

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 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
(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 October 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 quarter ended September 30, 2015, as originally filed with the Securities and Exchange Commission (the "SEC") on November 9, 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 nine months ended September 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, 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.
INDEX TO FORM 10-Q/A

Part I. FINANCIAL INFORMATION

Item 1.	FINANCIAL STATEMENTS (UNAUDITED)	
	<u>Condensed Consolidated Statements of Operations (As Restated)</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (As Restated)</u>	<u>6</u>
	<u>Condensed Consolidated Balance Sheets (As Restated)</u>	<u>7</u>
	<u>Condensed Consolidated Statement of Stockholders' Equity (As Restated)</u>	<u>9</u>
	<u>Condensed Consolidated Statements of Cash Flows (As Restated)</u>	<u>11</u>
	<u>Notes to Condensed Consolidated Financial Statements</u>	<u>13</u>
Item 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>46</u>
Item 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>62</u>
Item 4.	<u>CONTROLS AND PROCEDURES</u>	<u>64</u>

Part II. OTHER INFORMATION

Item 1.	<u>LEGAL PROCEEDINGS</u>	<u>65</u>
Item 1A.	<u>RISK FACTORS</u>	<u>66</u>
Item 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>66</u>
Item 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u>	<u>66</u>
Item 4.	<u>MINE SAFETY DISCLOSURES</u>	<u>66</u>
Item 5.	<u>OTHER INFORMATION</u>	<u>66</u>
Item 6.	<u>EXHIBITS</u>	<u>66</u>
	<u>SIGNATURES</u>	<u>68</u>
	<u>EXHIBIT INDEX</u>	<u>69</u>

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 (As Restated)	2014	2015 (As Restated)	2014
Services revenue	\$151,933	\$45,123	\$373,492	\$130,587
Sales revenue	125,534	138,166	386,765	192,642
Net revenue	277,467	183,289	760,257	323,229
Operating expenses:				
Cost of revenue - services	138,099	42,320	334,608	122,957
Cost of revenue - sales	103,375	119,175	324,820	162,505
Selling, general and administrative	27,830	23,456	77,818	43,156
Depreciation and amortization	5,884	921	16,617	1,475
Gain on sale or disposal of assets	(1,106)	(3)	(135)	(81)
Lease termination costs	1,124	—	1,124	—
Total operating expenses	275,206	185,869	754,852	330,012
Income (loss) from operations	2,261	(2,580)	5,405	(6,783)
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	94	29	(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)	(6,929)	(12,236)	(25,181)	(17,130)
Income (loss) from equity investees	535	(479)	(724)	(479)
Income tax benefit (expense)	(1,504)	(4,307)	1,832	(6,470)
Loss from continuing operations	(7,898)	(17,022)	(24,073)	(24,079)
Loss from discontinued operations	(24)	(106)	(44)	(62)
Gain (loss) from sale of discontinued operations	—	663	—	(121)
Net loss	(7,922)	(16,465)	(24,117)	(24,262)
Less: Net income attributable to noncontrolling interest	(65)	(931)	(8)	(1,990)
Net loss attributable to HC2 Holdings, Inc.	(7,987)	(17,396)	(24,125)	(26,252)
Less: Preferred stock dividends and accretion	1,035	1,004	3,212	1,204
Net loss attributable to common stock and participating preferred stockholders	\$(9,022)	\$(18,400)	\$(27,337)	\$(27,456)
Basic loss per common share:				
Loss from continuing operations attributable to HC2 Holdings, Inc.	\$(0.35)	\$(0.82)	\$(1.09)	\$(1.49)
Gain (loss) from sale of discontinued operations	—	0.03	—	(0.01)
Net loss attributable to HC2 Holdings, Inc.	\$(0.35)	\$(0.79)	\$(1.09)	\$(1.50)
Diluted loss per common share:				

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Loss from continuing operations attributable to HC2 Holdings, Inc.	\$ (0.35)	\$ (0.82)	\$ (1.09)	\$ (1.49)
Gain (loss) from sale of discontinued operations	—	0.03	—	(0.01)
Net loss attributable to HC2 Holdings, Inc.	\$ (0.35)	\$ (0.79)	\$ (1.09)	\$ (1.50)
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, 2015 (As Restated)		Nine Months Ended September 30, 2015 (As Restated)	
	2014		2014	
Net loss	\$(7,922)	\$(16,465)	\$(24,117)	\$(24,262)
Other comprehensive loss				
Foreign currency translation adjustment	(5,275)	867	(7,147)	733
Unrealized loss on available-for-sale securities, net of tax	(2,008)	(1,655)	(4,186)	(1,655)
Less: Comprehensive income attributable to the noncontrolling interest	(65)	(931)	(8)	(1,990)
Comprehensive loss attributable to HC2 Holdings, Inc.	\$(15,270)	\$(18,184)	\$(35,458)	\$(27,174)

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 (As Restated)	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	152,279
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	18,590
Assets held for sale	6,349	3,865
Total current assets	359,724	332,353
Restricted cash	7,196	6,467
Long-term investments	74,871	50,816
Property, plant and equipment, net	220,014	233,022
Goodwill	32,722	30,540
Other intangible assets, net	26,674	31,158
Deferred tax asset - long-term	20,654	14,019
Other assets	17,349	21,628
Total assets	\$ 759,204	\$ 720,003
Liabilities, temporary equity and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 65,241	\$ 80,183
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
Total current liabilities	218,931	200,005
Long-term debt	374,404	332,927
Pension liability	27,664	37,210
Other liabilities	8,151	1,617
Total liabilities	629,150	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 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

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outstanding at September 30, 2015 and December 31, 2014, respectively		
Redeemable non-controlling interest	4,567	4,004
Total temporary equity	57,970	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 September 30, 2015 and December 31, 2014, respectively	26	24
Additional paid-in capital	146,988	141,948
Accumulated deficit	(68,289	) (44,164)
Treasury stock, at cost – 31,626 shares at September 30, 2015 and December 31, 2014	(378	) (378)
Accumulated other comprehensive loss	(29,576	) (18,243)
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	48,771	79,187
Noncontrolling interest	23,313	25,208
Total stockholders' equity	72,084	104,395

7

Index

HC2 HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(Unaudited)

Total liabilities, temporary equity and stockholders' equity	\$759,204	\$720,003
See accompanying notes to Condensed Consolidated Financial Statements.		

8

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	2,866	—	—	2,866	—	—	—	—
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	51,129	—	—	256	—	—	—	50,873
Net (loss) income	(24,262)	—	—	—	—	(26,252)	—	1,990
Foreign currency translation adjustment	733	—	—	—	—	—	733	—
Unrealized gain (loss) on available-for-sale securities	(1,655)	—	—	—	—	—	(1,655)	—
Balance as of September 30, 2014	\$112,982	23,658	\$24	\$131,472	\$(378)	\$(56,025)	\$(14,974)	\$52,863

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	\$104,395	23,813	\$24	\$141,948	\$(378)	\$(44,164)	\$(18,243)	\$25,208
Share-based compensation expense	7,402	—	—	7,402	—	—	—	—
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	(822)	—	—	—	—	—	—	(822)
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	(24,117)	—	—	—	—	(24,125)	—	8
Foreign currency translation adjustment	(7,147)	—	—	—	—	—	(7,147)	—
Unrealized gain (loss) on available-for-sale securities, net of tax	(4,186)	—	—	—	—	—	(4,186)	—
Balance as of September 30, 2015 (As Restated)	\$72,084	25,592	\$26	\$146,988	\$(378)	\$(68,289)	\$(29,576)	\$23,313

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 (As Restated)	2014
Cash flows from operating activities:		
Net loss	\$ (24,117)	\$ (24,262)
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	7,402	2,867
Depreciation and amortization	22,352	4,071
Amortization of deferred financing costs	1,030	288
Lease termination costs	1,124	—
(Gain) loss on sale or disposal of assets	(135)	635
(Gain) loss on sale of investments	(399)	(437)
Equity investment (income)/loss	724	479
Amortization of debt discount	216	1,381
Unrealized (gain) loss on investments	(32)	—
Loss on early extinguishment of debt	—	6,947
Deferred income taxes	(5,957)	1
Other, net	225	1,307
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)	2,181
(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)	2,839
(Increase) decrease in other assets	1,483	1,558
Increase (decrease) in accounts payable	(15,675)	1,976
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	(2,300)
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)	—
Increase (decrease) in pension liability	(8,665)	—
Net cash (used in) provided by operating activities	(33,599)	(10,942)
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)	(18,640)
Sale of equity investments	1,026	

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Sale of assets held for sale	1,479	—	
Purchase of available-for-sale securities	(10,857)	—
Sale of available-for-sale securities	5,850	—	
Investment in debt securities	(19,347	)	(250)
Sale of investments	—		1,135
Cash from disposition of business, net of cash disposed	—		25,700

11

Index

Cash paid for business acquisitions, net of cash acquired	(568	) (166,510)
Purchase of noncontrolling interest	(239	) (6,978)
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	) (150,411)
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.			

Index

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 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

Index

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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.

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 nine months ended September 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 months ended March 31, 2015 and June 30, 2015.

The Company recorded a \$2.3 million income tax benefit in the nine months ended September 30, 2015 which should have been recorded in the year ended December 31, 2014. The out of period adjustment resulted in an overstatement of income tax benefit which has been restated. The adjustment to income tax benefit on the consolidated statement of operations for the year ended December 31, 2014 correctly reflects this additional benefit.

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

As a result of the errors and out of period adjustments above, the Company concluded that the financial statements for the three and nine months ended September 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 September 30, 2015:

HC2 HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Index

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(in thousands, except per share amounts)

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Services revenue	\$151,933	\$—	\$151,933	\$373,492	\$—	\$373,492
Sales revenue	125,534	—	125,534	386,765	—	386,765
Net revenue	277,467	—	277,467	760,257	—	760,257
Operating expenses:						
Cost of revenue - services	138,099	—	138,099	334,608	—	334,608
Cost of revenue - sales	103,375	—	103,375	324,820	—	324,820
Selling, general and administrative	27,830	—	27,830	77,359	459	77,818
Depreciation and amortization	6,593	(709)	5,884	16,835	(218)	16,617
Gain on sale or disposal of assets	(1,957)	) 851	(1,106)	) (986)	) 851	(135)
Lease termination costs	1,124	—	1,124	1,124	—	1,124
Total operating expenses	275,064	142	275,206	753,760	1,092	754,852
Income (loss) from operations	2,403	(142)	2,261	6,497	(1,092)	5,405
Interest expense	(10,343)	) —	(10,343)	) (28,992)	) —	(28,992)
Amortization of debt discount	(40)	) —	(40)	) (216)	) —	(216)
Loss on early extinguishment or restructuring of debt	—	—	—	—	—	—
Other income (expense), net	1,216	(1,122)	) 94	(3,528)	) —	(3,528)
Foreign currency transaction gain	1,099	—	1,099	2,150	—	2,150
Loss from continuing operations before income (loss) from equity investees and income tax benefit (expense)	(5,665)	) (1,264)	) (6,929)	) (24,089)	) (1,092)	) (25,181)
Income (loss) from equity investees	535	—	535	(724)	) —	(724)
Income tax benefit (expense)	649	(2,153)	) (1,504)	) 4,018	(2,186)	) 1,832
Loss from continuing operations	(4,481)	) (3,417)	) (7,898)	) (20,795)	) (3,278)	) (24,073)
Loss from discontinued operations	(24)	) —	(24)	) (44)	) —	(44)
Gain (loss) from sale of discontinued operations	—	—	—	—	—	—
Net loss	(4,505)	) (3,417)	) (7,922)	) (20,839)	) (3,278)	) (24,117)
Less: Net income attributable to noncontrolling interest	(65)	) —	(65)	) (8)	) —	(8)
Net loss attributable to HC2 Holdings, Inc.	(4,570)	) (3,417)	) (7,987)	) (20,847)	) (3,278)	) (24,125)
Less: Preferred stock dividends and accretion	1,035	—	1,035	3,212	—	3,212
Net loss attributable to common stock and participating preferred stockholders	\$ (5,605)	) \$ (3,417)	) \$ (9,022)	) \$ (24,059)	) \$ (3,278)	) \$ (27,337)
Basic loss per common share:						
Loss from continuing operations attributable to HC2 Holdings, Inc.	\$ (0.22)	) \$ (0.13)	) \$ (0.35)	) \$ (0.96)	) \$ (0.13)	) \$ (1.09)
	—	—	—	—	—	—

Income (loss) from discontinued operations						
Gain (loss) from sale of discontinued operations	—	—	—	—	—	—
Net loss attributable to HC2 Holdings, Inc.	\$(0.22)	\$(0.13)	\$(0.35)	\$(0.96)	\$(0.13)	\$(1.09)
Diluted loss per common share:						
Loss from continuing operations attributable to HC2 Holdings, Inc.	\$(0.22)	\$(0.13)	\$(0.35)	\$(0.96)	\$(0.13)	\$(1.09)
Income (loss) from discontinued operations	—	—	—	—	—	—
Gain (loss) from sale of discontinued operations	—	—	—	—	—	—
Net loss attributable to HC2 Holdings, Inc.	\$(0.22)	\$(0.13)	\$(0.35)	\$(0.96)	\$(0.13)	\$(1.09)
Weighted average common shares outstanding:						
Basic	25,592	—	25,592	25,093	—	25,093
Diluted	25,592	—	25,592	25,093	—	25,093

Index

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

HC2 HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Net loss	\$(4,505)	\$(3,417)	\$(7,922)	\$(20,839)	\$(3,278)	\$(24,117)
Other comprehensive income (loss)						
Foreign currency translation adjustment	(6,126)	851	(5,275)	(7,998)	851	(7,147)
Unrealized gain (loss) on available-for-sale securities, net of tax	(2,008)	—	(2,008)	(5,097)	911	(4,186)
Less: Comprehensive (income) loss attributable to the noncontrolling interest	(65)	—	(65)	(8)	—	(8)
Comprehensive income (loss) attributable to HC2 Holdings, Inc.	\$(12,704)	\$(2,566)	\$(15,270)	\$(33,942)	\$(1,516)	\$(35,458)

HC2 HOLDING, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	As of September 30, 2015		
	As Reported	Adjustments	As Restated
Assets			
Current assets:			
Cash and cash equivalents	\$81,066	\$—	\$81,066
Short-term investments	3,625	—	3,625
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	—	187,474
Costs and recognized earnings in excess of billings on uncompleted contracts	37,266	—	37,266
Deferred tax asset - current	1,701	—	1,701
Inventories	14,408	—	14,408
Prepaid expenses and other current assets	27,835	—	27,835
Assets held for sale	6,349	—	6,349
Total current assets	359,724	—	359,724
Restricted cash	7,196	—	7,196
Long-term investments	77,154	(2,283)	74,871
Property, plant and equipment, net	221,842	(1,828)	220,014

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Goodwill	30,665	2,057	32,722
Other intangible assets, net	26,674	—	26,674
Deferred tax asset - long-term	23,571	(2,917) 20,654
Other assets	18,201	(852	) 17,349
Total assets	\$765,027	\$(5,823	) \$759,204
Liabilities, temporary equity and stockholders' equity			
Current liabilities:			

Index

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Accounts payable	\$65,573	(332	) \$65,241
Accrued interconnection costs	36,689	—	36,689
Accrued payroll and employee benefits	22,127	—	22,127
Accrued expenses and other current liabilities	48,338	—	48,338
Billings in excess of costs and recognized earnings on uncompleted contracts	20,045	—	20,045
Accrued income taxes	1,470	—	1,470
Accrued interest	11,567	—	11,567
Current portion of long-term debt	13,454	—	13,454
Current portion of pension liability	—	—	—
Total current liabilities	219,263	(332	) 218,931
Long-term debt	374,404	—	374,404
Pension liability	27,664	—	27,664
Other liabilities	8,151	—	8,151
Total liabilities	629,482	(332	) 629,150
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 outstanding at September 30, 2015 and December 31, 2014, respectively	53,403	—	53,403
Redeemable non-controlling interest	—	4,567	4,567
Total temporary equity	53,403	4,567	57,970
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	—	26
Additional paid-in capital	151,662	(4,674	) 146,988
Accumulated deficit	(62,727	) (5,562	) (68,289
Treasury stock, at cost – 31,626 shares at September 30, 2015 and December 31, 2014, respectively	(378	) —	(378
Accumulated other comprehensive loss	(28,273	) (1,303	) (29,576
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	60,310	(11,539	) 48,771
Noncontrolling interest	21,832	1,481	23,313
Total stockholders' equity	82,142	(10,058	) 72,084
Total liabilities, temporary equity and stockholders' equity	\$765,027	\$(5,823	) \$759,204

HC2 HOLDINGS, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(in thousands)

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	As of September 30, 2015			
	As Reported	Adjustments	As Restated	
Common Stock	\$26	\$—	\$26	
Additional Paid-In Capital	151,662	(4,674	) 146,988
Treasury Stock	(378) —	(378)
Earnings (Accumulated Deficit)	(62,727) (5,562) (68,289)
Accumulated Other Comprehensive Income (Loss)	(28,273) (1,303) (29,576)
Noncontrolling Interest	21,832	1,481	23,313	
Total Stockholders' Equity	\$82,142	\$(10,058	) \$72,084

17

Index

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

HC2 HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30, 2015		
	As Reported	Adjustments	As Restated
Cash flows from operating activities:			
Net loss	\$(20,839	) \$(3,278	) \$(24,117
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Provision for doubtful accounts receivable	325	—	325
Share-based compensation expense	6,943	459	7,402
Depreciation and amortization	22,570	(218	) 22,352
Amortization of deferred financing costs	1,030	—	1,030
Lease termination costs	1,124	—	1,124
(Gain) loss on sale or disposal of assets	(986	) 851	(135
(Gain) loss on sale of investments	(399	) —	(399
Equity investment (income)/loss	724	—	724
Amortization of debt discount	216	—	216
Unrealized (gain) loss on investments	(32	) —	(32
Loss on early extinguishment of debt	—	—	—
Deferred income taxes	(8,143	) 2,186	(5,957
Other, net	225	—	225
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	90	—	90
Changes in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	(36,099	) —	(36,099
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	(9,253	) —	(9,253
(Increase) decrease in inventories	455	—	455
(Increase) decrease in prepaid expenses and other current assets	(4,799	) —	(4,799
(Increase) decrease in other assets	1,483	—	1,483
Increase (decrease) in accounts payable	(15,675	) —	(15,675
Increase (decrease) in accrued interconnection costs	26,915	—	26,915
Increase (decrease) in accrued payroll and employee benefits	2,936	—	2,936
Increase (decrease) in accrued expenses and other current liabilities	18,406	—	18,406
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	(21,933	) —	(21,933
Increase (decrease) in accrued income taxes	2,060	—	2,060
Increase (decrease) in accrued interest	8,442	—	8,442
Increase (decrease) in other liabilities	(720	) —	(720
Increase (decrease) in pension liability	(8,665) —	(8,665
Net cash (used in) provided by operating activities	(33,599) —	(33,599

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Cash flows from investing activities:

Purchase of property, plant and equipment	(16,751) —	(16,751)
Sale of property and equipment and other assets	4,994	—	4,994	
Purchase of equity investments	(11,506	) —	(11,506)
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	5,850	—	5,850	

18

Index

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Investment in debt securities	(19,347	) —	(19,347)
Sale of investments	—	—	—	
Cash paid for business acquisitions, net of cash acquired	(568	) —	(568)
Purchase of noncontrolling interest	(239	) —	(239)
Contribution by noncontrolling interest	—	—	—	
Receipt of dividends from equity investees	2,448	—	2,448	
(Increase) decrease in restricted cash	(727	) —	(727)
Net cash used in investing activities	(44,198	) —	(44,198)
Cash flows from financing activities:				
Proceeds from long-term obligations	425,527	—	425,527	
Principal payments on long-term obligations	(379,037	) —	(379,037)
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	(3,855	) —	(3,855)
Taxes paid in lieu of shares issued for share-based compensation	—	—	—	
Net cash provided by financing activities	55,531	—	55,531	
Effects of exchange rate changes on cash and cash equivalents	(4,646	)	(4,646)
Net change in cash and cash equivalents	(26,912	) —	(26,912)
Cash and cash equivalents, beginning of period	107,978	—	107,978	
Cash and cash equivalents, end of period	\$81,066	\$—	\$81,066	
Supplemental cash flow information:				
Cash paid for interest	\$21,445	\$—	\$21,445	
Cash paid for taxes	\$1,701	\$—	\$	