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

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

FORM 10-Q/A
Amendment No. 1

---

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

For the quarterly period ended September 30, 2014

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.)
460 Herndon Parkway, Suite 150, Herndon, VA (Address of principal executive offices)	20,170 (Zip Code)

(703) 456-4100
(Registrant’s telephone number, including area code)

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

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

Class	Outstanding as of October 31, 2014
Common Stock, $0.001 par value	23,814,601

Table of Contents

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 three and nine months ended ended September 30, 2014, as originally filed with the Securities and Exchange Commission (the “SEC”) on November 10, 2014 (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 had 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, 2014 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 weakness 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.
INDEX TO FORM 10-Q/A

Table of Contents

Table of Contents

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,	
	2014 (As Restated)	2013	2014 (As Restated)	2013
NET REVENUE	$183,289	$61,077	$323,229	$178,487
OPERATING EXPENSES				
Cost of revenue	161,495	58,752	285,462	169,704
Selling, general and administrative	23,456	6,293	43,156	29,749
Depreciation and amortization	921	1	1,475	2
(Gain) loss on sale or disposal of assets	(3)	(2)	(81)	(8)
Asset impairment expense	—	146	—	146
Total operating expenses	185,869	65,190	330,012	199,593
INCOME (LOSS) FROM OPERATIONS	(2,580)	(4,113)	(6,783)	(21,106)
INTEREST EXPENSE	(2,103)	(3)	(3,116)	(8)
AMORTIZATION OF DEBT DISCOUNT	(805)	—	(1,381)	—
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(6,947)	—	(6,947)	—
GAIN FROM CONTINGENT VALUE RIGHTS VALUATION	—	—	—	14,904
INTEREST INCOME AND OTHER EXPENSE, net	29	(76)	524	(184)
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	170	19	573	(232)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND INCOME (LOSS) FROM EQUITY INVESTEES	(12,236)	(4,173)	(17,130)	(6,626)
INCOME (LOSS) FROM EQUITY INVESTEES	(479)	—	(479)	—
INCOME TAX (EXPENSE) BENEFIT	(4,307)	3,308	(6,470)	3,090
INCOME (LOSS) FROM CONTINUING OPERATIONS	(17,022)	(865)	(24,079)	(3,536)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(106)	(21,490)	(62)	(19,718)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	663	15,650	(121)	150,695
NET INCOME (LOSS)	(16,465)	(6,705)	(24,262)	127,441
Less: Net (income) loss attributable to noncontrolling interest	(931)	—	(1,990)	—
NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.	(17,396)	(6,705)	(26,252)	127,441
Less: Preferred stock dividends and accretion	1,004	—	1,204	—
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK AND PARTICIPATING PREFERRED STOCKHOLDERS	$(18,400)	$(6,705)	$(27,456)	$127,441

BASIC INCOME (LOSS) PER COMMON SHARE:				.
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$(0.82)	$(0.06)	$(1.49)	$(0.25)
Income (loss) from discontinued operations	—	(1.53)	—	(1.41)
Gain (loss) from sale of discontinued operations	0.03	1.11	(0.01)	10.77
NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.	$(0.79)	$(0.48)	$(1.50)	$9.11
DILUTED INCOME (LOSS) PER COMMON SHARE:				
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$(0.82)	$(0.06)	$(1.49)	$(0.25)
Income (loss) from discontinued operations	—	(1.53)	—	(1.41)
Gain (loss) from sale of discontinued operations	0.03	1.11	(0.01)	10.77
NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.	$(0.79)	$(0.48)	$(1.50)	$9.11
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
Basic	23,372	14,077	18,348	13,987
Diluted	23,372	14,077	18,348	13,987
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF HC2 HOLDINGS, INC.				
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$(18,957)	$(865)	$(27,273)	$(3,536)
Income (loss) from discontinued operations	(106)	(21,490)	(62)	(19,718)
Gain (loss) from sale of discontinued operations	663	15,650	(121)	150,695
NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.	$(18,400)	$(6,705)	$(27,456)	$127,441

See notes to Condensed Consolidated Financial Statements.

2

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014 (As Restated)	2013	2014 (As Restated)	2013
NET INCOME (LOSS)	$(16,465)	$(6,705)	$(24,262)	$127,441
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment	867	(1,819)	733	(7,379)
Unrealized gain (loss) on available-for-sale securities	(1,655)	—	(1,655)	—
Less: Other comprehensive (income) attributable to the noncontrolling interest	(931)	—	(1,990)	—
COMPREHENSIVE INCOME ATTRIBUTABLE TO HC2 HOLDINGS, INC.	$(18,184)	$(8,524)	$(27,174)	$120,062

See notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	September 30, 2014 (As Restated)	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$111,739	$8,997
Short-term investments	3,253	—
Accounts receivable (net of allowance for doubtful accounts receivable of $4,639 and $2,476 at September 30, 2014 and December 31, 2013, respectively)	170,570	18,980
Costs and recognized earnings in excess of billings on uncompleted contracts	26,604	—
Inventories	23,894	—
Prepaid expenses and other current assets	36,915	40,594
Assets held for sale	3,865	6,329
Total current assets	376,840	74,900
LONG-TERM INVESTMENTS	41,900	—
PROPERTY, PLANT AND EQUIPMENT—Net	234,608	2,962
GOODWILL	31,877	3,378
OTHER INTANGIBLE ASSETS—Net	23,922	—
OTHER ASSETS	22,721	6,440
TOTAL ASSETS	$731,868	$87,680
LIABILITIES, TEMPORARY AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$55,811	$6,964
Accrued interconnection costs	9,969	12,456
Accrued payroll and employee benefits	15,385	1,854
Accrued expenses and other current liabilities	57,900	5,550
Billings in excess of costs and recognized earnings on uncompleted contracts	63,103	—
Accrued income taxes	302	53
Accrued interest	578	—
Current portion of long-term debt	22,408	—
Liabilities held for sale	—	4,823
Total current liabilities	225,456	31,700
LONG-TERM DEBT	290,394	—
PENSION LIABILITY	46,359	—
DEFERRED TAX LIABILITY	12,059	—
OTHER LIABILITIES	1,032	1,571
Total liabilities	575,300	33,271
COMMITMENTS AND CONTINGENCIES (See Note 11)		
TEMPORARY EQUITY (See Note 14)		
Preferred stock, $0.001 par value—20,000,000 shares authorized; Series A—30,000 and 0 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively; Series A-1—11,000 and 0 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	39,524	—
Redeemable non-controlling interest	4,062	—

Total temporary equity	43.586	—
STOCKHOLDERS' EQUITY:		
Common stock, $0.001 par value—80,000,000 shares authorized; 23,689,816 and 14,257,545 shares issued and 23,658,190 and 14,225,919 shares outstanding at September 30, 2014 and December 31, 2013, respectively	24	14
Additional paid-in capital	131,472	98,598
Retained earnings (accumulated deficit)	(56,025)	(29,773)
Treasury stock, at cost—31,626 shares at September 30, 2014 and December 31, 2013, respectively	(378)	(378)
Accumulated other comprehensive loss	(14,974)	(14,052)
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	60,119	54,409
Non-controlling interest	52,863	—
Total permanent equity	112,982	54,409
TOTAL LIABILITIES, TEMPORARY AND STOCKHOLDERS' EQUITY	$731,868	$87,680

See notes to Condensed Consolidated Financial Statements.

HC2 HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF PERMANENT 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 dividend 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	—	—	—	—	—	—
Noncontrolling interest in acquired companies	51,129	—	—	256	—	—	—	50,873
Net income (loss)	(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 (As Restated)	$112,982	23,658	$24	$131,472	$(378)	$ (56,025)	$ (14,974)	$52,863

See notes to Condensed Consolidated Financial Statements.

5

Table of Contents

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

	Nine Months Ended September 30, 2014 (As Restated)	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(24,262)	$127,441
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for doubtful accounts receivable	(114)	1,563
Share-based compensation expense	2,867	1,742
Depreciation and amortization	4,071	11,961
Amortization of deferred financing costs	288	—
(Gain) loss on sale or disposal of assets	635	(150,704)
(Gain) loss on sale of investments	(437)	—
Equity investment (income)/loss	479	—
Impairment of goodwill and long-lived assets	—	478
Amortization of debt discount	1,381	86
Loss on early extinguishment or restructuring of debt	6,947	21,178
Change in fair value of Contingent Value Rights	—	(14,904)
Deferred income taxes	1	(156)
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	57	(700)
Other	1,307	—
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	2,181	(5,201)
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	522	—
(Increase) decrease in inventories	(1,984)	—
(Increase) decrease in prepaid expenses and other current assets	2,839	(2,087)
(Increase) decrease in other assets	1,558	2,896
Increase (decrease) in accounts payable	1,976	(2,157)
Increase (decrease) in accrued interconnection costs	(2,618)	6,732
Increase (decrease) in accrued payroll and employee benefits	3,055	—
Increase (decrease) in accrued expenses, other current liabilities and other liabilities, net	(2,300)	(7,620)
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	(7,695)	—
Increase (decrease) in accrued income taxes	(2,198)	(3,506)
Increase (decrease) in accrued interest	502	(1,715)
Net cash provided by (used in) operating activities	(10,942)	(14,673)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(4,064)	(12,034)
Sale of property and equipment and other assets	3,696	9
Purchase of investments	(18,640)	—
Investment in debt security	(250)	—

Sale of investments	1,135	—
Cash from disposition of business, net of cash disposed	25,700	270,659
Cash paid for business acquisitions, net of cash acquired	(166,510)	(397)
Purchase of noncontrolling interest	(6,978)	—
Contribution by noncontrolling interest	15,500	—
Decrease in restricted cash	—	425
Net cash (used in) provided by investing activities	(150,411)	258,662
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term obligations	492,068	—
Principal payments on long-term obligations	(294,237)	(128,008)
Payment of fees on restructuring of debt	(837)	(1,256)
Proceeds from sale of common stock, net	6,000	1,145
Proceeds from sale of preferred stock, net	39,765	—
Proceeds from the exercise of warrants and stock options	24,344	—
Payment of dividend equivalents	—	(1,235)
Payment of dividends	(750)	(119,788)
Taxes paid in lieu of shares issued for share-based compensation	(41)	(837)
Net cash provided by (used) in financing activities	266,312	(249,979)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,217)	(1,669)
NET CHANGE IN CASH AND CASH EQUIVALENTS	102,742	(7,659)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,997	23,197
CASH AND CASH EQUIVALENTS, END OF PERIOD	$111,739	$15,538
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$2,388	$10,367
Cash paid for taxes	$7,761	$608
Non-cash investing and financing activities:		
Capital lease additions	$—	$148

See notes to Condensed Consolidated Financial Statements.

Table of Contents

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

1. ORGANIZATION AND BUSINESS

On April 9, 2014, we changed our name from PTGi Holding, Inc. to HC2 Holdings, Inc. ("HC2" and, together with its subsidiaries, the "Company", "we" and "our"). The name change was effected pursuant to Section 253 of the General Corporation Law of the State of Delaware by the merger of our wholly owned subsidiary, HC2 Name Change, Inc., into us. In connection with the name change, we changed the ticker symbol of our common stock from "PTGI" to "HCHC".

On May 29, 2014, the Company completed the acquisition of 2.5 million shares of common stock of Schuff International, Inc. ("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. The aggregate consideration for the shares of Schuff acquired was approximately $85 million, which was funded using the net proceeds from (i) the issuance of $30 million of Series A Convertible Participating Preferred Stock of HC2 (the "Series A Preferred Stock") and $6 million of common stock of HC2, and (ii) the entry into a senior secured credit facility providing for an eighteen month term loan of $80 million ("May Credit Facility"), each of which was also completed on May 29, 2014. 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%. In October 2014, the final results of a tender offer for all outstanding shares of Schuff were announced and the Company accepted for purchase 733,634 shares, which had the effect of increasing the Company's ownership interest to 89%. On October 29, 2014, we entered into an open-market transaction to increase our ownership of Schuff to 90.6%, and we intend to execute a short-form merger as soon as practicable. Such short-form merger will increase our ownership of Schuff shares to 100%.

Schuff and its wholly-owned subsidiaries primarily operate as integrated fabricators and erectors of structural steel and heavy steel plates with headquarters in Phoenix, Arizona and operations in Arizona, Florida, Georgia, Texas, Kansas and California. Schuff's construction projects are primarily in the aforementioned states. In addition, Schuff has construction projects in select international markets, primarily Panama. Schuff has a 49% interest in Schuff Hopsa Engineering, Inc. ("SHE"), a Panamanian joint venture with Empresas Hopsa, S.A., that provides steel fabrication services. Schuff controls the operations of SHE, as provided in the operating agreement. Therefore, the assets, liabilities, revenues and expenses of SHE are included in the consolidated financial statements of Schuff. Empresas Hopsa, S.A.'s 51% interest in SHE is presented as a non-controlling interest component of total equity.

On August 1, 2014, the Company paid $15.5 million to acquire 15,500 shares of Series A Convertible Preferred Stock of American Natural Gas ("ANG"), representing an approximately 51% interest in ANG. ANG is a premier distributor of natural gas motor fuel headquartered in the Northeast that designs, builds, owns, operates and maintains compressed natural gas fueling stations for transportation.

On September 22, 2014, the Company completed the acquisition of Bridgehouse Marine Limited ("Bridgehouse"), the parent holding company of Global Marine Systems Limited ("GMSL"). The purchase price reflects an enterprise value of approximately $260 million, including assumed indebtedness, and was funded using a portion of the net proceeds from (i) the issuance of $11 million of Series A-1 Convertible Participating Preferred Stock of HC2 (the "Series A-1 Preferred Stock") and (ii) a senior secured credit facility providing for a twelve month (subject to extension for an additional twelve months if the Company meets certain requirements set forth in the credit agreement governing the senior secured credit facility) term loan of $214 million and a delayed draw term loan of $36 million, each of which was also completed on September 22, 2014. With a portion of these proceeds, the Company paid off its May Credit Facility and its senior unsecured credit facility consisting of a term loan of $17 million entered into on September 8, 2014 for the purpose of acquiring an ownership interest in Novatel Wireless, Inc. ("September Credit Facility"). 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 reserved for a group of individuals, leaving the Company's controlling interest as of September 30, 2014 at approximately 97%.

GMSL has a 65% interest in Global Cable Technology, Ltd., which manufactures jointing kits. The assets, liabilities, revenue and expenses of Global Cable Technology, Ltd. are included in the consolidated financial statements of

GMSL and the 35% interest is presented as a non-controlling interest component of total equity.

We have historically operated a telecommunications business including a network of direct routes and provided 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”). The Company has provided telecommunications services from its North America Telecom and International Carrier Services (“ICS”) business units. In the second quarter of 2013, the Company entered into a definitive purchase agreement to sell its North America Telecom business and sought shareholder approval of such transaction. On July 31, 2013, the Company completed the initial closing of the sale of substantially all of its North America Telecom business. The sale of Primus Telecommunications, Inc. (“PTI”) was also contemplated as part of this transaction, and subject to regulatory approval. On July 31, 2014, having received the necessary regulatory approvals for PTI, we completed the divestiture of the remainder of our North America Telecom business.

During 2013, we also provided data center services in Canada through our BLACKIRON Data business unit. On April 17, 2013, we consummated the divestiture of BLACKIRON Data.

The Company currently has five reportable operating segments based on management’s organization of the enterprise—Telecommunications which includes ICS, Life Sciences which includes Genovel Orthopedics, Inc. (“Genovel”) involved with the development of products to treat early osteoarthritis of the knee, Manufacturing which includes Schuff, Marine Services which includes GMSL, and Utilities which includes ANG.

HC2 was formed as a corporation under the laws of Delaware in 1994 and operates as a holding company of operating subsidiaries primarily in the United States and the United Kingdom.

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, 2014 to correct the improper recording of items related to the following:

- Proper recognition of transactions associated with Schuff International, Inc. ("Schuff") as part of purchase accounting as well as proper valuation of the ANG business acquisition resulting in goodwill.
- 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. The Company also identified items related to the opening balance sheet as well as conforming balance sheet reclassifications related to the purchase accounting for GMSL.
- The Company incorrectly valued our share-based compensation expense for the three and nine months ended September 30, 2014. Options were entitled to be received between May and September of 2014, but which were actually issued on October 28, 2014. The Company incorrectly recorded the fair value of the options using the October 28th issuance date rather than the earlier measurement date under US GAAP.
- The Company reclassified redeemable non-controlling interest from permanent equity to temporary equity.
- The Company corrected the Condensed Consolidated Statement of Cash Flows to reclassify funds released from escrow which related to the sale of business units from operating activities to investing activities.

As a result of the errors described above the Company concluded that the financial statements for the three and nine months ended September 30, 2014 were materially misstated. The condensed consolidated statement of operations, condensed 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.

Table of Contents
HC2 HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(UNAUDITED)

The following tables provide a reconciliation of the amounts previously reported to the restated amounts for the three and nine months ended September 30, 2014:

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

	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
NET REVENUE	$179,433	$3,856	$183,289	$319,373	$3,856	$323,229
OPERATING EXPENSES						
Cost of revenue	158,639	2,856	161,495	282,606	2,856	285,462
Selling, general and administrative	20,246	3,210	23,456	40,482	2,674	43,156
Depreciation and amortization	921	—	921	1,475	—	1,475
(Gain) loss on sale or disposal of assets	(448)	445	(3)	(81)	—	(81)
Asset impairment expense	—	—	—	—	—	—
Total operating expenses	179,358	6,511	185,869	324,482	5,530	330,012
INCOME (LOSS) FROM OPERATIONS	75	(2,655)	(2,580)	(5,109)	(1,674)	(6,783)
INTEREST EXPENSE	(2,103)	—	(2,103)	(3,116)	—	(3,116)
AMORTIZATION OF DEBT DISCOUNT	(805)	—	(805)	(1,381)	—	(1,381)
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(6,947)	—	(6,947)	(6,947)	—	(6,947)
GAIN FROM CONTINGENT VALUE RIGHTS VALUATION	—	—	—	—	—	—
INTEREST INCOME AND OTHER EXPENSE, net	(1,092)	1,121				