HC2 Holdings, Inc.
Form 10-Q
November 09, 2015

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the quarterly period ended September 30, 2015
OR
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

Commission File No. 001-35210

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

Delaware	54-1708481
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

505 Huntmar Park Drive, Suite 325	
Herndon, VA	20170
(Address of principal executive offices)	(Zip Code)

(703) 865-0700
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	¨	Accelerated filer	x

Non-accelerated filer	¨	Smaller reporting company	¨

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

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

Class	Outstanding as of October 31, 2015
Common Stock, $0.001 par value	25,592,356

HC2 HOLDINGS, INC.
INDEX TO FORM 10-Q

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Services revenue	$151,933	$41,267	$373,492	$126,731
Sales revenue	125,534	138,166	386,765	192,642
Net revenue	277,467	179,433	760,257	319,373
Operating expenses:				
Cost of revenue - services	138,099	39,464	334,608	120,101
Cost of revenue - sales	103,375	119,175	324,820	162,505
Selling, general and administrative	27,830	20,246	77,359	40,482
Depreciation and amortization	6,593	921	16,835	1,475
Gain on sale or disposal of assets	(1,957)	(448)	(986)	(81)
Lease termination costs	1,124	—	1,124	—
Total operating expenses	275,064	179,358	753,760	324,482
Income (loss) from operations	2,403	75	6,497	(5,109)
Interest expense	(10,343)	(2,103)	(28,992)	(3,116)
Amortization of debt discount	(40)	(805)	(216)	(1,381)
Loss on early extinguishment or restructuring of debt	—	(6,947)	—	(6,947)
Other income (expense), net	1,216	(1,092)	(3,528)	524
Foreign currency transaction gain	1,099	170	2,150	573
Loss from continuing operations before income (loss) from equity investees and income tax benefit (expense)	(5,665)	(10,702)	(24,089)	(15,456)
Income (loss) from equity investees	535	(288)	(724)	(288)
Income tax benefit (expense)	649	(4,515)	4,018	(6,470)
Loss from continuing operations	(4,481)	(15,505)	(20,795)	(22,214)
Loss from discontinued operations	(24)	(106)	(44)	(62)
Gain (loss) from sale of discontinued operations	—	663	—	(121)
Net loss	(4,505)	(14,948)	(20,839)	(22,397)
Less: Net income attributable to noncontrolling interest	(65)	(931)	(8)	(1,990)
Net loss attributable to HC2 Holdings, Inc.	(4,570)	(15,879)	(20,847)	(24,387)
Less: Preferred stock dividends and accretion	1,035	1,004	3,212	1,204
Net loss attributable to common stock and participating preferred stockholders	$(5,605)	$(16,883)	$(24,059)	$(25,591)
Basic loss per common share:				
Loss from continuing operations attributable to HC2 Holdings, Inc.	$(0.22)	$(0.75)	$(0.96)	$(1.38)
Gain (loss) from sale of discontinued operations	—	0.03	—	(0.01)
Net loss attributable to HC2 Holdings, Inc.	$(0.22)	$(0.72)	$(0.96)	$(1.39)
Diluted loss per common share:				
	$(0.22)	$(0.75)	$(0.96)	$(1.38)

Loss from continuing operations attributable to HC2 Holdings, Inc.				
Gain (loss) from sale of discontinued operations	—	0.03	—	(0.01)
Net loss attributable to HC2 Holdings, Inc.	$(0.22)	$(0.72)	$(0.96)	$(1.39)
Weighted average common shares outstanding:				
Basic	25,592	23,372	25,093	18,348
Diluted	25,592	23,372	25,093	18,348

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net loss	$(4,505)	$(14,948)	$(20,839)	$(22,397)
Other comprehensive loss				
Foreign currency translation adjustment	(6,126)	(21)	(7,998)	(155)
Unrealized loss on available-for-sale securities, net of tax	(2,008)	(1,655)	(5,097)	(1,655)
Less: Comprehensive income attributable to the noncontrolling interest	(65)	(931)	(8)	(1,990)
Comprehensive loss attributable to HC2 Holdings, Inc.	$(12,704)	$(17,555)	$(33,942)	$(26,197)

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 81,066	$ 107,978
Short-term investments	3,625	4,867
Accounts receivable (net of allowance for doubtful accounts receivable of $1,576 and $2,760 at September 30, 2015 and December 31, 2014, respectively)	187,474	151,558
Costs and recognized earnings in excess of billings on uncompleted contracts	37,266	28,098
Deferred tax asset - current	1,701	1,701
Inventories	14,408	14,975
Prepaid expenses and other current assets	27,835	22,455
Assets held for sale	6,349	3,865
Total current assets	359,724	335,497
Restricted cash	7,196	6,467
Long-term investments	77,154	48,674
Property, plant and equipment, net	221,842	239,851
Goodwill	30,665	27,990
Other intangible assets, net	26,674	31,144
Deferred tax asset - long-term	23,571	15,811
Other assets	18,201	18,614
Total assets	$ 765,027	$ 724,048
Liabilities, temporary equity and stockholders' equity		
Current liabilities:		
Accounts payable	$ 65,573	$ 79,794
Accrued interconnection costs	36,689	9,717
Accrued payroll and employee benefits	22,127	20,023
Accrued expenses and other current liabilities	48,338	34,042
Billings in excess of costs and recognized earnings on uncompleted contracts	20,045	41,959
Accrued income taxes	1,470	512
Accrued interest	11,567	3,125
Current portion of long-term debt	13,454	10,444
Current portion of pension liability	—	5,966
Total current liabilities	219,263	205,582
Long-term debt	374,404	332,927
Pension liability	27,664	31,244
Other liabilities	8,151	1,617
Total liabilities	629,482	571,370
Commitments and contingencies (See Note 11)		
Temporary equity (See Note 13)		
Preferred stock, $0.001 par value – 20,000,000 shares authorized; Series A - 30,000 shares issued and outstanding at September 30, 2015 and December 31, 2014; Series A-1 - 10,000 and 11,000 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively; Series A-2 - 14,000 and 0 shares issued and	53,403	39,845

outstanding at September 30, 2015 and December 31, 2014, respectively		
Stockholders' equity:		
Common stock, $0.001 par value – 80,000,000 shares authorized; 25,623,982 and 23,844,711 shares issued and 25,592,356 and 23,813,085 shares outstanding at September 30, 2015 and December 31, 2014, respectively	26	24
Additional paid-in capital	151,662	147,081
Accumulated deficit	(62,727)	(41,880)
Treasury stock, at cost – 31,626 shares at September 30, 2015 and December 31, 2014	(378)	(378)
Accumulated other comprehensive loss	(28,273)	(15,178)
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	60,310	89,669
Noncontrolling interest	21,832	23,164
Total stockholders' equity	82,142	112,833
Total liabilities, temporary equity and stockholders' equity	$ 765,027	$ 724,048

See accompanying notes to condensed consolidated financial statements.

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

	Total	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance as of December 31, 2013	$54,409	14,226	$14	$98,598	$(378)	$(29,773)	$(14,052)	$ —
Share-based compensation expense	1,724	—	—	1,724	—	—	—	—
Proceeds from the exercise of warrants and stock options	24,348	7,590	8	24,340	—	—	—	—
Taxes paid in lieu of shares issued for share-based compensation	(41)	—	—	(41)	—	—	—	—
Preferred stock dividends and accretion	(1,204)			(1,204)	—	—	—	—
Preferred stock beneficial conversion feature	659	—	—	659	—	—	—	—
Issuance of common stock	6,000	1,500	2	5,998	—	—	—	—
Issuance of restricted stock	—	342	—	—	—	—	—	—
Acquisition of noncontrolling interest	61,080	—	—	—	—	—	—	61,080
Excess of fair value of net assets over purchase price of acquired company	4,674	—	—	4,674	—	—	—	—
Net (loss) income	(22,397)	—	—	—	—	(24,387)	—	1,990
Foreign currency translation adjustment	(155)	—	—	—	—	—	(155)	—
Unrealized gain (loss) on available-for-sale securities	(1,655)	—	—	—	—	—	(1,655)	—
Balance as of September 30, 2014	$127,442	23,658	$24	$134,748	$(378)	$(54,160)	$(15,862)	$ 63,070

6

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

	Total	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance as of December 31, 2014	$112,833	23,813	$24	$147,081	$(378)	$ (41,880)	$ (15,178)	$ 23,164
Share-based compensation expense	6,943	—	—	6,943	—	—	—	—
Dividend paid to noncontrolling interest	(1,038)	—	—	—	—	—	—	(1,038)
Preferred stock dividends and accretion	(3,212)	—	—	(3,212)	—	—	—	—
Preferred stock beneficial conversion feature	(375)	—	—	(375)	—	—	—	—
Issuance of common stock	—	5	—	—	—	—	—	—
Issuance of restricted stock	2	1,539	2	—	—	—	—	—
Conversion of preferred stock to common stock	1,000	235	—	1,000	—	—	—	—
Acquisition of noncontrolling interest	(259)	—	—	—	—	—	—	(259)
Excess book value over fair value of purchased noncontrolling interest	—	—	—	43	—	—	—	(43)
Excess of fair value of net assets over purchase price of acquired company	182	—	—	182	—	—	—	—
Net (loss) income	(20,839)	—	—	—	—	(20,847)	—	8
Foreign currency translation adjustment	(7,998)	—	—	—	—	—	(7,998)	—
Unrealized gain (loss) on available-for-sale securities, net of tax	(5,097)	—	—	—	—	—	(5,097)	—
Balance as of September 30, 2015	$82,142	25,592	$26	$151,662	$(378)	$ (62,727)	$ (28,273)	$ 21,832

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(20,839)	$(22,397)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for doubtful accounts receivable	325	(114)
Share-based compensation expense	6,943	1,725
Depreciation and amortization	22,570	4,071
Amortization of deferred financing costs	1,030	288
Lease termination costs	1,124	—
(Gain) loss on sale or disposal of assets	(986)	635
(Gain) loss on sale of investments	(399)	(437)
Equity investment (income)/loss	724	288
Amortization of debt discount	216	1,381
Unrealized (gain) loss on investments	(32)	—
Loss on early extinguishment of debt	—	6,947
Deferred income taxes	(8,143)	1
Other, net	225	—
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	90	57
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(36,099)	6,037
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	(9,253)	522
(Increase) decrease in inventories	455	(1,984)
(Increase) decrease in prepaid expenses and other current assets	(4,799)	25,539
(Increase) decrease in other assets	1,483	1,558
Increase (decrease) in accounts payable	(15,675)	1,751
Increase (decrease) in accrued interconnection costs	26,915	(2,618)
Increase (decrease) in accrued payroll and employee benefits	2,936	3,055
Increase (decrease) in accrued expenses and other current liabilities	18,406	(3,785)
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	(21,933)	(7,695)
Increase (decrease) in accrued income taxes	2,060	(2,198)
Increase (decrease) in accrued interest	8,442	502
Increase (decrease) in other liabilities	(720)	(1,371)
Increase (decrease) in pension liability	(8,665)	—
Net cash (used in) provided by operating activities	(33,599)	11,758
Cash flows from investing activities:		
Purchase of property, plant and equipment	(16,751)	(4,064)
Sale of property and equipment and other assets	4,994	3,696
Purchase of equity investments	(11,506)	(15,363)
Sale of equity investments	1,026	—
Sale of assets held for sale	1,479	—

Purchase of available-for-sale securities	(10,857)	(3,277)
Sale of available-for-sale securities	5,850	24
Investment in debt securities	(19,347)	(250)
Sale of investments	—	1,111
Cash paid for business acquisitions, net of cash acquired	(568)	(163,510)
Purchase of noncontrolling interest	(239)	(6,978)

Index

Contribution by noncontrolling interest	—	15,500
Receipt of dividends from equity investees	2,448	—
(Increase) decrease in restricted cash	(727)	—
Net cash used in investing activities	(44,198)	(173,111)
Cash flows from financing activities:		
Proceeds from long-term obligations	425,527	492,068
Principal payments on long-term obligations	(379,037)	(294,237)
Payment of fees on restructuring of debt	—	(837)
Payment of deferred financing costs	(1,137)	—
Proceeds from sale of common stock, net	—	6,000
Proceeds from sale of preferred stock, net	14,033	39,765
Proceeds from the exercise of warrants and stock options	—	24,344
Payment of dividends	(3,855)	(750)
Taxes paid in lieu of shares issued for share-based compensation	—	(41)
Net cash provided by financing activities	55,531	266,312
Effects of exchange rate changes on cash and cash equivalents	(4,646)	(2,217)
Net change in cash and cash equivalents	(26,912)	102,742
Cash and cash equivalents, beginning of period	107,978	8,997
Cash and cash equivalents, end of period	$81,066	$111,739
Supplemental cash flow information:		
Cash paid for interest	$21,445	$2,388
Cash paid for taxes	$1,701	$7,761
Preferred stock accreting dividends and accretion	$151	$419
Non-cash investing and financing activities:		
Purchases of property, plant and equipment under financing arrangements	$1,808	$—
Property, plant and equipment included in accounts payable	$1,521	$—
Conversion of preferred stock to common stock	$1,000	$—

See accompanying notes to condensed consolidated financial statements.

9

1. ORGANIZATION AND BUSINESS

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

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

Our Manufacturing segment includes Schuff International, Inc. ("Schuff") and its wholly-owned subsidiaries, which primarily operate as integrated fabricators and erectors of structural steel and heavy steel plates with headquarters in Phoenix, Arizona. Schuff has operations in Arizona, Georgia, Texas, Kansas and California, with its construction projects primarily located in the aforementioned states. In addition, Schuff has construction projects in select international markets, primarily Panama through a Panamanian joint venture with Empresas Hopsa, S.A. that provides steel fabrication services.

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

Our Utilities segment includes American Natural Gas ("ANG"), which is a premier distributor of natural gas motor fuel headquartered in the Northeast that designs, builds, owns, acquires, operates and maintains compressed natural gas fueling stations for transportation vehicles.

In our Telecommunications segment, we operate a telecommunications business including a network of direct routes and provide premium voice communication services for national telecom operators, mobile operators, wholesale carriers, prepaid operators, Voice over Internet Protocol service operators and Internet service providers from our International Carrier Services ("ICS") business unit.

In our Life Sciences segment, we operate Pansend Life Sciences, LLC ("Pansend", f/k/a Pansend, LLC), which has a 77% interest in Genovel Orthopedics, Inc., which seeks to develop products to treat early osteoarthritis of the knee, and a 61% interest in R2 Dermatology (f/k/a GemDerm Aesthetics, Inc.), which develops skin lightening technology. Additionally, in August 2015, the Company purchased 180,415 shares of MediBeacon, Inc., Preferred Stock for $2.9 million for a total ownership of approximately 9%.

In February 2015, the Company sold 586,095 shares of Novatel Wireless, Inc. ("Novatel") common stock and a warrant to purchase 293,047 shares of Novatel's common stock for $1.0 million which resulted in a gain of $0.2 million. In March 2015, the Company exercised a warrant to purchase 3,824,600 shares of Novatel's common stock for $8.6 million and also acquired a new warrant to purchase 1,593,583 shares of Novatel's common stock at $5.50 per share.

The Company’s ownership increased to approximately 23% of Novatel’s common stock. A basis difference, net of tax for the additional investment in March 2015, of $5.6 million consists of a trade name of $0.6 million (amortized over 15 years), a technology and customer intangible of $0.8 million (amortized over 7 years) and goodwill of $4.2 million.

In the first quarter of 2015, the Company purchased $3.0 million of convertible debt of DTV America Corporation (“DTV”) in aggregate. The convertible debt earned 10% interest. In addition, the Company acquired share purchase warrants, which are exercisable for 666,667 and 333,333 DTV's common shares until January 20, 2018 and March 6, 2018, respectively, at an exercise price of $2.00 per share. The principal balance and accrued interest of the convertible debt was automatically converted into 2,081,693 shares of common stock on June 30, 2015.

In April 2015, the Company purchased a $16.1 million convertible debenture (the "Debenture") of Gaming Nation, Inc. ("Gaming Nation"). The Debenture earns 6% interest in-kind and the principal and interest is convertible at the Company's option into Gaming Nation's common shares at a conversion price of $2.25. On June 9, 2015, the Debenture became convertible into 8,888,889 of Gaming Nation's common shares until June 9, 2017. In addition, the Company acquired a share purchase warrant, which is exercisable for 28,126,068 of Gaming Nation's common shares until April 6, 2020 at varying exercise prices, commencing at $5.00 per share for the first 2 years. For the quarter ended September 30, 2015, the Company recorded a foreign currency translation loss of $1.2 million and unrealized loss on fair value of the Debenture of $2.6 million within other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial reporting and Securities and Exchange Commission (“SEC”) regulations. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such principles and regulations. In the opinion of management, the financial statements reflect all adjustments (all of which are of a normal and recurring nature), which are necessary to present fairly the financial position, results of operations, cash flows and comprehensive income (loss) for the interim periods. The results for the Company’s three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The financial statements should be read in conjunction with the Company’s audited consolidated financial statements included in the Company’s most recently filed Annual Report on Form 10-K.

Principles of Consolidation - The condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and all other subsidiaries over which the Company exerts control. All intercompany profits, transactions and balances have been eliminated in consolidation. As of September 30, 2015, the Company has a 97% interest in GMSL, a 91% interest in Schuff, a 53% interest in ANG and a 100% interest in DMi, Inc. Through its subsidiary, Pansend, the Company has a 77% interest in Genovel Orthopedics, Inc. and a 61% interest in R2 Dermatology. The results of each of these entities are consolidated with the Company’s results from and after their respective acquisition dates based on guidance from the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) No. 810, “Consolidation” (“ASC 810”). The remaining interests not owned by the Company are presented as a noncontrolling interest component of total equity. Schuff uses a 4-4-5 week quarterly cycle, which for the third quarter of 2015 ended on September 27, 2015.

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

Newly Adopted Accounting Principles - In April 2014, an update was issued to the Presentation of Financial Statements Topic No. 205 and Property, Plant and Equipment Topic No. 360, Accounting Standards Update (“ASU”) 2014-8, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”, which changes the criteria for reporting discontinued operations. The ASU revises the definition of a discontinued operation and expands the disclosure requirements. Entities should not apply the amendments to a component of an entity that is classified as held for sale before the effective date even if it is disposed of after the effective date. That is, the ASU must be adopted prospectively. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been previously reported in the financial statements. On January 1, 2015, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

New Accounting Pronouncements - In September 2015, the FASB issued ASU 2015-16, “Business Combination Topic No. 805: Simplifying the Accounting for Measurement - Period Adjustments”, which requires adjustments to provisional amounts that are identified during the measurement period to be recognized in the reporting period in which the adjustment amounts are determined. This includes any effect on earnings of changes in depreciation, amortization, or other income effects as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Early adoption is permitted. The Company's effective date for adoption is January 1, 2016. The Company does not expect this accounting update to have a material effect on its consolidated financial statements in future periods, although that could change.

In August 2015, the FASB issued ASU 2015-15, "Interest - Imputation of Interest Subtopic No. 835-30: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements", which codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line-of-credit arrangements as assets. The Company's effective date for adoption is January 1, 2016. The Company does not expect this accounting update to have a material effect on its consolidated financial statements in future periods, although that could change.

In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers Topic No. 606: Deferral of the Effective Date", which defers the effective date of the new revenue recognition standard by one year. Early adoption is permitted. The Company's effective date for adoption is January 1, 2018. The Company does not expect this accounting update to have a material effect on its consolidated financial statements in future periods, although that could change.

In July 2015, the FASB issued ASU 2015-11, "Inventory Topic No. 330: Simplifying the Measurement of Inventory", which requires inventory within the scope of the ASU to be measured using the lower of cost and net realizable value. Inventory excluded from the scope of the ASU will continue to be measured at the lower of cost or market. Early adoption is permitted. The Company's effective date for adoption is January 1, 2017. The Company does not expect this accounting update to have a material effect on its consolidated financial statements in future periods, although that could change.

In May 2015, the FASB issued ASU 2015-8, "Business Combinations Topic No. 805: Pushdown Accounting-Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115 (SEC Update)", which rescinds certain SEC guidance in order to confirm with ASU 2014-17, "Pushdown Accounting" ("ASU 2014-17"). ASU 2014-17 was issued in November 2014 and provides a reporting entity that is a business or nonprofit activity (an "acquiree") the option to apply pushdown accounting to its separate financial statements when an acquirer obtains control of the acquiree. Early adoption is permitted. The Company's effective date for adoption is January 1, 2016. The Company does not expect this accounting update to have a material effect on its consolidated financial statements in future periods, although that could change.

In April 2015, the FASB issued ASU 2015-3, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs", which requires that debt issuance costs be reported in the balance sheet as a direct deduction from the face amount of the related liability, consistent with the presentation of debt discounts. Prior to the amendments, debt issuance costs were presented as a deferred charge (i.e., an asset) on the balance sheet. This ASU provides examples illustrating the balance sheet presentation of notes net of their related discounts and debt issuance costs. Further, the amendments require the amortization of debt issuance costs to be reported as interest expense. Similarly, debt issuance costs and any discount or premium are considered in the aggregate when determining the effective interest rate on the debt. The Company's effective date for adoption is January 1, 2016. The Company does not expect this accounting update to have a material effect on its consolidated financial statements in future periods, although that could change.

In February 2015, the FASB issued ASU 2015-2, "Amendments to the Consolidation Analysis", which amends the consolidation requirements in ASC 810 and significantly changes the consolidation analysis required under U.S. GAAP relating to whether or not to consolidate certain legal entities. Early adoption is permitted. The Company's effective date for adoption is January 1, 2016. The Company does not expect this accounting update to have a material effect on its consolidated financial statements in future periods, although that could change.

In January 2015, the FASB issued ASU 2015-1, "Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items", which eliminates the concept from U.S. GAAP the concept of an extraordinary item. Under the ASU, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. Early adoption is permitted. The Company's effective date for adoption is January 1, 2016. The Company does not expect this accounting update to have a material effect on its consolidated financial statements in future periods, although that could change.

3. BUSINESS COMBINATIONS

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

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

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

Schuff

On May 29, 2014, the Company completed the acquisition of 2.5 million shares of common stock of Schuff and negotiated an agreement to purchase an additional 198,411 shares, representing an approximately 65% interest in Schuff. Schuff repurchased a portion of its outstanding common stock in June 2014, which had the effect of increasing the Company's ownership interest to 70%. During the fourth quarter of 2014 and the nine months ended September 30, 2015, the final results of a tender offer for all outstanding shares of Schuff were announced and various open-market purchases were made, which resulted in our acquisition of an additional 816,414 shares and an increase in our ownership interest to 91%. The Company acquired Schuff to expand the business that it engages in and saw Schuff as an opportunity to enter the steel fabrication and erection market.

The table below summarizes the fair value of the Schuff assets acquired and liabilities assumed as of the acquisition date. The Company purchased 2.5 million shares of common stock of Schuff for $78.8 million. The purchase price of Schuff was valued at $31.50 per share which represented both the cash paid by the Company for its 60% interest, and the fair value of the noncontrolling interest of 40%.

The purchase price allocation is as follows (in thousands):

Cash and cash equivalents	$(627)
Investments	1,714
Accounts receivable	130,622
Costs and recognized earnings in excess of billings on uncompleted contracts	27,126
Prepaid expenses and other current assets	3,079
Inventories	14,487
Property and equipment, net	85,662
Goodwill	24,490
Trade names	4,478
Other assets	2,947
Total assets acquired	293,978
Accounts payable	37,621
Accrued payroll and employee benefits	11,668
Accrued expenses and other current liabilities	12,532
Billings in excess of costs and recognized earnings on uncompleted contracts	65,985
Accrued income taxes	1,202
Accrued interest	76
Current portion of long-term debt	15,460
Long-term debt	4,375
Deferred tax liability	7,693
Other liabilities	604
Noncontrolling interest	4,365

Total liabilities assumed	161,581
Enterprise value	132,397
Less fair value of noncontrolling interest	53,647
Purchase price attributable to controlling interest	$78,750

The acquisition of Schuff resulted in goodwill of approximately $24.5 million. Goodwill was the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets

13

acquired that could not be individually identified and separately recognized. Goodwill was recognized as a new stand-alone reporting unit. Goodwill is not amortized and is not deductible for tax purposes.

Amortizable Intangible Assets

The Schuff trade name was valued using a relief from royalty methodology. An estimated 60% of Schuff's revenue is generated from Schuff's relationship with general contractors. Thus, a value of the Schuff trade name was calculated based on the present value of Schuff's projected revenues for 15 years multiplied by 60%. The Schuff trade name was valued at $4.5 million and is being amortized over a 15 year life.

ASC 810 requires that transactions that result in an increase in ownership of a subsidiary be accounted for as equity transactions. The carrying amount of the noncontrolling interest is adjusted to reflect the controlling interest's decreased ownership interest in the subsidiary's net assets and any difference between the consideration paid by the parent to a noncontrolling interest holder (or contributed by the parent to the net assets of the subsidiary) and the adjustment to the carrying amount of the noncontrolling interest in the subsidiary is recognized directly in equity attributable to the controlling interest. Due to the increase of the Company's ownership of Schuff to 91% from the May 2014 acquisition date through December 31, 2014, the Company recorded an adjustment to Schuff's noncontrolling interest of $3.4 million and recorded as the excess book value over the fair value of purchased noncontrolling interest in the Company's condensed consolidated statement of stockholders' equity. In the nine months ended September 30, 2015, the Company acquired an additional 7,371 shares of Schuff that resulted in less than $0.1 million of excess book value over fair value of purchased noncontrolling interest in the Company's condensed consolidated statement of stockholders' equity. The ownership interest of 91% did not change.

ANG

On August 1, 2014, the Company paid $15.5 million to acquire 15,500 shares of Series A Convertible Preferred Stock of ANG (the "ANG Preferred Stock"), representing an approximately 51% interest in ANG. The ANG Preferred Stock was convertible into 1,033,333 shares of common stock and also has voting rights. The noncontrolling interest represents 1,000,000 shares of common stock; thereby the Company has a controlling interest. The Company acquired ANG for its strong growth potential which is in line with the Company's strategy to find businesses that it can operate to generate high returns and significant cash flow.

The table below summarizes the fair values of the ANG assets acquired and liabilities assumed as of the acquisition date. The purchase price of ANG was valued at $17.7 million, which represented both the cash paid by the Company for its 51% interest ($15.5 million), and the fair value of the noncontrolling interest of 49%, which we determined to be $2.2 million.

The purchase price allocation is as follows (in thousands):

Cash and cash equivalents	$15,704
Accounts receivable	306
Prepaid expenses and other current assets	31
Inventories	27
Property and equipment, net	1,921
Customer contracts	2,700
Trade names	6,300

Other assets	2
Total assets acquired	26,991
Accounts payable	49
Accrued payroll and employee benefits	5
Accrued expenses and other current liabilities	26
Billings in excess of costs and recognized earnings on uncompleted contracts	114
Current portion of long-term debt	34
Long-term debt	870
Deferred tax liability	3,349
Total liabilities assumed	4,447
Fair value of net assets acquired	22,544

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

Less purchase price	15,500
Less fair value of noncontrolling interest	2,189
Excess of fair value of net assets over purchase price	$4,855

The acquisition of ANG resulted in an excess of the fair value of the net assets acquired over the purchase price of $4.9 million. The Company does not believe that the circumstances surrounding the transaction give rise to a bargain purchase. The existing shareholders of ANG continue to manage the day-to-day operations and own the noncontrolling interest. Accordingly, due to the related party nature of the transaction, management has recorded the excess of the fair value of the assets acquired over the purchase price in additional paid-in capital.

Amortizable Intangible Assets

The ANG trade name was valued using a relief from royalty methodology. The value of the ANG trade name was calculated based on ANG's projected revenues for 10 years. An estimated royalty of 4% (looking at other market participants) was calculated net of tax based upon those revenues and present valued over 10 years. The ANG trade name was valued at $6.3 million and is being amortized over a 10 year life. Customer contracts were valued using a multi-period excess earnings methodology. The value of the customer contracts ANG holds for its owned and operated facilities was calculated based on the present value of ANG's net income from those contracts for 10 years. The customer contracts were valued at $2.7 million and is being amortized over a 10 year life.

GMSL

On September 22, 2014, the Company completed the acquisition of Bridgehouse Marine Limited and its subsidiary, GMSL. The purchase price reflects an enterprise value of approximately $260 million, including assumed indebtedness of approximately $130 million, leaving a net enterprise value of approximately $130 million. GMSL is a leading provider of engineering and underwater services on submarine cables. The Company acquired GMSL for its attractive valuation and strong cash position.

The table below summarizes the fair values of the GMSL assets acquired and liabilities assumed as of the acquisition date. The net enterprise value of GMSL was valued at $130 million, which represented both the cash paid by the Company for its 97% interest, and the fair value of the noncontrolling interest of 3%.

The purchase price allocation is as follows (in thousands):

Cash and cash equivalents	$62,555
Accounts receivable	26,183
Prepaid expenses and other current assets	22,111
Inventories	7,395
Restricted cash	4,682
Property and equipment, net	152,022
Customer contracts	8,121
Trade name	1,137
Developed technology	1,299
Goodwill	493
Investments	28,876
Other assets	7,482

Total assets acquired	322,356
Accounts payable	8,965
Accrued expenses and other current liabilities	46,992
Accrued income taxes	1,251
Current portion of long-term debt	8,140
Long-term debt	78,356

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

Pension liability	45,923
Deferred tax liability	1,163
Other liabilities	1,178
Total liabilities assumed	191,968
Enterprise value	130,388
Less fair value of noncontrolling interest	3,803
Purchase price attributable to controlling interest	$126,585

The acquisition of GMSL resulted in goodwill of approximately $0.5 million. Goodwill was the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill was recognized as a new stand-alone reporting unit. Goodwill is not amortized and is not deductible for tax purposes.

After the June 30, 2015 financial statements were issued, we updated certain balance sheet items under the purchase price allocation. The carrying value of the property and equipment, net was reduced by $5.0 million, the carrying value of the investments was increased by $4.6 million and a deferred tax liability of $0.1 million was established on the developed technology intangible asset. These increases and decreases resulted in the creation of $0.5 million of goodwill.

Amortizable Intangible Assets

- Customer contracts were valued using a multi-period excess earnings methodology. Projected revenues and margins were used to forecast the earnings for each contract taking into consideration probabilities of contract renewals. Three customer contracts were valued at £5.0 million ($8.1 million using the exchange rate in effect at the time of acquisition) and are being amortized over a 15 year life.
- The GMSL trade name was valued using a relief from royalty methodology. Given an element of uncertainty surrounding the GMSL trade name, and consistent with likely market participant use, a probability of continuing use was applied to the projected revenue stream. The GMSL trade name was valued at £0.7 million ($1.1 million using the exchange rate in effect at the time of acquisition) and is being amortized over a 3 year life.
- The developed technology was valued using a relief from royalty methodology. The fair value was estimated based on the revenue attributable to developed technology and the hypothetical royalties avoided by owning the technology as well as the current royalties earned, the revenue stream was adjusted for technology obsolescence, as the technology will decay over time and be replaced by new technologies. The developed technology was preliminarily valued £0.8 million ($1.3 million using the exchange rate in effect at the time of acquisition) and is being amortized over a 4 year life.

GMSL's Joint Ventures (accounted for under the Equity Method)

- S. B. Submarine Systems Co., Ltd. (“SBSS”) – This investment was valued using an income approach (income capitalization method) and market approach (guideline public company method) and weighted each 50-50 to arrive at an operating value. From there, debt was added and a 35% ‘discount for the lack of marketability’ was applied to arrive at a fair value. That fair value was multiplied by GMSL’s ownership percentage to arrive a fair value applicable to GMSL. The income approach used year end 2014 results as acquisition-date financials as projections were not available. The multiples applied under the market approach were based on EBITDA and revenue multiples for entities operating in the same industry. The valuation resulted in a fair value of £9.7 million ($15.8 million using the exchange rate in effect at the time of acquisition).

- Huawei Marine Networks Co., Ltd. – This investment was valued using a market approach (guideline public company method) and cost approach (book value of equity) and weighted each 50-50 to arrive at an operating value. There was no debt but a 30% ‘discount for the lack of marketability’ was applied to arrive at a fair value. That fair value was multiplied by GMSL’s ownership percentage to arrive a fair value applicable to GMSL. The multiples applied under the market approach were based on EBITDA and revenue multiples for entities operating in the same industry. The valuation resulted in a fair value of £4.3 million ($7.0 million using the exchange rate in effect at the time of acquisition).
- International Cableship Pte., Ltd. – This investment was valued using a cost approach (book value of equity) to arrive at an operating value. There was no debt but a 20% ‘discount for the lack of marketability’ was applied to arrive at a

fair value. That fair value was multiplied by GMSL's ownership percentage to arrive a fair value applicable to GMSL. The valuation resulted in a fair value of £2.8 million ($4.5 million using the exchange rate in effect at the time of acquisition).

- Sembawang Cable Depot Pte., Ltd. – This investment was valued using an income approach (income capitalization method) and market approach (guideline public company method) and weighted each 50-50 to arrive at an operating value. There was no debt, but a 20% 'discount for the lack of marketability' was applied to arrive at a fair value. That fair value was multiplied by GMSL's ownership percentage to arrive a fair value applicable to GMSL. The income approach used year end 2014 results as acquisition-date financials as projections were not available. The multiples applied under the market approach were based on EBITDA and revenue multiples for entities operating in the same industry. The valuation resulted in a fair value of £0.7 million. ($1.1 million using the exchange rate in effect at the time of acquisition).
- Other investments were valued at £0.3 million ($0.5 million using the exchange rate in effect at the time of acquisition). The fair value was determined to approximate carrying value.
- Basis Differences – The total fair values of the named investments above was £17.5 million, while the carrying value (based on GMSL's ownership percentage and using the balance sheets as of December 31, 2014) was £25.2 million. This resulted in a basis difference of £7.7 million ($12.5 million using the exchange rate in effect at the time of acquisition), of which the majority of was attributable to SBSS. This basis difference will be accreted up over a 9 year period which will result in the increase to the investment in SBSS.

Pro Forma Adjusted Summary

The results of operations for Schuff, ANG, and GMSL have been included in the consolidated financial statements subsequent to their acquisition dates.

The following schedule presents unaudited consolidated pro forma results of operations data as if the acquisitions of Schuff, ANG and GMSL had occurred on January 1, 2014. This information neither purports to be indicative of the actual results that would have occurred if the acquisitions had actually been completed on the date indicated, nor is it necessarily indicative of the future operating results or the financial position of the combined company (in thousands, except per share amounts):

	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2014
Net revenue	$223,927	$630,035
Net income (loss) from continuing operations	(11,009)	1,636
Net income (loss) from discontinued operations	(3,067)	(3,115)
Gain (loss) from sale of discontinued operations	663	(121)
Net income (loss) attributable to HC2	$(13,413)	$(1,600)
Per share amounts:		
Income (loss) from continuing operations	$(0.47)	$0.09
Income (loss) from discontinued operations	(0.13)	(0.17)
Gain (loss) from sale of discontinued operations	0.03	(0.01)
Net income (loss) attributable to HC2	$(0.57)	$(0.09)

All expenditures incurred in connection with the acquisitions were expensed and are included in selling, general and administrative expenses. Transaction costs incurred in connection with the Schuff acquisition were $0.3 million during the nine months ended September 30, 3014. Transaction costs incurred in connection with the GMSL acquisition were $4.3 million during the nine months ended September 30, 2014. The Company recorded net revenue and net income (loss) as follows (in thousands):

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

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Net Revenue	Net Income (Loss)	Net Revenue	Net Income (Loss)
Schuff	$137,706	$3,491	$192,182	$6,065
ANG	460	(386)	460	(386)

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

	September 30, 2015	December 31, 2014
Contract receivables:		
Contracts in progress	$116,353	$105,071
Unbilled retentions	29,292	32,850
Trade receivables	43,235	16,202
Other receivables	170	195
Allowance for doubtful accounts	(1,576)	(2,760)
	$187,474	$151,558

5. CONTRACTS IN PROGRESS

Costs and recognized earnings in excess of billings on uncompleted contracts and billings in excess of costs and recognized earnings on uncompleted contracts consist of the following (in thousands):

	September 30, 2015	December 31, 2014
Costs incurred on contracts in progress	$636,345	$531,129
Estimated earnings	96,953	73,540
	733,298	604,669
Less progress billings	716,077	618,530
	$17,221	$(13,861)
The above is included in the accompanying condensed consolidated balance sheet under the following captions:		
Costs and recognized earnings in excess of billings on uncompleted contracts	37,266	28,098
Billings in excess of costs and recognized earnings on uncompleted contracts	20,045	41,959
	$17,221	$(13,861)

6. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 2015	December 31, 2014
Raw materials	$12,294	$12,956
Work in process	1,697	1,779
Finished goods	417	240
	$14,408	$14,975

7. INVESTMENTS

As of September 30, 2015 and December 31, 2014, the fair value of the available for sale securities recorded within short-term investments was $2.6 million and $4.9 million, respectively. As of September 30, 2015, our cost basis in available for sale securities recorded within short-term investments was $6.0 million, on which the Company had unrealized losses on such securities of $3.4 million recorded in accumulated other comprehensive loss. As of December 31, 2014, our cost basis in available for sale securities recorded within short-term investments was $2.4 million, on which the Company had unrealized gains on such securities of $2.5 million recorded in accumulated other comprehensive loss.

The Company's long-term investments are summarized as follows (in thousands):

September 30, 2015	Cost	Unrealized Gains	Unrealized Losses	Carrying Value
Common Equity				
Novatel Wireless, Inc.	$11,430	$—	$—	$11,430
DTV America Corporation	2,828	1,856	—	4,684
Total Common Equity	14,258	1,856	—	16,114
Preferred Equity				
NerVve Technologies, Inc.	4,619	—	—	4,619
Benevir Biopharm, Inc.	1,429	—	—	1,429
MediBeacon, Inc.	2,842	—	—	2,842
Total Preferred Equity	8,890	—	—	8,890
GMSL Joint Ventures				
S. B. Submarine Systems Co., Ltd.	17,680	—	—	17,680
International Cableship Pte., Ltd.	1,181	—	—	1,181
Sembawang Cable Depot Pte., Ltd.	1,011	—	—	1,011
Huawei Marine Networks Co., Ltd	14,351	—	—	14,351
Visser Smit Global Marine Partnership	430	—	—	