

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 March 31, 2015

OR

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

Commission File No. 001-35210

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

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

505 Huntmar Park Drive, Suite 325, 20170
Herndon, VA (Zip Code)
(Address of principal executive offices)
(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 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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 April 30, 2015
Common Stock, \$0.001 par value	25,487,023

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 March 31, 2015, as originally filed with the Securities and Exchange Commission (the "SEC") on May 11, 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 months ended March 31, 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.
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HC2 HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(UNAUDITED)

	Three Months Ended March 31,	
	2015 (As Restated)	2014
Services revenue	\$73,718	\$43,354
Sales revenue	128,090	—
Net revenue	201,808	43,354
Operating expenses:		
Cost of revenue - services	61,920	41,107
Cost of revenue - sales	110,536	—
Selling, general and administrative	23,512	6,204
Depreciation and amortization	5,255	210
(Gain) loss on sale or disposal of assets	473	(80)
Total operating expenses	201,696	47,441
Income/(loss) from operations	112	(4,087)
Interest expense	(8,608)	(1)
Amortization of debt discount	(92)	—
Interest income and other expense, net	544	(49)
Foreign currency transaction loss	(771)	(34)
Loss from continuing operations before income taxes and loss from equity investees	(8,815)	(4,171)
Loss from equity investees	(2,688)	—
Income tax benefit (expense)	6,014	(9)
Loss from continuing operations	(5,489)	(4,180)
Gain/(loss) from discontinued operations	(9)	17
Loss from sale of discontinued operations	—	(784)
Net loss	(5,498)	(4,947)
Less: Net loss attributable to noncontrolling interest	261	—
Net loss attributable to HC2 Holdings, Inc.	(5,237)	(4,947)
Less: Preferred stock dividends and accretion	1,088	—
Net loss attributable to common stock and participating preferred stockholders	\$(6,325)	\$(4,947)
Basic loss per common share:		
Loss from continuing operations attributable to HC2 Holdings, Inc.	\$(0.26)	\$(0.29)
Loss from discontinued operations	—	—
Loss from sale of discontinued operations	—	(0.05)
Net income (loss) attributable to HC2 Holdings, Inc.	\$(0.26)	\$(0.34)
Diluted loss per common share:		
Loss from continuing operations attributable to HC2 Holdings, Inc.	\$(0.26)	\$(0.29)
Loss from discontinued operations	—	—
Loss from sale of discontinued operations	—	(0.05)
Net loss attributable to HC2 Holdings, Inc.	\$(0.26)	\$(0.34)
Weighted average common shares outstanding:		
Basic	24,146	14,631
Diluted	24,146	14,631
Amounts attributable to common shareholders of HC2 Holdings, Inc.		

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Loss from continuing operations attributable to HC2 Holdings, Inc.	\$ (6,316)	\$ (4,180)
Gain/(loss) from discontinued operations	(9	)	17)
Loss from sale of discontinued operations	—	)	(784)
Net loss attributable to HC2 Holdings, Inc.	\$ (6,325)	\$ (4,947)

See 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 March 31,	
	2015 (As Restated)	2014
Net income (loss)	\$ (5,498)	) \$ (4,947)
Other comprehensive income (loss))
Foreign currency translation adjustment	(4,361)	) (374)
Unrealized gain on available-for-sale securities, net of tax	149) —
Less: Comprehensive (income) loss attributable to the noncontrolling interest	261) —
Comprehensive income (loss) attributable to HC2 Holdings, Inc.	\$ (9,449)	) \$ (5,321)

See notes to Condensed Consolidated Financial Statements.

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

	March 31, 2015 (As Restated)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 128,872	\$ 107,978
Short-term investments	11,768	4,867
Accounts receivable (net of allowance for doubtful accounts receivable of \$2,675 and \$2,760 at March 31, 2015 and December 31, 2014, respectively)	195,878	152,279
Costs and recognized earnings in excess of billings on uncompleted contracts	24,656	28,098
Deferred tax asset - current	1,701	1,701
Inventories	17,062	14,975
Prepaid expenses and other current assets	29,337	18,590
Assets held for sale	11,485	3,865
Total current assets	420,759	332,353
Restricted cash	7,063	6,467
Long-term investments	61,458	50,816
Property, plant and equipment, net	217,585	233,022
Goodwill	30,540	30,540
Other intangible assets, net	30,095	31,158
Deferred tax asset - long-term	14,498	14,019
Other assets	17,483	21,628
Total assets	\$ 799,481	\$ 720,003
Liabilities, temporary equity and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 61,556	\$ 80,183
Accrued interconnection costs	19,507	9,717
Accrued payroll and employee benefits	22,883	20,023
Accrued expenses and other current liabilities	40,183	34,042
Billings in excess of costs and recognized earnings on uncompleted contracts	31,848	41,959
Accrued income taxes	—	512
Accrued interest	12,043	3,125
Current portion of long-term debt	38,811	10,444
Total current liabilities	226,831	200,005
Long-term debt	376,549	332,927
Pension liability	34,081	37,210
Other liabilities	8,002	1,617
Total liabilities	645,463	571,759
Commitments and contingencies (See Note 10)		
Temporary equity (See Note 12)		
Preferred stock, \$0.001 par value – 20,000,000 shares authorized; Series A - 30,000 shares issued and outstanding at March 31, 2015 and December 31, 2014; Series A-1 - 10,500 and 11,000 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively; Series A-2 - 14,000 and 0 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	53,444	39,845

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Redeemable non-controlling interest	4,053	4,004
Total temporary equity	57,497	43,849
Stockholders' equity:		
Common stock, \$0.001 par value – 80,000,000 shares authorized; 25,400,886 and 23,844,711 shares issued and 25,369,260 and 23,813,085 shares outstanding at March 31, 2015 and December 31, 2014, respectively	25	24
Additional paid-in capital	144,088	141,948
Accumulated deficit	(49,401	) (44,164
Treasury stock, at cost – 31,626 shares at March 31, 2015 and December 31, 2014, respectively	(378	) (378
Accumulated other comprehensive loss	(22,455	) (18,243
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	71,879	79,187
Noncontrolling interest	24,642	25,208
Total stockholders' equity	96,521	104,395
Total liabilities, temporary equity and stockholders' equity	\$799,481	\$720,003
See notes to Condensed Consolidated Financial Statements.		

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

	Total	Common Stock Shares	Additional Paid-In Amount Capital	Treasury Stock	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	2,694	—	—	2,694	—	—	—	—
Preferred stock dividend and accretion	(1,088)	—	—	(1,088)	—	—	—	—
Issuance of common stock	—	2	—	—	—	—	—	—
Issuance of restricted stock	1	1,436	1	—	—	—	—	—
Conversion of preferred stock to common stock	500	118	—	500	—	—	—	—
Acquisition of noncontrolling interest	(271)	—	—	—	—	—	—	(271)
Excess book value over fair value of purchased noncontrolling interest	—	—	—	34	—	—	—	(34)
Net loss	(5,498)	—	—	—	—	(5,237)	—	(261)
Foreign currency translation adjustment	(4,361)	—	—	—	—	—	(4,361)	—
Unrealized gain on available-for-sale securities, net of tax	149	—	—	—	—	—	149	—
Balance as of March 31, 2015 (As Restated)	\$96,521	25,369	\$25	\$144,088	\$(378)	\$(49,401)	\$(22,455)	\$24,642

See notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2015 (As Restated)	2014
Cash flows from operating activities:		
Net income (loss)	\$ (5,498	) \$ (4,947
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for doubtful accounts receivable	95	107
Share-based compensation expense	2,694	238
Depreciation and amortization	7,130	210
Amortization of deferred financing costs	329	—
(Gain) loss on sale or disposal of assets	473	704
(Gain) loss on sale of investments	(515) —
Equity investment (income)/loss	2,688	—
Amortization of debt discount	92	—
Deferred income taxes	(568	) 1
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	172	(34
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	(45,764	) 2,767
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	3,468	—
(Increase) decrease in inventories	(2,355) —
(Increase) decrease in prepaid expenses and other current assets	(1,492	) 3,462
(Increase) decrease in other assets	(2,122	) 798
Increase (decrease) in accounts payable	(18,908	) (1,795
Increase (decrease) in accrued interconnection costs	10,111	(1,181
Increase (decrease) in accrued payroll and employee benefits	3,723	(846
Increase (decrease) in accrued expenses and other current liabilities	5,995	279
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	(10,116) —
Increase (decrease) in accrued income taxes	(6,238	) (4
Increase (decrease) in accrued interest	8,918	—
Increase (decrease) in other liabilities	(146	) (856
Increase (decrease) in pension liability	(1,125) —
Net cash provided by (used in) operating activities	(48,959	) (1,097
Cash flows from investing activities:		
Purchase of property, plant and equipment	(3,124	) (89
Sale of property and equipment and other assets	998	80
Purchase of equity investments	(8,644) —
Sale of equity investments	1,026	—
Purchase of available-for-sale securities	(6,664) —
Cash from disposition of business, net of cash disposed	—	3,200
Investment in debt securities	(3,250) —

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Purchase of noncontrolling interest	(222) —	
(Increase) decrease in restricted cash	(893) —	
Net cash used in investing activities	(20,773	) 3,191	
Cash flows from financing activities:			
Proceeds from long-term obligations	181,303	—	
Principal payments on long-term obligations	(103,690) —	
Payment of deferred financing costs	(1,136) —	
Proceeds from sale of preferred stock, net	14,032	—	
Proceeds from the exercise of warrants and stock options	—	2,891	
Payment of dividend equivalents	—	(550)
Net cash provided by (used) in financing activities	90,509	2,341	
Effects of exchange rate changes on cash and cash equivalents	117	(391)
Net change in cash and cash equivalents	20,894	4,044	
Cash and cash equivalents, beginning of period	107,978	8,997	
Cash and cash equivalents, end of period	\$128,872	\$13,041	
Supplemental cash flow information:			
Cash paid for interest	\$1,287	\$969	
Cash paid for taxes	\$112	\$22	
Preferred stock dividends and accretion	\$1,088	\$—	
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	\$1,632	\$—	
Conversion of preferred stock to common stock	\$500	\$—	

See notes to Condensed Consolidated Financial Statements.

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

1. ORGANIZATION AND BUSINESS

On May 29, 2014, HC2 Holdings, Inc. (“HC2” and, together with its subsidiaries, the “Company”, “we” and “our”) 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, floating interest rate term loan of \$80 million (the “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%. During the fourth quarter of 2014, 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 809,043 shares and an increase in our ownership interest to 91%. We intend to execute a short-form merger, which 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, 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 Condensed Consolidated Financial Statements of Schuff. Empresas Hopsa, S.A.’s 51% interest in SHE is presented as a noncontrolling interest component of total stockholders’ 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, acquires, 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, floating interest rate term loan of \$214 million and a delayed draw term loan of \$36 million (the “September Credit Facility”), each of which was also completed on September 22, 2014. With a portion of the proceeds from the September Credit Facility, 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 (the “Novatel Acquisition Term Loan”) for the purpose of acquiring an ownership interest in Novatel Wireless, Inc. The September Credit Facility was subsequently repaid using the proceeds from HC2’s issuance of its Existing Notes discussed below under Note 8—“Long-Term Obligations”. 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 as of March 31, 2015 at approximately 97%.

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.

Additionally, in 2014 we acquired a 100% ownership interest in DMi, Inc. (“DMi”), which owns licenses to create and distribute NASCAR® video games.

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(UNAUDITED)

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

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 months ended March 31, 2015 to correct the improper recording of items related to the following:

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 incorrectly valued our share-based compensation expense. 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 issuance date of October 28, 2014 rather than the earlier measurement date under US GAAP.

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

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

- The Company identified other income which was recognized in the three months ended September 30, 2015, but should have been recorded in the three months 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 corrected the March 31, 2014 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, the Company concluded that the financial statements for the three month period ended March 31, 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 March 31, 2015:

HC2 HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

Three Months Ended March 31, 2015

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	As Reported	Adjustments	As Restated
Services revenue	\$73,718	\$—	\$73,718
Sales revenue	128,090	—	128,090
Net revenue	201,808	—	201,808
Operating expenses:			
Cost of revenue - services	61,920	—	61,920

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(UNAUDITED)

Cost of revenue - sales	110,536	—	110,536
Selling, general and administrative	23,053	459	23,512
Depreciation and amortization	5,006	249	5,255
(Gain) loss on sale or disposal of assets	473	—	473
Total operating expenses	200,988	708	201,696
Income/(loss) from operations	820	(708)	112
Interest expense	(8,608)	) —	(8,608)
Amortization of debt discount	(92)	) —	(92)
Interest income and other expense, net	193	351	544
Foreign currency transaction loss	(771)	) —	(771)
Loss from continuing operations before income taxes and loss from equity investees	(8,458)	) (357)	(8,815)
Loss from equity investees	(2,688)	) —	(2,688)
Income tax benefit (expense)	5,833	181	6,014
Loss from continuing operations	(5,313)	) (176)	(5,489)
Gain/(loss) from discontinued operations	(9)	) —	(9)
Loss from sale of discontinued operations	—	—	—
Net loss	(5,322)	) (176)	(5,498)
Less: Net loss attributable to noncontrolling interest	261	—	261
Net loss attributable to HC2 Holdings, Inc.	(5,061)	) (176)	(5,237)
Less: Preferred stock dividends and accretion	1,088	—	1,088
Net loss attributable to common stock and participating preferred stockholders	\$(6,149)	) \$(176)	\$(6,325)
Basic loss per common share:			
Loss from continuing operations attributable to HC2 Holdings, Inc.	\$(0.25)	) \$(0.01)	\$(0.26)
Loss from discontinued operations	—	—	—
Loss from sale of discontinued operations	—	—	—
Net income (loss) attributable to HC2 Holdings, Inc.	\$(0.25)	) \$(0.01)	\$(0.26)
Diluted loss per common share:			
Loss from continuing operations attributable to HC2 Holdings, Inc.	\$(0.25)	) \$(0.01)	\$(0.26)
Loss from discontinued operations	—	—	—
Loss from sale of discontinued operations	—	—	—
Net loss attributable to HC2 Holdings, Inc.	\$(0.25)	) \$(0.01)	\$(0.26)
Weighted average common shares outstanding:			
Basic	24,146	—	24,146
Diluted	24,146	—	24,146
Amounts attributable to common shareholders of HC2 Holdings, Inc.			
Loss from continuing operations attributable to HC2 Holdings, Inc.	\$(6,140)	) \$(176)	\$(6,316)
Gain/(loss) from discontinued operations	(9)	) —	(9)
Loss from sale of discontinued operations	—	—	—
Net loss attributable to HC2 Holdings, Inc.	\$(6,149)	) \$(176)	\$(6,325)

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

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

	Three Months Ended March 31, 2015		
	As Reported	Adjustments	As Restated
Net income (loss)	\$(5,322)	) \$(176)	) \$(5,498)
Other comprehensive income (loss)			
Foreign currency translation adjustment	(4,361)	) —	(4,361)
Unrealized gain (loss) on available-for-sale securities, net of tax	(762)	) 911	149
Less: Comprehensive (income) loss attributable to the noncontrolling interest	261	—	261
Comprehensive income (loss) attributable to HC2 Holdings, Inc.	\$(10,184)	) \$735	) \$(9,449)

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

	As of March 31, 2015		
	As Reported	Adjustments	As Restated
Assets			
Current assets:			
Cash and cash equivalents	\$ 128,872	\$—	\$ 128,872
Short-term investments	11,768	—	11,768
Accounts receivable (net of allowance for doubtful accounts receivable of \$2,675 and \$2,760 at March 31, 2015 and December 31, 2014, respectively)	195,878	—	195,878
Costs and recognized earnings in excess of billings on uncompleted contracts	24,656	—	24,656
Deferred tax asset - current	1,701	—	1,701
Inventories	17,062	—	17,062
Prepaid expenses and other current assets	29,337	—	29,337
Assets held for sale	11,485	—	11,485
Total current assets	420,759	—	420,759
Restricted cash	7,063	—	7,063
Long-term investments	58,827	2,631	61,458
Property, plant and equipment, net	224,815	(7,230)	) 217,585
Goodwill	27,990	2,550	30,540
Other intangible assets, net	30,067	28	30,095
Deferred tax asset - long-term	15,198	(700)	) 14,498
Other assets	18,334	(851)	) 17,483
Total assets	\$ 803,053	) \$(3,572)	) \$ 799,481

Liabilities, temporary equity and stockholders' equity

Current liabilities:

Accounts payable	\$61,888	\$(332)	) \$61,556
Accrued interconnection costs	19,507	—	19,507
Accrued payroll and employee benefits	22,883	—	22,883
Accrued expenses and other current liabilities	40,183	—	40,183

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

Billings in excess of costs and recognized earnings on uncompleted contracts	31,848	—	31,848
Accrued income taxes	—	—	—
Accrued interest	12,043	—	12,043
Current portion of long-term debt	38,811	—	38,811
Current portion of pension liability	5,697	(5,697)	—
Total current liabilities	232,860	(6,029)	226,831
Long-term debt	376,549	—	376,549
Pension liability	28,384	5,697	34,081
Other liabilities	8,002	—	8,002
Total liabilities	645,795	(332)	645,463
Commitments and contingencies (See Note 10)			
Temporary equity (See Note 12)			
Preferred stock, \$0.001 par value – 20,000,000 shares authorized; Series A - 30,000 shares issued and outstanding at March 31, 2015 and December 31, 2014; Series A-1 - 10,500 and 11,000 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively; Series A-2 - 14,000 and 0 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	53,444	—	53,444
Redeemable non-controlling interest	—	4,053	4,053
Total temporary equity	53,444	4,053	57,497
Stockholders' equity:			
Common stock, \$0.001 par value – 80,000,000 shares authorized; 25,400,886 and 23,844,711 shares issued and 25,369,260 and 23,813,085 shares outstanding at March 31, 2015 and December 31, 2014, respectively	25	—	25
Additional paid-in capital	148,762	(4,674)	144,088
Accumulated deficit	(46,941)	(2,460)	(49,401)
Treasury stock, at cost – 31,626 shares at March 31, 2015 and December 31, 2014, respectively	(378)	—	(378)
Accumulated other comprehensive loss	(20,301)	(2,154)	(22,455)
Total HC2 Holdings, Inc. stockholders' equity before noncontrolling interest	81,167	(9,288)	71,879
Noncontrolling interest	22,647	1,995	24,642
Total stockholders' equity	103,814	(7,293)	96,521
Total liabilities, temporary equity and stockholders' equity	\$803,053	\$(3,572)	\$799,481

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

	As of March 31, 2015		
	As Reported	Adjustments	As Restated
Common Stock	\$25	\$—	\$25

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Additional Paid-In Capital	148,762	(4,674)	144,088		
Treasury Stock	(378)	—	(378)	
Earnings (Accumulated Deficit)	(46,941)	(2,460)	(49,401)
Accumulated Other Comprehensive Income (Loss)	(20,301	)	(2,154	)	(22,455)
Noncontrolling Interest	22,647		1,995		24,642	
Total Stockholders' Equity	\$ 103,814		\$ (7,293	)	\$ 96,521	

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

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(UNAUDITED)

	Three Months Ended March 31, 2015		
	As Reported	Adjustments	As Restated
Cash flows from operating activities:			
Net income (loss)	\$(5,322	)	\$(176
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:)
Provision for doubtful accounts receivable	95	—	95
Share-based compensation expense	2,235	459	2,694
Depreciation and amortization	6,881	249	7,130
Amortization of deferred financing costs	329	—	329
(Gain) loss on sale or disposal of assets	473	—	473
(Gain) loss on sale of investments	(164	)	(351
Equity investment (income)/loss	2,688	—	2,688
Amortization of debt discount	92	—	92
Deferred income taxes	(387	)	(181
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	172	—	172
Changes in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	(45,764)	—
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	3,468	—	3,468
(Increase) decrease in inventories	(2,355)	—
(Increase) decrease in prepaid expenses and other current assets	(1,492)	—
(Increase) decrease in other assets	(2,122)	—
Increase (decrease) in accounts payable	(18,908)	—
Increase (decrease) in accrued interconnection costs	10,111	—	10,111
Increase (decrease) in accrued payroll and employee benefits	3,723	—	3,723
Increase (decrease) in accrued expenses and other current liabilities	5,995	—	5,995
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	(10,116)	—
Increase (decrease) in accrued income taxes	(6,238)	—
Increase (decrease) in accrued interest	8,918	—	8,918
Increase (decrease) in other liabilities	(146)	—
Increase (decrease) in pension liability	(1,125)	—
Net cash provided by (used in) operating activities	(48,959)	—
Cash flows from investing activities:			
Purchase of property, plant and equipment	(3,124)	—
Sale of property and equipment and other assets	998	—	998
Purchase of equity investments	(8,644)	—
Sale of equity investments	1,026	—	1,026
Purchase of available-for-sale securities	(6,664)	—
Investment in debt securities	(3,250)	—
Purchase of noncontrolling interest	(222)	—
(Increase) decrease in restricted cash	(893)	—
Net cash used in investing activities	(20,773)	—
Cash flows from financing activities:			

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Proceeds from long-term obligations	181,303	—	181,303
Principal payments on long-term obligations	(103,690) —	(103,690)
Payment of deferred financing costs	(1,136	) —	(1,136)
Proceeds from sale of preferred stock, net	14,032	—	14,032
Proceeds from the exercise of warrants and stock options	—	—	—
Payment of dividend equivalents	—	—	—
Net cash provided by (used) in financing activities	90,509	—	90,509
Effects of exchange rate changes on cash and cash equivalents	117	—	117
Net change in cash and cash equivalents	20,894	—	20,894

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(UNAUDITED)

Cash and cash equivalents, beginning of period	107,978	—	107,978
Cash and cash equivalents, end of period	\$128,872	\$—	\$128,872
Supplemental cash flow information:			
Cash paid for interest	\$1,287	\$—	\$1,287
Cash paid for taxes	\$112	\$—	\$112
Preferred stock dividends and accretion	\$1,088	\$—	\$1,088
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	\$1,632	\$—	\$1,632
Conversion of preferred stock to common stock	\$500	\$—	\$500

	Three Months Ended March 31, 2014		
	As Reported	Adjustments	As Restated
Cash flows from operating activities:			
Net income (loss)	\$(4,947	) \$—	\$(4,947)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for doubtful accounts receivable	107	—	107
Share-based compensation expense	238	—	238
Depreciation and amortization	210	—	210
Amortization of deferred financing costs	—	—	—
(Gain) loss on sale or disposal of assets	704	—	704
(Gain) loss on sale of investments	—	—	—
Equity investment (income)/loss	—	—	—
Amortization of debt discount	—	—	—
Deferred income taxes	1	—	1
Unrealized foreign currency transaction (gain) loss on intercompany and foreign debt	(34	) —	(34)
Changes in assets and liabilities, net of acquisitions:			
(Increase) decrease in accounts receivable	2,767	—	2,767
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	—	—	—
(Increase) decrease in inventories	—	—	—
(Increase) decrease in prepaid expenses and other current assets	6,662	(3,200	) 3,462
(Increase) decrease in other assets	798	—	798
Increase (decrease) in accounts payable	(1,795	) —	(1,795)
Increase (decrease) in accrued interconnection costs	(1,181	) —	(1,181)
Increase (decrease) in accrued payroll and employee benefits	(846	) —	(846)
Increase (decrease) in accrued expenses and other current liabilities	279	—	279
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	—	—	—
Increase (decrease) in accrued income taxes	(4	) —	(4)
Increase (decrease) in accrued interest	—	—	—
Increase (decrease) in other liabilities	(856) —	(856)
Increase (decrease) in pension liability	—	—	—

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Net cash provided by (used in) operating activities	2,103	(3,200) (1,097)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(89	) —	(89)
Sale of property and equipment and other assets	80	—	80	
Purchase of equity investments	—	—	—	
Sale of equity investments	—	—	—	
Purchase of available-for-sale securities	—	—	—	
Cash from disposition of business, net	—	3,200	3,200	

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(UNAUDITED)

Investment in debt securities	—	—	—
Purchase of noncontrolling interest	—	—	—
(Increase) decrease in restricted cash	—	—	—
Net cash used in investing activities	(9	) 3,200	3,191
Cash flows from financing activities:			
Proceeds from long-term obligations	—	—	—
Principal payments on long-term obligations	—	—	—
Payment of deferred financing costs	—	—	—
Proceeds from sale of preferred stock, net	—	—	—
Proceeds from the exercise of warrants and stock options	2,891	—	2,891
Payment of dividend equivalents	(550	) —	(550
Net cash provided by (used) in financing activities	2,341	—	2,341
Effects of exchange rate changes on cash and cash equivalents	(391	) —	(391
Net change in cash and cash equivalents	4,044	—	4,044
Cash and cash equivalents, beginning of period	8,997	—	8,997
Cash and cash equivalents, end of period	\$ 13,041	\$—	\$ 13,041
Supplemental cash flow information:			
Cash paid for interest	\$ 969	\$—	\$ 969
Cash paid for taxes	\$ 22	\$—	\$ 22
Preferred stock dividends and accretion	\$—	\$—	\$—
Non-cash investing and financing activities:			
Purchases of property, plant and equipment under financing arrangements	\$—	\$—	\$—
Property, plant and equipment included in accounts payable	\$—	\$—	\$—
Conversion of preferred stock to common stock	\$—	\$—	\$—

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The accompanying unaudited Condensed Consolidated Financial Statements of HC2 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 months ended March 31, 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 March 31, 2015, the Company has a 97% interest in GMSL, a 91% interest in Schuff, a 51% interest in ANG and a 100% interest in DMi. 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 first quarter of 2015 ended on March 29, 2015.

Foreign Currency Transactions—Foreign currency transactions are transactions denominated in a currency other than a subsidiary’s functional currency. A change in the exchange rates between a subsidiary’s functional currency and the currency in which a transaction is denominated increases or decreases the expected amount of functional currency cash flows upon settlement of the transaction. That increase or decrease in expected functional currency cash flows is reported by the Company as a foreign currency transaction gain (loss).

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(UNAUDITED)

Foreign Currency Translation—The assets and liabilities of the Company’s foreign subsidiaries are translated at the exchange rates in effect on the reporting date. Income and expenses are translated at the average exchange rate during the period. The net effect of such translation gains and losses are reflected within accumulated other comprehensive income (loss) in the stockholders’ equity section of the condensed consolidated balance sheets.

Inventories

Schuff—Inventories, primarily steel components, are stated at the lower of cost or market under the first-in, first-out method.

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

Short-term Investments—The current investments are classified as available-for-sale securities and the change in value is recognized within accumulated other comprehensive income (loss).

Long-term Investments —Investments in non-wholly-owned companies are generally consolidated if the Company’s interest exceeds 50% or if the Company has the power to direct the economic activities of the entity and the obligation to absorb losses, or accounted for under the equity method of accounting when the Company exercises significant influence over the venture.

Under the equity method of accounting, the Company records its proportionate interest in the underlying income or loss of the equity method investee. Additional investments made or distributions received are recorded as increases and decreases, respectively, to the carrying value of the equity method investment. Equity method investments are evaluated for potential impairment as circumstances warrant and an impairment charge is recorded when an impairment is deemed to be other-than-temporary.

When the Company’s investment in an equity method investee is greater than its proportionate share of the underlying net assets of that investee, a basis difference is created under ASC No. 323, “Investments—Equity Method and Joint Ventures” (“ASC 323”). When this situation occurs, the Company is required to determine the acquisition date fair value of the identifiable assets and assumed liabilities in the same manner as for a business combination under ASC No. 805, “Business Combinations” (“ASC 805”). If the basis difference is assigned to amortizable assets, it is amortized (net of tax) against the Company’s investment in the equity method investee.

Property, Plant and Equipment—Property, plant and equipment are stated at cost less accumulated depreciation, which is provided on the straight-line method over the estimated useful lives of the assets. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity of the assets as well as expenditures necessary to place assets into readiness for use. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Cost includes finance costs incurred prior to the asset being available for use. Expenditures for maintenance and repairs are expensed as incurred. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets, which range from 15 to 40 years for buildings and improvements, up to 35 years for cable-ships and submersibles, 3 to 15 years for

machinery and equipment, and 3 to 20 years for plant and motor vehicles. Plant includes equipment on the cable-ships that is portable and can be moved around the fleet and computer equipment. Leasehold improvements are amortized over the lives of the leases or estimated useful lives of the assets, whichever is shorter. Assets under construction are not depreciated until they are complete and available for use. Costs for internal use software that are incurred in the preliminary project stage and in the post-implementation stage are expensed as incurred. Costs incurred during the application development stage are capitalized and amortized over the estimated useful life of the software. When assets are sold or otherwise retired, the costs and accumulated depreciation are removed from the books and the resulting gain or loss is included in operating results. Property, plant and equipment that have been included as part of the assets held for sale are no longer depreciated from the time that they are classified as such. The Company periodically evaluates the carrying value of its property, plant and equipment based upon the estimated cash flows to be generated by the related assets. If impairment is indicated, a loss is recognized.

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
(UNAUDITED)

Use of Estimates—The preparation of Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of net revenue and expenses during the reporting period. Actual results may differ from these estimates. Significant estimates include allowance for doubtful accounts receivable, the extent of progress towards completion on contracts, contract revenue and costs on long-term contracts, market assumptions used in estimating the fair values of certain assets and liabilities, the calculation used in determining the fair value of HC2's stock options required by ASC No. 718, "Compensation—Stock Compensation" ("ASC 718"), income taxes and various other contingencies.

Estimates of fair value represent the Company's best estimates developed with the assistance of independent appraisals or various valuation techniques and, where the foregoing have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially.

Revenue and Cost Recognition

GMSL—GMSL generates revenue by providing maintenance services for subsea telecommunications cabling. GMSL also generates revenue from the design and installation of subsea cables under contracts. GMSL also provides installation, maintenance and repair of fiber optic communication and power infrastructure to offshore oil and gas platforms and installs inter-array power cables for use in offshore wind farms and in the offshore wind market.

Telecommunication/Maintenance—GMSL provides vessels on standby to repair fiber optic telecommunications cables in defined geographic zones, and its maintenance business is provided through contracts with consortia of up to 60 global telecommunications providers. Typically, GMSL enters into five to seven year contracts to provide maintenance to cable systems that are located in specific geographical areas. Revenue from these maintenance agreements is recognized on a straight line basis unless the pattern of costs associated with repairs indicates otherwise.

Telecommunications/Installation—GMSL provides installation of cable systems including route planning, mapping, route engineering, cable laying, and trenching and burial. GMSL's installation business is project-based with fixed price contracts typically lasting one to five months. Revenue is recognized as time and costs are incurred.

Charter hire—rentals from short term operating leases in respect of vessels are recognized as revenue on a straight line basis over the term of the lease.

Oil & Gas—GMSL provides installation, maintenance and repair of fiber optic communication and power infrastructure to offshore platforms. Its primary activities include providing power from shore, enabling fiber-based communication between platforms and shore-based systems and installing permanent reservoir monitoring systems which allow customers to monitor subsea seismic data. The majority of GMSL's oil & gas business is contracted on a project-by-project basis with major energy producers or tier I engineering, procurement and construction (EPC) contractors. Revenue is recognized as time and costs are incurred.

A loss is recognized immediately if the expected costs during any contract exceed expected revenues. Amounts billed in advance of revenue recognition are recorded as deferred revenue.

Schuff —Schuff performs its services primarily under fixed-price contracts and recognizes revenues and costs from construction projects using the percentage of completion method. Under this method, revenue is recognized based upon either the ratio of the costs incurred to date to the total estimated costs to complete the project or the ratio of tons fabricated to date to total estimated tons. Revenue recognition begins when work has commenced. Costs include all direct material and labor costs related to contract performance, subcontractor costs, indirect labor, and fabrication plant overhead costs, which are charged to contract costs as incurred. Revenues relating to changes in the scope of a contract are recognized when the work has commenced, Schuff has made an estimate of the amount that is probable of being paid for the change and there is a high degree of probability that the charges will be approved by the customer or general contractor. At March 31, 2015, Schuff had \$66.9 million of unapproved change orders on open projects, for which it has recognized revenues on a percentage of completion basis. While Schuff has been successful in having the majority of its change orders approved in prior years, there is no guarantee that the unapproved change orders at March 31, 2015 will be approved. Revisions in estimates during the course of

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED

(UNAUDITED)

contract work are reflected in the accounting period in which the facts requiring the revision become known. Provisions for estimated losses on uncompleted contracts are made in the period a loss on a contract becomes determinable.

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

Costs and recognized earnings in excess of billings on uncompleted contracts primarily represent revenue earned under the percentage of completion method which has not been billed. Billings in excess of related costs and recognized earnings on uncompleted contracts represent amounts billed on contracts in excess of the revenue allowed to be recognized under the percentage of completion method on those contracts.

ICS—Net revenue is derived from carrying a mix of business, residential and carrier long-distance traffic, data and Internet traffic. For certain voice services, net revenue is earned based on the number of minutes during a call, and is recorded upon completion of a call. Revenue for a period is calculated from information received through the Company's network switches. Customized software has been designed to track the information from the switch and analyze the call detail records against stored detailed information about revenue rates. This software provides the Company the ability to do a timely and accurate analysis of revenue earned in a period. Separate prepaid services software is used to track additional information related to prepaid service usage such as activation date, monthly usage amounts and expiration date. Revenue on these prepaid services is recognized as service is provided until expiration, when all unused minutes, which are no longer available to the customers, are recognized as revenue. Net revenue is also earned on a fixed monthly fee basis for unlimited local and long-distance voice plans and for the provision of data/Internet services (including retail VoIP), hosting, and colocation. In the United States, we charge customers Federal Universal Service Fund ("USF") fees. We recognize revenue on a gross basis for USF and related fees. We record these fees as revenue when billed. Net revenue represents gross revenue, net of allowance for doubtful accounts receivable, service credits and service adjustments. Cost of revenue includes network costs that consist of access, transport and termination costs. The majority of the Company's cost of revenue is variable, primarily based upon minutes of use, with transmission and termination costs being the most significant expense. Cost of revenue also includes fees such as Federal USF fees. Such costs are recognized when incurred in connection with the provision of telecommunications services.

Share-Based Compensation—The Company accounts for share-based compensation under ASC No. 718, "Compensation—Stock Compensation" ("ASC 718"), which addresses the accounting for share-based payment transactions whereby an entity receives employee services in exchange for equity instruments, including stock options and restricted stock units. ASC 718 generally requires that share-based compensation be accounted for using a fair-value based method. The Company records share-based compensation expense for all new and unvested stock options that are ultimately expected to vest as the requisite service is rendered. The Company issues new shares of common stock upon the exercise of stock options.

The Company elected to adopt the alternative transition method for calculating the tax effects of share-based compensation. The alternative transition method includes simplified methods to determine the beginning balance of the additional paid in capital ("APIC") pool related to the tax effects of share-based compensation and to determine the subsequent impact on the APIC pool and the statement of cash flows of the tax effects of share-based awards that were fully vested and outstanding upon the adoption of ASC 718.

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

Income (Loss) Per Common Share—Basic income (loss) per common share is computed using the weighted average number of shares of common stock outstanding during the period. Diluted income (loss) per common share is computed using the weighted average number of shares of common stock, adjusted for the dilutive effect of potential common stock and related

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
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income from continuing operations, net of tax. Potential common stock, computed using the treasury stock method or the if-converted method, includes options, restricted stock, restricted stock units and convertible preferred stock.

In periods when the Company generates income, the Company calculates basic earnings per share using the two-class method, pursuant to ASC No. 260, "Earnings Per Share." The two-class method is required as the shares of the Company's Preferred Stock qualify as participating securities, having the right to receive dividends should dividends be declared on common stock. Under this method, earnings for the period are allocated on a pro-rata basis to the common stockholders and to the holders of preferred stock based on the weighted average number of common shares outstanding and the number of shares that could be converted. The Company does not use the two-class method in periods when it generates a loss as the holders of the Preferred Stock do not participate in losses.

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

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, ASU 2014-08, "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 February 2015, the FASB issued ASU 2015-02, "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 2015-01, "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. ACCOUNTS RECEIVABLE AND CONTRACTS IN PROGRESS

Accounts receivable consist of the following (in thousands):

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	March 31, 2015	December 31, 2014
Contract receivables:		
Contracts in progress	\$ 134,457	\$ 112,929
Unbilled retentions	35,213	32,850
Trade receivables	28,667	9,065
Other receivables	216	195
Allowance for doubtful accounts	(2,675)	(2,760)
	\$ 195,878	\$ 152,279

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:

	March 31, 2015	December 31, 2014
Costs incurred on contracts in progress	\$ 576,733	\$ 531,129
Estimated earnings	79,192	73,540
	655,925	604,669
Less progress billings	663,117	618,530
	\$(7,192)	\$(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	24,656	28,098
Billings in excess of costs and recognized earnings on uncompleted contracts	(31,848)	(41,959)
	\$(7,192)	\$(13,861)

4. INVENTORIES

Inventories consist of the following (in thousands):

	March 31, 2015	December 31, 2014
Raw materials	\$ 14,908	\$ 12,956
Work in process	1,918	1,779
Finished goods	236	240
	\$ 17,062	\$ 14,975

5. 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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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, 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, 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 809,043 shares and an increase in our ownership interest to 91%. We intend to execute a short-form merger, which 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, 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. The Company acquired Schuff to diversify its portfolio of holdings and saw Schuff as an opportunity to enter the steel fabrication and erection market.

The table below summarizes the preliminary estimates of 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 \$78.75 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%.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
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The preliminary purchase price allocation is as follows (in thousands):

Cash and cash equivalents	\$(627)
Investments	1,714	
Accounts receivable	130,622	
Costs and recognized earnings in excess of billings on uncompleted contracts	27,126	
Prepaid expenses and other current assets	3,079	
Inventories	14,487	
Assets held for sale	—	
Property and equipment, net	85,662	
Goodwill	24,612	
Trade names	4,478	
Other assets	2,947	
Total assets acquired	294,100	
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	
Liabilities held for sale	—	
Long-term debt	4,375	
Deferred tax liability	7,815	
Other liabilities	604	
Noncontrolling interest	4,365	
Total liabilities assumed	161,703	
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 \$24.6 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 acquired amortizable intangible assets and the related estimated useful lives consist of the following (in thousands):

	Preliminary Estimated Useful Lives	Preliminary Estimated Value May 29, 2014
Trade names	15 years	\$4,478
Total intangible assets		\$4,478

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

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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 three months ended March 31, 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.

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 giving the Company a controlling interest. 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. The Company acquired ANG for its strong growth potential which is in line with the Company's strategy to find investments that can generate high returns and significant cash flow.

The table below summarizes the 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 was determined by an outside appraisal 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

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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.

The acquired amortizable intangible assets and the related estimated useful lives consist of the following (in thousands):

	Useful Lives	Value August 1, 2014
Customer contracts	4 years	\$2,700
Trade names	15 years	6,300
Total intangible assets		\$9,000

GMSL

On September 22, 2014, the Company completed the acquisition of Bridgehouse 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%.

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 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
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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.

The acquired amortizable intangible assets and the related estimated useful lives consist of the following (in thousands):

	Useful Lives	Value September 22, 2014
Customer contracts	15 years	\$8,121
Trade name	3 years	1,137
Developed technology	4 years	1,299
Total intangible assets		\$10,557

Pro Forma Adjusted Summary

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—CONTINUED
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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 March 31, 2014 (As Restated)
Net revenue	\$193,631
Net income (loss) from continuing operations	\$7,368
Net income (loss) from discontinued operations	\$5
Gain (loss) from sale of discontinued operations	\$(784)
Net income (loss) attributable to HC2 Holdings, Inc.	\$6,759
Per share amounts:	
Income (loss) from continuing operations	\$0.50
Income (loss) from discontinued operations	\$—
Gain (loss) from sale of discontinued operations	\$(0.04)
Net income (loss) attributable to HC2	\$0.46

All expenditures incurred in connection with the acquisitions were expensed and are included in selling, general and administrative expenses. The Company recorded revenue of \$126.9 million and net income of \$3.2 million from Schuff for the three months ended March 31, 2015. The Company recorded revenue of \$1.2 million and net loss of \$0.1 million from ANG for the three months ended March 31, 2015. The Company recorded revenue of \$27.0 million and net income of \$1.6 million from GMSL for the three months ended March 31, 2015.

6. INVESTMENTS

As of March 31, 2015, the Company had both current and long-term investments. The current 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 1 approach). The long-term investments are comprised of two types of investments; those accounted for under the equity method of accounting and investments in debt securities.

The long-term investments accounted for under the equity method and cost method of accounting are as follows (in thousands):

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Company	Investment	March 31, 2015 (As Restated)	December 31, 2014
Equity Method			
Global Cable Technology Ltd.	Stock	\$—	\$49
SB Submarine Systems Co., Ltd.	Stock	16,048	13,061
International Cableship Pte., Ltd.	Stock	3,277	2,995
Sembawang Cable Depot Ptd., Ltd.	Stock	1,097	1,031
Huawei Marine Systems Co., Ltd.	Stock	8,946	10,943
Visser Smit Global Marine Partnership	Stock	414	464
Novatel Wireless, Inc.	11,473,799 shares and 1,593,583 warrants	19,719	13,419
Kaneland, LLC	Stock	1,120	1,151
NerVve Technologies, Inc.	885,286 shares of Series A-1 Preferred Stock	5,538	5,538
Benevir Biopharm, Inc.	2,000 shares of Series A-1 Preferred Stock	1,799	1,915
Cost Method			
DTV America Corporation	Convertible Debt	3,000	—
mParticle	Convertible Debt	500	250
		\$61,458	\$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 (being amortized over 15 years), a technology and customer intangible of \$0.8 million (being amortized over 7 years) and goodwill of \$4.2 million.

DTV America Corporation (“DTV”)

During the three months ended March 31, 2015, the Company purchased \$3.0 million of convertible debt.

During the three months ended March 31, 2015, the Company recorded \$2.7 million of equity in net loss from these investments.

7. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill by reporting unit for the three months ended March 31, 2015 are as follows (in thousands):

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	Schuff	GMSL	ICS	ANG	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	—	—	—	—	—
Balance as of March 31, 2015 (As Restated)	\$24,612	\$1,176	\$3,378	\$1,374	\$30,540

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	—	(49)	—	—	—	—	(49)
Amortization	(75)	(86)	(158)	—	—	—	(319)
Acquisition of business	—	—	—	—	—	—	—
Balance as of March 31, 2015	\$4,229	\$862	\$5,879	\$—	\$—	\$—	\$10,970
Customer relationships							
Balance as of December 31, 2014	\$—	\$7,639	\$4,881	\$—	\$—	\$—	\$12,520