HC2 Holdings, Inc.
Form 10-Q
August 11, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 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	**54-1708481**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
460 Herndon Parkway, Suite 150, Herndon, VA	**20170**
(Address of principal executive offices)	**(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 July 31, 2014**
Common Stock, $0.001 par value	23,316,690

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HC2 HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
NET REVENUE	$ 96,586	$ 58,621	$ 139,940	$ 117,410
OPERATING EXPENSES				
Cost of revenue	82,860	55,436	123,967	110,952
Selling, general and administrative	14,032	14,677	20,236	23,456
Depreciation and amortization	344		554	1
(Gain) loss on sale or disposal of assets	447	(1)	367	(6)
Total operating expenses	97,683	70,112	145,124	134,403
LOSS FROM OPERATIONS	(1,097)	(11,491)	(5,184)	(16,993)
INTEREST EXPENSE	(1,012)	(5)	(1,013)	(5)
ACCRETION ON DEBT DISCOUNT	(576)		(576)	
GAIN FROM CONTINGENT VALUE RIGHTS VALUATION		14,792		14,904
INTEREST INCOME AND OTHER EXPENSE, net	1,665	(54)	1,616	(108)
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	437	(215)	403	(251)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(583)	3,027	(4,754)	(2,453)
INCOME TAX EXPENSE	(1,946)	(107)	(1,955)	(218)
INCOME (LOSS) FROM CONTINUING OPERATIONS	(2,529)	2,920	(6,709)	(2,671)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	27	(607)	44	1,772
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax		135,045	(784)	135,045
NET INCOME (LOSS)	(2,502)	137,358	(7,449)	134,146
Less: Net (income) loss attributable to noncontrolling interest	(1,059)		(1,059)	
NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.	(3,561)	137,358	(8,508)	134,146

Less: Preferred stock dividends and accretion		200				200		
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK AND PARTICIPATING PREFERRED STOCKHOLDERS	$	(3,761)	$	137,358	$	(8,708)	$	134,146
BASIC INCOME (LOSS) PER COMMON SHARE:								
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$	(0.22)	$	0.21	$	(0.50)	$	(0.19)
Income (loss) from discontinued operations				(0.04)				0.12
Gain (loss) from sale of discontinued operations				9.66		(0.05)		9.69
NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.	$	(0.22)	$	9.83	$	(0.55)	$	9.62
DILUTED INCOME (LOSS) PER COMMON SHARE:								
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$	(0.22)	$	0.20	$	(0.50)	$	(0.19)
Income (loss) from discontinued operations				(0.04)				0.12
Gain (loss) from sale of discontinued operations				9.35		(0.05)		9.69
NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.	$	(0.22)	$	9.51	$	(0.55)	$	9.62
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING								
Basic		16,905		13,972		15,780		13,941
Diluted		16,905		14,436		15,780		13,941
AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF HC2 HOLDINGS, INC.								
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$	(3,788)	$	2,920	$	(7,968)	$	(2,671)
Income (loss) from discontinued operations		27		(607)		44		1,772
Gain (loss) from sale of discontinued operations				135,045		(784)		135,045
NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.	$	(3,761)	$	137,358	$	(8,708)	$	134,146

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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
NET INCOME (LOSS)	$ (2,502)	$ 137,358	$ (7,449)	$ 134,146
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment	238	(3,240)	(136)	(5,560)
Less: Comprehensive (income) attributable to the noncontrolling interest	(1,059)		(1,059)	
COMPREHENSIVE INCOME ATTRIBUTABLE TO HC2 HOLDINGS, INC.	$ (3,323)	$ 134,118	$ (8,644)	$ 128,586

See notes to condensed consolidated financial statements.

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HC2 HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(UNAUDITED)

	June 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 40,831	$ 8,997
Investments	757	
Accounts receivable (net of allowance for doubtful accounts receivable of $2,089 and $2,476 at June 30, 2014 and December 31, 2013, respectively)	138,043	18,980
Costs and recognized earnings in excess of billings on uncompleted contracts	25,737	
Inventories	16,990	
Prepaid expenses and other current assets	37,826	40,594
Assets held for sale	9,251	6,329
Total current assets	269,435	74,900
PROPERTY, PLANT AND EQUIPMENT Net	83,226	2,962
GOODWILL	27,911	3,378
OTHER INTANGIBLE ASSETS Net	4,615	
OTHER ASSETS	6,568	6,440
TOTAL ASSETS	$ 391,755	$ 87,680
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 51,247	$ 6,964
Accrued interconnection costs	9,815	12,456
Accrued payroll and employee benefits	13,366	1,854
Accrued expenses and other current liabilities	17,715	5,550
Billings in excess of costs and recognized earnings on uncompleted contracts	58,218	
Accrued income taxes		53
Accrued interest	712	
Current portion of long-term debt	36,781	
Liabilities held for sale	4,259	4,823
Total current liabilities	192,113	31,700
LONG-TERM DEBT	49,170	
DEFERRED TAX LIABILITY	7,799	
OTHER LIABILITIES	1,028	1,571

Total liabilities	250,110	33,271
COMMITMENTS AND CONTINGENCIES (See Note 10)		
TEMPORARY EQUITY (See Note 13)		
Preferred stock, $0.001 par value 20,000,000 shares authorized; 30,000 and 0 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	29,075	
STOCKHOLDERS EQUITY:		
Common stock, $0.001 par value 80,000,000 shares authorized; 20,543,595 and 14,257,545 shares issued and 20,511,969 and 14,225,919 shares outstanding at June 30, 2014 and December 31, 2013, respectively	21	14
Additional paid-in capital	119,724	98,598
Retained earnings (accumulated deficit)	(38,281)	(29,773)
Treasury stock, at cost 31,626 shares at June 30, 2014 and December 31, 2013, respectively	(378)	(378)
Accumulated other comprehensive loss	(14,188)	(14,052)
Total HC2 Holdings, Inc. stockholders equity before noncontrolling interest	66,898	54,409
Non-controlling interest	45,672	
Total permanent equity	112,570	54,409
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 391,755	$ 87,680

See notes to condensed consolidated financial statements.

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HC2 HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENT OF PERMANENT EQUITY

(in thousands)

(UNAUDITED)

		Common Stock						
	Total	Shares	Amount	Additional Paid-In Capital	Treasury Stock	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest
Balance as of December 31, 2013	$ 54,409	14,226	$ 14	$ 98,598	$ (378)	$ (29,773)	$ (14,052)	$
Share-based compensation expense	1,006			1,006				
Proceeds from the exercise of warrants and stock options	14,368	4,786	5	14,363				
Taxes paid in lieu of shares issued for share-based compensation	(41)			(41)				
Preferred stock dividend and accretion	(200)			(200)				
Issuance of common stock	6,000	1,500	2	5,998				
Noncontrolling interest in acquired company	44,613							44,613
Net income (loss)	(7,449)					(8,508)		1,059
Foreign currency translation adjustment	(136)						(136)	
Balance as of June 30, 2014	$ 112,570	20,512	$ 21	$ 119,724	$ (378)	$ (38,281)	$ (14,188)	$ 45,672

See notes to condensed consolidated financial statements.

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HC2 HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(UNAUDITED)

	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (7,449)	$ 134,146
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for doubtful accounts receivable	(198)	1,325
Share-based compensation expense	1,006	1,479
Depreciation and amortization	1,038	11,947
Amortization of deferred financing costs	262	
(Gain) loss on sale or disposal of assets	1,760	(135,051)
(Gain) loss on sale of investments	(437)	
Accretion of debt discount	576	64
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	(125)	(134)
Changes in assets and liabilities, net of acquisitions:		
(Increase) decrease in accounts receivable	11,936	(4,700)
(Increase) decrease in costs and recognized earnings in excess of billings on uncompleted contracts	1,389	
(Increase) decrease in inventories	(2,503)	
(Increase) decrease in prepaid expenses and other current assets	6,241	(154)
(Increase) decrease in other assets	929	2,195
Increase (decrease) in accounts payable	6,304	(968)
Increase (decrease) in accrued interconnection costs	(2,896)	(737)
Increase (decrease) in accrued payroll and employee benefits	728	
Increase (decrease) in accrued expenses, other current liabilities and other liabilities, net	(1,069)	(4,441)
Increase (decrease) in billings in excess of costs and recognized earnings on uncompleted contracts	(7,766)	
Increase (decrease) in accrued income taxes	(1,291)	230
Increase (decrease) in accrued interest	634	908
Net cash provided by (used in) operating activities	9,070	(8,951)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(663)	(9,955)

Sale of property and equipment and other assets	80	6
Sale of investments, net	423	
Cash from disposition of business, net of cash disposed		169,569
Cash paid for business acquisitions, net of cash acquired	(85,627)	(397)
Purchase of noncontrolling interest	(5,000)	
Decrease in restricted cash		222
Net cash (used in) provided by investing activities	(90,787)	159,445
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term obligations	123,412	
Principal payments on long-term obligations	(57,703)	(123)
Payment of fees on restructuring of debt	(812)	
Proceeds from sale of common stock, net	6,000	
Proceeds from sale of preferred stock, net	29,075	
Proceeds from the exercise of warrants and stock options	14,368	199
Payment of dividend equivalents	(551)	(828)
Taxes paid in lieu of shares issued for share-based compensation	(41)	(837)
Net cash provided by (used) in financing activities	113,748	(1,589)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(197)	(924)
NET CHANGE IN CASH AND CASH EQUIVALENTS	31,834	147,981
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,997	23,197
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 40,831	$ 171,178
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 194	$ 5,596
Cash paid for taxes	$ 2,311	$ 201
Non-cash investing and financing activities:		
Capital lease additions	$	$ 148

See notes to condensed consolidated financial statements.

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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 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, 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%.

Schuff and its wholly-owned subsidiaries are primarily steel fabrication and erection contractors 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.

We have historically operated 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 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. See Note 19 Subsequent Events.

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

The Company currently has three 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, and Manufacturing which includes Schuff.

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.

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

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 and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. 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. Schuff uses a 4-4-5 week quarterly cycle ending on the Sunday closest to June 30th. The second quarter of 2014 for Schuff ends on June 29, 2014.

Principles of Consolidation The condensed consolidated financial statements include the Company s accounts, 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. The Company has a 70% interest in Schuff and an 80% interest in Genovel. The results of Schuff and Genovel are consolidated with the Company s results based on guidance from the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 810, Consolidation (ASC 810). The remaining interest not owned by the Company is presented as a non-controlling interest component of total equity.

Discontinued Operations In the second quarter of 2013, the Company sold its BLACKIRON Data segment and reiterated its June 2012 commitment to dispose of ICS. In addition, 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 its North America Telecom business (see Note 17 Discontinued Operations). In conjunction with the initial closing of the sale of the North America Telecom business, the Company redeemed its outstanding debt on August 30, 2013. Because the debt was required to be repaid as a result of the sale of North America Telecom, the interest expense and loss on early extinguishment or restructuring of debt of PTGi International Holding, Inc. has been allocated to discontinued operations. In December 2013, based on management s assessment of the requirements under Accounting Standards Codification (ASC) No. 360, Property, Plant and Equipment (ASC 360), it was determined that ICS no longer met the criteria of a held for sale asset. On February 11, 2014, the Board of Directors officially ratified management s December 2013 assessment, and reclassified ICS from held for sale to held and used, effective December 31, 2013.

The Company has applied retrospective adjustments for the three and six months ended June 30, 2013 to reflect the effects of the discontinued operations that occurred during 2013. Accordingly, revenue, costs and expenses of the discontinued operations have been excluded from the respective captions in the condensed consolidated statements of operations. In addition, the Company has applied retrospective adjustments for the three and six months ended

June 30, 2013 to reflect the Company s decision to cease its sale process of ICS. Accordingly, revenue, costs and expenses of ICS are now included in the respective captions in the condensed consolidated statements of operations. The assets and liabilities of the remaining portion of North America Telecom, PTI, have been classified as held for sale assets and liabilities. The held for sale assets and liabilities were removed from the specific line items on the condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013. See Note 17 Discontinued Operations, for further information regarding these transactions.

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

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). The primary component of the Company s foreign currency transaction gain (loss) is due to agreements in place with certain subsidiaries in foreign countries regarding intercompany transactions. The Company anticipates repayment of these transactions in the foreseeable future, and recognizes the realized and unrealized gains or losses on these transactions that result from foreign currency changes in the period in which they occur as foreign currency transaction gain (loss).

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.

Accounts Receivable Accounts receivable is stated at amounts due from customers net of an allowance for doubtful accounts. Our allowance for doubtful accounts considers historical experience, the age of certain receivable balances, credit history, current economic conditions and other factors that may affect the counterparty s ability to pay.

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

Investments Investments in non-wholly-owned companies are generally consolidated or accounted for under the equity method of accounting when the Company has a 20% to 50% ownership interest or exercises significant influence over the venture. 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, the results of the non-wholly-owned company are consolidated herein. All other investments are generally accounted for under the cost method.

Deferred Financing Costs The Company capitalizes certain expenses incurred in connection with its long-term debt and line of credit obligations and amortizes them over the term of the respective debt agreement. The amortization expense of the deferred financing costs is included in interest expense on the condensed consolidated statements of operations. If the Company redeems portions of its long-term debt prior to the maturity date, deferred financing costs are charged to expense on a pro rata basis and is included in loss on early extinguishment or restructuring of debt on the condensed consolidated statements of operations.

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. 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 5 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment. Leasehold improvements are amortized over the lives of the leases or estimated useful lives of the assets, whichever is shorter. 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

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HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

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.

Goodwill and Other Intangible Assets Under ASC No. 350, Intangibles Goodwill and Other (ASC 350), goodwill and indefinite lived intangible assets are not amortized but are reviewed annually for impairment, or more frequently, if impairment indicators arise. Intangible assets that have finite lives are amortized over their estimated useful lives and are subject to the provisions of ASC 360.

Goodwill impairment is tested at least annually (October 1st) or when factors indicate potential impairment using a two-step process that begins with an estimation of the fair value of each reporting unit. Step 1 is a screen for potential impairment pursuant to which the estimated fair value of each reporting unit is compared to its carrying value. The Company estimates the fair values of each reporting unit by an estimation of the discounted cash flows of each of the reporting units based on projected earnings in the future (the income approach). If there is a deficiency (the estimated fair value of a reporting unit is less than its carrying value), a Step 2 test is required.

Step 2 measures the amount of impairment loss, if any, by comparing the implied fair value of the reporting unit s goodwill with its carrying amount. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination is determined; i.e., through an allocation of the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

The Company also may utilize the provisions of Accounting Standards Update (ASU) No. 2011-08, Testing Goodwill for Impairment (ASU 2011-08), which allows the Company to use qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Subsequent to classifying ICS as a discontinued operation in the second quarter of 2012 and its goodwill being classified as a held for sale asset, the reporting units were Canada and US. Subsequent to the sale of North America Telecom (which included the Canada reporting unit) in the third quarter of 2013, the Company had no goodwill attributable to the remaining US reporting unit. The US reporting unit goodwill was attributable to PTI, the unsold portion of North America Telecom, and was included in assets held for sale. As a result of the decision to cease the sale process of ICS as of December 31, 2013, ICS became a reporting unit and its goodwill was reclassified as a held and used asset. With the acquisition of Schuff in May 2014, Schuff became a reporting unit and will be subject to annual testing for impairment on October 1st.

Estimating the fair value of a reporting unit requires various assumptions including projections of future cash flows, perpetual growth rates and discount rates. The assumptions about future cash flows and growth rates are based on the Company s assessment of a number of factors, including the reporting unit s recent performance against budget, performance in the market that the reporting unit serves, and industry and general economic data from third party sources. Discount rate assumptions are based on an assessment of the risk inherent in those future cash flows. Changes to the underlying businesses could affect the future cash flows, which in turn could affect the fair value of the reporting unit.

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

Intangible assets not subject to amortization are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test shall consist of a comparison of the fair value of an intangible asset with its carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss shall be recognized in an amount equal to the excess.

Intangible assets subject to amortization consists of certain trade names. These finite lived intangible assets are amortized based on their estimated useful lives. Such assets are subject to the impairment provisions of ASC 360, wherein impairment is recognized and measured only if there are events and circumstances that indicate that the carrying amount may not be recoverable. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset group. An impairment loss is recorded if after determining that it is not recoverable, the carrying amount exceeds the fair value of the asset.

In addition to the foregoing, the Company reviews its goodwill and intangible assets for possible impairment whenever events or circumstances indicate that the carrying amounts of assets may not be recoverable. The factors that the Company considers important, and which could trigger an impairment review, include, but are not limited to: a more likely than not expectation of selling or disposing all, or a portion, of a reporting unit; a significant decline in the market value of our common stock or debt securities for a sustained period; a material adverse change in economic, financial market, industry or sector trends; a material failure to achieve operating results relative to historical levels or projected future levels; and significant changes in operations or business strategy.

Valuation of Long-lived Assets (Held for Sale) In conjunction with the Company s entry into definitive agreements with respect to the sale of North America Telecom, which was substantially completed on July 31, 2013, the Company classifies the net assets of the remaining portion of North America Telecom, PTI, as held for sale and is required to measure them at the lower of carrying value or fair value less costs to sell. In addition, the Company classifies the fair value of an aircraft, as held for sale.

Prior to December 31, 2013, ICS was included in held for sale assets. Under ASC 360, when a long-lived asset previously classified as held for sale is reclassified as held and used, the assets and liabilities are measured individually at the lower of the (1) carrying value prior to its held for sale classification, adjusted for any depreciation and amortization that would have been recognized and (2) the fair value as of the date of the decision not to sell. The Company determined that the carrying value of the current assets and current liabilities of ICS approximate fair value. With respect to the carrying value of the property and equipment of ICS, the Company first recorded depreciation for the period July 1, 2012 through December 31, 2013 and subsequently impaired any assets that had no future benefit. The resulting adjusted carrying value of ICS was lower than its fair value. The goodwill of ICS was tested for impairment under ASC 350 using a Step 1 and Step 2 approach. Because the fair value of ICS exceeded its adjusted carrying value under Step 1, no further analysis was required.

The Company makes significant assumptions and estimates in the process of determining fair value regarding matters that are inherently uncertain, such as estimating future cash flows, discount rates and growth rates. The resulting cash flows are projected over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While the Company believes that its estimates are reasonable, different assumptions could materially affect the valuation of the net assets. The current year analysis of carrying value and fair value less costs to sell is disclosed in Note 17 Discontinued Operations.

Valuation of Long-lived Assets (Held and Used) The Company reviews long-lived assets whenever events or changes indicate that the carrying amount of an asset may not be recoverable. In making such evaluations, the Company compares the expected undiscounted future cash flows to the carrying amount of the assets. If the total

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of the expected undiscounted future cash flows is less than the carrying amount of the assets, the Company is required to make estimates of the fair value of the long-lived assets in order to calculate the impairment loss equal to the difference between the fair value and carrying value of the assets.

The Company makes significant assumptions and estimates in this process regarding matters that are inherently uncertain, such as determining asset groups and estimating future cash flows, remaining useful lives, discount rates and growth rates. The resulting undiscounted cash flows are projected over an extended period of time, which subjects those assumptions and estimates to an even larger degree of uncertainty. While the Company believes that its estimates are reasonable, different assumptions could materially affect the valuation of the long-lived assets. The Company derives future cash flow estimates from its historical experience and its internal business plans, which include consideration of industry trends, competitive actions, technology changes, regulatory actions, available financial resources for marketing and capital expenditures and changes in its underlying cost structure.

The Company makes assumptions about the remaining useful life of its long-lived assets. The assumptions are based on the average life of its historical capital asset additions and its historical asset purchase trend. In some cases, due to the nature of a particular industry in which the company operates, the Company may assume that technology changes in such industry render all associated assets, including equipment, obsolete with no salvage value after their useful lives. In certain circumstances in which the underlying assets could be leased for an additional period of time or salvaged, the Company includes such estimated cash flows in its estimate.

The estimate of the appropriate discount rate to be used to apply the present value technique in determining fair value was the Company s weighted average cost of capital which is based on the effective rate of its long-term debt obligations at the current market values (for periods during which the Company had long-term debt obligations) as well as the current volatility and trading value of the Company s common stock.

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, accrued interconnection cost disputes, 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 (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

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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 June 30, 2014, Schuff had $27.7 million of unapproved change orders on open projects, for which it has recognized revenues on a percent complete basis. While Schuff has been successful in having the majority of its change orders approved in prior years, there is no guarantee that the majority of unapproved change orders at June 30, 2014 will be approved. Revisions in estimates during the course of 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.

Revenue and Cost Recognition (Telecommunications) 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 are 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.

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 year. 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 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 units, warrants and convertible preferred stock.

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

Newly Adopted Accounting Principles

In July 2013, an update was issued to the Income Taxes Topic No. 740, ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which indicates that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. Early adoption is permitted and this accounting update should be applied prospectively from the beginning of the fiscal year of adoption. On January 1, 2014, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

In March 2013, an update was issued to the Foreign Currency Matters Topic No. 830, ASU 2013-05, Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, which indicates that the entire amount of a cumulative translation adjustment related to an entity s investment in a foreign entity should be released when there has been a (1) sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity; (2) loss of a controlling financial interest in an investment in a foreign entity; or (3) step acquisition for a foreign entity. Early adoption is permitted and this accounting update should be applied prospectively from the beginning of the fiscal year of adoption. On January 1, 2014, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

In February 2013, an update was issued to the Liabilities Topic No. 405, ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date, which indicates reporting entities are required to measure obligations resulting from certain joint and several liability arrangements where the total amount of the obligation is fixed as of the reporting date, as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among co-obligors and any additional amounts the reporting entity expects to pay on behalf of its co-obligors. On January 1, 2014, the Company adopted this update, which did not have a material impact on the condensed consolidated financial statements.

New Accounting Pronouncements

In June 2014, the FASB issued ASU 2014 12, Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force), in response to the EITF consensus on Issue 13-D. The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date

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without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity s satisfaction of a performance target until it becomes probable that the performance target will be met. The ASU does not contain any new disclosure requirements. 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 condensed consolidated financial statements in future periods, although that could change.

In May 2014, the FASB and IASB issued their final standard on revenue from contracts with customers. The standard, issued as ASU 2014-09, Revenue from Contracts with Customers (Topic 606), by the FASB and as IFRS 15 by the IASB, outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue model to contracts within its scope, an entity:

- Identifies the contract(s) with a customer (step 1).
- Identifies the performance obligations in the contract (step 2).
- Determines the transaction price (step 3).
- Allocates the transaction price to the performance obligations in the contract (step 4).
- Recognizes revenue when (or as) the entity satisfies a performance obligation (step 5).

The ASU applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. Certain of the ASU s provisions also apply to transfers of nonfinancial assets, including in-substance nonfinancial assets that are not an output of an entity s ordinary activities (e.g., sales of (1) property, plant, and equipment; (2) real estate; or (3) intangible assets). Existing accounting guidance applicable to these transfers (e.g., ASC 360-20) has been amended or superseded. Compared with current U.S. GAAP, the ASU also requires significantly expanded disclosures about revenue recognition. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized disclosures). We are currently evaluating the impact of our pending adoption of

ASU 2014-09 on our consolidated financial statements and have not yet determined the method by which we will adopt the standard in 2017.

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. The Company s effective date for adoption is January 1, 2015. The Company does not expect this accounting update to have a material effect on its condensed consolidated financial statements in future periods, although that could change.

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3. ACCOUNTS RECEIVABLE AND CONTRACTS IN PROGRESS

Accounts receivable consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Contract receivables:		
Contracts in progress	$ 87,859	$
Unbilled retentions	33,099	
Trade receivables	18,846	21,456
Other receivables	328	
Allowance for doubtful accounts	(2,089)	(2,476)
	$ 138,043	$ 18,980

Most of the Company s contract receivables are due from general contractors operating in Arizona, California, Colorado, Florida, Georgia, Nevada, Texas and Panama.

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:

	June 30, 2014	December 31, 2013
Costs incurred on contracts in progress	$ 561,453	$
Estimated earnings	73,346	
	634,799	
Less progress billings	667,280	
	$ (32,481)	$
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	25,737	
Billings in excess of costs and recognized earnings on uncompleted contracts	(58,218)	

	$ (32,481)	$

4. INVENTORIES

Inventories consist of the following (in thousands):

	June 30, 2014	December 31, 2013
Raw materials	$ 16,502	$
Work in process	298	
Finished goods	190	
	$ 16,990	$

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5. BUSINESS COMBINATIONS

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%. Schuff and its wholly-owned subsidiaries are primarily steel fabrication and erection contractors 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. 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 transaction was 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 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 the following have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The following estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. The table below summarizes the preliminary estimates of fair value of the Schuff assets acquired and liabilities assumed as of the acquisition date. 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 No. 805, Business Combinations (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. The purchase price of Schuff was valued at $31.50 per share which represented both the cash paid by the Company for its 65% interest, and the noncontrolling interest of 35%.

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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
Property and equipment, net	85,662
Goodwill	24,533
Trade names	4,478
Other assets	1,826
Total assets acquired	292,900
Accounts payable	37,621
Accrued payroll and employee benefits	10,468
Accrued expenses and other current liabilities	12,532
Billings in excess of costs and recognized earnings on uncompleted contracts	65,985
Accrued income taxes	1,202
Accrued interest	76
Current portion of long-term debt	15,460
Long-term debt	4,375
Deferred tax liability	7,815
Other liabilities	604
Noncontrolling interest	4,365
Total liabilities assumed	160,503
Enterprise value	132,397
Less fair value of noncontrolling interest	53,647
Purchase price attributable to controlling interest	$ 78,750

The acquisition of Schuff resulted in goodwill of approximately $24.5 million. Goodwill was the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill was recognized as a new stand-alone reporting unit. Goodwill is not amortized and is not deductible for tax purposes.

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

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Pro Forma Adjusted Summary

The results of Schuff s operations have been included in the condensed consolidated financial statements subsequent to the acquisition date. Under the acquisition method of accounting, the total purchase price was allocated to the tangible and intangible assets acquired on the basis of their respective estimated fair values at the date of acquisition. The valuation of the identifiable intangible assets and their useful lives acquired reflects management s estimates.

The following schedule presents unaudited consolidated pro forma results of operations data as if the Schuff acquisition had occurred on January 1, 2013. This information does not purport to be indicative of the actual results that would have occurred if the acquisition had actually been completed on the date indicated, nor is it necessarily indicative of the future operating results or the financial position of the combined company (in thousands, except per share amounts):

	Three Months Ended June 30, 2014	2013
Net revenue	$ 169,184	$ 158,080
Net income (loss) from continuing operations	(1,320)	4,317
Net income (loss) from discontinued operations	4	(567)
Gain (loss) from sale of discontinued operations		135,045
Net income (loss) attributable to HC2 Holdings, Inc.	$ (1,316)	$ 138,795
Basic income (loss) per common share:		
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$ (0.08)	$ 0.31
Income (loss) from discontinued operations		(0.04)
Gain (loss) from sale of discontinued operations		9.67
Net income (loss) attributable to HC2 Holdings, Inc.	$ (0.08)	$ 9.94
Diluted income (loss) per common share:		
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$ (0.08)	$ 0.30
Income (loss) from discontinued operations		(0.04)
Gain (loss) from sale of discontinued operations		9.35
Net income (loss) attributable to HC2 Holdings, Inc.	$ (0.08)	$ 9.61

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	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net revenue	$ 317,681	$ 305,000
Net income (loss) from continuing operations	(3,416)	(516)
Net income (loss) from discontinued operations	12	1,819
Gain (loss) from sale of discontinued operations	(784)	135,045
Net income (loss) attributable to HC2 Holdings, Inc.	$ (4,188)	$ 136,348
Basic income (loss) per common share:		
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$ (0.22)	$ (0.04)
Income (loss) from discontinued operations		0.13
Gain (loss) from sale of discontinued operations	(0.05)	9.69
Net income (loss) attributable to HC2 Holdings, Inc.	$ (0.27)	$ 9.78
Diluted income (loss) per common share:		
Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	$ (0.22)	$ (0.04)
Income (loss) from discontinued operations		0.13
Gain (loss) from sale of discontinued operations	(0.05)	9.69
Net income (loss) attributable to HC2 Holdings, Inc.	$ (0.27)	$ 9.78

All expenditures incurred in connection with the Schuff acquisition were expensed and are included in selling, general and administrative expenses. Transaction costs incurred in connection with the Schuff acquisition were $0.3 million during the three months ended June 30, 2014. The results of operations for Schuff have been included in the condensed consolidated results of operations for the period May 29, 2014 through June 30, 2014. The Company recorded revenue of $54.5 million and net income of $2.5 million from Schuff for the three months ended June 30, 2014.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following (in thousands):

	June 30, 2014	December 31, 2013

Land	$ 18,872	$
Buildings	24,142	
Building and leasehold improvements	3,375	386
Network equipment	5,348	5,303
Machinery and equipment	27,514	
Transportation equipment	720	
Furniture and fixtures	2,049	380
EDP equipment	1,967	
Construction in progress	2,556	
	86,543	6,069
Less accumulated depreciation and amortization	3,317	3,107
	$ 83,226	$ 2,962

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Depreciation expense was $0.8 million and $1.0 million for the three and six months ended June 30, 2014, respectively. Depreciation expense was immaterial for the three and six months ended June 30, 2013 as a result of the property, plant and equipment of ICS being included in assets held for sale.

7. ACCOUNTS PAYABLE

Accounts payable consists of the following (in thousands):

	June 30, 2014	December 31, 2013
Accounts payable	$ 47,557	$ 6,964
Retentions payable	3,690	
	$ 51,247	$ 6,964

8. LONG-TERM OBLIGATIONS

Long-term debt consists of the following (in thousands):

	June 30, 2014	December 31, 2013
Note payable collaterized by the Company s assets, with interest payable quarterly based on alternate base rate or LIBOR plus applicable margin (starting at 7.5% for alternate base rate and 8.5% for LIBOR) and increases by 25 basis points every quarter with principal due in 2015	70,314	
Note payable collaterized by Schuff s real estate, with interest payable monthly at LIBOR plus 4% and principal payable monthly, maturing in 2019	4,948	
Note payable to a bank under a revolving line of credit agreement, collaterized by Schuff s assets, with interest payable monthly at the LIBOR plus 3%, maturing in 2019	10,689	
	85,951	
Less current portion	36,781	
	$ 49,170	$

Aggregate debt maturities are as follows (in thousands):

2014	36,469
2015	45,472
2016	625
2017	625
2018	625
2019	2,135
	$ 85,951

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(UNAUDITED)

Redemption of 10% Notes, 10% Exchange Notes and 13% Notes and Satisfaction and Discharge of Related Indentures

On August 30, 2013, PTGi International Holding, Inc. (f/k/a Primus Telecommunications Holding, Inc. PTHI), consummated the redemption of approximately $125.3 million of its 10% Senior Secured Notes due 2017 (the 10% Notes) and 10% Senior Secured Exchange Notes due 2017 (the 10% Exchange Notes). The $125.3 million consisted of approximately $12.7 million in aggregate principal amount of its 10% Notes at a redemption price equal to 106.50% of the principal amount thereof and $112.6 million in aggregate principal amount of its 10% Exchange Notes at a redemption price equal to 100.00% of the principal amount thereof, plus accrued but unpaid interest to the date of redemption. PTHI thereby satisfied and discharged the indenture governing the 10% Notes and 10% Exchange Notes (the 10% Notes Indenture), as a result of which all of the obligations of PTHI, as the issuer of the 10% Notes and 10% Exchange Notes, and the guarantors of the 10% Notes and 10% Exchange Notes (including HC2) under the 10% Notes Indenture ceased to be of further effect (subject to certain exceptions) and the liens on collateral of PTHI and the guarantors of the 10% Notes and 10% Exchange Notes securing such notes were released. In connection with the August 2013 10% Notes and 10% Exchange Notes redemption, the Company incurred $0.8 million of premiums and other costs and wrote off $0.8 million and $14.8 million of deferred financing costs, respectively, and $0.1 million and $0.5 million of original issue discount, respectively, in the third quarter of 2013. Aside from the applicable redemption price, no other redemption premium was paid for the 10% Exchange Notes.

On August 30, 2013, PTHI and Primus Telecommunications Canada Inc. (PTCI) consummated the redemption of approximately $2.4 million in aggregate principal amount of its 13% Senior Secured Notes due 2016 (the 13% Notes) at a redemption price equal to 106.50% of the principal amount thereof, plus accrued but unpaid interest to the date of redemption. PTHI and PTCI thereby satisfied and discharged the indenture governing the 13% Notes (the 13% Notes Indenture), as a result of which all of the obligations of PTHI and PTCI, as the issuers of the 13% Notes, and the guarantors of the 13% Notes (including HC2) under the 13% Notes Indenture ceased to be of further effect (subject to certain exceptions). Liens on collateral securing the 13% Notes had previously been released in connection with the amendment of the 13% Notes Indenture that became effective on July 7, 2011. In connection with the August 2013 13% Notes redemption, the Company incurred $0.2 million of premiums and other costs and wrote off $3.7 million of deferred financing costs and $0.02 million of original issue discount in the third quarter of 2013.

Credit Facilities

On May 29, 2014, the Company entered into a senior secured credit facility providing for an eighteen month term loan of $80 million relating to its acquisition of Schuff pursuant to a Credit Agreement (the Credit Agreement) by and among HC2, certain subsidiary guarantors of HC2, the lenders party thereto from time to time, Jefferies LLC, as lead arranger, as book manager, as documentation agent for the lenders and as syndication agent for the lenders, and Jefferies Finance LLC, as administrative agent for the lenders and as collateral agent for the secured parties. The Credit Agreement contains certain customary representations, affirmative covenants and negative covenants, including a financial covenant that requires HC2 to maintain a certain collateral coverage ratio and Schuff to maintain a minimum EBITDA and certain limitations on capital expenditures that may be made by each of HC2 and Schuff.

Borrowings under the Credit Agreement will bear interest at a floating rate which can be, at HC2 s option, either (i) an alternate base rate (of not less than 2%) plus an applicable margin or (ii) a LIBOR borrowing rate for a specified interest period (of not less than 1%) plus an applicable margin. The applicable margin for borrowings under the Credit Agreement starts at 7.50% per annum for alternate base rate loans and 8.50% per annum for LIBOR loans and increases by 25 basis points every three months. The Company s obligations under the Credit Agreement are secured by substantially all of the Company s assets, other than the assets of Schuff and its subsidiaries. The Credit Agreement contains various restrictive covenants. At June 30, 2014, the Company was in compliance with these covenants.

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(UNAUDITED)

Schuff has a Credit and Security Agreement (Credit Facility) with Wells Fargo Credit, Inc. (Wells Fargo). On May 5, 2014, Schuff amended its Credit Facility, pursuant to which Wells Fargo extended the maturity date of the Credit Facility to April 30, 2019, lowered the interest rate charged in connection with borrowings under the line of credit and allowed for the issuance of a note payable totaling $5,000,000, collaterized by its real estate (Real Estate Term Advance). The Real Estate Term Advance has a 5 year amortization period requiring monthly principal payments and a final balloon payment at maturity. The Real Estate Term Advance has a floating interest rate of LIBOR plus 4.0% and requires monthly interest payments. The proceeds of the Real Estate Term Advance, in conjunction with cash generated from operations and borrowings under the Credit Facility, were used to pay the remaining balance of the previous real estate term loan issued under the Credit Facility. The Credit Facility is secured by a first priority, perfected security interest in all of Schuff s assets, excluding the real estate, and its present and future subsidiaries and a second priority, perfected security interest in all of Schuff s real estate. The security agreements pursuant to which Schuff s assets are pledged prohibit any further pledge of such assets without the written consent of the bank. The Credit Facility has a floating interest rate of LIBOR plus 3.00% (3.23% at June 29, 2014) and requires monthly interest payments. The Credit Facility contains various restrictive covenants. At June 30, 2014, Schuff was in compliance with these covenants.

SHE has a Line of Credit Agreement (the International LOC) with Banco General, S.A. (Banco General) in Panama pursuant to which Banco General agreed to advance up to a maximum amount of $3,500,000. The line of credit is secured by a first priority, perfected security interest in SHE s property and plant. The interest rate is 5.25% plus 1% of the special interest compensation fund (FECI). The line of credit contains covenants that, among other things, limit SHE s ability to incur additional indebtedness, change its business, merge, consolidate or dissolve and sell, lease, exchange or otherwise dispose of its assets, without prior written notice.

At June 30, 2014, the Company had $86.0 million of borrowings and $3.9 million of outstanding letters of credit issued under its credit facilities. There was $35.4 million available under the Schuff Credit Facility at June 30, 2014. At June 30, 2014, Schuff had no borrowings and no outstanding letters of credit issued under its International LOC. There was $3.5 million available under Schuff s International LOC at June 30, 2014.

9. INCOME TAXES

Income tax expense

Income tax expense was $1.9 million and $0.1 million for the three months ended June 30, 2014 and June 30, 2013, respectively. The increase in tax expense was due primarily to the acquisition of Schuff. Income tax expense was $2.0 million and $0.2 million for the six months ended June 30, 2014 and June 30, 2013, respectively. The increase in tax expense was due primarily to the acquisition of Schuff.

NOL Limitation

As of December 31, 2013, the Company reported operating loss carryforwards available to reduce future United States taxable income in the amount of $241.0 million, of which, $125.0 million was subject to limitation under Section 382 of the Internal Revenue Code (Section 382). In the first quarter of 2014, substantial acquisitions of HC2 stock were reported by new beneficial owners of 5% or more of the Company s common stock on Schedule 13D filings made with the SEC. On May 29, 2014, the Company issued 30,000 shares of Preferred Stock and 1,500,000 shares of common stock related to the acquisition of Schuff. During the second quarter the Company completed a Section 382 review. The conclusions of this review indicate that an ownership change had occurred as of May 29, 2014. The Company s annual Section 382 base limit following the ownership

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

change is estimated to be $2.16 million per year. The Company also determined that it had a net unrealized built in gain (NUBIG) at the time of the change. Pursuant to Internal Revenue Code Section 382(h), the Company is able to increase its Section 382 annual base limitation by an incremental limitation estimated to be a total of $7.1 million in the first five years following the ownership change. On this basis the annual limitation for the first five years is estimated to be $3.58 million, decreasing to $2.16 million for the subsequent 15 years.

Unrecognized Tax Benefits

The Company follows the provision of ASC No. 740-10, Income Taxes which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. The Company is subject to challenge from various taxing authorities relative to certain tax planning strategies, including certain intercompany transactions as well as regulatory taxes. It is expected that the amount of unrecognized tax benefits, reflected in the Company s financial statements, will change in the next twelve months; however, the Company does not expect the change to have a significant impact on the results of operations or the financial position of the Company. During the three and six months ended June 30, 2014, penalties and interest were immaterial.

Examinations

The Company conducts business globally, and as a result, HC2 or one or more of its subsidiaries files income tax returns in the United States federal jurisdiction and various state and foreign jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities throughout the world. The Company is currently under examination in various domestic and foreign tax jurisdictions, which when resolved, are not expected to have a material effect on its condensed consolidated financial statements.

The following table summarizes the open tax years for each major jurisdiction:

Jurisdiction	**Open Tax Years**
United States Federal	2002 2013
United Kingdom	2005 2013
Netherlands	2008 2013

10. COMMITMENTS AND CONTINGENCIES

Future minimum lease payments under non-cancellable operating leases, including continuing obligations of discontinued operations, as of June 30, 2014 are as follows (in thousands):

Year Ending December 31,	**Operating Leases**
2014 (as of June 30, 2014)	$ 1,470
2015	2,456
2016	1,912
2017	1,217
2018	616
Thereafter	1,054
Total long-term obligations	$ 8,725

The Company has contractual obligations to utilize an external vendor for certain customer support functions and to utilize network facilities from certain carriers with terms greater than one year.

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(UNAUDITED)

The Company s rent expense under operating leases was $1.0 million and $0.7 million for the three months ended June 30, 2014 and 2013, respectively. The Company s rent expense under operating leases was $3.3 million and $1.4 million for the six months ended June 30, 2014 and 2013, respectively. The rent expense for the three and six months ended June 30, 2014 includes costs associated with the terminations of facilities leases.

Litigation

In December 2012, two lawsuits were filed against our subsidiaries that involve fabrication work pertaining to a refinery in Whiting, Indiana (the BP Refinery), owned by a subsidiary of British Petroleum (BP). BP brought suit in the United States District Court for the Northern District of Indiana against Carboline Company (Carboline), Trinity Steel Fabricators, Inc. (Trinity), the Company s subsidiary, Schuff Steel Company (SSC), Tecon Services, Inc. (Tecon and Alfred Miller Contracting Company (AMC), asserting contract and warranty claims as to SSC, arising out of allegations that fireproofing applied by others to steel that SSC and Trinity supplied to a modernization project at the BP Refinery was defectively fireproofed. AMC and Tecon filed a Petition for Damages and Declaratory Judgment in the State Court of Louisiana (14th Judicial District Court, Parish of Calcasieu), against Carboline, BP Corporation North America Inc., BP Products North America, Inc., Trinity, the Company s subsidiaries, SSC and Schuff Steel Gulf Coast, Inc. (Gulf Coast) and others parties. AMC and Tecon alleged, among other claims, that the Carboline Pyrocrete® 241 on the BP Refinery project was defective and that Carboline breached product warranties. In April 2014, the lawsuits were resolved in mediation. A confidential settlement agreement was executed on June 16, 2014 and the litigations were formally dismissed in July 2014. The Company s settlement contribution was funded by its insurance carriers.

On February 14, 2014, the Company s subsidiary, SSC, filed suit against dck/FWF, LLC (dck) in the Circuit Court in Sarasota County, Florida for additional work and costs SSC incurred on the University Town Center Project (UTC Project) in Sarasota, Florida. From the beginning of the UTC Project, the owner and general contractor, dck, made numerous design changes that resulted in substantial extra work for SSC. dck directed SSC to proceed and price this additional work. In May 2014, the lawsuit was resolved. Under the terms of a confidential settlement agreement, Schuff received certain additional compensation for extra work performed and costs incurred on the UTC Project.

The Company is subject to other claims and legal proceedings that arise in the ordinary course of business. Such matters are inherently uncertain, and there can be no guarantee that the outcome of any such matter will be decided favorably to the Company or that the resolution of any such matter will not have a material adverse effect upon the Company s business, consolidated financial position, results of operations or cash flow. The Company does not believe that any of such pending claims and legal proceedings will have a material adverse effect on its business, consolidated financial position, results of operations or cash flow.

11. EMPLOYEE RETIREMENT PLANS

HC2 and Schuff each maintain a 401(k) retirement savings plan which covers eligible employees and permits participants to contribute to the plan, subject to Internal Revenue Code restrictions and which features matching contributions.

Certain of Schuff s fabrication and erection workforce are subject to collective bargaining agreements. Schuff contributes to union-sponsored, multi-employer pension plans. Contributions are made in accordance with negotiated labor contracts. The passage of the Multi-Employer Pension Plan Amendments Act of 1980 (the Act) may, under certain circumstances, cause Schuff to become subject to liabilities in excess of contributions made under collective bargaining agreements. Generally, liabilities are contingent upon the termination, withdrawal, or partial withdrawal from the plans. Under the Act, liabilities would be based upon Schuff s proportionate share of each plan s unfunded vested benefits.

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

Effective March 31, 2012, Schuff withdrew from the Steelworkers Pension Trust and incurred an initial withdrawal liability of approximately $2.6 million. During 2013, Schuff negotiated with the Steelworkers Pension Trust and reduced the liability to approximately $2.4 million. Schuff is required to make quarterly payments of approximately $0.2 million through September 1, 2015. The remaining balance of the withdrawal liability at June 30, 2014 was approximately $1.0 million, and is included in other liabilities (current and long-term) in the condensed consolidated balance sheets. Prior to its withdrawal from the Steelworkers Pension Trust, Schuff made contributions of $0.2 million during the year ended December 30, 2012.

Schuff made contributions to the California Ironworkers Field Pension Trust (Field Pension) of $0.9 million during the six months ended June 30, 2014. Schuff s funding policy is to make monthly contributions to the plan. Schuff s employees represent less than 5% of the participants in the Field Pension. As of June 30, 2014, Schuff has not undertaken to terminate, withdraw, or partially withdraw from the Field Pension.

To replace the benefits associated with the Steelworkers Pension Trust upon Schuff s withdrawal from that plan, Schuff agreed to make profit share contributions to a 401(k) defined contribution retirement savings plan (the Union 401k) for union steelworkers. Contributions made to the Union 401k by union steelworkers are 100% vested immediately. Union steelworkers are eligible for the profit share contributions after completing a probationary period (640 hours of work) and are 100% vested three years from the date of hire. Union steelworkers are not required to make contributions to the Union 401k to receive the profit share contributions. Profit share contributions are made for each hour worked by each eligible union steelworker at the following rates: $0.50 per hour from April 1, 2013 to March 31, 2014 and $0.55 per hour from April 1, 2014 and beyond. Profit share contributions amounted to approximately $11,000 for the six months ended June 30, 2014.

12. SHARE-BASED COMPENSATION

On April 11, 2014, HC2 s Board of Directors adopted the HC2 Holdings, Inc. 2014 Omnibus Equity Award Plan (the Omnibus Plan), which was approved by our stockholders at the annual meeting of stockholders held on June 12, 2014. The Omnibus Plan provides that no further awards will be granted pursuant to HC2 s Management Compensation Plan, as amended (the Prior Plan). However, awards that had been previously granted pursuant to the Prior Plan will continue to be subject to and governed by the terms of the Prior Plan. As of June 30, 2014, there were 472,002 shares of HC2 common stock underlying such outstanding awards.

The Compensation Committee (the Committee) of the Board of Directors of HC2 administers HC2 s Omnibus Plan and the Prior Plan and has broad authority to administer, construe and interpret the plans.

The Management Compensation Plan provides for the grant of awards of non-qualified stock options, incentive (qualified) stock options, stock appreciation rights, restricted stock awards, restricted stock units, other stock based awards, performance compensation awards (including cash bonus awards) or any combination of the foregoing (collectively, awards). HC2 typically issues new shares of common stock upon the exercise of stock options, as opposed to using treasury shares. The Omnibus Plan authorizes the issuance of up to 5,000,000 shares of HC2 common stock, subject to adjustment as provided in the Omnibus Plan.

The Company follows guidance which addresses the accounting for share-based payment transactions whereby an entity receives employee services in exchange for either equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. The guidance generally requires that such transactions be accounted for using a fair-value based method and share-based compensation expense be recorded, based on the grant date fair value, estimated in accordance with the guidance, for all new and unvested stock awards that are ultimately expected to vest as the requisite service is rendered.

HC2 HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(UNAUDITED)

There were 1,577,385 and 40,000 options granted during the six months ended June 30, 2014 and 2013, respectively. Of the 1,577,385 options granted during the six months ended June 30, 2014, 1,568,864 of such options were granted to Philip Falcone on May 21, 2014, in connection with his appointment as Chairman, President and Chief Executive Officer of HC2. These options were issued pursuant to a standalone option agreement with Mr. Falcone and not pursuant to the Omnibus Plan. The weighted average fair value at date of grant for options granted during the six months ended June 30, 2014 was $1.39 per option. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions shown as a weighted average for the year:

	Six Months Ended June 30, 2014	2013
Expected option life	6 years	5.75 years
Risk-free interest rate	2.31% 2.73%	1.32%
Expected volatility	36.74% 37.20%	35.55%
Dividend yield	0%	0%

Total share-based compensation expense recognized by the Company during the three months ended June 30, 2014 and 2013 was $0.8 million and $1.0 million, respectively. Total share-based compensation expense recognized by the Company during the six months ended June 30, 2014 and 2013 was $1.0 million and $1.5 million, respectively. Most of HC2 s stock awards vest ratably during the vesting period. The Company recognizes compensation expense for equity awards, reduced by estimated forfeitures, using the straight-line basis.

Restricted Stock Units (RSUs)

A summary of HC2 s RSU activity during the six months ended June 30, 2014 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested December 31, 2013	22,500	$ 13.59
Granted	4,261	$ 3.60
Vested	(20,000)	$ 13.82
Forfeitures		$
Unvested June 30, 2014	6,761	$ 6.67

As of June 30, 2014, the unvested RSUs represented $40,000 of compensation expense that is expected to be recognized over the weighted average remaining vesting period of 1.1 years. The number of unvested RSUs expected to vest is 6,761.

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(UNAUDITED)

Stock Options

A summary of HC2 s stock option activity during the six months ended June 30, 2014 is as follows:

	Shares	Weighted Average Exercise Price
Outstanding December 31, 2013	589,859	$ 3.17
Granted	1,577,385	$ 4.55
Exercised	(230,300)	$ 2.43
Forfeitures	(229,901)	$ 4.47
Outstanding June 30, 2014	1,707,043	$ 4.47
Eligible for exercise	644,799	$ 4.33

The following table summarizes the intrinsic values and remaining contractual terms of HC2 s stock options:

	Intrinsic Value	Weighted Average Remaining Life in Years
Options outstanding June 30, 2014	$ 82,973	9.7
Options exercisable June 30, 2014	$ 77,887	9.5

During the six months ended June 30, 2014, the intrinsic value of the exercised options was $0.3 million. As of June 30, 2014, the Company had 1,062,244 unvested stock options outstanding of which $1.5 million of compensation expense is expected to be recognized over the weighted average remaining vesting period of 1.9 years. The number of unvested stock options expected to vest is 1,062,244 shares, with a weighted average remaining life of 9.9 years, a weighted average exercise price of $4.55, and an intrinsic value that was immaterial.

13. EQUITY

As of June 30, 2014 and December 31, 2013, there were 20,511,969 and 14,225,919 shares of common stock outstanding, respectively. As of June 30, 2014 and December 31, 2013, there were 30,000 and 0 shares of preferred stock outstanding, respectively.

Class A and B Warrants

In July 2009, HC2 issued (A) Class A warrants (the Class A Warrants) to purchase shares of HC2 s common stock, which are divided into three separate series (Class A-1, Class A-2 and Class A-3 Warrants), each of which series consists of 1,000,000 warrants to purchase an original aggregate amount of up to 1,000,000 shares of HC2 common stock; and (B) Class B warrants (the Class B Warrants and, together with the Class A Warrants, the Warrants) to purchase an original aggregate amount of up to 1,500,000 shares of HC2 common stock. In connection with the issuance of the Warrants, HC2 entered into a Warrant Agreement for each of the Class A Warrants and the Class B Warrants, in each case with Broadridge Financial Solutions, Inc. (successor-in-interest to StockTrans, Inc.), as warrant agent. The Warrants have a five-year term and expired on July 1, 2014. As a result of special cash dividends paid in 2012 and 2013, antidilution adjustment provisions were triggered and the original exercise price and the number of shares of HC2 common stock issuable upon exercise were adjusted.

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As of June 30, 2014, the exercise price with respect to (i) the Class A-1 Warrants is $2.79, (ii) the Class A-2 Warrants is $3.77, (iii) the Class A-3 Warrants is $4.67, and (iv) the Class B Warrants is $5.93; while the number of shares of HC2 common stock issuable upon exercise with respect to (i) the Class A-1 Warrants is 903,779, (ii) the Class A-2 Warrants is 3,109,302, (iii) the Class A-3 Warrants is 4,385,696, and (iv) the Class B Warrants is 6,579,322. There were 734,748 Class A-1 Warrants exercised during the six months ended June 30, 2014, which converted to 3,222,816 shares of HC2 s common stock. There were 291,109 Class A-2 Warrants exercised during the six months ended June 30, 2014, which converted to 1,276,912 shares of HC2 s common stock. There were 119 Class A-3 Warrants exercised during the six months ended June 30, 2014, which converted to 522 shares of HC2 s common stock. The warrants expired on July 1, 2014. Prior to expiration, an additional 144,192 Class A-1 Warrants were exercised which converted into 632,473 shares of HC2 s common stock, an additional 489,644 Class A-2 Warrants were exercised which converted into 2,147,729 shares of HC2 s common stock and an additional 5,590 Class A-3 Warrants were exercised which converted into 24,519 shares of HC2 s common stock.

Preferred and Common Stock

On May 29, 2014, HC2 issued 30,000 shares of Preferred Stock and 1,500,000 shares of common stock, the proceeds of which were used to pay for a portion of the purchase price for the acquisition of Schuff. Each share of Preferred Stock is initially convertible at a conversion price of $4.25, which is subject to adjustment for dividends, certain distributions, stock splits, combinations, reclassifications, reorgani