

HC2 Holdings, Inc.
Form 10-Q
November 10, 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 September 30, 2014

OR

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

Commission File No. 001-35210

HC2 HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

<p>Delaware (State or other jurisdiction of incorporation or organization) 460 Herndon Parkway, Suite 150, Herndon, VA (Address of principal executive offices)</p>	<p>54-1708481 (I.R.S. Employer Identification No.) 20170 (Zip Code) (703) 456-4100 (Registrant's telephone number, including area code)</p>
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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):

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 October 31, 2014
Common Stock, \$0.001 par value	23,814,601

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
NET REVENUE	\$ 179,433	\$ 61,077	\$ 319,373	\$ 178,487
OPERATING EXPENSES				
Cost of revenue	158,639	58,752	282,606	169,704
Selling, general and administrative	20,246	6,293	40,482	29,749
Depreciation and amortization	921	1	1,475	2
(Gain) loss on sale or disposal of assets	(448)	(2)	(81)	(8)
Asset impairment expense		146		146
Total operating expenses	179,358	65,190	324,482	199,593
INCOME (LOSS) FROM OPERATIONS	75	(4,113)	(5,109)	(21,106)
INTEREST EXPENSE	(2,103)	(3)	(3,116)	(8)
AMORTIZATION OF DEBT DISCOUNT	(805)		(1,381)	
LOSS ON EARLY EXTINGUISHMENT OR RESTRUCTURING OF DEBT	(6,947)		(6,947)	
GAIN FROM CONTINGENT VALUE RIGHTS VALUATION				14,904
INTEREST INCOME AND OTHER EXPENSE, net	(1,092)	(76)	524	(184)
FOREIGN CURRENCY TRANSACTION GAIN (LOSS)	170	19	573	(232)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND INCOME (LOSS) FROM EQUITY INVESTEES	(10,702)	(4,173)	(15,456)	(6,626)
INCOME (LOSS) FROM EQUITY INVESTEES	(288)		(288)	
INCOME TAX (EXPENSE) BENEFIT	(4,515)	3,308	(6,470)	3,090
INCOME (LOSS) FROM CONTINUING OPERATIONS	(15,505)	(865)	(22,214)	(3,536)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, net of tax	(106)	(21,490)	(62)	(19,718)
GAIN (LOSS) FROM SALE OF DISCONTINUED OPERATIONS, net of tax	663	15,650	(121)	150,695
NET INCOME (LOSS)	(14,948)	(6,705)	(22,397)	127,441
Less: Net (income) loss attributable to noncontrolling interest	(931)		(1,990)	
	(15,879)	(6,705)	(24,387)	127,441

NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.

Less: Preferred stock dividends and accretion	1,004		1,204	
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NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCK AND PARTICIPATING PREFERRED STOCKHOLDERS

	\$ (16,883)	\$ (6,705)	\$ (25,591)	\$ 127,441
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BASIC INCOME (LOSS) PER COMMON SHARE:

Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	\$ (0.75)	\$ (0.06)	\$ (1.38)	\$ (0.25)
Income (loss) from discontinued operations		(1.53)		(1.41)
Gain (loss) from sale of discontinued operations	0.03	1.11	(0.01)	10.77

NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.

	\$ (0.72)	\$ (0.48)	\$ (1.39)	\$ 9.11
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DILUTED INCOME (LOSS) PER COMMON SHARE:

Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	\$ (0.75)	\$ (0.06)	\$ (1.38)	\$ (0.25)
Income (loss) from discontinued operations		(1.53)		(1.41)
Gain (loss) from sale of discontinued operations	0.03	1.11	(0.01)	10.77

NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.

	\$ (0.72)	\$ (0.48)	\$ (1.39)	\$ 9.11
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WEIGHTED AVERAGE COMMON SHARES OUTSTANDING

Basic	23,372	14,077	18,348	13,987
Diluted	23,372	14,077	18,348	13,987

AMOUNTS ATTRIBUTABLE TO COMMON SHAREHOLDERS OF HC2 HOLDINGS, INC.

Income (loss) from continuing operations attributable to HC2 Holdings, Inc.	\$ (17,440)	\$ (865)	\$ (25,408)	\$ (3,536)
Income (loss) from discontinued operations	(106)	(21,490)	(62)	(19,718)
Gain (loss) from sale of discontinued operations	663	15,650	(121)	150,695

NET INCOME (LOSS) ATTRIBUTABLE TO HC2 HOLDINGS, INC.

	\$ (16,883)	\$ (6,705)	\$ (25,591)	\$ 127,441
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See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
NET INCOME (LOSS)	\$ (14,948)	\$ (6,705)	\$ (22,397)	\$ 127,441
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment	(21)	(1,819)	(155)	(7,379)
Unrealized gain (loss) on available-for-sale securities	(1,655)		(1,655)	
Less: Other comprehensive (income) attributable to the noncontrolling interest	(931)		(1,990)	
COMPREHENSIVE INCOME ATTRIBUTABLE TO HC2 HOLDINGS, INC.	\$ (17,555)	\$ (8,524)	\$ (26,197)	\$ 120,062

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)

	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 111,739	\$ 8,997
Short-term investments	3,253	
Accounts receivable (net of allowance for doubtful accounts receivable of \$4,639 and \$2,476 at September 30, 2014 and December 31, 2013, respectively)	170,516	18,980
Costs and recognized earnings in excess of billings on uncompleted contracts	26,604	
Inventories	23,894	
Prepaid expenses and other current assets	23,693	40,594
Assets held for sale	3,865	6,329
Total current assets	363,564	74,900
LONG-TERM INVESTMENTS	47,350	
PROPERTY, PLANT AND EQUIPMENT Net	239,562	2,962
GOODWILL	35,513	3,378
OTHER INTANGIBLE ASSETS Net	21,161	
OTHER ASSETS	22,721	6,440
TOTAL ASSETS	\$ 729,871	\$ 87,680
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 55,811	\$ 6,964
Accrued interconnection costs	9,969	12,456
Accrued payroll and employee benefits	15,385	1,854
Accrued expenses and other current liabilities	49,394	5,550
Billings in excess of costs and recognized earnings on uncompleted contracts	58,403	
Accrued income taxes	302	53
Accrued interest	578	
Current portion of long-term debt	22,408	
Liabilities held for sale		4,823
Total current liabilities	212,250	31,700

LONG-TERM DEBT	290,394	
PENSION LIABILITY	46,172	
DEFERRED TAX LIABILITY	12,363	
OTHER LIABILITIES	1,726	1,571
Total liabilities	562,905	33,271
COMMITMENTS AND CONTINGENCIES (See Note 11)		
TEMPORARY EQUITY (See Note 14)		
Preferred stock, \$0.001 par value 20,000,000 shares authorized; Series A 30,000 and 0 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively; Series A-1 11,000 and 0 shares issued and outstanding at September 30, 2014 and December 31, 2013, respectively	39,524	
STOCKHOLDERS EQUITY:		
Common stock, \$0.001 par value 80,000,000 shares authorized; 23,689,816 and 14,257,545 shares issued and 23,658,190 and 14,225,919 shares outstanding at September 30, 2014 and December 31, 2013, respectively	24	14
Additional paid-in capital	134,748	98,598
Retained earnings (accumulated deficit)	(54,160)	(29,773)
Treasury stock, at cost 31,626 shares at September 30, 2014 and December 31, 2013, respectively	(378)	(378)
Accumulated other comprehensive loss	(15,862)	(14,052)
Total HC2 Holdings, Inc. stockholders equity before noncontrolling interest	64,372	54,409
Non-controlling interest	63,070	
Total permanent equity	127,442	54,409
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 729,871	\$ 87,680

See notes to condensed consolidated financial statements.

Table of Contents**HC2 HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENT OF PERMANENT EQUITY**

(in thousands)

(UNAUDITED)

	Common Stock				Treasury Stock	Retained	Accumulated	Non-controlling Interest
	Total	Shares	Amount	Additional Paid-In Capital		Earnings (Accumulated Deficit)	Other Comprehensive Income (Loss)	
Balance as of December 31, 2013	\$ 54,409	14,226	\$ 14	\$ 98,598	\$ (378)	\$ (29,773)	\$ (14,052)	\$
Share-based compensation expense	1,724			1,724				
Proceeds from the exercise of warrants and stock options	24,348	7,590	8	24,340				
Taxes paid in lieu of shares issued for share-based compensation	(41)			(41)				
Preferred stock dividend and accretion	(1,204)			&n				