make an offer to redeem our shares of preferred stock at a price per share of preferred stock, equal to the greater of (i) the accrued value of the preferred stock, plus any accrued and unpaid dividends (to the extent not included in the accrued value of preferred stock), and (ii) the value that would be received if the share of preferred stock were converted into common stock, the occurrence of which could materially and adversely affect our business. In such instance, the Company cannot assure stockholders that it would be able to obtain the financing on commercially reasonable terms (if at all) to fund the offer to redeem all of the preferred stock. If any of these risks were to occur, our business, operating results and financial condition could be materially and adversely affected.

***Our recently reconstituted Board and change in executive management may not result in growth of our business or enhance stockholder value.***

Our executive management team is critical to the overall management of the Company and also plays a key role in maintaining our culture and setting our strategic direction. Changes in our executive management team and composition of the Board beginning in mid-2020, and any related speculation and uncertainty regarding our future business strategy and direction, may cause or result in: disruption of our business and operations; difficulty recruiting, hiring, motivating and retaining talented and skilled personnel; departures of other members of management; increased stock price volatility; and difficulty in establishing, maintaining or negotiating business or strategic relationships or transactions. On May 14, 2020, the Company announced a settlement agreement with MG Capital Management, Ltd. to reconstitute the Board as a result of ongoing engagement with stockholders. On June 11, 2020, the Company announced that the Board had appointed Wayne Barr, Jr. as interim Chief Executive Officer. On November 30, 2020 the Company announced that the Board appointed Mr. Barr as permanent Chief Executive Officer effective as of November 25, 2020.

#### **Risks Related to the Infrastructure 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.

***Transportation challenges as a result of the COVID-19 pandemic and related supply impacts have caused, and may continue to cause, significant delays and additional costs, which could have a material adverse effect on DBMG's results of operations or financial condition.***

COVID-19 has caused supply chain challenges related to labor shortages and supply chain disruptions, which may create significant delays in DBMG's ability to complete projects. The receipt of material from impacted areas has been slowed or disrupted and DBMG's suppliers are expected to face similar challenges in fulfilling orders. In addition, reductions in the number of ocean carrier voyages, ocean freight capacity issues, congestion at major international gateways and other economic factors continue to persist worldwide due to COVID-19 and worldwide supply impacts as there is much greater demand for shipping and reduced capacity and equipment, which has resulted in recent price increases per shipping container. In addition, in the United States, trucking costs have risen dramatically due to driver shortages and increased labor costs, as well as new federal and state safety, environmental and labor regulations. These changes, as well as COVID-19 related state and local restrictions on domestic trucking and the operation of distribution centers, may disrupt DBMG's supply chain, which may result in a delay in the completion of DBMG's projects and cause it to incur significant additional costs. 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. These supply chain disruptions and transportation challenges could have a material adverse effect on DBMG's results of operations 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, and inability 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, 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. At December 31, 2021, DBMG's backlog was \$1,580.9 million, consisting of \$1,439.0 million under contracts or purchase orders and \$141.9 million under letters of intent or notices to proceed. Approximately \$868.6 million, representing 54.9% of DBMG's backlog at December 31, 2021, 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, and backlog could decrease substantially if one or more of these projects terminate or reduce their scope.

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.

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.

***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. For example, the recent armed conflict between Ukraine and Russia has resulted in significant uncertainty in the commodities markets. A prolonged conflict and any sanctions or import controls targeting the Russian oil and natural gas industries could lead to sustained increases in energy prices. 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 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.

***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 27% of DBMG's employees are covered under collective bargaining agreements that expire in less than one year, at which time they will be 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.

#### **Risks Related to the Life Sciences segment**

***Pansend's operating results may fluctuate significantly, which makes its future operating results difficult to predict and could cause its operating results to fall below expectations.***

Pansend's quarterly and annual operating results may fluctuate significantly, which makes it difficult for Pansend to predict its future operating results. These fluctuations may occur due to a variety of factors, many of which are outside of Pansend's control and may be difficult to predict, including:

- the timing and cost of, and level of investment in, research, development, and commercialization activities relating to Pansend's product and product candidates, which may change from time to time;
- the timing of receipt of approvals or clearances for Pansend's product candidates from regulatory authorities in the U.S. or internationally;
- the timing and status of enrollment for Pansend's clinical trials;
- coverage and reimbursement policies with respect to Pansend's product and product candidates, including the degree to which treatments using its products are covered and receive adequate reimbursement from third-party payors, and potential future drugs or devices that compete with its products;
- the cost of manufacturing Pansend's product, as well as building out its supply chain, which may vary depending on the quantity of production and the terms of Pansend's agreements with manufacturers;
- expenditures that Pansend may incur to acquire, develop or commercialize additional product candidates and technologies;
- the level of demand for Pansend's product and any product candidates, if approved or cleared, which may vary significantly over time;
- litigation, including patent, employment, securities class action, stockholder derivative, general commercial, and other lawsuits; and
- the timing and success or failure of nonclinical studies and clinical trials for Pansend's product candidates or competing product candidates, or any other change in the competitive landscape of the life sciences industry, including consolidation among Pansend's competitors or partners.

***Pansend operates in a highly competitive market, and may face competition from large, well-established medical technology, device and product manufacturers with significant resources, and may not be able to compete effectively.***

The medical technology, medical device, biotechnology, and pharmaceutical industries are characterized by intense and dynamic competition to develop new technologies and proprietary therapies. Pansend faces competition from a number of sources, such as pharmaceutical companies, medical device companies, generic drug companies, biotechnology companies, and academic and research institutions. Pansend may find itself in competition with companies that have competitive advantages over us, such as:

- significantly greater name recognition;
- established relations with healthcare professionals, customers, and third-party payers; greater efficacy or better safety profiles;
- established distribution networks;
- additional lines of products, and the ability to offer rebates, higher discounts, or incentives to gain a competitive advantage;
- greater experience in obtaining patents and regulatory approvals for product candidates and other resources;
- greater experience in conducting research and development, manufacturing, clinical trials, obtaining regulatory approval for products, and marketing approved products; and
- greater financial and human resources for product development, sales and marketing, and patent litigation.

Pansend may also face increased competition in the future as new companies enter Pansend's markets and as scientific developments surrounding electro-signaling therapeutics continue to accelerate. While Pansend will seek to expand its technological capabilities to remain competitive, research and development by others may render its technology or product candidates obsolete or noncompetitive or result in treatments or cures superior to any therapy developed by us. In addition, certain of Pansend's product candidates may compete with other dermatological products, including over the counter (OTC) treatments, for a share of some patients' discretionary budgets and for physicians' attention within their clinical practices. Even if a generic product or an OTC product is less effective than Pansend's product candidates, a less effective generic or OTC product may be more quickly adopted by physicians and patients than Pansend's competing product candidates based upon cost or convenience. As a result, Pansend may not be able to compete effectively against current and potential future competitors or their devices and products.

***Pansend may rely on third parties for its sales, marketing, manufacturing and/or distribution, and these third parties may not perform satisfactorily.***

To be able to commercialize Pansend's planned products, it may elect to internally develop aspects of sales, marketing, large-scale manufacturing, or distribution, or it may elect to utilize third parties with respect to one or more of these items. Pansend's reliance on these third parties may reduce its control over these activities however, reliance on third parties does not relieve Pansend of its responsibility to ensure compliance with all required legal, regulatory, and scientific standards. These third parties may be adversely impacted by COVID-19 which could affect their ability to perform satisfactorily. Any failure of these third parties to perform satisfactorily and in compliance with relevant laws and regulations could lead to delays in the development of Pansend's planned products, including delays in its clinical trials, or failure to obtain regulatory approval for its planned products, or failure to successfully commercialize its planned products or other future products. Some of these events could be the basis for FDA or other regulatory action, including injunction, recall, seizure, or total or partial suspension of production.

***Pansend currently has limited product revenue and may never become profitable.***

To date, Pansend has generated limited revenue and has historically relied on financing from the sale of equity securities to fund its operations. We expect that Pansend's future financial results will depend primarily on its success in launching, selling, and supporting its therapies and treatments, including R2's Glacial systems or other products based on Pansend's technology. Pansend expects to expend significant resources on hiring of personnel, continued scientific and product research and development, potential product testing and pre-clinical and clinical investigation, intellectual property development and prosecution, marketing and promotion, capital expenditures, working capital, general and administrative expenses, and fees and expenses associated with Pansend's capital raising efforts. Pansend is expected to incur costs and expenses related to consulting costs, laboratory development costs, hiring of scientists, engineers, sales representatives, and other operational personnel, and the continued development of relationships with potential partners. Pansend is incurring significant operating losses, it is expected to continue to incur additional losses for the foreseeable future, and we cannot assure you that it will generate revenue or be profitable in the future. There are no assurances that Pansend's future products will be cleared or approved or become commercially viable or accepted for use. Even with commercially viable applications of Pansend's technology, which may include licensing, Pansend may never recover its research and development expenses. Investment in medical technology is highly speculative because it entails substantial upfront capital expenditures and significant risk that any potential product will fail to demonstrate adequate efficacy or clinical utility. Investors should evaluate an investment in Pansend in light of the uncertainties encountered by developing medical technology companies in a competitive environment. There can be no assurance that Pansend's efforts will be successful or that it will ultimately be able to achieve profitability. Even if Pansend achieves profitability, it may not be able to sustain or increase profitability on a quarterly or annual basis.

***Pansend's failure to obtain or maintain necessary FDA clearances and approvals, or to maintain continued clearances, or equivalents thereof in the U.S. and relevant foreign markets, could hurt its ability to distribute and market its products.***

In both Pansend's U.S. and foreign markets, Pansend is affected by extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints. Such laws, regulations and other constraints may exist at the federal, state or local levels in the U.S. and at analogous levels of government in foreign jurisdictions. In addition, the formulation, manufacturing, packaging, labeling, distribution, importation, sale and storage of Pansend's products are subject to extensive regulation by various federal agencies, including, but not limited to, the FDA and the FTC, State Attorneys General in the U.S., as well as by various other federal, state, local and international regulatory authorities in the countries in which Pansend's products are manufactured, distributed or sold. If Pansend or its manufacturers fail to comply with those regulations, Pansend could become subject to significant penalties or claims, which could harm its results of operations or its ability to conduct its business. In addition, the adoption of new regulations or changes in the interpretations of existing regulations may result in significant compliance costs or discontinuation of product sales and may impair the marketing of its products, resulting in significant loss of net sales. Pansend's failure to comply with federal or state regulations, or with regulations in foreign markets that cover its product claims and advertising, including direct claims and advertising by us, may result in enforcement actions and imposition of penalties or otherwise harm the distribution and sale of its products. Each medical device that Pansend wishes to market in the U.S. must first receive either 510(k) clearance or PMA from the FDA unless an exemption applies. Either process can be lengthy and expensive. The FDA's 510(k) clearance process may take from three to twelve months, or longer, and may or may not require human clinical data. The PMA process is much more costly and lengthy. It may take from eleven months to three years, or even longer, and will likely require significant supporting human clinical data. Delays in obtaining regulatory clearance or approval could adversely affect Pansend's revenues and profitability. Although R2 has obtained 510(k) clearances for its GlacialRx system for use in the removal of benign lesions of the skin, such as those caused by aging, sun damage and/or genetics, these approvals and clearances may be subject to revocation if post-marketing data demonstrates safety issues or lack of effectiveness. Many medical devices, such as medical lasers, are also regulated by the FDA as "electronic products." In general, manufacturers and marketers of "electronic products" are subject to certain FDA regulatory requirements intended to ensure the radiological safety of the products. These requirements include, but are not limited to, filing certain reports with the FDA about the products and defects/safety issues related to the products as well as complying with radiological performance standards.



The medical device industry is now experiencing greater scrutiny and regulation by federal, state and foreign governmental authorities. Companies in the life sciences industry are subject to more frequent and more intensive reviews and investigations, often involving the marketing, business practices, and product quality management. Such reviews and investigations may result in civil and criminal proceedings; the imposition of substantial fines and penalties; the receipt of warning letters, untitled letters, demands for recalls or the seizure of Pansend's products; the requirement to enter into corporate integrity agreements, stipulated judgments or other administrative remedies, and result in Pansend's incurring substantial unanticipated costs and the diversion of key personnel and management's attention from their regular duties, any of which may have an adverse effect on Pansend's financial condition, results of operations and liquidity, and may result in greater and continuing governmental scrutiny of Pansend's business in the future. Additionally, federal, state and foreign governments and entities have enacted laws and issued regulations and other standards requiring increased visibility and transparency of Pansend's interactions with healthcare providers. For example, the U.S. Physician Payment Sunshine Act, now known as Open Payments, requires Pansend to report to the Centers for Medicare & Medicaid Services, or CMS, payments and other transfers of value to all U.S. physicians and U.S. teaching hospitals, with the reported information made publicly available on a searchable website. Failure to comply with these legal and regulatory requirements could impact Pansend's business, and it has had and will continue to spend substantial time and financial resources to develop and implement enhanced structures, policies, systems and processes to comply with these legal and regulatory requirements, which may also impact Pansend's business and which could have a material adverse effect on its business, financial condition, and results of operations.

International regulatory approval processes may take more or less time than the FDA clearance or approval process. If Pansend fails to comply with applicable FDA and comparable non-U.S. regulatory requirements, it may not receive regulatory clearances or approvals or may be subject to FDA or comparable non-U.S. enforcement actions. Pansend may be unable to obtain future regulatory clearance or approval in a timely manner, or at all, especially if existing regulations are changed or new regulations are adopted. For example, the FDA clearance or approval process can take longer than anticipated due to requests for additional clinical data and changes in regulatory requirements. A failure or delay in obtaining necessary regulatory clearances or approvals would materially adversely affect Pansend's business, financial condition, and results of operations. Further, more stringent regulatory requirements or safety and quality standards may be issued in the future with an adverse effect on Pansend's business.

***Pansend's customers, or physicians and technicians, as the case may be, may misuse certain of its products, and product liability lawsuits and other damages imposed on Pansend may have a material adverse impact on its business.***

Pansend faces an inherent risk of product liability as a result of the marketing and sale of its products. For example, Pansend may be sued if its products cause or are perceived to cause injury or are found to be otherwise unsuitable during manufacturing, marketing or sale. Any such product liability claim may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability or breach of warranty. Pansend's products are highly complex, and some are used to treat delicate skin conditions on and near a patient's face. In addition, the clinical testing, manufacturing, marketing and use of certain of Pansend's products and procedures may also expose Pansend to product liability, FDA regulatory and/or legal actions, or other claims. If a physician elects to apply an off-label use and the use leads to injury, Pansend may be involved in costly litigation. In addition, the fact that Pansend trains technicians whom it does not supervise in the use of the GlacialRx system during patient treatment may expose Pansend to third-party claims if it is accused of providing inadequate training. Pansend may also be subject to claims against it even if the apparent injury is due to the actions of others or the pre-existing health of the patient. For example, Pansend relies on physicians in connection with the use of its products on patients. If these physicians are not properly trained or are negligent, the capabilities and safety features of Pansend's products may be diminished or the patient may suffer critical injury. Pansend may also be subject to claims that are caused by the actions of Pansend's suppliers, such as those who provide it with components and sub-assemblies. A product liability claim or product recall may result in losses that could result in the FDA taking legal or regulatory enforcement action against Pansend and/or Pansend's products including recall, and could have a material adverse effect upon Pansend's business, financial condition and results of operations.

***Pansend has limited experience in manufacturing its products in large-scale commercial quantities and may face manufacturing risks that may adversely affect its ability to manufacture products and could reduce its gross margins and negatively affect its business and operating results.***

Pansend's success depends, in part, on its ability to manufacture its current and future products in sufficient quantities and on a timely basis to meet demand, while adhering to product quality standards, complying with regulatory quality system requirements and managing manufacturing costs. For example, R2's third-party contract manufacturer has a manufacturing facility located in Sunnyvale, California where they produce, package and warehouse the GlacialRx system. R2 also relies on a global third-party manufacturer for production of some of the components used in the GlacialRx System. If R2's facility, or the facilities of its third-party contract manufacturers, suffer damage, or a force majeure event, this could materially impact R2's ability to operate.

Pansend is also subject to other risks relating to its manufacturing capabilities, including:

- quality and reliability of components, sub-assemblies and materials that Pansend sources from third-party suppliers, who are required to meet Pansend's quality specifications, some of whom are Pansend's single-source suppliers for the products they supply;
- failure to secure raw materials, components and materials in a timely manner, in sufficient quantities or on commercially reasonable terms;
- inability to secure raw materials, components and materials of sufficient quality to meet the exacting needs of medical device manufacturing;
- failure to maintain compliance with quality system requirements or pass regulatory quality inspections;

- inability to increase production capacity or volumes to meet demand; and
- inability to design or modify production processes to enable Pansend to produce future products efficiently or implement changes in current products in response to design or regulatory requirements.

These risks could be exacerbated by Pansend's limited experience as an entity with large-scale commercial manufacturing. As demand for Pansend's products increases, Pansend will have to invest additional resources to purchase raw materials and components, sub-assemblies and materials, hire and train employees and enhance Pansend's manufacturing processes. If Pansend fails to increase Pansend's production capacity efficiently to meet demand for its products, it may not be able to fill customer orders on a timely basis, its sales may not increase in line with Pansend's expectations and Pansend's operating margins could fluctuate or decline. It may not be possible for Pansend to manufacture Pansend's products at a cost or in quantities sufficient to make these products commercially viable or to maintain current operating margins, all of which could have a material adverse effect on Pansend's business, financial condition and results of operations.

***There is a limited talent pool of experienced professionals in the life sciences industry. If Pansend is not able to retain and recruit personnel with the requisite technical skills, it may be unable to successfully execute Pansend's business strategy.***

The specialized nature of Pansend's industry results in an inherent scarcity of experienced personnel in the field. Pansend's future success depends upon Pansend's ability to attract and retain highly skilled personnel, including scientific, technical, commercial, business, regulatory and administrative personnel, necessary to support Pansend's anticipated growth, develop Pansend's business and perform certain contractual obligations. Given the scarcity of professionals with the scientific knowledge that Pansend requires and the competition for qualified personnel among life science businesses, Pansend may not succeed in attracting or retaining the personnel Pansend requires to continue and grow its operations.

***Rapidly changing technology in life sciences could make the products Pansend is developing obsolete.***

The life sciences industries are characterized by rapid and significant technological changes, frequent new product introductions and enhancements, and evolving industry standards. Pansend's future success will depend on Pansend's ability to continually develop and then improve the products that Pansend designs and to develop and introduce new products that address the evolving needs of Pansend's customers on a timely and cost-effective basis. Pansend also will need to pursue new market opportunities that develop as a result of technological and scientific advances. These new market opportunities may be outside the scope of Pansend's proven expertise or in areas which have unproven market demand. Any new products developed by Pansend may not be accepted in the intended markets. Pansend's inability to gain market acceptance of new products could harm Pansend's future operating results.

***If Pansend is unable to effectively protect its intellectual property, it may not be able to operate its business and third parties may be able to use and profit from its technology, both of which would impair Pansend's ability to be competitive.***

Pansend's success will be heavily dependent on its ability to obtain and maintain meaningful patent protection for Pansend's technologies and products throughout the world. Patent law relating to the scope of claims in the technology fields in which Pansend will operate is still evolving. The amount of ongoing protection for Pansend's proprietary rights therefore is uncertain. Pansend will rely on patents to protect a significant part of Pansend's intellectual property and to enhance Pansend's competitive position. However, Pansend's presently pending or future patent applications may be denied, and any patent previously issued to Pansend or Pansend's subsidiaries may be challenged, invalidated, held unenforceable or circumvented. In particular, R2 filed a patent application with the U.S. Patent and Trademark Office for a commercial patent that covers the GlacialRx System, U.S. Patent No. 9522031 through 2029, with additional issued patents or patent applications that, once allowed, will protect coverage through 2042. Furthermore, the patent protections Pansend has been granted may not be broad enough to prevent competitors from producing products similar to Pansend's. In addition, the laws of various foreign countries in which Pansend may compete, such as China, may not protect Pansend's intellectual property to the same extent as the laws of the United States. If Pansend fails to obtain adequate patent protection for Pansend's proprietary technology, Pansend's ability to be commercially competitive will be materially impaired. In the ordinary course of business and as appropriate, Pansend intends to apply for additional patents covering both Pansend's technologies and products, as it deems appropriate. Pansend's existing patents and any future patents it obtains may not be sufficiently broad to prevent others from making use of technologies or developing competing products and technologies. In addition, because patent law is evolving in the life science industry, the patent positions of companies like ours are uncertain. As a result, the validity and enforceability of Pansend's patents cannot be predicted with certainty.

***R2's success depends upon patient satisfaction with its procedures.***

R2's procedures are elective aesthetic procedures, the cost of which must be borne by the patient and is not covered by or reimbursable through government or private health insurance. In order to generate repeat and referral business, patients must be satisfied with the effectiveness of the procedures conducted using R2's systems. The decision to undergo one of R2's procedures is thus driven by patient demand, which may be influenced by a number of factors, such as:

- the success of R2's sales and marketing programs;
- the extent to which R2's physician customers recommend its procedures to their patients;
- the extent to which R2's procedures satisfy patient expectations;
- R2's ability to properly train its physician customers in the use of its systems so that their patients do not experience excessive discomfort during treatment or adverse side effects;
- the cost, safety, and effectiveness of R2's systems versus other aesthetic treatments;

- consumer sentiment about the benefits and risks of aesthetic procedures generally and R2's systems in particular;
- the success of any direct-to-consumer marketing efforts R2 may initiate; and
- general consumer confidence, which may be impacted by economic and political conditions outside of R2's control.

R2's financial performance will be negatively impacted in the event it cannot generate significant patient demand for procedures performed with its systems.

***If third parties make claims of intellectual property infringement against Pansend, or otherwise seek to establish their intellectual property rights equal or superior to Pansend's, it may have to spend time and money in response and potentially discontinue certain of Pansend's operations.***

While Pansend currently does not believe it to be the case, third parties may claim that Pansend is employing their proprietary technology without authorization or that Pansend is infringing on their patents. If such claims were made, Pansend could incur substantial costs coupled with diversion of Pansend's management and key technical personnel in defending against these claims. Furthermore, parties making claims against Pansend may be able to obtain injunctive or other equitable relief which could effectively halt Pansend's ability to further develop, commercialize and sell products. In the event of a successful claim of infringement, courts may order Pansend to pay damages and obtain one or more licenses from third parties. Pansend may not be able to obtain these licenses at a reasonable cost, if at all. Defense of any lawsuit or failure to obtain any of these licenses could prevent Pansend from commercializing available products and have a material negative effect on Pansend's business.

### **Risks related to the Spectrum segment**

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

Following the completion of Broadcasting's recent 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 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, Broadcasting's completed acquisitions and station builds expand Broadcasting's network to 238 operational stations and 8 silent stations. In addition, Spectrum owns approximately 19 additional construction permits, 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 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.***

Spectrum'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. 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 Broadcasting's current and potential competitors have greater financial and other resources than Broadcasting does and so may be better placed to extend audience reach and expand programming. Many of Broadcasting's competitors possess greater access to capital, and its financial resources may be relatively limited when contrasted with those of such competitors. If Broadcasting needs to obtain additional funding, Broadcasting may be unable to raise such capital or, if Broadcasting is able to obtain capital it may be on unfavorable terms. If 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 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 Spectrum'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 and our inability to successfully respond to new and growing sources of competition in the broadcasting industry could have an adverse effect on Broadcasting's business, financial condition and results of operations.

***The Federal Communications Commission ("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 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 Broadcasting's subsidiaries that hold a license. Broadcasting's FCC licenses are critical to 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 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 Broadcasting's broadcast properties.

***Broadcasting Licenses are issued by, and subject to the jurisdiction of the 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. Any of these actions imposed by the FCC could result in the loss of station licenses or assets.***

***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 have expirations between 2022 and 2023; 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 9 pending renewal applications at the end of 2021, and will have 97 applications due in 2022. Third parties may oppose license renewals. A station remains authorized to operate while its license renewal application is pending.

***License Assignments.*** The Communications Act requires prior FCC approval for the assignment or transfer of control of an FCC licensee. Third parties may oppose the Company's applications to assign, transfer or acquire broadcast licenses.

*Full Power and Class A Station Regulations.* The Communications Act and FCC rules and regulations limit the ability of individuals and entities to have certain official positions or ownership interests, known as "attributable" interests, above specific levels in full power broadcast stations as well as in other specified mass media entities. Many of these limits do not apply to Class A stations, television translators and LPTV authorizations. In seeking FCC approval for the acquisition of a broadcast television station license, the acquiring person or entity must demonstrate that the acquisition complies with applicable FCC ownership rules or that a waiver of the rules is in the public interest. Additionally, while the Communications Act and FCC regulations have been modified to no longer strictly prohibit ownership of a broadcast station license by any corporation with more than 25 percent of its stock owned or voted by non-U.S. persons, their representatives or any other corporation organized under the laws of a foreign country, foreign ownership above such threshold is determined by the FCC on a case-by-case basis, which analysis is subject to the specific circumstances of each such request. The FCC has also adopted regulations concerning children's television programming, commercial limits, local issues and programming, political files, sponsorship identification, equal employment opportunity requirements and other requirements for full power and Class A broadcast television stations. The FCC's rules require operational full-power and Class A stations to file quarterly reports demonstrating compliance with these regulations.

*Low Power Television and TV Translator Authorizations.* LPTV stations and TV Translators have "secondary spectrum priority" to full-service television stations. The secondary status of these authorizations prohibits LPTV and TV Translator stations from causing interference to the reception of existing or future full-service television stations and requires them to accept interference from existing or future full-service television stations and other primary licensees. LPTV and TV Translator licensees are subject to fewer regulatory obligations than full-power and Class A licensees, and there no limit on the number of LPTV stations that may be owned by any one entity.

*Obscenity and Indecency Regulations.* Federal law and FCC regulations prohibit the broadcast of obscene material on television at any time and the broadcast of indecent material between the hours of 6:00 a.m. and 10:00 p.m. local time. The FCC investigates complaints of broadcasts of prohibited obscene or indecent material and can assess fines of up to \$350,000 per incident for violation of the prohibition against obscene or indecent broadcasts and up to \$3,300,000 for any continuing violation based on any single act or failure to act. The FCC may also revoke or refuse to renew a broadcast station license based on a serious violation of the agency's obscenity and indecency rules.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

Our corporate headquarters is located in New York, New York. We lease administrative, technical and sales office space in various locations in the countries in which we operate. DBMG is headquartered in Phoenix, Arizona; Broadcasting is headquartered in New York, New York. As of December 31, 2021, total leased space approximates 275,885 square feet. See Note 11. Leases for annual lease costs. The Company has entered into operating and finance lease agreements primarily for land, office space, equipment and vehicles, expiring between 2022 and 2045. The operating leases expire at various times, with the longest commitment expiring in 2045. In addition, DBMG own operational facilities and sales offices throughout the United States totaling approximately 1,743,045 square feet. We believe that our present administrative, technical and sales office facilities are adequate for our anticipated operations and that similar space can be obtained readily as needed.

## **ITEM 3. LEGAL PROCEEDINGS**

### **Litigation**

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

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

### ***VAT assessment***

On February 20, 2017, and on August 15, 2017, the Company's subsidiary, PTGi International Carrier Services Ltd. ("PTGi-ICS Ltd"), received notices from Her Majesty's Revenue and Customs office in the U.K. (the "HMRC") indicating that it was required to pay certain Value-Added Taxes ("VAT") for the 2015 and 2016 tax years. On February 15, 2022, the Upper Tribunal (Tax and Chancery) Chamber (the "Tax Tribunal") found in favor of PTGi-ICS Ltd. HMRC has acknowledged that it will not appeal the Tax Tribunal's decision and it must pay reasonable legal fees incurred by PTGi-ICS Ltd. While repayment of the outstanding VAT payment is expected to be made soon, the Company shall separately pursue reimbursement of legal fees.

### ***Fair Value Investments Litigation***

On October 1, 2020, Fair Value Investments Incorporated ("FVI") filed a putative stockholder class action and derivative complaint in the Delaware Court of Chancery (the "Court") against INNOVATE Corp. (f/k/a HC2 Holdings, Inc.) and certain of DBMG's current and former officers and directors, including current and former INNOVATE officers and directors AJ Stahl, Kenneth S. Courtis, Robert V. Leffler, Jr., Philip A. Falcone, Michael J. Sena, and Paul Voigt (together with INNOVATE, the "INNOVATE Defendants") styled Fair Value Investments Incorporated v. Roach, et al., C.A. No. 2020-0847-JTL (Del. Ch.) (the "FVI Action"). In the FVI Action, FVI alleges that the Company, in its capacity as DBMG's controlling stockholder, and DBMG's current and former officers and directors breached their fiduciary duties to DBMG and DBMG's minority stockholders by approving certain transactions that allegedly provide disproportionate benefits to the Company. FVI challenges the following transactions: (i) DBMG's payments to the Company from 2016–present pursuant to a Tax Sharing Agreement between DBMG and the Company; (ii) DBMG acting as a guarantor or providing collateral for loans taken on by the Company; (iii) DBMG's issuance of dividends to its common and preferred stockholders in 2017–2020; (iv) DBMG's issuance of preferred stock to the Company to finance DBMG's 2018 acquisition of GrayWolf Industrial; and (v) the Company's appointment of directors to DBMG's board of directors by written consent in lieu of holding an annual stockholder meeting. On February 23, 2021, FVI filed an Amended Verified Stockholder Class Action Complaint (the "Amended Complaint"). In the Amended Complaint, FVI named two additional defendants: the Company's Chief Executive Officer, Wayne Barr, and DBMG's General Counsel, Scott D. Sherman. The Amended Complaint includes additional fact allegations in support of the largely similar claims raised in the original complaint. Defendants moved to dismiss the Amended Complaint on April 23, 2021. The Court heard argument on the motions to dismiss on January 21, 2022. Ruling from the bench, the Court granted Defendants' motions to dismiss, in part. The Court dismissed all claims against all individual defendants other than Ronald Yagoda, including all claims against AJ Stahl, Kenneth S. Courtis, Robert V. Leffler, Jr., Philip A. Falcone, Michael J. Sena, and Paul Voigt. As to the two remaining defendants—INNOVATE Corp. and Ronald Yagoda—the Court dismissed all claims regarding (i) DBMG acting as a guarantor or providing collateral for loans taken on by the Company; (ii) DBMG's issuance of dividends to its common and preferred stockholders in 2017–2020; (iii) the Company's appointment of directors to DBMG's board of directors by written consent in lieu of holding an annual stockholder meeting; and (iv) DBMG's payments to the Company in 2016 and May 2017 pursuant to a Tax Sharing Agreement between DBMG and the Company. The Company believes the surviving claims in the FVI Amended Complaint relating to (i) DBMG's payments to the Company after May 2017 pursuant to a Tax Sharing Agreement between DBMG and the Company and (ii) DBMG's issuance of preferred stock to the Company to finance DBMG's 2018 acquisition of GrayWolf Industrial are without merit, and the Company intends to vigorously defend this litigation.

### ***DTV Derivative Litigation***

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

### ***Separation from Philip A. Falcone***

The Company has engaged in ongoing negotiations with Philip A. Falcone, the former Chairman, President and Chief Executive Officer of the Company, regarding his separation. On December 18, 2020, Mr. Falcone filed a demand for arbitration against the Company with the American Arbitration Association ("AAA"). The Company filed its Answering Statement and Counterclaims with the AAA on March 5, 2021. The Company contends that the claims in Mr. Falcone's demand are without merit and that the Company has both factual and legal defenses. Mr. Falcone filed his Answer to the Company's Counterclaims on March 19, 2021. The Company and Mr. Falcone mediated on July 14, 2021, and on July 19, 2021, both the Company and Mr. Falcone accepted the mediator's proposal, and the Company has reserved for an amount consistent with the mediator's proposal. The parties executed an agreement on January 31, 2022 memorializing the terms of their settlement. The Company paid the settlement amount in February 2022 in accordance with the agreement except for a portion of the amount that will be paid following court approval. The settlement reached was consistent with the amount accrued for.

### ***Books and Records Demand***

On July 28, 2021, the Company received a demand from a company stockholder pursuant to 8 Del. C. § 220 to inspect books and records of the Company relating to, among other things, the Company's sale of its Insurance segment. The Company has responded to the demand and cannot determine at this time if the books and records demand will lead to litigation.

## **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

## **PART II**

## **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

### **Common Stock**

INNOVATE common stock trades on the NYSE under the ticker symbol "VATE".

### **Holders of Common Stock**

As of December 31, 2021, INNOVATE had approximately 49 holders of record of its common stock. This number does not include stockholders for whom shares were held in "nominee" or "street" name.

### **Dividends**

INNOVATE paid no dividends on its common stock in 2021 or 2020, and the INNOVATE Board of Directors has no current intention of paying any dividends on INNOVATE common stock in the near future. The payment of dividends, if any, in the future is within the discretion of the INNOVATE Board of Directors and will depend on our earnings, our capital requirements, financial condition, the ability to comply with the requirements of the law and agreements governing our and our subsidiaries indebtedness. The Secured Indenture contains covenants that, among other things, limit or restrict our ability to make certain restricted payments, including the payment of cash dividends with respect to INNOVATE's common stock. The DBMG Facility contains similar covenants applicable to DBMG. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources and Note 9. Debt Obligations to our consolidated financial statements for more detail concerning our Secured Notes and other financing arrangements. Moreover, dividends may be restricted by other arrangements entered into in the future by us.

### **Issuer Purchases of Equity Securities**

On May 29, 2021, pursuant to the Certificate of Designation, certain holders of the Series A and A-2 Preferred Stock caused the Company to redeem the Series A and A-2 Preferred Stock at the accrued value per share plus accrued but unpaid dividends (to the extent not included in the accrued value of Series A and A-2 Preferred Stock), of which \$10.4 million was paid in cash to holders of the Series A and A-2 Preferred Stock. Each share of Series A and A-2 Preferred Stock that was not so redeemed was automatically converted into shares of common stock at the conversion price then in effect, of which 50,410 shares of the Company's common stock were issued in lieu of cash to holders of the Series A Preferred Stock.

In connection with the Stock Purchase Agreement, CGI, formerly a wholly owned subsidiary of the Company, entered into a letter agreement with Continental General Holdings, LLC to not redeem at maturity or seek redemption of the \$16.1 million Preferred Stock. On July 1, 2021, CGI exchanged their Series A and Series A-2 Preferred Stock for new classes of Series A-3 and Series A-4 Preferred Stock with an extended maturity of July 1, 2026, with other terms substantially unchanged from the terms of the Series A and Series A-2 Preferred Stock.

## **ITEM 6. [RESERVED]**

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the information in our consolidated annual audited financial statements and the notes thereto, each of which are contained in Item 8, entitled "Financial Statements and Supplementary Data," and other financial information included herein. Some of the information contained in this discussion and analysis includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section as well as the section below entitled "Special Note Regarding Forward-Looking Statements" for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Unless the context otherwise requires, in this Annual Report on Form 10-K, "INNOVATE" means INNOVATE Corp. (formerly known as HC2 Holdings, Inc.) and the "Company," "we" and "our" mean INNOVATE together with its consolidated subsidiaries. "U.S. GAAP" means accounting principles accepted in the United States of America.

### Our Business

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

Certain previous year amounts have been reclassified to conform with current year presentations, including:

- The recast of Beyond6, ICS, and CIG's results to discontinued operations. Further, the reclassification of prior period assets and liabilities have been classified as held for sale. See Note 3. Discontinued Operations for further information;
- As a result of the sale of ICS, and in accordance with ASC 280, the Company no longer considers the results of operations and Balance Sheets of ICS as a separate segment. Formerly the Telecommunications segment, this entity has been reclassified to the Other segment. See Note 17. Operating Segment and Related Information for further information;
- As a result of the sale of Beyond6, and in accordance with ASC 280, the Company no longer considers the results of operations and Balance Sheets of Beyond6 as a separate segment. Formerly the Clean Energy segment, this entity has been reclassified to the Other segment. See Note 17. Operating Segment and Related Information for further information;
- As a result of the sale of CIG, and in accordance with ASC 280, the Company no longer considers the results of operations and Balance Sheets of CIG as a separate segment. Formerly the Insurance segment, this entity has been reclassified to the Other segment. See Note 17. Operating Segment and Related Information for further information; and
- The recast of prior year earnings per share as a result of the discontinued operations noted above. This includes presenting EPS for Net (loss) income from continuing operations, Net (loss) income from discontinuing operations, and Net (loss) income. See Note 18. Basic and Diluted Income (Loss) Per Common Share for further details.

### Our Operations

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

### Cyclical Patterns

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

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

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

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



## Recent Developments

### *COVID-19 Impact on our Business*

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a pandemic, and on March 13, 2020, the United States declared the pandemic to be a national emergency. As COVID-19 spread throughout the country, the situation has continued to evolve, including, more recently, the increasing adoption of the COVID-19 vaccine and the reopening of state economies, although increasing rates of infection with recently identified variants of COVID-19, including the "Delta" and "Omicron" variants, have prompted some authorities to reintroduce mask mandates and other restrictions.

The Company's top priority has been to protect its employees and their families, and those of the Company's customers. The Company continues to take precautionary measures as directed by health authorities and local governments, including changing operational procedures as necessary, providing additional protective gear and cleaning to protect personnel and customers, which has resulted and may continue to result in disruptions to and increased costs of the Company's operations. We may take further action as may be required by government authorities or that we determine are in the best interests of our employees, customers, partners, vendors, and suppliers. Work-from-home and other measures introduce additional operational risks, including cybersecurity risks, and have affected the way we conduct our operations. As the vaccine rollout has commenced, certain employees have begun to return to the office, either full-time or part-time. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, including any new strains of the virus, and illness and workforce disruptions could lead to unavailability of key personnel and harm our ability to perform critical functions.

The extent of the impact of COVID-19 on our operational and financial performance will depend on future developments, including, but not limited to, the duration and spread of the outbreak, the effectiveness of the vaccine program, the outbreak of any new strains of the coronavirus, and related travel advisories and restrictions, and its impact to the U.S. and global financial markets, all of which are highly uncertain and cannot be predicted. Preventing the effects from and responding to this market disruption if any other public health threat, related or otherwise, may further increase costs of our business and may have a material adverse effect on our business, financial condition, and results of operations.

COVID-19 has caused supply chain challenges related to labor shortages and supply chain disruptions, which may create significant delays in our ability to complete projects or deliver products. The receipt of material from impacted areas has been slowed or disrupted and our suppliers are expected to face similar challenges in fulfilling orders. In addition, reductions in the number of ocean carrier voyages, ocean freight capacity issues, congestion at major international gateways and other economic factors continue to persist worldwide due to COVID-19 and worldwide supply impacts as there is much greater demand for shipping and reduced capacity and equipment, which has resulted in recent price increases per shipping container. In addition, in the United States, trucking costs have risen dramatically due to driver shortages and increased labor costs, as well as new federal and state safety, environmental and labor regulations. These changes, as well as COVID-19 related state and local restrictions on domestic trucking and the operation of distribution centers, may disrupt our supply chain, which may result in a delay in the completion of our projects and cause us to incur significant additional costs. Although we may attempt to pass on certain of these increased costs to our customers, we may not be able to pass all of these cost increases on to our customers. As a result, our margins may be adversely impacted by such cost increases. These supply chain disruptions and transportation challenges could have a material adverse effect on our results of operations or financial condition.

We continue to monitor the evolving situation and guidance from authorities, including federal, state and local public health departments, and may take additional actions based on their recommendations. In these circumstances, there may be developments outside our control requiring us to adjust our plans. As such, given the dynamic nature of this situation, we cannot reasonably estimate the impact of COVID-19 on our results of operations, financial condition, or cash flows in the future, but it could have a material adverse impact on our future revenue growth as well as our overall profitability and may lead to revised payment terms with certain of our customers.

During the year ended December 31, 2021, the effects of COVID-19 and the related actions undertaken in the U.S. to attempt to control its spread, specifically impacted certain of our segments as follows:

#### Infrastructure

DBMG is dependent on its workforce to carry out its services. Developments resulting from governmental responses to COVID-19 such as social distancing and shelter-in-place directives have impacted, and could continue to impact, DBMG's ability to deploy its workforce in its facilities and project sites efficiently. The nature of DBMG's business does not permit alternative workforce arrangements in its facilities and project sites such as remote work schemes to be implemented effectively, and as a result of potential workforce disruptions, DBMG may continue to experience delays or suspensions of projects. DBMG has incurred significant costs related to additional procedures to maintain COVID-19 related safety measures. During the year ended December 31, 2021 and 2020, \$8.6 million and \$19.4 million of COVID-19 related expenses were incurred, respectively. The majority of these expenses related to payroll costs for safety and cleaning procedures in DBMG's shops and in the field, and personal protective equipment for employees. DBMG may also experience disruptions in the supply chain depending on the spread of COVID-19 and related governmental orders. These delays, suspensions, and impacts to supply chain, may negatively impact DBMG's results of operations, cash flows or financial condition. This could cause the timing of revenue to be delayed and possibly impact earnings and backlog. Persistent delays, suspensions or cancellations of projects under contract may occur while governments implement policies designed to respond to the COVID-19 pandemic. Any such continued loss or suspension of projects under contract may negatively impact DBMG's results of operations, cash flows or financial condition.

## Spectrum

As a result of COVID-19, our Spectrum segment previously experienced adverse effects on its advertising business because of weakness in the advertising market as advertisers sought to reduce their own costs in response to the pandemic's impact on their businesses. While we are not able to predict when or whether advertising budgets and the advertising market generally will return or be comparable to historical levels, our Spectrum segment's advertising business appears to have begun to stabilize as the vaccination program within the U.S. progresses and additional businesses begin to reopen.

In addition, COVID-19 could impact our Spectrum segment's business, financial condition and results of operations in a number of other ways, including, but not limited to:

- negative impact on our broadcast station revenue, as many of our customers also rely on advertising revenues and might be negatively affected by COVID-19;
- negative impact on our network distribution revenues, as consumers may seek to reduce discretionary spending by cutting back or foregoing subscriptions to cable television or other multichannel video programming distributors;
- negative impact on our financial condition or our ability to fund operations or future investment opportunities due to an increase in the cost or difficulty in obtaining debt or equity financing, or refinancing our debt in the future, or our ability to comply with our covenants;
- impairments of our programming inventory, goodwill and other indefinite-lived intangible assets, and other long-lived assets; and
- increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online activity.

The magnitude of the impact on our Spectrum segment will depend on numerous evolving factors that we may not be able to accurately predict, including the duration and extent of the pandemic, the impact of federal, state, local and foreign governmental actions, consumer behavior in response to the pandemic and such governmental actions, and the economic and operating conditions that we may face in the aftermath of COVID-19. Even after COVID-19 has subsided, we may experience materially adverse impacts to our business as a result of its global economic impact, including any recession that has occurred or may occur in the future.

For further discussion regarding the potential future impacts of COVID-19 and related economic conditions on the Company's liquidity and capital resources, see "Part I-Item 1A-Risk Factors."

## *Acquisitions and Dispositions*

### Infrastructure

#### *Banker Steel Acquisition*

On March 15, 2021, the Company announced that DBMG entered into an agreement to acquire 100% of Banker Steel Holdco LLC ("Banker Steel") for \$145.0 million, which closed on May 27, 2021. The acquisition was financed with \$64.1 million from a partial draw on the new \$110.0 million revolving credit facility, \$49.6 million of sellers' notes, \$6.3 million of assumed debt of Banker Steel, and \$25.0 million in cash received from INNOVATE in the settlement of certain intercompany balances.

Banker Steel provides full-service fabricated structural steel and erection services primarily for the East Coast and Southeast commercial and industrial construction market, in addition to full design-assist services. Banker Steel consists of six operating companies: Banker Steel Co., LLC; NYC Constructors, LLC; Memco LLC; Derr & Isbell Construction LLC; Innovative detailing and Engineering Solutions; and Lynchburg Freight and Specialty LLC.

### Insurance

#### *Sale of CIG*

The sale of CIG closed on July 1, 2021 to Continental General Holdings LLC, an entity controlled by Michael Gorzynski, a director of the Company and, as of December 31, 2021, a beneficial owner of approximately 6.6% of the Company's outstanding common stock who has also served as executive chairman of Continental since October 2020. The Insurance segment, which primarily consisted of a closed block of long-term care insurance, had a book value, inclusive of intercompany eliminations, at the time of the sale of \$544.0 million, inclusive of \$344.0 million of Accumulated other comprehensive income ("AOCI"). The carrying value of the Insurance segment at the time of sale excluded cash of \$62.5 million and investments of \$26.7 million which were distributed to the Company through an extraordinary dividend immediately prior to the sale. The extraordinary dividend was approved by our domestic regulator in connection with the approval of the sale. The amount included in AOCI was reversed from equity at the time of the sale and offset the loss recognized.

While several factors impacted the fair value of the Insurance segment at the end of 2019, following discussions with our domestic regulator, changes in the asset management fee arrangement and expectations of future dividends primarily and ultimately resulted in the full impairment of the goodwill associated with the Insurance segment during the year ended December 31, 2019. While these factors did not have a major impact on the operations of the stand-alone business, they did have a significant impact on the economic benefit that could be realized by the Company.

As a result of the factors described above, combined with the risks associated with the long-term care insurance industry, the Company exited the segment and sold the business resulting in a \$200.8 million loss on the sale of CIG.

#### Other

##### *Sale of Beyond6*

On December 31, 2020, the Company announced a plan to sell Beyond6 to an affiliate of Mercuria Investments US, Inc., pursuant to an Agreement and Plan of Merger (the "Merger Agreement") among Beyond6, Greenfill, Inc., a Delaware Corporation ("Parent"), Greenfill Merger Inc., a newly-formed Delaware corporation and wholly-owned subsidiary of Parent, and an affiliate of INNOVATE as the Stockholder Representative for the Beyond6 stockholders. The sale closed on January 15, 2021. During the first quarter of 2021, the Company recognized a \$39.2 million gain on the sale. During the third quarter of 2021, as a result of releases of related escrows and hold backs, the Company recognized an additional \$0.5 million gain on the sale.

##### *Debt Obligations*

#### Non-Operating Corporate

On February 1, 2021, the Company repaid its 11.50% senior secured notes due 2021 (the "2021 Senior Secured Notes"), and issued \$330.0 million aggregate principal amount of 8.50% senior secured notes due 2026 (the "2026 Senior Secured Notes"). In addition, the Company entered into exchange agreements with certain holders of approximately \$51.8 million aggregate principal amount of its existing \$55.0 million 7.50% convertible senior notes due 2022 (the "2022 Convertible Notes"), pursuant to which the Company exchanged such holders' 2022 Convertible Notes for newly issued convertible notes due 2026 (the "2026 Convertible Notes"). The 2026 Senior Secured Notes were issued in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

On February 23, 2021, the Company entered into a third amendment for the line of credit with MSD PCOF Partners IX, LLC ("Revolving Credit Agreement"), increasing the aggregate principal amount to \$20.0 million and extending the maturity to February 23, 2024. In May 2021, the Company drew \$5.0 million under the Revolving Credit Agreement. The Company used the proceeds to fund the redemption of the Company's Series A and A-2 Preferred Stock.

On July 1, 2021, CGI exchanged their Series A and Series A-2 Preferred Stock for new classes of Series A-3 and A-4 Preferred Stock with an extended maturity of July 1, 2026, with other terms substantially unchanged.

#### Spectrum

On August 30, 2021, HC2 Broadcasting Holdings Inc. ("Broadcasting") repurchased \$1.0 million of DTV America Corporation's ("DTV") outstanding notes payable to certain institutional investors, of which the debt is now eliminated in consolidation. Also on August 30, 2021, DTV extended its remaining outstanding notes by 60 days.

On October 21, 2021, Broadcasting entered into the Fifth Omnibus Amendment to Secured Notes, Consent and Second Amendment to Asset Sale Under Secured Notes and Intercreditor Agreement (the "Amendment"), which, among other things, extended \$52.2 million of its Senior Secured Notes, due October 21, 2021, through November 30, 2022. In addition, Broadcasting completed the last of a series of repurchases of all the outstanding secured and convertible promissory notes, inclusive of accrued interest, of DTV using a combination of cash on hand and proceeds from the sales on non-core assets.

#### Other

On February 3, 2021, the Company announced that R2 received \$10.0 million in funding from Huadong Medicine Company Limited ("Huadong"), a leading publicly traded Chinese pharmaceutical company. Huadong's investment will be used to fund the launch of R2 Technologies' first-to-market innovations, Glacial Rx and Glacial Spa. As part of its equity investment in R2, Huadong receives exclusive distribution rights for R2's products in the China and selected Asia-Pacific markets.

On July 21, 2021, the Company provided an additional \$15.0 million in Series C funding to R2 at a post-money valuation of \$150.0 million. The investment was made through the Company's Life Sciences subsidiary, Pansend Life Sciences, LLC.

##### *Stockholders' Rights Agreement*

On August 30, 2021, the Company entered into a Tax Benefits Preservation Plan (the "Plan"). The Plan is intended to help protect the Company's ability to use its tax net operating losses and other certain tax assets ("Tax Benefits") by deterring an "ownership change," as defined under Section 382 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder (the "Code"), by a person or group of affiliated or associated persons from acquiring beneficial ownership of 4.9% or more of the outstanding common shares. See Note 15. Equity for further information.

## Financial Presentation Background

In the below section within this Management's Discussion and Analysis of Financial Condition and Results of Operations, we compare, pursuant to U.S. GAAP and SEC disclosure rules, the Company's results of operations for the year ended December 31, 2021 as compared to the year ended December 31, 2020.

## Results of Operations

The following table summarizes our results of operations and a comparison of the change between the periods (in millions):

	Years Ended December 31,		
	2021	2020	Increase / (Decrease)
Revenue			
Infrastructure	\$ 1,159.7	\$ 676.6	\$ 483.1
Life Sciences	3.5	—	3.5
Spectrum	42.0	40.3	1.7
Total revenue	1,205.2	716.9	488.3
Income (loss) from operations			
Infrastructure	\$ 35.2	\$ 20.5	\$ 14.7
Life Sciences	(19.9)	(16.9)	(3.0)
Spectrum	(0.8)	(2.2)	1.4
Other	(2.0)	(2.7)	0.7
Non-operating Corporate	(23.1)	(27.0)	3.9
Total loss from operations	(10.6)	(28.3)	17.7
Interest expense	(59.1)	(74.8)	15.7
Loss on early extinguishment or restructuring of debt	(12.5)	(9.4)	(3.1)
Loss from equity investees	(2.8)	(3.4)	0.6
Other income	4.3	69.2	(64.9)
Loss from continuing operations	(80.7)	(46.7)	(34.0)
Income tax expense	(5.6)	(7.0)	1.4
Loss from continuing operations	(86.3)	(53.7)	(32.6)
Loss from discontinued operations (including loss on sale of \$159.9 million and \$44.1 million for the years ended December 31, 2021 and 2020, respectively)	(149.9)	(48.4)	(101.5)
Net loss	(236.2)	(102.1)	(134.1)
Net loss attributable to noncontrolling interest and redeemable noncontrolling interest	8.7	10.1	(1.4)
Net loss attributable to INNOVATE Corp.	(227.5)	(92.0)	(135.5)
Less: Preferred dividends, deemed dividends, and repurchase gains	2.2	3.6	(1.4)
Net loss attributable to common stock and participating preferred stockholders	<u>\$ (229.7)</u>	<u>\$ (95.6)</u>	<u>\$ (134.1)</u>

*Revenue:* Revenue for the year ended December 31, 2021 increased \$488.3 million to \$1,205.2 million from \$716.9 million for the year ended December 31, 2020. The increase in revenue was primarily due to the Infrastructure segment, which acquired Banker Steel in the second quarter of 2021, and increases in Infrastructure market demand along with larger projects entering the market.

*Income (loss) from operations:* Loss from operations for the year ended December 31, 2021 decreased \$17.7 million to \$10.6 million from a loss of \$28.3 million for the year ended December 31, 2020. The decrease in loss from operations was attributable to the Infrastructure segment as a result of the contribution from Banker Steel, which was acquired in the second quarter of 2021 and Non-operating Corporate, driven by non-recurring costs related to the 2020 proxy contest along with additional cost saving measures, and from the Spectrum segment, driven by lower impairments, cost savings and revenue increases. The decrease was partially offset by our Life Sciences segment driven by R2, which increased spending during 2021 to support commercialization efforts, further develop its product platform and build out its sales team.

*Interest expense:* Interest expense for the year ended December 31, 2021 decreased \$15.7 million to \$59.1 million from \$74.8 million for the year ended December 31, 2020. The decrease was primarily attributable to Non-Corporate's refinancing of the 2021 Senior Secured Notes in the first quarter of 2021 and Spectrum's reduction in debt during the fourth quarter of 2020, which decreased interest expense in 2021.

*Loss on early extinguishment or restructuring of debt:* Loss on early extinguishment or restructuring of debt for the year ended December 31, 2021 increased \$3.1 million to \$12.5 million from \$9.4 million for the year ended December 31, 2020. This was driven by the write-off of deferred financing costs and original issuance discount related to the refinancing of the 2021 Senior Secured Notes and the 2022 Convertible Notes in the first quarter of 2021 along with the refinancing of Infrastructure debt in conjunction with the Banker Steel acquisition in the second quarter of 2021, and was partially offset by the partial pay down of the 2021 Senior Secured Notes in 2020.

*Loss from equity investees:* Loss from equity investees for the year ended December 31, 2021 decreased \$0.6 million to \$2.8 million from \$3.4 million for the year ended December 31, 2020. The decrease in loss was driven by increase in the equity income in HMN Technologies Co., Ltd. ("HMN"), which produced higher profits in 2021 as compared to 2020, which was generally attributable to the timing of turnkey project work. This was partially offset by increases in losses recorded from our investment in MediBeacon due to the timing of clinical trials and due to the reduction in ownership in the HMN investment from 49% to 19% in the second quarter of 2020.

*Other income:* Other income for the year ended December 31, 2021 decreased \$64.9 million to \$4.3 million from \$69.2 million for the year ended December 31, 2020. The decrease was predominantly driven by the gain on the sale of a portion of HMN in the comparable period, which closed during the second quarter of 2020.

*Income tax expense:* Income tax expense was an expense of \$5.6 million and \$7.0 million for the years ended December 31, 2021 and 2020, respectively. The income tax expense recorded for the year ended December 31, 2021 primarily relates to the tax expense as calculated under ASC 740 for taxpaying entities. The income tax expense for the year ended December 31, 2020 primarily relates to tax expense incurred in China from the partial sale of HMN and the tax expense as calculated under ASC 740 for taxpaying entities which was mostly offset by a tax benefit from the carryback of net operating losses at the Insurance segment as a result of the enactment of the Coronavirus Aid, Relief, and Economic Security Act.

### **Segment Results of Operations**

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

#### **Infrastructure Segment**

	Years Ended December 31,		
	2021	2020	Increase / (Decrease)
Revenue	\$ 1,159.7	\$ 676.6	\$ 483.1
Cost of revenue	1,001.6	566.2	435.4
Selling, general and administrative	103.5	79.1	24.4
Depreciation and amortization	19.1	10.7	8.4
Other operating expense	0.3	0.1	0.2
Income from operations	\$ 35.2	\$ 20.5	\$ 14.7

*Revenue:* Revenue from our Infrastructure segment for the year ended December 31, 2021 increased \$483.1 million to \$1,159.7 million from \$676.6 million for the year ended December 31, 2020. The increase was primarily driven by DBMG's acquisition of Banker Steel, which was acquired in the second quarter of 2021 and contributed an incremental \$265.9 million of revenue as well as an increase from all legacy businesses, in each case driven by timing of project work under execution and changes in backlog mix.

*Cost of revenue:* Cost of revenue from our Infrastructure segment for the year ended December 31, 2021 increased \$435.4 million to \$1,001.6 million from \$566.2 million for the year ended December 31, 2020. The increase was primarily driven by DBMG's acquisition of Banker Steel, which was acquired in the second quarter of 2021 and contributed an incremental cost of revenue of \$220.8 million for the year ended December 31, 2021, as well as increases in market demand, larger projects entering the market which was offset in part by market pressure on point-of-sale project margins across all business lines, and most significantly in our industrials business.

*Selling, general and administrative:* Selling, general and administrative expense from our Infrastructure segment for the year ended December 31, 2021 increased \$24.4 million to \$103.5 million from \$79.1 million for the year ended December 31, 2020. The increases were primarily driven by the acquisition of Banker Steel, which was acquired in the second quarter of 2021 and contributed an incremental \$20.2 million of selling, general and administrative expenses, as well as increases in professional fees, consulting fees, travel, and meals and entertainment.

*Depreciation and amortization:* Depreciation and amortization from our Infrastructure segment for the year ended December 31, 2021 increased \$8.4 million to \$19.1 million from \$10.7 million for the year ended December 31, 2020. The increase was largely due to the additional amortization and depreciation of assets obtained in the acquisition of Banker Steel in the second quarter of 2021, which contributed an additional \$9.1 million of depreciation and amortization expense in 2021. The increase was partially offset by reductions in depreciation and amortization as a result of fully depreciating certain assets in 2020.

### Life Sciences Segment

	Years Ended December 31,		
	2021	2020	Increase / (Decrease)
Revenue	\$ 3.5	\$ —	\$ 3.5
Cost of revenue	2.5	—	2.5
Selling, general and administrative	20.7	16.7	4.0
Depreciation and amortization	0.2	0.1	0.1
Other operating expense	—	0.1	(0.1)
Loss from operations	<u>\$ (19.9)</u>	<u>\$ (16.9)</u>	<u>\$ (3.0)</u>

*Revenue:* Revenue from our Life Sciences segment for the year ended December 31, 2021 increased \$3.5 million to \$3.5 million from zero for the year ended December 31, 2020. The increase in revenue was attributable to R2, which began the sale of its Glacial Rx products in 2021.

*Cost of revenue:* Cost of revenue from our Life Sciences segment for the year ended December 31, 2021 increased \$2.5 million to \$2.5 million from zero for the year ended December 31, 2020. The increase in cost of revenue was attributable to R2, which began the sale of its Glacial Rx products in 2021.

*Selling, general and administrative:* Selling, general and administrative expenses from our Life Sciences segment for the year ended December 31, 2021 increased \$4.0 million to \$20.7 million from \$16.7 million for the year ended December 31, 2020. The increase was driven by higher expenses at R2, which increased spending from the comparable period as a result of increased headcount across the organization, mainly to build out its sales team.

### Spectrum Segment

	Years Ended December 31,		
	2021	2020	Increase / (Decrease)
Revenue	\$ 42.0	\$ 40.3	\$ 1.7
Cost of revenue	17.4	22.3	(4.9)
Selling, general and administrative	19.1	20.1	(1.0)
Depreciation and amortization	6.0	6.8	(0.8)
Other operating expense (income)	0.3	(6.7)	7.0
Loss from operations	<u>\$ (0.8)</u>	<u>\$ (2.2)</u>	<u>\$ 1.4</u>

*Revenue:* Revenue from our Spectrum segment for the year ended December 31, 2021 increased \$1.7 million to \$42.0 million from \$40.3 million for the year ended December 31, 2020. The increase was primarily driven by higher station revenues, which can be attributed to the net expansion in our market coverage with new and existing customers and the greater number of OTA stations in operation. This was partially offset by a decrease in revenue from the sale of non-core stations and a decrease in retransmission revenues.

*Cost of revenue:* Cost of revenue from our Spectrum segment for the year ended December 31, 2021 decreased \$4.9 million to \$17.4 million from \$22.3 million for the year ended December 31, 2020. The overall decrease was primarily driven by targeted cost reductions at Network as a result of a decrease in audience measurement and programming costs as well as a reduction in operating expenses for certain non-core stations that were sold in the second half of 2020 and 2021.

*Selling, general and administrative:* Selling, general and administrative expense from our Spectrum segment for the year ended December 31, 2021 decreased \$1.0 million to \$19.1 million from \$20.1 million for the year ended December 31, 2020. The overall decrease was primarily driven by decreased salary and benefits, office expenses, consulting fees and no terminated deal costs in the current year. This was partially offset by severance expense incurred during the year and bonus expense in 2020 related to prior year.

*Depreciation and amortization:* Depreciation and amortization from our Spectrum segment for the year ended December 31, 2021 decreased \$0.8 million to \$6.0 million from \$6.8 million for the year ended December 31, 2020. The decrease in depreciation and amortization was primarily related to recent sales of non-core station assets.

*Other operating expense (income):* Other operating expense (income) from our Spectrum segment for the year ended December 31, 2021 decreased \$7.0 million to expense of \$0.3 million from income of \$6.7 million for the year ended December 31, 2020. The decrease in other operating expense (income) was primarily related to gains recognized on the sale of stations in 2020 and a reduction in FCC reimbursements during 2021. This was partially offset by fewer asset impairments during 2021.

## Non-operating Corporate

	Years Ended December 31,		
	2021	2020	Increase / (Decrease)
Selling, general and administrative	\$ 23.0	\$ 26.9	\$ (3.9)
Depreciation and amortization	0.1	0.1	—
Loss from operations	<u>\$ (23.1)</u>	<u>\$ (27.0)</u>	<u>\$ 3.9</u>

*Selling, general and administrative:* Selling, general and administrative expenses from our Non-operating Corporate segment for the year ended December 31, 2021 decreased \$3.9 million to \$23.0 million from \$26.9 million for the year ended December 31, 2020. The decrease was driven by non-recurring costs related to the proxy contest in 2020 as well as decreases in stock compensation expense, rent expense and various consulting expenses in 2021, partially offset by additional expenses incurred in relation to the settlement with the Company's former CEO, increased discretionary bonus, and legal expenses.

## (Loss) Income from Equity Investees

	Years Ended December 31,		
	2021	2020	Increase / (Decrease)
Life Sciences	\$ (8.1)	\$ (6.0)	\$ (2.1)
Other	5.3	2.6	2.7
Loss from equity investees	<u>\$ (2.8)</u>	<u>\$ (3.4)</u>	<u>\$ 0.6</u>

*Life Sciences:* Loss from equity investees within our Life Sciences segment for the year ended December 31, 2021 increased \$2.1 million to \$8.1 million from \$6.0 million for the year ended December 31, 2020. The increase in loss was largely due to higher equity method losses recorded from our investment in MediBeacon as they prepare for their pivotal study.

*Other:* Income from equity investees within our Other segment for the year ended December 31, 2021 increased \$2.7 million to \$5.3 million from \$2.6 million for the year ended December 31, 2020. The increase was driven by the equity investment in HMN, which produced higher income 2021 as compared to 2020, which is generally attributable to the timing of project work, partially offset by a reduction in ownership from 49% to 19% as a result of the partial sale of INNOVATE's investment in the second quarter of 2020.

## Non-GAAP Financial Measures and Other Information

### Adjusted EBITDA

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

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

The calculation of Adjusted EBITDA, as defined by us, consists of Net income (loss) as adjusted for discontinued operations; depreciation and amortization; Other operating (income) expense, which is inclusive of (gain) loss on sale or disposal of assets, lease termination costs, asset impairment expense and FCC reimbursements; interest expense; other (income) expense, net; loss on early extinguishment or restructuring of debt; income tax (benefit) expense; noncontrolling interest; bonus to be settled in equity; share-based compensation expense; non-recurring items; costs associated with the COVID-19 pandemic; and acquisition and disposition costs.

(in millions)

	Year ended December 31, 2021					
	Infrastructure	Life Sciences	Spectrum	Non-operating Corporate	Other and Eliminations	INNOVATE
Net (loss) attributable to INNOVATE Corp.						\$ (227.5)
Less: Discontinued operations						(149.9)
Net Income (loss) attributable to INNOVATE Corp., excluding discontinued operations	\$ 16.9	\$ (19.8)	\$ (12.9)	\$ (64.2)	\$ 2.4	\$ (77.6)
<u>Adjustments to reconcile net income (loss) to Adjusted EBITDA:</u>						
Depreciation and amortization	19.1	0.2	6.0	0.1	—	25.4
Depreciation and amortization (included in cost of revenue)	12.2	—	—	—	—	12.2
Other operating expenses	0.4	—	0.2	—	—	0.6
Interest expense	8.5	—	9.2	41.4	—	59.1
Other (income) expense, net	(4.0)	—	3.9	(4.2)	—	(4.3)
Loss on early extinguishment or restructuring of debt	1.5	—	1.0	10.0	—	12.5
Income tax expense (benefit)	10.5	—	0.3	(6.1)	0.9	5.6
Noncontrolling interest	1.8	(8.2)	(2.3)	—	—	(8.7)
Share-based compensation expense	—	0.2	0.6	1.6	—	2.4
Nonrecurring items	0.5	—	—	0.5	—	1.0
COVID-19 costs	8.6	—	—	—	—	8.6
Acquisition and disposition costs	2.4	—	0.9	2.9	0.9	7.1
Adjusted EBITDA	<u>\$ 78.4</u>	<u>\$ (27.6)</u>	<u>\$ 6.9</u>	<u>\$ (18.0)</u>	<u>\$ 4.2</u>	<u>\$ 43.9</u>

(in millions)

	Year ended December 31, 2020					
	Infrastructure	Life Sciences	Spectrum	Non-operating Corporate	Other and Eliminations	INNOVATE
Net (loss) attributable to INNOVATE Corp.						\$ (92.0)
Less: Discontinued operations						(48.4)
Net Income (loss) attributable to INNOVATE Corp., excluding discontinued operations	\$ 6.8	\$ (14.4)	\$ (13.8)	\$ (90.2)	\$ 68.0	\$ (43.6)
<u>Adjustments to reconcile net income (loss) to Adjusted EBITDA:</u>						
Depreciation and amortization	10.7	0.1	6.8	0.1	—	17.7
Depreciation and amortization (included in cost of revenue)	9.1	—	—	—	—	9.1
Other operating (income) expenses	0.1	0.1	(6.6)	—	—	(6.4)
Interest expense	8.5	—	14.7	51.6	—	74.8
Loss on early extinguishment or restructuring of debt	—	—	—	9.4	—	9.4
Other (income) expense, net	0.5	(2.3)	1.9	2.1	(71.3)	(69.1)
Income tax expense (benefit)	4.2	—	0.3	0.2	2.3	7.0
Noncontrolling interest	0.6	(6.2)	(5.3)	—	0.8	(10.1)
Bonus to be settled in equity	—	—	—	(0.5)	—	(0.5)
Share-based compensation expense	—	0.2	0.3	2.4	—	2.9
Nonrecurring items	2.7	—	—	5.4	—	8.1
COVID-19 costs	19.4	—	—	—	—	19.4
Acquisition and disposition costs	0.6	—	0.5	3.9	1.8	6.8
Adjusted EBITDA	<u>\$ 63.2</u>	<u>\$ (22.5)</u>	<u>\$ (1.2)</u>	<u>\$ (15.6)</u>	<u>\$ 1.6</u>	<u>\$ 25.5</u>

*Infrastructure:* Net income from our Infrastructure segment for the year ended December 31, 2021 increased \$10.1 million to \$16.9 million from \$6.8 million for the year ended December 31, 2020. Adjusted EBITDA from our Infrastructure segment for the year ended December 31, 2021 increased \$15.2 million to \$78.4 million from \$63.2 million for the year ended December 31, 2020. The increase in Adjusted EBITDA can be attributed to the contribution from Banker Steel, which was acquired in the second quarter of 2021. The increase was partially offset by market pressure on point-of-sale project margins, primarily in the industrials business.

*Life Sciences:* Net loss from our Life Sciences segment for the year ended December 31, 2021 increased \$5.4 million to \$19.8 million from \$14.4 million for the year ended December 31, 2020. Adjusted EBITDA loss from our Life Sciences segment for the year ended December 31, 2021 increased \$5.1 million to \$27.6 million from \$22.5 million for the year ended December 31, 2020. The increase in Adjusted EBITDA loss was primarily driven by higher expenses at R2, which ramped-up operations to support the commercial launch of its Glacial Rx products, including notable increases in salaries and benefits from headcount additions, including increased commissions for product sales, as well as higher equity method losses recorded from our investment in MediBeacon as they prepare for their pivotal study.



*Spectrum:* Net loss from our Spectrum segment for the year ended December 31, 2021 decreased \$0.9 million to \$12.9 million from \$13.8 million for the year ended December 31, 2020. Adjusted EBITDA from our Spectrum segment for the year ended December 31, 2021 increased \$8.1 million to income of \$6.9 million from an Adjusted EBITDA loss of \$1.2 million for the year ended December 31, 2020. The overall increase in Adjusted EBITDA to income was primarily driven by higher station revenues as Station Group grew the number of operating stations and launched new customers across its broadcast platform, Network cost reductions, a decrease in compensation, rent, consulting and overhead expenses. This was partially offset by severance expense incurred during the year and bonus expense in 2020 related to prior year.

*Non-operating Corporate:* Net loss from our Non-operating Corporate segment for the year ended December 31, 2021 decreased \$26.0 million to \$64.2 million for the year ended December 31, 2020. Adjusted EBITDA loss from our Non-operating Corporate segment for the year ended December 31, 2021 increased \$2.4 million to \$18.0 million from \$15.6 million for the year ended December 31, 2020. The increase in Adjusted EBITDA loss was driven by the settlement with the Company's former CEO, discretionary bonus, increases in severance, and legal fees resulting from an increase in activity in 2021. The Company's remaining selling, general and administrative costs decreased due to lower salary and benefits, professional fees, travel and entertainment expenses, and rent expense.

*Other and Eliminations:* Net income from our Other and Eliminations segment for the year ended December 31, 2021 decreased \$65.6 million to \$2.4 million from \$68.0 million for the year ended December 31, 2020. Adjusted EBITDA from our Other segment for the year ended December 31, 2021 increased \$2.6 million to \$4.2 million from \$1.6 million for the year ended December 31, 2020. The increase in Adjusted EBITDA for our Other and Eliminations segment was driven by the equity investment in HMN, as it produced higher income than in the comparable period, which is generally attributable to the timing of project work, partially offset by a reduction in ownership from 49% to 19% as a result of the partial sale of INNOVATE's investment in the second quarter of 2020.

(in millions):

	Year ended December 31,		
	2021	2020	Increase / (Decrease)
Infrastructure	\$ 78.4	\$ 63.2	\$ 15.2
Life Sciences	(27.6)	(22.5)	(5.1)
Spectrum	6.9	(1.2)	8.1
Non-Operating Corporate	(18.0)	(15.6)	(2.4)
Other and Eliminations	4.2	1.6	2.6
Adjusted EBITDA	<u>\$ 43.9</u>	<u>\$ 25.5</u>	<u>\$ 18.4</u>

### **Backlog**

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

#### *Infrastructure Segment*

At December 31, 2021, DBMG's backlog was \$1,580.9 million, consisting of \$1,439.0 million under contracts or purchase orders and \$141.9 million under letters of intent or notices to proceed. Approximately \$868.6 million, representing 54.9% of DBMG's backlog at December 31, 2021, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these projects terminate or reduce their scope, DBMG's backlog could decrease substantially.

DBMG's backlog at December 31, 2020 was \$394.5 million, consisting of \$334.9 million under contracts or purchase orders and \$59.6 million under letters of intent or notices to proceeds.

## Liquidity and Capital Resources

### *Short- and Long-Term Liquidity Considerations and Risks*

Our Non-Operating Corporate segment consists of holding companies, and its liquidity needs are primarily for interest payments on its 2026 Senior Secured Notes, 2022 Convertible Notes and 2026 Convertible Notes, Revolving Credit Agreement, dividend payments on its Preferred Stock and recurring operational expenses.

As of December 31, 2021, the Company had \$45.5 million of cash and cash equivalents compared to \$43.8 million as of December 31, 2020. On a stand-alone basis, as of December 31, 2021, the Non-Operating Corporate segment had cash and cash equivalents of \$22.0 million compared to \$27.5 million at December 31, 2020.

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

As of December 31, 2021, the Company had \$630.8 million of indebtedness on a consolidated basis compared to \$576.6 million as of December 31, 2020. On a stand-alone basis, as of December 31, 2021 and December 31, 2020, INNOVATE had indebtedness of \$390.0 million and \$410.4 million, respectively.

INNOVATE's stand-alone debt consists of the \$330.0 million aggregate principal amount of 2026 Senior Secured Notes, \$3.2 million aggregate principal amount of 2022 Convertible Notes, and \$51.8 million aggregate principal amount of 2026 Convertible Notes. INNOVATE is required to make semi-annual interest payments on its 2026 Senior Secured Notes, 2022 Convertible Notes and 2026 Convertible Notes, and quarterly interest payments on its 2024 Revolving Credit Agreement.

INNOVATE received \$4.5 million in dividends from its Infrastructure segment during the year ended December 31, 2021. Under a tax sharing agreement, the Infrastructure segment reimburses INNOVATE for use of its net operating losses. During the year ended December 31, 2021, INNOVATE received \$5.8 million from its Infrastructure segment under this tax sharing agreement.

INNOVATE received \$2.1 million in net management fees from Continental Insurance Group prior to its sale during the year ended December 31, 2021.

On May 29, 2021, pursuant to the Certificate of Designation, certain holders of the Series A and A-2 Preferred Stock caused the Company to redeem the Series A and A-2 Preferred Stock at the accrued value per share plus accrued but unpaid dividends (to the extent not included in the accrued value of Series A and A-2 Preferred Stock), of which \$10.4 million was paid in cash to holders of the Series A and A-2 Preferred Stock. Each share of Series A and A-2 Preferred Stock that was not so redeemed was automatically converted into shares of common stock at the conversion price then in effect, of which 50,410 shares of the Company's common stock were issued in lieu of cash to holders of the Series A Preferred Stock.

In connection with the Stock Purchase Agreement, CGI, formerly a wholly owned subsidiary of the Company, entered into a letter agreement with Continental General Holdings, LLC to not redeem at maturity or seek redemption of the \$16.1 million Preferred Stock. On July 1, 2021, CGI exchanged their Series A and Series A-2 Preferred Stock for new classes of Series A-3 and Series A-4 Preferred Stock with an extended maturity of July 1, 2026, with other terms substantially unchanged from the terms of the Series A and Series A-2 Preferred Stock.

INNOVATE is required to make dividend payments on its outstanding Preferred Stock on January 15<sup>th</sup>, April 15<sup>th</sup>, July 15<sup>th</sup>, and October 15<sup>th</sup> of each year.

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

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

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

In November 2021, the Company entered into a ten-year lease agreement for a special purpose space in West Palm Beach, Florida. The new lease has not yet commenced, but will require future monthly lease payments of approximately \$0.2 million over the entire lease term and yearly common area maintenance charges of \$0.6 million, both of which are subject to a 3% annual upward adjustments, with total square footage of 20,950. The new lease also provides for the Company to receive an allowance, from the Landlord, of \$2.1 million to be used toward costs to design, engineer, install, supply and to construct improvements which is payable at the end of the lease. The future lease payments and the allowance are not yet recorded on our consolidated balance sheet. We expect the accounting lease commencement date for this initial portion of the lease for financial reporting purposes to begin no later than November 2023.

Also in November 2021, the Company entered into a three-year lease agreement for office space in West Palm Beach, Florida. The lease commencement date was November 15, 2021, and requires monthly lease payments of approximately \$12.5 thousand over the entire lease term, subject to a 3% annual upward adjustment, with total square footage of 2,723. The future lease payments and corresponding right of use asset of \$0.4 million were recorded on our consolidated balance sheet as a lease liability.

In December 2021, the Company entered into a five-year lease agreement with an option to extend the lease for another five years for office space in West Palm Beach, Florida. The new lease has not commenced yet, but will require future monthly lease payments of approximately \$0.14 million over the entire lease term, subject to a 3% annual upward adjustment, with total square footage of 15,786. The future lease payments are not yet recorded on our consolidated balance sheet, as the building is still under construction. We expect the accounting lease commencement date for this initial portion of the lease for financial reporting purposes to begin in the fourth quarter of 2023.

DBMG's off-balance sheet arrangements at December 31, 2021 included letters of credit of \$13.5 million under Credit and Security Agreements and performance bonds of \$900.8 million. DBMG's contract arrangements with customers sometimes require DBMG to provide performance bonds to partially secure its obligations under its contracts. Bonding requirements typically arise in connection with private contracts and sometimes with respect to certain public work projects. DBMG's performance bonds are obtained through surety companies and typically cover the entire project price.

#### *COVID-19 Expenditures*

We have seen significant cost increases, primarily at our Infrastructure segment, driven by expenses associated with maintaining a safe work environment, and while executing on its projects. During the years ended December 31, 2021 and 2020, \$8.6 million and \$19.4 million of COVID-19 costs were incurred. Although the COVID-19 pandemic did not have a material impact on INNOVATE's liquidity for the year ended December 31, 2021, management believes the continuation of the pandemic and its related effect on the U.S. and global economies could introduce added pressure on the Company's liquidity position and financial performance. Our sources of liquidity are primarily from the dividends and tax sharing agreement with DBMG, cash proceeds from completed and anticipated monetization's and other arrangements.

## Capital Expenditures

Capital expenditures for the periods ended December 31, 2021 and 2020 are set forth in the table below (in millions):

	Years Ended December 31,	
	2021	2020
Infrastructure	\$ 18.3	\$ 5.7
Life Sciences	0.5	0.1
Spectrum	5.3	11.8
Non-operating Corporate	—	0.2
Total	<u>\$ 24.1</u>	<u>\$ 17.8</u>

## Indebtedness

### Non-Operating Corporate

#### 2026 Senior Secured Notes Terms and Conditions

*Maturity.* The 2026 Senior Secured Notes mature on February 1, 2026.

*Interest.* The 2026 Senior Secured Notes accrue interest at a rate of 8.50% per year. Interest on the 2026 Senior Secured Notes is paid semi-annually on February 1 and August 1 of each year.

*Issue Price.* The issue price of the 2026 Senior Secured Notes was 100% of par.

*Ranking.* The notes and the note guarantees are the Company's and certain of its direct and indirect domestic subsidiaries' (the "Subsidiary Guarantors") general senior secured obligations. The notes and the note guarantees will rank: (i) senior in right of payment to all of the Company's and the Subsidiary Guarantors' future subordinated debt; (ii) equal in right of payment, subject to the priority of any First-Out Obligations (as defined in the Secured Indenture), with all of the Company's and the Subsidiary Guarantors' existing and future senior debt and effectively senior to all of its and the Subsidiary Guarantor's unsecured debt to the extent of the value of the collateral; and (iii) effectively subordinated to all liabilities of its non-guarantor subsidiaries. The notes and the note guarantees are secured on a first-priority basis by substantially all of the Company's assets and the assets of the Subsidiary Guarantors, subject to certain exceptions and permitted liens.

*Collateral.* The 2026 Senior Secured Notes are secured by a first priority lien on substantially all of the Company's assets (except for certain "Excluded Assets," and subject to certain "Permitted Liens," each as defined in the Secured Indenture), including, without limitation:

- all equity interests owned by the Company or a Subsidiary Guarantor (which, in the case of any equity interest in a foreign subsidiary, will be limited to 100% of the non-voting stock (if any) and 65% of the voting stock of such foreign subsidiary) and the related rights and privileges associated therewith (but excluding Equity Interests of Insurance Subsidiaries (as defined in the Secured Indenture), to the extent the pledge thereof is deemed a "change of control" under applicable insurance regulations);
- all equipment, goods and inventory owned by the Company or a Subsidiary Guarantor;
- all cash and investment securities owned by the Company or a Subsidiary Guarantor;
- all documents, books and records, instruments and chattel paper owned by the Company or a Subsidiary Guarantor;
- all general intangibles owned by the Company or a Subsidiary Guarantor; and
- any proceeds and supporting obligations thereof.

The Secured Indenture permits the Company, under specified circumstances, to incur additional debt in the future that could equally and ratably share in the collateral. The amount of such debt is limited by the covenants contained in the Secured Indenture.

*Events of Default.* The Secured Indenture contains customary events of default which could, subject to certain conditions, cause the 2026 Senior Secured Notes to become immediately due and payable.

### 2022 Convertible Notes Terms and Conditions

*Maturity.* The 2022 Convertible Notes mature on June 1, 2022 unless earlier converted, redeemed or purchased.

*Interest.* The 2022 Convertible Notes accrue interest at a rate of 7.5% per year. Interest on the 2022 Convertible Notes is paid semi-annually on December 1 and June 1 of each year.

*Issue Price.* The issue price of the Convertible Notes was 100% of par.

*Ranking.* The notes are the Company's general unsecured and unsubordinated obligations and will rank equally in right of payment with all of the Company's existing and future unsecured and unsubordinated indebtedness, and senior in right of payment to any of the Company's future indebtedness that is expressly subordinated to the notes. The notes will be effectively subordinated to all of the Company's existing and future secured indebtedness, including the Company's Secured Notes, to the extent of the value of the collateral securing that indebtedness, and structurally subordinated to all indebtedness and other liabilities of the Company's subsidiaries, including trade credit.

*Optional Redemption.* The Company could not redeem the notes prior to June 1, 2020. From or after June 1, 2020, the Company may redeem for cash all of the notes if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (which need not be consecutive trading days) during any 30 consecutive trading-day period ending within five trading days prior to the date on which the Company provides notice of redemption. The redemption price will equal 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest, including additional interest, if any, to, but excluding, the redemption date.

*Conversion Rights.* The 2022 Convertible Notes are convertible into shares of the Company's common stock based on a conversion rate of 234.2971 shares of common stock per \$1,000 principal amount of Convertible Notes (equivalent to a conversion price of approximately \$4.27 per share of the Company's common stock), at any time prior to the close of business on the business day immediately preceding the maturity date, in principal amounts of \$1,000 or an integral multiple of \$1,000 in excess thereof. In addition, following a Make-Whole Fundamental Change (as defined in the indenture governing the 2022 Convertible Notes) or the Company's delivery of a notice of redemption for the 2022 Convertible Notes, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its 2022 Convertible Notes in connection with (i) such Make-Whole Fundamental Change or (ii) such notice of redemption. However, to comply with certain listing standards of The New York Stock Exchange, the Company will settle in cash its obligation to increase the conversion rate in connection with a Make-Whole Fundamental Change or redemption until it has obtained the requisite stockholder approval.

*Events of Default.* The indenture governing the 2022 Convertible Notes contains customary events of default which could, subject to certain conditions, cause the 2022 Convertible Notes to become immediately due and payable.

### 2026 Convertible Notes Terms and Conditions

*Maturity.* The 2026 Convertible Notes mature on August 1, 2026 unless earlier converted, redeemed or purchased.

*Interest.* The 2026 Convertible Notes accrue interest at a rate of 7.5% per year. Interest on the 2026 Convertible Notes is paid semi-annually on February 1 and August 1 of each year.

*Issue Price.* The issue price of the 2026 Convertible Notes was 100% of par.

*Ranking.* The notes are the Company's general unsecured and unsubordinated obligations and will rank equally in right of payment with all of the Company's existing and future unsecured and unsubordinated indebtedness, and senior in right of payment to any of the Company's future indebtedness that is expressly subordinated to the notes. The notes will be effectively subordinated to all of the Company's existing and future secured indebtedness, including the Company's 2026 Senior Secured Notes, to the extent of the value of the collateral securing that indebtedness, and structurally subordinated to all indebtedness and other liabilities of the Company's subsidiaries, including trade credit.

*Optional Redemption.* The Company may not redeem the notes prior to August 1, 2023. On or after August 1, 2023, the Company may redeem for cash all of the notes if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (which need not be consecutive trading days) during any 30 consecutive trading-day period ending within five trading days prior to the date on which the Company provides notice of redemption. The redemption price will equal 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest, including additional interest, if any, to, but excluding, the redemption date.

*Conversion Rights.* The 2026 Convertible Notes are convertible into shares of the Company's common stock based on an initial conversion rate of 234.2971 shares of common stock per \$1,000 principal amount of Convertible Notes (equivalent to a conversion price of approximately \$4.27 per share of the Company's common stock), at any time prior to the close of business on the business day immediately preceding the maturity date, in principal amounts of \$1,000 or an integral multiple of \$1,000 in excess thereof. In addition, following a Make-Whole Fundamental Change (as defined in the Convertible Indenture) or the Company's delivery of a notice of redemption for the 2026 Convertible Notes, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its 2026 Convertible Notes in connection with (i) such Make-Whole Fundamental Change or (ii) such notice of redemption. However, to comply with certain listing standards of The New York Stock Exchange, the Company will settle in cash its obligation to increase the conversion rate in connection with a Make-Whole Fundamental Change or redemption until it has obtained the requisite stockholder approval.

*Events of Default.* The Convertible Indenture contains customary events of default which could, subject to certain conditions, cause the Convertible Notes to become immediately due and payable.

#### Revolving Credit Agreement

*Lender.* MSD PCOF Partners IX, LLC ("MSD")

*Maturity:* The Revolving Credit Agreement has a maturity date of February 23, 2024.

*Ranking.* Obligations under the Revolving Credit Agreement constitute a First-Out Debt, as defined in the Secured Indenture, and are secured on a pari passu basis with the 2026 Senior Secured Notes.

*Collateral:* As provided under a Collateral Trust Joinder, the lender was added as a secured party to the Collateral Trust Agreement, and accordingly the pari passu obligations and commitments under the Revolving Credit Agreement are secured equally and ratably by the collateral of the Secured Notes.

#### **Infrastructure**

The UMB Term Loan and UMB Revolving Line associated with our Infrastructure segment contains customary restrictive and financial covenants related to debt levels and performance. As of December 31, 2021, DBMG was in compliance with all of the financial covenants to its debt agreements.

See Note 9. Debt Obligations to the Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K for additional details regarding the Company's indebtedness.

#### **Restrictive Covenants**

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

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

The maintenance of liquidity covenant provides that the Company will not permit the aggregate amount of (i) all unrestricted cash and Cash Equivalents of the Company and the Subsidiary Guarantors, (ii) amounts available for drawing under revolving credit facilities and undrawn letters of credit of the Company and the Subsidiary Guarantors and (iii) dividends, distributions or payments that are immediately available to be paid to the Company by any of its Restricted Subsidiaries to be less than the Company's obligation to pay interest on the 2026 Senior Secured Notes and all other Debt, including Convertible Preferred Stock mandatory cash dividends or any other mandatory cash pay Preferred Stock but excluding any obligation to pay interest on Convertible Preferred Stock or any other mandatory cash pay Preferred Stock which, in each case, may be paid by accretion or in-kind in accordance with its terms of the Company and its Subsidiary Guarantors for the next six months. As of December 31, 2021, the Company was in compliance with this covenant.

The maintenance of collateral coverage provides that the certain subsidiaries' Collateral Coverage Ratio (as defined in the Secured Indenture as the ratio of (i) the Loan Collateral to (ii) Consolidated Secured Debt (each as defined therein)) calculated on a pro forma basis as of the last day of each fiscal quarter may not be less than 1.50 to 1.00. As of December 31, 2021, the Company was in compliance with this covenant.

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

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

### **Summary of Consolidated Cash Flows**

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

	Years Ended December 31,		Increase / (Decrease)
	2021	2020	
Cash used in continuing operating activities	\$ (6.5)	\$ (55.2)	\$ 48.7
Cash provided by discontinued operating activities	33.5	96.3	(62.8)
Cash provided by operating activities	27.0	41.1	(14.1)
Cash (used in) provided by continuing investing activities	(1.9)	261.9	(263.8)
Cash used in discontinued investing activities	(221.3)	(99.8)	(121.5)
Cash (used in) provided by investing activities	(223.2)	162.1	(385.3)
Cash provided by (used in) continuing financing activities	11.9	(182.5)	194.4
Cash used in discontinued financing activities	(7.6)	(22.0)	14.4
Cash provided by (used in) financing activities	4.3	(204.5)	208.8
Effect of exchange rate changes on cash and cash equivalents	(1.3)	1.1	(2.4)
Net decrease in cash, cash equivalents and restricted cash	\$ (193.2)	\$ (0.2)	\$ (193.0)
Less: Net decrease in cash and cash equivalents from discontinued operations	(195.4)	(20.8)	(174.6)
Net change in cash, cash equivalents and restricted cash	\$ 2.2	\$ 20.6	\$ (18.4)

### *Operating Activities*

Cash used in operating activities was \$6.5 million for the year ended December 31, 2021 as compared to cash used in operating activities of \$55.2 million for the year ended December 31, 2020. The \$48.7 million change was primarily related to driven by favorable working capital movements in Non-Operating Corporate due to the change in timing of our interest payments on our Senior Secured Notes and 2026 Convertible Notes, the settlement of the DBMG class action suit in 2020, and lower operating expenses at Non-Operating Corporate. Additionally, Infrastructure had higher operating profits, which were partially offset by negative working capital movements, as well as R2, which had a decrease in working capital driven by a ramp up of expenses related to its product launch.

### *Investing Activities*

Cash used by investing activities was \$1.9 million for the year ended December 31, 2021 as compared to cash provided by investing activities of \$261.9 million for the year ended December 31, 2020. The \$263.8 million change was due to the acquisition of Banker Steel at our Infrastructure segment in the second quarter of 2021 and less proceeds from the sale of subsidiaries. Beyond6 was sold in first quarter of 2021 for net proceeds of \$70.0 million and the cash portion of our Insurance segment was sold in the third quarter for \$64.7 million compared to GMSL sold in the prior year for net proceeds of \$144.0 million and the partial sale of the HMN joint venture in the prior year.

### *Financing Activities*

Cash provided by financing activities was \$11.9 million for the year ended December 31, 2021 as compared to cash used in financing activities of \$182.5 million for the year ended December 31, 2020. The \$194.4 million change was primarily due to an increase at Infrastructure to purchase Banker Steel in the second quarter of 2021 and higher debt repayments in 2020, mostly from proceeds received from asset sales and non-controlling interest distributions attributable to prior year asset sales.

### *Discontinued Operations*

Cash used by discontinued operations was \$195.4 million for the year ended December 31, 2021 as compared to cash used by discontinued operations of \$20.5 million for the year ended December 31, 2020. The \$169.9 million decrease was largely due to a decline in net investment purchases at our Insurance segment compared to the prior year.

### *Reclassifications*

Certain 2021 statement of cash flow items have been reclassified to conform to the current financial statement presentation. These reclassifications have no effect on previously reported net income.

### **Infrastructure**

#### *Cash Flows*

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

DBMG is required to make monthly or quarterly interest payments on all of its debt. Based upon the December 31, 2021 debt balance, DBMG anticipates that its interest payments will be approximately \$1.8 million each quarter of 2022.

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

### **Discontinued Operations**

We have reclassified several entities as discontinued operations for the years ended December 31, 2021 and 2020. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from continuing operations. The entities reported in discontinued operations are as follows:

- The sale of GMSL closed on February 28, 2020. At the time of the sale, the Company recorded a \$39.3 million loss on the sale and recognized \$31.3 million Accumulated other comprehensive loss. During the fourth quarter of 2020, the Company recognized a gain of \$2.4 million as a result of bonding releases related to projects which existed prior to sale. During the first quarter of 2021, the Company recognized a gain of \$1.2 million as a result of indemnity release.
- The sale of ICS and its subsidiary, Go2 Tel, Inc., closed on October 31, 2020. The Company recorded a \$0.9 million gain on the sale and recognized \$8.2 million of Accumulated other comprehensive loss related to the foreign currency translation of PTGi International Carrier Services Ltd., which was essentially liquidated in conjunction with the sale. The proceeds were used for general corporate purposes.
- On December 31, 2020, the Company signed the Merger Agreement to sell Beyond6. The sale closed on January 15, 2021. During the first quarter of 2021, the Company recognized a \$39.2 million gain on the sale. During the third quarter of 2021, as a result of releases of related escrows and holdbacks, the Company recognized an additional \$0.5 million gain on the sale.
- The sale of CIG closed on July 1, 2021 to Continental General Holdings LLC, an entity controlled by Michael Gorzynski, a director of the Company and, as of December 31, 2021, a beneficial owner of approximately 6.6% of the Company's outstanding common stock who has also served as executive chairman of Continental since October 2020. The Company recorded a \$200.8 million loss on the sale.

Cash flows from discontinued operations are reported in the Statement of Cash Flows as a separate line item within the Operations, Investing and Financing activities sections for each year presented.

In the absence of cash flows from the discontinued operations, the Company does not expect there to be an impact on liquidity at the Company.



## **New Accounting Pronouncements**

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

## **Critical Accounting Estimates**

The preparation of financial statements in accordance with generally accepted accounting principles in the U.S. GAAP requires the use of estimates and assumptions that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental disclosures including information about contingencies, risk and financial condition.

Critical accounting estimates are defined as those that are reflective of significant judgments and uncertainties and potentially yield materially different results under different assumptions or conditions. Given current facts and circumstances, we believe that our estimates and assumptions are reasonable, adhere to GAAP and are consistently applied. Our selection and disclosure of our critical accounting policies and estimates has been reviewed with our Audit Committee. Following is a review of the more significant assumptions and estimates and the accounting policies and methods used in the preparation of our consolidated financial statements. For all of these estimates, we caution that future events rarely develop exactly as forecast, and the best estimates routinely require adjustment. Refer to Note 2. Summary of Significant Accounting Policies to our Consolidated Financial Statements included in this Annual Report on Form 10-K which discusses the significant accounting policies that we have adopted.

## **Revenue Recognition - Estimated Costs to Complete**

With respect to our Infrastructure segment (DBM Global Inc.), we recognize a significant portion of our revenue over time using the input method to measure the progress of costs incurred for our service and construction contracts. DBM Global Inc. performs its services primarily under fixed-price contracts and recognizes revenue over time using the input method to measure progress for its projects. The nature of the projects does not provide measurable value to the customer over time and control does not transfer to the customer at discrete points in time. The customer receives value over the term of the project based on the amount of work that has been completed towards the delivery of the completed project. The most reliable measure of progress is the cost incurred towards delivery of the completed project. Therefore, the input method provides the most reliable method to measure progress. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, subcontractor costs, indirect labor, and fabrication plant overhead costs, which are charged to contract costs as incurred. Revenues relating to changes in the scope of a contract are recognized when we and a customer or general contractor have agreed on both the scope and price of changes, the work has commenced, it is probable that the costs of the changes will be recovered and that realization of revenue exceeding the costs is assured beyond a reasonable doubt. Revisions in estimates during the course of contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

## **Convertible Instruments**

We evaluate and account for conversion options embedded in convertible instruments in accordance with ASC 815, *Derivatives and Hedging Activities*. Applicable U.S. Generally Accepted Accounting Principals ("GAAP") requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value under other GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. We account for convertible instruments, when it has been determined that the embedded conversion options should not be bifurcated from their host instruments, as follows: we record, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption. We account for the conversion of convertible debt when a conversion option has been bifurcated using the general extinguishment standards. The debt and equity linked derivatives are removed at their carrying amounts and the shares issued are measured at their then-current fair value, with any difference recorded as a gain or loss on extinguishment of the two separate accounting liabilities.

## **Share-Based Compensation**

We account for share-based compensation issued to employees in accordance with the provisions of ASC 718 and to non-employees pursuant to ASC 505-50, *Equity-based payments to non-employees*. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for using a fair-value based method. We record share-based compensation expense for all new and unvested stock options that are ultimately expected to vest as the requisite service is rendered. We issue new shares of common stock upon the exercise of stock options.

We use a Black-Scholes option valuation model to determine the grant date fair value of share-based compensation under ASC 718. The Black-Scholes model incorporates various assumptions including the expected term of awards, volatility of stock price, risk-free rates of return and dividend yield. The expected term of an award is no less than the option vesting period and is based on our historical experience. Expected volatility is based upon the historical volatility of our stock price. The risk-free interest rate is approximated using rates available on U.S. Treasury securities with a remaining term similar to the option's expected life. We use a dividend yield of zero in the Black-Scholes option valuation model as it does not anticipate paying cash dividends in the foreseeable future. Share-based compensation is recorded net of actual forfeitures.

## **Income Taxes**

Our annual tax rate is based on our income, statutory tax rates, exchange rates and tax planning opportunities available to us in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining our tax expense and in evaluating our tax positions, including evaluating uncertainties under ASC No. 740, "Income Taxes" ("ASC 740").

We review our tax positions quarterly and adjust the balances as new information becomes available. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. We evaluate the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income inherently rely heavily on estimates. To provide insight, we use our historical experience and our short and long-range business forecasts. We believe it is more likely than not that a portion of the deferred income tax assets may expire unused and have established a valuation allowance against them. Although realization is not assured for the remaining deferred income tax assets, we believe it is more likely than not the deferred tax assets will be fully recoverable within the applicable statutory expiration periods. However, deferred tax assets could be reduced in the near term if our estimates of taxable income are significantly reduced.

We recognize deferred tax assets and liabilities for the expected future tax consequences of transactions and events. Under this method, deferred tax assets and liabilities are determined based on the difference between the book basis and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. If necessary, deferred tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable. We must make significant estimates and assumptions about future taxable income and future tax consequences when determining the amount of the valuation allowance. The additional guidance provided by ASC 740, clarifies the accounting for uncertainty in income taxes recognized in the financial statements. Expected outcomes of current or anticipated tax examinations, refund claims and tax-related litigation and estimates regarding additional tax liability (including interest and penalties thereon) or refunds resulting therefrom will be recorded based on the guidance provided by ASC 740 to the extent applicable.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. These assessments of uncertain tax positions contain judgments related to the interpretation of tax regulations in the jurisdictions in which we transact business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, expiration of statutes of limitations, as well as changes to, or further interpretations of, tax laws and regulations.

In relation to tax effects for accumulated OCI, our policy is to release the tax effects of amounts reclassified from accumulated OCI to pre-tax income (loss) from continuing operations. Any remaining tax effect in accumulated OCI is released following a portfolio approach.

See Note 12. Income Taxes to our Consolidated Financial Statements included in this Annual Report on Form 10-K for further information.

## **Goodwill and Intangible Assets**

Goodwill and intangible assets deemed to have indefinite lives are not amortized but, rather, are tested at least annually for impairment, or more often if events or changes in circumstances indicate that more likely than not the carrying amount of the asset may not be recoverable. Goodwill is tested for impairment at the reporting unit level. A reporting unit represents an operating segment or a component of an operating segment. Goodwill is tested for impairment by either performing a qualitative evaluation or a two-step quantitative test. The qualitative evaluation is an assessment of factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill.

We may elect not to perform the qualitative assessment for some or all reporting units and perform a two-step quantitative impairment test. Fair value is determined based on discounted cash flow analyses. The discounted estimates of future cash flows include significant management assumptions such as revenue growth rates, operating margins, weighted average cost of capital, and future economic and market conditions. If the carrying value of the reporting unit exceeds fair value, goodwill is considered impaired. The amount of the impairment is the difference between the carrying value of the goodwill and the "implied" fair value, which is calculated as if the reporting unit had just been acquired and accounted for as a business combination.

The estimates of future cash flows involve considerable management judgment and are based upon assumptions about expected future operating performance, economic conditions, market conditions, and cost of capital. Inherent in estimating the future cash flows are

uncertainties beyond our control, such as capital markets. The actual cash flows could differ materially from management's estimates due to changes in business conditions, operating performance, and economic conditions.

Refer to Note 8. Goodwill and Intangibles, net, to our Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information on goodwill and intangible assets.

Refer to Note 2. Summary of Significant Accounting Policies to our Consolidated Financial Statements included in this Annual Report on Form 10-K for additional information on New Accounting Pronouncements to be Adopted Subsequent to December 31, 2021.

### **Related Party Transactions**

For a discussion of our Related Party Transactions, refer to Note 16. Related Parties to our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

### **Special Note Regarding Forward-Looking Statements**

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

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

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

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

### ***INNOVATE Corp. and Subsidiaries***

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

- the effect of the novel coronavirus ("COVID-19") pandemic and related governmental responses on our business, financial condition and results of operations;
- the impact of recent supply chain disruptions, labor shortages and increases in transportation costs;
- limitations on our ability to successfully identify any strategic acquisitions or business opportunities and to compete for these opportunities with others who have greater resources;
- our possible inability to generate sufficient liquidity, margins, earnings per share, cash flow and working capital from our operating segments;
- the impact of catastrophic events, including natural disasters, pandemic illness and the outbreak of war or acts of terrorism;
- our dependence on distributions from our subsidiaries to fund our operations and payments on our obligations;
- the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we may incur;
- the impact of covenants in the Indenture governing INNOVATE's new notes, the Certificates of Designation governing INNOVATE's Preferred Stock and all other subsidiary debt obligations as summarized in Note 9. Debt Obligations and future financing agreements on our ability to operate our business and finance our pursuit of acquisition opportunities;
- our dependence on certain key personnel;
- uncertain global economic conditions in the markets in which our operating segments conduct their businesses;

- the ability of our operating segments to attract and retain customers;
- increased competition in the markets in which our operating segments conduct their businesses;
- our expectations regarding the timing, extent and effectiveness of our cost reduction initiatives and management's ability to moderate or control discretionary spending;
- management's plans, goals, forecasts, expectations, guidance, objectives, strategies and timing for future operations, acquisitions, synergies, asset dispositions, fixed asset and goodwill impairment charges, tax and withholding expense, selling, general and administrative expenses, product plans, performance and results;
- management's assessment of market factors and competitive developments, including pricing actions and regulatory rulings;
- the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;
- the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;
- our expectations and timing with respect to our ordinary course acquisition activity and whether such acquisitions are accretive or dilutive to stockholders;
- our expectations and timing with respect to any strategic dispositions and sales of our operating subsidiaries, or businesses that we may make in the future and the effect of any such dispositions or sales on our results of operations;
- the possibility of indemnification claims arising out of divestitures of businesses;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- the effect any interests our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;
- our ability to effectively increase the size of our organization, if needed, and manage our growth;
- the potential for, and our ability to, remediate future material weaknesses in our internal controls over financial reporting;
- our possible inability to raise additional capital when needed or refinance our existing debt, on attractive terms, or at all; and
- our possible inability to hire and retain qualified executive management, sales, technical and other personnel.

#### ***Infrastructure / DBM Global Inc.***

Our actual results or other outcomes of DBM Global, Inc. and its wholly-owned subsidiaries ("DBMG"), and, thus, our Infrastructure segment, may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- our ability to maintain efficient staffing and productivity as well as delays and cancellations as a result of the COVID-19 pandemic;
- its ability to realize cost savings from expected performance of contracts, whether as a result of improper estimates, performance, or otherwise;
- potential impediments and limitations on our ability to complete ordinary course acquisitions in anticipated time frames or at all;
- uncertain timing and funding of new contract awards, as well as project cancellations;
- cost overruns on fixed-price or similar contracts or failure to receive timely or proper payments on cost-reimbursable contracts, whether as a result of improper estimates, performance, disputes, or otherwise;
- risks associated with labor productivity, including performance of subcontractors that DBMG hires to complete projects;
- its ability to settle or negotiate unapproved change orders and claims;
- changes in the costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;
- adverse impacts from weather affecting DBMG's performance and timeliness of completion of projects, which could lead to increased costs and affect the quality, costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;
- fluctuating revenue resulting from a number of factors, including the cyclical nature of the individual markets in which our customers operate;
- adverse outcomes of pending claims or litigation or the possibility of new claims or litigation, and the potential effect of such claims or litigation on DBMG's business, financial condition, results of operations or cash flow; and
- lack of necessary liquidity to provide bid, performance, advance payment and retention bonds, guarantees, or letters of credit securing DBMG's obligations under bids and contracts or to finance expenditures prior to the receipt of payment for the performance of contracts.

#### ***Life Sciences / Pansend Life Sciences, LLC***

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

- our Life Sciences segment's ability to invest in development stage companies;
- our Life Sciences segment's ability to develop products and treatments related to its portfolio companies;
- medical advances in healthcare and biotechnology; and
- governmental regulation in the healthcare industry.

### ***Spectrum / HC2 Broadcasting Holdings Inc.***

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

- our ability to attract advertisers during the COVID-19 pandemic;
- our Spectrum segment's ability to operate in highly competitive markets and maintain market share;
- our Spectrum segment's ability to effectively implement its business strategy or be successful in the operation of its business;
- new and growing sources of competition in the broadcasting industry; and
- FCC regulation of the television broadcasting industry.

### ***Other***

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

- risks associated with our equity method investment that operates in China (i.e., HMN International Co., Ltd F/K/A Huawei Marine Systems Co. Limited, a Hong Kong holding company with a Chinese operating subsidiary), including the exercisability of New Saxon 2019 Ltd.'s put option pertaining to its 19% interest in HMN starting on the second year anniversary of the closing date of the First HMN Close.

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

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

None.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The report of the independent registered public accounting firm and financial statements listed in the accompanying index are included in Item 15 of this report. See Index to the consolidated financial statements on page F-1 of this Form 10-K.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 as amended (the "Exchange Act") as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2021, our disclosure controls and procedures were effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### **Management's Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance as to the reliability of its financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Because of the inherent limitations in any internal control, no matter how well designed, misstatements may occur and not be prevented or detected. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, the evaluation of the effectiveness of internal control over financial reporting described below was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

As permitted by SEC guidance, management excluded from its assessment the operations of the Banker Steel acquisition made during 2021, which is described in Note 5. Acquisitions, Dispositions, and Deconsolidations to our Consolidated Financial Statements included in this Annual Report. Banker Steel constituted 26.6% and 270.1% of total assets and net assets, respectively, as of December 31, 2021, and 22.4% and 6.1% of revenues and net income (loss), respectively, for the year ended December 31, 2021. As of December 31, 2021, we were in the process of integrating Banker Steel's operations, including internal controls over financial reporting. Such exclusion was in accordance with the SEC guidance that an assessment of a recently acquired business may be omitted in management's report on internal controls over financial reporting, providing the acquisition took place within twelve months of management's evaluation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2021. This assessment was based on updated criteria for effective internal control over financial reporting set forth by the Committee of Sponsoring Organizations of the Treadway Commission Internal Control-Integrated Framework (2013). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2021.

#### **Auditor Attestation Report**

Our independent registered public accounting firm has issued an attestation report on the effectiveness of our internal control over financial reporting, which is on page F-5 of this report.

#### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the fiscal year ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 9B. OTHER INFORMATION**

None.

#### **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

None.

### **PART III**

The information required by Part III will be provided in our definitive proxy statement for our 2022 annual meeting of stockholders ("2022 Proxy Statement"), which is incorporated herein by reference.

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information regarding this item will be set forth in our 2022 Proxy Statement and is incorporated herein by reference.

##### **Code of Conduct**

We have adopted a Code of Conduct applicable to all directors, officers and employees, including the Chief Executive Officer, senior financial officers and other persons performing similar functions. The Code of Conduct is a statement of business practices and principles of behavior that support our commitment to conducting business in accordance with the highest standards of business conduct and ethics. Our Code of Conduct covers, among other things, compliance resources, conflicts of interest, compliance with laws, rules and regulations, internal reporting of violations and accountability for adherence to the Code of Conduct. A copy of the Code of Conduct is available under the "Investor Relations-Corporate Governance" section of our website at [www.innovatecorp.com](http://www.innovatecorp.com). Any amendment of the Code of Conduct or any waiver of its provisions for a director or executive officer must be approved by the Board or a duly authorized committee thereof. We intend to post on our website all disclosures that are required by law or the rules of the NYSE concerning any amendments to, or waivers from, any provision of the Code of Conduct.

#### **ITEM 11. EXECUTIVE COMPENSATION**

Information regarding this item will be set forth in our 2022 Proxy Statement and is incorporated herein by reference.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information regarding this item will be set forth in our 2022 Proxy Statement and is incorporated herein by reference.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information regarding this item will be set forth in our 2022 Proxy Statement and is incorporated herein by reference.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding principal accountant fees and services will be set forth in our 2022 Proxy Statement and is incorporated herein by reference.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

### (a) List of Documents Filed

#### 1) Financial Statements and Schedules

The financial statements as set forth under Item 8 of this Annual Report on Form 10-K are incorporated herein.

#### (b) Exhibit Index

The following is a list of exhibits filed as part of this Annual Report on Form 10-K.

Exhibit Number	Description
2.1	<u>Fourth Amended and Restated Limited Liability Company Agreement of Global Marine Holdings, LLC, dated as of November 30, 2017, by and among Global Marine Holdings, LLC and the Members party thereto (incorporated by reference to Exhibit 2.1 to HC2's Current Report on Form 8-K, filed on November 30, 2017) (File No. 001-35210).</u>
2.2	<u>Merger Agreement, dated as of May 2, 2018, by and among Janssen Biotech, Inc., Dogfish Merger Sub, Inc., Benevir Biopharm, Inc., and Shareholder Representative Services LLC, as holder representative (incorporated by reference to Exhibit 10.1 to HC2's Current Report on Form 8-K, filed on May 3, 2018) (File No. 001-35210).</u>
2.3	<u>Share Purchase Agreement dated January 30, 2020, by and among New Saxon 2019 Limited, Trafalgar Acquisition Co., Ltd. and Global Marine Holdings, Limited (solely for purposes of Section 2.04(a), Section 6.01, Section 6.02, Section 6.03, Section 6.07 and Article X) (incorporated by reference to Exhibit 2.1 to HC2's Current Report on Form 8-K, filed on January 30, 2020) (File No. 001-35210).</u>
2.4	<u>Agreement and Plan of Merger, dated as of December 30, 2020, by and among Beyond6, Inc., Greenfill Inc., Greenfill Merger, Inc., and HC2 Holdings, Inc., solely in its capacity as the Stockholders' Representative (incorporated by reference to Exhibit 2.1 on HC2's Current Report on Form 8-K, filed December 31, 2020).</u>
2.5	<u>First Amendment to Agreement and Plan of Merger, dated as of January 15, 2021 (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed by HC2 on January 19, 2021) (File No. 021-35210)</u>
2.6	<u>Membership Interest Purchase Agreement, dated March 12, 2021 by and among DBM Global Inc., Bridge Fabrication Banker Holdings LLC, The Banker Family Irrevocable Trust #3 U/A/D December 22, 2009, Chesley F. McPhatter, III, Richard Plant and Bridge Fabrication Banker Holdings LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by HC2 on March 15, 2021) (File No. 021-35210)</u>
2.7	<u>First Amendment to Membership Interest Purchase Agreement, dated May 25, 2021 by and among DBM Global Inc., Bridge Fabrication Banker Holdings LLC, The Banker Family Irrevocable Trust #3 U/A/D December 22, 2009, Chesley F. McPhatter, III, Richard Plant and Bridge Fabrication Banker Holdings LLC (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed by HC2 on May 27, 2021) (File No. 021-35210)</u>
2.8	<u>Stock Purchase Agreement, dated March 26, 2021, by and among HC2 Holdings 2, Inc., Continental Insurance Group, Ltd. and Continental General Holdings LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by HC2 on March 29, 2021) (File No. 021-35210)</u>
3.1	<u>Second Amended and Restated Certificate of Incorporation of HC2 (incorporated by reference to Exhibit 3.1 to HC2's Form 8-A, filed on June 20, 2011) (File No. 001-35210).</u>
3.2	<u>Certificate of Ownership and Merger Merging PTGI Name Change, Inc. into Primus Telecommunications Group, Incorporated (incorporated by reference to Exhibit 3.1 to HC2's Current Report on Form 8-K, filed on October 18, 2013) (File No. 001-35210).</u>
3.3	<u>Certificate of Ownership and Merger Merging HC2 Name Change, Inc. into PTGI Holding, Inc. (incorporated by reference to Exhibit 3.1 to HC2's Current Report on Form 8-K, filed on April 11, 2014) (File No. 001-35210).</u>
3.4	<u>Certificate of Amendment to Second Amended and Restated Certificate of Incorporation of HC2 (incorporated by reference to Exhibit 3.1 to HC2's Current Report on Form 8-K, filed on June 18, 2014) (File No. 001-35210).</u>
3.5	<u>Certificate of Amendment No. 2 to Second Amended and Restated Certificate of Incorporation of HC2 Holdings, Inc. (incorporated by reference to Exhibit 3.1 on HC2's Current Report on Form 10-K, filed on November 23, 2020 (File No. 001-35210).</u>

- 3.6 Certificate of Amendment to the Certificate of Incorporation, as filed with the Secretary of State of Delaware on August 18, 2021, with an effective date of September 20, 2021 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on August 19, 2021) (File No. 021-35210)
- 3.7 Fourth Amended and Restated By-Laws of HC2 (incorporated by reference to Exhibit 3.1 to HC2's Current Report on Form 8-K, filed on February 25, 2019) (File No. 001-35210).
- 3.8 Amendment #1 to Fourth Amended and Restated By-Laws of INNOVATE Corp., effective September 20, 2021 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on August 19, 2021) (File No. 021-35210)
- 3.9 Certificate of Designations of Series B Preferred Stock, dated August 30, 2021 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on August 30, 2021) (File No. 001-35210)
- 4.1 Indenture, dated as of November 20, 2018, by and among HC2, the guarantors party thereto and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to HC2's Current Report on Form 8-K, filed on November 21, 2018) (File No. 001-35210).
- 4.2 Certificate of Designation for Series A Fixed-to-Floating Rate Perpetual Preferred Shares of DBM Global Inc., dated as of November 30, 2018 (incorporated by reference to Exhibit 2.4 to HC2's Current Report on Form 8-K, filed on December 4, 2018) (File No. 001-35210).
- 4.3 Certificate of Designation of Series A Fixed-to-Floating Rate Perpetual Preferred Stock of HC2 Broadcasting Holdings Inc., dated as of December 3, 2018 (incorporated by reference to Exhibit 2.15 to HC2's Annual Report on Form 10-K filed on March 12, 2019) (File No. 001-35210).
- 4.4 Amended and Restated Certificate of Designation of Series A Fixed-to-Floating Rate Perpetual Preferred Stock of DBM Global Intermediate Holdco Inc. (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K filed by HC2 Holdings, Inc. ("HC2") on July 7, 2021) (File No. 021-35210)
- 4.5 Secured Note dated October 24, 2019, by and among HC2 Station, HC2 LPTV, HC2 Broadcasting Inc. ("HC2 Broadcasting"), HC2 Network Inc. ("HC2 Network") (collectively the "Subsidiary Borrowers"), HC2 Broadcasting Intermediate Holdings Inc. ("HC2 Intermediate") (the "Intermediate Parent"), HC2 Broadcasting Holdings (the "Parent Borrower" and, together with the Intermediate Parent and the Subsidiary Borrowers, the "Borrowers"), and MSD PCOF Partners XVIII, LLC ("MSD") (incorporated by reference to Exhibit 4.12 to HC2's Annual Report on Form 10-K, filed on March 16, 2020) (File No. 001-35210).
- 4.6 Amended and Restated Secured Note dated October 24, 2019, by and among HC2 Station, HC2 LPTV, HC2 Broadcasting, Amended and Restated Secured Note dated October 24, 2019, by and among HC2 Station, HC2 LPTV, HC2 Broadcasting, HC2 Network (collectively, the "Subsidiary Borrowers"), HC2 Intermediate (the "Intermediate Parent), HC2 Broadcasting Holdings (the "Parent Borrower" and, together with the Intermediate Parent and the Subsidiary Borrowers, the "Borrowers", Great American Life Insurance Company ("GALIC") and Great American Insurance Company ("GAIC"), (collectively, the "Subsidiary Borrowers"), HC2 Intermediate (the "Intermediate Parent), HC2 Broadcasting Holdings (the "Parent Borrower" and, together with the Intermediate Parent and the Subsidiary Borrowers, the "Borrowers", Great American Life Insurance Company ("GALIC") and Great American Insurance Company ("GAIC") (incorporated by reference to Exhibit 4.13 to HC2's Annual Report on Form 10-K, filed on March 16, 2020) (File No. 001-35210).
- 4.7 First Omnibus Amendment to Secured Notes and Intercreditor Agreement by and among Station Group, LPTV, Broadcasting, Network, and HC2 Broadcasting Inc., Intermediate Parent, Parent Borrower, and MSD PCOF Partners, XVIII, LLC ("MSD"), GALIC and GAIC (incorporated by reference to Exhibit 4.1 to HC2's Quarterly Report on Form 10-Q, filed on May 11, 2020) (File No. 001-35210)
- 4.8 First Supplemental Indenture dated August 19, 2020, between HC2 Holdings, Inc. ("HC2") and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of HC2's Quarterly Report on Form 10-Q, filed on November 9, 2020) (File No. 001-35210).
- 4.90 Indenture governing the 8.500% senior secured notes due 2026, dated as of February 1, 2021, by and among HC2 Holdings, Inc., the guarantors party thereto and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by HC2 on February 1, 2021) (File No. 021-35210)
- 4.10 Form of 8.500% senior secured notes due 2026 (included in exhibit 4.1) (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed by HC2 on February 1, 2021) (File No. 021-35210)
- 4.11 Indenture governing the 7.5% convertible senior notes due 2026, dated as of February 1, 2021, by and between HC2 Holdings, Inc. and U.S. Bank National Association (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K filed by HC2 on February 1, 2021) (File No. 021-35210)
- 4.12 Form of 7.5% convertible senior notes due 2026 (included in exhibit 4.3) (incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K filed by HC2 on February 1, 2021) (File No. 021-35210)
- 4.13 Certificate of Designation of Series A-3 Convertible Participating Preferred Stock of HC2 Holdings, Inc. (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by HC2 Holdings, Inc. ("HC2") on July 7, 2021) (File No. 021-35210)
- 4.14 Certificate of Designation of Series A-4 Convertible Participating Preferred Stock of HC2 Holdings, Inc. (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed by HC2 Holdings, Inc. ("HC2") on July 7, 2021) (File No. 021-35210)



4.15	<u>Tax Benefits Preservation Plan, dated August 30, 2021 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on August 30, 2021) (File No. 001-35210)</u>
4.16	<u>Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934</u>
4.17	<u>Agreement Re: Secured Notes, dated January 22, 2019, by and among HC2 Station, HC2 LPTV and the Institutional Investors (incorporated by reference to Exhibit 10.1 to HC2's Current Report on Form 8-K, filed on January 23, 2019) (File No. 001-35210).</u>
10.1^	<u>HC2 2014 Omnibus Equity Award Plan (incorporated by reference to Exhibit A to HC2's Definitive Proxy Statement, filed on April 30, 2014) (File No. 001-35210)</u>
10.2^	<u>Reformed and Clarified Option Agreement, dated October 26, 2014, by and between HC2 and Philip Falcone (incorporated by reference to Exhibit 10.18.1 on HC2's Annual Report on Form 10-K, filed on March 16, 2015) (File No. 001-35210).</u>
10.3^	<u>Form of Option Agreement (Additional Time Contingent Option) by and between HC2 and Philip Falcone (incorporated by reference to Exhibit 10.18.2 on HC2's Annual Report on Form 10-K, filed on March 16, 2015) (File No. 001-35210).</u>
10.4^	<u>Form of Option Agreement (Contingent Option) by and between HC2 and Philip Falcone (incorporated by reference to Exhibit 10.18.3 on HC2's Annual Report on Form 10-K, filed on March 16, 2015) (File No. 001-35210).</u>
10.5^	<u>Form of Non-Qualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.1 on HC2's Current Report on Form 8-K, filed on September 22, 2014) (File No. 001-35210)</u>
10.6^	<u>Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 on HC2's Current Report on Form 8-K, filed on September 22, 2014) (File No. 001-35210)</u>
10.7^	<u>Amended and Restated Employment Agreement, effective as of November 25, 2020, by and between HC2 Holdings, Inc. and Wayne Barr, Jr. (incorporated by reference to Exhibit 10.1 on HC2's Current Report on Form 8-K, filed on November 30, 2020) (File No. 001-35210).</u>
10.8^	<u>Employment Agreement dated as of March 1, 2015, by and between HC2 and Suzi R. Herbst (incorporated by reference to Exhibit 10.55 to HC2's Annual Report on Form 10-K, filed on March 9, 2017) (File No. 001-35210).</u>
10.9^	<u>Employment Agreement dated as of September 11, 2017, by and between HC2 and Joseph Ferraro (incorporated by reference to Exhibit 10.1 to HC2's Quarterly Report on Form 10-Q, filed on November 8, 2017) (File No. 001-35210).</u>
10.10^	<u>Employment Agreement, dated May 20, 2015, by and between HC2 and Michael Sena (incorporated by reference to Exhibit 10.2 on HC2's Quarterly Report on Form 10-Q, filed on August 10, 2015) (File No. 001-35210).</u>
10.11^	<u>Form of Employee Nonqualified Option Award Agreement (incorporated by reference to Exhibit 10.4 on HC2's Quarterly Report on Form 10-Q, filed on August 9, 2016) (File No. 001-35210).</u>
10.12^	<u>Revised Form of Indemnification Agreement of HC2 (incorporated by reference to Exhibit 10.1 on HC2's Quarterly Report on Form 10-Q, filed on November 9, 2016) (File No. 001-35210).</u>
10.13^	<u>Form of Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 to HC2's Current Report on Form 8-K, filed on June 14, 2017) (File No. 001-35210).</u>
10.14^	<u>HC2 Amended and Restated 2014 Omnibus Equity Award Plan (incorporated by reference to Exhibit B to the HC2 Definitive Proxy Statement filed on April 26, 2017) (File No. 001-35210)</u>
10.15	<u>Securities Purchase Agreement dated as of June 27, 2017 among DTV Holding Inc., John N. Kyle II, Kristina C. Bruni, King Forward, Inc., Equity Trust Co FBO John N. Kyle, Tiger Eye Licensing L.L.C., Bella Spectra Corporation, Kim Ann Dagen and Michael S. Dagen, Trustees of the Kim Ann Dagen Revocable Living Trust Agreement dated March 2, 1999, Madison Avenue Ventures, LLC, Paul Donner, Reeves Callaway, Don Shalhub, Shalhub Medical Investments PA, Tipi Sha, LLC, Luis O. Suau, Irwin Podhaiser and Humberto Garriga (incorporated by reference to Exhibit 10.1 to HC2's Current Report on Form 8-K, filed on June 28, 2017) (File No. 001-35210).</u>
10.16	<u>Investor Rights Agreement dated as of June 27, 2017 between DTV Holding Inc., DTV America Corporation and other signatories party thereto (incorporated by reference to Exhibit 10.2 to HC2's Current Report on Form 8-K, filed on June 28, 2017) (File No. 001-35210).</u>
10.17	<u>Asset Purchase Agreement dated as of June 27, 2017 among DTV Holding Inc., King Forward, Inc., Tiger Eye Broadcasting Corporation, Tiger Eye Licensing L.L.C. and Bella Spectra Corporation (incorporated by reference to Exhibit 10.3 to HC2's Current Report on Form 8-K, filed on June 28, 2017) (File No. 001-35210).</u>
10.18^	<u>HC2 Second Amended and Restated 2014 Omnibus Equity Award Plan (incorporated by reference to Exhibit A to the HC2 Definitive Proxy Statement, filed on April 30, 2018) (File No. 001-35210).</u>
10.19	<u>Second Amended &amp; Restated Limited Liability Company Agreement of Pansend Life Sciences, LLC, dated as of September 20, 2017, by and among HC2 Holdings 2, Inc., David Present and Cherine Plumaker (incorporated by reference to Exhibit 10.2 to HC2's Current Report on Form 8-K, filed on May 3, 2018) (File No. 001-35210).</u>
10.20	<u>Securities Purchase Agreement, by and between DBM Global Inc. and DBM Global Intermediate Holdco Inc., dated November 30, 2018 (incorporated by reference to Exhibit 2.3 to HC2's Current Report on Form 8-K, filed on December 4, 2018) (File No. 001-35210).</u>

10.21	<u>Ninth Amended and Restated Agreement Re: Secured Notes dated October 24, 2019, among HC2 Station, HC2 LPTV, HC2 Network, HC2 Broadcasting, GALIC, GAIC and MSD (incorporated by reference to Exhibit 10.38 to HC2's Annual Report on Form 10-K, filed on March 16, 2020) (File No. 001-35210).</u>
10.22	<u>Investment Agreement, dated as of September 9, 2020, by and between HC2 Holdings, Inc. and Lancer Capital, LLC (incorporated by reference to Exhibit 10.1 on HC2's Current Report on Form 8-K, filed on September 9, 2020 (File No. 021-35210).</u>
10.23	<u>Form of Registration Rights Agreement by and between HC2 and Lancer Capital LLC (included in Exhibit 10.1) (incorporated by reference to Exhibit 10.2 on HC2's Current Report on Form 8-K, filed on September 9, 2020 (File No. 021-35210).</u>
10.24	<u>Third Omnibus Amendment to Secured Notes and Second Amendment to Intercreditor Agreement by and among Station Group, LPTV, Broadcasting, Network, and HC2 Broadcasting Inc., Intermediate Parent, Parent Borrower, and MSD PCOF Partners, XVIII, LLC ("MSD"), GALIC and GAIC (incorporated by reference to Exhibit 10.3 on HC2's Current Report on Quarterly Report on Form 10-Q filed on November 9, 2020) (File No. 001-35210).</u>
10.25	<u>Credit Agreement, dated as of May 27, 2021, by and among DBM Global Inc., the other Borrowers listed on Schedule 1.1 thereto, the Lenders, which are party thereto from time to time and UMB Bank, n.a., a national banking association, as Letter of Credit Issuer and as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by HC2 Holdings, Inc. ("HC2") on May 27, 2021) (File No. 021-35210).</u>
10.26	<u>HC2 Preferred Support Agreement, dated July 1, 2021, by and among HC2 Holdings, Inc., Continental General Insurance Company and Continental General Holdings LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by HC2 on July 1, 2021) (File No. 021-35210)</u>
10.27	<u>DBM Common Support Agreement, dated July 1, 2021, by and among HC2 Holdings, Inc., Continental General Insurance Company and Continental General Holdings LLC (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by HC2 on July 1, 2021 (File No. 021-35210),</u>
10.28	<u>Form of Exchange Agreement, dated July 1, 2021, by and among HC2 Holdings, Inc. and the investors party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by HC2 Holdings, Inc. ("HC2") on July 7, 2021) (File No. 021-35210)</u>
10.29	<u>Second Amended and Restated Registration Rights Agreement, dated as of January 5, 2015, by and among HC2 Holdings, Inc., the initial purchasers of the Series A Preferred Stock, the initial purchasers of the Series A Preferred Stock and the purchasers of the Series A-2 Preferred Stock (incorporated by reference to Exhibit 10.2 on the Company's Current Report on Form 8-K, filed on January 9, 2015) (File No. 001-35210).</u>
10.3	<u>Letter Agreement dated March 26, 2021 by and between HC2 Holdings, Inc. and Continental General Insurance Company (incorporated by reference to Exhibit 10.5 to the Quarterly Report on Form 10-Q filed by HC2 on August 6, 2021) (File No. 021-35210).</u>
10.31	<u>Fifth Omnibus Amendment to Secured Notes, Consent and Second Amendment to Asset Sale Under Secured Notes and Intercreditor Agreement, dated as of October 21, 2021 by and among HC2 Station Group, Inc., HC2 LPTV Holdings, Inc., HC2 Broadcasting Inc., HC2 Network Inc., HC2 Broadcasting License Inc., HC2 Broadcasting Intermediate Holdings Inc., HC2 Broadcasting Holdings Inc., MSD PCOF Partners XVIII, LLC, Great American Life Insurance Company and Great American Insurance Company (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by INNOVATE Corp. on October 27, 2021) (File No. 001-35210).</u>
10.32^	<u>Executive Severance Guidelines (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by INNOVATE Corp. on October 27, 2021) (File No. 001-35210).</u>
10.33	<u>Second Omnibus Amendment to Secured Notes dated as of August 31, 2020, by and among Station Group, LPTV, Broadcasting, Network, and HC2 Broadcasting Inc., Intermediate Parent, Parent Borrower, and MSD PCOF Partners, XVIII, LLC ("MSD"), GALIC and GAIC (filed herewith).</u>
10.34	<u>Fourth Omnibus Amendment to Secured Notes and Third Amendment to Intercreditor Agreement, dated as of November 25, 2020, by and among Station Group, LPTV, Broadcasting, Network, and HC2 Broadcasting Inc., Intermediate Parent, Parent Borrower, and MSD PCOF Partners, XVIII, LLC ("MSD"), GALIC and GAIC (filed herewith).</u>
10.35^	<u>2019 INNOVATE Corp. Executive Bonus Plan (filed herewith).</u>
10.36^	<u>Form of Restricted Stock Award Agreement (filed herewith).</u>
10.37^	<u>Form of Stock Option Agreement (filed herewith).</u>
10.38^	<u>Form of Director Restricted Stock Award Agreement (filed herewith).</u>
21.1	<u>Subsidiaries of INNOVATE (filed herewith).</u>
23.1	<u>Consent of BDO USA, LLP, an independent registered public accounting firm (filed herewith).</u>
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (filed herewith).</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (filed herewith).</u>

32.1\* Section 1350 Certification of Chief Executive Officer and Chief Financial Officer (furnished herewith).

101 The following materials from the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2021, formatted in extensible business reporting language (XBRL); (i) Consolidated Statements of Operations for the years ended December 31, 2021 and 2020, (ii) Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2021 and 2020, (iii) Consolidated Balance Sheets at December 31, 2021 and 2020, (iv) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2021 and 2020, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020, and (vi) Notes to Consolidated Financial Statements (filed herewith).

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

^ Indicates management contract or compensatory plan or arrangement.

**ITEM 16. FORM 10-K SUMMARY**

None.



**INNOVATE CORP.**

**INDEX TO FINANCIAL STATEMENTS AND SCHEDULES**

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## **Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors  
INNOVATE Corp.  
New York, NY

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of INNOVATE Corp. (the “Company”) and subsidiaries as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive (loss) income, stockholders’ (deficit) equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 9, 2022 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### **Revenue Recognition - Estimated Costs to Complete**

As described in Note 4 to the consolidated financial statements, with respect to the Company’s Infrastructure segment (DBM Global Inc.), the Company recognizes a significant portion of its revenue over time using the input method to measure the progress of costs incurred for its service and construction contracts. The cost estimation process for these contracts is based on the knowledge and experience of the Company’s project managers, engineers and financial professionals. Changes in job performance, job conditions and management’s assessment of expected variable consideration are factors that influence estimates of the total contract transaction price, total costs to complete those contracts and the Company’s revenue recognition.

We identified estimated costs to complete on specific revenue contracts as a critical audit matter. The determination of the total estimated cost and progress toward completion requires management to make significant estimates and assumptions. Total estimated costs to complete projects include various costs such as direct material, labor, subcontract costs, indirect labor, and fabrication plant overhead costs. Changes in these estimates can have a significant impact on the revenue recognized each period. Auditing these elements involved especially challenging auditor judgment in evaluating the reasonableness of management's assumptions and estimates over the duration of these contracts.

The primary procedures we performed to address this critical audit matter included:

- Assessing the reasonableness of the estimated costs to complete for a sample of open projects through: (i) evaluating the reasonableness of project budgets and the nature of costs required to complete open projects, (ii) assessing the status of completion of respective projects through testing of a sample of project costs incurred to date, (iii) evaluating the reasonableness of project status by performing inquiries of project managers and assessing the nature of activities required to complete open projects, and (iv) performing retrospective review for open projects and investigating budget to actual variances (if any).
- Assessing the reasonableness of changes in estimated costs to complete during quarterly reviews and at year end and investigating reasons for changes in expected costs and project margins.
- Evaluating the reasonableness of a sample of project budgets for projects completed during the year through a retrospective review against actual performance at project completion.

### **Valuation of Investment in Securities**

With respect to the sale of the Company's Insurance segment, Continental Insurance Group Ltd ("CIG") disclosed in Note 3 to the consolidated financial statements, the carrying value of the deconsolidated entity included Level 3 fixed maturity securities and equity securities at the sale closing date, a portion of which were valued based on non-binding broker quotes, as disclosed in Note 2 to the consolidated financial statements. The lack of visibility into assumptions used in non-binding broker quotes are significant unobservable inputs, which create greater subjectivity when determining the fair values.

We identified the use of non-binding broker quotes as a critical audit matter. The use of non-binding broker quotes was the significant unobservable input and assumption used by the Company in determining the fair value of certain financial instruments reflected as Level 3 fixed maturity securities and equity securities in circumstances where vendor pricing was not available at the sale closing date.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the valuation methodologies used by the Company for Level 3 fixed maturity securities and equity securities at the sale closing date.
- Comparing the Company's fair value estimates of Level 3 fixed maturity securities and equity securities at the sale closing date to a range of fair value estimates independently calculated utilizing valuation specialists. We evaluated information that corroborated or contradicted the Company's fair value estimates, including observable yields, transaction data for similar securities, and historical collateral performance data.

### **Accounting for Issuance of Preferred Stock**

As described in Note 15 to the consolidated financial statements, on July 1, 2021 and as a part of the sale of CIG which resulted in the deconsolidation of the entity, the Company entered into an agreement to exchange the remaining shares of the Series A and Series A-2 Convertible Participating Preferred Stock held by the now deconsolidated CGIC for an equivalent number of Series A-3 and Series A-4 Convertible Participating Preferred Stock and issued DBMGI Series A Preferred Stock to the now deconsolidated CGIC. The terms of the Series A-3 and Series A-4 remained substantially the same, except that the Series A-3 and Series A-4 will mature on July 1, 2026. The Series A-3 and Series A-4 Preferred Stock were classified as temporary equity as of December 31, 2021. The DBMGI Series A Preferred Stock is redeemable at any time, in whole or in part, at the option of the Company, or at any time or by the holder prior to July 2026. The DBMGI Series A Preferred Stock was classified as temporary equity as of December 31, 2021.

We identified the accounting for issuance of preferred stock as a critical audit matter. Significant judgments and highly complex technical accounting guidance are required in the determination of the scope of the applicable accounting guidance and appropriate balance sheet classification, including the identification and evaluation of embedded features potentially requiring bifurcation as derivatives as well as the determination of initial and subsequent recognition and measurement, and the determination of any resulting adjustments to earnings per share. Auditing these elements involved especially challenging and complex auditor judgment due to extent of audit effort required to address these matters, including the extent of specialized skills or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Reading and analyzing the contract terms related to the issuance of Series A-3 and A-4 Preferred Stock and the issuance of DBMGI Series A Preferred Stock.
- Evaluating the reasonableness of the conclusions made by the Company related to the accounting treatment for issuance of preferred stock, including the Company's consideration of relevant accounting standards to analyze the proper balance sheet classification, the embedded features, and the initial and subsequent recognition and measurement.
- Reviewing and recalculating the computation of the Company's earnings per share as of December 31, 2021.
- Utilizing personnel with specialized knowledge and skills in the relevant technical accounting guidance to assist in evaluating the appropriateness of Management's application of relevant accounting guidance for the issuance of Preferred Stock.

#### **Accounting for Exchange of Convertible Notes**

As described in Notes 2 and 9 to the consolidated financial statements, on February 1, 2021, the Company entered into exchange agreements by which the Company exchanged the 2022 Convertible Notes for newly issued 7.50% convertible notes due 2026. The Company accounted for this exchange under the debt extinguishment model and the embedded conversion feature contained in the 2026 Convertible Notes was recorded as a premium on the 2026 Convertible Notes.

We identified accounting for the exchange of convertible notes as a critical audit matter. Significant judgments and highly complex technical accounting guidance are required in the determination of (i) whether the exchange of convertible notes was a modification or extinguishment of debt; (ii) whether the conversion feature should be bifurcated and accounted for as a derivative and the substantial premium model should be applied, and (iii) whether the convertible notes should be recorded as a liability in its entirety. Auditing these elements involved especially challenging and complex auditor judgment due to the nature and extent of audit effort required to evaluate management's application of highly complex technical accounting guidance to these elements, including the extent of specialized skills or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Reading and analyzing the contract terms of the Indenture for the 7.50% Convertible Senior Notes due 2026 related to the exchange of convertible notes.
- Evaluating the reasonableness of the conclusions made by the Company related to the accounting treatment for modification or extinguishment of debt, including the Company's consideration of relevant accounting standards to analyze the conversion feature, premium and classification and presentation of the instrument as a whole in the consolidated balance sheet.
- Utilizing personnel with specialized knowledge and skills in the relevant technical accounting guidance to assist in evaluating the appropriateness of management's application of relevant technical accounting guidance to the exchange of convertible notes.

We have served as the Company's auditor since 2011.

/s/ BDO USA, LLP

New York, NY  
March 9, 2022



## **Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors  
INNOVATE Corp.  
New York, NY

### **Opinion on Internal Control over Financial Reporting**

We have audited INNOVATE Corp. and subsidiaries' (the "Company's") internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for each of the years then ended, and the related notes and our report dated March 9, 2022 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As indicated in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Banker Steel Holdco LLC, which was acquired on May 27, 2021, and which is included in the consolidated balance sheets of the Company as of December 31, 2021, and the related consolidated statements of operations, comprehensive (loss) income, stockholders' equity, and cash flows for the year then ended. Banker Steel Holdco constituted 26.6% and 270.1% of total assets and net assets, respectively, as of December 31, 2021, and 22.4% and 6.1% of revenues and net income (loss), respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of Banker Steel Holdco LLC because of the timing of the acquisition which was completed on May 27, 2021. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Banker Steel Holdco, LLC.

### **Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

New York, NY  
March 9, 2022

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

**PART I: FINANCIAL INFORMATION**

**Item 1. Financial Statements**

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Revenue	\$ 1,205.2	\$ 716.9
Cost of revenue	1,021.5	588.5
<b>Gross profit</b>	<b>183.7</b>	<b>128.4</b>
Operating expenses:		
Selling, general and administrative	168.3	145.5
Depreciation and amortization	25.4	17.7
Other operating loss (gain)	0.6	(6.5)
<b>Loss from operations</b>	<b>(10.6)</b>	<b>(28.3)</b>
Other (expense) income:		
Interest expense	(59.1)	(74.8)
Loss on early extinguishment or restructuring of debt	(12.5)	(9.4)
Loss from equity investees	(2.8)	(3.4)
Other income	4.3	69.2
<b>Loss from continuing operations before income taxes</b>	<b>(80.7)</b>	<b>(46.7)</b>
Income tax expense	(5.6)	(7.0)
<b>Loss from continuing operations</b>	<b>(86.3)</b>	<b>(53.7)</b>
Loss from discontinued operations (including loss on sale of \$159.9 million and \$44.1 million for the years ended December 31, 2021 and 2020, respectively)	(149.9)	(48.4)
<b>Net loss</b>	<b>(236.2)</b>	<b>(102.1)</b>
Net loss attributable to noncontrolling interest and redeemable noncontrolling interest	8.7	10.1
<b>Net loss attributable to INNOVATE Corp.</b>	<b>(227.5)</b>	<b>(92.0)</b>
Less: Preferred dividends and deemed dividends from conversions	2.2	3.6
<b>Net loss attributable to common stock and participating preferred stockholders</b>	<b>\$ (229.7)</b>	<b>\$ (95.6)</b>
Loss per common share - continuing operations		
Basic	\$ (1.05)	\$ (1.25)
Diluted	\$ (1.05)	\$ (1.25)
Loss per common share - discontinued operations		
Basic	\$ (1.93)	\$ (0.63)
Diluted	\$ (1.93)	\$ (0.63)
Loss per share - Net loss attributable to common stock and participating preferred stockholders		
Basic	\$ (2.98)	\$ (1.88)
Diluted	\$ (2.98)	\$ (1.88)
Weighted average common shares outstanding:		
Basic	77.1	50.3
Diluted	77.1	50.3

See notes to Consolidated Financial Statements

**INNOVATE CORP.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**  
(in millions)

	<b>Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Net loss	\$ (236.2)	\$ (102.1)
Other comprehensive (loss) income		
Foreign currency translation adjustment, net of tax	2.1	7.9
Unrealized (loss) gain on available-for-sale securities, net of tax	(57.7)	191.6
Dispositions	(334.0)	30.3
Other comprehensive (loss) income	(389.6)	229.8
Comprehensive (loss) income	(625.8)	127.7
Comprehensive (loss) income attributable to noncontrolling interests and redeemable noncontrolling interests	(7.8)	(8.2)
Comprehensive (loss) income attributable to INNOVATE Corp.	<u>\$ (633.6)</u>	<u>\$ 119.5</u>

See notes to Consolidated Financial Statements

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

	December 31, 2021	December 31, 2020
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 45.5	\$ 43.8
Accounts receivable, net	247.1	134.7
Contract assets	118.6	86.6
Inventory	17.0	9.9
Restricted cash	2.0	1.5
Assets held for sale	1.5	5,942.1
Other current assets	10.9	8.7
<b>Total current assets</b>	<b>442.6</b>	<b>6,227.3</b>
Investments	56.0	55.4
Deferred tax asset	3.0	3.0
Property, plant and equipment, net	169.9	112.8
Goodwill	127.4	111.0
Intangibles, net	208.4	172.1
Other assets	73.3	42.2
<b>Total assets</b>	<b>\$ 1,080.6</b>	<b>\$ 6,723.8</b>
<b>Liabilities, temporary equity and stockholders' (deficit) equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 179.2	\$ 69.7
Accrued liabilities	93.4	77.1
Current portion of debt obligations	69.5	433.6
Contract liabilities	79.1	33.2
Liabilities held for sale	—	5,306.7
Other current liabilities	18.3	12.9
<b>Total current liabilities</b>	<b>439.5</b>	<b>5,933.2</b>
Deferred tax liability	9.1	7.0
Debt obligations	556.8	127.9
Other liabilities	63.3	39.8
<b>Total liabilities</b>	<b>1,068.7</b>	<b>6,107.9</b>
<b>Commitments and contingencies</b>		
<b>Temporary equity</b>		
Preferred stock	18.8	10.4
Redeemable noncontrolling interest	49.3	5.3
<b>Total temporary equity</b>	<b>68.1</b>	<b>15.7</b>
<b>Stockholders' (deficit) equity</b>		
Common stock, \$0.001 par value	0.1	0.1
Shares authorized: 160,000,000 at December 31, 2021 and December 31, 2020, respectively		
Shares issued: 79,225,964 and 77,836,586 at December 31, 2021 and December 31, 2020, respectively		
Shares outstanding: 77,836,748 and 76,726,835 at December 31, 2021 and December 31, 2020, respectively		
Additional paid-in capital	330.6	355.7
Treasury stock, at cost: 1,389,216 and 1,109,751 shares at December 31, 2021 and December 31, 2020, respectively	(5.2)	(4.2)
Accumulated deficit	(416.2)	(188.7)
Accumulated other comprehensive income	6.4	396.9
<b>Total INNOVATE Corp. stockholders' (deficit) equity</b>	<b>(84.3)</b>	<b>559.8</b>
Noncontrolling interest	28.1	40.4
<b>Total stockholders' (deficit) equity</b>	<b>(56.2)</b>	<b>600.2</b>
<b>Total liabilities, temporary equity and stockholders' (deficit) equity</b>	<b>\$ 1,080.6</b>	<b>\$ 6,723.8</b>

See notes to Consolidated Financial Statements

**INNOVATE CORP.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY**  
(in millions)

	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Deficit	Other Comprehensive Income (Loss) (a)	INNOVATE Stockholders' Equity (Deficit)	Non-controlling Interest	Total Stockholders' Equity (Deficit)	Temporary Equity
	Shares	Amount	Stock	Deficit	(a)	Equity (Deficit)	Interest	Equity (Deficit)	Equity
Balance as of December 31, 2019	46.1	\$ —	\$ (3.3)	\$ (96.7)	\$ 168.7	\$ 349.8	\$ 93.8	\$ 443.6	\$ 21.6
Share-based compensation	—	—	—	—	—	6.3	—	6.3	—
Fair value adjustment of redeemable noncontrolling interest	—	—	—	—	—	(1.3)	—	(1.3)	1.3
Preferred stock accretion	—	—	—	—	—	(2.0)	—	(2.0)	2.0
Taxes paid in lieu of shares issued for share-based compensation	(0.4)	—	(0.9)	—	—	(0.9)	—	(0.9)	—
Preferred stock dividend	—	—	—	—	—	(0.8)	—	(0.8)	—
Issuance of common stock	2.3	—	—	—	—	0.2	—	0.2	—
Rights Offering	16.8	0.1	—	—	—	34.5	—	34.5	—
Issuance of preferred stock	—	—	—	—	—	2.0	—	2.0	25.0
Series B Preferred Share Conversion	11.9	—	—	—	—	27.0	—	27.0	(27.0)
Transactions with noncontrolling interests	—	—	—	—	—	6.7	(57.0)	(50.3)	(4.0)
Other	—	—	—	—	—	2.1	—	2.1	—
Net loss	—	—	—	(92.0)	—	(92.0)	(5.4)	(97.4)	(4.7)
Other comprehensive income	—	—	—	—	228.2	228.2	9.0	237.2	1.5
Balance as of December 31, 2020	76.7	\$ 0.1	\$ (4.2)	\$ (188.7)	\$ 396.9	\$ 559.8	\$ 40.4	\$ 600.2	\$ 15.7
Share-based compensation	—	—	—	—	—	2.4	—	2.4	—
Fair value adjustment of redeemable noncontrolling interest	—	—	—	—	—	0.2	—	0.2	0.1
Taxes paid in lieu of shares issued for share-based compensation	—	—	(1.0)	—	—	(1.0)	—	(1.0)	—
Preferred stock dividend	—	—	—	—	—	(2.2)	—	(2.2)	—
Issuance of common stock	1.1	—	—	—	—	0.2	—	0.2	—
Issuance of preferred stock	—	—	—	—	—	—	—	—	19.1
Issuance of redeemable noncontrolling interest	—	—	—	—	—	—	—	—	40.9
Purchase of preferred stock by subsidiary	—	—	—	—	—	(0.3)	—	(0.3)	—
Redemption of Series A and A-2 Preferred Stock	—	—	—	—	—	—	—	—	(10.4)
Transactions with noncontrolling interests	—	—	—	—	—	(22.2)	(12.7)	(34.9)	9.4
Other	—	—	(3.2)	—	—	(3.2)	1.5	(1.7)	—
Net loss	—	—	—	(227.5)	—	(227.5)	(2.0)	(229.5)	(6.7)
Other comprehensive (loss) income	—	—	—	—	(390.5)	(390.5)	0.9	(389.6)	—
Balance as of December 31, 2021	77.8	\$ 0.1	\$ (5.2)	\$ (416.2)	\$ 6.4	\$ (84.3)	\$ 28.1	\$ (56.2)	\$ 68.1

(a) Inclusive of other comprehensive income, foreign currency cumulative translation adjustments totaled \$7.3 million and \$13.4 million as of December 31, 2021 and 2020, respectively.

See notes to Consolidated Financial Statements

**INNOVATE CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in millions)

	Years Ended December 31,	
	2021	2020
<b>Cash flows from operating activities</b>		
Net loss	\$ (236.2)	\$ (102.1)
Less: Loss from discontinued operations, net of tax	(149.9)	(48.4)
	(86.3)	(53.7)
Adjustments to reconcile net loss to cash provided by operating activities		
Share-based compensation expense	2.4	2.9
Depreciation and amortization	37.6	26.8
Amortization of deferred financing costs and debt discount	10.5	15.1
Amortization of discount on investments, net	—	(0.1)
Loss on extinguishment of debt	12.5	9.4
Loss from equity investees	2.8	3.4
Asset impairment expense	2.8	13.7
Net realized and unrealized gains on investments	—	(72.5)
Deferred income taxes	2.0	(4.7)
Other operating activities	(4.2)	(10.3)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	(38.3)	92.9
Contract assets	(19.1)	(36.1)
Other current assets	(0.3)	4.8
Other assets	10.6	9.9
Accounts payable	57.9	5.8
Accrued liabilities	8.5	(4.7)
Contract liabilities	7.2	(17.5)
Other current liabilities	(2.2)	(17.0)
Other liabilities	(10.9)	(23.3)
Cash used in continuing operating activities	(6.5)	(55.2)
Cash provided by discontinued operating activities	33.5	96.3
Cash provided by operating activities	27.0	41.1
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(24.1)	(17.8)
Proceeds from disposal of property, plant and equipment	13.2	41.2
Sale of investments	—	0.6
Sale of equity method investments	—	85.5
Cash received from dispositions, net of cash disposed	74.0	147.4
Extraordinary dividend received in business disposition	62.5	—
Cash paid for acquisitions, net of cash acquired	(128.5)	—
Other investing activities	1.0	5.0
Cash (used in) provided by continuing investing activities	(1.9)	261.9
Cash used in discontinued investing activities	(221.3)	(99.8)
Cash (used in) provided by investing activities	(223.2)	162.1
<b>Cash flows from financing activities</b>		
Proceeds from (Repayments of) debt obligations	487.6	(4.1)
Principal payments on debt obligations	(458.1)	(181.9)
Proceeds from sale of preferred stock	—	38.0
Cash received by subsidiary to issue preferred stock	10.5	37.2
Redemption of preferred stock	(10.4)	—
Transactions with noncontrolling interests	(13.5)	(62.9)
Other financing activities	(4.2)	(8.8)
Cash provided by (used in) continuing financing activities	11.9	(182.5)
Cash used in discontinued financing activities	(7.6)	(22.0)
Cash provided by (used in) financing activities	4.3	(204.5)
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(1.3)	1.1
Net decrease in cash and cash equivalents, including restricted cash and cash classified within assets held for sale	(193.2)	(0.2)
Less: Net decrease in cash and cash equivalents from discontinued operations	(195.4)	(20.8)
Net change in cash, cash equivalents and restricted cash	2.2	20.6
Cash, cash equivalents and restricted cash, beginning of period	45.3	24.7
Cash, cash equivalents and restricted cash, end of period	\$ 47.5	\$ 45.3

See notes to Consolidated Financial Statements

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Business**

INNOVATE Corp. ("INNOVATE", formerly known as HC2 Holdings, Inc.) and, together with its consolidated subsidiaries, the "Company", "we" and "our") is a diversified holding company that has a portfolio of subsidiaries in a variety of operating segments. We seek to grow these businesses so that they can generate long-term sustainable free cash flow and attractive returns in order to maximize value for all stakeholders. While the Company generally intends to acquire controlling equity interests in its operating subsidiaries, the Company may invest to a limited extent in a variety of debt instruments or noncontrolling equity interest positions. The Company's shares of common stock trade on the NYSE under the symbol "VATE".

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

1. Our Infrastructure segment is comprised of DBM Global Inc. ("DBMG") and its wholly-owned subsidiaries. DBMG is a fully integrated Industrial Construction, Structural Steel and Facility Maintenance provider that provides fabrication and erection of structural steel and heavy steel plate services and also fabricates trusses and girders and specializes in the fabrication and erection of large-diameter water pipe and water storage tanks, as well as 3-D Building Information Modeling ("BIM") and detailing. DBMG provides these services on commercial, industrial, and infrastructure construction projects such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas and stadiums, shopping malls, hospitals, dams, bridges, mines, metal processing, refineries, pulp and paper mills and power plants. Through GrayWolf, DBMG provides integrated solutions for digital engineering, modeling and detailing, construction, heavy equipment installation and facility services including maintenance, repair, and installation to a diverse range of end markets. Through Aitken Manufacturing, DBMG manufactures pollution control scrubbers, tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products. Through the recently acquired Banker Steel, DBMG provides full-service fabricated structural steel and erection services primarily for the East Coast and Southeast commercial and industrial construction market, in addition to full design-assist services. The Company maintains an approximately 91% controlling interest in DBMG.

2. Our Life Sciences segment is comprised of Pansend Life Sciences, LLC ("Pansend"). Pansend maintains controlling interests of approximately 80% in Genovel Orthopedics, Inc. ("Genovel"), which seeks to develop products to treat early osteoarthritis of the knee and approximately 56% in R2 Technologies, Inc. ("R2"), which develops aesthetic and medical technologies for the skin. Pansend also invests in other early stage or developmental stage healthcare companies including an approximately 47% interest in MediBeacon Inc. ("MediBeacon"), and an approximately 26% interest in Triple Ring Technologies, Inc ("Triple Ring").

3. Our Spectrum segment is comprised of HC2 Broadcasting Holdings Inc. ("Broadcasting") and its subsidiaries. Broadcasting strategically acquires and operates over-the-air broadcasting stations across the United States. 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. The Company maintains a 98% controlling interest in Broadcasting and maintains a controlling interest of approximately 77%, inclusive of approximately 10% proxy and voting rights from minority holders of DTV America Corporation ("DTV").

4. Our Other segment represents all other businesses or investments that do not meet the definition of a segment individually or in the aggregate. Included in the Other segment is the former Marine Services segment, which includes its holding company, Global Marine Holdings, LLC ("GMH"), in which the Company maintains approximately 73% controlling interest. GMH results include the current and prior year equity investment in HMN Technologies Co., Ltd. ("HMN"), its 19% equity method investment, and the discontinued operations of Global Marine Systems Limited ("GMSL"). Also included in the Other segment is the discontinued operations of Beyond6, Inc. ("Beyond6"), Continental Insurance Group ("CIG") and PTGi International Carrier Services, Inc. and its subsidiaries ("ICS").



## 2. Summary of Significant Accounting Policies

### *Principles of Consolidation*

The Consolidated Financial Statements include the accounts of the Company, its wholly owned subsidiaries and all other subsidiaries over which the Company exerts control. All intercompany profits, transactions and balances have been eliminated in consolidation. For the years ended December 31, 2021 and December 31, 2020, the results of DBMG, Genovel, R2, Broadcasting, CIG, GMH and Beyond6 have been consolidated into the Company's results based on guidance from the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" 810, *Consolidation*). The remaining interests not owned by the Company are presented as a noncontrolling interest component of total equity.

### *Basis of Presentation*

The accompanying Consolidated Financial Statements of the Company included herein have been prepared in U.S. dollars in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain prior amounts have been reclassified or combined to conform to the current year presentation.

### *Liquidity*

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

### *COVID-19*

There are many uncertainties regarding the current coronavirus ("COVID-19") pandemic, and the Company continues to closely monitor the impact of the COVID-19 pandemic, including the effectiveness of the vaccine programs, on all aspects of its business, including how it will impact its customers, employees, suppliers, vendors, business partners and distribution channels and any potential prolonging or worsening of the pandemic due to COVID-19 variants. We are unable to predict the impact that COVID-19 will have on the Company's financial position and operating results due to numerous uncertainties. However, as the pandemic continues, it may have an adverse effect on the Company's results of operations, financial condition, or liquidity.

COVID-19 has continued to cause supply chain challenges related to labor shortages and supply chain disruptions, which may create significant delays in our ability to complete projects or deliver products. The receipt of material from impacted areas has been slowed or disrupted and our suppliers are expected to face similar challenges in fulfilling orders. In addition, reductions in the number of ocean carrier voyages, ocean freight capacity issues, congestion at major international gateways and other economic factors continue to persist worldwide due to COVID-19 and worldwide supply impacts as there is much greater demand for shipping and reduced capacity and equipment, which has resulted in recent price increases per shipping container. In addition, in the United States, trucking costs have risen dramatically due to driver shortages and increased labor costs, as well as new federal and state safety, environmental and labor regulations. These changes, as well as COVID-19 related state and local restrictions on domestic trucking and the operation of distribution centers, may disrupt our supply chain, which may result in a delay in the completion of our projects and cause us to incur significant additional costs. Although we may attempt to pass on certain of these increased costs to our customers, we may not be able to pass all of these cost increases on to our customers. As a result, our margins may be adversely impacted by such cost increases. These supply chain disruptions and transportation challenges could have a material adverse effect on our results of operations or financial condition.

The Company expects to continue to assess the evolving impact of the COVID-19 pandemic.

### ***Cash and Cash Equivalents***

Cash and cash equivalents are comprised principally of amounts in money market accounts with original maturities of three months or less.

### ***Acquisitions***

The Company's acquisitions are accounted for using the acquisition method of accounting, which requires, among other things, that assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date. Estimates of fair value included in the Consolidated Financial Statements, in conformity with ASC 820, *Fair Value Measurements and Disclosures*, represent the Company's best estimates and valuations developed, when needed, with the assistance of independent appraisers or, where such valuations have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. Such estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially.

### ***Equity Method Investments***

The Company utilizes the equity method to account for investments when it possesses the ability to exercise significant influence, but not control, over the operating and financial policies of the investee. The ability to exercise significant influence is presumed when an investor possesses more than 20% of the voting interests of the investee, such as with our investments in MediBeacon and Triple Ring, of which we own an approximately 47% interest in MediBeacon and an approximately 26% interest in Triple Ring. This presumption may be overcome based on specific facts and circumstances that demonstrate that the ability to exercise significant influence is restricted, such as with our 19% equity method investment in HMN, as we continue to maintain a seat on the entity's board of directors and can exert significant influence. The Company applies the equity method to investments in common stock and to other investments when such other investments possess substantially identical subordinated interests to common stock. In applying the equity method, the Company records the investment at cost and subsequently increases or decreases the carrying amount of the investment by its proportionate share of the net earnings or losses in (Loss) income from equity investees and other comprehensive income of the investee. The Company records dividends or other equity distributions as reductions in the carrying value of the investment. In the event that net losses of the investee reduce the carrying amount to zero, additional net losses may be recorded if other investments in the investee are at-risk, even if the Company has not committed to provide financial support to the investee. Such additional equity method losses, if any, are based upon the change in the Company's claim on the investee's book value.

### ***Fair Value Measurements***

General accounting principles for Fair Value Measurements and Disclosures define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. These principles also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and describes three levels of inputs that may be used to measure fair value:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are defined as having the following characteristics for the measured asset/liability: (i) many transactions, (ii) current prices, (iii) price quotes not varying substantially among market makers, (iv) narrow bid/ask spreads and (v) most information publicly available. The Company's Level 1 financial instruments consist primarily of publicly traded equity securities and highly liquid government bonds for which quoted market prices in active markets are available.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or market standard valuation techniques and assumptions with significant inputs that are observable or can be corroborated by

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

observable market data for substantially the full term of the assets or liabilities. Such observable inputs include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market. The Company's Level 2 financial instruments include corporate and municipal fixed maturity securities, mortgage-backed non-affiliated common stocks priced using observable inputs. Level 2 inputs include benchmark yields, reported trades, corroborated broker/dealer quotes, issuer spreads and benchmark securities. When non-binding broker quotes can be corroborated by comparison to similar securities priced using observable inputs, they are classified as Level 2.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. Level 3 assets and liabilities include those whose value is determined using market standard valuation techniques. When observable inputs are not available, the market standard techniques for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation and cannot be supported by reference to market activity. Even though unobservable, management believes these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing similar assets and liabilities. For the Company's invested assets, most of which relate to the 2020 held-for-sale assets of the Insurance segment, this category primarily includes private placements, asset-backed securities, and to a lesser extent, certain residential and commercial mortgage-backed securities, among others. Prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company's understanding of the market, and are generally considered Level 3. Under certain circumstances, based on its observations of transactions in active markets, the Company may conclude the prices received from independent third-party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company would apply internally developed valuation techniques to the related assets or liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given financial instrument is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

The Company may utilize information from third parties, such as pricing services and brokers, to assist in determining the fair value for certain assets and liabilities; however, management is ultimately responsible for all fair values presented in the Company's financial statements. This includes responsibility for monitoring the fair value process, ensuring objective and reliable valuation practices and pricing of assets and liabilities, and approving changes to valuation methodologies and pricing sources. The selection of the valuation technique(s) to apply considers the definition of an exit price and the nature of the asset or liability being valued and significant expertise and judgment is required.

#### ***Accounts Receivable***

Accounts receivable are stated at amounts due from customers net of an allowance for doubtful accounts. Our allowance for doubtful accounts considers historical experience, the age of certain receivable balances, credit history, current economic conditions and other factors that may affect the counterparty's ability to pay.

The policy for determining past due status is based on the contractual payment terms of each customer. Once collection efforts by the Company are exhausted, the determination for charging off uncollectible receivables is made. For the years ended December 31, 2021 and 2020, the Company recorded bad debt expense of \$0.1 million and \$0.6 million, respectively.

#### ***Inventory***

Inventory is valued at the lower of cost or net realizable value under the first-in, first-out method. Provision for obsolescence is made where appropriate and is charged to cost of revenue in the consolidated statements of operations. Short-term work in progress on contracts is stated at cost less foreseeable losses. These costs include only direct labor and expenses incurred to date and exclude any allocation of overhead. The policy for long-term work in progress contracts is disclosed within the Revenue and Cost Recognition accounting policy.

#### ***Accounting for Income Taxes***

We recognize deferred tax assets and liabilities for the expected future tax consequences of transactions and events. Under this method, deferred tax assets and liabilities are determined based on the difference between the book basis and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. If necessary, deferred tax assets are reduced by a valuation allowance to an amount that is determined to be more likely than not recoverable. We must make significant estimates and assumptions about future taxable income and future tax consequences when determining the amount of the valuation allowance. The additional guidance provided by ASC No. 740, "Income Taxes" ("ASC 740"), clarifies the accounting for uncertainty in income taxes recognized in the financial statements. Expected outcomes of current or anticipated tax examinations, refund claims and tax-related litigation and estimates regarding additional tax liability (including interest and penalties thereon) or refunds resulting therefrom will be recorded based on the guidance provided by ASC 740 to the extent applicable.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. These assessments of uncertain tax positions contain judgments related to the interpretation of tax regulations in the jurisdictions in which we transact business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, expiration of statutes of limitations, as well as changes to, or further interpretations of, tax laws and regulations.

At December 31, 2021, our U.S. and foreign companies have significant deferred tax assets resulting from tax loss carryforwards. Additionally, the deferred tax assets generated by certain businesses that do not qualify to be included in the INNOVATE Corp. U.S. consolidated income tax return have been reduced by a full valuation allowance. Based on consideration of both positive and negative evidence, we determined that it was more likely than not that the net deferred tax assets of the INNOVATE Corp. U.S. consolidated filing group will not be realized. Therefore, a valuation allowance was maintained against the INNOVATE Corp. U.S. consolidated filing group's net deferred tax assets as of December 31, 2021. The appropriateness and amount of the valuation allowance are based on cumulative history of losses and our assumptions about the future taxable income of each affiliate and the timing of the reversal of deferred tax assets and liabilities.

In relation to tax effects for accumulated OCI, our policy is to release the tax effects of amounts reclassified from accumulated OCI to pre-tax income (loss) from continuing operations. Any remaining tax effect in accumulated OCI is released following a portfolio approach.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost less accumulated depreciation, which is provided on the straight-line method over the estimated useful lives of the assets. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity of the assets as well as expenditures necessary to place assets into readiness for use. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Cost includes finance costs incurred prior to the asset being available for use. Expenditures for maintenance and repairs are expensed as incurred.

Costs for internal use software that are incurred in the preliminary project stage and in the post-implementation stage are expensed as incurred. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software, beginning when the software project is ready for its intended use, over the estimated useful life of the software.

Depreciation is determined on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 40 years for buildings and leasehold improvements, 3 to 15 years for equipment, furniture and fixtures, and 3 to 20 years for transportation equipment. Leasehold improvements are amortized over the lives of the leases or estimated useful lives of the assets, whichever is shorter. Assets under construction are not depreciated until they are complete and available for use.

When assets are sold or otherwise retired, the costs and accumulated depreciation are removed from the books and the resulting gain or loss is included in operating results. Property, plant and equipment that have been included as part of the assets held for sale are no longer depreciated from the time that they are classified as such. The Company periodically evaluates the carrying value of its property, plant and equipment based upon the estimated cash flows to be generated by the related assets. If impairment is indicated, a loss is recognized.

***Goodwill and Other Intangible Assets***

Under ASC 350, *Intangibles - Goodwill and Other* ("ASC 350"), goodwill and indefinite lived intangible assets are not amortized but are reviewed annually for impairment, or more frequently, if impairment indicators arise. Intangible assets that have finite lives are amortized over their estimated useful lives and are subject to the provisions of ASC 360, *Property, plant, and equipment* ("ASC 360").

Goodwill impairment is tested at least annually (October 1st) or when factors indicate potential impairment using a two-step process that begins with a qualitative evaluation of each reporting unit. If such test indicates potential for impairment, a one-step quantitative test is performed and, if there is excess of a reporting unit's carrying amount over its fair value, impairment is recorded, not to exceed the total amount of goodwill allocated to the reporting unit.

Estimating the fair value of a reporting unit requires various assumptions including projections of future cash flows, perpetual growth rates and discount rates. The assumptions about future cash flows and growth rates are based on the Company's assessment of a number of factors, including the reporting unit's recent performance against budget, performance in the market that the reporting unit serves, and industry and general economic data from third-party sources. Discount rate assumptions are based on an assessment of the risk inherent in those future cash flows. Changes to the underlying businesses could affect the future cash flows, which in turn could affect the fair value of the reporting unit.

Intangible assets not subject to amortization consist of certain licenses. Such indefinite lived intangible assets are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test shall consist of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to the excess.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

Intangible assets subject to amortization consists of certain trade names, customer contracts and developed technology. These finite lived intangible assets are amortized based on their estimated useful lives. Such assets are subject to the impairment provisions of ASC 360, wherein impairment is recognized and measured only if there are events and circumstances that indicate that the carrying amount may not be recoverable. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset group. An impairment loss is recorded if after determining that it is not recoverable, the carrying amount exceeds the fair value of the asset.

In addition to the foregoing, the Company reviews its goodwill and intangible assets for possible impairment whenever events or circumstances indicate that the carrying amounts of assets may not be recoverable. The factors that the Company considers important, and which could trigger an impairment review, include, but are not limited to: a more likely than not expectation of selling or disposing all, or a portion, of a reporting unit; a significant decline in the market value of our common stock or debt securities for a sustained period; a material adverse change in economic, financial market, industry or sector trends; a material failure to achieve operating results relative to historical levels or projected future levels; and significant changes in operations or business strategy. For details regarding goodwill impairment, see Note 8. Goodwill and Intangibles, net.

*Licensing:* Television broadcast licenses generally are granted for eight-year periods. They are renewable after application and reviewed by the FCC and historically are renewed except in rare cases in which a petition to deny, a complaint or an adverse finding as to the licensee's qualifications results in loss of the license.

***Valuation of Long-lived Assets***

The Company reviews long-lived assets for impairment whenever events or changes indicate that the carrying amount of an asset may not be recoverable. In making such evaluations, the Company compares the expected undiscounted future cash flows to the carrying amount of the assets. If the total of the expected undiscounted future cash flows is less than the carrying amount of the assets, the Company is required to make estimates of the fair value of the long-lived assets in order to calculate the impairment loss equal to the difference between the fair value and carrying value of the assets.

The Company makes significant assumptions and estimates in this process regarding matters that are inherently uncertain, such as determining asset groups and estimating future cash flows, remaining useful lives, discount rates and growth rates. The resulting undiscounted cash flows are projected over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While the Company believes that its estimates are reasonable, different assumptions could materially affect the valuation of the long-lived assets. The Company derives future cash flow estimates from its historical experience and its internal business plans, which include consideration of industry trends, competitive actions, technology changes, regulatory actions, available financial resources for marketing and capital expenditures and changes in its underlying cost structure.

The Company makes assumptions about the remaining useful life of its long-lived assets. The assumptions are based on the average life of its historical capital asset additions and its historical asset purchase trend. In some cases, due to the nature of a particular industry in which the company operates, the Company may assume that technology changes in such industry render all associated assets, including equipment, obsolete with no salvage value after their useful lives. In certain circumstances in which the underlying assets could be leased for an additional period of time or salvaged, the Company includes such estimated cash flows in its estimate.

The estimate of the appropriate discount rate to be used to apply the present value technique in determining fair value was the Company's weighted average cost of capital which is based on the effective rate of its debt obligations at the current market values (for periods during which the Company had debt obligations) as well as the current volatility and trading value of the Company's common stock.

***Leases***

The Company accounts for leases in accordance with ASC 842, *Leases*, which requires the balance sheet recognition of lease assets and lease liabilities by lessees for those leases classified as operating and finance leases. The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease assets, current operating lease liabilities and long-term operating lease liabilities in the Consolidated Balance Sheets and are recognized based on the present value of lease payments over the lease term at the commencement date. Finance leases are included in finance lease assets, current finance lease liabilities and long-term finance lease liabilities in the Consolidated Balance Sheets and are recognized based on the present value of lease payments over the lease term at commencement date. The majority of the Company's leases do not provide an implicit rate of return; therefore, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. For lease agreements that contain non-lease components, the Company elected to combine lease and non-lease components as a single lease component.

The Company has operating leases for land, office space, and certain Company vehicles and equipment and finance leases for certain Company vehicles and equipment. The leases are expiring between 2022 and 2045. Leases with an initial term of 12 months or less are not recorded on the balance sheets. Lease expense is recognized on a straight-line basis over the lease term. For purposes of calculating operating lease liabilities, lease terms may be deemed to include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. As of December 31, 2021, the operating lease liability does not include any options to extend or terminate leases.

### ***Presentation of Taxes Collected***

The Company reports a value-added tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between the Company and a customer on a net basis (excluded from revenues).

### ***Foreign Currency Transactions***

Foreign currency transactions are transactions denominated in a currency other than a subsidiary's functional currency. A change in the exchange rates between a subsidiary's functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of the transaction. That increase or decrease in expected functional currency cash flows is reported by the Company as a foreign currency transaction gain (loss). The primary component of the Company's foreign currency transaction gain (loss) is due to agreements in place with certain subsidiaries in foreign countries regarding intercompany transactions. The Company anticipates repayment of these transactions in the foreseeable future, and recognizes the realized and unrealized gains or losses on these transactions that result from foreign currency changes in the period in which they occur as foreign currency transaction gain (loss).

### ***Foreign Currency Translation***

The assets and liabilities of the Company's foreign subsidiaries are translated at the exchange rates in effect on the reporting date. Income and expenses are translated at the average exchange rate during the period. The net effect of such translation gains and losses are reflected within AOCI in the stockholders' equity section of the consolidated balance sheets. If there is a planned or completed sale or liquidation of the Company's ownership in a foreign operation, the relevant foreign currency translation adjustment is recognized in the consolidated statement of operations.

### ***Convertible Instruments***

The Company evaluates and accounts for conversion options embedded in convertible instruments in accordance with ASC 815, *Derivatives and Hedging Activities*. Applicable U.S. Generally Accepted Accounting Principals ("GAAP") requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value under other GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. The Company accounts for convertible instruments, when it has been determined that the embedded conversion options should not be bifurcated from their host instruments, as follows: The Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption. The Company accounts for the conversion of convertible debt when a conversion option has been bifurcated using the general extinguishment standards. The debt and equity linked derivatives are removed at their carrying amounts and the shares issued are measured at their then-current fair value, with any difference recorded as a gain or loss on extinguishment of the two separate accounting liabilities.

### ***Deferred Financing Costs***

The Company capitalizes certain expenses incurred in connection with its debt and line of credit obligations and amortizes them over the term of the respective debt agreement. The amortization expense of the deferred financing costs is included in interest expense on the consolidated statements of operations. If the Company extinguishes portions of its debt prior to the maturity date, deferred financing costs are charged to expense on a pro-rata basis and are included in loss on early extinguishment or restructuring of debt on the consolidated statements of operations.

### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of net revenue and expenses during the reporting period. Actual results may differ from these estimates. Significant estimates include allowance for doubtful accounts receivable, the extent of progress towards completion on contracts, contract revenue and costs on long-term contracts, valuation of certain investments and the insurance reserves, market assumptions used in estimating the fair values of certain assets and liabilities, the calculation used in determining the fair value of INNOVATE's stock options required by ASC 718, *Compensation - Stock Compensation* ("ASC 718"), income taxes and various other contingencies.

Estimates of fair value represent the Company's best estimates developed with the assistance of independent appraisals or various valuation techniques and, where the foregoing have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the

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control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially.

***Share-Based Compensation***

The Company accounts for share-based compensation issued to employees and non-employees in accordance with the provisions of ASC 718. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for using a fair-value based method. The Company records share-based compensation expense for all new and unvested stock options that are ultimately expected to vest as the requisite service is rendered. The Company issues new shares of common stock upon the exercise of stock options.

The Company uses a Black-Scholes option valuation model to determine the grant date fair value of share-based compensation under ASC 718. The Black-Scholes model incorporates various assumptions including the expected term of awards, volatility of stock price, risk-free rates of return and dividend yield. The expected term of an award is no less than the option vesting period and is based on the Company's historical experience. Expected volatility is based upon the historical volatility of the Company's stock price. The risk-free interest rate is approximated using rates available on U.S. Treasury securities with a remaining term similar to the option's expected life. The Company uses a dividend yield of zero in the Black-Scholes option valuation model as it does not anticipate paying cash dividends in the foreseeable future. Share-based compensation is recorded net of actual forfeitures.

***Concentrations of Credit Risk and of Significant Suppliers***

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, and accounts receivable. The Company maintains all cash and cash equivalents at accredited financial institutions, in amounts that exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company holds \$4.7 million and \$8.5 million cash in foreign accounts as of December 31, 2021 and 2020, respectively. The Company attempts to minimize the risks related to cash and cash equivalents by investing in a range of financial instruments as defined by the Company. Concentrations of credit risk with respect to accounts receivable are limited by the large number of customers comprising the Company's customer base and their geographic and business dispersion. The Company performs ongoing credit evaluations of the customers' financial condition and generally does not require collateral to support customer receivables.

For the year ended December 31, 2021, one customer exceeded 10% of the Company's revenue and accounted for approximately 13.9%. No customers accounted for more than 10% of accounts receivable. For the fiscal year ended December 31, 2020, no customer accounted for more than 10% of the Company's revenue and no customers accounted for more than 10% of accounts receivable.

For the year ended December 31, 2021, one supplier accounted for more than 10% of the Company's accounts payable for approximately 15.1%. For the fiscal year ended December 31, 2020, no suppliers accounted for more than 10% of the Company's accounts payable.

***Income (Loss) Per Common Share***

Basic income (loss) per common share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted income (loss) per common share is computed using the weighted average number of shares of common stock, adjusted for the dilutive effect of potential common stock and related income from continuing operations, net of tax. Potential common stock, computed using the treasury stock method or the if-converted method, includes options, warrants, restricted stock, restricted stock units and convertible preferred stock.

In periods when the Company generates income, the Company calculates basic Earnings Per Share ("EPS") using the two-class method, pursuant to ASC No. 260, *Earnings Per Share*. The two-class method is required as the shares of the Company's preferred stock qualify as participating securities, having the right to receive dividends should dividends be declared on common stock. Under this method, earnings for the period are allocated to the common stock and preferred stock to the extent that each security may share in earnings as if all of the earnings for the period had been distributed. The Company does not use the two-class method in periods when it generates a loss as the holders of the preferred stock do not participate in losses.

***Discontinued Operations***

In accordance with ASC 205-20, *Presentation of Financial Statements - Discontinued Operations*, the Company reports the results of operations of a business as discontinued operations if a disposal represents a strategic shift that has or will have a major effect on the Company's operations and financial results when the business is disposed of or classified as held-for-sale. Under ASC 360, *Property, Plant and Equipment*, assets may be classified as held-for-sale even though the discontinued operations criteria is not met. The results of discontinued operations are reported in Loss from discontinued operations in the Consolidated Statement of Operations.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

**Other Income (Loss)**

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

	Years Ended December 31,	
	2021	2020
Loss on embedded derivatives	\$ (0.7)	\$ (2.8)
Gain on sale of equity method investments	—	71.2
Other income, net	5.0	0.8
Total	\$ 4.3	\$ 69.2

**Statement of Cash Flows**

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

	December 31,	
	2021	2020
Cash and cash equivalents, beginning of period	\$ 43.8	\$ 23.3
Restricted cash included in other assets	1.5	1.4
Total cash and cash equivalents and restricted cash	\$ 45.3	\$ 24.7
Cash and cash equivalents, end of period	\$ 45.5	\$ 43.8
Restricted cash included in other assets	2.0	1.5
Total cash and cash equivalents and restricted cash	\$ 47.5	\$ 45.3

Cash and cash equivalents classified in Assets held for sale, beginning of period	\$ 195.2	\$ 216.0
Restricted cash classified in Assets held for sale	0.2	0.2
Total cash and cash equivalents and restricted cash classified in Assets held for sale	\$ 195.4	\$ 216.2

Cash and cash equivalents classified in Assets held for sale, end of period	\$ —	\$ 195.2
Restricted cash classified in Assets held for sale	—	0.2
Total cash and cash equivalents and restricted cash classified in Assets held for sale	\$ —	\$ 195.4

**Supplemental cash flow information:**

Cash paid for interest	\$ 32.6	\$ 65.1
Cash paid for taxes, net of refunds	\$ 5.4	\$ 0.2

**Non-cash investing and financing activities:**

Property, plant and equipment included in accounts payable	\$ 1.4	\$ 4.4
Investments included in accounts payable	\$ —	\$ 17.1
Issuance of preferred stock	\$ 19.1	\$ —
Issuance of redeemable noncontrolling interest	\$ 40.9	\$ —
Extinguishment of convertible note in exchange	\$ 51.8	\$ —
Issuance of convertible note in exchange	\$ (51.8)	\$ —
Debt assumed in acquisitions	\$ 6.3	\$ —

**Reclassification**

Certain previous year amounts have been reclassified to conform with current year presentations, as related to the reporting of new balance sheet line items:

- The recast of Beyond6, ICS, and CIG's results to discontinued operations. Further, the reclassification of prior period assets and liabilities have been classified as held for sale. See Note 3. Discontinued Operations for further information;
- As a result of the sale of ICS, and in accordance with ASC 280, the Company no longer considers the results of operations and balance sheets of the retained ICS entities as a separate segment. Formerly the Telecommunications segment, these entities have been reclassified to the Other segment. See Note 17. Operating Segment and Related Information for further information;



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- As a result of the sale of Beyond6, and in accordance with ASC 280, the Company no longer considers the results of operations and balance sheets of Beyond6 as a separate segment. Formerly the Clean Energy segment, this entity has been reclassified to the Other segment. See Note 17. Operating Segment and Related Information for further information;
- As a result of the sale of CIG, and in accordance with ASC 280, the Company no longer considers the results of operations and Balance Sheets of CIG as a separate segment. This entity has been reclassified to the Other segment. See Note 17. Operating Segment and Related Information for further information; and
- The recast of prior year earnings per share as a result of the discontinued operations noted above. This includes presenting EPS for Net income (loss) from continuing operations, Net income (loss) from discontinuing operations, and Net income (loss). See Note 18. Basic and Diluted Income (Loss) Per Common Share for further details.

***Accounting Pronouncements Adopted in the Current Year***

*Accounting for Investments-Equity Securities*

ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*, was issued by the FASB in January 2020. This update clarifies the interaction between the accounting for investments in equity securities, investment in equity method and certain derivatives instruments. The Company adopted this update as of January 1, 2021 and the update did not have a material impact on the Company's consolidated financial statements.

*Accounting for Debt with Conversion Options*

ASU 2020-06, *Debt - Debt with Conversion and Other Options (Subtopic 470- 20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, was issued by the FASB in August 2020. This ASU (1) simplifies the accounting for convertible debt instruments and convertible preferred stock by removing the existing guidance in ASC 470-20, *Debt: Debt with Conversion and Other Options*, that requires entities to account for beneficial conversion features and cash conversion features in equity, separately from the host convertible debt or preferred stock; (2) revises the scope exception from derivative accounting in ASC 815-40 for freestanding financial instruments and embedded features that are both indexed to the issuer's own stock and classified in stockholders' equity, by removing certain criteria required for equity classification; and (3) revises the guidance in ASC 260, *Earnings Per Share*, to require entities to calculate diluted earnings per share (EPS) for convertible instruments by using the if-converted method. In addition, entities must presume share settlement for purposes of calculating diluted EPS when an instrument may be settled in cash or shares. The standard is effective on January 1, 2024, but the Company elected early adoption as of January 1, 2021. A modified retrospective method of transition was applied, which resulted in no impact to the Company.

*Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*

ASU 2021-08, *Accounting for Contract Assets and Liabilities from Contracts with Customers (Topic 805)* was issued by the FASB in October 2021. This update requires that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606, *Revenue Recognition (Topic 606)*. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts by assessing how the acquiree applied Topic 606 to determine what to record for the acquired revenue contracts. Generally, this should result in an acquirer recognizing and measuring the acquired contract assets and contract liabilities consistent with how they were recognized and measured in the acquiree's financial statements. The Company adopted this update as of January 1, 2021, and applied the guidance to the Company's acquisition of Banker Steel.

***Accounting Pronouncements to be Adopted Subsequent to December 31, 2021***

*Credit Loss Standard*

ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, was issued by FASB in June 2016. This standard is effective January 1, 2020 (with early adoption permitted). This new standard changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments, including trade receivables, from an incurred loss model to an expected loss model and adds certain new required disclosures. Under the expected loss model, entities will recognize estimated credit losses over the entire contractual term of the instrument rather than delaying recognition of credit losses until it is probable the loss has been incurred. The FASB has voted to delay the effective date of ASU 2016-13 to January 1, 2023 for smaller reporting companies with a revised ASU in the fourth quarter of 2019. The Company will not be required to adopt Topic 326 until January 1, 2023. Currently, the Company continues to evaluate the potential impact of the new standard on its financial results.

***Subsequent Events***

ASC 855, *Subsequent Events* requires the Company to evaluate events that occur after the balance sheet date as of which the financial statements are issued, and to determine whether adjustments to or additional disclosures in the financial statements are necessary. See Note 19. Subsequent Events for the summary of the subsequent events.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

**3. Discontinued Operations**

The results of GMSL, ICS, Beyond6, and CIG and the related expenses directly attributable to the entities were reported as discontinued operations. Summarized operating results of the discontinued operations are as follows (in millions):

	Years Ended December 31,	
	2021	2020
Revenue	\$ 1.7	\$ 519.6
Life, accident and health earned premiums, net	55.7	115.1
Net investment income	92.4	188.9
Realized/unrealized gains (losses) on investments	5.1	(15.0)
Total revenue	154.9	808.6
Cost of revenue	0.8	492.4
Policy benefits, changes in reserves, and commissions	126.0	250.0
Selling, general and administrative	21.1	62.0
Depreciation and amortization	(11.0)	(8.3)
Other operating expenses	—	0.3
Income from operations	18.0	12.2
Interest expense	(0.5)	(12.1)
Loss on sale and liquidation of subsidiaries	(159.9)	(44.1)
Income from equity investees	—	0.5
Other loss	(3.1)	(2.3)
Pre-tax loss from discontinued operations	(145.5)	(45.8)
Income tax expense	(4.4)	(2.6)
Loss from discontinued operations	\$ (149.9)	\$ (48.4)

*Sale of CIG*

The sale of CIG closed on July 1, 2021 to Continental General Holdings LLC, an entity controlled by Michael Gorzynski, a director of the Company and, as of December 31, 2021, a beneficial owner of approximately 6.6% of the Company's outstanding common stock who has also served as executive chairman of Continental since October 2020. The Insurance segment, which primarily consisted of a closed block of long-term care insurance, had a book value, inclusive of intercompany eliminations, at the time of the sale of \$544.0 million, inclusive of \$344.0 million of Accumulated other comprehensive income ("AOCI"). The carrying value of the Insurance segment at the time of sale excluded cash of \$62.5 million and investments of \$26.7 million which were distributed to the Company through an extraordinary dividend immediately prior to the sale. The extraordinary dividend was approved by our domestic regulator in connection with the approval of the sale. The amount included in AOCI was reversed from equity at the time of the sale and offset the loss recognized.

While several factors impacted the fair value of the Insurance segment at the end of 2019, following discussions with our domestic regulator, changes in the asset management fee arrangement and expectations of future dividends primarily and ultimately resulted in the full impairment of the goodwill associated with the Insurance segment during the year ended December 31, 2019. While these factors did not have a major impact on the operations of the stand-alone business, they did have a significant impact on the economic benefit that could be realized by the Company.

As a result of the factors described above, combined with the risks associated with the long-term care insurance industry, the Company exited the segment and sold the business resulting in a \$200.8 million loss on the sale of CIG.

*Sale of Beyond6*

On December 31, 2020, the Company announced a plan to sell Beyond6 to an affiliate of Mercuria Investments US, Inc., pursuant to an Agreement and Plan of Merger (the "Merger Agreement") among Beyond6, Greenfill, Inc., a Delaware corporation ("Parent"), Greenfill Merger Inc., a newly-formed Delaware corporation and wholly-owned subsidiary of Parent, and an affiliate of INNOVATE as the Stockholder Representative for the Beyond6 stockholders. The sale closed on January 15, 2021. During the first quarter of 2021, the Company recognized a \$39.2 million gain on the sale. During the third quarter of 2021, as a result of releases of related escrows and hold backs, the Company recognized an additional \$0.5 million gain on the sale.

A portion of the proceeds from the sale of Beyond6 were used to repay \$15.0 million of the then outstanding balance under the Revolving Credit Agreement and repay \$27.9 million of the Company's 2021 Senior Secured Notes.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

As a result of the repayment of \$15.0 million Revolving Credit Agreement, the Company allocated the following interest and amortization of deferred financing costs and original issue discount for the years ended December 31, 2021 and 2020 associated with the principal prepayment from continuing operations to discontinued operations on the Company's Consolidated Statements of Operations:

	Years Ended December 31,	
	2021	2020
Interest expense	\$ 0.1	\$ 0.9
Amortization of deferred financing costs and original issuance discount	\$ —	\$ 0.1

As a result of the repayment of \$27.9 million of the 2021 Senior Secured Notes, the Company allocated the following pro-rata interest and amortization of deferred financing costs and original issuance discount for the years ended December 31, 2021 and 2020, from continuing operations to discontinued operations on the Company's Consolidated Statements of Operations:

	Years Ended December 31,	
	2021	2020
Interest expense	\$ 0.3	\$ 3.2
Amortization of deferred financing costs and original issuance discount	\$ —	\$ 0.4

*Sale of GMSL*

The sale of GMSL closed on February 28, 2020. At the time of the sale, the Company recorded a \$39.3 million loss on the sale and recognized \$31.3 million of Accumulated other comprehensive loss. During the fourth quarter of 2020, the Company recognized a gain on sale of \$2.4 million as a result of the cash collateralized bonding facility release. During the first quarter of 2021, the Company recognized a gain of \$1.2 million as a result of an indemnity release.

The net proceeds from the sale of GMSL were used to repay \$15.0 million of the then outstanding balance under the Revolving Credit Agreement and redeem \$76.9 million aggregate principal amount of the Company's 11.5% senior secured notes due 2021 (the "2021 Senior Secured Notes"), plus accrued and unpaid interest since December 1, 2019 (the last regularly scheduled interest payment date).

As a result of the repayment of \$15.0 million Revolving Credit Agreement, the Company allocated the following interest and the amortization of deferred financing costs for the years ended December 31, 2021 and 2020 associated with the principal prepayment from continuing operations to discontinued operations on the Company's Consolidated Statement of Operations:

	Years Ended December 31,	
	2021	2020
Interest expense	\$ —	\$ 0.2
Amortization of deferred financing costs and original issuance discount	\$ —	\$ 0.1

As a result of the mandatory redemption of \$76.9 million of 2021 Senior Secured Notes, the Company allocated the following pro-rata interest and amortization of deferred financing costs and original issuance discount for the years ended December 31, 2021 and 2020, from continuing operations to discontinued operations on the Company's Consolidated Statements of Operations:

	Years Ended December 31,	
	2021	2020
Interest expense	\$ —	\$ 2.2
Amortization of deferred financing costs and original issuance discount	\$ —	\$ 0.2

*Sale of ICS*

The sale of ICS and its subsidiary, Go2 Tel, Inc., closed on October 31, 2020. The Company recorded a \$0.9 million gain on the sale and recognized \$8.2 million of accumulated other comprehensive loss related to the realization of foreign currency translation of PTGi International Carrier Services Ltd., which was essentially liquidated in conjunction with the sale. The proceeds were used for general corporate purposes.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

Summarized assets and liabilities of the discontinued operations are as follows (in millions):

	December 31, 2021	December 31, 2020
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ —	\$ 195.2
Accounts receivable, net	—	13.6
Other current assets	1.5	8.7
<b>Total current assets</b>	<b>1.5</b>	<b>217.5</b>
Investments	—	4,610.2
Recoverable from reinsurers	—	957.5
Deferred tax asset	—	1.4
Property, plant and equipment, net	—	90.5
Goodwill	—	2.1
Intangibles, net	—	11.7
Other assets	—	51.2
<b>Total assets held for sale</b>	<b>\$ 1.5</b>	<b>\$ 5,942.1</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ —	\$ 2.6
Accrued liabilities	—	35.8
Current portion of debt obligations	—	5.7
Other current liabilities	—	7.4
<b>Total current liabilities</b>	<b>—</b>	<b>51.5</b>
Life, accident and health reserves	—	4,627.5
Annuity reserves	—	228.8
Value of business acquired	—	199.8
Deferred tax liability	—	136.5
Debt obligations	—	50.6
Other liabilities	—	12.0
<b>Total liabilities held for sale</b>	<b>\$ —</b>	<b>\$ 5,306.7</b>

#### 4. Revenue

ASC 606 aligns revenue recognition with the timing of when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. To achieve this core principle, the Company applies the following five steps in accordance with ASC 606:

##### *Identify the contract with a customer*

A contract with a customer exists when: (a) the parties have approved the contract and are committed to perform their respective obligations, (b) the rights of the parties can be identified, (c) payment terms can be identified, (d) the arrangement has commercial substance, and (e) collectability of consideration is probable. Judgment is required when determining if the contractual criteria are met, specifically in the earlier stages of a project when a formally executed contract may not yet exist. In these situations, the Company evaluates all relevant facts and circumstances, including the existence of other forms of documentation or historical experience with our customers that may indicate a contractual agreement is in place and revenue should be recognized. In determining if the collectability of consideration is probable, the Company considers the customer's ability and intention to pay such consideration through an evaluation of several factors, including an assessment of the creditworthiness of the customer and our prior collection history with such customer.

##### *Identify the performance obligations in the contract*

At contract inception, the Company assesses the goods or services promised in a contract and identifies, as a separate performance obligation, each distinct promise to transfer goods or services to the customer. The identified performance obligations represent the "unit of account" for purposes of determining revenue recognition. In order to properly identify separate performance obligations, the Company applies judgment in determining whether each good or service provided is: (a) capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer, and (b) distinct within the context of the contract, whereby the transfer of the good or service to the customer is separately identifiable from other promises in the contract.

In addition, when assessing performance obligations within a contract, the Company considers the warranty provisions included within such contract. To the extent the warranty terms provide the customer with an additional service, other than assurance that the promised good or service complies with agreed upon specifications, such warranty is accounted for as a separate performance obligation. In determining whether a warranty provides an additional service, the Company considers each warranty provision in comparison to warranty terms which are standard in the industry.

***Determine the transaction price***

The transaction price represents the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to our customers. The consideration promised within a contract may include fixed amounts, variable amounts, or both. To the extent the performance obligation includes variable consideration, including contract bonuses and penalties that can either increase or decrease the transaction price, the Company estimates the amount of variable consideration to be included in the transaction price utilizing one of two prescribed methods, depending on which method better predicts the amount of consideration to which the entity will be entitled. Such methods include: (a) the expected value method, whereby the amount of variable consideration to be recognized represents the sum of probability weighted amounts in a range of possible consideration amounts, and (b) the most likely amount method, whereby the amount of variable consideration to be recognized represents the single most likely amount in a range of possible consideration amounts. When applying these methods, the Company considers all information that is reasonably available, including historical, current and estimates of future performance.

Variable consideration is included in the transaction price only to the extent it is probable, in the Company's judgment, that a significant future reversal in the amount of cumulative revenue recognized under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved. This threshold is referred to as the variable consideration constraint. In assessing whether to apply the variable consideration constraint, the Company considers if factors exist that could increase the likelihood or the magnitude of a potential reversal of revenue, including, but not limited to, whether: (a) the amount of consideration is highly susceptible to factors outside of the Company's influence, such as the actions of third parties, (b) the uncertainty surrounding the amount of consideration is not expected to be resolved for a long period of time, (c) the Company's experience with similar types of contracts is limited or that experience has limited predictive value, (d) the Company has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances, and (e) the contract has a large number and broad range of possible consideration amounts.

Pending change orders represent one of the most common forms of variable consideration included within contract value and typically represent contract modifications for which a change in scope has been authorized or acknowledged by our customer, but the final adjustment to contract price is yet to be negotiated. In estimating the transaction price for pending change orders, the Company considers all relevant facts, including documented correspondence with the customer regarding acknowledgment and/or agreement with the modification, as well as historical experience with the customer or similar contractual circumstances. Based upon this assessment, the Company estimates the transaction price, including whether the variable consideration constraint should be applied.

Changes in the estimates of transaction prices are recognized on a cumulative catch-up basis in the period in which the revisions to the estimates are made. Such changes in estimates can result in the recognition of revenue in a current period for performance obligations which were satisfied or partially satisfied in prior periods. Such changes in estimates may also result in the reversal of previously recognized revenue if the ultimate outcome differs from the Company's previous estimate.

***Allocate the transaction price to performance obligations in the contract***

For contracts that contain multiple performance obligations, the Company allocates the transaction price to each performance obligation based on a relative standalone selling price. The Company determines the standalone selling price based on the price at which the performance obligation would have been sold separately in similar circumstances to similar customers. If the standalone selling price is not observable, the Company estimates the standalone selling price taking into account all available information such as market conditions and internal pricing guidelines. In certain circumstances, the standalone selling price is determined using an expected profit margin on anticipated costs related to the performance obligation.

***Recognize revenue as performance obligations are satisfied***

The Company recognizes revenue at the time the related performance obligation is satisfied by transferring a promised good or service to its customers. A good or service is considered to be transferred when the customer obtains control. The Company can transfer control of a good or service and satisfy its performance obligations either over time or at a point in time. The Company transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time if one of the following three criteria are met: (a) the customer simultaneously receives and consumes the benefits provided by the Company's performance as we perform, (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or (c) the Company's performance does not create an asset with an alternative use to us, and we have an enforceable right to payment for performance completed to date.

For our performance obligations satisfied over time, we recognize revenue by measuring the progress toward complete satisfaction of that performance obligation. The selection of the method to measure progress towards completion can be either an input method or an output method and requires judgment based on the nature of the goods or services to be provided.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

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

	Years Ended December 31,	
	2021	2020
Revenue		
Infrastructure	\$ 1,159.7	\$ 676.6
Spectrum	42.0	40.3
Life Sciences	3.5	—
Total revenue	<u>\$ 1,205.2</u>	<u>\$ 716.9</u>

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

	December 31, 2021	December 31, 2020
Accounts receivables with customers		
Infrastructure	\$ 226.8	\$ 118.5
Spectrum	9.4	7.3
Life Sciences	0.3	—
Total accounts receivables with customers	<u>\$ 236.5</u>	<u>\$ 125.8</u>

***Infrastructure Segment***

DBMG performs its services primarily under fixed-price contracts and recognizes revenue over time using the input method to measure progress for its projects. The nature of the projects does not provide measurable value to the customer over time and control does not transfer to the customer at discrete points in time. The customer receives value over the term of the project based on the amount of work that has been completed towards the delivery of the completed project. The most reliable measure of progress is the cost incurred towards delivery of the completed project. Therefore, the input method provides the most reliable method to measure progress. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, subcontractor costs, indirect labor, and fabrication plant overhead costs, which are charged to contract costs as incurred. Revenues relating to changes in the scope of a contract are recognized when DBMG and customer or general contractor have agreed on both the scope and price of changes, the work has commenced, it is probable that the costs of the changes will be recovered and that realization of revenue exceeding the costs is assured beyond a reasonable doubt. Revisions in estimates during the course of contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

***Payment Terms***

The timing of customer billings is generally dependent upon advance billing terms, milestone billings based on completion of certain phases of work, or when services are provided. Under the typical payment terms of master and other service agreements and fixed price contracts, the customer makes progress payments based on quantifiable measures of performance by the Company as defined by each specific agreement. Progress payments, generally net of amounts retained, are paid by the customer over the duration of the contract. Amounts billed and due from customers, as well as the amount of contract assets, are generally classified within current assets in the consolidated balance sheets. See Note 6. Accounts Receivable, net and Contract Assets and Contract Liabilities for related discussion. Amounts expected to be collected beyond one year are classified as other long-term assets.

***Service Contracts***

For service contracts (including maintenance contracts) where we have the right to consideration from the customer in an amount that corresponds directly with the value received by the customer based on our performance to date, revenue is recognized when services are performed and contractually billable. For all other types of service contracts, revenue is recognized over time using the input method to measure progress because it best depicts the transfer of value to the customer. Costs include all direct material and labor costs, subcontractor costs, and allocated overhead costs related to contract performance.

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

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

*Disaggregation of Revenues*

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

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

	Years Ended December 31,	
	2021	2020
Commercial	\$ 539.8	\$ 217.7
Industrial	292.5	214.9
Convention	85.8	10.6
Government	68.0	65.0
Healthcare	59.8	29.5
Transportation	52.7	72.6
Leisure	23.2	42.8
Other	37.7	22.8
Total revenue from contracts with customers	<u>1,159.5</u>	<u>675.9</u>
Other revenue	0.2	0.7
Total Infrastructure segment revenue	<u>\$ 1,159.7</u>	<u>\$ 676.6</u>

*Contract Assets and Contract Liabilities*

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

Retainage for which the Company has an unconditional right to payment that is only subject to the passage of time are classified as accounts receivable. Retainage receivable subject to conditions other than the passage of time, or conditional retainage, do not meet the definition of a receivable and are therefore included in contract assets and contract liabilities, as determined on a contract by contract basis.

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

The Company classifies contract assets and liabilities that may be settled beyond one year from the balance sheet date as current, consistent with the length of time of the Company's project operating cycle.

Retainage receivable represents amounts invoiced to customers where payments have been partially withheld (usually less than 10%) pending the completion of certain milestones, satisfaction of other contractual conditions or the completion of the project. Retainage agreements vary from project to project and balances could be outstanding for several months or years depending on a number of circumstances, such as contract-specific terms, project performance and other variables that may arise as the Company makes progress toward completion. As of December 31, 2021 and 2020, the amount of retainage receivable estimated by management to be collected beyond one year is approximately 24.6% and 1.0% of the balance, respectively.

When payment of the retainage is contingent upon the Company fulfilling its obligations under the contract it does not meet the criteria to be included in accounts receivable and remains in the contract's respective contract assets or contract liability, determined on a contract-by-contract basis. The Company has reflected such amounts within the consolidated balance sheets as of December 31, 2021 and 2020. While retainage receivable have historically been presented and disclosed within accounts receivable, the impact to correct this immaterial error in the December 31, 2020 balance sheet resulted in a reduction of previously stated accounts receivable amounting to \$50.0 million, offset by an increase of \$31.0 million to current contract assets and a \$19.0 million reduction to current contract liabilities.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

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

	December 31, 2021	December 31, 2020
Cost in excess of billings	\$ 68.3	\$ 55.6
Conditional retainage	50.3	31.0
Contract assets	<u>\$ 118.6</u>	<u>\$ 86.6</u>
Billings in excess of costs	\$ (137.6)	\$ (52.2)
Conditional retainage	58.5	19.0
Contract liabilities	<u>\$ (79.1)</u>	<u>\$ (33.2)</u>

The change in contract assets is a result of the recording of \$122.4 million of contract assets driven by new commercial projects and \$22.7 million of contract assets for projects acquired in the Banker Steel acquisition, offset by \$113.1 million of contract assets transferred to receivables from contract assets recognized at the beginning of the period.

The change in contract liabilities is a result of periodic contract liabilities of \$72.7 million driven largely by new commercial projects and \$38.6 million of contract liabilities for projects acquired as a result of the Banker Steel acquisition, offset by revenue recognized that was included in the contract liability balance at the beginning of the period in the amount of \$65.4 million.

*Transaction Price Allocated to Remaining Unsatisfied Performance Obligations*

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

	Within one year	Within five years	Total
Commercial	\$ 452.6	\$ 502.0	\$ 954.6
Industrial	278.9	7.6	286.5
Transportation	21.6	16.1	37.7
Government	26.9	—	26.9
Leisure	17.1	—	17.1
Healthcare	85.6	—	85.6
Convention	109.3	40.0	149.3
Other	8.0	—	8.0
Remaining unsatisfied performance obligations	<u>\$ 1,000.0</u>	<u>\$ 565.7</u>	<u>\$ 1,565.7</u>

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

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



**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

***Life Sciences Segment***

Beginning in 2021, R2 Technologies commercially launched its first systems product, the GlacialRx, and other topical consumables. The GlacialRx system is primarily sold to dermatologist offices for an initial upfront fee. Software on the device controls the number of times the device may be used to perform a treatment. The initial upfront fee entitles the user to a defined number of uses. After the initial prepurchased uses are exhausted, the dermatologist office can purchase additional uses of the treatment for an additional fee, resulting in recurring revenues to R2 Technologies as the devices are utilized. Further, topical consumables are also separately sold to dermatologist offices which patients can utilize post-treatment to increase the efficacy of the treatment.

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

	Years Ended December 31,	
	2021	2020
Systems and consumables revenue	\$ 3.5	\$ —
Total Life Sciences segment revenue	<u>\$ 3.5</u>	<u>\$ —</u>

***Spectrum Segment***

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

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

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

***Payment Terms***

We have an unconditional right to receive payment of the amount billed generally within 30 days of the invoice date. Payment terms are expressly stated in our standard terms and conditions. The invoiced amount to be received is recorded in accounts receivable on our balance sheet.

***Disaggregation of Revenues***

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

	Years Ended December 31,	
	2021	2020
Broadcast station	\$ 18.6	\$ 15.5
Network advertising	18.1	18.4
Network distribution	3.2	4.0
Other	2.1	2.4
Total Spectrum segment revenue	<u>\$ 42.0</u>	<u>\$ 40.3</u>

***Transaction Price Allocated to Remaining Unsatisfied Performance Obligations***

The transaction price allocated to remaining unsatisfied performance obligations consisted of \$0.3 million, \$4.3 million, and \$0.1 million of network advertising, broadcasting station revenues, and other revenues, respectively, of which \$3.3 million is expected to be recognized within one year and \$1.4 million is expected to be recognized within five years.

**5. Acquisitions, Dispositions, and Deconsolidations**

***Infrastructure Segment***

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

*Banker Steel Acquisition*

On March 15, 2021, the Company announced that DBMG entered into an agreement to acquire 100% of Banker Steel Holdco LLC ("Banker Steel") for \$145.0 million, which closed on May 27, 2021. The acquisition was financed with \$64.1 million from a partial draw on a new \$110.0 million revolving credit facility, \$49.6 million of sellers' notes, \$6.3 million of assumed debt of Banker Steel, and \$25.0 million in cash received from INNOVATE in the settlement of certain intercompany balances.

Banker Steel provides full-service fabricated structural steel and erection services primarily for the East Coast and Southeast commercial and industrial construction market, in addition to full design-assist services. Banker Steel consists of six operating companies: Banker Steel Co., LLC; NYC Constructors, LLC; Memco LLC; Derr & Isbell Construction LLC; Innovative Detailing and Engineering Solutions; and Lynchburg Freight and Specialty LLC.

The transaction was accounted for as a business acquisition and the valuation was finalized in the last quarter of 2021. The allocation of the fair value of consideration transferred among the identified assets acquired, liabilities assumed, intangibles and residual goodwill is summarized as follows (in millions):

<b>Purchase Consideration at Fair Value</b>	
Partial draw on new \$110.0 million revolving credit facility	\$ 64.1
Sellers' notes	49.6
Bankers Steel debt - assumed	6.3
Cash	25.0
Gross consideration	145.0
Less: Seller transaction costs - assumed	0.4
Less: Bankers debt - assumed	6.3
Less: R&W premium paid by seller	0.5
Net consideration	<u>\$ 137.8</u>
Cash and cash equivalents	\$ 9.3
Accounts receivable, net	70.9
Contract assets	22.6
Assets held for sale	0.7
Inventory	5.7
Other current assets	1.7
Property, plant, and equipment, net	58.6
Other assets	40.1
Intangibles, net	60.8
Goodwill	16.7
Total assets to be acquired	<u>287.1</u>
Accounts Payable	39.1
Contract liabilities	38.6
Other current liabilities	31.1
Other liabilities	34.2
Long-term debt, less current portion	6.3
Total liabilities to be assumed	<u>149.3</u>
Total net assets acquired	<u>\$ 137.8</u>

During the 2021 measurement period, adjustments to our acquisition accounting were made to certain amounts. These include updates to accounts receivable based on additional information obtained regarding collectability, values assigned to intangible assets, and additional accrued liabilities. As such, the valuation was finalized during the fourth quarter of 2021.

Goodwill was determined based on the residual differences between fair value of consideration transferred and the value assigned to acquired assets and liabilities. Among the factors that contributed to goodwill was approximately \$60.8 million assigned to intangibles, including customer relationships of \$33.8 million with a useful life of 18 years, trade names of \$7.4 million with a useful life of 15 years, existing customer contracts of \$17.6 million with a useful life of 2 years and leasehold interests of \$2.0 million with varying useful life. Goodwill is not amortized. The portion of goodwill that is deductible for tax purposes is \$14.0 million.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

Acquisition costs incurred by DBMG in connection with the acquisition of Banker Steel were approximately \$2.0 million, which were included in selling, general and administrative expenses. The acquisition costs were primarily related to legal, accounting and valuation services.

The following schedule presents the results of operations data for the year ended December 31, 2021 for Banker Steel since the date of acquisition (in millions):

	Year Ended December 31, 2021
Revenue	\$ 265.9
Net income from operations	\$ 15.5
Net income attributable to INNOVATE	\$ 8.8

*Pro Forma Adjusted Summary*

The following schedule presents unaudited consolidated pro forma results of operations data as if the acquisition of Banker Steel had occurred on January 1, 2020. This information does not purport to be indicative of the actual results that would have occurred if the acquisitions had actually been completed on the date indicated, nor is it necessarily indicative of the future operating results or the financial position of the combined company (in millions):

	Year Ended December 31, 2021	Year Ended December 31, 2020
Revenue	\$ 1,402.7	\$ 1,114.1
Income (loss) from operations	\$ 0.9	\$ 1.5
Net loss attributable to INNOVATE	\$ (219.2)	\$ (70.6)

During the year ended December 31, 2021, the Company purchased an additional 53,759 shares of DBM Global, Inc. on the open market, increasing its ownership to approximately 91% from 89%.

***Spectrum Segment***

During the year ended December 31, 2021, the Company increased its controlling interest in DTV from approximately 60%, inclusive of approximately 10% proxy and voting rights from minority holders, to approximately 77%, inclusive of approximately 10% proxy and voting rights from minority holders, from private purchases and proxy voting rights.

***Other Segment***

*Sale of GMSL*

On January 30, 2020, the Company announced that, through its indirect subsidiary GMH in which the Company holds an approximately 73% controlling interest, the Company entered into a definitive agreement to sell 100% of the shares of GMSL to Trafalgar AcquisitionCo, Ltd. and an affiliate of J.F. Lehman & Company, LLC. The total base consideration was \$250.0 million, subject to customary purchase price adjustments, working capital adjustments, and a potential earn-out of up to \$12.5 million at such time, if any, if J.F. Lehman & Company, LLC and its investment affiliates achieve a specified multiple of their invested capital.

The purchase price is subject to customary potential downward or upward post-closing adjustments based on net working capital, cash, unpaid transaction expenses, indebtedness and certain of the Company's pre-closing paid capital expenditures. The Share Purchase Agreement contained customary representations, warranties and covenants for a transaction of this nature.

The transaction closed on February 28, 2020. GMH received approximately \$144.0 million of net proceeds from the sale, of which \$36.8 million and \$5.5 million were paid to noncontrolling interest holders and redeemable noncontrolling interest holders, respectively. INNOVATE received net proceeds of approximately \$100.8 million. In connection with the closing of the transaction, the purchaser deposited (i) \$1.25 million of the base price into an escrow fund for the purpose of securing certain indemnification obligations for losses payable in the first twelve months after closing and (ii) \$1.91 million of the base price into an escrow fund for the purpose of securing a purchase price adjustment, if any, in favor of purchaser. Following the closing, the purchaser paid an amount equal to \$2.4 million on the earlier of December 31, 2020 and the date on which a cash collateralized bonding facility was released.

In the first quarter of 2020, the Company recorded a \$39.3 million loss on the sale and recognized a \$31.3 million of Accumulated other comprehensive loss, which was comprised of \$17.2 million of actuarial losses on pension and \$14.1 million of currency translation adjustments. During the fourth quarter of 2020, the Company recognized a gain on sale of \$2.4 million as a result of the cash collateralized bonding facility release. During the first quarter of 2021, the Company recognized a gain of \$1.2 million as a result of indemnity release.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

*Sale of HMN*

On October 30, 2019, the Company announced the sale of its stake in HMN, its 49% joint venture with Huawei Technologies Co., Ltd., to Hengtong Optic-Electric Co Ltd.

Under the terms of the Sale and Purchase Agreement, the sale of New Saxon's 49% interest in HMN will be affected in two tranches. The sale of the portion of New Saxon's 30% interest of HMN, closed on May 12, 2020 (the "First HMN Close"). The remaining 19% interest of HMN is retained by New Saxon and subject to a put option agreement by New Saxon, exercisable starting on the second year anniversary of the closing date of the First HMN Close at a price equal to the greater of the share price paid for the 30% interest or fair market value as of the exercisable date.

In the second quarter of 2020, in conjunction with the first tranche of the sale, the Company received \$85.5 million in cash, of which \$17.5 million and \$2.1 million were paid to noncontrolling interest holders and redeemable noncontrolling interest holders, respectively. On the closing date, New Saxon recorded a \$71.1 million gain, included in Other income (loss) in the Consolidated Statements of Operations. The gain recognized includes \$11.3 million related to the fair value of the put option. In addition, on the closing date, the Company recorded a \$7.2 million tax expense related to a foreign tax payment when the first tranche closed.

*Sale of ICS*

The sale of ICS and its subsidiary, Go2 Tel, Inc., closed on October 31, 2020. The Company recorded a \$0.9 million gain on the sale and recognized \$8.2 million of Accumulated other comprehensive loss related to the realization of foreign currency translation of PTGi International Carrier Services Ltd., which was essentially liquidated in conjunction with the sale. The proceeds were used for general corporate purposes.

*Sale of Beyond6*

On December 31, 2020, the Company announced a plan to sell Beyond6 to an affiliate of Mercuria Investments US, Inc., pursuant to an Agreement and Plan of Merger (the "Merger Agreement") among Beyond6, Greenfill, Inc., a Delaware Corporation ("Parent"), Greenfill Merger Inc., a newly-formed Delaware corporation and wholly-owned subsidiary of the Parent, and an affiliate of INNOVATE as the Stockholder Representative for the Beyond6 stockholders, for a total purchase price, net of Beyond6's debt and transaction expenses, customary purchase price adjustments and escrow arrangements, of approximately \$106.5 million. Net proceeds received by INNOVATE at closing was cash consideration of approximately \$70.0 million. The sale closed on January 15, 2021. During the first quarter of 2021, the Company recognized a \$39.2 million gain on the sale. During the third quarter of 2021, as a result of releases of related escrows and hold backs, the Company recognized an additional \$0.5 million gain on the sale.

*Sale of CIG*

The sale of CIG closed on July 1, 2021 to Continental General Holdings LLC, an entity controlled by Michael Gorzynski, a director of the Company and, as of December 31, 2021, a beneficial owner of approximately 6.6% of the Company's outstanding common stock who has also served as executive chairman of Continental since October 2020. The Insurance segment, which primarily consisted of a closed block of long-term care insurance, had a book value, inclusive of intercompany eliminations, at the time of the sale of \$544.0 million, inclusive of \$344.0 million of Accumulated other comprehensive income ("AOCI"). The carrying value of the Insurance segment at the time of sale excluded cash of \$62.5 million and investments of \$26.7 million which were distributed to the Company through an extraordinary dividend immediately prior to the sale. The extraordinary dividend was approved by our domestic regulator in connection with the approval of the sale. The amount included in AOCI was reversed from equity at the time of the sale and offset the loss recognized.

While several factors impacted the fair value of the Insurance segment at the end of 2019, following discussions with our domestic regulator, changes in the asset management fee arrangement and expectations of future dividends primarily and ultimately resulted in the full impairment of the goodwill associated with the Insurance segment during the year ended December 31, 2019. While these factors did not have a major impact on the operations of the stand-alone business, they did have a significant impact on the economic benefit that could be realized by the Company.

As a result of the factors described above, combined with the risks associated with the long-term care insurance industry, the Company exited the segment and sold the business resulting in a \$200.8 million loss on the sale of CIG.

See Note 3. Discontinued Operations for further details.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

**6. Accounts Receivable, net**

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

	December 31, 2021	December 31, 2020
Contracts in progress	\$ 226.8	\$ 118.6
Unbilled retentions	0.4	0.3
Trade receivables	9.9	7.5
Other receivables	10.6	8.9
Allowance for doubtful accounts	(0.6)	(0.6)
Total	<u>\$ 247.1</u>	<u>\$ 134.7</u>

**7. Property, Plant and Equipment, net**

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

	December 31, 2021	December 31, 2020
Equipment, furniture and fixtures, and software	\$ 180.7	\$ 113.7
Building and leasehold improvements	43.0	41.0
Land	24.1	24.1
Construction in progress	8.9	3.1
Plant and transportation equipment	8.3	4.4
	<u>265.0</u>	<u>186.3</u>
Less: Accumulated depreciation	95.1	73.5
Total	<u>\$ 169.9</u>	<u>\$ 112.8</u>

Depreciation expense was \$25.0 million and \$20.8 million for the years ended December 31, 2021 and 2020, respectively. These amounts included \$12.2 million and \$9.1 million of depreciation expense recognized within cost of revenue for each of the years ended December 31, 2021 and 2020.

As of December 31, 2021 and 2020 the total net book value of equipment under capital leases consisted of \$0.2 million and \$0.9 million, respectively.

**8. Goodwill and Intangibles, net**

On an annual basis, the Company performs its goodwill impairment review in accordance with ASC 350. Estimating the fair value of a reporting unit requires various assumptions including projections of future cash flows, perpetual growth rates and discount rates. The assumptions about future cash flows and growth rates are based on the Company's assessment of a number of factors, including the reporting unit's recent performance against budget, performance in the market that the reporting unit serves, and industry and general economic data from third-party sources. Discount rate assumptions are based on an assessment of the risk inherent in those future cash flows. Changes to the underlying businesses could affect the future cash flows, which in turn could affect the fair value of the reporting unit. After considering all quantitative and qualitative factors, the Company has determined that, other than noted below, it is more likely than not that the reporting units' fair values exceed carrying values as of the period end. The Company reports goodwill impairment charges within the Asset impairment expense line of our Consolidated Statements of Operations. The Company considered the current and expected future economic and market conditions surrounding the COVID-19 pandemic and its impact on each of the reporting units. Further, the Company assessed the current market capitalization, forecasts and the amount of headroom in the 2021 impairment test.

*Spectrum*

As a result of the goodwill assessment, the Company determined that COVID-19's impact to the Spectrum segment in the first quarter of 2020 was a "triggering event" and, as required, performed a quantitative analysis, with the assistance of a third-party valuation firm, of the value of the Spectrum reporting unit and its indefinite-lived intangible assets. Based on the analysis, the Company determined that the fair value of the Spectrum reporting unit and the related indefinite-lived intangible assets continue to exceed their carrying values and were not impaired as of March 31, 2020.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

Determining the fair value of the Spectrum reporting unit and indefinite-lived intangible assets requires significant judgment and estimates by management, utilizing the income-approach, which utilizes several key inputs, including future cash flows consistent with management’s strategic plans, sales growth rates and a discount rate, amongst others. Estimating sales growth rates requires significant judgment by management in areas such as future economic conditions, growth rates, pricing, and consumer tastes and preferences. Given the inherent uncertainties in estimating the future impacts of the COVID-19 pandemic on global macroeconomic conditions and interest rates in general and on the Spectrum business, actual results may differ from management’s current estimates and could have an adverse impact on one or more of the assumptions used in our quantitative models related to the Spectrum reporting unit, resulting in potential impairment charges in subsequent periods. At March 31, 2020, while the fair value of the Spectrum reporting unit declined, the fair value of the Spectrum reporting unit continued to exceed its carrying value.

At December 31, 2021 and at December 31, 2020, the Company further reviewed qualitative factors of potential impairment for Goodwill and Intangible assets, inclusive of further impact of COVID-19, and there were no triggering events which would indicate impairment may have occurred.

***Goodwill***

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

	Infrastructure	Spectrum	Total
Balance at December 31, 2020	\$ 89.6	\$ 21.4	\$ 111.0
Acquisitions	16.7	—	16.7
Translation	(0.3)	—	(0.3)
Balance at December 31, 2021	<u>\$ 106.0</u>	<u>\$ 21.4</u>	<u>\$ 127.4</u>

***Indefinite-lived Intangible Assets***

The carrying amount of indefinite-lived intangible assets was as follows (in millions):

	December 31, 2021	December 31, 2020
FCC licenses	\$ 106.5	\$ 113.0
Total	<u>\$ 106.5</u>	<u>\$ 113.0</u>

For the year ended December 31, 2021, FCC licenses decreased \$6.5 million predominantly as a result of our Spectrum segment selling non-core FCC licenses. In addition, for the years ending December 31, 2021 and 2020, the Company recorded impairment charges of \$0.7 million and \$13.5 million, respectively, in Other operating loss (gain) related to select FCC licenses which were sold in order to bring their carrying value equal to the agreed upon sales price prior to the execution of the sale.

The weighted-average period prior to the next renewal for FCC licenses was 3.0 years and 2.4 years as of December 31, 2021 and 2020, respectively, after taking into consideration licenses that were successfully renewed shortly after year-end. While broadcast television licenses are issued for a fixed period of time (generally eight years), renewals of these licenses have occurred routinely and at nominal cost. In addition, the Company does not believe that the expiration or non-renewal of any of our FCC licenses would have a material adverse effect on the expected future cash flows and profitability.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

***Definite Lived Intangible Assets***

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

	Weighted-Average Original Useful Life	December 31, 2021			December 31, 2020		
		Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trade names	14 years	\$ 25.4	\$ (6.3)	\$ 19.1	\$ 18.0	\$ (4.6)	\$ 13.4
Customer relationships and contracts	11 years	87.7	(21.6)	66.1	36.4	(12.1)	24.3
Channel sharing arrangements	35 years	12.6	(1.1)	11.5	20.2	(1.6)	18.6
Other	10 years	8.5	(3.3)	5.2	5.5	(2.7)	2.8
Total		<u>\$ 134.2</u>	<u>\$ (32.3)</u>	<u>\$ 101.9</u>	<u>\$ 80.1</u>	<u>\$ (21.0)</u>	<u>\$ 59.1</u>

Amortization expense for definite lived intangible assets was \$12.6 million and \$6.0 million for the year ended December 31, 2021 and 2020, respectively, and was included in Depreciation and amortization in our Consolidated Statements of Operations.

For the year ended December 31, 2021, Channel sharing arrangements decreased \$7.6 million predominantly as a result of our Spectrum segment selling a non-core channel sharing arrangement.

***Amortization***

The Company estimates the annual amortization expense of amortizable intangible assets for the next five fiscal years will be as follows (in millions):

	Estimated Amortization
2022	\$ 17.2
2023	11.4
2024	8.0
2025	7.3
2026	6.8
Thereafter	51.2
Total	<u>\$ 101.9</u>

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

**9. Debt Obligations**

Debt obligations consist of the following (in millions):

	December 31, 2021	December 31, 2020
<b>Infrastructure</b>		
LIBOR plus 5.85% Note, due 2023	\$ —	\$ 71.6
LIBOR plus 1.50% Line of Credit	—	38.7
3.25% Note due 2026	107.2	—
PRIME minus 1.10% Line of Credit	30.4	—
4.00% Note due 2024	25.0	—
8.00% Note due 2024	19.6	—
11.00% Note due 2024	6.3	—
Obligations under finance leases	0.1	0.2
<b>Spectrum</b>		
8.50% Note due 2021	—	19.3
10.50% Note due 2021	—	32.9
8.50% Note due 2022	19.3	—
10.50% Note due 2022	32.9	—
Other, various maturity dates	—	2.9
Obligations under finance leases	—	0.6
<b>Non-Operating Corporate</b>		
11.50% Senior Secured Notes, due 2021	—	340.4
8.50% Senior Secured Notes, due 2026	330.0	—
7.50% Convertible Senior Notes, due 2022	3.2	55.0
7.50% Convertible Senior Notes, due 2026	51.8	—
LIBOR plus 5.75% Line of Credit	5.0	15.0
	<u>630.8</u>	<u>576.6</u>
Unamortized issuance discount, issuance premium, and deferred financing costs	(4.5)	(15.1)
Less: current portion of debt obligations	(69.5)	(433.6)
Debt obligations	<u>\$ 556.8</u>	<u>\$ 127.9</u>

Aggregate finance lease and debt payments, including interest are as follows (in millions):

	Finance Leases	Debt	Total
2022	\$ 0.1	\$ 115.7	\$ 115.8
2023	—	56.4	56.4
2024	—	107.5	107.5
2025	—	41.3	41.3
2026	—	487.3	487.3
Thereafter	—	—	—
Total minimum principal and interest payments	<u>0.1</u>	<u>808.2</u>	<u>808.3</u>
Less: Amount representing interest	—	(177.5)	(177.5)
Total aggregate finance lease and debt payments	<u>\$ 0.1</u>	<u>\$ 630.7</u>	<u>\$ 630.8</u>

The interest rates on the finance leases range from approximately 2.0% to 10.0%.

**Infrastructure**

In May 2021, DBMG repaid its LIBOR plus 1.50% revolving line of credit under the Credit and Security Agreement with Wells Fargo Bank ("Revolving Line") and its term loan due 2023 under a financing agreement with TCW Asset Management Company LLC ("TCW Loan"). In addition, DBMG entered into a new credit facility with UMB Bank ("UMB"). Under the terms of the agreement, UMB agreed to a \$110.0 million term loan ("UMB Term Loan") and \$110.0 million revolving credit agreement ("UMB Revolving Line"). The UMB Term loan expires in 2026 and will bear interest at a rate of 3.25% with an effective interest rate of 3.25%. The UMB Revolving Line expires in 2024 and will bear interest at a rate of Prime Rate minus 1.10%. The proceeds were used to fully repay DBMG's existing debt obligations, fund a portion of the Banker Steel acquisition, and provide additional working capital capacity to DBMG.

The extinguishment of the Revolving Line and the TCW Loan yielded a loss on extinguishment of \$1.5 million included in Loss on early extinguishment or restructuring of debt in the Consolidated Statement of Operations.



**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

***Spectrum***

On October 24, 2019, Spectrum issued \$78.7 million 364-day secured notes (the "2020 Notes"). The 2020 Notes were comprised of a \$36.2 million, 8.50% tranche funded by an affiliate of MSD Partners, L.P. (the "8.50% Note"). The remaining \$42.5 million, 10.50% tranche (the "10.50% Note") was a modification of the existing Secured Note, with certain institutional investors. The 2020 Notes had an original maturity date of October 2020, and were amended multiple times during 2020 as further described below. The net proceeds from the financing were used to retire Broadcasting's existing debt, as well as fund pending acquisitions, working capital and general corporate purposes. In connection with the issuance of the 10.50% Note due 2020, Spectrum issued warrants to the same institutional investors to purchase 50,000 shares of common stock at \$176.4 per share for a total purchase price of \$8.8 million, or net settled, if exercised as of the issuance date, and as may be adjusted at any future exercise of the warrant pursuant to its terms. The warrant has a five-year term and is immediately exercisable.

In February 2020, Spectrum amended its agreement governing its 8.50% Note funded by MSD Partners, L.P., increasing the principal balance to \$39.3 million. The proceeds were used to repay principal and interest on existing debt. In August 2020, Spectrum modified its agreement with MSD Partners, L.P. and Great American Life Insurance Company to extend the maturity on its 8.50% Note and 10.50% Note to October 2021. In September 2020, Spectrum further amended its agreement governing its 8.50% Note, increasing the principal balance by \$4.0 million to \$43.3 million. The proceeds were used to repay principal and interest on existing debt and for general business purposes. In November 2020, Spectrum paid down \$2.9 million of its 8.50% Note and \$3.0 million on other various notes. In December 2020, Spectrum paid down \$21.0 million and \$9.6 million of its 8.50% Note and 10.50% Note, respectively from the proceeds from the sale of stations.

On August 30, 2021, Broadcasting repurchased \$1.0 million of DTV's outstanding notes payable, inclusive of accrued interest, to certain institutional investors. Also on August 30, 2021, DTV extended its remaining outstanding notes by 60 days.

On October 21, 2021, Broadcasting entered into the Fifth Omnibus Amendment to Secured Notes, Consent and Second Amendment to Asset Sale Under Secured Notes and Intercreditor Agreement (the "Amendment"), which, among other things, extended \$52.2 million of its Senior Secured Notes, due October 21, 2021, through November 30, 2022. Concurrently, Broadcasting completed the last of a series of repurchases of all the outstanding secured notes, inclusive of accrued interest, of DTV America Corporation ("DTV") for a total consideration of \$6.2 million using a combination of cash on hand and proceeds from the sales on non-core assets.

On October 26, 2021, Broadcasting repurchased the outstanding convertible promissory notes of DTV for a total consideration of \$0.7 million using proceeds from the sales of non-core assets. Subsequent to these acquisitions, DTV's debt is held by Broadcasting and eliminated in consolidation.

The extinguishment of DTV's debt yielded a loss on extinguishment of \$1.0 million included in Loss on early extinguishment or restructuring of debt in the Consolidated Statement of Operations.

***Non-Operating Corporate***

On February 1, 2021, INNOVATE repaid its 2021 Senior Secured Notes and issued \$330.0 million aggregate principal amount of 8.50% senior secured notes due 2026 (the "2026 Senior Secured Notes"). In addition, the Company entered into exchange agreements with certain holders of approximately \$51.8 million aggregate principal amount of its existing \$55.0 million 7.50% convertible senior notes due 2022 (the "2022 Convertible Notes"), pursuant to which the Company exchanged such holders' 2022 Convertible Notes for newly issued 7.50% convertible notes due 2026 (the "2026 Convertible Notes"). The 2026 Senior Secured Notes were issued in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

The Company accounted for the transactions under the debt extinguishment model as the present value of cash flows under the terms of the 2026 Senior Secured Notes and 2026 Convertible Notes was at least 10% different from the present value of the remaining cash flows under the 2021 Senior Secured Notes and the 2022 Convertible Notes.

The extinguishment of the 2021 Senior Secured Notes yielded a loss on extinguishment of \$4.5 million. The extinguishment of the \$51.8 million of 2022 Convertible Notes yielded a loss on extinguishment of \$5.5 million, an acceleration of the amortization of discount of \$5.3 million, and extinguishment of the bifurcated conversion option classified as equity of \$7.7 million.

***2021 Senior Secured Notes***

The Senior Secured Notes were issued under an indenture dated November 20, 2018, by and among the Company, the guarantors party thereto and U.S. Bank National Association, a national banking association ("U.S. Bank"), as trustee (the "Secured Indenture"). The Senior Secured Notes were issued at 98.75% of par with a stated interest rate of 11.50% and an effective interest rate of 13.20%, which reflects a discount of \$5.9 million.

In March 2020, with the cash proceeds from the sale of GMSL, INNOVATE redeemed \$76.9 million of its Senior Secured Notes at a price equal to 104.5% of the principal amount plus accrued interest through the redemption date. INNOVATE recognized \$5.4 million in extinguishment loss related to the redemption of its Senior Secured Notes, which is included in Loss on early extinguishment or restructuring of debt in our Consolidated Statement of Operations.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

In June 2020, with the cash proceeds from the partial sale of New Saxon's interest in HMN, INNOVATE redeemed \$50.6 million of its Senior Secured Notes at a price equal to 104.5% of the principal amount plus accrued interest through the redemption date. INNOVATE recognized \$3.4 million in extinguishment loss related to this redemption, which is included in Loss on early extinguishment or restructuring of debt in our Consolidated Statement of Operations.

In October 2020, INNOVATE redeemed an additional \$2.1 million of its Senior Secured Notes at a price equal to 104.5% of the principal amount plus accrued interest through the redemption date. INNOVATE recognized \$0.1 million in extinguishment loss related to this redemption, which is included in Loss on early extinguishment or restructuring of debt in our Consolidated Statement of Operations.

*2026 Senior Secured Notes*

The 2026 Senior Secured Notes were issued under an indenture dated February 1, 2021, by and among the Company, the guarantors party thereto and U.S. Bank National Association, a national banking association ("U.S. Bank"), as trustee (the "Secured Indenture"). The 2026 Senior Secured Notes were issued at 100% of par, with a stated interest rate of 8.50% and an effective interest rate of 9.26%, which reflects \$2.7 million of deferred financing fees.

*2022 Convertible Notes*

The Convertible Notes were issued under a separate indenture dated November 20, 2018, between the Company and U.S. Bank, as trustee (the "Convertible Indenture"). The Convertible Notes were issued at 100% of par with an effective interest rate of 17.60%, which reflects the \$12.6 million discount and \$2.0 million of deferred financing fees.

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

In accordance with ASC Topic 815-15, Derivatives and Hedging, the embedded conversion feature contained in the Convertible Notes is required to be bifurcated and recorded as a derivative liability and marked to market in each reporting period. The embedded conversion feature had a fair value of \$12.5 million on the transaction date, which was recorded as a discount on the Convertible Notes and included within Other liabilities on our Consolidated Balance Sheets. The fair value of the embedded conversion feature was \$5.8 million as of December 31, 2020, the change in fair value from the transaction date being recorded within Other income.

In conjunction with the issuance of the Convertible Notes in 2018, the Company incurred a consent fee payable to preferred stockholders of \$3.8 million. This fee was recorded within the Preferred stock and deemed dividends line item of the Consolidated Statements of Operations as a deemed dividend.

At December 31, 2020, the Convertible Notes had a net carrying value of \$48.1 million and an unamortized discount of \$6.0 million. Based on the closing price of our common stock of \$3.26 on December 31, 2020, the if-converted value of the Convertible Notes did not exceed its principal value. For the year ending December 31, 2020, interest expense recognized for the period relating to both the contractual interest coupon and amortization of the discount on the Convertible Notes was \$4.1 million.

At December 31, 2021, the Convertible Notes had a net carrying value of \$3.1 million and an unamortized discount of \$0.1 million. Based on the closing price of our common stock of \$3.71 on December 31, 2021, the if-converted value of the Convertible Notes did not exceed its principal value. For the year ending December 31, 2021, interest expense recognized for the period relating to both the contractual interest coupon and amortization of the discount on the Convertible Notes was \$0.6 million.

*2026 Convertible Notes*

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

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

At December 31, 2021, the 2026 Convertible Notes had a carrying value of \$61.2 million and an unamortized premium of \$10.4 million. Based on the closing price of our common stock of \$3.71 on December 31, 2021, the if-converted value of the 2026 Convertible Notes did not exceed its principal value.

For the year ended December 31, 2021, interest expense recognized for the period relating to both the contractual interest coupon and amortization of discount net of premium was \$3.6 million and \$1.7 million, respectively.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

*Line of Credit*

On February 23, 2021, the Company entered into a third amendment (the "Amendment") of the 6.75% line of credit with MSD PCOF Partners IX, LLC ("Revolving Credit Agreement"). Among other things, the Amendment (i) increases the aggregate principal amount of the Revolving Credit Agreement to \$20.0 million, (ii) extends the maturity date of the Revolving Credit Amendment to February 23, 2024, (iii) updates the affirmative and negative covenants contained in the Amended Credit Agreement so that they are substantially consistent with the affirmative and negative covenants contained in the indenture that governs the 2026 Senior Secured Notes and (iv) reduces the interest rate margin applicable to loans borrowed under the Amended Credit Agreement to 5.75% from the 6.75% described above. Except as modified by the Amendment, the terms of the Revolving Credit Agreement remain in effect.

In May 2021, INNOVATE drew \$5.0 million under the Revolving Credit Agreement. The Company used the proceeds to fund a portion of the redemption of the Company's Series A and A-2 Preferred Stock.

2026 Senior Secured Notes Terms and Conditions

*Maturity.* The 2026 Senior Secured Notes mature on February 1, 2026.

*Interest.* The 2026 Senior Secured Notes accrue interest at a rate of 8.50% per year. Interest on the 2026 Senior Secured Notes is paid semi-annually on February 1 and August 1 of each year.

*Issue Price.* The issue price of the 2026 Senior Secured Notes was 100% of par.

*Ranking.* The notes and the note guarantees are the Company's and certain of its direct and indirect domestic subsidiaries' (the "Subsidiary Guarantors") general senior secured obligations. The notes and the note guarantees will rank: (i) senior in right of payment to all of the Company's and the Subsidiary Guarantors' future subordinated debt; (ii) equal in right of payment, subject to the priority of any First-Out Obligations (as defined in the Secured Indenture), with all of the Company's and the Subsidiary Guarantors' existing and future senior debt and effectively senior to all of its and the Subsidiary Guarantor's unsecured debt to the extent of the value of the collateral; and (iii) effectively subordinated to all liabilities of its non-guarantor subsidiaries. The notes and the note guarantees are secured on a first-priority basis by substantially all of the Company's assets and the assets of the Subsidiary Guarantors, subject to certain exceptions and permitted liens.

*Collateral.* The 2026 Senior Secured Notes are secured by a first priority lien on substantially all of the Company's assets (except for certain "Excluded Assets," and subject to certain "Permitted Liens," each as defined in the Secured Indenture), including, without limitation:

- all equity interests owned by the Company or a Subsidiary Guarantor (which, in the case of any equity interest in a foreign subsidiary, will be limited to 100% of the non-voting stock (if any) and 65% of the voting stock of such foreign subsidiary) and the related rights and privileges associated therewith (but excluding Equity Interests of Insurance Subsidiaries (as defined in the Secured Indenture), to the extent the pledge thereof is deemed a "change of control" under applicable insurance regulations);
- all equipment, goods and inventory owned by the Company or a Subsidiary Guarantor;
- all cash and investment securities owned by the Company or a Subsidiary Guarantor;
- all documents, books and records, instruments and chattel paper owned by the Company or a Subsidiary Guarantor;
- all general intangibles owned by the Company or a Subsidiary Guarantor; and
- any proceeds and supporting obligations thereof.

The Secured Indenture permits the Company, under specified circumstances, to incur additional debt in the future that could equally and ratably share in the collateral. The amount of such debt is limited by the covenants contained in the Secured Indenture.

*Events of Default.* The Secured Indenture contains customary events of default which could, subject to certain conditions, cause the 2026 Senior Secured Notes to become immediately due and payable.

*Restricted Payments.* The Secured Indenture contains specific covenants which restrict the Company's ability and the ability of its restricted subsidiaries (as defined in the Secured Indenture) to incur certain additional indebtedness; make certain dividends, distributions, investments and other restricted payments; repay certain debt; sell certain assets; or enter into certain transactions with affiliates. These covenants are subject to a number of exceptions and qualifications. At December 31, 2021, the Company was in compliance with all covenants contained in the 2026 Senior Secured Notes.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

2022 Convertible Notes Terms and Conditions

*Maturity.* The 2022 Convertible Notes mature on June 1, 2022 unless earlier converted, redeemed or purchased.

*Interest.* The 2022 Convertible Notes accrue interest at a rate of 7.5% per year. Interest on the 2022 Convertible Notes is paid semi-annually on December 1 and June 1 of each year.

*Issue Price.* The issue price of the Convertible Notes was 100% of par.

*Ranking.* The notes are the Company's general unsecured and unsubordinated obligations and will rank equally in right of payment with all of the Company's existing and future unsecured and unsubordinated indebtedness, and senior in right of payment to any of the Company's future indebtedness that is expressly subordinated to the notes. The notes will be effectively subordinated to all of the Company's existing and future secured indebtedness, including the Company's Secured Notes, to the extent of the value of the collateral securing that indebtedness, and structurally subordinated to all indebtedness and other liabilities of the Company's subsidiaries, including trade credit.

*Optional Redemption.* The Company could not redeem the notes prior to June 1, 2020. From or after June 1, 2020, the Company may redeem for cash all of the notes if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (which need not be consecutive trading days) during any 30 consecutive trading-day period ending within five trading days prior to the date on which the Company provides notice of redemption. The redemption price will equal 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest, including additional interest, if any, to, but excluding, the redemption date.

*Conversion Rights.* The 2022 Convertible Notes are convertible into shares of the Company's common stock based on a conversion rate of 234.2971 shares of common stock per \$1,000 principal amount of Convertible Notes (equivalent to a conversion price of approximately \$4.27 per share of the Company's common stock), at any time prior to the close of business on the business day immediately preceding the maturity date, in principal amounts of \$1,000 or an integral multiple of \$1,000 in excess thereof. In addition, following a Make-Whole Fundamental Change (as defined in the indenture governing the 2022 Convertible Notes) or the Company's delivery of a notice of redemption for the 2022 Convertible Notes, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its 2022 Convertible Notes in connection with (i) such Make-Whole Fundamental Change or (ii) such notice of redemption. However, to comply with certain listing standards of The New York Stock Exchange, the Company will settle in cash its obligation to increase the conversion rate in connection with a Make-Whole Fundamental Change or redemption until it has obtained the requisite stockholder approval.

*Events of Default.* The indenture governing the 2022 Convertible Notes contains customary events of default which could, subject to certain conditions, cause the 2022 Convertible Notes to become immediately due and payable.

2026 Convertible Notes Terms and Conditions

*Maturity.* The 2026 Convertible Notes mature on August 1, 2026 unless earlier converted, redeemed or purchased.

*Interest.* The 2026 Convertible Notes accrue interest at a rate of 7.5% per year. Interest on the 2026 Convertible Notes is paid semi-annually on February 1 and August 1 of each year.

*Issue Price.* The issue price of the 2026 Convertible Notes was 100% of par.

*Ranking.* The notes are the Company's general unsecured and unsubordinated obligations and will rank equally in right of payment with all of the Company's existing and future unsecured and unsubordinated indebtedness, and senior in right of payment to any of the Company's future indebtedness that is expressly subordinated to the notes. The notes will be effectively subordinated to all of the Company's existing and future secured indebtedness, including the Company's 2026 Senior Secured Notes, to the extent of the value of the collateral securing that indebtedness, and structurally subordinated to all indebtedness and other liabilities of the Company's subsidiaries, including trade credit.

*Optional Redemption.* The Company may not redeem the notes prior to August 1, 2023. On or after August 1, 2023, the Company may redeem for cash all of the notes if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (which need not be consecutive trading days) during any 30 consecutive trading-day period ending within five trading days prior to the date on which the Company provides notice of redemption. The redemption price will equal 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest, including additional interest, if any, to, but excluding, the redemption date.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

*Conversion Rights.* The 2026 Convertible Notes are convertible into shares of the Company’s common stock based on an initial conversion rate of 234.2971 shares of common stock per \$1,000 principal amount of Convertible Notes (equivalent to a conversion price of approximately \$4.27 per share of the Company’s common stock), at any time prior to the close of business on the business day immediately preceding the maturity date, in principal amounts of \$1,000 or an integral multiple of \$1,000 in excess thereof. In addition, following a Make-Whole Fundamental Change (as defined in the Convertible Indenture) or the Company’s delivery of a notice of redemption for the 2026 Convertible Notes, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its 2026 Convertible Notes in connection with (i) such Make-Whole Fundamental Change or (ii) such notice of redemption. However, to comply with certain listing standards of The New York Stock Exchange, the Company will settle in cash its obligation to increase the conversion rate in connection with a Make-Whole Fundamental Change or redemption until it has obtained the requisite stockholder approval.

*Events of Default.* The Convertible Indenture contains customary events of default which could, subject to certain conditions, cause the Convertible Notes to become immediately due and payable.

*Revolving Credit Agreement*

*Lender.* MSD PCOF Partners IX, LLC (“MSD”)

*Maturity.* The Revolving Credit Agreement matures on February 23, 2024.

*Ranking.* Obligations under the Revolving Credit Agreement constitute a First-Out Debt, as defined in the Secured Indenture, and are secured on a pari passu basis with the 2026 Senior Secured Notes.

*Collateral:* As provided under a Collateral Trust Joinder, the lender was added as a secured party to the Collateral Trust Agreement, and accordingly the pari passu obligations and commitments under the Revolving Credit Agreement are secured equally and ratably by the collateral of the Secured Notes.

INNOVATE is in compliance with its debt covenants as of December 31, 2021.

**10. Supplementary Financial Information**

*Contracts in Progress*

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

	December 31, 2021	December 31, 2020
Costs incurred on contracts in progress	\$ 2,161.5	\$ 752.9
Estimated earnings	316.4	139.0
Contract revenue earned on uncompleted contracts	2,477.9	891.9
Less: progress billings	2,438.4	838.5
	<u>\$ 39.5</u>	<u>\$ 53.4</u>
The above is included in the accompanying consolidated balance sheet under the following line items:		
Contract assets	\$ 118.6	\$ 86.6
Contract liabilities	(79.1)	(33.2)
	<u>\$ 39.5</u>	<u>\$ 53.4</u>

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

*Inventory*

Inventory consists of the following (in millions):

	December 31, 2021	December 31, 2020
Raw materials and consumables	\$ 14.3	\$ 8.7
Work in process	1.2	—
Finished goods	1.5	1.2
Total inventory	<u>\$ 17.0</u>	<u>\$ 9.9</u>

*Investments*

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

	December 31, 2021			December 31, 2020		
	Measurement Alternative <sup>(1)</sup>	Equity Method	Total	Measurement Alternative <sup>(1)</sup>	Equity Method	Total
Common stock	\$ —	\$ 2.1	\$ 2.1	\$ —	\$ 2.5	\$ 2.5
Preferred stock	—	7.5	7.5	—	15.4	15.4
Fixed maturities	0.5	—	0.5	0.5	—	0.5
Put option	11.3	—	11.3	11.3	—	11.3
Equity method securities	—	34.6	34.6	—	25.7	25.7
Total	<u>\$ 11.8</u>	<u>\$ 44.2</u>	<u>\$ 56.0</u>	<u>\$ 11.8</u>	<u>\$ 43.6</u>	<u>\$ 55.4</u>

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

Fair Value of Financial Instruments Not Measured at Fair Value

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

December 31, 2021	Carrying Value	Estimated Fair Value	Fair Value Measurement Using:		
			Level 1	Level 2	Level 3
<b>Assets</b>					
Other invested assets	\$ 11.3	\$ 11.3	\$ —	\$ —	\$ 11.3
Total assets not accounted for at fair value	<u>\$ 11.3</u>	<u>\$ 11.3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11.3</u>
<b>Liabilities</b>					
Debt obligations <sup>(1)</sup>	\$ 626.3	\$ 648.2	\$ —	\$ 648.2	\$ —
Total liabilities not accounted for at fair value	<u>\$ 626.3</u>	<u>\$ 648.2</u>	<u>\$ —</u>	<u>\$ 648.2</u>	<u>\$ —</u>

December 31, 2020	Carrying Value	Estimated Fair Value	Fair Value Measurement Using:		
			Level 1	Level 2	Level 3
<b>Assets</b>					
Other invested assets	\$ 11.3	\$ 11.3	\$ —	\$ —	\$ 11.3
Total assets not accounted for at fair value	<u>\$ 11.3</u>	<u>\$ 11.3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 11.3</u>
<b>Liabilities</b>					
Debt obligations <sup>(1)</sup>	\$ 560.7	\$ 579.2	\$ —	\$ 579.2	\$ —
Total liabilities not accounted for at fair value	<u>\$ 560.7</u>	<u>\$ 579.2</u>	<u>\$ —</u>	<u>\$ 579.2</u>	<u>\$ —</u>

<sup>(1)</sup> Excludes certain lease obligations accounted for under ASC 842, *Leases*.

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

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

Carrying amounts of the Company's long-term obligations of \$626.3 million and \$560.7 million for the years ending December 31, 2021 and December 31, 2020 are inclusive of \$(4.5) million and \$(15.1) million of Unamortized issuance discount, issuance premium, and deferred financing costs. See Footnote 9. Debt Obligations for further information.

*Equity Method Investments*

For the year ended December 31, 2021, certain investments subject to Regulation S-X Rule 4-08(g) held by the Company in aggregate have met the significance criteria as defined under SEC guidance. In accordance with Rule 8-03(b)(3) of Regulation S-X, the Company must assess whether its equity method investment is a significant equity method investment. In evaluating the significance of this investment, the Company performed the income, asset, and investment tests described in S-X 3-05 and S-X 1-02(w). Rule 8-03(b)(3) of Regulation S-X requires summarized financial information in a quarterly report if any of the three tests exceeds 20%. Under the income test, the Company's proportionate share of its equity method investee's aggregated net income exceeded the applicable threshold of 20%, and accordingly it is required to provide summarized income statement information for this investee for all periods presented. The Company's share of net loss from its equity method investment totaled \$2.8 million and \$3.4 million for the years ended December 31, 2021 and 2020, respectively.

The following tables provide summarized financial information for the Company's equity method investments (in millions):

	December 31, 2021	December 31, 2020
Assets	\$ 604.5	\$ 524.2
Liabilities	481.5	405.9
Equity	<u>\$ 123.0</u>	<u>\$ 118.3</u>
	<u>Years Ended December 31,</u>	
	2021	2020
Total revenues	\$ 624.1	\$ 468.2
Gross profit	\$ 95.5	\$ 82.7
Income from continuing operations	\$ 11.5	\$ 11.1
Net income	\$ 6.4	\$ 6.8

*Other Non-Current Assets*

The following tables provide information relating to Other non-current assets (in millions):

	December 31, 2021	December 31, 2020
Right of use asset	\$ 69.6	\$ 39.8
Other	3.7	2.4
Total other non-current assets	<u>\$ 73.3</u>	<u>\$ 42.2</u>

*Accrued Liabilities*

Accrued liabilities consist of the following (in millions):

	December 31, 2021	December 31, 2020
Accrued expenses and other current liabilities	\$ 24.5	\$ 27.9
Accrued payroll and employee benefits	38.9	34.7
Accrued interest	29.6	13.9
Accrued income taxes	0.4	0.6
Total accrued liabilities	<u>\$ 93.4</u>	<u>\$ 77.1</u>

*Other Non-Current Liabilities*

The following tables provide information relating to Other non-current liabilities (in millions):

	December 31, 2021	December 31, 2020
Lease liability, net of current portion	\$ 58.5	\$ 31.6
Other	4.8	8.2
Total other non-current liabilities	<u>\$ 63.3</u>	<u>\$ 39.8</u>

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

**11. Leases**

Operating lease right-of-use-assets and finance leases are recognized in the Consolidated Balance Sheets within Other assets and Property, plant and equipment, net, respectively. Operating lease liability and finance lease liability are recognized in the Consolidated Balance Sheets within Other liabilities and Debt obligations, respectively. As of December 31, 2021 and December 31, 2020, lease right-of-use assets and lease liabilities consist of the following (in millions):

	December 31, 2021	December 31, 2020
Right-of-use assets:		
Operating lease (Other non-current assets)	\$ 69.6	\$ 39.8
Finance lease (Property, plant and equipment, net)	0.2	0.9
<b>Total right-of-use assets</b>	<b>\$ 69.8</b>	<b>\$ 40.7</b>
Lease liabilities:		
Current portion of operating lease (Other current liabilities)	\$ 15.5	\$ 11.2
Non-current portion of operating lease (Other non-current liabilities)	58.5	31.6
Finance lease (Debt obligations)	0.1	0.8
<b>Total lease liabilities</b>	<b>\$ 74.1</b>	<b>\$ 43.6</b>

The tables below present financial information associated with the Company's leases. This information is presented as of, and for the years ended December 31, 2021 and 2020. The Company has entered into operating and finance lease agreements primarily for land, office space, equipment and vehicles, expiring between 2022 and 2045. In addition, for the year ended December 31, 2021, the Company recorded an impairment of the right-of-use assets totaling \$2.1 million in Other operating loss (gain).

For the years ended December 31, 2021 and 2020, the Company recorded short-term lease costs totaling \$19.2 million and \$18.0 million, respectively. The Company is expected to incur \$9.9 million future short-term lease costs for the year ended December 31, 2022.

The following table summarizes the components of lease expense for the year ended December 31, 2021 and 2020 (in millions):

	Years Ended December 31,	
	2021	2020
Finance lease cost:		
Amortization of right-of-use assets	\$ 0.8	\$ 0.9
Interest on lease liabilities	—	0.1
Net finance lease cost	0.8	1.0
Operating lease cost	21.7	14.0
Variable lease cost	0.5	0.2
Sublease income	(0.5)	—
<b>Total lease cost</b>	<b>\$ 22.5</b>	<b>\$ 15.2</b>

Cash flow information related to leases for the years ended December 31, 2021 and 2020 is as follows (in millions):

	Years Ended December 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ —	\$ 0.1
Financing cash flows from finance leases	\$ 0.7	\$ 0.7
Operating cash flows from operating leases	\$ 21.9	\$ 13.9
Right-of-use assets obtained in exchange for new lease liabilities		
Finance leases	\$ 0.1	\$ 0.1
Operating leases	\$ 48.3	\$ 15.6



**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

As of December 31, 2021 and December 31, 2020, the weighted-average remaining lease term and the weighted-average discount rate for finance leases and operating leases are as follows:

	December 31, 2021	December 31, 2020
Weighted-average remaining lease term (years) - operating lease	7.5	4.0
Weighted-average remaining lease term (years) - finance lease	2.3	1.1
Weighted-average discount rate - operating lease	5.4 %	6.3 %
Weighted-average discount rate - finance lease	4.2 %	9.0 %

As of December 31, 2021, undiscounted cash flows for finance and operating leases are as follows (in millions):

	Operating Leases	Finance Leases
2022	\$ 18.7	\$ 0.1
2023	16.4	—
2024	11.6	—
2025	8.3	—
2026	5.5	—
Thereafter	30.7	—
Total future lease payments	91.2	0.1
Less: Present values	(17.2)	—
Total lease liability balance	\$ 74.0	\$ 0.1

In November 2021, INNOVATE Corp. entered into a ten-year lease agreement for a special purpose space in West Palm Beach, Florida. The new lease has not yet commenced, but will require future monthly lease payments of approximately \$0.2 million over the entire lease term and yearly common area maintenance charges of \$0.6 million, both of which are subject to 3% annual upward adjustments, with total square footage of 20,950. The new lease also provides for the Company to receive an allowance from the Landlord of \$2.1 million to be used toward costs to design, engineer, install, supply and to construct improvements which is payable at the end of the lease. The future lease payments and the allowance are not yet recorded on our consolidated balance sheet. We expect the accounting lease commencement date for this initial portion of the lease for financial reporting purposes to begin no later than November 2023.

Also in November 2021, the Company entered into a three-year lease agreement for office space in West Palm Beach, Florida. The lease commencement date was November 15, 2021, and requires monthly lease payments of approximately \$12.5 thousand over the entire lease term, subject to a 3% annual upward adjustment, with total square footage of 2,723. The future lease payments and corresponding right of use asset of \$0.4 million were recorded on our consolidated balance sheet as a lease liability.

In December 2021, the Company entered into a five-year lease agreement with an option to extend the lease for another five years for office space in West Palm Beach, Florida. The new lease has not commenced yet, but will require future monthly lease payments of approximately \$0.14 million over the entire lease term, subject to 3% annual upward adjustment, with total square footage of 15,786. The future lease payments are not yet recorded on our consolidated balance sheet, as the building is still under construction. We expect the accounting lease commencement date for this initial portion of the lease for financial reporting purposes to begin in the fourth quarter of 2023.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

**12. Income Taxes**

The provisions expense for income taxes for the years ended December 31, 2021 and 2020 were as follows (in millions):

	Years Ended December 31,	
	2021	2020
Current: Federal	\$ 0.1	\$ (10.6)
State	1.8	1.5
Foreign	1.8	9.5
Subtotal Current	3.7	0.4
Deferred: Federal	0.8	3.1
State	0.2	0.1
Foreign	0.9	3.4
Subtotal Deferred	1.9	6.6
Income tax expense	<u>\$ 5.6</u>	<u>\$ 7.0</u>

The US and foreign components of income (loss) from continuing operations before income taxes for the years ended December 31, 2021 and 2020 were as follows (in millions):

	Years Ended December 31,	
	2021	2020
US	\$ (89.7)	\$ (125.0)
Foreign	9.0	78.3
Loss from continuing operations before income taxes	<u>\$ (80.7)</u>	<u>\$ (46.7)</u>

The provisions expense for income taxes differed from the amount computed by applying the federal statutory income tax rate to income (loss) before income taxes due to the following items for the years ended December 31, 2021 and 2020 (in millions):

	Years Ended December 31,	
	2021	2020
Tax provision (benefit) at federal statutory rate	\$ (17.0)	\$ (9.8)
Permanent differences	0.4	0.2
State tax, net of federal benefit	(1.6)	(6.9)
Foreign rate differential	0.4	0.2
Executive and stock compensation	0.4	1.2
Increase (decrease) in valuation allowance	(0.6)	24.3
Transaction costs	0.5	0.5
Return to provision	3.3	5.6
Rate Change	20.2	(3.0)
Transition to the Coronavirus Aid, Relief, and Economic Security Act	—	(10.9)
Withholding Tax Expense	—	7.3
Gain/loss on sale or deconsolidation of a subsidiary	—	(5.8)
Outside Basis Difference	0.9	(0.9)
Contingent Liability	—	2.2
AOCI Recycling	—	2.1
Other	1.6	1.3
Equity Income/Loss	(1.1)	(0.6)
Derivative	(1.8)	—
Income tax (benefit) expense	<u>\$ 5.6</u>	<u>\$ 7.0</u>

The income tax expense as of December 31, 2021 is \$5.6 million. The amount recorded primarily relates to tax expense as calculated under ASC 740 for taxpaying entities. Additionally, the tax benefits associated with losses generated by the INNOVATE Corp. U.S. tax consolidated group and certain other businesses have been reduced by a full valuation allowance as we do not believe it is more-likely-than-not that the losses will be utilized.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

The income tax expense was \$7.0 million for the years ended December 31, 2020. The amount recorded primarily relates to tax expense incurred in China from the partial sale of HMN and the tax expense as calculated under ASC 740 for taxpaying entities which was mostly offset by a tax benefit from the carryback of net operating losses at the Insurance segment as a result of the enactment of the Coronavirus Aid, Relief, and Economic Security Act. Additionally, the tax benefits associated with losses generated by the INNOVATE Corp. U.S. tax consolidated group and certain other businesses were reduced by a full valuation allowance as we do not believe it is more-likely-than-not that the losses will be utilized.

Deferred income taxes reflect the net income tax effect of temporary differences between the basis of assets and liabilities for financial reporting purposes and for income tax purposes. Net deferred tax balances are comprised of the following as of December 31, 2021 and 2020 (in millions):

	December 31,	
	2021	2020
Net operating loss carryforwards	\$ 63.8	\$ 77.0
Basis difference in fixed assets	0.7	0.8
Deferred compensation	6.7	6.6
Sec. 163(j) Carryforward	58.1	58.6
Lease liability	20.9	13.0
Other deferred tax assets	13.4	20.5
Total deferred tax assets	163.6	176.5
Valuation Allowance	(102.8)	(115.5)
Total net deferred tax assets	60.8	61.0
Basis difference in fixed assets	(14.1)	(22.1)
Right of use assets	(19.8)	(12.1)
Basis difference in intangibles	(26.1)	(22.2)
Other deferred tax liabilities	(6.9)	(8.6)
Total deferred tax liabilities	(66.9)	(65.0)
Net deferred tax liabilities	\$ (6.1)	\$ (4.0)

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 valuation allowance must be established, with a corresponding charge to net income.

In accordance with ASC 740, the Company establishes valuation allowances for deferred tax assets that, in its judgment are not more likely-than-not realizable. These judgments are based on projections of future income or loss and other positive and negative evidence by individual tax jurisdiction. Changes in industry and economic conditions and the competitive environment may impact these projections. In accordance with ASC Topic 740, during each reporting period the Company assesses the likelihood that its deferred tax assets will be realized and determines if adjustments to its valuation allowances are appropriate.

Management evaluated the need to maintain the valuation allowance against the deferred taxes of the INNOVATE Corp. U.S. consolidated tax group (“the group”) for each of the reporting periods based on the positive and negative evidence available. The objective negative evidence evaluated was the group’s historical operating results over the prior three-year period. The group is in a cumulative three-year loss as of December 31, 2021 which provide negative evidence that is difficult to overcome and would require a substantial amount of objectively verifiable positive evidence of future income to support the realizability of the group’s deferred tax assets. While positive evidence exists by way of unrealized gains in the Company’s investments, management concluded that the negative evidence now outweighs the positive evidence. Thus, it is more likely than not that the group’s US deferred tax assets will not be realized.

Valuation allowances have been maintained against deferred tax assets based on losses generated by certain businesses that do not qualify to be included in the INNOVATE Corp. U.S. consolidated income tax return.

At December 31, 2021, the Company has gross U.S. net operating loss carryforwards available to reduce future taxable income of the U.S. consolidated group in the amount of \$164.5 million. The Company expects that approximately \$95.7 million of the gross U.S. net operating loss carryforwards would be available to offset taxable income in 2022. This estimate may change based on changes to actual results reported on the 2021 U.S. tax return. The amount of U.S. net operating loss carryforwards reflected in the financial statements differ from the amounts reported on the U.S. tax return due to uncertain tax positions related to tax laws and regulations that are subject to varied interpretation by the IRS.

Additionally, the Company has \$103.6 million of gross U.S. net operating loss carryforwards from its subsidiaries that do not qualify to be included in the INNOVATE Corp. U.S. consolidated income tax return, including \$66.2 million from R2, \$33.1 million from DTV America, and other entities of \$4.3 million.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

Due to U.S. enacted Public Law 115-97, known informally as the Tax Cuts and Jobs Act (the "TCJA") in 2017, U.S. net operating loss carryforwards in the amount of \$58.1 million, generated after 2017 have an indefinite carryforward period. U.S. net operating loss carryforwards, in the amount of \$106.4 million, generated prior to 2018 will expire, if unused, by 2037.

Pursuant to the rules under Section 382, the Company believes that it underwent an ownership changes on May 29, 2014 and \$46.1 million gross U.S. net operating losses recorded in the consolidated financial statements are subject to an annual limitation under IRC Sec. 382 of approximately \$2.3 million. On November 4, 2015, INNOVATE issued 8.5 million shares of its stock in a primary offering. The Company believes the issuance resulted in a Section 382 ownership change and \$31.7 million gross U.S. net operating losses recorded in the consolidated financial statements are subject to IRC Sec. 382.

The purchase of GrayWolf Industrial on November 30, 2018 triggered a Section 382 ownership change. \$57.1 million of federal net operating losses acquired are subject to an annual limitation between \$3.0 million and \$4.0 million for the first five years beginning in 2019 and \$1.1 million afterwards. \$25.4 million of the GrayWolf U.S. net operating losses subject to Section 382 were generated in 2018, and, therefore, they do not expire.

Additionally, the Company has \$11.4 million of acquired U.S. net operating losses from DTV America, which is subject to an annual limitation under Section 382 of the Internal Revenue Code.

As of December 31, 2021, the Company had foreign operating loss carryforwards of approximately \$2.5 million.

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

The Company did not have any unrecognized tax benefits as of December 31, 2021 and 2020 related to uncertain tax positions that would impact the effective income tax rate if recognized. The company has reduced the net operating loss carryforward by \$58.7 million for uncertain tax positions based on our interpretation of tax laws and regulations that are subject to varied interpretation by the IRS.

Below is a tabular reconciliation of the total amount of unrecognized tax benefits (in millions):

	December 31,	
	2021	2020
Uncertain tax benefits - January 1	\$ 22.9	\$ —
Gross increases - Tax positions in prior period	—	—
Gross decreases - Tax positions in prior period	(5.3)	—
Gross increases - Tax positions in current period	—	22.9
Settlement	—	—
Lapse in statute of limitations	—	—
Uncertain tax benefits - December 31	\$ 17.6	\$ 22.9

The Company conducts business globally, and as a result, INNOVATE or one or more of its subsidiaries files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world. Tax years 2002-2020 remain open for examination.

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

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

**13. Commitments and Contingencies**

Future minimum purchase obligations as of December 31, 2021 were as follows (in millions):

2022	\$ 347.1
2023	29.8
2024	1.4
2025	—
2026	—
Thereafter	—
Total obligations	<u>\$ 378.3</u>

The Company's future minimum purchase obligations are primarily for materials and subcontractor costs to be used in its construction projects. The amounts are fixed and determinable and do not include variable components.

**Litigation**

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

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

***VAT assessment***

On February 20, 2017, and on August 15, 2017, the Company's subsidiary, PTGi International Carrier Services Ltd. ("PTGi-ICS Ltd"), received notices from Her Majesty's Revenue and Customs office in the U.K. (the "HMRC") indicating that it was required to pay certain Value-Added Taxes ("VAT") for the 2015 and 2016 tax years. On February 15, 2022, the Upper Tribunal (Tax and Chancery) Chamber (the "Tax Tribunal") found in favor of PTGi-ICS Ltd. HMRC has acknowledged that it will not appeal the Tax Tribunal's decision and it must pay reasonable legal fees incurred by PTGi-ICS Ltd. While repayment of the outstanding VAT payment is expected to be made soon, the Company shall separately pursue reimbursement of legal fees.

### ***Fair Value Investments Litigation***

On October 1, 2020, Fair Value Investments Incorporated (“FVI”) filed a putative stockholder class action and derivative complaint in the Delaware Court of Chancery (the “Court”) against INNOVATE Corp. (f/k/a HC2 Holdings, Inc.) and certain of DBMG’s current and former officers and directors, including current and former INNOVATE officers and directors AJ Stahl, Kenneth S. Courtis, Robert V. Leffler, Jr., Philip A. Falcone, Michael J. Sena, and Paul Voigt (together with INNOVATE, the “INNOVATE Defendants”) styled Fair Value Investments Incorporated v. Roach, et al., C.A. No. 2020-0847-JTL (Del. Ch.) (the “FVI Action”). In the FVI Action, FVI alleges that the Company, in its capacity as DBMG’s controlling stockholder, and DBMG’s current and former officers and directors breached their fiduciary duties to DBMG and DBMG’s minority stockholders by approving certain transactions that allegedly provide disproportionate benefits to the Company. FVI challenges the following transactions: (i) DBMG’s payments to the Company from 2016–present pursuant to a Tax Sharing Agreement between DBMG and the Company; (ii) DBMG acting as a guarantor or providing collateral for loans taken on by the Company; (iii) DBMG’s issuance of dividends to its common and preferred stockholders in 2017–2020; (iv) DBMG’s issuance of preferred stock to the Company to finance DBMG’s 2018 acquisition of GrayWolf Industrial; and (v) the Company’s appointment of directors to DBMG’s board of directors by written consent in lieu of holding an annual stockholder meeting. On February 23, 2021, FVI filed an Amended Verified Stockholder Class Action Complaint (the “Amended Complaint”). In the Amended Complaint, FVI named two additional defendants: the Company’s Chief Executive Officer, Wayne Barr, and DBMG’s General Counsel, Scott D. Sherman. The Amended Complaint includes additional fact allegations in support of the largely similar claims raised in the original complaint. Defendants moved to dismiss the Amended Complaint on April 23, 2021. The Court heard argument on the motions to dismiss on January 21, 2022. Ruling from the bench, the Court granted Defendants’ motions to dismiss, in part. The Court dismissed all claims against all individual defendants other than Ronald Yagoda, including all claims against AJ Stahl, Kenneth S. Courtis, Robert V. Leffler, Jr., Philip A. Falcone, Michael J. Sena, and Paul Voigt. As to the two remaining defendants—INNOVATE Corp. and Ronald Yagoda—the Court dismissed all claims regarding (i) DBMG acting as a guarantor or providing collateral for loans taken on by the Company; (ii) DBMG’s issuance of dividends to its common and preferred stockholders in 2017–2020; (iii) the Company’s appointment of directors to DBMG’s board of directors by written consent in lieu of holding an annual stockholder meeting; and (iv) DBMG’s payments to the Company in 2016 and May 2017 pursuant to a Tax Sharing Agreement between DBMG and the Company. The Company believes the surviving claims in the FVI Amended Complaint relating to (i) DBMG’s payments to the Company after May 2017 pursuant to a Tax Sharing Agreement between DBMG and the Company and (ii) DBMG’s issuance of preferred stock to the Company to finance DBMG’s 2018 acquisition of GrayWolf Industrial are without merit, and the Company intends to vigorously defend this litigation.

### ***DTV Derivative Litigation***

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

### ***Separation from Philip A. Falcone***

The Company has engaged in ongoing negotiations with Philip A. Falcone, the former Chairman, President and Chief Executive Officer of the Company, regarding his separation. On December 18, 2020, Mr. Falcone filed a demand for arbitration against the Company with the American Arbitration Association (“AAA”). The Company filed its Answering Statement and Counterclaims with the AAA on March 5, 2021. The Company contends that the claims in Mr. Falcone’s demand are without merit and that the Company has both factual and legal defenses. Mr. Falcone filed his Answer to the Company’s Counterclaims on March 19, 2021. The Company and Mr. Falcone mediated on July 14, 2021, and on July 19, 2021, both the Company and Mr. Falcone accepted the mediator’s proposal, and the Company has reserved for an amount consistent with the mediator’s proposal. The parties executed an agreement on January 31, 2022 memorializing the terms of their settlement. The Company paid the settlement amount in February 2022 in accordance with the agreement except for a portion of the amount that will be paid following court approval. The settlement reached was consistent with the amount accrued for.

***Books and Records Demand***

On July 28, 2021, the Company received a demand from a company stockholder pursuant to 8 Del. C. § 220 to inspect books and records of the Company relating to, among other things, the Company's sale of its Insurance segment. The Company has responded to the demand and cannot determine at this time if the books and records demand will lead to litigation.

**14. Share-based Compensation**

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

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

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

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

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

The Company granted zero and 143,096 options during the year ended December 31, 2021 and 2020, respectively. For the year ended December 31, 2020, the weighted average fair value at date of grant for options granted was \$1.47 per option.

	Year Ended December 31, 2020
Expected option life (in years)	4.3 years
Risk-free interest rate	0.24%
Expected volatility	62.23%
Dividend yield	—%

Total share-based compensation expense recognized by the Company and its subsidiaries under all equity compensation arrangements was \$2.4 million and \$3.0 million for the years ended December 31, 2021 and 2020, respectively.

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

The Company was authorized to issue approximately 2.2 million and 4.8 million shares for awards for the years ended December 31, 2021 and 2020, respectively.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

***Restricted Stock***

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

	Shares	Weighted Average Grant Date Fair Value
Unvested - December 31, 2019	2,213,775	\$ 5.12
Granted	1,152,202	\$ 2.74
Vested	(2,258,905)	\$ 4.08
Forfeited	(478,639)	\$ 5.87
Unvested - December 31, 2020	628,433	\$ 3.93
Granted	593,458	\$ 3.81
Vested	(514,543)	\$ 3.89
Forfeited	(151,469)	\$ 4.13
Unvested - December 31, 2021	<u>555,879</u>	\$ 3.79

At December 31, 2021, the total unrecognized stock-based compensation expense related to unvested restricted stock was \$1.2 million. The unrecognized compensation cost is expected to be recognized over the remaining weighted average period of 1.8 years.

***Stock Options***

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

	Shares	Weighted Average Exercise Price
Outstanding - December 31, 2019	7,067,592	\$ 6.52
Granted	143,096	\$ 2.62
Exercised	—	\$ —
Forfeited	(142,503)	\$ 5.45
Expired	(2,328,327)	\$ 9.18
Outstanding - December 31, 2020	4,739,858	\$ 5.13
Granted	—	\$ —
Exercised	—	\$ —
Forfeited	—	\$ —
Expired	(23,999)	\$ 5.31
Outstanding - December 31, 2021	<u>4,715,859</u>	\$ 5.13
Eligible for exercise	<u>4,714,509</u>	\$ 5.13

At December 31, 2021, the intrinsic value and average remaining life of the Company's outstanding options were \$0.2 million and approximately 2.6 years, and intrinsic value and average remaining life of the Company's exercisable options were \$0.2 million and approximately 2.6 years. The maximum contractual term of the Company's exercisable options is approximately 10 years.

At December 31, 2021, the total unrecognized stock-based compensation expense related to unvested stock options was \$0.1 million. The unrecognized compensation cost is expected to be recognized over the remaining weighted average period of 0.2 years. There are 1,350 unvested stock options expected to vest, with a weighted average remaining life of 7.2 years, a weighted average exercise price of \$2.62, and an intrinsic value of \$0.1 million.

**15. Equity**

***Rights Offering***

On September 9, 2020, INNOVATE announced its intention to commence a rights offering (the “Rights Offering”), pursuant to which each holder of its outstanding common stock and participating preferred stock would receive transferable subscription rights entitling such stockholder to purchase shares of INNOVATE’s common stock at a subscription price equal to \$2.27 per share based on the last sale price for our common stock on the trading day prior to September 9, 2020.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

On the same date, INNOVATE entered into an investment agreement (the "Investment Agreement") with Lancer Capital LLC ("Lancer Capital"), an investment fund led by Avram Glazer, the Chairman of our Board of Directors, pursuant to which Lancer Capital agreed to purchase up to \$35.0 million of Series B Preferred Stock (as defined below) in connection with the Rights Offering based on subscription participation of common shareholders (the "Backstop Commitment"). The Investment Agreement provides for an advance of up to \$10.0 million of the Backstop Commitment at the option of the Company.

On September 17, 2020, Lancer Capital funded \$5.56 million, receiving 5,560 shares of Series B Preferred stock.

The Investment Agreement provides that, to the extent that Lancer Capital is precluded by applicable rules and regulations (including those of the NYSE, the Texas Department of Insurance and any other applicable regulators) from purchasing common stock by exercising rights received in the Rights Offering, Lancer Capital will purchase additional shares of Series B Preferred Stock (in excess of any Initial Funding amount) equivalent to its allocable participation right. The Investment Agreement also restricts Lancer Capital from purchasing or otherwise acquiring any other rights we issue in the Rights Offering.

Lancer Capital did not receive any compensation or other consideration for entering into or consummating the Investment Agreement. The Backstop Commitment is defined as a financial instrument and measurable at fair value on each reporting period. INNOVATE used both market observable inputs and unobservable data to derive the fair value as of the reporting date. The Backstop Commitment was classified as Level 3. Fair value for the Backstop Commitment as of September 30, 2020, was zero. The Backstop Commitment ceased upon the consummation of the Rights Offering.

On November 20, 2020, INNOVATE's stockholders voted to approve (i) an amendment to the Company's certificate of incorporation to increase the number of authorized shares of common stock of the Company to 160,000,000 shares and (ii) the conversion of up to 35,000 shares of Series B preferred stock of the Company in connection with the Company's Rights Offering.

On November 20, 2020, we completed the Rights Offering and issued a total of 28,716,820 shares of our common stock, 16,825,280 common shares were issued immediately, and 11,891,540 were issued from the conversion of 26,994 shares of Series B Preferred stock as noted below.

Net proceeds of the November 20, 2020 issuance was \$59.6 million. Inclusive of the initial Series B issuance on September 17, 2020, total net proceeds of the Rights Offering, after deducting the dealer manager fees and other offering expenses, were approximately \$61.5 million.

***Preferred Shares***

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

	December 31, 2021	December 31, 2020
Preferred shares authorized, \$0.001 par value	20,000,000	20,000,000
Series A shares issued and outstanding <sup>(1)</sup>	—	6,375
Series A-2 shares issued and outstanding <sup>(1)</sup>	—	4,000
Series A-3 shares issued and outstanding	6,125	—
Series A-4 shares issued and outstanding	10,000	—

(1) In 2020, CGI, formerly a wholly owned subsidiary of the Company, owned 6,125 shares of Series A Preferred Stock and 10,000 shares of Series A-2 Preferred Stock which were eliminated in consolidation.

***Preferred Share Activity***

*Series A Shares*

*CGI Purchase*

On December 18, 2018, and December 20, 2018, CGI, a wholly owned subsidiary of the Company closed on the purchase of 6,125 shares of Series A Preferred Stock, and on January 11, 2019, CGI purchased 10,000 shares of Series A-2 Preferred Stock. The shares and dividends accrued related to the Series A-2 Preferred Stock owned by CGI were eliminated in consolidation prior to its sale on July 1, 2021. See Note 3. Discontinued Operations for further information.

*Luxor and Corrib Conversions*

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

- The Company agreed that in the event that Corrib and Luxor would have been entitled to any Participating Dividends payable, had they not converted the Preferred Stock (as defined in the respective Series A and Series A-1 Certificate of Designation), after the date of their Preferred Share conversion, then the Company will issue to Corrib and Luxor, on the date such Participating Dividends become payable by the Company, in a transaction exempt from the registration requirements of the Securities Act the number of shares of common stock equal to (a) the value of the Participating Dividends Corrib or Luxor would have received pursuant to Sections (2)(c) and (2)(d) of the respective Series A and Series A-1 Certificates of Designation, divided by (b) the Thirty Day VWAP (as defined in the respective Series A and Series A-1 Certificates of Designation) for the period ending two business days prior to the underlying event or transaction that would have entitled Corrib or Luxor to such Participating Dividend had Corrib's or Luxor's Preferred Stock remain unconverted.
- The Company agreed that it will issue to Corrib and Luxor, on each quarterly anniversary commencing May 29, 2017 (or, if later, the date on which the corresponding dividend payment is made to the holders of the outstanding Preferred Stock), through and until the Maturity Date (as defined in the respective Series A and Series A-1 Certificates of Designation), in a transaction exempt from the registration requirements of the Securities Act the number of shares of common stock equal to (a) 1.875% the Accrued Value (as defined in the respective Series A and Series A-1 Certificates of Designation) of Corrib's or Luxor's Preferred Stock as of the Closing Date (as defined in applicable Voluntary Conversion Agreements) divided by (b) the Thirty Day VWAP (as defined in the respective Series A and Series A-1 Certificate of Designation) for the period ending two business days prior to the applicable Dividend Payment Date (as defined in the respective Series A and Series A-1 Certificate of Designation).

For the year ended December 31, 2021, 119,784 and 13,477 shares of the Company's common stock have been issued to Luxor and Corrib, respectively, in conjunction with the conversion agreements. For the year ended December 31, 2020, 278,194 and 31,379 shares of the Company's common stock have been issued to Luxor and Corrib, respectively, in conjunction with the conversion agreements.

The fair value of the Additional Share Consideration for the year ended December 31, 2021 was valued by the Company at \$0.3 million and for the year ended December 31, 2020 was valued by the Company at \$0.8 million on the date of issuance and was recorded within Preferred stock and deemed dividends from conversion line item of the Consolidated Statements of Operations as a deemed dividend.

On May 29, 2021, pursuant to the terms of the Additional Share Consideration, the final Participating Dividend payments were made to Luxor and Corrib.

*Redemption and Conversion of Series A and A-2 Shares*

On May 29, 2021, pursuant to the Certificate of Designation, holders of the Series A and A-2 Preferred Stock caused the Company to redeem the Series A and A-2 Preferred Stock at the accrued value per share plus accrued but unpaid dividends (to the extent not included in the accrued value of Series A and A-2 Preferred Stock), of which \$10.4 million was paid in cash to holders of the Series A and A-2 Preferred Stock. Each share of Series A and A-2 Preferred Stock that was not so redeemed was automatically converted into shares of common stock at the conversion price then in effect, of which 50,410 shares of the Company's common stock were issued in lieu of cash to holders of the Series A Preferred Stock. In connection with the Stock Purchase Agreement, CGI, formerly a wholly owned subsidiary of the Company, entered into a letter agreement with the Company to not redeem at maturity or seek redemption of 6,125 shares of the Company's Series A and 10,000 shares of the Company's Series A-2 Preferred Stock with a combined redemption value of \$16.1 million with a current fair value as of December 31, 2021 of \$18.8 million.

*Series A-3 and A-4 Share Issuance and Conversion*

On July 1, 2021 (the "Exchange Date") and as a part of the sale of CIG, INNOVATE entered into an exchange agreement (the "Exchange Agreement") with the now deconsolidated CGIC, who held the remaining shares of the Series A and Series A-2 Preferred Stock. Per the Exchange Agreement, INNOVATE exchanged the Series A and Series A-2 shares that CGIC held for an equivalent number of Series A-3 Convertible Participating Preferred Stock ("Series A-3") and Series A-4 Convertible Participating Preferred Stock ("Series A-4"), respectively. The terms remained substantially the same, except that the Series A-3 and Series A-4 will mature on July 1, 2026. A cash payment of \$0.3 million was made as a part of the exchange for accrued and unpaid dividends on the Series A and Series A-2 being exchanged.

Upon issuance of the Series A-3 and Series A-4 Preferred Stock on July 1, 2021, the Series A-3 and Series A-4 have been classified as temporary equity in the Company's Balance Sheet.

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

*Subsequent Measurement.* The Company has elected to account for the Series A-3 and Series A-4 Preferred Stock by immediately recognizing changes in the redemption value as they occur. The carrying value of the Series A-3 and Series A-4 Preferred Stock will be adjusted to equal what the redemption amount would be as if the redemption were to occur at the end of the reporting period as if it were also the redemption date for the Series A-3 and Series A-4 Preferred Stock. Any cash dividends paid will directly reduce the carrying value of the Series A-3 and Series A-4 Preferred Stock until the carrying value equals the redemption value. The Company has a history of paying dividends on its preferred stock and expects to continue to pay such dividends each quarter.

*Optional Conversion.* Each share of Series A-3 and Series A-4 may be converted by the holder into shares of the Company's common stock at any time based on the then-applicable Conversion Price. Each share of Series A-3 is initially convertible at a conversion price of \$4.25 (as it may be adjusted from time to time, the "Series A-3 Conversion Price"), and each share of Series A-4 is initially convertible at a conversion price of \$8.25 (as it may be adjusted from time to time, the "Series A-4 Conversion Price") ("collectively the "Conversion Prices"). The Conversion Prices are subject to adjustment for dividends, certain distributions, stock splits, combinations, reclassifications, reorganizations, mergers, recapitalizations and similar events, as well as in connection with issuances of equity or equity-linked or other comparable securities by the Company at a price per share (or with a conversion or exercise price or effective issue price) that is below the Conversion Prices' (which adjustment shall be made on a weighted average basis). Actual conversion prices at the time of the exchange were \$3.52 for the Series A and \$5.33 for the Series A-2.

*Redemption by the Holder / Automatic Conversion.* On July 1, 2026, holders of the Series A-3 and Series A-4 shall be entitled to cause the Company to redeem the Series A-3 and Series A-4 at the accrued value per share plus accrued but unpaid dividends (to the extent not included in the accrued value of Series A-3 and Series A-4). Each share of Series A-3 and Series A-4 that is not so redeemed will be automatically converted into shares of the Company's common stock at the Conversion Price then in effect.

Upon a change of control (as defined in each Certificate of Designation) holders of the Series A-3 and Series A-4 shall be entitled to cause the Company to redeem their shares of Series A-3 and Series A-4 at a price per share of Series A-3 and Series A-4 equal to the greater of (i) the accrued value of the Series A-3 and Series A-4, plus any accrued and unpaid dividends (to the extent not included in the accrued value of Series A-3 and Series A-4 Preferred Stock), and (ii) the value that would be received if the share of Series A-3 and Series A-4 were converted into shares of the Company's common stock immediately prior to the change of control.

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

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

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

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

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

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

At December 31, 2021, Series A-3 Preferred Stock and Series A-4 Preferred Stock were convertible into 1,740,700 and 1,875,533 shares, respectively, of INNOVATE's common stock.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

***Preferred Share Dividends***

During the year ended December 31, 2021 and 2020, INNOVATE's Board of Directors (the "Board") declared cash dividends with respect to INNOVATE's issued and outstanding Preferred Stock, excluding the Series A and Series A-2 Preferred Stock which was owned by CGIC and was eliminated in consolidation prior to the sale of the Insurance segment on July 1, 2021, as presented in the following table (in millions):

***2021***

Declaration Date	March 31, 2021	May 29, 2021	September 30, 2021	December 31, 2021
Holders of Record Date	March 31, 2021	May 29, 2021	September 30, 2021	December 31, 2021
Payment Date	April 15, 2021	June 4, 2021	October 15, 2021	January 15, 2022
Total Dividend	\$ 0.2	\$ 0.1	\$ 0.3	\$ 0.3

***2020***

Declaration Date	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
Holders of Record Date	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
Payment Date	April 15, 2020	July 15, 2020	October 15, 2020	January 15, 2021
Total Dividend	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2

***DBMGI Series A Preferred Stock Issuance***

On November 30, 2018, CGIC purchased 40,000 shares of DBMGI's Series A Preferred Stock, which was eliminated in consolidation. On July 1, 2021, as a part of the sale of CIG which results in the deconsolidation of the entity, INNOVATE was deemed to have issued \$40.9 million of DBMGI Series A Preferred Stock to the now deconsolidated CGIC.

Upon issuance of the DBMGI Series A Preferred Stock on July 1, 2021, the DBMGI Series A Preferred Stock has been classified as temporary equity in the Company's Balance Sheet.

*Redemption Option.* The DBMGI Preferred Stock is redeemable at any time, in whole or in part, at the option of the Company, or at any time or by the holder prior to July 2026.

*Dividends.* The DBMGI Series A Preferred Stock will accrue a cumulative quarterly cash or payment in kind dividend at a rate of (a) for the first five years following the date of issuance, (i) 9.00% per annum if dividends are paid in kind or (ii) 8.25% per annum if dividends are paid in cash and (b) starting on the fifth anniversary of the date of issuance, a rate per annum equal to (i) LIBOR (as defined in the Certificate of Designation) plus a spread of 5.85% (together, the "LIBOR Rate") per annum, plus 0.75% if dividends are paid in kind or (ii) the LIBOR Rate per annum in the case of dividends paid in cash.

*Subsequent Measurement.* The DBMGI Series A Preferred Stock will be subsequently measured each reporting period at its maximum redemption value, which is equal to the stated value plus all accrued, accumulated and unpaid dividends as of the end of each reporting period as they are currently redeemable. The Company pays accrued dividends quarterly in cash (with an option to PIK), and there will likely not be any subsequent measurement adjustments recorded to the initial carrying amount. As such no accretion will be recognized until future dividend payments would otherwise reduce the carrying value below its redemption value. In such a case, the Company will adjust the carrying value to its maximum redemption amount.

During the year ending December 31, 2021, DBMGI's Board of Directors declared cash dividends with respect to DBMGI's issued and outstanding Preferred Stock, as presented in the following table (in millions):

***2021***

Declaration Date	September 30, 2021	December 31, 2021
Holders of Record Date	September 30, 2021	December 31, 2021
Payment Date	October 15, 2021	January 15, 2022
Total Dividend	\$ 0.8	\$ 0.9

*Stockholders' Rights Agreement*

On August 30, 2021, the Company entered into a Tax Benefits Preservation Plan (the "Plan") with Computershare Trust Company, N.A., as rights agent (the "Rights Agent"), and the Board of the Company declared a dividend distribution of one right (a "Right") for each outstanding share of our common stock to stockholders of record at the close of business on September 9, 2021 (the "Record Date"). Each Right is governed by the terms of the Plan and entitles the registered holder to purchase from the Company a unit consisting of one one-thousandth of a share (a "Unit") of Series B Preferred Stock, par value \$0.001 per share (the "Series B Preferred Stock"), at a purchase price of \$20.00 per Unit, subject to adjustment (the "Purchase Price"). The Plan is intended to help protect the Company's ability to use its tax net operating losses and certain other tax assets ("Tax Benefits") by deterring an "ownership change" as defined under Section 382 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder (the "Code").

Initially, the Rights will be attached to all common stock certificates representing shares of our common stock then outstanding, and no separate rights certificates ("Rights Certificates") will be distributed. Subject to certain exceptions specified in the Plan, the Rights will separate from our shares of common stock then outstanding and a distribution date (the "Distribution Date") will occur upon the earlier of (i) 10 business days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has become the beneficial owner of 4.9% or more of our common stock and (ii) 10 business days (or such later date as the Board shall determine) following the commencement of a tender offer or exchange offer that would result in a person or group becoming an Acquiring Person.

The Rights are not exercisable until the Distribution Date and will expire at the earliest of (i) 11:59 p.m. (New York City time) on August 30, 2022 or such later date and time as may be determined by the Board and approved by the stockholders of the Company by a vote of the majority of the votes cast by the holders of shares entitled to vote thereon at a meeting of the stockholders of the Company prior to 11:59 p.m. (New York City time) on August 30, 2022 (which later date and time shall be in no event later than 11:59 p.m. (New York City time) on August 30, 2024), (ii) the time at which the Rights are redeemed or exchanged as provided in the Plan, (iii) the time at which the Board determines that the Plan is no longer necessary or desirable for the preservation of Tax Benefits, and (iv) the close of business on the first day of a taxable year of the Company to which the Board determines that no Tax Benefits may be carried forward.

Unless terminated early, the Tax Benefits Preservation Plan will terminate on August 30, 2022, unless at the Company's 2022 annual meeting the Company's stockholders approve an extension of the Tax Benefits Preservation Plan, in which case the Tax Benefits Preservation Plan would be extended and expire at the Company's 2024 annual meeting.

**16. Related Parties**

**Non-Operating Corporate**

Pansend Life Sciences, LLC ("Pansend") has an investment in Triple Ring Technologies, Inc. ("Triple Ring"). A subsidiary of INNOVATE utilized the services of Triple Ring, incurring zero and \$1.0 million in services for the years ended December 31, 2021 and 2020, respectively.

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

During the year ended December 31, 2021, and subsequent to the sale of CGIC on July 1, 2021, to Continental General Holdings LLC, an entity controlled by Michael Gorzynski, a director of the Company and, as of December 31, 2021, a beneficial owner of approximately 6.6% of the Company's outstanding common stock who has also served as executive chairman of Continental since October 2020, INNOVATE's Board of Directors declared cash dividends of \$0.6 million to CGIC with respect to INNOVATE's issued and outstanding Preferred Stock, and DBMG's Board of Directors declared cash dividends of \$1.7 million to CGIC with respect to DBMG's issued and outstanding Preferred Stock.

**Infrastructure**

Banker Steel, a subsidiary of DBMG, has leased two office spaces from 2940 Fulks St LLC, a related party that is owned by Donald Banker, CEO of Banker Steel and a related party, with monthly lease payments of \$10 thousand and a total lease liability of \$0.2 million. For the year ended December 31, 2021, and 2020, DBMG incurred lease expense of \$55 thousand and zero, respectively.

Banker Steel has leased two planes from Banker Aviation LLC, a related party that is owned by Donald Banker, a related party, with monthly lease payments of \$0.2 million and a total lease liability of \$3.6 million. For the year ended December 31, 2021, and 2020, DBMG incurred lease expense of \$1.0 million and zero, respectively.

Banker Steel also has a subordinated note payable of \$6.3 million to Donald Banker, a related party, that has a maturity date of June 30, 2024 at a 11% interest rate. For the year ended December 31, 2021, and 2020, DBMG incurred interest expense of \$0.4 million and zero, respectively. Refer to Footnote 9. Debt Obligations to our Consolidated Financial Statements for additional information.

**Life Sciences**

During 2021, R2 Technologies paid \$0.4 million of a milestone payment to Blossom Innovations, LLC, a related party.

**17. Operating Segment and Related Information**

The Company currently has one primary reportable geographic segment - United States. The Company has three reportable operating segments, plus our Other segment, based on management's organization of the enterprise - Infrastructure, Life Sciences, Spectrum, and Other. We also have included a Non-operating Corporate segment. All inter-segment revenues are eliminated. The Company's revenue concentration of 10% and greater are as follows:

	Segment	Years Ended December 31,	
		2021	2020
Customer A	Infrastructure	13.9%	*

\*Less than 10% revenue concentration

As a result of the sale of GMSL, ICS, and Beyond6, and in accordance with ASC 280, the Company no longer considers the results of operations and balance sheets of these entities and related subsidiaries as separate segments. Formerly part of the Marine Services, Telecommunications, and Clean Energy segments, these entities and the investment in HMN have been reclassified to the Other segment. In addition, as GMSL, ICS, Beyond6, and CIG are discontinued operations, all operating results of these entities have been reclassified to discontinued operations. This has been reflected in the tables below for both the current and historical periods presented.

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

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

	Years Ended December 31,	
	2021	2020
Revenue		
Infrastructure	\$ 1,159.7	\$ 676.6
Life Sciences	3.5	—
Spectrum	42.0	40.3
Total revenue	<u>\$ 1,205.2</u>	<u>\$ 716.9</u>

	Years Ended December 31,	
	2021	2020
Income (loss) from operations		
Infrastructure	\$ 35.2	\$ 20.5
Life Sciences	(19.9)	(16.9)
Spectrum	(0.8)	(2.2)
Other	(2.0)	(2.7)
Non-operating Corporate	(23.1)	(27.0)
Total loss from operations	<u>\$ (10.6)</u>	<u>\$ (28.3)</u>

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

	Years Ended December 31,	
	2021	2020
Loss from operations	\$ (10.6)	\$ (28.3)
Interest expense	(59.1)	(74.8)
Loss on early extinguishment or restructuring of debt	(12.5)	(9.4)
Loss from equity investees	(2.8)	(3.4)
Other income	4.3	69.2
Loss from continuing operations before income taxes	(80.7)	(46.7)
Income tax expense	(5.6)	(7.0)
Loss from continuing operations	(86.3)	(53.7)
Loss from discontinued operations (including loss on sale of \$159.9 million and \$44.1 million for the years ended December 31, 2021 and 2020, respectively)	(149.9)	(48.4)
Net loss	(236.2)	(102.1)
Net loss attributable to noncontrolling interest and redeemable noncontrolling interest	8.7	10.1
Net loss attributable to INNOVATE Corp.	(227.5)	(92.0)
Less: Preferred dividends and deemed dividends from conversions	2.2	3.6
Net loss attributable to common stock and participating preferred stockholders	<u>\$ (229.7)</u>	<u>\$ (95.6)</u>

	Years Ended December 31,	
	2021	2020
Depreciation and Amortization		
Infrastructure	\$ 19.1	\$ 10.7
Infrastructure recognized within cost of revenue	12.2	9.1
Total Infrastructure	31.3	19.8
Life Sciences	0.2	0.1
Spectrum	6.0	6.8
Non-operating Corporate	0.1	0.1
Total depreciation and amortization	<u>\$ 37.6</u>	<u>\$ 26.8</u>

**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

	Years Ended December 31,	
	2021	2020
Capital Expenditures <sup>(*)</sup>		
Infrastructure	\$ 18.3	\$ 5.7
Life Sciences	0.5	0.1
Spectrum	5.3	11.8
Non-operating Corporate	—	0.2
Total	<u>\$ 24.1</u>	<u>\$ 17.8</u>

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

	December 31,	December 31,
	2021	2020
Investments		
Infrastructure	\$ 0.7	\$ 0.9
Life Sciences	10.2	18.4
Other	45.1	36.1
Total	<u>\$ 56.0</u>	<u>\$ 55.4</u>

	December 31,	December 31,
	2021	2020
Equity Method Investees		
Infrastructure	\$ 0.7	\$ 0.9
Life Sciences	9.6	17.9
Other	33.9	24.8
Total	<u>\$ 44.2</u>	<u>\$ 43.6</u>

	December 31,	December 31,
	2021	2020
Total Assets		
Infrastructure	\$ 786.4	\$ 475.8
Life Sciences	22.0	21.4
Spectrum	198.9	213.6
Other	48.0	6,021.3
Non-operating Corporate	25.3	30.1
Eliminations	—	(38.4)
Total	<u>\$ 1,080.6</u>	<u>\$ 6,723.8</u>

### 18. Basic and Diluted Income (Loss) Per Common Share

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

The Company had no dilutive common share equivalents during the year ended December 31, 2021 and 2020 due to results from continuing operations being a loss, net of tax. The following table presents a reconciliation of net income (loss) used in basic and diluted EPS calculations (in millions, except per share amounts):

	Years Ended December 31,	
	2021	2020
Loss from continuing operations	\$ (86.3)	\$ (53.7)
Income (loss) from continuing operations attributable to noncontrolling interest and redeemable noncontrolling interest	7.8	(5.9)
Loss from continuing operations attributable to the Company	(78.5)	(59.6)
Less: Preferred dividends, deemed dividends and repurchase gains	2.2	3.6



**INNOVATE CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED**

Loss from continuing operations attributable to INNOVATE common stockholders	(80.7)	(63.2)
Loss from discontinued operations	(149.9)	(48.4)
Income from discontinued operations attributable to noncontrolling interest and redeemable noncontrolling interest	0.9	16.0
Loss from discontinued operations, net of tax and noncontrolling interest	(149.0)	(32.4)
Net loss attributable to common stock and participating preferred stockholders	<u>\$ (229.7)</u>	<u>\$ (95.6)</u>
<b>Earnings allocable to common shares:</b>		
Participating shares at end of period:		
Weighted-average common stock outstanding	77.1	50.3
Unvested restricted stock	—	—
Preferred stock (as-converted basis)	—	0.4
Total	<u>77.1</u>	<u>50.7</u>
<b>Percentage of loss allocated to:</b>		
Common stock	100.0 %	99.2 %
Unvested restricted stock	— %	— %
Preferred stock	— %	0.8 %
<b>Numerator for earnings per share, basic:</b>		
Net loss from continuing operations attributable to common stock, basic	\$ (80.7)	\$ (62.7)
Net loss from discontinued operations attributable to common stock, basic	\$ (149.0)	\$ (32.1)
Net loss attributable to common stock, basic	\$ (229.7)	\$ (94.8)
<b>Earnings allocable to common shares, diluted:</b>		
<b>Numerator for earnings per share, diluted</b>		
Effect of assumed shares under the if-converted method for convertible instruments	\$ —	\$ —
Net loss from continuing operations attributable to common stock, basic	\$ (80.7)	\$ (62.7)
Net loss from discontinued operations attributable to common stock, basic	\$ (149.0)	\$ (32.1)
Net loss attributable to common stock, basic	\$ (229.7)	\$ (94.8)
<b>Denominator for basic and dilutive earnings per share</b>		
Weighted average common shares outstanding - basic	77.1	50.3
Effect of assumed shares under treasury stock method for stock options and restricted shares and if-converted method for convertible instruments	—	—
Weighted average common shares outstanding - diluted	<u>77.1</u>	<u>50.3</u>
<b>Loss per share - continuing operations</b>		
Basic	\$ (1.05)	\$ (1.25)
Diluted	\$ (1.05)	\$ (1.25)
<b>Loss per share - discontinued operations</b>		
Basic	\$ (1.93)	\$ (0.63)
Diluted	\$ (1.93)	\$ (0.63)
<b>Loss per share - Net loss attributable to common stock and participating preferred stockholders</b>		
Basic	\$ (2.98)	\$ (1.88)
Diluted	\$ (2.98)	\$ (1.88)

**19. Subsequent Events**

None.

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