

HC2 Holdings, Inc.
Form 10-Q/A
March 15, 2016

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

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended June 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
(State or other jurisdiction of incorporation or organization)

54-1708481
(I.R.S. Employer Identification No.)

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

20170
(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 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 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):

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Large accelerated filer Accelerated filer
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

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 July 31, 2015
Common Stock, \$0.001 par value	25,592,356

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A ("Amendment No. 1") amends the Quarterly Report on Form 10-Q of HC2 Holdings, Inc. (the "Company") for the fiscal quarter ended June 30, 2015, as originally filed with the Securities and Exchange Commission (the "SEC") on August 10, 2015 (the "Original Filing").

As previously disclosed in Form 8-K filed on February 22, 2016 and as described in more detail in Note 1 of the Notes to Condensed Consolidated Financial Statements, on February 21, 2016, we determined that we had improperly accounted for certain items. As a result of the aggregate effect of these errors and other individually immaterial errors that have been waived in prior periods, the Audit Committee of our Board of Directors determined that our financial statements for the fiscal year ended December 31, 2014 and the fiscal quarters ended June 30, 2014, September 30, 2014, March 31, 2015, June 30, 2015 and September 30, 2015 could no longer be relied upon and should be restated. To correct the errors described above and in Note 1 of the Notes to Condensed Consolidated Financial Statements, we are amending the Original Filing to provide restated Condensed Consolidated Financial Statements as of and for the three and six months ended June 30, 2015 and to amend related disclosures.

As a result of the errors described above, management has concluded that the Company's internal control over financial reporting and its disclosure controls and procedures were not effective as of the ends of each of the applicable restatement periods. The effects of the material weaknesses are discussed in more detail in Item 4, Controls and Procedures.

For ease of reference, this Amendment No. 1 amends and restates the Original Filing in its entirety. Revisions to the Original Filing have been made to the following sections:

Part I - Item 1 - Financial Statements

Part I - Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I - Item 4 - Controls and Procedures

Part II - Item 1A - Risk Factors

Part II - Item 6 - Exhibits

In addition, the Company's principal executive officer and principal financial officer have provided new certifications in connection with this Amendment No.1 (Exhibits 31.1, 31.2, and 32), as well as various exhibits related to XBRL.

Except as described above, no other amendments have been made to the Original Filing. This Amendment continues to speak as of the date of the Original Filing, and the Company has not updated the disclosure contained herein to reflect events that have occurred since the date of the Original Filing other than with respect to the items listed above. Accordingly, this Amendment should be read in conjunction with the Company's other filings made with the SEC subsequent to the filing of the Original Filing, including any amendments to those filings.

HC2 HOLDINGS, INC.
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HC2 HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015 (As Restated)	2014	2015 (As Restated)	2014
Services revenue	\$147,841	\$42,178	\$221,559	\$85,465
Sales revenue	133,141	54,408	261,231	54,475
Net revenue	280,982	96,586	482,790	139,940
Operating expenses:				
Cost of revenue - services	134,589	39,530	196,509	80,637
Cost of revenue - sales	110,909	43,330	221,445	43,330
Selling, general and administrative	26,476	13,496	49,988	19,700
Depreciation and amortization	5,478	344	10,733	554
Loss (gain) on sale or disposal of assets	498	2	971	(78)
Total operating expenses	277,950	96,702	479,646	144,143
Income (loss) from operations	3,032	(116)	3,144	(4,203)
Interest expense	(10,041)	(1,012)	(18,649)	(1,013)
Amortization of debt discount	(84)	(576)	(176)	(576)
Other income (expense), net	(4,166)	544	(3,622)	495
Foreign currency transaction gain (loss)	1,822	437	1,051	403
Loss from continuing operations before income (loss) from equity investees and income tax benefit (expense)	(9,437)	(723)	(18,252)	(4,894)
Income (loss) from equity investees	1,429	—	(1,259)	—
Income tax benefit (expense)	(2,678)	(2,154)	3,336	(2,163)
Loss from continuing operations	(10,686)	(2,877)	(16,175)	(7,057)
Gain (loss) from discontinued operations	(11)	27	(20)	44
Loss from sale of discontinued operations	—	—	—	(784)
Net loss	(10,697)	(2,850)	(16,195)	(7,797)
Less: Net (income) loss attributable to noncontrolling interest	(204)	(1,059)	57	(1,059)
Net loss attributable to HC2 Holdings, Inc.	(10,901)	(3,909)	(16,138)	(8,856)
Less: Preferred stock dividends and accretion	1,089	200	2,177	200
Net loss attributable to common stock and participating preferred stockholders	\$(11,990)	\$(4,109)	\$(18,315)	\$(9,056)
Basic loss per common share:				
Loss from continuing operations attributable to HC2 Holdings, Inc.	\$(0.47)	\$(0.24)	\$(0.74)	\$(0.52)
Gain (loss) from discontinued operations	—	—	—	—
Loss from sale of discontinued operations	—	—	—	(0.05)
Net loss attributable to HC2 Holdings, Inc.	\$(0.47)	\$(0.24)	\$(0.74)	\$(0.57)
Diluted loss per common share:				
Loss from continuing operations attributable to HC2 Holdings, Inc.	\$(0.47)	\$(0.24)	\$(0.74)	\$(0.52)
Gain (loss) from discontinued operations	—	—	—	—

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Loss from sale of discontinued operations	—	—	—	(0.05)	
Net loss attributable to HC2 Holdings, Inc.	\$(0.47)	\$(0.24)	\$(0.74)
Weighted average common shares outstanding:						
Basic	25,514	16,905	24,838	15,780		
Diluted	25,514	16,905	24,838	15,780		

See accompanying notes to Condensed Consolidated Financial Statements.

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HC2 HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015 (As Restated)	2014	2015 (As Restated)	2014
Net loss	\$(10,697	) \$(2,850	) \$(16,195	) \$(7,797
Other comprehensive income (loss)				
Foreign currency translation adjustment	5,039	238	678	(136
Unrealized gain (loss) on available-for-sale securities, net of tax	(2,327	) —	(2,178) —
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(204	) (1,059	) 57	(1,059
Comprehensive income (loss) attributable to HC2 Holdings, Inc.	\$(8,189	) \$(3,671	) \$(17,638	) \$(8,992

See accompanying notes to Condensed Consolidated Financial Statements.

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HC2 HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(Unaudited)

	June 30, 2015 (As Restated)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$68,941	\$107,978
Short-term investments	12,265	4,867
Accounts receivable (net of allowance for doubtful accounts receivable of \$2,345 and \$2,760 at June 30, 2015 and December 31, 2014, respectively)	216,577	152,279
Costs and recognized earnings in excess of billings on uncompleted contracts	35,573	28,098
Deferred tax asset - current	1,701	1,701
Inventories	17,796	14,975
Prepaid expenses and other current assets	23,746	18,590
Assets held for sale	8,597	3,865
Total current assets	385,196	332,353
Restricted cash	7,188	6,467
Long-term investments	75,339	50,816
Property, plant and equipment, net	228,232	233,022
Goodwill	32,199	30,540
Other intangible assets, net	28,029	31,158
Deferred tax asset - long-term	20,084	14,019
Other assets	17,578	21,628
Total assets	\$793,845	\$720,003
Liabilities, temporary equity and stockholders' equity		
Current liabilities:		
Accounts payable	\$81,312	\$80,183
Accrued interconnection costs	31,551	9,717
Accrued payroll and employee benefits	19,222	20,023
Accrued expenses and other current liabilities	55,735	34,042
Billings in excess of costs and recognized earnings on uncompleted contracts	29,859	41,959
Accrued income taxes	912	512
Accrued interest	2,847	3,125
Current portion of long-term debt	12,752	10,444
Total current liabilities	234,190	200,005
Long-term debt	374,321	332,927
Pension liability	30,443	37,210
Other liabilities	7,754	1,617
Total liabilities	646,708	571,759
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 June 30, 2015 and December 31, 2014; Series A-1 - 10,000 and 11,000 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively; Series A-2 - 14,000 and 0 shares issued and outstanding at June	53,013	39,845

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30, 2015 and December 31, 2014, respectively		
Redeemable non-controlling interest	4,362	4,004
Total temporary equity	57,375	43,849
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 June 30, 2015 and December 31, 2014, respectively	26	24
Additional paid-in capital	145,863	141,948
Accumulated deficit	(60,302	) (44,164
Treasury stock, at cost – 31,626 shares at June 30, 2015 and December 31, 2014, respectively	(378	) (378
Accumulated other comprehensive loss	(19,743	) (18,243
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	65,466	79,187
Noncontrolling interest	24,296	25,208
Total stockholders' equity	89,762	104,395
Total liabilities, temporary equity and stockholders' equity	\$793,845	\$720,003

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HC2 HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(Unaudited)

See accompanying notes to Condensed Consolidated Financial Statements.

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HC2 HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands)

(Unaudited)

	Total	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Non- controlling Interest
		Shares	Amount					
Balance as of December 31, 2013	\$54,409	14,226	\$14	\$98,598	\$(378)	\$(29,773)	\$(14,052)	\$—
Share-based compensation expense	1,670	—	—	1,670	—	—	—	—
Proceeds from the exercise of warrants and stock options	14,368	4,786	5	14,363	—	—	—	—
Taxes paid in lieu of shares issued for share-based compensation	(41)	—	—	(41)	—	—	—	—
Preferred stock dividend and accretion	(200)	—	—	(200)	—	—	—	—
Issuance of common stock	6,000	1,500	2	5,998	—	—	—	—
Acquisition of noncontrolling interest	58,012	—	—	—	—	—	—	58,012
Additional acquisition of noncontrolling interest	(13,399)	—	—	—	—	—	—	(13,399)
Net (loss) income	(7,797)	—	—	—	—	(8,856)	—	1,059
Foreign currency translation adjustment	(136)	—	—	—	—	—	(136)	—
Balance as of June 30, 2014	\$112,886	\$20,512	\$21	\$120,388	\$(378)	\$(38,629)	\$(14,188)	\$45,672
	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	\$104,395	23,813	\$24	\$141,948	\$(378)	\$(44,164)	\$(18,243)	\$25,208
Share-based compensation expense	5,058	—	—	5,058	—	—	—	—
	(241)	—	—	—	—	—	—	(241)

Dividend paid to noncontrolling interest								
Preferred stock dividend and accretion	(2,177)	—	—	(2,177)	—	—	—	—
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	(580)	—	—	—	—	—	—	(580)
Excess book value over fair value of purchased noncontrolling interest	—	—	—	34	—	—	—	(34)
Net loss	(16,195)	—	—	—	—	(16,138)	—	(57)
Foreign currency translation adjustment	678	—	—	—	—	—	678	—
Unrealized gain (loss) on available-for-sale securities, net of tax	(2,178)	—	—	—	—	—	(2,178)	—
Balance as of June 30, 2015 (As Restated)	\$89,762	25,592	\$26	\$145,863	\$(378)	\$(60,302)	\$(19,743)	\$24,296

See accompanying notes to Condensed Consolidated Financial Statements.

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HC2 HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2015 (As Restated)	2014
Cash flows from operating activities:		
Net loss	\$(16,195	) \$(7,797
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Provision for doubtful accounts receivable	201	(198
Share-based compensation expense	5,058	1,670
Depreciation and amortization	14,540	1,038
Amortization of deferred financing costs	696	262
(Gain) loss on sale or disposal of assets	(151	) 1,315
(Gain) loss on sale of investments	(164	) (437
Equity investment (income)/loss	1,259	—
Amortization of debt discount	176	576
Deferred income taxes	(4,848) —
Other, net	198	209
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	(46	) (125
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(61,495	) 11,936
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	(7,229	) 1,389
(Increase) decrease in inventories	(2,718	) (2,503
(Increase) decrease in prepaid expenses and other current assets	(778	) 4,162
(Increase) decrease in other assets	379	929
Increase (decrease) in accounts payable	455	6,304
Increase (decrease) in accrued interconnection costs	21,041	(2,896
Increase (decrease) in accrued payroll and employee benefits	4	(472
Increase (decrease) in accrued expenses and other current liabilities	20,834	(1,069
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	(12,119	) (7,766
Increase (decrease) in accrued income taxes	1,500	(1,291
Increase (decrease) in accrued interest	(278	) 634
Increase (decrease) in other liabilities	(972) —
Increase (decrease) in pension liability	(7,239) —
Net cash (used in) provided by operating activities	(47,891	) 5,870
Cash flows from investing activities:		
Purchase of property, plant and equipment	(12,914	) (663
Sale of property and equipment and other assets	1,002	80
Purchase of equity investments	(8,643) —
Sale of equity investments	1,026	—
Sale of assets held for sale	1,479	—
Purchase of available-for-sale securities	(10,857) —
Sale of available-for-sale securities	—	423

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Investment in debt securities	(19,347)	—	
Cash from disposition of business, net of cash disposed	—		3,200	
Cash paid for business acquisitions, net of cash acquired	—		(85,627)
Purchase of noncontrolling interest	(222)	(5,000)
(Increase) decrease in restricted cash	(721)	—	

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Net cash used in investing activities	(49,197) (87,587)
Cash flows from financing activities:			
Proceeds from long-term obligations	294,346	123,412	
Principal payments on long-term obligations	(245,724	) (57,703)
Payment of fees on restructuring of debt	—	(812)
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	29,075	
Proceeds from the exercise of warrants and stock options	—	14,368	
Payment of dividends	(2,038) —	
Payment of dividend equivalents	—	(551)
Taxes paid in lieu of shares issued for share-based compensation	—	(41)
Net cash provided by financing activities	59,480	113,748	
Effects of exchange rate changes on cash and cash equivalents	(1,429	) (197)
Net change in cash and cash equivalents	(39,037	) 31,834	
Cash and cash equivalents, beginning of period	107,978	8,997	
Cash and cash equivalents, end of period	\$68,941	\$40,831	
Supplemental cash flow information:			
Cash paid for interest	\$20,157	\$194	
Cash paid for taxes	\$856	\$2,311	
Preferred stock dividends and accretion	\$2,177	\$—	
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	\$822	\$—	
Conversion of preferred stock to common stock	\$1,000	\$—	

See accompanying notes to Condensed Consolidated Financial Statements.

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. ORGANIZATION AND BUSINESS

HC2 Holdings, Inc. (“HC2” and, together with its subsidiaries, the “Company”, “we” and “our”) is a diversified holding company which seeks to acquire and grow attractive businesses that 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 minority 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’s 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 the acquisition, 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 (“VoIP”) service operators and Internet service providers (“ISPs”) from our International Carrier Services (“ICS”) business unit.

In our Life Sciences segment, we operate Pansend, LLC (“Pansend”), which has an 80% 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.

Restatement of Consolidated Financial Statements

On February 21, 2016, the Company determined that it needed to restate previously reported financial statements for the year ended December 31, 2014 and the fiscal quarters ended June 30, 2014, September 30, 2014, March 31, 2015, June 30, 2015 and September 30, 2015 to correct errors resulting from material weaknesses that the Company identified in its internal control over accounting for income taxes, valuation of a business acquisition and the

application of generally accepted accounting principles (GAAP) to complex and/or non-routine transactions. In particular, the Company is restating its Condensed Consolidated Financial Statements for the three and six months ended June 30, 2015 to correct the improper recording of the following items:

The Company completed the acquisition of GMSL on September 22, 2014, but treated the acquisition as having closed on September 30, 2014. As a result, eight days of activity were excluded from the results of operations. In addition, the Company subsequently identified items related to the opening balance sheet as well as conforming balance sheet reclassifications related to the purchase accounting for GMSL.

• The Company amended the valuation of the ANG business acquisition which resulted in goodwill.

• The Company identified other income which was recognized in the three months ended September 30, 2015 which should have been recorded in the three month periods ended March 31, 2015 and June 30, 2015.

• The Company reclassified certain pension liabilities between current and non-current as well as accrued expenses and other current assets.

• The Company reclassified redeemable non-controlling interest from permanent equity to temporary equity.

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

As a result of the errors described above, the Company concluded that the financial statements for the three and six month periods ended June 30, 2015, were materially misstated. The consolidated statement of operations, consolidated statement of comprehensive income (loss), consolidated balance sheets, consolidated statement of stockholders' equity and consolidated statement of cash flows, as well as the corresponding Notes to the Condensed Consolidated Financial Statements have been restated to reflect the correction of the aforementioned errors.

The following tables provide a reconciliation of the amounts previously reported to the restated amounts for the quarter ended June 30, 2015:

HC2 HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Services revenue	\$147,841	\$—	\$147,841	\$221,559	\$—	\$221,559
Sales revenue	133,141	—	133,141	261,231	—	261,231
Net revenue	280,982	—	280,982	482,790	—	482,790
Operating expenses:						
Cost of revenue - services	134,589	—	134,589	196,509	—	196,509
Cost of revenue - sales	110,909	—	110,909	221,445	—	221,445
Selling, general and administrative	26,476	—	26,476	49,529	459	49,988
Depreciation and amortization	5,236	242	5,478	10,242	491	10,733
Loss on sale or disposal of assets	498	—	498	971	—	971
Total operating expenses	277,708	242	277,950	478,696	950	479,646
Income (loss) from operations	3,274	(242)	3,032	4,094	(950)	3,144
Interest expense	(10,041)	—	(10,041)	(18,649)	—	(18,649)
Amortization of debt discount	(84)	—	(84)	(176)	—	(176)
Other income (expense), net	(4,937)	771	(4,166)	(4,744)	1,122	(3,622)
Foreign currency transaction gain (loss)	1,822	—	1,822	1,051	—	1,051
Loss from continuing operations before income (loss) from equity investees and income tax benefit (expense)	(9,966)	529	(9,437)	(18,424)	172	(18,252)
Income (loss) from equity investees	1,429	—	1,429	(1,259)	—	(1,259)
Income tax benefit (expense)	(2,464)	(214)	(2,678)	3,369	(33)	3,336
Loss from continuing operations	(11,001)	315	(10,686)	(16,314)	139	(16,175)
Gain (loss) from discontinued operations	(11)	—	(11)	(20)	—	(20)
Loss from sale of discontinued operations	—	—	—	—	—	—
Net loss	(11,012)	315	(10,697)	(16,334)	139	(16,195)
Less: Net (income) loss attributable to noncontrolling interest	(204)	—	(204)	57	—	57
Net loss attributable to HC2 Holdings, Inc.	(11,216)	315	(10,901)	(16,277)	139	(16,138)
Less: Preferred stock dividends and accretion	1,089	—	1,089	2,177	—	2,177
Net loss attributable to common stock and participating preferred stockholders	\$(12,305)	\$315	\$(11,990)	\$(18,454)	\$139	\$(18,315)
Basic loss per common share:						

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Loss from continuing operations attributable to HC2 Holdings, Inc.	\$(0.48)	\$0.01	\$(0.47)	\$(0.74)	\$ —	\$(0.74)
Gain (loss) from discontinued operations	—	—	—	—	—	—
Loss from sale of discontinued operations	—	—	—	—	—	—
Net loss attributable to HC2 Holdings, Inc.	\$(0.48)	\$0.01	\$(0.47)	\$(0.74)	\$ —	\$(0.74)
Diluted loss per common share:						
Loss from continuing operations attributable to HC2 Holdings, Inc.	\$(0.48)	\$0.01	\$(0.47)	\$(0.74)	\$ —	\$(0.74)
Gain (loss) from discontinued operations	—	—	—	—	—	—
Loss from sale of discontinued operations	—	—	—	—	—	—
Net loss attributable to HC2 Holdings, Inc.	\$(0.48)	\$0.01	\$(0.47)	\$(0.74)	\$ —	\$(0.74)
Weighted average common shares outstanding:						
Basic	25,514	—	25,514	24,838	—	24,838
Diluted	25,514	—	25,514	24,838	—	24,838

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

HC2 HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Net loss	\$(11,012)	\$315	\$(10,697)	\$(16,334)	\$139	\$(16,195)
Other comprehensive income (loss)						
Foreign currency translation adjustment	2,489	2550	5,039	(1,872)	2550	678
Unrealized gain (loss) on available-for-sale securities, net of tax	(2,327)	—	(2,327)	(3,089)	911	(2,178)
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(204)	—	(204)	57	—	57
Comprehensive income (loss) attributable to HC2 Holdings, Inc.	\$(11,054)	\$2,865	\$(8,189)	\$(21,238)	\$3,600	\$(17,638)

HC2 HOLDING, INC.

CONSOLIDATED BALANCE SHEETS

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(in thousands, except share and per share amounts)

	As of June 30, 2015		
	As Reported	Adjustments	As Restated
Assets			
Current assets:			
Cash and cash equivalents	\$68,941	\$—	\$68,941
Short-term investments	12,265	—	12,265
Accounts receivable (net of allowance for doubtful accounts receivable of \$2,345 and \$2,760 at June 30, 2015 and December 31, 2014, respectively)	214,027	2,550	216,577
Costs and recognized earnings in excess of billings on uncompleted contracts	35,573	—	35,573
Deferred tax asset - current	1,701	—	1,701
Inventories	17,796	—	17,796
Prepaid expenses and other current assets	23,746	—	23,746
Assets held for sale	8,597	—	8,597
Total current assets	382,646	2,550	385,196
Restricted cash	7,188	—	7,188
Long-term investments	71,793	3,546	75,339
Property, plant and equipment, net	235,862	(7,630)	228,232
Goodwill	29,649	2,550	32,199
Other intangible assets, net	27,987	42	28,029
Deferred tax asset - long-term	20,998	(914)	20,084
Other assets	18,429	(851)	17,578
Total assets	\$794,552	\$ (707)	\$793,845
Liabilities, temporary equity and stockholders' equity			
Current liabilities:			
Accounts payable	\$81,644	\$(332)	\$81,312
Accrued interconnection costs	31,551	—	31,551
Accrued payroll and employee benefits	19,222	—	19,222
Accrued expenses and other current liabilities	51,640	4,095	55,735
Billings in excess of costs and recognized earnings on uncompleted contracts	29,859	—	29,859
Accrued income taxes	912	—	912
Accrued interest	2,847	—	2,847
Current portion of long-term debt	12,752	—	12,752
Current portion of pension liability	6,037	(6,037)	—
Total current liabilities	236,464	(2,274)	234,190
Long-term debt	374,321	—	374,321
Pension liability	28,501	1,942	30,443
Other liabilities	7,754	—	7,754
Total liabilities	647,040	(332)	646,708
Commitments and contingencies (See Note 11)			
Temporary equity (See Note 13)	53,013	—	53,013

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Preferred stock, \$0.001 par value – 20,000,000 shares authorized; Series A - 30,000 shares issued and outstanding at June 30, 2015 and December 31, 2014; Series A-1 - 10,000 and 11,000 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively; Series A-2 - 14,000 and 0 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively

Redeemable non-controlling interest	—	4,362	4,362
Total temporary equity	53,013	4,362	57,375
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 June 30, 2015 and December 31, 2014, respectively	26	—	26
Additional paid-in capital	150,537	(4,674)	145,863
Accumulated deficit	(58,157)	(2,145)	(60,302)
Treasury stock, at cost – 31,626 shares at June 30, 2015 and December 31, 2014, respectively	(378)	—	(378)
Accumulated other comprehensive loss	(20,139)	396	(19,743)
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	71,889	(6,423)	65,466
Noncontrolling interest	22,610	1,686	24,296
Total stockholders' equity	94,499	(4,737)	89,762
Total liabilities, temporary equity and stockholders' equity	\$794,552	\$(707)	\$793,845

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

HC2 HOLDINGS, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands)

	As of June 30, 2015		
	As Reported	Adjustments	As Restated
Common Stock	\$26	\$—	\$26
Additional Paid-In Capital	150,537	(4,674)	145,863
Treasury Stock	(378)	—	(378)
Earnings (Accumulated Deficit)	(58,157)	(2,145)	(60,302)
Accumulated Other Comprehensive Income (Loss)	(20,139)	396	(19,743)
Noncontrolling Interest	22,610	1,686	24,296
Total Stockholders' Equity	\$94,499	\$(4,737)	\$89,762

HC2 HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30, 2015		
	As Reported	Adjustments	As Restated
Cash flows from operating activities:			
Net loss	\$(16,334)	\$139	\$(16,195)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Provision for doubtful accounts receivable	201	—	201
Share-based compensation expense	4,599	459	5,058
Depreciation and amortization	14,049	491	14,540
Amortization of deferred financing costs	696	—	696
(Gain) loss on sale or disposal of assets	971	(1,122)	(151)
(Gain) loss on sale of investments	(164)	—	(164)
Equity investment (income)/loss	1,259	—	1,259
Amortization of debt discount	176	—	176
Deferred income taxes	(4,881)	33	(4,848)
Other, net	198	—	198
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	(46)	—	(46)
Changes in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	(61,495)	—	(61,495)
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	(7,229)	—	(7,229)
(Increase) decrease in inventories	(2,718)	—	(2,718)
(Increase) decrease in prepaid expenses and other current assets	(778)	—	(778)

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(Increase) decrease in other assets	379	—	379
Increase (decrease) in accounts payable	455	—	455
Increase (decrease) in accrued interconnection costs	21,041	—	21,041
Increase (decrease) in accrued payroll and employee benefits	4	—	4
Increase (decrease) in accrued expenses and other current liabilities	16,739	4,095	20,834
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	(12,119)	) —	(12,119)
Increase (decrease) in accrued income taxes	1,500	—	1,500
Increase (decrease) in accrued interest	(278)	) —	(278)
Increase (decrease) in other liabilities	(972)	) —	(972)
Increase (decrease) in pension liability	(3,144)	) (4,095)	(7,239)
Net cash (used in) provided by operating activities	(47,891)	) —	(47,891)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(12,914)	) —	(12,914)
Sale of property and equipment and other assets	1,002	—	1,002
Purchase of equity investments	(8,643)) —	(8,643)

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Sale of equity investments	1,026	—	1,026
Sale of assets held for sale	1,479	—	1,479
Purchase of available-for-sale securities	(10,857	) —	(10,857
Sale of available-for-sale securities	—	—	—
Investment in debt securities	(19,347	) —	(19,347
Cash paid for business acquisitions, net of cash acquired	—	—	—
Purchase of noncontrolling interest	(222	) —	(222
(Increase) decrease in restricted cash	(721	) —	(721
Net cash used in investing activities	(49,197	) —	(49,197
Cash flows from financing activities:			
Proceeds from long-term obligations	294,346	—	294,346
Principal payments on long-term obligations	(245,724	) —	(245,724
Payment of fees on restructuring of debt	—	—	—
Payment of deferred financing costs	(1,137	) —	(1,137
Proceeds from sale of common stock, net	—	—	—
Proceeds from sale of preferred stock, net	14,033	—	14,033
Proceeds from the exercise of warrants and stock options	—	—	—
Payment of dividends	(2,038	) —	(2,038
Payment of dividend equivalents	—	—	—
Taxes paid in lieu of shares issued for share-based compensation	—	—	—
Net cash provided by financing activities	59,480	—	59,480
Effects of exchange rate changes on cash and cash equivalents	(1,429	) —	(1,429
Net change in cash and cash equivalents	(39,037	) —	(39,037
Cash and cash equivalents, beginning of period	107,978	—	107,978
Cash and cash equivalents, end of period	\$68,941	\$—	\$68,941
Supplemental cash flow information:			
Cash paid for interest	\$20,157	\$—	\$20,157
Cash paid for taxes	\$856	\$—	\$856
Preferred stock dividends and accretion	\$2,177	\$—	\$2,177
Non-cash investing and financing activities:			
Purchases of property, plant and equipment under financing arrangements	\$1,808	\$—	\$1,808
Property, plant and equipment included in accounts payable	\$822	\$—	\$822
Conversion of preferred stock to common stock	\$1,000	\$—	\$1,000

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 six months ended June 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/A.

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 June 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 an 80% interest in Genovel Orthopedics, Inc. and a 61% interest in R2 Dermatology (f/k/a GemDerm Aesthetics, Inc.). The results of each of these entities are consolidated with the Company's results from and after their respective acquisition dates based on guidance from the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") No. 810, "Consolidation" ("ASC 810"). The remaining interests not owned by the Company are presented as a noncontrolling interest component of total equity. Schuff uses a 4-4-5 week quarterly cycle, which for the second quarter of 2015 ended on June 28, 2015.

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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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 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

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially.

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

Schuff

On May 29, 2014, the Company completed the acquisition of 2.5 million shares of common stock of Schuff, a steel fabrication and erection company 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 first quarter of 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 the acquisition of 815,843 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):

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HC2 HOLDINGS, INC.

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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 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 trade name was valued using a relief from royalty methodology. An estimated 60% of 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 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 to 91% from the acquisition date through December 31, 2014, the Company recorded an adjustment of Schuff's noncontrolling interest by \$3.4 million and recorded as excess book value over fair value of purchased noncontrolling interest in the Company's condensed consolidated statement of stockholders' equity. In the six months ended June 30, 2015, the Company acquired an additional 6,800 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.

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HC2 HOLDINGS, INC.

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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 is 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 preliminary estimate of fair value of the ANG assets acquired and liabilities assumed as of the acquisition date. The purchase price of ANG was valued at \$23.7 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 \$8.2 million.

The purchase price allocation as restated 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
Goodwill	1,374
Total assets acquired	28,365
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	3,530
Total liabilities assumed	4,628
Enterprise value	23,737
Less fair value of non-controlling interest	8,237
Purchase price attributable to controlling interest	\$15,500

The acquisition of ANG resulted in goodwill of approximately \$1.4 million. Goodwill was the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. 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 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 15 years. An estimated royalty of 4% (looking at other market participants) was calculated net of tax based upon those revenues and present valued over 15 years. The trade name was preliminarily valued at \$6.3 million and will be amortized over a 15 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

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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present value of ANG's net income from those contracts for 4 years. The customer contracts were preliminarily valued at \$2.7 million and will be amortized over a 4 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 preliminary estimates of fair value of the GMSL assets acquired and liabilities assumed as of the acquisition date. The net enterprise value of GMSL was valued at \$130.4 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 as restated is as follows (in thousands):

Cash and cash equivalents	\$62,555
Accounts receivable	22,381
Prepaid expenses and other current assets	23,108
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	1,366
Investments	26,767
Other assets	7,482
Total assets acquired	318,315
Accounts payable	8,740
Accrued expenses and other current liabilities	44,136
Accrued income taxes	1,251
Current portion of long-term debt	8,140
Long-term debt	78,356
Pension liability	46,110
Deferred tax liability	709
Other liabilities	485
Total liabilities assumed	187,927
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 \$1.4 million. Goodwill was the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill was recognized as a new

stand-alone reporting unit. Goodwill is not amortized and is not deductible for tax purposes. The values for goodwill, customer contracts, trade name, developed technology and investments are estimates and may change.

Amortizable Intangible Assets

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 preliminarily valued at £5.0 million (\$8.1 million using the exchange rate in effect at the time of acquisition) and will be amortized over a 15 year life.

The 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 trade name was preliminarily valued £0.7 million (\$1.1 million using the exchange rate in effect at the time of acquisition) and will be 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 will be amortized over a 4 year life.

Investments (accounted for under the Equity Method)

Sino British Submarine Systems (“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 preliminary fair value of £8.4 million (\$13.6 million using the exchange rate in effect at the time of acquisition).

Huawei Marine Networks (“HMN”) – 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 preliminary fair value of £4.3 million (\$7.0 million using the exchange rate in effect at the time of acquisition).

International Cablesip (“ICPL”) – 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 preliminary 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 (“SCDPL”) – 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 preliminary fair value of £0.7 million. (\$1.1 million using the exchange

rate in effect at the time of acquisition).

Other investments were preliminarily 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 preliminary fair values of the named investments above was £16.5 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 £8.7 million (\$14.1 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 10 year period which will result in the increase to the investment in SBSS.

Pro Forma Adjusted Summary

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(UNAUDITED)

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 had occurred on January 1, 2014. 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 thousands):

	Three Months Ended June 30, 2014 (As Restated)	Six Months Ended June 30, 2014 (As Restated)
Net revenue	\$212,518	\$406,108
Net income (loss) from continuing operations	6,141	12,784
Net income (loss) from discontinued operations	(52	) (48
Gain (loss) from sale of discontinued operations	—	(784
Net income (loss) attributable to HC2 Holdings, Inc.	\$6,089	\$11,952
Per share amounts:		
Income (loss) from continuing operations	\$0.36	\$0.81
Income (loss) from discontinued operations	\$—	\$—
Gain (loss) from sale of discontinued operations	\$—	\$(0.05
Net income (loss) attributable to HC2	\$0.36	\$0.76

All expenditures incurred in connection with the acquisitions were expensed and are included in selling, general and administrative expenses. The Company recorded net revenue and net income (loss) as follows (in thousands):

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Net Revenue	Net Income (Loss)	Net Revenue	Net Income (Loss)
Schuff	\$130,985	\$5,889	\$257,851	\$9,086
ANG	\$1,368	\$(134	) \$2,591	\$(247
GMSL	\$43,875	\$10,360	\$70,877	\$11,967

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Contract receivables:		
Contracts in progress	\$129,326	\$112,929
Unbilled retentions	33,347	32,850

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Trade receivables	53,433	9,065	
Other receivables	2,816	195	
Allowance for doubtful accounts	(2,345) (2,760)
	\$216,577	\$152,279	

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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):

	June 30, 2015	December 31, 2014
Costs incurred on contracts in progress	\$609,094	\$531,129
Estimated earnings	89,067	73,540
	698,161	604,669
Less progress billings	692,447	618,530
	\$5,714	\$(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	35,573	28,098
Billings in excess of costs and recognized earnings on uncompleted contracts	(29,859	) (41,959)
	\$5,714	\$(13,861)

6. INVENTORIES

Inventories consist of the following (in thousands):

	June 30, 2015	December 31, 2014
Raw materials	\$15,561	\$12,956
Work in process	1,690	1,779
Finished goods	545	240
	\$17,796	\$14,975

7. INVESTMENTS

As of June 30, 2015, the Company had both short-term and long-term investments. The short-term investments are classified as available-for-sale securities and the change in value is recognized within accumulated other comprehensive income (loss). The fair market value is determined using quoted market prices (a Level I approach). See Note 14 – Fair Value of Financial Instruments for a description of Level I approach. The long-term investments are comprised of three types of investments; those accounted for under the equity method of accounting, investments in debt securities accounted for as available-for-sale securities and investment in debt securities accounted for under the cost method. For the debt securities, without quoted market prices, the fair values are calculated using other valuation methodologies (a Level II approach).

During the three and six months ended June 30, 2015, the Company recorded \$1.4 million and \$(1.3) million, respectively, of its share of the equity method investments' net income (loss).

The long-term investments are as follows (in thousands):

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HC2 HOLDINGS, INC.

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(UNAUDITED)

Company	Investment	June 30, 2015 (As Restated)	December 31, 2014
Equity Method			
Global Cable Technology Ltd.	Stock	\$—	\$49
SB Submarine Systems Co., Ltd.	Stock	13,300	13,061
International Cablesip Pte., Ltd.	Stock	2,716	2,995
Sembawang Cable Depot Ptd., Ltd.	Stock	1,215	1,031
Huawei Marine Systems Co., Ltd.	Stock	12,632	10,943
Visser Smit Global Marine Partnership	Stock	428	464
Novatel Wireless, Inc.	11,473,799 shares and 1,593,583 warrants	16,950	13,419
Kaneland, LLC	Stock	1,083	1,151
NerVve Technologies, Inc.	885,286 shares of Series A-1 Preferred Stock	5,023	5,538
Benevir Biopharm, Inc.	2,000 shares of Series A-1 Preferred Stock	1,623	1,915
Available-for-sale			
Gaming Nation Acquisition Corporation	Convertible Debt and Warrant	16,323	—
Cost Method			
DTV America Corporation	Convertible Debt	3,546	—
mParticle	Convertible Debt	500	250
		\$75,339	\$50,816

2015 Activity

Novatel Wireless, Inc. (“Novatel”)

In February 2015, the Company sold 586,095 shares of common stock and 293,047 warrants for \$1.0 million which resulted in a gain of \$0.2 million.

In March 2015, the Company exercised its warrants which converted into 3,824,600 shares of common stock for \$8.6 million and also received a new warrant to purchase 1,593,583 shares of 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.

DTV America Corporation (“DTV”)

In the first quarter of 2015, the Company purchased \$3.0 million of convertible debt.

Gaming Nation Acquisition Corporation

In April 2015, the Company purchased \$16.1 million of convertible debt.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill by reporting unit for the six months ended June 30, 2015 are as follows (in thousands):

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(UNAUDITED)

	Schuff	GMSL	ICS	ANG	Other	Total
Balance as of December 31, 2014	\$24,612	\$1,176	\$3,378	\$1,374	\$—	\$30,540
Effect of change in foreign currency exchange rates	—	—	—	—	—	—
Acquisition of business	(122)	—	—	—	1,781	1,659
Balance as of June 30, 2015 (As Restated)	\$24,490	\$1,176	\$3,378	\$1,374	\$1,781	\$32,199

Amortizable Intangible Assets

Intangible assets subject to amortization consisted of the following (in thousands):

	Schuff	GMSL	ANG	Pansend	Other	Corporate	Total
Trade names							
Balance as of December 31, 2014	\$4,304	\$997	\$6,037	\$—	\$—	\$—	\$11,338
Effect of change in foreign currency exchange rates	—	13	—	—	—	—	13
Amortization	(149)	(183)	(315)	—	—	—	(647)
Acquisition of business	—	—	—	—	—	—	—
Reclassification	—	—	—	—	—	—	—
Balance as of June 30, 2015	\$4,155	\$827	\$5,722	\$—	\$—	\$—	\$10,704

Customer relationships