HC2 Holdings, Inc.
Form 424B2
November 05, 2015
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Filed pursuant to Rule 424(b) (2)
Registration No. 333-207470

PROSPECTUS SUPPLEMENT
(To Prospectus dated October 27, 2015)

7,350,000 Shares

HC2 HOLDINGS, INC.
Common Stock

We are offering 7,350,000 shares of our common stock. Our common stock is listed on NYSE MKT LLC under the symbol HCHC. On November 2, 2015, the last reported sale price of our common stock on NYSE MKT LLC was $7.33 per share.

Investing in our securities involves a high degree of risk. Please read Risk Factors beginning on page S-37 of this prospectus supplement, and on page 5 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$ 7.00	$ 51,450,000
Underwriting Discounts and Commissions[(1)]	$ 0.35	$ 2,572,500
Proceeds to HC2 Before Expenses	$ 6.65	$ 48,877,500

(1) We refer to you to Underwriting beginning on page S-77 for additional information regarding compensation paid to the underwriter.

Delivery of the shares of common stock will be made on or about November 9, 2015. We have granted the underwriter an option for a period of 30 days to purchase an additional 1,102,500 shares of our common stock. If the underwriter exercises the option in full, the total underwriting discounts and commissions payable by us will be $2,958,375 and the total proceeds to us before expenses, will be $56,209,125.

The underwriter, Jefferies LLC, may purchase shares for its own account in this offering. See The Offering — Purchase by Underwriter for its Own Account and Underwriting — Purchase By Underwriter for its Own Account.

Sole Book-Running Manager

Jefferies

Prospectus supplement dated November 4, 2015.

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PROSPECTUS SUPPLEMENT

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should read this prospectus supplement, the accompanying prospectus, the documents and information incorporated by reference in the accompanying prospectus and any prospectus supplement that we authorize for use in connection with this offering when making your investment decision.

You should rely only on the information contained in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus or any other offering material we authorize. We have not, and the underwriter has not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We and the underwriter will not make an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement and accompanying prospectus is accurate as of the date on its respective cover, and that any information incorporated by reference is accurate only as of the date of the document incorporated by reference, unless we indicate otherwise. Our business, financial condition, results of operations and prospects may have changed since those dates.

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus.

The second part, the accompanying prospectus dated October 27, 2015, including the documents incorporated by reference therein, provides more general information, including information regarding our common stock. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or in any document incorporated by reference that was filed with the Securities and Exchange Commission (the SEC), before the date of this prospectus supplement, on the other hand, you should rely on the information in this prospectus supplement. If any statement in one of these documents is inconsistent with a statement in another document having a later date (for example, a document incorporated by reference in this prospectus supplement or in the accompanying prospectus) the statement in the document having the later date modifies or supersedes the earlier statement.

All references in this prospectus supplement to our financial statements include, unless the context indicates otherwise, the related notes.

When we refer to HC2, we, our, us and the Company in this prospectus supplement, we mean HC2 Holdings, In its consolidated subsidiaries, unless otherwise specified. When we refer to you, we mean the holders of the applicable series of securities.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and accompanying prospectus, including the documents incorporated by reference herein and therein, contain or incorporate a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based on current expectations, and are not strictly historical statements. In some cases, you can identify forward-looking statements by terminology such as if, may, should, believe, anticipate, future, forward, estimate, opportunity, goal, objective, growth, outcome, could, expect, intend, plan, strategy, result, seek, pursue, ongoing, include or in the negative of such terms or comparable terminology.

These forward-looking statements inherently involve certain risks and uncertainties and are not guarantees of performance, results, or the creation of shareholder value, although they are based on our current plans or assessments which we believe to be reasonable as of the date hereof.

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Factors or risks that could cause the Company s actual results to differ materially from the results we anticipate include, but are not limited to:

- the possibility of indemnification claims arising out of divestitures of businesses;
- uncertain global economic conditions in the markets in which our operating segments conduct their businesses;
- the ability of our operating segments to attract and retain customers;
- increased competition in the markets in which our operating segments conduct their businesses;
- our possible inability to generate sufficient liquidity, margins, earnings per share, cash flow and working capital from our operating segments;
- our expectations regarding the timing, extent and effectiveness of our cost reduction initiatives and management s ability to moderate or control discretionary spending;
- management s plans, goals, forecasts, expectations, guidance, objectives, strategies and timing for future operations, acquisitions, synergies, asset dispositions, fixed asset and goodwill impairment charges, tax and withholding expense, selling, general and administrative expenses, product plans, performance and results;
- management s assessment of market factors and competitive developments, including pricing actions and regulatory rulings;
- limitations on our ability to successfully identify and complete any strategic acquisitions, including our pending acquisitions of United Teacher Associates Insurance Company (UTAIC) and Continental General Insurance Company (“CGIC” and, together with UTAIC, the Insurance Companies), or business opportunities and to compete for these opportunities with others who have greater resources;
- our ability to integrate acquired businesses and otherwise obtain the benefits of acquisitions that we make;
- the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;
- the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- our dependence on distributions from our subsidiaries to fund our operations and payments on our obligations;

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- the impact of covenants in the certificates of designation governing the Company s preferred stock, the indenture (the 11% Notes Indenture) governing our 11% senior secured notes due 2019 (the 11% Notes), the credit agreements governing the Schuff Facility (as hereinafter defined) and the GMSL Facility (as hereinafter defined) and future financing or refinancing agreements, on our ability to operate our business and finance our pursuit of acquisition opportunities;
- the impact on the holders of the Company s common stock if we issue additional shares of the Company common stock or preferred stock;
- the impact of decisions by the Company s significant stockholders, whose interests may differ from those of the Company s other stockholders, or their ceasing to remain significant stockholders;
- the effect any interests our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;
- our dependence on certain key personnel;
- our ability to effectively increase the size of our organization, if needed, and manage our growth;
- the impact of a determination that we are an investment company or personal holding company;
- the impact of delays or difficulty in satisfying the requirements of Section 404 of the Sarbanes Oxley Act of 2002 or negative reports concerning our internal controls;
- costs and risks associated with litigation;
- the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we may incur;
- our possible inability to raise additional capital when needed or refinance our existing debt, on attractive terms, or at all; and
- our possible inability to hire and retain qualified executive management, sales, technical and other personnel.

Marine Services / Global Marine Services Ltd.

Factors or risks that could cause the actual results of Global Marine Services Ltd. (GMSL), and thus the actual results of our Marine Services segment, to differ materially from the results we anticipate include, but are not limited to:

- the possibility of global recession or market downturn with a reduction in capital spending within the targeted market segments the business operates in;
- project implementation issues and possible subsequent overruns;
- risks associated with operating outside of core competencies when moving into different market segments;
- possible loss or severe damage to marine assets;
- vessel equipment aging or reduced reliability;
- risks associated with operating two joint ventures in China (China Telecommunications Corp.; Huawei Marine Networks Co., Limited);
- risks related to foreign corrupt practices and economic sanctions, laws and regulations;
- changes to the local laws and regulatory environment in different geographical regions;
- loss of key senior employees;
- difficulties attracting enough skilled technical personnel;
- foreign exchange rate risk;
- liquidity risk; and

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- potential for financial loss arising from the failure by customers to fulfil their obligations as and when these obligations fall due.

Manufacturing / Schuff International, Inc.

Factors or risks that could cause the actual results of Schuff International, Inc. (Schuff), and thus the actual results of our Manufacturing segment, to differ materially from the results we anticipate include, but are not limited to:

- its ability to realize cost savings from expected performance of contracts, whether as a result of improper estimates, performance, or otherwise;
- uncertain timing and funding of new contract awards, as well as project cancellations;
- cost overruns on fixed-price or similar contracts or failure to receive timely or proper payments on cost reimbursable contracts, whether as a result of improper estimates, performance, disputes, or otherwise;
- risks associated with labor productivity, including performance of subcontractors that Schuff hires to complete projects;
- its ability to settle or negotiate unapproved change orders and claims;
- changes in the costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;
- adverse impacts from weather affecting Schuff s performance and timeliness of completion of projects, which could lead to increased costs and affect the quality, costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;
- fluctuating revenue resulting from a number of factors, including the cyclical nature of the individual markets in which our customers operate;
- adverse outcomes of pending claims or litigation or the possibility of new claims or litigation, and the potential effect of such claims or litigation on Schuff s business, financial condition, results of operations or cash flow; and
- lack of necessary liquidity to provide bid, performance, advance payment and retention bonds, guarantees, or letters of credit securing Schuff s obligations under bids and contracts or to finance expenditures prior to the receipt of payment for the performance of contracts.

Telecommunications / PTGi International Carrier Services, Inc. and PTGi-ICS Limited (together, ICS)

Factors or risks that could cause ICS s, and thus our Telecommunications segment s, actual results to differ materially from the results we anticipate include, but are not limited to:

- our expectations regarding increased competition, pricing pressures and usage patterns with respect to ICS s product offerings;
- significant changes in ICS s competitive environment, including as a result of industry consolidation, and the effect of competition in its markets, including pricing policies;
- its compliance with complex laws and regulations in the U.S. and internationally; and
- further changes in the telecommunications industry, including rapid technological, regulatory and pricing changes in its principal markets.

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Continental Insurance Group Ltd.

If the acquisition of the issued and outstanding shares of common stock of the Insurance Companies (the Insurance Companies Acquisitions) by Continental Insurance Group Ltd. (CIG) is consummated, factors or risks that could cause CIG s actual results to differ materially from the results we anticipate include, but are not limited to:

- CIG s insurance subsidiaries ability to maintain statutory capital and maintain or improve their financial strength;
- CIG s insurance subsidiaries reserve adequacy, including the effect of changes to accounting or actuarial assumptions or methodologies;
- the accuracy of CIG s assumptions and estimates regarding future events and ability to respond effectively to such events, including mortality, morbidity, persistency, expenses, interest rates, tax liability, business mix, frequency of claims, severity of claims, contingent liabilities, investment performance, and other factors related to its business and anticipated results;
- availability, affordability and adequacy of reinsurance and credit risk associated with reinsurance;
- CIG s insurance subsidiaries are extensively regulated and subject to numerous legal restrictions and regulations;
- CIG s ability to defend itself against litigation, inherent in the insurance business (including class action litigation), and respond to enforcement investigations or regulatory scrutiny;
- the performance of third parties including distributors and technology service providers, and providers of outsourced services;
- the impact of changes in accounting and reporting standards;
- CIG s ability to protect its intellectual property;
- general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance which may affect (among other things) CIG s ability to access capital resources and the costs associated therewith, the fair value of CIG s investments, which could result in impairments and other-than-temporary impairments, and certain liabilities;
- CIG s exposure to any particular sector of the economy or type of asset through concentrations in its investment portfolio;
- the ability to increase sufficiently, and in a timely manner, premiums on in-force long-term care insurance policies and/or reduce in-force benefits, as may be required from time to time in the future (including as a result of our failure to obtain any necessary regulatory approvals or unwillingness or inability of policyholders to pay increased premiums);
- other regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) regulation of the sale, underwriting and pricing of products, and minimum capitalization, risk-based capital and statutory reserve requirements for insurance companies, and CIG s insurance subsidiaries ability to mitigate such requirements; and
- CIG s ability to effectively implement its business strategy or be successful in the operation of its business;
- CIG s ability to retain, attract and motivate qualified employees;
- interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems;
- medical advances, such as genetic research and diagnostic imaging, and related legislation; and
- the occurrence of natural or man-made disasters or a pandemic.

See Prospectus Supplement Summary—Recent developments and documents incorporated by reference in this prospectus supplement and the accompanying prospectus for more information about the acquisitions of the Insurance Companies.

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Other unknown or unpredictable factors could also affect our business, financial condition and results. Although we believe that the expectations reflected in the forward looking statements are reasonable, there can be no assurance that any of the estimated or projected results will be realized. You should not place undue reliance on these forward-looking statements, which apply only as of the date hereof. Subsequent events and developments may cause our views to change. While we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so.

You should read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein completely and with the understanding that our actual results may differ materially from what we expect as expressed or implied by our forward-looking statements. In light of the significant risks and uncertainties to which our forward-looking statements are subject, you should not place undue reliance on or regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified timeframe, or at all. We discuss many of these risks in greater detail, including under the heading Risk Factors and in the documents incorporated by reference herein. These forward-looking statements represent our estimates and assumptions only as of the date of this prospectus supplement regardless of the time of delivery of this prospectus supplement or any sale of our common stock and, except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this prospectus supplement. For all forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

NON-GAAP FINANCIAL MEASURES

Adjusted EBITDA

Management believes that Adjusted EBITDA is meaningful to gaining an understanding of our results as it is frequently used by the financial community to provide insight into an organization s operating trends and facilitates comparisons between peer companies, since interest, taxes, depreciation, amortization and the other items listed in the definition of Adjusted EBITDA below can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA can also be a useful measure of a company s ability to service debt. While management believes that non-US GAAP measurements are useful supplemental information, such adjusted results are not intended to replace our US GAAP financial results.

The calculation of Adjusted EBITDA, as defined by us, consists of Net income (loss) as adjusted for asset impairment expense; lease termination costs; gain (loss) on sale or disposal of assets; interest expense; amortization of debt discount; loss on early extinguishment or restructuring of debt; other income (expense), net; foreign currency transaction gain (loss); income tax (benefit) expense; (gain) loss on sale of discontinued operations; income (loss) from discontinued operations; noncontrolling interest; share-based compensation expense; acquisition related costs, other costs and depreciation and amortization.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights certain information about us, this offering and selected information contained elsewhere in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus. This summary is not complete and does not contain all of the information that you should consider before deciding whether to invest in our common stock. For a more complete understanding of our company and this offering, we encourage you to read and consider carefully the more detailed information in this prospectus supplement and the accompanying prospectus, including our financial statements and related notes and the other information incorporated by reference into this prospectus supplement and the accompanying prospectus and including the information referred to under the heading Risk Factors in this prospectus supplement beginning on page S-37 and in the documents incorporated herein by reference.

The Company

Overview

We are a diversified holding company which seeks to acquire and grow attractive businesses that we believe can generate long-term sustainable free cash flow and attractive returns. We have 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. While we generally intend to acquire controlling equity interests in our operating subsidiaries, we may invest to a limited extent, in a variety of debt instruments or minority equity interest positions. 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.

Recent developments

Preliminary Financial Results for the Third Quarter ending September 30, 2015

On November 2, 2015, we announced our preliminary summary financial information as of and for the three and nine months ended September 30, 2015. We are currently in the process of finalizing our unaudited consolidated financial results as of and for the three and nine months ended September 30, 2015.

Our independent registered public accounting firm is not expressing an opinion or any other form of assurance with respect to the preliminary unaudited consolidated financial data as of and for the three and nine months ended September 30, 2015 that is provided in this prospectus supplement.

Certain of these operating results and other financial data for the third fiscal quarter ended September 30, 2015, are set forth below.

Preliminary Third Quarter 2015 Financial Highlights:

n **Net revenue:** We recorded total net revenue of $277.5 million for the third quarter of 2015, an increase of $98.0 million, or 54.6%, as compared to the third quarter of 2014 and an increase of $53.5 million, or 23.9%, on a pro forma basis, driven primarily by the addition of our Marine Services segment and our continued expansion into emerging markets through our Telecommunications segment.

  We recorded total net revenue of $760.3 million for the nine months ended September 30, 2015, an increase of $440.9 million, or 138.1%, as compared to the same period last year and $130.2 million, or 20.7%, on a pro forma basis.

- **Adjusted EBITDA:** We recorded total Adjusted EBITDA of $14.1 million and $39.4 million for the three and nine month period ended September 30, 2015, respectively.

  During the third quarter, Adjusted EBITDA for our primary operating subsidiaries, Schuff and GMSL, was a combined $24.7 million. Schuff continued to grow its Adjusted EBITDA during the quarter to $14.4 million as the company continued to profit from improved margins in the Pacific division. In the Telecommunications segment, ICS enjoyed positive Adjusted EBITDA for the second consecutive quarter.

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Adjusted EBITDA for the first nine months of the year was largely the result of our ability to sub contract work at lower costs in our Manufacturing segment along with seasonal trends in our Marine Services segment. This was offset, in part by, early stage investments and increases in deal related diligence expenses in our Corporate and Other segments.

- **Balance sheet:** As of September 30, 2015, we had consolidated cash, cash equivalents and short-term investments of $84.7 million.

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Preliminary Consolidated Operating Results for and as of the Third Quarter Ended September 30, 2015 (unaudited):

Preliminary Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands, except per share amounts) (unaudited)			
Services revenue	$ 151,933	$ 41,267	$ 373,492	$ 126,731
Sales revenue	125,534	138,166	386,765	192,642
Net revenue	277,467	179,433	760,257	319,373
Operating expenses:				
Cost of revenue – services	138,099	39,464	334,608	120,101
Cost of revenue – sales	103,375	119,175	324,820	162,505
Selling, general and administrative	27,830	20,246	77,359	40,482
Depreciation and amortization	6,593	921	16,835	1,475
Gain on sale or disposal of assets	(1,957)	(448)	(986)	(81)
Lease termination costs	1,124	—	1,124	—
Total operating expenses	275,064	179,358	753,760	324,482
Income (loss) from operations	2,403	75	6,497	(5,109)
Interest expense	(10,343)	(2,103)	(28,992)	(3,116)
Amortization of debt discount	(40)	(805)	(216)	(1,381)
Loss on early extinguishment or restructuring of debt	—	(6,947)	—	(6,947)
Other income (expense), net	1,216	(1,092)	(3,528)	524
Foreign currency transaction gain	1,099	170	2,150	573
Loss from continuing operations before income (loss) from equity investees and income tax benefit (expense)	(5,665)	(10,702)	(24,089)	(15,456)
Income (loss) from equity investees	535	(288)	(724)	(288)
Income tax benefit (expense)	649	(4,515)	4,018	(6,470)
Loss from continuing operations	(4,481)	(15,505)	(20,795)	(22,214)
Loss from discontinued operations	(24)	(106)	(44)	(62)
Gain (loss) from sale of discontinued operations	—	663	—	(121)
Net loss	(4,505)	(14,948)	(20,839)	(22,397)
Less: Net income attributable to noncontrolling interest	(65)	(931)	(8)	(1,990)
Net loss attributable to HC2 Holdings, Inc.	(4,570)	(15,879)	(20,847)	(24,387)
Less: Preferred stock dividends and accretion	1,035	1,004	3,212	1,204

Net loss attributable to common stock and participating preferred stockholders	$ (5,605)	$ (16,883)	$