HC2 Holdings, Inc.
Form 10-K/A
March 15, 2016

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

FORM 10-K/A
Amendment No. 1

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

For the fiscal year ended December 31, 2014

OR

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

Commission File No. 001-35210

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

Delaware (State or other jurisdiction of incorporation or organization)	54-1708481 (I.R.S. Employer Identification No.)
505 Huntmar Park Drive, Suite 325, Herndon, VA (Address of principal executive offices)	20170 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	NYSE MKT LLC

Securities registered pursuant to Section 12(g) of the Act:
N/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

The aggregate fair market value of the Common Stock held by non-affiliates of the registrant as of June 30, 2014 was approximately $87,890,040, based on the closing sale price of the Common Stock on such date. All executive officers and directors of the registrant and all persons filing a Schedule 13D with the Securities and Exchange Commission in respect of the registrant's common stock as of such date have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

As of February 28, 2015, 23,815,216 shares of Common Stock, par value $0.001, were outstanding.

Documents Incorporated by Reference:

Portions of the definitive Proxy Statement to be delivered to Stockholders in connection with the Annual Meeting of Stockholders are incorporated by reference into Part III.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A ("Amendment No. 1") amends the Annual Report on Form 10-K of HC2 Holdings, Inc. (the “Company”) for the fiscal year ended December 31, 2014, as originally filed with the Securities and Exchange Commission (the “SEC”) on March 16, 2015 (the “Original Filing”).

As previously disclosed in Form 8-K filed on February 22, 2016 and described in more detail in Note 1 of the Notes to Consolidated Financial Statements, on February 21, 2016, we determined that we had improperly accounted for certain items. As a result of the aggregate effect of these errors and other individually immaterial errors that had been waived in prior periods, the Audit Committee of our Board of Directors determined that our financial statements for the fiscal year ended December 31, 2014 and the fiscal quarters ended June 30, 2014, September 30, 2014, March 31, 2015, June 30, 2015 and September 30, 2015 could no longer be relied upon and should be restated. To correct the errors described above and in Note 1 of the Notes to Consolidated Financial Statements, we are amending the Original Filing to provide restated consolidated financial statements as of and for the fiscal year ended December 31, 2014 and to amend related disclosures.

As previously disclosed, we identified an error in accounting for income taxes, including the income tax provision and related tax assets and liabilities in the consolidated statement of operations for the year ended December 31, 2014. The Company subsequently recorded an out-of-period adjustment to tax benefit of $2.3 million in its quarterly period ended September 30, 2015 and is correcting that error and other known out-of-period errors that had been waived in prior periods in its restated consolidated financial statements for the fiscal year ended December 31, 2014.

Subsequently, management identified a material weakness in the Company’s internal controls over the valuation of a business acquisition and the application of U.S. GAAP to complex and/or non-routine transactions. In particular, the Company determined that it incorrectly accounted for the acquisition of American Natural Gas, completed on August 1, 2014 as required by FASB Accounting Standards Codification 805. Further, the Company determined that it incorrectly classified funds released from escrow totaling $29.2 million as cash flows from operating activities rather than cash flows from investing activities in its Consolidated Statements of Cash Flows for the fiscal year ended December 31, 2014. The funds related to the 2013 sales of the North American Telecom and BLACKIRON Data business units.
As a result of material weaknesses leading to the errors described above, management has concluded that the Company’s internal control over financial reporting and its disclosure controls and procedures were not effective as of the ends of each of the applicable restatement periods. The effects of the material weaknesses are discussed in more detail in Item 9A, Controls and Procedures.

For ease of reference, this Amendment No. 1 amends and restates the Original Filing in its entirety. Revisions to the Original Filing have been made to the following sections:

- Part I - Item 1 - Business
- Part I - Item 1A - Risk Factors
- Part I - Item 2 - Properties
- Part I - Item 6 - Selected Financial Data
- Part II - Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations
- Part II - Item 8 - Financial Statements and Supplementary Data
- Part II - Item 9A - Controls and Procedures
- Part IV - Exhibits

In addition, the Company's principal executive officer and principal financial officer have provided new certifications in connection with this Amendment No.1 (Exhibits 31.1, 31.2, and 32), as well as various exhibits related to XBRL.

Except as described above, no other amendments have been made to the Original Filing. This Amendment continues to speak as of the date of the Original Filing, and the Company has not updated the disclosure contained herein to reflect events that have occurred since the date of the Original Filing, other than with respect to the items listed above. Accordingly, this Amendment should be read in conjunction with the Company's other filings made with the SEC subsequent to the filing of the Original Filing, including any amendments to those filings.

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PART I

ITEM 1. BUSINESS

Unless the context otherwise requires, in this Annual Report on Form 10-K, “HC2,” means HC2 Holdings, Inc. and the “Company,” “we” and “our” mean HC2 together with its consolidated subsidiaries.

General

We are a diversified holding company with six reportable operating segments based on management’s organization of the enterprise—Manufacturing, Marine Services, Utilities, Telecommunications, Life Sciences and Other, which includes operations that do not meet the separately reportable segment thresholds. We expect to continue to focus on acquiring and investing in businesses with attractive assets that we consider to be undervalued or fairly valued and growing our acquired businesses.

On May 29, 2014, we 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. Schuff repurchased a portion of its outstanding common stock in June 2014, which had the effect of increasing the Company’s ownership interest to 70%. During the fourth quarter, the final results of a tender offer for all outstanding shares of Schuff were announced and various open-market purchases were made, which resulted in the acquisition of 809,043 shares and an increase in our ownership interest to 91%. We intend to execute a short-form merger, which will increase our ownership of Schuff shares to 100%. Schuff and its wholly-owned subsidiaries primarily operate as integrated fabricators and erectors of structural steel and heavy steel plates with headquarters in Phoenix, Arizona and operations in Arizona, Georgia, Texas, Kansas and California. Schuff’s construction projects are primarily in the aforementioned states. In addition, Schuff has construction projects in select international markets, primarily Panama.

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

On September 22, 2014, the Company completed the acquisition of Bridgehouse Marine Limited, the parent holding company of Global Marine Systems Limited (“GMSL”). The purchase price reflects an enterprise value of approximately $260 million, including assumed indebtedness. GMSL is a leading provider of engineering and underwater services on submarine cables. In conjunction with the acquisition, approximately 3% of the Company’s interest in GMSL was purchased by a group of individuals, leaving the Company’s controlling interest as of December 31, 2014 at approximately 97%.

On September 3, 2014, the Company invested $14.2 million for a combination of common stock, warrants and convertible preferred stock of Novatel Wireless, Inc. (“Novatel”). The Company received (i) 7,363,334 shares of common stock at a stock price of $1.75 per share, (ii) 5-year warrants to purchase an additional 4,117,647 shares of common stock at an exercise price of $2.26 per share and (iii) 87,196 shares of Series C Convertible Preferred Stock at a price of $17.50 per share. In October 2014, the 87,196 shares of Series C Convertible Preferred Stock were converted into 871,960 shares of common stock. The Company’s ownership of common stock and warrants represents beneficial ownership of approximately 25% of Novatel’s common stock.

The Company has made other investments in start-up companies that operate in the life sciences, technology and interactive gaming industries.

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

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

Overall Business Strategy

We are evaluating several strategic and business alternatives, which may include the following: acquiring assets or businesses unrelated to our current or historical operations, operating, growing or acquiring additional assets or businesses related to our current or historical operations, or winding down or selling our existing operations. As part of any acquisition strategy, we may raise capital in the form of debt or equity securities (including preferred stock) or a combination thereof. We have broad discretion in selecting a business strategy for the Company. If we elect to pursue an acquisition, we have broad discretion in identifying and selecting both the industries and the possible acquisition or business combination opportunities. We have not identified a specific industry to focus on and there can be no assurance that we will, or we will be able to, identify or successfully complete any such transactions. In connection with evaluating these strategic and business alternatives, we may at any time be engaged in ongoing discussions with respect to possible acquisitions, business combinations and debt or equity securities offerings of widely varying sizes. There can be no assurance that any of these discussions will result in a definitive agreement and if they do, what the terms or timing of any agreement would be. While we search for additional acquisition opportunities, we manage a portion of our available cash and acquire interests in possible acquisition targets through our wholly-owned subsidiary, HC2 Investment Securities, Inc., a Delaware corporation.

Our Operating Subsidiaries

Schuff

Schuff is a fully integrated fabricator and erector of structural steel and heavy steel plate. Schuff fabricates and erects structural steel for commercial and industrial construction projects such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas, shopping malls, hospitals, dams, bridges, mines and power plants. Schuff also fabricates trusses and girders and specializes in the fabrication and erection of large-diameter water pipe, water storage tanks, pollution control scrubbers, tunnel liners, pressure vessels, strainers, filters, separators and a variety of customized products. Schuff's operations make up our Manufacturing segment. Schuff's results of operations are affected primarily by (i) the level of commercial and industrial construction in its principal markets; (ii) its ability to win project contracts; (iii) the number and complexity of project changes requested by customers or general contractors; (iv) its success in utilizing its resources at or near full capacity; and (v) its ability to complete contracts on a timely and cost-effective basis. The level of commercial and industrial construction activity is related to several factors, including local, regional and national economic conditions, interest rates, availability of financing, and the supply of existing facilities relative to demand.

Strategy

Schuff's objective is to achieve and maintain a leading position in the geographic regions and project segments that it serves by providing timely, high-quality services to its customers. Schuff is pursuing this objective with a strategy comprised of the following components:

- Pursue Large, Value-Added Design-Build Projects. Schuff's unique ability to offer design-build services, a full range of steel construction services and project management capabilities makes it a preferred partner for complex, design-build fabrication projects in the geographic regions it serves. This capability often enables Schuff to bid against fewer competitors in a less traditional, more negotiated selection process on these projects, thereby offering the potential for higher margins while providing overall cost savings and project flexibility and efficiencies to its customers;
- Expand and Diversify Revenue Base. Schuff is seeking to expand and diversify its revenue base by leveraging its long-term relationships with national and multi-national construction and engineering firms, national and regional accounts and other customers. Schuff also intends to continue to grow its operations by targeting smaller projects that carry higher margins and less risk of large margin fluctuations. Schuff believes that continuing to diversify its revenue base by completing smaller projects—such as low-rise office buildings, healthcare facilities and other commercial and industrial structures—could reduce the impact of periodic adverse market or economic conditions as well as potential

margin slippage that may accompany larger projects;

- Emphasize Innovative Services. Schuff focuses its design-build, engineering, detailing, fabrication and erection expertise on larger, more complex projects, where it typically experiences less competition and more advantageous negotiated contract opportunities. Schuff has extensive experience in providing services requiring complex fabrication and erection techniques and other unusual project needs, such as specialized transportation, steel treatment or specialty coating applications. These service capabilities have enabled Schuff to address such design-sensitive projects as stadiums and uniquely designed hotels and casinos; and

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- Diversify Customer and Product Base. Although Schuff seeks to garner a leading share of the geographic and product markets in which it competes, it also seeks to diversify its construction projects across a wide range of commercial, industrial, and specialty projects, including projects related to the oil & gas and alternative energy industries.

Services and/or Products and Customers

Schuff operates primarily within the over $550 billion non-residential construction industry, which serves a diverse set of end markets. As shown on the chart below, while non-residential construction has shown only a small rebound since 2011, industry experts expect that it will follow the already significant rebound in residential construction spending. Despite only a modest increase in non-residential construction spending, Schuff's backlog has already rebounded to pre-economic crisis levels.

Schuff consists of three business units spread across diverse steel markets: Schuff Steel Company (steel fabrication and erection), Schuff Steel Management Company (management of smaller projects, leveraging subcontractors) and Aitken, Inc. (manufacturing of equipment for the oil & gas industry). For the fiscal year ended December 28, 2014, Schuff Steel's revenues of $485 million account for 92% of Schuff's total revenue. Schuff Steel Management Company's revenues of $29 million account for 5% of Schuff's total revenue. Aitken, Inc.'s revenues of $5 million account for 1% of Schuff's total revenue. Schuff also provides fabricated steel to Canada and other select countries, including Panama, where Schuff owns 49% of Panama-based Schuff Hopsa Engineering, Inc., an engineering design, steel fabrication and erection company, Empresas Hopsa, S.A. Schuff Hopsa Engineering, Inc.'s revenues of $13 million account for 3% of Schuff's total revenue. During 2014, Schuff had revenues from a customer that totaled approximately 12% of its revenues. The revenue amounts above include activity prior to HC2's acquisition. Please refer to the "Results of Operations" discussion within Item 7. for further discussion surrounding pro forma revenue.

Schuff's size gives it production capacity to complete large-scale, demanding projects, with typical utilization per facility ranging from 50%-88% and a sales pipeline that includes over $800 million in potential revenue generation. Schuff has benefitted from being one of the largest players in a market that is highly fragmented across many small firms. Schuff outperformed many of its competitors in the recent downturn. Due to its strong financial position and continued access to bonding facilities, whereas many competitors were forced to close their doors.

Schuff ensures a highly efficient and cost-effective construction process by focusing on partnering with all project participants and utilizing its extensive design-build and design-assist capabilities with its clients. Additionally, Schuff enjoys in-house fabrication and erection combined with access to a network of subcontractors for smaller projects in order to provide high quality solutions for its customers. Schuff offers a range of services across a broad geography through its 10 fabrication shops and 10 sales and management facilities located in the United States and Panama. Schuff operates with minimal bonding requirements, with the current balance less than 13% of backlog, and bonding is reduced as projects are billed, rather than upon completion. Schuff has limited raw material cost exposure by securing fixed prices from mills at contract bid, and utilizing its purchasing power as the largest domestic buyer of wide flange beam in the United States.

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Products

Schuff Steel offers a variety of services to its customers which it believes enhances our ability to obtain and successfully complete projects. These services fall into six distinct groups: design-assist/design-build, preconstruction design & budgeting, steel management, fabrication, erection, and Building Information Modeling ("BIM"). Schuff primarily operates in the southwestern and southeastern United States geographic markets.

- Design-Assist/Design-Build: Using the latest technology and BIM, Schuff works to provide clients with cost-effective steel designs. The end result is turnkey structural steel solutions for its diverse client base.
- Preconstruction Design & Budgeting: Clients who contact Schuff in the early stages of planning can receive a Schuff-performed analysis of the structure and cost breakdown. Both of these tools allow clients to accurately plan and budget for any upcoming project.
- Steel Management: Using Schuff's proprietary Schuff Steel Integrated Management System ("SSIMS"), Schuff can track any piece of steel and instantly know its location. Additionally, Schuff can help clients manage steel subcontracts, providing clients with savings on raw steel purchases and giving them access to variety of Schuff-approved subcontractors.
- Fabrication: Through its nine fabrication shops in California, Arizona, Texas, Kansas and Georgia, Schuff has one of the highest fabrication capacities in America. Schuff has over 1.3 million square feet of steel under roof and a maximum annual fabrication capacity of approximately 300,000 tons.
- Erection: Named the nation's top steel erector in 2007, 2008, 2011, 2013 and 2014 by Engineering News-Record, Schuff knows how to add value to its project through safe and efficient erection of steel structures.
- BIM: Schuff is experienced in using BIM on every project to manage its role efficiently. Additionally Schuff's use of SSIMS in conjunction with BIM allows for real-time reporting of a project's progress and information-rich model review.

Schuff Steel Management Company provides turn-key steel fabrication and erection services with an expertise in project management. Using these skills, Schuff Steel Management Company uses its relationships with reliable subcontractors and erectors, along with state-of-the-art management systems, to deliver excellence to clients.

Schuff's third product line, Aitken, is a manufacturer of equipment used in the oil, gas, petrochemical and pipeline industries. Aitken supplies the following products both nationwide and internationally.

- Strainers: Temporary Cone and Basket Strainers, Tee Type Srainers, Vertical and Horizontal Permanent Line Strainers, Fabricated Duplex Strainers
- Measurement Equipment: Orifice Meter Tubes, Orifice Plates, Orifice Flanges, Seal Pots, Flow Nozzles, Venturi Tubes, Low Loss Tubes, Straightening Vanes
- Major Products: Spectacle Blinds, Paddle Blinds, Drip Rings, Bleed Rings, and Test Inserts, ASME Vessels, Launchers, Pipe Spools

Customers

Schuff offers its integrated steel construction services primarily to general contractors and engineering firms that specialize in a wide variety of projects, including the following: hotels and casinos, office complexes, hospitals, manufacturing plants, shopping malls and centers, sports stadiums, power plants, restaurants, convention facilities, entertainment complexes, airports, schools, churches and warehouses. During 2014, Schuff had revenues from a customer that totaled approximately 12% of its revenues. During 2013, Schuff did not have revenues from any one customer in excess of 10% of its revenues.

Suppliers

Schuff currently purchases a majority of its steel from various foreign and domestic steel producers but is not dependent on any one producer.

Sales and Distributions

Schuff offers its services primarily to general contractors and engineering firms that focus on a wide array of projects such as airports, malls, power plants, stadiums, shopping malls and centers. Schuff obtains these contracts through competitive bidding or negotiation, which generally are fixed-price, cost-plus, or unit cost arrangements. Bidding and negotiations require Schuff to estimate the costs of the project up front with most projects typically lasting from one to 12 months.

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Marketing

Sales managers lead Schuff's domestic sales and marketing efforts. Each sales manager is responsible primarily for estimating, sales, and marketing efforts in defined geographic areas. In addition, Schuff employs full-time project estimators and chief estimators. Schuff's sales representatives maintain relationships with general contractors, architects, engineers, and other potential sources of business to determine potential new projects under consideration. Schuff generates future project reports to track the weekly progress of new opportunities. Schuff's sales efforts are further supported by most of its executive officers and engineering personnel, who have substantial experience in the design, fabrication, and erection of structural steel and heavy steel plate.

Schuff competes for new project opportunities through its relationships and interaction with its active and prospective customer base, which provides valuable current market information and sales opportunities. In addition, Schuff is contacted by governmental agencies in connection with public construction projects, and by large private-sector project owners, general contractors and engineering firms in connection with new building projects such as plants, warehouse and distribution centers, and other industrial and commercial facilities.

Upon selection of projects to bid or price, Schuff's estimating division reviews and prepares projected costs of shop, field, detail drawing preparation and crane hours, steel and other raw materials, and other costs. On bid projects, a formal bid is prepared detailing the specific services and materials Schuff plans to provide, payment terms and project completion timelines. Upon acceptance, Schuff's bid proposal is finalized in a definitive contract.

Backlog

Schuff's backlog was $357.0 million ($305.3 million under contracts or purchase orders and $51.7 million under letters of intent) at December 31, 2014. Schuff's backlog increases as contract commitments, letters of intent, notices to proceed and purchase orders are obtained, decreases as revenues are recognized and increases or decreases to reflect modifications in the work to be performed under the contracts, notices to proceed, letters of intent or purchase orders. Schuff's backlog can be significantly affected by the receipt, or loss, of individual contracts. Approximately $203.1 million, representing 56.9% of Schuff's backlog at December 31, 2014, was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these large contracts or other commitments are terminated or their scope reduced, Schuff's backlog could decrease substantially. At December 29, 2013, its backlog was $426.9 million ($370.1 million under contracts or purchase orders and $56.8 million under letters of intent). Backlog at December 30, 2012 was $186.2 million ($167.3 million under contracts or purchase orders and $18.9 million under letters of intent).

Competition

The principal geographic and product markets Schuff serves are highly competitive, and this intense competition is expected to continue. Schuff competes with other contractors for commercial, industrial and specialty projects on a local, regional, or national basis. Continued service within these markets requires substantial resources and capital investment in equipment, technology and skilled personnel, and certain of Schuff's competitors have financial and operating resources greater than Schuff. Competition also places downward pressure on Schuff's contract prices and margins. Among the principal competitive factors within the industry are price, timeliness of completion of projects, quality, reputation, and the desire of customers to utilize specific contractors with whom they have favorable relationships and prior experience. While Schuff believes that it maintains a competitive advantage with respect to these factors, failure to continue to do so or to meet other competitive challenges could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Employees

As of December 28, 2014, Schuff employed approximately 1,470 people across the country. The number of persons Schuff employs on an hourly basis fluctuates directly in relation to the amount of business Schuff performs. Certain of the fabrication and erection personnel Schuff employs are represented by the United Steelworkers of America, the International Association of Bridge, Structural, Ornamental and Reinforcing Iron Workers Union, the International Union of Operating Engineers, and the International Brotherhood of Boilermakers, Iron Shipbuilders, Blacksmiths, Forgers and Helpers Union. Schuff is a party to several separate collective bargaining agreements with these unions in certain of its current operating regions, which expire (if not renewed) at various times in the future. Approximately

25% of Schuff's employees are covered under various collective bargaining agreements. Most of Schuff's collective bargaining agreements are subject to automatic annual or other renewal unless either party elects to terminate the agreement on the scheduled expiration date. Approximately 11% of Schuff's employees are covered under a collective bargaining agreement that expires within the next year. Schuff considers its relationship with its employees to be good and, other than sporadic and unauthorized work stoppages of an

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immaterial nature, none of which have been related to its own labor relations, Schuff has not experienced a work stoppage or other labor disturbance.

Schuff strategically utilizes third-party fabrication and erection subcontractors on many of its projects and also subcontracts detailing services from time to time when economically beneficial and/or Schuff requires additional capacity for such services. Schuff's inability to engage fabrication, erection and detailing subcontractors on terms favorable to it could limit its ability to complete projects in a timely manner or compete for new projects and could have a material adverse effect on its operations.

Legal, Environmental and Insurance

In December 2012, British Petroleum ("BP") brought suit against Carboline Company ("Carboline"), Trinity Steel Fabricators, Inc. ("Trinity"), the Schuff's subsidiary, Schuff Steel Company ("SSC"), Tecon Services, Inc. ("Tecon") and Alfred Miller Contracting Company ("AMC") in regards to fabrication work on a BP refinery in Indiana. BP alleged that the Schuff subsidiary and others defectively fireproofed certain pieces of steel used in a modernization project at the refinery. AMC and Tecon filed a Petition for Damages and Declaratory Judgment against Caroline, BP Corporation North America Inc., BP Products North America, Trinity, SSC, Schuff Steel-Gulf Coast, Inc., and others. In April 2014, the lawsuits were successfully mediated and a confidential settlement agreement was executed on June 16, 2014. Both cases were dismissed in July 2014.

Schuff 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 Schuff or that the resolution of any such matter will not have a material adverse effect upon Schuff or the Company's business, consolidated financial position, results of operations or cash flows. Neither Schuff nor the Company believes 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 flows.

Schuff's operations and properties are affected by numerous federal, state and local environmental protection laws and regulations, such as those governing discharges to air and water and the handling and disposal of solid and hazardous wastes. Compliance with these laws and regulations has become increasingly stringent, complex and costly. There can be no assurance that such laws and regulations or their interpretation will not change in a manner that could materially and adversely affect Schuff's operations. Certain environmental laws, such as the CERCLA and its state law counterparts, provide for strict and joint and several liability for investigation and remediation of spills and other releases of toxic and hazardous substances. These laws may apply to conditions at properties currently or formerly owned or operated by an entity or its predecessors, as well as to conditions at properties at which wastes or other contamination attributable to an entity or its predecessors come to be located. Although Schuff has not incurred any material environmental related liability in the past and believes that it is in material compliance with environmental laws, there can be no assurance that Schuff, or entities for which it may be responsible, will not incur such liability in connection with the investigation and remediation of facilities it currently operates (or formerly owned or operated) or other locations in a manner that could materially and adversely affect its operations.

Schuff maintains commercial general liability insurance in the amount of $1.0 million per occurrence and $2.0 million in the aggregate. In addition, Schuff maintains umbrella coverage limits of $25.0 million. Schuff also maintains insurance against property damage caused by fire, flood, explosion and similar catastrophic events that may result in physical damage or destruction of its facilities and property. All policies are subject to various deductibles and coverage limitations. Although Schuff's management believes that its insurance is adequate for its present needs, there can be no assurance that it will be able to maintain adequate insurance at premium rates that management considers commercially reasonable, nor can there be any assurance that such coverage will be adequate to cover all claims that may arise.

GMSL

GMSL is a global offshore engineering company focused on specialist subsea services across three market sectors, namely telecommunications, oil & gas and offshore power. GMSL's operations make up our Marine Services segment.

Strategy Overview

GMSL is a leading independent operator in the subsea cable installation and maintenance markets. GMSL aims to maintain its leading market position in the telecommunications maintenance segment and will look for opportunities to grow the installation activities in the three main segments of the market and installation in the telecommunications sector while capitalizing on high market growth in the oil & gas sector through expansion of its installation and maintenance services in that sector. In order to accomplish these goals GMSL has crafted a comprehensive strategy which includes:

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- Re-entering the offshore power market in November 2015 after expiration of the Prysmian non-compete;
- Diversify the business by pursuing growth within GMSL's three market segments (telecommunications, oil & gas, and offshore power) which will strengthen GMSL's quality of earnings and reduce exposure to one particular market segment;
- Retain and build its leading position in telecommunications maintenance and installation;
- Exploit high market growth in oil & gas, first in installation, then in maintenance;
- Work to develop convergence of GMSL's maintenance services across all three market segments; and
- Encourage overall consolidation in the wider subsea cables market by pursuing targeted mergers & acquisitions, joint ventures or partnerships, allowing a larger operating platform and benefitting from increased operating efficiencies.

GMSL has a highly experienced management team with a proven track record and has demonstrated the ability to enter new markets and generate returns for investors. The senior management team has a combined 70 years of experience within the telecommunications, oil & gas, and offshore power segments.

GMSL's three sectors of focus for providing subsea cable services are telecommunications installation and maintenance, oil & gas installation and offshore power installation.

Telecommunications: GMSL provides maintenance and installation to its global telecommunications customers. GMSL has a long, well-established reputation in the telecommunications sector and is considered a leading provider of subsea services in the industry. It operates in a mature market and is the largest independent provider in the maintenance segment. GMSL provides vessels on standby to repair fiber optic telecommunications cables in defined geographic zones, and its maintenance business is provided through contracts with consortia of up to 60 global telecommunications providers. Typically, GMSL enters into five to seven year contracts to provide maintenance to cable systems that are located in specific geographical areas. These contracts provide highly stable, predictable and recurring revenue and earnings. Additionally, GMSL provides installation of cable systems including route planning, mapping, route engineering, cable-laying, trenching and burial. GMSL's installation business is project-based with contracts typically lasting one to five months.

Oil & Gas: GMSL provides installation, maintenance and repair of fiber optic communication and power infrastructure to offshore platforms, through which it realizes higher margins due to implementation complexity. Its primary activities include providing power from shore, enabling fiber-based communication between platforms and shore-based systems and installing permanent reservoir monitoring systems which allow customers to monitor subsea seismic data. The majority of GMSL's oil & gas business is contracted on a project-by-project basis with major energy producers or Tier I engineering, procurement and construction (EPC) contractors.

Offshore Power: GMSL's former subsidiary Global Marine Energy ("GME") was established in 2011 as the vehicle for GMSL's significant offshore power activities, which include installing inter-array power cables for use in offshore wind farms and in the offshore wind market. GME was sold to Prysmian UK Group Limited ("Prysmian") in November 2012 in anticipation of a temporary downturn in the offshore power market and the onerous contracting regime present at the time. As part of this sale, GMSL entered into a non-compete agreement regarding offshore power operations with Prysmian lasting until November 2015 but retained certain key personnel and assets to ensure that GMSL maintained its core capabilities and experience in the offshore power sector. Following entry into this non-compete agreement, GMSL continued to install offshore power cables on behalf of Prysmian with chartered vessels through June 2014. GMSL expects to re-enter the high growth, high margin offshore power market upon the expiration of the non-compete agreement. Given that renewable energy production is predicted to grow over the next decade, with a substantial proportion of that energy to be harvested offshore, GMSL is well positioned to capitalize on this anticipated growth of the offshore alternative energy market, with a strong presence in Northern Europe and Asia, especially China.

Services and/or Products and Customers

GMSL is a pioneer in the subsea cable industry having laid the first subsea cable in the 1850s and installed the first transatlantic fiber optic cable (TAT-8) in 1988. Over the last 30 years, GMSL estimates that it has installed approximately 300,000 kilometers of cable, which management believes represents almost a quarter of all the fiber optic cable on the global seabed today. GMSL is positioned as a global independent market leader in subsea cable installation and maintenance services and derives approximately 50% of its total revenue from long term, recurring maintenance contracts. GMSL has a strong financial position with a modest level of debt (consisting only of vessel financing), has delivered substantial growth during recent years, generates a substantial amount of cash and serves a diverse mix of global, blue-chip clients with excellent credit profiles. It has started a new phase of growth through applying its capabilities to the rapidly expanding oil & gas and offshore

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power sectors (the latter of which GMSL anticipates re-entering in November 2015, as discussed below) while retaining a leading position in the telecommunications sector. As a result of this growth, GMSL has major offices in the United Kingdom and Singapore, and has additional presence in Bermuda, Canada, China, Indonesia and the Philippines. See Item IA—"Risk Factors—Risks Related to GMSL—GMSL derives a significant amount of its revenues from sales to customers in non-U.S. countries, which pose additional risks including economic, political and other uncertainties" for a description of risks attendant to such foreign operations. GMSL operates one of the largest specialist cable laying fleets in the world, consisting of seven vessels (five owned and two operated through long-term leases).

Growth Opportunities

Today, GMSL is positioned as a leading global independent market leader in subsea cable installation and maintenance services. GMSL has a strong financial position, has delivered substantial profit growth during recent years, and generates a substantial amount of cash. It has started a new phase of growth through transferring its capabilities to the rapidly expanding demand in the oil & gas and offshore power sectors (the latter of which GMSL anticipates re-entering in November 2015, as discussed above) while retaining its leading position in the telecommunications sector. GMSL believes it has installed more offshore wind inter-array cables than any other provider and, following the sale of GME in November 2012, remains well positioned as one of the leading installers of cables in the offshore power sector.

Following the sale of GME, GMSL has remained one of the leading installers of cables in relation to supporting the growth in the offshore power market and GMSL's track record in these types of projects includes the following:

- Experimental UK farm, Blythe, for Shell
- London Array Ltd: inter-array cables for London Array project
- RWE: 4 export cables for Gwynt y Mor project
- C-Power: inter-array cables for Thornton Bank project (Belgium)
- Dong Energy: Inter-array cables for Horns Rev project, Denmark (three phases)
- Vattenfall: 3 export cables for Kentish Flats project
- EON/Shell: power and fiber optic cables for Blythe project
- GT1: largest German wind farm to date

Fleet Overview

GMSL operates one of the largest, specialist cable laying fleets consisting of 7 vessels (5 owned, 2 operated through long-term leases). The average age of GMSL's owned and operated fleet is 22 years, which is less than the industry average. Each vessel is equipped with specialist inspection, burial, and survey equipment. By providing oil & gas, offshore power, and telecommunications installation as well as telecommunications maintenance, GMSL can retain vessels throughout their asset lives by cascading them through different uses as they age. This provides a significant competitive advantage as GMSL can retain vessels for longer and reduce the frequency of capital expenditure requirements with a longer amortization period. GMSL's fleet has an estimated fair value of approximately $140 million (with approximately $75.7 million of associated vessel financing as of December 31, 2014) and are all manned by GMSL employees or long-term contractors.

Fleet Details

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Vessels	Ownership	Lease Expiry	Joined Fleet	Age	Flag	Base Port	Market Value ($m)
Maintenance - GMSL							
Wave Venture	GMSL	N/A	Purchased -1999	31	UK	Victoria, Canada	$ 5
Pacific Guardian	GMSL	N/A	New Build -1984	30	UK	Curacao	9
Wave Sentinel	GMSL	N/A	Purchased - 1999	18	UK	Portland, UK	16
Cable Retriever	ICPL	Jan-23	New Build - 1997	15	Singapore	Batangas, Philippines	N/A
Installation – GMSL							
Sovereign	GMSL	N/A	New Build - 1991	22	UK	Portland, UK	32
Innovator (2)	DYVI Cableship AS	Mar-18	New Build - 1995	18	UK	Portland, UK	N/A
Networker	GMSL	N/A	New Build - 1999	14	Panama	Batam, Indonesia	7
						Total Value	$ 69
SBSS Joint Venture Vessels (49% share)							
Installation							
CS Fu Hai	SBSS	N/A	Purchased - 2003	14	Panama	Shanghai, China	$ 38
Bold Maverick	SBSS	N/A	Purchased - 2012	13	Panama	Shanghai, China	38
CS Fu An	SBSS	N/A	Purchased - 2000	32	Panama	Shanghai, China	9
						Total Value	$ 85
Owned Vessel Market Value							
GMSL Vessels							$ 69
SBSS Joint Venture Vessels							42
						Total Value	$ 111

Product Research & Development

Drawing on its long experience in the subsea cable market, over the years GMSL has provided many important innovations to the subsea cable market. One such innovation was GEOCABLE, GMSL's proprietary Geographical Information System (GIS), which GMSL believes to be the largest cable database in the market and was developed specifically to meet the needs of the cable industry. GEOCABLE is an important tool to any vendor planning subsea cable installation and GMSL sells data from GEOCABLE to third-party customers.

In addition to GEOCABLE, GMSL also developed and owns intellectual property associated with the Universal Joint in a consortium with other industry participants, a product which easily and effectively links together cables from different manufacturers. The Universal Joint has gained such prevalence in the industry that new fiber optic cables may be certified to the Universal Joint, which is a service provided by GMSL among others, so that the subsea cable manufacturer can ensure compatibility of their subsea cable with other existing subsea cables and the standardized equipment on board cable repair vessels. GMSL benefits from its sales of the Universal Joint, and proceeds from

GMSL sponsored training of jointing skills, but GMSL also enjoys the industry leadership and brand enhancement that come with creation of an industry leading product.

Intellectual Property

GMSL is looking to protect its interests in intellectual property and closely monitors industry changes, including GEOCABLE and Universal Joint.

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Customers

GMSL's customer base is made up primarily of blue-chip companies. Within the two kinds of services provided by GMSL, maintenance and repair and installation, contract length varies. Maintenance and repair contracts tend to be long-term upon inception (5-7 years), with a relatively high level of expected renewal rates and the customer is typically a consortium of different cable owners such as national, regional and international telecommunication companies and others who have an owner in the subsea cables covered by the maintenance contract. GMSL charges a standing fee for cost of vessels in port plus margin, paid in advance proportionally by each member, and an additional daily call out fee for repairs paid by the specific cable owner(s). All four maintenance vessels are engaged on GMSL's three current long term telecommunications maintenance contracts with ACMA, SEAIOCMA, and NAZ. Installation contracts tend to be much shorter term (30-150 days) and the counter party tends to be a single client. Contracts are typically bid for on a fixed-sum basis with an initial upfront payment plus subsequent installments providing working capital support. Due to the added complexity of cable installation as opposed to maintenance, GMSL generally realizes higher margins on its installation contracts, especially in the oil & gas and offshore power sectors.

Sales and Distributions

In the telecommunications cable market, cable maintenance is most often accomplished by zone maintenance contracts in which a consortium of telecommunications operators or cable owners contract with a maintenance provider like GMSL, over a long-term period of around five to six years. GMSL has three cable maintenance agreements and these are a steady, high-quality source of income for GMSL. These maintenance contracts are usually re-awarded to incumbent providers unless there are significant performance issues which ultimately may mean that GMSL likely need not expend extra capital on retaining these contracts. GMSL constantly has a focused sales plan to build relationships with current and potential customers at regional and corporate offices and readily leverages Huawei Technologies' large sales organization.

Marketing

In the oil & gas sector, GMSL has a focused sales and marketing plan to create relationships with major players in the oil & gas industries. In particular and depending on the prevailing market conditions, GMSL hopes to use its expertise in installing PRM systems to forge new contacts with both the end users of PRM services, such as oil majors, and the PRM suppliers themselves. Additionally GMSL hopes to pursue a strategy of specialization in installing the small power and fiber optic cables that its competitors in the oil & gas and offshore power sectors find unprofitable and lack installation experience in.

In order to aid these plans for expansion, GMSL plans on increasing its fleet of maintenance and installation vessels anywhere from two to four vessels over the next several years. In particular, GMSL intends to acquire an installation vessel in 2015, to replace one of its older maintenance vessels in 2016, and purchase both a new remotely operated vehicle ("ROV") in 2017 as well as a new build vessel in 2018, as funded 75/25 through vessel-financing.

Competition

GMSL is one of the few companies that provide subsea cable installation and maintenance services on a worldwide basis. GMSL competes for contracts with companies that have worldwide operations, as well as numerous others operating locally in various areas. There are a number of players, mainly Asian based, who focus primarily on their countries of origin. Competition for GMSL's services historically has been based on vessel availability, location of or ability to deploy these vessels and associated subsea equipment, quality of service and price. The relative importance of these factors can vary depending on the customer or specific project and also over time based on the prevailing market conditions. The ability to develop, train and retain skilled engineering personnel is also an important competitive factor in GMSL's markets.

GMSL believes that its ability to provide a wide range of subsea cable installation and maintenance services in the telecommunications, oil & gas and offshore power sectors on a worldwide basis enables it to compete effectively in the industry in which it operates. However, in some cases involving projects that require less sophisticated vessel and subsea equipment, smaller companies may be able to bid for contracts at prices uneconomical to GMSL. In addition, GMSL's competitors generally have the capability to move their vessels to where GMSL operates from other locations with relative ease, which may impact competition in the markets it serves.

Management and Employees

As of December 31, 2014, GMSL employed 365 people. GMSL’s employees are not formally represented by any labor union or other trade organization although the majority of the seafarers are members of an established trade union. GMSL

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considers relations with its employees to be satisfactory and it has never experienced a work stoppage or strike.
GMSL regularly uses independent consultants and contractors to perform various professional services in different areas of the business, including in its installation and fleet operations and in certain administrative functions. Dick Fagerstal is a 3% interest holder, chairman and chief executive officer of Global Marine Holdings LLC, the parent holding company of Bridgehouse Marine Limited, and he is executive chairman of Global Marine Systems Limited. Mr. Fagerstal has served in an executive capacity for companies operating in various industries including energy, marine services, and their related infrastructure.

Legal, Environmental and Insurance

GMSL is from time to time subject to 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 GMSL or that the resolution of any such matter will not have a material adverse effect upon GMSL's business, consolidated financial position, results of operations or cash flows. GMSL 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 flows.

GMSL has various kinds of insurance coverage including protection and indemnity, hull and machinery, war risk, and property insurances, directors and officers liability insurance, contract warranty insurance for the maintenance contracts, and all other necessary corporate insurances. GMSL's liability is capped and insured under each of its installation contracts.

Other Businesses and Investments

Outside of Schuff and GMSL, which collectively represented $383.6 million, or 70.1% of our net revenue for 2014, we currently have controlling equity positions in several other businesses.

- In our Telecommunications segment, International Carrier Services, Inc. ("ICS") is our 100% owned telecommunications business, through which we operate direct routes and provide premium voice communication services for national telecom operators, mobile operators, wholesale carriers, prepaid operators, VoIP service operators and Internet service providers.
- In our Life Sciences segment, we operate Pansend, LLC, which has an 80% interest in Genovel Orthopedics, Inc., which seeks to develop products to treat early osteoarthritis of the knee, and a 61% interest in GemDerm Aesthetics, Inc., which develops skin lightening technology.
- In our Utilities segment, we invested $15.5 million for a 51% stake in American Natural Gas ("ANG"), a compressed natural gas fueling company.

In the interactive gaming sector, we acquired a 100% ownership interest in DMi, Inc., which owns licenses to create and distribute NASCAR® video games, for $6.0 million. We also have made several recent noncontrolling investments, including $14.2 million for an approximate 25% ownership interest in Novatel, a publicly listed company that designs and develops wireless communications technologies, and $5.6 million for a 40% interest in NerVve Technologies, Inc. ("NerVve Technologies"), an information technology company.

See Note 17—"Operating Segment and Related Information," for additional detail regarding our operating segments.

Recent Divestitures

Historically, we operated a network of direct routes and provided premium voice communication services for national telecommunications, operators, mobile operators, wholesale carriers, prepaid operators, Voice over Internet Protocol ("VoIP") service operators and Internet service providers ("ISPs"). We classified these services into two categories: Traditional Services and International Carrier Services ("ICS"). We provided these services from our two business units: North America Telecom ("NAT") and ICS.

In the second quarter of 2013, we entered into a definitive purchase agreement to sell our NAT business for approximately $129 million. On July 31, 2013, we completed the initial closing of the sale of substantially all of our NAT business. The closing of the sale of the remainder of our NAT business, consisting of our subsidiary Primus Telecommunications, Inc. ("PTI"), was deferred pending the receipt of regulatory approvals. On July 31, 2014, having received the necessary regulatory approvals for PTI, we completed the divestiture of the remainder of our NAT business. We recorded a $13.8 million gain from the sale of the NAT business for the year ended December 31, 2013.

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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 completed the sale of our BLACKIRON Data business for approximately $195.6 million (CAD$200.0 million). We recorded a $135.0 million gain from the sale of BLACKIRON Data during the second quarter of 2013.

Employees

As of December 31, 2014, we had approximately 1,886 employees, 1,870 of which were full-time employees. We consider our relations with our employees to be satisfactory.

Environmental Regulation

Our operations and properties, including those of Schuff and GMSL, are subject to a wide variety of increasingly complex and stringent foreign, federal, state and local environmental laws and regulations, including those concerning emissions into the air, discharge into waterways, generation, storage, handling, treatment and disposal of waste materials and health and safety of employees. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Some environmental laws provide for strict, joint and several liability for remediation of spills and other releases of hazardous substances, as well as damage to natural resources. In addition, companies may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. These laws and regulations may also expose us to liability for the conduct of or conditions caused by others, or for our acts that were in compliance with all applicable laws at the time such acts were performed.

Compliance with federal, state and local provisions regulating the discharge of materials into the environment or relating to the protection of the environment has not had a material impact on our capital expenditures, earnings or competitive position. Based on our experience to date, we do not currently anticipate any material adverse effect on our business or consolidated financial position, results of operations or cash flows as a result of future compliance with existing environmental laws and regulations. However, future events, such as changes in existing laws and regulations or their interpretation, more vigorous enforcement policies of regulatory agencies, or stricter or different interpretations of existing laws and regulations, may require additional expenditures by us, which may be material. Accordingly, there can be no assurance that we will not incur significant environmental compliance costs in the future.

Corporate Information

The Company’s executive offices are located at 460 Herndon Parkway, Suite 150, Herndon, VA 20170. The Company’s telephone number is (703) 456-4100. Our Internet address is www.hc2.com. We make available free of charge through our Internet website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission (the “SEC”). The information on our website is not a part of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

A wide range of factors could materially affect our overall performance, the performance of particular businesses and our results of operations, and therefore, an investment in us is subject to risks and uncertainties. In addition to factors affecting specific business operations and the financial results of those operations identified elsewhere in this Annual Report on Form 10-K, the following factors, among others, could adversely affect our operations. While each risk is described separately below, some of these risks are interrelated and it is possible that certain risks could trigger the applicability of other risks described below. Also, the risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us, or that are currently deemed immaterial, could also potentially impair our overall performance, the performance of particular businesses and our results of operations.

Risks Related to Our Businesses

We have experienced significant historical, and may experience significant future, operating losses and net losses, which may hinder our ability to meet working capital requirements or service our indebtedness, and we cannot assure you that we will generate sufficient cash flow from operations to meet such requirements or service our indebtedness. We cannot assure you that we will recognize net income in future periods. If we cannot generate net income or sufficient operating profitability, we may not be able to meet our working capital requirements or service our indebtedness. Our ability to

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generate sufficient cash for our operations will depend upon, among other things, our future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, many of which are beyond our control. We recognized a net loss of $14.4 million in 2014, net income of $111.6 million in 2013 (after taking into account $148.8 million of gain from the sale of discontinued operations, net of tax) and net income of $27.9 million in 2012 (after taking into account $94.3 million of gain from the sale of discontinued operations, net of tax), and have incurred net losses in prior periods.

We cannot assure you that our business will generate cash flow from operations in an amount sufficient to fund our liquidity needs. If our cash flows and capital resources are insufficient, we may be forced to reduce or delay capital expenditures, sell assets and/or seek additional capital or financings. Our ability to obtain financings will depend on the condition of the capital markets and our financial condition at such time. Any financings could be at high interest rates and may require us to comply with covenants, which could further restrict our business operations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our obligations. We may not be able to consummate those dispositions for fair market value or at all. Furthermore, any proceeds that we could realize from any such disposition may not be adequate to meet our obligations. We recognized cash flows from operating activities of $32.8 million in 2014, $(20.3) million in 2013 and $23.6 million in 2012.

We may not be able to fully utilize our net operating loss and other tax carryforwards.

Our ability to utilize our net operating loss ("NOL") and other tax carryforward amounts to reduce taxable income in future years may be limited for various reasons, including if future taxable income is insufficient to recognize the full benefit of such NOL carryforward amounts prior to their expiration. Additionally, our ability to fully utilize these U.S. tax assets can also be adversely affected by "ownership changes" within the meaning of Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"). An ownership change is generally defined as a greater than 50% increase in equity ownership by "5% shareholders" (as that term is defined for purposes of Sections 382 and 383 of the Code) in any three year period.

In 2014, substantial acquisitions of our common stock were reported by new beneficial owners on Schedule 13D filings made with the SEC and we issued shares of our Preferred Stock, which are convertible into a substantial number of shares of our common stock. During the second quarter of 2014, we completed a Section 382 review. The conclusions of this review indicated that an ownership change had occurred as of May 29, 2014. Our annual Section 382 base limit following the ownership change is estimated to be $2.3 million per year. As of December 31, 2014, we had an estimated U.S. NOL carryforward in the amount of $62.7 million.

We are dependent on certain key personnel, the loss of which may adversely affect our financial condition or results of operations.

HC2 and its operating subsidiaries depend, and will continue to depend in the foreseeable future, on the services of HC2's and each such subsidiary's executive management team and other key personnel, which may consist of a relatively small number of individuals that possess sales, marketing, engineering, financial and other skills that are critical to the operation of our businesses. The ability to retain officers and key senior employees is important to our success and future growth. Competition for these professionals can be intense, and we may not be able to retain and motivate our existing management and key personnel, and continue to compensate such individuals competitively. The unexpected loss of the services of one or more of these individuals could have a detrimental effect on the financial condition or results of operations of our businesses, and could hinder the ability of such businesses to effectively compete in the various industries in which we operate.

We may not be able to attract additional skilled personnel.

We may not be able to attract new personnel, including management and technical and sales personnel, necessary for future growth or to replace lost personnel. Competition for the best personnel in our businesses can be intense. Our financial condition and results of operations could be materially adversely affected if we are unable to attract qualified personnel.

Because we face significant competition for acquisition and business opportunities, including from numerous companies with a business plan similar to ours, it may be difficult for us to fully execute our business strategy. Additionally, our subsidiaries also operate in highly competitive industries, limiting their ability to gain or maintain their positions in their respective industries.

We expect to encounter intense competition for acquisition and business opportunities from both strategic investors and other entities having a business objective similar to ours, such as private investors (which may be individuals or investment partnerships), blank check companies, and other entities, domestic and international, competing for the type of businesses that we may intend to acquire. Many of these competitors possess greater technical, human and other resources, or more local industry knowledge, or greater access to capital, than we do and our financial resources will be relatively limited when contrasted with those of many of these competitors. These factors may place us at a competitive disadvantage in successfully completing future acquisitions and investments.

In addition, while we believe that there are numerous target businesses that we could potentially acquire or invest in, our ability to compete with respect to the acquisition of certain target businesses that are sizable will be limited by our available financial resources. We may need to obtain additional financing in order to consummate future acquisitions and investment opportunities and cannot assure you that any additional financing will be available to us on acceptable terms, or at all. This inherent competitive limitation gives others an advantage in pursuing acquisition and investment opportunities.

Furthermore, our subsidiaries also face competition from both traditional and new market entrants that may adversely affect them as well, as discussed below in the risk factors related to Schuff, GMSL and our ICS operations.

Future acquisitions or business opportunities could involve unknown risks that could harm our business and adversely affect our financial condition and results of operations.

We are a diversified holding company that owns interests in a number of different businesses. We have in the past, and may in the future, acquire businesses or make investments, directly or indirectly through our subsidiaries, that involve unknown risks, some of which will be particular to the industry in which the investment or acquisition targets operate, including risks in industries with which we are not familiar or experienced. Although we intend to conduct appropriate business, financial and legal due diligence in connection with the evaluation of future investment or acquisition opportunities, there can be no assurance our due diligence investigations will identify every matter that could have a material adverse effect on us. We may be unable to adequately address the financial, legal and operational risks raised by such investments or acquisitions, especially if we are unfamiliar with the relevant industry. The realization of any unknown risks could expose us to unanticipated costs and liabilities and prevent or limit us from realizing the projected benefits of the investments or acquisitions, which could adversely affect our financial condition and liquidity. In addition, our financial condition, results of operations and the ability to service our debt may be adversely impacted depending on the specific risks applicable to any business we invest in or acquire and our ability to address those risks.

We will increase our size in the future, and may experience difficulties in managing growth.

We have adopted a business strategy that contemplates that we will expand our operations, including in connection with or in anticipation of any future acquisitions or other business opportunities, and as a result we are required to increase our level of corporate functions, which may include hiring additional personnel to perform such functions and enhancing our information technology systems. Any future growth may increase our corporate operating costs and expenses and impose significant added responsibilities on members of our management, including the need to identify, recruit, maintain and integrate additional employees and implement enhanced informational technology systems. Our future financial performance and our ability to compete effectively will depend, in part, on our ability to manage any future growth effectively.

Our officers, directors, stockholders and their respective affiliates may have a pecuniary interest in certain transactions in which we are involved, and may also compete with us.

While we have adopted a code of ethics applicable to our officers and directors reasonably designed to promote the ethical handling of actual or apparent conflicts of interest between personal and professional relationships, we have not adopted a policy that expressly prohibits our directors, officers, stockholders or affiliates from having a direct or indirect pecuniary interest in any transaction to which we are a party or have an interest. Nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. We have in the past engaged in transactions in which such persons have an interest and, subject to the terms of any applicable covenants in financing arrangements or other agreements we may enter into from time to time, may in the future enter into additional transactions in which such persons have an interest. In addition, such parties may have an interest in certain transactions such as strategic partnerships or joint ventures in which we are involved, and may also compete with us.

In the course of their other business activities, certain of our current and future directors and officers may become aware of business and acquisition opportunities that may be appropriate for presentation to our Company as well as the other entities with which they are affiliated. Such directors and officers may therefore not present otherwise attractive business or acquisition opportunities to us.

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Certain of our current and future directors and officers may become aware of business and acquisition opportunities which may be appropriate for presentation to us as well as the other entities with which they are or may be affiliated. Due to those directors' and officers' affiliations with other entities, they may have obligations to present potential business and acquisition opportunities to those entities, which could cause conflicts of interest. Moreover, in accordance with Delaware law, our certificate of incorporation contains a provision that renounces our expectation to certain corporate opportunities that are presented to our current and future directors that serve in capacities with other entities. Accordingly, our directors and officers may not present otherwise attractive business or acquisition opportunities to us.

We may suffer adverse consequences if we are deemed an investment company and we may incur significant costs to avoid investment company status.

We have not held, and do not hold, ourselves out as an investment company and do not believe we are an investment company under the Investment Company Act of 1940. If the SEC or a court were to disagree with us, we could be required to register as an investment company. This would subject us to disclosure and accounting rules geared toward investment, rather than operating, companies; limiting our ability to borrow money, issue options, issue multiple classes of stock and debt, and engage in transactions with affiliates; and requiring us to undertake significant costs and expenses to meet the disclosure and regulatory requirements to which we would be subject as a registered investment company.

From time to time we may be subject to litigation for which we may be unable to accurately assess our level of exposure and which, if adversely determined, may have a material adverse effect on our financial condition and results of operations.

We are or may become party to legal proceedings that are considered to be either ordinary or routine litigation incidental to our current or prior businesses or not material to our financial position or results of operations. We also are or may become party to legal proceedings with the potential to be material to our financial position or results of operations. There can be no assurance that we will prevail in any litigation in which we may become involved, or that our insurance coverage will be adequate to cover any potential losses. To the extent that we sustain losses from any pending litigation which are not reserved or otherwise provided for or insured against, our business, results of operations, cash flows and/or financial condition could be materially adversely affected. See Item 3, "Legal Proceedings."

Further deterioration of global economic conditions could adversely affect our business.

The global economy and capital and credit markets have experienced exceptional turmoil and upheaval over the past several years. Many major economies worldwide entered significant economic recessions beginning in 2007 and continue to experience economic weakness, with the potential for another economic downturn to occur. Ongoing concerns about the systemic impact of potential long-term and widespread recession and potentially prolonged economic recovery, volatile energy costs, geopolitical issues, the availability, cost and terms of credit, consumer and business confidence and demand, and substantially increased unemployment rates have all contributed to increased market volatility and diminished expectations for many established and emerging economies, including those in which we operate. These general economic conditions could have a material adverse effect on our cash flow from operations, results of operations and overall financial condition.

The availability, cost and terms of credit also have been and may continue to be adversely affected by illiquid markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers over the past several years, and a corresponding slowdown in global infrastructure spending. Continued uncertainty in the U.S. and international markets and economies and prolonged stagnation in business and consumer spending may adversely affect our liquidity and financial condition, and the liquidity and financial condition of our customers, including our ability to access capital markets and obtain capital lease financing to meet liquidity needs.

Fluctuations in the exchange rate of the U.S. dollar and in foreign currencies may adversely impact our results of operations and financial condition.

We conduct various operations outside the United States, primarily in the United Kingdom. As a result, we face exposure to movements in currency exchange rates. These exposures include but are not limited to:

- re-measurement gains and losses from changes in the value of foreign denominated assets and liabilities;
- translation gains and losses on foreign subsidiary financial results that are translated into U.S. dollars, our functional currency, upon consolidation; and

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- planning risk related to changes in exchange rates between the time we prepare our annual and quarterly forecasts and when actual results occur.

Depending on the size of the exposures and the relative movements of exchange rates, if we choose to hedge or fail to hedge effectively our exposure, we could experience a material adverse effect on results of operations and financial condition. As we have seen in some recent periods, in the event of volatility in exchange rates, these exposures can increase, and the impact on our results of operations and financial condition can be more pronounced. In addition, the current environment and the increasingly global nature of our business have made hedging these exposures more complex and costly.

We are subject to risks associated with our international operations.

We operate in international markets, and may in the future consummate additional investments in or acquisitions of foreign businesses. Our international operations are subject to a number of risks, including:

- political conditions and events, including embargoes;
- restrictive actions by U.S. and foreign governments;
- the imposition of withholding or other taxes on foreign income, tariffs or restrictions on foreign trade and investment;
- adverse tax consequences;
- limitations on repatriation of earnings;
- currency exchange controls and import/export quotas;
- nationalization, expropriation, asset seizure, blockades and blacklisting;
- limitations in the availability, amount or terms of insurance coverage;
- loss of contract rights and inability to adequately enforce contracts;
- political instability, war and civil disturbances or other risks that may limit or disrupt markets, such as terrorist attacks, piracy and kidnapping;
- outbreaks of pandemic diseases or fear of such outbreaks;
- fluctuations in currency exchange rates, hard currency shortages and controls on currency exchange that affect demand for our services and our profitability;
- potential noncompliance with a wide variety of laws and regulations, such as the U.S. Foreign Corrupt Practices Act of 1977 (the “FCPA”), and similar non-U.S. laws and regulations, including the U.K. Bribery Act 2010;
- labor strikes;
- changes in general economic and political conditions;
- adverse changes in foreign laws or regulatory requirements; and
- different liability standards and legal systems that may be less developed and less predictable than those in the United States.

If we are unable to adequately address these risks, we could lose our ability to operate in certain international markets and our business, financial condition or results of operations could be materially adversely affected.

The U.S. Departments of Justice, Commerce, Treasury and other agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against companies for violations of export controls, the FCPA, and other federal statutes, sanctions and regulations, including those established by the Office of Foreign Assets Control (“OFAC”) and, increasingly, similar or more restrictive foreign laws, rules and regulations. By virtue of these laws and regulations, and under laws and regulations in other jurisdictions, we may be obliged to limit our business activities, we may incur costs for compliance programs and we may be subject to enforcement actions or penalties for noncompliance. In recent years, U.S. and foreign governments have increased their oversight and enforcement activities with respect to these laws and we expect the relevant agencies to continue to increase these activities. A violation of these laws, sanctions or regulations could materially adversely affect our business, financial condition or results of operations.

We have compliance policies in place for our employees with respect to FCPA, OFAC and similar laws, but there can be no assurance that our employees, consultants or agents will not engage in conduct for which we may be held responsible. Violations of the FCPA, OFAC and other laws, sanctions or regulations may result in severe criminal or civil penalties, and we may be subject to other liabilities, which could materially adversely affect our business, financial condition or results of operations.

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We have identified material weaknesses in our internal control over financial reporting related to the preparation and review of our income tax provisions and related accounts, the valuation of a business acquisition, and the application of US GAAP to complex and/or non-routine transactions, which could, if not remediated, adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner.

Management, through documentation, testing and assessment of our internal control over financial reporting pursuant to the rules promulgated by the SEC under Section 404 of the Sarbanes-Oxley Act of 2002 and Item 308 of Regulation S-K, has concluded that our internal control over financial reporting had a material weakness related to the accounting for income taxes, including the income tax provision and related tax assets and liabilities. Additionally, management identified a material weakness in our internal controls over the valuation of a business acquisition and the application of U.S. GAAP to complex and/or non-routine transactions. In particular, the Company determined that it incorrectly accounted for the acquisition of American Natural Gas, completed on August 1, 2014 in its financial statements for the quarter ended September 30, 2014 as required by FASB Accounting Standards Codification 805. In addition, we determined that the valuation of the net assets acquired was incorrect, resulting in goodwill of $1.4 million.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

As a result of this material weakness, our management has concluded that our internal control over financial reporting was not effective as of December 31, 2014. We are actively engaged in developing a remediation plan designed to address these material weaknesses, which may cause us to incur additional expense and devote management resources in remediating the material weaknesses in 2015. The effects of the material weaknesses are discussed in more detail in Item 9A, Controls and Procedures.

In future periods, if the process required by Section 404 of the Sarbanes-Oxley Act reveals further material weaknesses or significant deficiencies, the correction of any such material weakness or significant deficiency could require additional remedial measures including additional personnel which could be costly and time-consuming. If a material weakness exists as of a future period year-end (including a material weakness identified prior to year-end for which there is an insufficient period of time to evaluate and confirm the effectiveness of the corrections or related new procedures), our management will be unable to report favorably as of such future period year-end to the effectiveness of our control over financial reporting. If we are unable to assert that our internal control over financial reporting is effective in any future period, or if we continue to experience material weaknesses in our internal control over financial reporting for accounting for income taxes, we could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on our share price and potentially subject us to additional and potentially costly litigation and governmental inquiries/investigations.

We may be required to expend substantial sums in order to bring Schuff, GMSL and ANG, as well as other companies we have acquired or may acquire in the future, into compliance with the various reporting requirements applicable to public companies and/or to prepare required financial statements, and such efforts may harm our operating results or be unsuccessful altogether.

Prior to our acquisition of Schuff, GMSL and ANG, such companies were not subject to many of the requirements applicable to public companies, including Section 404 of the Sarbanes-Oxley Act of 2002, (the “Sarbanes-Oxley Act”), which requires publicly traded companies to establish, evaluate and report on their internal control over financial reporting. We will need to evaluate and integrate the system of internal control over financial reporting for Schuff, GMSL and ANG. We did not conduct a formal evaluation of Schuff’s, GMSL’s or ANG’s internal control over financial reporting prior to our acquisition of those companies. Moreover, as disclosed under Item 9A, “Management’s Report on Internal Control Over Financial Reporting,” in accordance with SEC rules, we have excluded from management’s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014 the internal control over financial reporting of businesses that we acquired in 2014, including Schuff, GMSL and ANG. If we discover any material weaknesses in internal control over financial reporting in companies we acquire, including

Schuff, GMSL or ANG, as we continue to assess such controls we may be required to hire additional staff and incur substantial legal and accounting costs to address such inadequacies. Moreover, we cannot be certain that our remedial measures will be effective. Any failure to implement required or improved controls, or difficulties encountered in their implementation, could harm our operating results or increase the risk of a material weakness in internal controls, in addition to the risks described under “We have identified material weaknesses in our internal control over financial reporting related to the preparation and review of our income tax provisions and related accounts and the application of US GAAP to complex and/or non-routine transactions, which could, if not remediated, adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner.”

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We face certain risks associated with the acquisition or disposition of businesses and lack of control over investments in associates.

In pursuing our corporate strategy, we may acquire or dispose of or exit businesses or reorganize existing investments. The success of this strategy is dependent upon our ability to identify appropriate opportunities, negotiate transactions on favorable terms and ultimately complete such transactions. Once we complete acquisitions or reorganizations there can be no assurance that we will realize the anticipated benefits of any transaction, including revenue growth, operational efficiencies or expected synergies. For example, if we fail to recognize some or all of the strategic benefits and synergies expected from a transaction, goodwill and intangible assets may be impaired in future periods. The negotiations associated with the acquisition and disposition of businesses could also disrupt our ongoing business, distract management and employees or increase our expenses.

In addition, we may not be able to integrate acquisitions successfully, including Schuff and GMSL, and we could incur or assume unknown or unanticipated liabilities or contingencies, which may impact our results of operations. If we dispose of or otherwise exit certain businesses, there can be no assurance that we will not incur certain disposition related charges, or that we will be able to reduce overhead related to the divested assets.

In addition to the risks described above, acquisitions are accompanied by a number of inherent risks, including, without limitation, the following:

- the difficulty of integrating acquired products, services or operations;
- difficulties in maintaining uniform standards, controls, procedures and policies;
- the potential impairment of relationships with employees and customers as a result of any integration of new management personnel;
- difficulties in disposing of the excess or idle facilities of an acquired company or business and expenses in maintaining such facilities; and
- the effect of and potential expenses under the labor, environmental and other laws and regulations of various jurisdictions to which the business acquired is subject.

We also own an interest in a number of entities, such as Novatel, over which we do not exercise or have only little management control and we are therefore unable to direct or manage the business to realize the anticipated benefits that we can achieve through full integration.

We have incurred substantial costs in connection with our prior acquisitions and expect to incur substantial costs in connection with any other transaction we complete in the future, which may increase our indebtedness or reduce the amount of our available cash and could adversely affect our financial condition, results of operations and liquidity.

We have incurred substantial costs in connection with our prior acquisitions and expect to incur substantial costs in connection with any other transactions we complete in the future. These costs may increase our indebtedness or reduce the amount of cash otherwise available to us for acquisitions, business opportunities and other corporate purposes. There is no assurance that the actual costs will not exceed our estimates. We may continue to incur additional material charges reflecting additional costs associated with our investments and the integration of our acquisitions, including our acquisition of Schuff and GMSL, in fiscal quarters subsequent to the quarter in which such investments and acquisitions were consummated.

We could consume resources in researching acquisitions, business opportunities or financings and capital market transactions that are not consummated, which could materially adversely affect subsequent attempts to locate and acquire or invest in another business.

We anticipate that the investigation of each specific acquisition or business opportunity and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments with respect to such transaction will require substantial management time and attention and substantial costs for financial advisors, accountants, attorneys and other advisors. If a decision is made not to consummate a specific acquisition, business opportunity or financing and capital market transaction, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific acquisition, investment target or financing, we may fail to consummate the investment or acquisition for any number of reasons, including those beyond our control. Any such event could consume significant management time and result in a loss to us of the related costs incurred, which could adversely affect our financial position and our ability to consummate other acquisitions and investments.

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Our participation in current or any future joint investment could be adversely affected by our lack of sole decision-making authority, our reliance on a partner's financial condition and disputes between us and the relevant partners.

We have, indirectly through our subsidiaries, formed joint ventures, and may in the future engage in similar joint ventures with third parties. For example, Schuff has formed the Schuff Hopsa Engineering, Inc. joint venture located in Panama, and GMSL operates various joint ventures outside of the United States. In such circumstances, we may not be in a position to exercise significant decision-making authority if we do not own a substantial majority of the equity interests of such joint venture or otherwise have contractual rights entitling us to exercise such authority. These ventures may involve risks not present were a third party not involved, including the possibility that partners might become insolvent or fail to fund their share of required capital contributions. In addition, partners may have economic or other business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Disputes between us and partners may result in litigation or arbitration that would increase our costs and expenses and divert a substantial amount of management's time and effort away from our businesses. We may also, in certain circumstances, be liable for the actions of our third-party partners.

There may be tax consequences associated with our acquisition, investment, holding and disposition of target companies and assets.

We may incur significant taxes in connection with effecting acquisitions of or investments in, holding, receiving payments from, operating or disposing of target companies and assets. Our decision to make a particular acquisition, sell a particular asset or increase or decrease a particular investment may be based on considerations other than the timing and amount of taxes owed as a result thereof.

We rely on information systems to conduct our businesses, and failure to protect these systems against security breaches and otherwise maintain such systems in working order could have a material adverse effect on our results of operations, cash flows or financial condition.

The efficient operation of our businesses is dependent on computer hardware and software systems. Information systems are vulnerable to security breaches, and we rely on industry-accepted security measures and technology to securely maintain confidential and proprietary information maintained on our information systems. However, these measures and technology may not adequately prevent security breaches. In addition, the unavailability of the information systems or the failure of these systems to perform as anticipated for any other reason could disrupt our businesses and result in decreased performance and increased costs, causing our results of operations, cash flows or financial condition to suffer.

Risks Related to Schuff

Schuff's business is dependent upon major construction contracts, the unpredictable timing of which may result in significant fluctuations in its cash flow due to the timing of receipt of payment under such contracts.

Schuff's cash flow is dependent upon obtaining major construction contracts primarily from general contractors and engineering firms responsible for commercial and industrial construction projects, such as high- and low-rise buildings and office complexes, hotels and casinos, convention centers, sports arenas, shopping malls, hospitals, dams, bridges, mines and power plants. The timing of or failure to obtain contracts, delays in awards of contracts, cancellations of contracts, delays in completion of contracts, or failure to obtain timely payment from Schuff's customers, could result in significant periodic fluctuations in cash flows from Schuff's operations. In addition, many of Schuff's contracts require it to satisfy specific progress or performance milestones in order to receive payment from the customer. As a result, Schuff may incur significant costs for engineering, materials, components, equipment, labor or subcontractors prior to receipt of payment from a customer. Such expenditures could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

The nature of Schuff's primary contracting terms for its contracts, including fixed-price and cost-plus pricing, could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff's projects are awarded through a competitive bid process or are obtained through negotiation, in either case generally using one of two types of contract pricing approaches: fixed-price or cost-plus pricing. Under fixed-price contracts, Schuff performs its services and executes its projects at an established price, subject to adjustment only for change orders approved by the customer, and, as a result, it may benefit from cost savings but be unable to recover any cost overruns. If Schuff does not execute such a contract within cost estimates, it may incur losses or the project may be less profitable than expected. Historically, the majority of Schuff's contracts have been fixed-price arrangements. The revenue, cost and gross profit realized on such contracts can vary, sometimes substantially, from the original projections due to a variety of factors, including, but not limited to:

- failure to properly estimate costs of materials, including steel and steel components, engineering services, equipment, labor or subcontractors;
- costs incurred in connection with modifications to a contract that may be unapproved by the customer as to scope, schedule, and/or price;
- unanticipated technical problems with the structures, equipment or systems we supply;
- unanticipated costs or claims, including costs for project modifications, customer-caused delays, errors or changes in specifications or designs, or contract termination;
- changes in the costs of materials, engineering services, equipment, labor or subcontractors;
- changes in labor conditions, including the availability and productivity of labor;
- productivity and other delays caused by weather conditions;
- failure to engage necessary suppliers or subcontractors, or failure of such suppliers or subcontractors to perform;
- difficulties in obtaining required governmental permits or approvals;
- changes in laws and regulations; and
- changes in general economic conditions.

Under cost-plus contracts, Schuff receives reimbursement for its direct labor and material cost, plus a specified fee in excess thereof, which is typically a fixed rate per hour, an overall fixed fee, or a percentage of total reimbursable costs, up to a maximum amount, which is an arrangement that may protect Schuff against cost overruns. If Schuff is unable to obtain proper reimbursement for all costs incurred due to improper estimates, performance issues, customer disputes, or any of the additional factors noted above for fixed-price contracts, the project may be less profitable than expected.

Generally, Schuff's contracts and projects vary in length from 1 to 12 months, depending on the size and complexity of the project, project owner demands and other factors. The foregoing risks are exacerbated for projects with longer-term durations because there is an increased risk that the circumstances upon which Schuff based its original estimates will change in a manner that increases costs. In addition, Schuff sometimes bears the risk of delays caused by unexpected conditions or events. To the extent there are future cost increases that Schuff cannot recover from its customers, suppliers or subcontractors, the outcome could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Furthermore, revenue and gross profit from Schuff's contracts can be affected by contract incentives or penalties that may not be known or finalized until the later stages of the contract term. Some of Schuff's contracts provide for the customer's review of its accounting and cost control systems to verify the completeness and accuracy of the reimbursable costs invoiced. These reviews could result in reductions in reimbursable costs and labor rates previously billed to the customer.

The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods and the recognition of losses expected to be incurred on contracts in progress. Due to the various estimates inherent in Schuff's contract accounting, actual results could differ from those estimates.

Schuff's billed and unbilled revenue may be exposed to potential risk if a project is terminated or canceled or if Schuff's customers encounter financial difficulties.

Schuff's contracts often require it to satisfy or achieve certain milestones in order to receive payment for the work performed. As a result, under these types of arrangements, Schuff may incur significant costs or perform significant amounts of services prior to receipt of payment. If the ultimate customer does not proceed with the completion of the project or if the customer or contractor under which Schuff is a subcontractor defaults on its payment obligations, Schuff may face difficulties in collecting payment of amounts due to it for the costs previously incurred. If Schuff is unable to collect amounts owed to it, this could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff may be exposed to additional risks as it obtains new significant awards and executes its backlog, including greater backlog concentration in fewer projects, potential cost overruns and increasing requirements for letters of credit, each of which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

As Schuff obtains new significant project awards, these projects may use larger sums of working capital than other projects and Schuff's backlog may become concentrated among a smaller number of customers. Approximately $203.1 million, representing 56.9%, of Schuff's backlog at December 31, 2014 was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If any significant projects such as these currently included in Schuff's backlog or awarded in the future were to have material cost overruns, or be significantly delayed, modified or canceled, Schuff's results of operations, cash flows or financial position could be adversely impacted.

Additionally, as Schuff converts its significant projects from backlog into active construction, it may face significantly greater requirements for the provision of letters of credit or other forms of credit enhancements. We can provide no assurance that Schuff would be able to access such capital and credit as needed or that it would be able to do so on economically attractive terms. Moreover, Schuff may be unable to replace the projects that it executes in its backlog.

Schuff may not be able to fully realize the revenue value reported in its backlog, a substantial portion of which is attributable to a relatively small number of large contracts or other commitments.

As of December 31, 2014, Schuff had a backlog of work to be completed of approximately $357.0 million ($305.3 million under contracts or purchase orders and $51.7 million under letters of intent). Backlog develops as a result of new awards, which represent the revenue value of new project commitments received by Schuff during a given period, including legally binding commitments without a defined scope. Commitments may be in the form of written contracts, letters of intent, notices to proceed and purchase orders. New awards may also include estimated amounts of work to be performed based on customer communication and historic experience and knowledge of our customers' intentions. Backlog consists of projects which have either not yet been started or are in progress but are not yet complete. In the latter case, the revenue value reported in backlog is the remaining value associated with work that has not yet been completed, which increases or decreases to reflect modifications in the work to be performed under a given commitment. The revenue projected in Schuff's backlog may not be realized or, if realized, may not be profitable as a result of poor contract terms or performance.

Due to project terminations, suspensions or changes in project scope and schedule, we cannot predict with certainty when or if Schuff's backlog will be performed. From time to time, projects are canceled that appeared to have a high certainty of going forward at the time they were recorded as new awards. In the event of a project cancellation, Schuff typically has no contractual right to the total revenue reflected in its backlog. Some of the contracts in Schuff's backlog provide for cancellation fees or certain reimbursements in the event customers cancel projects. These cancellation fees usually provide for reimbursement of Schuff's out-of-pocket costs, costs associated with work performed prior to cancellation, and, to varying degrees, a percentage of the profit Schuff would have realized had the contract been completed. Although Schuff may be reimbursed for certain costs, it may be unable to recover all direct costs incurred and may incur additional unrecoverable costs due to the resulting under-utilization of Schuff's assets. Approximately $203.1 million, representing 56.9%, of Schuff's backlog at December 31, 2014 was attributable to five contracts, letters of intent, notices to proceed or purchase orders. If one or more of these large contracts or other commitments are terminated or their scope reduced, Schuff's backlog could decrease substantially.

Schuff's failure to meet contractual schedule or performance requirements could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

In certain circumstances, Schuff guarantees project completion by a scheduled date or certain performance levels. Failure to meet these schedule or performance requirements could result in a reduction of revenue and additional costs, and these adjustments could exceed projected profit. Project revenue or profit could also be reduced by liquidated damages withheld by customers under contractual penalty provisions, which can be substantial and can accrue on a daily basis. Schedule delays can result in costs exceeding our projections for a particular project. Performance problems for existing and future contracts could cause actual results of operations to differ materially from those previously anticipated and could cause us to suffer damage to our reputation within our industry and our customer base.

Schuff's government contracts may be subject to modification or termination, which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff is a provider of services to U.S. government agencies and is therefore exposed to risks associated with government contracting. Government agencies typically can terminate or modify contracts to which Schuff is a party at their convenience, due to budget constraints or various other reasons. As a result, Schuff's backlog may be reduced or it may incur a loss if a government agency decides to terminate or modify a contract to which Schuff is a party. Schuff is also subject to audits, including audits of internal control systems, cost reviews and investigations by government contracting oversight agencies. As a result of an audit, the oversight agency may disallow certain costs or withhold a percentage of interim payments. Cost disallowances may result in adjustments to previously reported revenue and may require Schuff to refund a portion of previously collected amounts. In addition, failure to comply with the terms of one or more of our government contracts or government regulations and statutes could result in Schuff being suspended or debarred from future government projects for a significant period of time, possible civil or criminal fines and penalties, the risk of public scrutiny of our performance, and potential harm to Schuff's reputation, each of which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition. Other remedies that government agencies may seek for improper activities or performance issues include sanctions such as forfeiture of profit and suspension of payments.

In addition to the risks noted above, legislatures typically appropriate funds on a year-by-year basis, while contract performance may take more than one year. As a result, contracts with government agencies may be only partially funded or may be terminated, and Schuff may not realize all of the potential revenue and profit from those contracts. Appropriations and the timing of payment may be influenced by, among other things, the state of the economy, competing political priorities, curtailments in the use of government contracting firms, budget constraints, the timing and amount of tax receipts and the overall level of government expenditures.

Schuff is exposed to potential risks and uncertainties associated with its reliance on subcontractors and third-party vendors to execute certain projects.

Schuff relies on third-party suppliers, especially suppliers of steel and steel components, and subcontractors to assist in the completion of projects. To the extent these parties cannot execute their portion of the work and are unable to deliver their services, equipment or materials according to the agreed-upon contractual terms, or Schuff cannot engage subcontractors or acquire equipment or materials, Schuff's ability to complete a project in a timely manner may be impacted. Furthermore, when bidding or negotiating for contracts, Schuff must make estimates of the amounts these third parties will charge for their services, equipment and materials. If the amount Schuff is required to pay for third-party goods and services in an effort to meet its contractual obligations exceeds the amount it has estimated, Schuff could experience project losses or a reduction in estimated profit.

Any increase in the price of, or change in supply and demand for, the steel and steel components that Schuff utilizes to complete projects could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

The prices of the steel and steel components that Schuff utilizes in the course of completing projects are susceptible to price fluctuations due to supply and demand trends, energy costs, transportation costs, government regulations, duties and tariffs, changes in currency exchange rates, price controls, general economic conditions and other unforeseen circumstances. Although Schuff may attempt to pass on certain of these increased costs to its customers, it may not be able to pass all of these cost increases on to its customers. As a result, Schuff's margins may be adversely impacted by such cost increases.

Schuff's dependence on suppliers of steel and steel components makes it vulnerable to a disruption in the supply of its products.

Schuff purchases a majority of the steel and steel components utilized in the course of completing projects from several domestic and foreign steel producers and suppliers. Although Schuff has long-standing relationships with many of its suppliers, it generally does not have long-term contracts with them. An adverse change in any of the following could have a material adverse effect on Schuff's results of operations or financial condition:

- its ability to identify and develop relationships with qualified suppliers;
- the terms and conditions upon which it purchases products from its suppliers, including applicable exchange rates, transport costs and other costs, its suppliers' willingness to extend credit to it to finance its inventory purchases and other factors beyond its control;
- financial condition of its suppliers;
- political instability in the countries in which its suppliers are located;
- its ability to import products;
- its suppliers' noncompliance with applicable laws, trade restrictions and tariffs;

- its inability to find replacement suppliers in the event of a deterioration of the relationship with current suppliers; or
- its suppliers' ability to manufacture and deliver products according to its standards of quality on a timely and efficient basis.

Intense competition in the markets Schuff serves could reduce Schuff's market share and earnings.

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The principal geographic and product markets Schuff serves are highly competitive, and this intense competition is expected to continue. Schuff competes with other contractors for commercial, industrial and specialty projects on a local, regional, or national basis. Continued service within these markets requires substantial resources and capital investment in equipment, technology and skilled personnel, and certain of Schuff's competitors have financial and operating resources greater than Schuff. Competition also places downward pressure on Schuff's contract prices and margins. Among the principal competitive factors within the industry are price, timeliness of completion of projects, quality, reputation, and the desire of customers to utilize specific contractors with whom they have favorable relationships and prior experience. While Schuff believes that it maintains a competitive advantage with respect to these factors, failure to continue to do so or to meet other competitive challenges could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff's customers' ability to receive the applicable regulatory and environmental approvals for projects and the timeliness of those approvals could adversely affect Schuff's business.

The regulatory permitting process for Schuff's projects requires significant investments of time and money by Schuff's customers and sometimes by Schuff. There are no assurances that Schuff's customers or Schuff will obtain the necessary permits for these projects. Applications for permits may be opposed by governmental entities, individuals or special interest groups, resulting in delays and possible non-issuance of the permits.

Schuff's failure to obtain or maintain required licenses may adversely affect its business.

Schuff is subject to licensure and hold licenses in each of the states in the United States in which it operates and in certain local jurisdictions within such states. While we believe that Schuff is in material compliance with all contractor licensing requirements in the various jurisdictions in which it operates, the failure to obtain, loss of or revocation of any license or the limitation on any of Schuff's primary services thereunder in any jurisdiction in which it conducts substantial operations could prevent Schuff from conducting further operations in such jurisdiction and have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Volatility in equity and credit markets could adversely impact Schuff due to its impact on the availability of funding for Schuff's customers, suppliers and subcontractors.

Some of Schuff's ultimate customers, suppliers and subcontractors have traditionally accessed commercial financing and capital markets to fund their operations, and the availability of funding from those sources could be adversely impacted by volatile equity or credit markets. The unavailability of financing could lead to the delay or cancellation of projects or the inability of such parties to pay Schuff or provide needed products or services and thereby have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff's business may be adversely affected by bonding and letter of credit capacity.

Certain of Schuff's projects require the support of bid and performance surety bonds or letters of credit. A restriction, reduction, or termination of Schuff's surety bond agreements or letter of credit facilities could limit its ability to bid on new project opportunities, thereby limiting new awards, or perform under existing awards.

Schuff is vulnerable to significant fluctuations in its liquidity that may vary substantially over time.

Schuff's operations could require the utilization of large sums of working capital, sometimes on short notice and sometimes without assurance of recovery of the expenditures. Circumstances or events that could create large cash outflows include losses resulting from fixed-price contracts, environmental liabilities, litigation risks, contract initiation or completion delays, customer payment problems, professional and product liability claims and other unexpected costs. Although Schuff's facilities provide it with a source of liquidity, there is no guarantee that such facilities will be sufficient to meet Schuff's liquidity needs or that Schuff will be able to maintain such facilities or obtain any other sources of liquidity on attractive terms, or at all.

Schuff's projects expose it to potential professional liability, product liability, warranty and other claims.

Schuff's operations are subject to the usual hazards inherent in providing engineering and construction services for the construction of often large commercial industrial facilities, such as the risk of accidents, fires and explosions. These hazards can cause personal injury and loss of life, business interruptions, property damage and pollution and environmental damage. Schuff may be subject to claims as a result of these hazards. In addition, the failure of any of Schuff's products to conform to

customer specifications could result in warranty claims against it for significant replacement or rework costs, which could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Although Schuff generally does not accept liability for consequential damages in its contracts, should it be determined liable, it may not be covered by insurance or, if covered, the dollar amount of these liabilities may exceed applicable policy limits. Any catastrophic occurrence in excess of insurance limits at project sites involving Schuff's products and services could result in significant professional liability, product liability, warranty or other claims against Schuff. Any damages not covered by insurance, in excess of insurance limits or, if covered by insurance, subject to a high deductible, could result in a significant loss for Schuff, which may reduce its profits and cash available for operations. These claims could also make it difficult for Schuff to obtain adequate insurance coverage in the future at a reasonable cost.

Additionally, customers or subcontractors that have agreed to indemnify Schuff against such losses may refuse or be unable to pay Schuff.

Schuff may experience increased costs and decreased cash flow due to compliance with environmental laws and regulations, liability for contamination of the environment or related personal injuries.

Schuff is subject to environmental laws and regulations, including those concerning emissions into the air, discharge into waterways, generation, storage, handling, treatment and disposal of waste materials and health and safety. Schuff's fabrication business often involves working around and with volatile, toxic and hazardous substances and other highly regulated pollutants, substances or wastes, for which the improper characterization, handling or disposal could constitute violations of U.S. federal, state or local laws and regulations and laws of other countries, and result in criminal and civil liabilities. Environmental laws and regulations generally impose limitations and standards for certain pollutants or waste materials and require Schuff to obtain permits and comply with various other requirements. Governmental authorities may seek to impose fines and penalties on Schuff, or revoke or deny issuance or renewal of operating permits for failure to comply with applicable laws and regulations. Schuff is also exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or wastes. In connection with the historical operation of our facilities, substances which currently are or might be considered hazardous may have been used or disposed of at some sites in a manner that may require us to make expenditures for remediation.

The environmental, health and safety laws and regulations to which Schuff is subject are constantly changing, and it is impossible to predict the impact of such laws and regulations on Schuff in the future. We cannot ensure that Schuff's operations will continue to comply with future laws and regulations or that these laws and regulations will not cause Schuff to incur significant costs or adopt more costly methods of operation. Additionally, the adoption and implementation of any new regulations imposing reporting obligations on, or limiting emissions of greenhouse gases from, Schuff's customers' equipment and operations could significantly impact demand for Schuff's services, particularly among its customers for industrial facilities.

Any expenditures in connection with compliance or remediation efforts or significant reductions in demand for Schuff's services as a result of the adoption of environmental proposals could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff is and will likely continue to be involved in litigation that could have a material adverse effect on Schuff's results of operations, cash flows or financial condition.

Schuff has been and may be, from time to time, named as a defendant in legal actions claiming damages in connection with fabrication and other products and services Schuff provides and other matters. These are typically claims that arise in the normal course of business, including employment-related claims and contractual disputes or claims for personal injury or property damage which occur in connection with services performed relating to project or construction sites. Contractual disputes normally involve claims relating to the timely completion of projects or other issues concerning fabrication and other products and services Schuff provides. While we do not believe that any of Schuff's pending contractual, employment-related personal injury or property damage claims and disputes will have a material effect on Schuff's future results of operations, cash flows or financial condition, there can be no assurance that this will be the case.

Work stoppages, union negotiations and other labor problems could adversely affect Schuff's business.

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A portion of Schuff’s employees are represented by labor unions. A lengthy strike or other work stoppage at any of its facilities could have a material adverse effect on Schuff’s business. There is inherent risk that ongoing or future negotiations relating to collective bargaining agreements or union representation may not be favorable to Schuff. From time to time, Schuff also has experienced attempts to unionize its non-union facilities. Such efforts can often disrupt or delay work and present risk of labor unrest.

Schuff’s employees work on projects that are inherently dangerous, and a failure to maintain a safe work site could result in significant losses.

Safety is a primary focus of Schuff’s business and is critical to all of its employees and customers, as well as its reputation. However, Schuff often works on large-scale and complex projects, frequently in geographically remote locations. Such involvement often places Schuff’s employees and others near large equipment, dangerous processes or highly regulated materials. If Schuff or other parties fail to implement appropriate safety procedures for which they are responsible or if such procedures fail, Schuff’s employees or others may suffer injuries. In addition to being subject to state and federal regulations concerning health and safety, many of Schuff’s customers require that it meet certain safety criteria to be eligible to bid on contracts, and some of Schuff’s contract fees or profits are subject to satisfying safety criteria. Unsafe work conditions also have the potential of increasing employee turnover, project costs and operating costs. Although Schuff has adopted important safety policies that are administered and enforced by functional groups whose primary purpose is to implement effective health, safety and environmental procedures, the failure to comply with such policies, customer contracts or applicable regulations could subject Schuff to losses and liability.

Risks Related to GMSL

GMSL may be unable to maintain or replace its vessels as they age.

As of December 31, 2014, the average age of the vessels operated by GMSL was approximately 22 years. The expense of maintaining, repairing and upgrading GMSL’s vessels typically increases with age, and after a period of time the cost necessary to satisfy required marine certification standards may not be economically justifiable. There can be no assurance that GMSL will be able to maintain its fleet by extending the economic life of its existing vessels, or that its financial resources will be sufficient to enable it to make the expenditures necessary for these purposes. In addition, the supply of second-hand replacement vessels is relatively limited and the costs associated with acquiring a newly constructed vessel are high. In the event that GMSL was to lose the use of any of its vessels for a sustained period of time, its financial performance would be adversely affected.

The operation and leasing of seagoing vessels entails the possibility of marine disasters including damage or destruction of vessels due to accident, the loss of vessels due to piracy or terrorism, damage or destruction of cargo and similar events that may cause a loss of revenue from affected vessels and damage GMSL’s business reputation, which may in turn lead to loss of business.

The operation of seagoing vessels entails certain inherent risks that may adversely affect GMSL’s business and reputation, including:

- damage or destruction of a vessel due to marine disaster such as a collision or grounding;
- the loss of a vessel due to piracy and terrorism;
- cargo and property losses or damage as a result of the foregoing or less drastic causes such as human error, mechanical failure and bad weather;
- environmental accidents as a result of the foregoing; and
- business interruptions and delivery delays caused by mechanical failure, human error, war, terrorism, political action in various countries, labor strikes or adverse weather conditions.

Any of these circumstances or events could substantially increase GMSL’s operating costs, as for example, the cost of substituting or replacing a vessel, or lower its revenues by taking vessels out of operation permanently or for periods of time. The involvement of GMSL’s vessels in a disaster or delays in delivery or damages or loss of cargo may harm its reputation as a safe and reliable vessel operator and cause it to lose business.

GMSL’s operations are subject to complex laws and regulations, including environmental laws and regulations that result in substantial costs and other risks.

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GMSL does significant business with clients in the oil and natural gas industry, which is extensively regulated by U.S. federal, state, tribal, and local authorities, and corresponding foreign governmental authorities. Legislation and regulations affecting the oil and natural gas industry are under constant review for amendment or expansion, raising the possibility of changes that may become more stringent and, as a result, may affect, among other things, the pricing or marketing of crude oil and natural gas production. Noncompliance with statutes and regulations and more vigorous enforcement of such statutes and regulations by regulatory agencies may lead to substantial administrative, civil, and criminal penalties, including the assessment of natural resource damages, the imposition of significant investigatory and remedial obligations, and may also result in the suspension or termination of our operations.

Litigation, enforcement actions, fines or penalties could adversely impact GMSL's financial condition or results of operations and damage its reputation.

GMSL's business is subject to various international laws and regulations that could lead to enforcement actions, fines, civil or criminal penalties or the assertion of litigation claims and damages. In addition, improper conduct by GMSL's employees or agents could damage its reputation and lead to litigation or legal proceedings that could result in significant awards or settlements to plaintiffs and civil or criminal penalties, including substantial monetary fines. Such events could lead to an adverse impact on GMSL's financial condition or results of operations, if not mitigated by its insurance coverage.

As a result of any ship or other incidents, litigation claims, enforcement actions and regulatory actions and investigations, including, but not limited to, those arising from personal injury, loss of life, loss of or damage to personal property, business interruption losses or environmental damage to any affected coastal waters and the surrounding area, may be asserted or brought against various parties including GMSL. The time and attention of GMSL's management may also be diverted in defending such claims, actions and investigations. GMSL may also incur costs both in defending against any claims, actions and investigations and for any judgments, fines or civil or criminal penalties if such claims, actions or investigations are adversely determined and not covered by its insurance policies.

Currency exchange rate fluctuations may negatively affect GMSL's operating results.

The exchange rates between the US dollar, the Singapore dollar and the GBP have fluctuated in recent periods and may fluctuate substantially in the future. Accordingly, any material fluctuation of the exchange rate of the GBP against the US dollar and Singapore dollar could have a negative impact on GMSL's results of operations and financial condition.

There are risks inherent in foreign joint ventures and investments, such as adverse changes in currency values and foreign regulations.

The joint ventures in which GMSL has operating activities or interests that are located outside the United States are subject to certain risks related to the indirect ownership and development of, or investment in, foreign subsidiaries, including government expropriation and nationalization, adverse changes in currency values and foreign exchange controls, foreign taxes, U.S. taxes on the repatriation of funds to the United States, and other laws and regulations, any of which may have a material adverse effect on GMSL's investments, financial condition, results of operations, or cash flows.

GMSL derives a significant amount of its revenues from sales to customers in non-U.S. countries, which pose additional risks including economic, political and other uncertainties.

GMSL's non-U.S. sales are significant in relation to consolidated sales. GMSL believes that non-U.S. sales will remain a significant percentage of its revenue. In addition, sales of its products to customers operating in foreign countries that experience political/economic instability or armed conflict could result in difficulties in delivering and installing complete seismic energy source systems within those geographic areas and receiving payment from these customers. Furthermore, restrictions under the FCPA or similar legislation in other countries, or trade embargoes or similar restrictions imposed by the United States or other countries, could limit GMSL's ability to do business in certain foreign countries. These factors could materially adversely affect GMSL's results of operations and financial condition.

Further deterioration of economic opportunities in the Oil and Gas sector could adversely affect the financial growth of GMSL.

The O&G market has experienced an exceptional upheaval over the past several months with the price of oil falling dramatically and this economic weakness could continue into the foreseeable future. Oil prices can be very volatile and are subject to international supply and demand, political developments, increased supply from new sources and the influence of OPEC in particular. The major operators are reviewing their overall capital spending and this trend is likely to reduce the size and number of projects carried out in the medium term as the project viability comes under greater scrutiny. Ongoing concerns about the systemic impact of lower oil prices and the continued uncertainty of possible reductions in long term capital expenditure could have a material adverse effect on the planned growth of GMSL and eventually curtail the anticipated cash flow and results from operations.

Risks Related to our ICS Operations

Our ICS business is substantially smaller than some of our major competitors, whose marketing and pricing decisions, and relative size advantage could adversely affect our ability to attract and to retain customers and are likely to continue to cause significant pricing pressures that could adversely affect ICS's net revenues, results of operations and financial condition.

The carrier services telecommunications industry is significantly influenced by the marketing and pricing decisions of the larger business participants. ICS faces competition for its voice trading services from telecommunication services providers' traditional processes and new companies. Once telecommunication services providers have established business relationships with competitors to ICS, it could be extremely difficult to convince them to utilize our services. These competitors may be able to develop services or processes that are superior to ICS's services or processes, or that achieve greater industry acceptance.

Many of our competitors are significantly larger than us and have substantially greater financial, technical and marketing resources, larger networks, a broader portfolio of service offerings, greater control over network and transmission lines, stronger name recognition and customer loyalty and long-standing relationships with our target customers. As a result, our ability to attract and retain customers may be adversely affected. Many of our competitors enjoy economies of scale that result in low cost structures for transmission and related costs that could cause significant pricing pressures within the industry. While growth through acquisitions is a possible strategy for ICS, there are no guarantees that any acquisitions will occur, nor are there any assurances that any acquisitions by ICS would improve the financial results of its business.

Any failure of ICS's physical infrastructure, including undetected defects in technology, could lead to significant costs and disruptions that could reduce its revenue and harm its business reputation and financial results.

ICS depends on providing customers with highly reliable service. ICS must protect its infrastructure and any collocated equipment from numerous factors, including:

- human error;
- physical or electronic security breaches;
- fire, earthquake, flood and other natural disasters;
- water damage;
- power loss; and
- terrorism, sabotage and vandalism.

Problems at one or more of ICS's exchange delivery points, whether or not within ICS's control, could result in service interruptions or significant equipment damage. Any loss of services, equipment damage or inability to terminate voice calls or supply Internet capacity could reduce the confidence of the members and customers and could consequently impair ICS's ability to obtain and retain customers, which would adversely affect both ICS's ability to generate revenues and its operating results.

ICS's positioning in the marketplace and intense domestic and international competition in these services places a significant strain on our resources, which if not managed effectively could result in operational inefficiencies and other difficulties.

To manage ICS's market positioning effectively, we must continue to implement and improve its operational and financial systems and controls, invest in critical network infrastructure to expand its coverage and capacity, maintain or improve its service quality levels, purchase and utilize other transmission facilities, evolve its support and billing systems and train and manage its employee base. If we inaccurately forecast the movement of traffic onto ICS's network, we could have insufficient or excessive transmission facilities and disproportionate fixed expenses. As we proceed with the development of our ICS business, operational difficulties could arise from additional demand placed on customer provisioning and support, billing and management information systems, product delivery and fulfillment, support, sales and marketing, administrative resources, network infrastructure, maintenance and upgrading. For instance, we may encounter delays or cost-overruns or suffer other adverse consequences in implementing new systems when required.

If ICS is not able to operate a cost-effective network, we may not be able to grow our ICS business successfully.

Our ICS business' long-term success depends on our ability to design, implement, operate, manage, maintain and upgrade a reliable and cost-effective network infrastructure. In addition, we rely on third-party equipment and service vendors to expand and manage ICS's global network through which it provides its services. If we fail to generate additional traffic on ICS's network, if we experience technical or logistical impediments to the development of necessary aspects of ICS's network or the migration of traffic and customers onto ICS's network, or if we experience difficulties with third-party providers, we may not achieve desired economies of scale or otherwise be successful in growing our ICS business.

If we are not able to use and protect intellectual property associated with the ICS business domestically and internationally, it could have a material adverse effect on our ICS business.

ICS's ability to compete depends, in part, on our ability to use intellectual property associated with the business in the United States and internationally. We are subject to the risks of claims and litigation alleging infringement of the intellectual property rights of others and may need to litigate against others to protect our intellectual property rights. The telecommunications industry is subject to frequent litigation regarding patent and other intellectual property rights. Any such litigation could result in substantial costs and diversion of resources that could have a material effect on ICS's business, financial condition and/or operations. Furthermore, there can be no assurance that we would be successful in any such litigation.

We rely upon certain technology, including hardware and software, licensed from third parties to operate our ICS business. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently used by us or other technology that we may seek to license in the future will be available to us on commercially reasonable terms or at all. The loss of, or our inability to maintain, existing licenses could result in shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated and could cause service disruption to ICS's customers. Such delays or reductions in the aggregate could harm our ICS business, and there can be no assurance that suitable alternative products would be available.

We also rely on indemnification provisions from third parties to protect against claims of infringement regarding such licensed technology, which indemnification could be affected by, among other things, the financial strength of the licensor. Furthermore, effective intellectual property protection may not be available in every country where ICS does business. Any significant impairment of our intellectual property or other licensed rights could harm our ICS's business and/or its ability to compete effectively.

Risks Related to Our Liquidity Needs and Securities

We are a holding company and our only material assets are our equity interests in our operating subsidiaries and our other investments. As a result, our principal source of revenue and cash flow is distributions from our subsidiaries and our subsidiaries may be limited by law and by contract in making distributions to us.

As a holding company, our only material assets are our cash on hand, the equity interests in our subsidiaries and other investments. As of December 31, 2014, we had approximately $23.5 million in cash, cash equivalents and short-term investments at the corporate level at HC2. Our principal source of revenue and cash flow is distributions from our subsidiaries. Thus, our ability to service our debt and to finance future acquisitions is dependent on the ability of our subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions to us. Our subsidiaries are and will be separate legal entities, and although they may be wholly-owned or controlled by us, they have no obligation to make any funds available to us, whether in the form of loans, dividends, distributions or otherwise. The ability of our subsidiaries to distribute cash to us will also be subject to, among other things, restrictions that are contained in our subsidiaries' financing agreements, availability of sufficient funds and applicable state laws and regulatory restrictions. Claims of creditors of our subsidiaries generally will have priority as to the assets of such subsidiaries over our claims and claims of our creditors and stockholders. To the extent the ability of our subsidiaries to distribute dividends or other payments to us could be limited in any way, our ability to grow, pursue business opportunities or make acquisitions that could be beneficial to our businesses, or otherwise fund and conduct our business, could be materially limited.

In order to satisfy the requirements of Section 226 of the Pensions Act of 2004 (UK), GMSL is a party to the Global Marine Pension Plan Recovery Plan, dated as of March 28, 2014 (the “Recovery Plan”). The Recovery Plan addresses GMSL’s pension funding shortfall of approximately GBP 32 million by requiring GMSL to make certain scheduled fixed monthly contributions, certain variable annual profit-related contributions and certain variable dividend-related contributions to the pension plan. The variable dividend-related contributions require GMSL to pay cash contributions to the underfunded pension plan equal to 50% of any dividend payments made to its shareholder, which reduces the amount of cash available for GMSL to make upstream payments to us.

The Recovery Plan provides for the funding shortfall to be eliminated on or before June 30, 2021. However the UK plan must be valued on a triennial basis and all valuations are dependent upon the prevailing market conditions and the actuarial methods and assumptions used as well as the expected pension liabilities at the valuation date. There are various risks which could adversely affect the next valuation of the UK pension plan and consequently the obligations of GMSL to fund the plan, such as a significant adverse change in the market value of the pension plan assets, an increase in pension liabilities, longer life expectancy of plan members, a change in the discount rate or inflation rate used by the actuary or if the trustees of the plan recommend a material change to the investment strategy. Any increase in the deficit may result in a need for GMSL to increase its pension contributions which would reduce the amount of cash available for GMSL to make upstream dividend payments to us. While we expect the trustees of the pension plan to renegotiate the Recovery Plan on at least a triennial basis from March 31, 2014 or dispense with the Recovery Plan if and when the funding shortfall has been eliminated, we can make no assurances in relation to this.

Under the UK Pensions Act 2004, the Pensions Regulator may issue a contribution notice to us or any employer in the UK pension plan or any person who is connected with or is an associate of any such employer where the Pensions Regulator is of the opinion that the relevant person has been a party to an act, or a deliberate failure to act, which had as its main purpose (or one of its main purposes) the avoidance of pension liabilities. Under the UK Pensions Act 2008, the Pension Regulator has the power to issue a contribution notice to any such person where the Pensions Regulator is of the opinion that the relevant person has been a party to an act, or a deliberate failure to act, which has a materially detrimental effect on pension plans without sufficient mitigation having been provided. If the Pensions Regulator considers that any of the employers participating in the UK pension plan are “insufficiently resourced” or a “service company,” it may impose a financial support direction requiring us or any person associated or connected with that employer to put in place financial support.

The Pensions Regulator can only issue a contribution notice or financial support direction where it believes it is reasonable to do so. The terms “associate” and “connected person,” which are taken from the UK Insolvency Act 1986, are widely defined and cover among others GMSL, its subsidiaries and others deemed to be shadow directors. Liabilities imposed under a contribution notice or financial support direction may be up to the difference between the value of the assets of the plan and the cost of buying out the benefits of members and other beneficiaries. If GMSL or its connected or associated parties are the recipient of a contribution notice or financial support direction this could have an effect on our cash flow.

In practice, the risk of a contribution notice being imposed may restrict our ability to restructure or undertake certain corporate activities relating to GMSL without first seeking agreement of the trustees of the UK pension plan and, possibly, the approval of the Pensions Regulator. Additional security may also need to be provided to the trustees before certain corporate activities can be undertaken (such as the payment of an unusual dividend from GMSL) and any additional funding required by the UK pension plan may have an adverse effect on our financial condition and the results of our operations.

In addition, GMSL and Schuff are each party to credit agreements that include certain financial covenants that can reduce or otherwise limit the amount of cash available to make upstream dividend payments to us. GMSL’s term loan with DVB Bank (the “GMSL Facility”) requires GMSL to maintain minimum liquidity of GBP 7.5 million through January 23, 2015, and GBP 6.0 million until maturity on July 23, 2018. If GMSL does not meet these minimum liquidity requirements, it will not be able to make upstream dividend payments to us until such minimum liquidity requirements are met. Schuff’s Credit and Security Agreement (the “Schuff Facility”) with Wells Fargo Credit, Inc. (“Wells Fargo”) allows dividends to be paid to Schuff shareholders up to four times a year, subject to the following conditions: (a) the consent of Wells Fargo Credit, Inc., which is the Schuff Facility lender (which consent shall not be unreasonably withheld); (b) maintenance of a fixed charge coverage ratio of 1.20 to 1; (c) a minimum excess availability under the Schuff Facility of $10 million before and after the payment of a dividend and (d) Schuff not being in default under the Schuff Facility at the time of the dividend payment. For more information, see

"Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

To service our indebtedness and other obligations, we will require a significant amount of cash.

Our ability to generate cash depends on many factors beyond our control, and any failure to meet our debt service obligations, including those under (a) the indenture (the "11% Notes Indenture") governing our 11% senior secured notes due 2019 (the "11% Notes"), (b) the Schuff Facility and (c) the GMSL Facility, as well as the obligations with respect to HC2's (i) 30,000 shares of Series A Convertible Participating Preferred Stock (the "Series A Preferred Stock") issued on May 29, 2014, (ii) 11,000 shares of Series A-1 Convertible Participating Preferred Stock (the "Series A-1 Preferred Stock") issued on September 22, 2014, and (iii) 14,000 shares of Series A-2 Convertible Participating Preferred Stock (the "Series A-2 Preferred

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Stock" and, together with the Series A Preferred Stock and Series A-1 Preferred Stock, the "Preferred Stock") issued on January 5, 2015, each of which is governed by a certificate of designation forming a part of HC2's Certificate of Incorporation (collectively, the "Certificates of Designation"), could harm our business, financial condition and results of operations. Our ability to make payments on and to refinance our indebtedness and Preferred Stock and to fund working capital needs and planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, business, legislative, regulatory and other factors that are beyond our control.

If our business does not generate sufficient cash flow from operations or if future borrowings are not available to us in an amount sufficient to enable us to pay our indebtedness or make mandatory redemption payments with respect to the Preferred Stock, or to fund our other liquidity needs, we may need to refinance all or a portion of our indebtedness or redeem the Preferred Stock, on or before the maturity thereof, sell assets, reduce or delay capital investments or seek to raise additional capital, any of which could have a material adverse effect on our operations.

In addition, we may not be able to affect any of these actions, if necessary, on commercially reasonable terms or at all. Our ability to restructure or refinance our indebtedness or redeem the Preferred Stock will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt or financings related to the redemption of our Preferred Stock could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments or preferred stock may limit or prevent us from taking any of these actions. In addition, any failure to make scheduled payments of interest and principal on our outstanding indebtedness or dividend payments on our Preferred Stock would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness or otherwise raise capital on commercially reasonable terms or at all. Our inability to generate sufficient cash flow to satisfy our debt service and other obligations, or to refinance or restructure our obligations on commercially reasonable terms or at all, would have an adverse effect, which could be material, on our business, financial condition and results of operations.

The agreements governing our indebtedness and Preferred Stock, including the 11% Notes Indenture, the Schuff Facility and the GMSL Facility, as well as the Certificates of Designation with respect to our Preferred Stock, contain various covenants that may limit our discretion in the operation of our business and/or require us to meet financial maintenance tests and other covenants. The failure to comply with such tests and covenants could have a material adverse effect on us.

The agreements governing our indebtedness and Preferred Stock, including the 11% Notes Indenture, the Schuff Facility and the GMSL Facility, as well as the Certificates of Designation with respect to the Preferred Stock, contain, and any of our other future financing agreements may contain, covenants imposing operating and financial restrictions on our businesses.

The 11% Notes Indenture contains various covenants, including those that restrict our ability to, among other things:

- incur liens on our property, assets and revenue;
- borrow money, and guarantee or provide other support for the indebtedness of third parties;
- redeem or repurchase, our capital stock;
- prepay, redeem or repurchase, certain of our indebtedness, including our Preferred Stock;
- enter into certain change of control transactions;
- make investments in entities that we do not control, including joint ventures;
- enter into certain asset sale transactions, including divestiture of certain company assets and divestiture of capital stock of wholly-owned subsidiaries;
- enter into certain transactions with affiliates;
- enter into secured financing arrangements; and
- enter into sale and leaseback transactions.

The Schuff Facility and the GMSL Facility contain similar covenants applicable to Schuff and GMSL, respectively. These covenants may limit our ability to effectively operate our businesses. In addition, the 11% Notes Indenture requires that we meet certain financial tests, including a collateral coverage ratio and minimum liquidity test. Our ability to satisfy these tests may be affected by factors and events beyond our control, and we may be unable to meet such tests in the future.

Any failure to comply with the restrictions in the 11% Notes Indenture, or any agreement governing other indebtedness we could incur, may result in an event of default under those agreements. Such default may allow the creditors to accelerate the related debt, which acceleration may trigger cross-acceleration or cross-default provisions in other debt. If any of these risks were to occur, our business and operations could be materially and adversely affected.

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The Certificates of Designation provide the holders of our Preferred Stock with consent and voting rights with respect to certain of the matters referred to above, in addition to certain corporate governance rights. These restrictions may interfere with our ability to obtain financings or to engage in other business activities, which could have a material adverse effect on our business and operations.

We have significant indebtedness and other financing arrangements and could incur additional indebtedness and other obligations, which could adversely affect our business and financial condition.

We have a significant amount of indebtedness and Preferred Stock. As of December 31, 2014, our total outstanding indebtedness was $343.4 million and the accrued value of our Series A Preferred Stock and Series A-1 Preferred Stock was $39.9 million, and on January 5, 2015 we issued $14.0 million of our Series A-2 Preferred Stock. We may not generate enough cash flow to satisfy our obligations under such indebtedness and other arrangements.

Additional risks relating to our indebtedness and other financing arrangements include:

- increased vulnerability to general adverse economic and industry conditions;
- higher interest expense if interest rates increase on our floating rate borrowings and our hedging strategies are not effective to mitigate the effects of these increases;
- our having to divert a significant portion of our cash flow from operations to payments on our indebtedness and other arrangements, thereby reducing the availability of cash to fund working capital, capital expenditures, acquisitions, investments and other general corporate purposes;
- limiting our ability to obtain additional financing, on terms we find acceptable, if needed, for working capital, capital expenditures, expansion plans and other investments, which may limit our ability to implement our business strategy;
- limiting our flexibility in planning for, or reacting to, changes in our businesses and the markets in which we operate or to take advantage of market opportunities; and ·
- placing us at a competitive disadvantage compared to our competitors that have less debt and other outstanding obligations.

In addition, it is possible that we may need to incur additional indebtedness or enter into additional financing arrangements in the future in the ordinary course of business. The terms of the 11% Notes Indenture and our other financing arrangements allow us to incur additional debt and issue additional shares of preferred stock, subject to certain limitations. If additional indebtedness is incurred or equity is issued, the risks described above could intensify. In addition, our inability to maintain certain leverage ratios could result in acceleration of a portion of our debt obligations and could cause us to be in default if we are unable to repay the accelerated obligations.

HC2 may issue additional shares of common stock or preferred stock, which could dilute the interests of its stockholders and present other risks.

HC2's certificate of incorporation, as amended (the "Certificate of Incorporation"), authorizes the issuance of up to 80,000,000 shares of common stock and 20,000,000 shares of preferred stock. As of February 28, 2015, HC2 has 23,815,216 shares of its common stock issued and outstanding, and 55,000 shares of Preferred Stock issued and outstanding. However, the Certificate of Incorporation authorizes HC2's Board of Directors to from time to time, subject to limitations prescribed by law and any consent rights granted to holders of outstanding shares of Preferred Stock, to issue additional shares of preferred stock having rights that are senior to those afforded to the holders of HC2's common stock. HC2 also has reserved shares of common stock for issuance pursuant to its broad-based equity incentive plans, upon exercise of stock options and other equity-based awards granted thereunder, and pursuant to other equity compensation arrangements.

HC2 may issue shares of common stock or additional shares of preferred stock to raise additional capital, to complete a business combination or other acquisition, to capitalize new businesses or new or existing businesses of our operating subsidiaries or pursuant to other employee incentive plans, any of which could dilute the interests of HC2's stockholders and present other risks.

The issuance of additional shares of common stock or preferred stock may, among other things:

- significantly dilute the equity interest and voting power of all other stockholders;

- subordinate the rights of holders of HC2's outstanding common stock and/or Preferred Stock if preferred stock is issued with rights senior to those afforded to holders of HC2's common stock and/or Preferred Stock;
- call for us to make dividend or other payments not available to the holders of HC2's common stock; and

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- cause a change in control of our company if a substantial number of shares of HC2's common stock is issued and/or if additional shares of preferred stock having substantial voting rights are issued.

The issuance of additional shares of common stock or preferred stock, or perceptions in the market that such issuances could occur, may also adversely affect the prevailing market price of HC2's outstanding common stock and impair our ability to raise capital through the sale of additional equity securities.

Future sales of substantial amounts of HC2 common stock by holders of our Preferred Stock or other significant stockholders may adversely affect the market price of HC2 common stock.

As of December 31, 2014, the holders of our outstanding Preferred Stock had certain rights to convert their Preferred Stock into an aggregate amount of approximately 10,192,757 shares of our common stock. Pursuant to a second amended and restated registration rights agreement (the "Registration Rights Agreement") entered into in connection with the issuance of the Preferred Stock, we have granted registration rights to the purchasers of our Preferred Stock and certain of their transferees with respect to HC2 common stock held by them and common stock underlying the Preferred Stock. This Registration Rights Agreement allows these holders, subject to certain conditions, to require us to register the sale of their shares under the federal securities laws. Furthermore, the shares of HC2 common stock held by these holders, as well as other significant stockholders, may be sold into the public market under Rule 144 of the Securities Act of 1933, as amended.

Future sales of substantial amounts of HC2 common stock into the public market, or perceptions in the market that such sales could occur, may adversely affect the prevailing market price of HC2 common stock and impair our ability to raise capital through the sale of additional equity securities.

Changes in credit ratings issued by nationally recognized statistical ratings organizations could adversely affect our cost of financing and the market price of our securities.

Credit rating agencies rate our debt securities and other instruments on factors that include our operating results, actions that we take, their view of the general outlook for our industry and their view of the general outlook for the economy. Actions taken by the rating agencies can include maintaining, upgrading, or downgrading the current rating or placing us on a watch list for possible future downgrading. Downgrading the credit rating of our debt securities or other instruments or placing us on a watch list for possible future downgrading would likely increase our cost of financing, limit our access to the capital markets and have an adverse effect on the market price of our securities.

Price fluctuations in HC2's common stock could result from general market and economic conditions and a variety of other factors.

The trading price of HC2's common stock may be highly volatile and could be subject to fluctuations in response to a number of factors beyond our control, including:

- actual or anticipated fluctuations in our results of operations and the performance of our competitors;
- reaction of the market to our announcement of any future acquisitions or investments;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- changes in general economic conditions; and
- actions of HC2's equity investors, including sales of HC2's common stock by significant shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We currently lease our corporate headquarters facility, which is located in Herndon, Virginia. Additionally, we lease administrative, technical and sales office space in various locations in the countries in which we operate. GMSL is headquartered in Chelmsford, UK, Schuff is headquartered in Phoenix, Arizona, and our European ICS operations are headquartered in London. We also lease space for switches operated by our Telecommunications segment. As of December 31, 2014, total leased space in the United States and the United Kingdom, as well as other countries in which we operate, approximates 508,000 square feet and the total annual lease costs are approximately $4.2 million. The operating leases expire at various times, with the longest commitment expiring in 2027. We believe that our present administrative, technical and sales

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office facilities are adequate for our anticipated operations and that similar space can be obtained readily as needed. In addition, Schuff owns operations, administrative, and sales offices located throughout the United States approximating 1,562,000 square feet.

We own substantially all of our equipment required for our businesses which include cable–ships and submersibles, steel machinery and equipment, and communications equipment. Our net property and equipment was $233.0 million and $3.0 million at December 31, 2014 and 2013, respectively. As of December 31, 2014, total equipment under capital leases consisted of $75.5 million of cable-ships and submersibles. See Note 7—"Property and Equipment," for additional detail regarding our property and equipment. HC2's 11% Notes issued on November 20, 2014 are secured by substantially all of the Company's assets. In addition, the Schuff Facility and GMSL Facility are secured by certain of the assets of Schuff and GMSL, respectively. See Note 9—"Long-Term Obligations," for additional detail regarding encumbrances affecting our property and equipment.

ITEM 3. LEGAL PROCEEDINGS

On November 6, 2014, a putative stockholder class action complaint challenging the buyout by HC2 Holdings, Inc. of the noncontrolling interest in Schuff International, Inc. ("Schuff International") was filed in the Court of Chancery of the State of Delaware, captioned Mark Jacobs v. Philip A. Falcone, Keith M. Hladek, Paul Voigt, Michael R. Hill, Rustin Roach, D. Ronald Yagoda, Phillip O. Elbert, HC2 Holdings, Inc., and Schuff International, Inc., Civil Action No. 10323 (the "Complaint"). On November 17, 2014, a second lawsuit was filed in the Court of Chancery of the State of Delaware, captioned Arlen Diercks v. Schuff International, Inc. Philip A. Falcone, Keith M. Hladek, Paul Voigt, Michael R. Hill, Rustin Roach, D. Ronald Yagoda, Phillip O. Elbert, HC2 Holdings, Inc., Civil Action No. 10359. The Complaints allege, among other things, that in connection with the buyout, the individual members of the Schuff International board of directors and HC2 Holdings, the controlling stockholder of Schuff, breached their fiduciary duties to members of the plaintiff class. The Complaints seek a rescission of the buyout and/or compensatory damages, as well as attorney's fees and other relief. On February 19, 2015, the court consolidated the actions (now designated as Schuff International, Inc. Stockholders Litigation) and appointed lead plaintiff and counsel. No responsive pleading has been filed yet by the defendants. We believe that the allegations and claims set forth in the Complaint are without merit and intend to defend them vigorously.

On January 16, 2014, Xplornet Communications Inc. and Xplornet Broadband Inc. ("Xplornet") instituted an action in the Ontario Superior Court of Justice styled Xplornet Communications Inc. and Xplornet Broadband Inc. vs. Inukshuk Wireless Inc., et al. Other defendants include Globility Communications Corporation ("Globility"), MIPPS Inc. ("MIPPS"), Primus Telecommunications Canada Inc. and the Company (sued under its previous name). In such action, Xplornet alleges that it entered into an agreement to acquire certain licenses for radio spectrum in Canada from Globility, a former subsidiary of the Company. Xplornet alleges that Globility agreed to sell Xplornet certain spectrum licenses in a Letter of Intent dated July 12, 2011 but then breached the Letter of Intent by selling the licenses to Inukshuk Wireless Inc. ("Inukshuk") and that Globility further failed to negotiate with Xplornet in good faith. Xplornet also alleges that it reached an agreement with Inukshuk to purchase the licenses on June 26, 2012, but that Inukshuk breached that agreement by not completing the sale. Xplornet claims that, as a result of the foregoing, it has been damaged in the amount of $50 million. Xplornet also seeks injunctive relief against Inukshuk, pre and post-judgment interest, and costs. We intend to assert that we have meritorious defenses in the foregoing matter and we intend to defend ourselves vigorously.

The Company is indemnifying Primus Telecommunications Canada, Inc., Globility, and MIPPS subject to a full reservation of rights pursuant to the Equity Purchase Agreement among PTUS, Inc., PTCAN, Inc. Primus Telecommunications Group, Incorporated, Primus Telecommunications Holding, Inc., Lingo Holdings, Inc. and Primus Telecommunications International, Inc. dated as of May 10, 2013 in connection with this case.

On March 13, 2015, Inukshuk Wireless Partnership filed a cross claim against Globility, MIPPS, Primus Telecommunications Canada Inc., and the Company. Inukshuk asserts that if Inukshuk is found liable to Xplornet, then Inukshuk is entitled to contribution and indemnity, compensatory damages, interest, and costs from the Company. Inukshuk alleges that Globility represented and warranted that it owned the licenses at issue, that Globility held the licenses free and clear, and that no third party had any rights to acquire them. Inukshuk claims breach of

contract and misrepresentation if the Court finds that any of these representations are untrue. We intend to assert that we have meritorious defenses to the cross claim and we intend to defend ourselves vigorously.
In December 2012, British Petroleum ("BP") brought suit against Carboline Company ("Carboline"), Trinity Steel Fabricators, Inc. ("Trinity"), the Schuff's subsidiary, Schuff Steel Company ("SSC"), Tecon Services, Inc. ("Tecon") and Alfred Miller Contracting Company ("AMC") in regards to fabrication work on a BP refinery in Indiana. BP alleged that the Schuff

subsidiary and others defectively fireproofed certain pieces of steel used in a modernization project at the refinery. AMC and Tecon filed a Petition for Damages and Declaratory Judgment against Caroline, BP Corporation North America Inc., BP Products North America, Trinity, SSC, Schuff Steel-Gulf Coast, Inc., and others. In April 2014, the lawsuits were successfully mediated and a confidential settlement agreement was executed on June 16, 2014. Both cases were dismissed in July 2014.

The Company is subject to other claims and legal proceedings that arise in the ordinary course of its 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 flows. 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 flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock

HC2 common stock began trading on the New York Stock Exchange ("NYSE") under the ticker symbol "PTGI" on June 23, 2011. On November 18, 2013, the Company voluntarily withdrew the trading of HC2 common stock on the NYSE, at which point HC2 common stock began to trade on the OTCQB Market ("OTCQB") under the same ticker symbol, "PTGI." On April 9, 2014 in connection with our name change, we changed the ticker symbol of our common stock from "PTGI" to "HCHC". On December 29, 2014, HC2 common stock began to trade on the NYSE MKT LLC ("NYSE MKT") under the same ticker symbol "HCHC".

The following table provides the high and low sale prices for HC2's common stock as reported by the NYSE, OTCQB or NYSE MKT, as applicable, for each quarterly period for the last two fiscal years. The quotations from the OTCQB reflect inter-dealer prices, without retail markup, markdown or commissions, and may not represent actual transactions.

	Common Stock	
Period	High	Low
2014		
1st Quarter	$4.04	$2.80
2nd Quarter	$4.10	$3.50
3rd Quarter	$4.60	$3.86
4th Quarter	$8.50	$4.41
2013		
1st Quarter	$12.34	$10.00
2nd Quarter	$14.77	$9.85
3rd Quarter	$12.71	$3.30
4th Quarter	$3.69	$2.25

Holders of Common Stock

As of February 28, 2015, HC2 had 32 holders of record of its common stock. This number does not include stockholders for whom shares were held in "nominee" or "street" name.

Dividends

During 2013 and 2014, HC2's Board of Directors declared one special cash dividend with respect to HC2's issued and outstanding common stock, as presented in the following table (Total Dividend amount presented in thousands):

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	Cash Dividend Per Share
	$8.50
Declaration Date	August 7, 2013
Holders of Record Date	August 20, 2013
Payment Date	August 27, 2013
Total Dividend	$ 119,788

HC2 paid no dividends on its common stock in 2014, and the HC2 Board of Directors has no current intention of paying any dividends on HC2 common stock in the near future. The payment of dividends, if any, in the future is within the discretion of the HC2 Board of Directors and will depend on our earnings, our capital requirements and financial condition. The 11% Notes Indenture contains covenants that, among other things, limit or restrict our ability to make certain restricted payments, including the payment of cash dividends with respect to HC2's common stock. The Schuff Facility and the GMSL Facility contain similar covenants applicable to Schuff and GMSL, respectively. See Item 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" and Note 9—"Long-Term Obligations" to our consolidated financial statements for more detail concerning our 11% Notes and other financing arrangements. Moreover, dividends may be restricted by other arrangements entered into in the future by us.

Class A and B Warrants

In July 2009, HC2 issued Class A Warrants, which were divided into three separate series (Class A-1, Class A-2 and Class A-3 Warrants), and Class B Warrants to purchase shares of HC2 common stock.

There were 878,940 Class A-1 Warrants exercised during the year ended December 31, 2014, resulting in the issuance of 3,855,289 shares of HC2's common stock. There were 780,753 Class A-2 Warrants exercised during the year ended December 31, 2014, resulting in the issuance of 3,424,641 shares of HC2's common stock. There were 5,709 Class A-3 Warrants exercised during the year ended December 31, 2014, resulting in the issuance of 25,041 shares of HC2's common stock. The warrants expired on July 1, 2014.

Issuance of Common Stock

On May 29, 2014, HC2 issued 1,500,000 shares of common stock to certain of the purchasers of our Series A Convertible Participating Preferred Stock (discussed below), the proceeds of which were used to pay for a portion of the purchase price for the acquisition of Schuff.

Issuances of Preferred Stock

On May 29, 2014, HC2 issued 30,000 shares of Series A Convertible Participating Preferred Stock of HC2 (the "Series A 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. On September 22, 2014, HC2 issued 11,000 shares of Series A-1 Convertible Participating Preferred Stock (the "Series A-1 Preferred Stock"). Each share of Series A-1 Preferred Stock is convertible at a conversion price of $4.25. In connection with the issuance of the Series A-1 Preferred Stock, HC2 amended the certificate of designation governing the Series A Preferred Stock on September 22, 2014, which changed the applicable conversion price from $4.25 to $4.00, reflected the issuance of the Series A-1 Preferred Stock as a class of preferred stock which ranks at parity with the Series A Preferred Stock and made certain other changes to conform the terms of the Series A Preferred Stock to those of the Series A-1 Preferred Stock. On January 5, 2015, HC2 issued 14,000 shares of Series A-2 Convertible Participating Preferred Stock of HC2 (the "Series A-2 Preferred Stock" and together with the Series A Preferred Stock and Series A-1 Preferred Stock, the "Preferred Stock"). Each share of Series A-2 Preferred Stock is convertible at a conversion price of $8.25. The conversion prices for the Preferred Stock are subject to adjustments for dividends, certain distributions, stock splits, combinations, reclassifications, reorganizations, mergers, recapitalizations and similar events. See Note 14—"Equity" for additional terms of the Preferred Stock.

Recent Sales of Unregistered Securities

There were no unregistered sales of our equity securities in the year ended December 31, 2014, except as otherwise reported.

Issuer Purchases of Equity Securities

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Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in millions)
Shares purchased in satisfaction of tax withholding obligations (1)				
October 1, 2014 to October 31, 2014	1,516	$4.06	—	$ —
November 1, 2014 to November 30, 2014	—	$—	—	$ —
December 1, 2014 to December 31, 2014	—	$—	—	$ —
Total	1,516	$4.06	—	$ —

(1) Upon vesting of restricted stock units awarded by HC2 to employees, HC2 withholds shares to cover employees' tax withholding obligations, other than for employees who have chosen to satisfy their tax withholding requirements in the form of a cash payment. The table above reflects shares of common stock withheld to satisfy tax withholding obligations during the fourth quarter of 2014.

Stock Performance Graph

The following graph compares the cumulative total returns during the period from December 31, 2009 to December 31, 2014 of our common stock to the Standard & Poor's Midcap 400 Index and the iShares S&P Global Telecommunications Sector Index. The comparison assumes $100 was invested on December 31, 2009 in the common stock of HC2 and the indices and assumes that all dividends were reinvested. HC2's common stock began trading on the OTC Bulletin Board on July 1, 2009, on the NYSE on June 23, 2011, on the OTCQB on November 18, 2013, and on the NYSE MKT on December 29, 2014.

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	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014
HC2 Holdings, Inc. (HCHC)	$ 100.00	$ 217.39	$ 220.17	$ 257.96	$ 114.03	$ 337.29
Standard & Poor's Midcap 400 Index (^MID)	$ 100.00	$ 124.85	$ 120.98	$ 140.43	$ 184.75	$ 199.88
iShares S&P Global Telecommunications Sector Index Fund (IXP)	$ 100.00	$ 111.60	$ 112.65	$ 121.04	$ 146.79	$ 145.00

The performance graph will not be deemed to be incorporated by reference by means of any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that HC2 specifically incorporates such information by reference, and shall not otherwise be deemed filed under such Acts.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below should be read in conjunction with (i) Item 7 entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," (ii) our consolidated audited annual financial statements and the notes thereto, each of which are contained in Item 8 entitled "Financial Statements and Supplementary Data" and (iii) the information described below under "—Discontinued Operations."

Discontinued Operations

We have reclassified several segments as discontinued operations. Accordingly, revenue, costs, and expenses of the discontinued operations have been excluded from the respective captions in the consolidated statements of operations. Conversely, as it pertains to ICS, we reclassified such operations as a continuing operation effective as of the fourth quarter of 2013; accordingly, the revenue, costs and expenses are now included in the respective captions in the consolidated statements of operations. The net operating results of the discontinued operations have been reported, net of applicable income taxes as income, or loss, as applicable, from discontinued operations. There have been no reclassifications of any of our subsidiaries as discontinued operations in 2014.

- ICS. During the second quarter of 2012, the Board of Directors of HC2 committed to dispose of ICS and as a result classified ICS as a discontinued operation. In December 2013, based on management's assessment of the requirements under 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. As a result, the Company has applied retrospective adjustments for 2012, 2011, and 2010 to reflect the effects of the Company's decision to cease its sale process of ICS that occurred as of December 31, 2013.
- BLACKIRON Data. In the second quarter of 2013, the Company sold its BLACKIRON Data segment. As a result, the Company has applied retrospective adjustments for 2012, 2011 and 2010 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2012.
- North America Telecom. In the third quarter of 2013, the Company completed the initial closing of the sale of its North America Telecom segment. In conjunction with the initial closing, the Company redeemed its outstanding debt. 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 HC2 Holdings, Inc. has been allocated to discontinued operations. The closing of the sale of PTI (the remaining portion of the North America Telecom segment subject to the applicable purchase agreement) was completed on July 31, 2014. Prior to the closing, PTI had been included in discontinued operations as a result of being held for sale. As a result, the Company has applied retrospective adjustments for 2012, 2011 and 2010 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2012.

- Australia. During the second quarter of 2012, the Company sold its Australian segment. As a result, the Company has applied retrospective adjustments for 2011 and 2010 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2011.
- Brazil. During the fourth quarter of 2011, the Company sold its Brazilian segment. As a result, the Company has applied retrospective adjustments for 2010 to reflect the effects of the discontinued operations that occurred subsequent to December 31, 2010.

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• Europe. During the third quarter of 2010, the Company discontinued its European segment, which was also known as European retail operations and has presented the results of the European segment as discontinued operations and held for sale as of September 30, 2010.

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

	Years Ended December 31,				
	2014 (As Restated)	2013	2012	2011	2010
Services revenue	$197,280	$230,686	$302,959	$411,983	$178,739
Sales revenue	350,158	—	—	—	—
Net revenue	547,438	230,686	302,959	411,983	178,739
Operating expenses:					
Cost of revenue—services	177,812	220,315	285,631	389,412	168,698
Cost of revenue—sales	296,530	—	—	—	—
Selling, general and administrative	80,239	34,692	45,202	42,299	25,557
Depreciation and amortization	6,334	12,032	3,204	6,636	380
(Gain) loss on sale or disposal of assets	(162)	(8)	520	124	—
Asset impairment expense	291	2,791	20,298	14,679	—
Total operating expenses	561,044	269,822	354,855	453,150	194,635
Loss from operations	(13,606)	(39,136)	(51,896)	(41,167)	(15,896)
Interest expense	(10,754)	(8)	(27)	(94)	(36)
Amortization of debt discount	(1,593)	—	—	—	—
Loss on early extinguishment or restructuring of debt	(11,969)	—	—	—	—
Gain (loss) from contingent value rights valuation	—	14,904	1,292	2,902	(13,737)
Interest income and other expense, net	768	(226)	90	169	(232)
Foreign currency transaction gain (loss)	(66)	(588)	2,538	(4,301)	3,654
Income (loss) from continuing operations before reorganization items, income taxes and income (loss) from equity investees	(37,220)	(25,054)	(48,003)	(42,491)	(26,247)
Reorganization items, net	—	—	—	—	1
Income (loss) from continuing operations before income taxes and income (loss) from equity investees	(37,220)	(25,054)	(48,003)	(42,491)	(26,246)
Income (loss) from equity investees	2,665	—	—	—	—
Income tax (expense) benefit	22,869	7,442	3,132	(1,066)	(1,044)
Income (loss) from continuing operations	(11,686)	(17,612)	(44,871)	(43,557)	(27,290)
Income (loss) from discontinued operations	(25)	(19,621)	(21,525)	15,069	5,172
Gain (loss) from sale of discontinued operations	(121)	148,839	94,265	(4,781)	2,926
Net income (loss)	(11,832)	111,606	27,869	(33,269)	(19,192)
Less: Net (income) loss attributable to noncontrolling interest	(2,559)	—	18	(5,461)	105
Net income (loss) attributable to HC2 Holdings, Inc.	(14,391)	111,606	27,887	(38,730)	(19,087)
Less: Preferred stock dividends and accretion	2,049	—	—	—	—
Net income (loss) attributable to common stock and participating preferred stockholders	$(16,440)	$111,606	$27,887	$(38,730)	$(19,087)
Basic income (loss) per common share:					
Loss from continuing operations attributable to HC2 Holdings, Inc.	$(0.82)	$(1.25)	$(3.24)	$(3.77)	$(2.79)

Income (loss) from discontinued operations	—	(1.40)	(1.55)	1.16	0.53
Gain (loss) from sale of discontinued operations	(0.01)	10.60	6.81	(0.37)	0.30
Net income (loss) attributable to HC2 Holdings, Inc.	$(0.83)	$7.95	$2.02	$(2.98)	$(1.96)

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	Years Ended December 31, 2014 (As Restated)	2013	2012	2011	2010
Diluted income (loss) per common share:					
Loss from continuing operations attributable to HC2 Holdings, Inc.	$(0.82)	$(1.25)	$(3.24)	$(3.77)	$(2.79)
Income (loss) from discontinued operations	—	(1.40)	(1.55)	1.16	0.53
Gain (loss) from sale of discontinued operations	(0.01)				