

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

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of Earliest Event Reported): May 27, 2021

HC2 HOLDINGS, INC.

(Exact name of registrant as specified in its charter)		
<u>Delaware</u>	<u>001-35210</u>	<u>54-1708481</u>
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)
295 Madison Avenue, 12th Floor		10017
New York, NY		
(Address of principal executive offices)		(Zip Code)
Registrant's telephone number, including area code:		(212) 235-2690
Not Applicable		
(Former name or former address, if changed since last report)		

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	HCHC	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Explanatory Note

On May 27, 2021, DBM Global Inc. (“DBM”), a subsidiary of HC2 Holdings, Inc. (the “Company”), consummated its acquisition (the “Acquisition”) of 100% of the limited liability company membership interests of Banker Steel Holdco LLC (“Banker Steel”). Banker Steel, which is now a wholly owned subsidiary of DBM, is based in Lynchburg, Virginia and provides fabricated structural steel and erection services primarily for the East Coast and Southeast commercial and industrial construction market.

On May 27, 2021, the Company filed a Current Report on Form 8-K (the “Original Form 8-K”) reporting the closing of the Acquisition. This Form 8-K/A amends the Original Form 8-K to make publicly available certain historical financial information of the acquired business and unaudited pro forma financial information of the Company reflecting the Acquisition required by Items 9.01(a) and 9.01(b) of Form 8-K that were excluded from the Original Form 8-K in reliance on the instructions to such items. The historical and pro forma financial statements are filed as Exhibits 99.1, 99.2 and 99.3.

Item 9.01 Financial Statements and Exhibits.

- (a) Banker Steel historical unaudited condensed financial statements and related notes as of and for the three months ended March 31, 2021.
- (b) Banker Steel historical audited financial statements and related notes as of and for each of the two fiscal years in the periods ended December 31, 2020 and 2019.
- (c) Unaudited pro forma statement of operations of HC2 Holdings, Inc. for the year ended December 31, 2020 and six month period ended June 30, 2021.

(d) Exhibits

Item No.	Description
99.1	<u>Banker Steel historical unaudited condensed financial statements and related notes as of and for the three months ended March 31, 2021.</u>
99.2	<u>Banker Steel historical audited financial statements and related notes as of and for the two fiscal periods ended December 31, 2020 and 2019.</u>
99.3	<u>Unaudited pro forma statement of operations of HC2 Holdings, Inc. for the year ended December 31, 2020 and six month period ended June 30, 2021.</u>
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HC2 Holdings, Inc.

August 13, 2021

By: /s/ Michael J. Sena

Name: Michael J. Sena
Title: Chief Financial Officer

**BANKER STEEL HOLDCO, L.L.C.
AND SUBSIDIARIES**

**(A SUBSIDIARY OF BRIDGE FABRICATION BANKER
HOLDINGS L.L.C.)**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

***As of March 31, 2021 and for the three month period ended
March 31, 2021 and 2020***

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
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BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
INTERIM CONSOLIDATED BALANCE SHEETS

MARCH 31, 2021 (UNAUDITED) AND DECEMBER 31, 2020 (IN THOUSANDS)

	<u>March 31, 2021</u> <u>(Unaudited)</u>	<u>December 31, 2020</u>
ASSETS		
Current Assets:		
Cash	\$ 149	\$ 1,799
Contracts receivable, net	83,411	92,197
Retainages receivable	38,681	41,122
Costs and estimated earnings in excess of billings on uncompleted contracts	9,264	15,806
Materials inventory	6,843	8,049
Contract value, net of accumulated amortization	138	277
Other current assets	1,652	1,209
Total Current Assets	<u>140,138</u>	<u>160,459</u>
Property, Plant, and Equipment:		
Buildings and improvements	2,796	2,588
Machinery and equipment	51,264	41,505
Office furniture and equipment	989	889
	<u>55,049</u>	<u>44,982</u>
Less accumulated depreciation	<u>13,430</u>	<u>12,121</u>
Total Property, Plant, and Equipment	<u>41,619</u>	<u>32,861</u>
Other Assets:		
Other	375	601
Goodwill	15,323	15,323
Tradenname, net of accumulated amortization	481	525
Trademark, net of accumulated amortization	197	225
Total Other Assets	<u>16,376</u>	<u>16,674</u>
Total Assets	<u><u>\$ 198,133</u></u>	<u><u>\$ 209,994</u></u>

The accompanying notes to the interim consolidated financial statements are an integral part of these statements.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)

MARCH 31, 2020 (UNAUDITED) AND DECEMBER 31, 2019 (IN THOUSANDS)

	<u>March 31, 2021</u> <u>(Unaudited)</u>	<u>December 31, 2020</u>
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 44,116	\$ 48,957
Accrued expenses and other liabilities	12,436	14,466
Retainages payable	7,739	6,976
Revolving credit line, current	750	-
Current Maturities:		
Notes payable	4,275	4,267
Billings in excess of costs and estimated earnings on uncompleted contracts	50,051	55,986
Total Current Liabilities	<u>119,367</u>	<u>130,652</u>
Long-Term Liabilities:		
Notes payable	13,253	14,227
Subordinated notes payable, related party	6,267	6,267
Deferred gain (Note 10)	8,066	8,187
Total Long-Term Liabilities	<u>27,586</u>	<u>28,681</u>
Total Liabilities	146,953	159,333
Commitments and Contingencies (Note 17)		
Members' Equity	51,180	50,661
Total Liabilities and Members' Equity	<u><u>\$ 198,133</u></u>	<u><u>\$ 209,994</u></u>

The accompanying notes to the interim consolidated financial statements are an integral part of these statements.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS EQUITY***THREE MONTHS ENDED MARCH 31, 2021 AND 2020 UNAUDITED (IN THOUSANDS)*

	Three Months Ended March 31,	
	2021	2020
Contract revenue	\$ 115,257	\$ 77,864
Cost of revenue	106,417	65,264
Gross Profit	8,840	12,600
General and administrative expenses	6,571	8,504
Income from Operations	2,269	4,096
Other Income (Expense):		
Interest expense	(436)	(846)
Other expense	(1,314)	(600)
Total Other Expense	(1,750)	(1,446)
Net Income	\$ 519	\$ 2,650

The accompanying notes to the interim consolidated financial statements are an integral part of these statements.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY***THREE MONTHS ENDED MARCH 31, 2021 AND 2020 UNAUDITED (IN THOUSANDS)*

	Three Months Ended	
	March 31,	
	2021	2020
Balance, beginning of period January 1,	\$ 50,661	\$ 36,668
Net income	519	2,650
Balance, end of period	<u>\$ 51,180</u>	<u>\$ 39,318</u>

The accompanying notes to the interim consolidated financial statements are an integral part of these statements.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020 UNAUDITED (IN THOUSANDS)

	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities:		
Net income	\$ 519	\$ 2,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,309	942
Amortization of software	33	187
Amortization of estimated gain	139	-
Amortization of tradename	72	72
Accretion of deferred gain on lease back	(121)	(198)
(Increase) decrease in operating assets:		
Contracts receivable	8,786	6,494
Retainages receivable	2,441	(3,146)
Costs and estimated earnings in excess of billings on uncompleted contracts	6,542	(6,666)
Materials inventory	1,206	1,444
Other current assets	(443)	(492)
Other assets	111	(3)
Increase (decrease) in operating liabilities:		
Accounts payable	(4,841)	(7,855)
Accrued expenses and other liabilities	(2,030)	(1,241)
Retainages payable	763	528
Billings in excess of costs and estimated earnings on uncompleted contracts	(5,935)	9,500
Net cash provided by operating activities	8,551	2,216
Cash flows from investing activities:		
Purchase of property, plant, and equipment	(9,985)	(213)
Purchase of software	-	(104)
Net cash used in investing activities	(9,985)	(317)
Cash flows from financing activities:		
Principal payments on term notes payable, bank	(966)	(1,096)
Borrowings and repayments on revolving line of credit, net	750	2,809
Net cash (used in) provided by financing activities	(216)	1,713
Net (decrease) increase in cash	(1,650)	3,612
Cash, beginning of year	1,799	936
Cash, end of year	\$ 149	\$ 4,548

The accompanying notes to the interim consolidated financial statements are an integral part of these statements.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 1—Nature of operations

Banker Steel Holdco, L.L.C. (the "Company"), a Delaware limited liability company, through its subsidiaries, is engaged in various commercial, industrial, and highway steel fabrication and erection projects throughout the United States. The Company was formed on November 13, 2019, at which time the members contributed 100% of their interests in Banker Steel Company, L.L.C. ("BSC") to the Company, thereby resulting in the Company becoming the reporting entity.

Note 2—Summary of significant accounting policies

Basis of Consolidation – The interim consolidated financial statements include the accounts of Banker Steel Holdco, L.L.C. and its wholly-owned subsidiaries, Banker Steel Company, L.L.C. and Derr & Isbell Construction, L.L.C. In these interim consolidated financial statements and related footnotes, Banker Steel Holdco, L.L.C.; Derr & Isbell Construction, L.L.C.; and Banker Steel Company, L.L.C.; including its subsidiaries Banker Steel South, L.L.C.; Banker Steel Co. NJ, L.L.C.; US Erectors L.L.C.; NYC Constructors, L.L.C.; Memco L.L.C.; NYCC Equipment, L.L.C.; Innovative Detailing Services Ltd.; Innovative Engineering Services, L.L.C.; Lynchburg Freight and Specialty, L.L.C.; and NYC Construction Services, Ltd.; are known collectively as the "Company." All intercompany transactions have been eliminated.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim consolidated financial statements. Significant items subject to such estimates include recognition of the amounts of revenue and earnings from construction contracts during the reporting period, the carrying amount of property, plant, and equipment; goodwill; carrying amount of accounts receivable; inventory; the determination of the fair value of certain assets and liabilities, including property, plant, and equipment; and intangible assets and the accounting for the sale-leaseback transaction and subsequent lease classification. Actual results could differ materially from these estimates.

Revenue and Cost Recognition – On January 1, 2019, the Company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") *Topic 606, Revenue from Contracts with Customers*, including the subsequent Accounting Standards Updates ("ASUs") that amended and clarified the related guidance. The Company recognizes steel fabrication and erection revenue over time, as performance obligations are satisfied, due to the continuous transfer of control to the customer as a project is completed. The Company considers its fixed-fee and cost-plus contracts as a single deliverable (a single performance obligation), in accordance with the guidance. Such contracts with customers are for significant construction of buildings occurring over multiple months. The transaction price is allocated to the performance obligation and such revenue is recognized over time. The transaction price is recognized over time utilizing the percentage-of-completion method, based primarily on contract costs incurred to date compared to total estimated contract costs. The Company believes, the percentage-of-completion method (an input method) is the most representative depiction of the Company's performance because it directly measures the value of the services transferred to the customer. Substantially all of the Company's revenue is generated from fabrication and erection where costs (material and labor costs) incurred are a reasonable gauge for progress in line with industry standards. The Company also maintains relationships with the customers including general contractors and only recognizes revenue when collectability is reasonably assured.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

Variable consideration-contract modifications, through change orders are routine in the performance of the Company's contracts to account for changes in the contract specifications or requirements. In most instances contract modifications are not distinct from existing contracts due to the significant integration of services provided in the contract and are accounted for as a modification to the existing contract and performance obligation. Either the Company or its customers initiate change orders, which may include changes in specifications, design, manner of performance, materials, and completion of the work.

The Company estimates variable consideration for performance obligations at the most likely amount to which the Company expects to be entitled. Variable consideration includes contract change orders which depends on approval from the customer for an agreed-upon modification to the contract. The Company uses judgment to determine what the most likely amount to be recognized considering outstanding change orders that have been approved or are likely to be approved.

From time to time the Company utilizes subcontractors to assist with construction activities. In these situations, gross subcontractor materials, labor, and equipment are included in revenue and cost of revenue as management believes the Company is acting as a principal rather than as an agent (e.g., the Company integrates the materials, labor, and equipment into the deliverables promised to the customer or is otherwise primarily responsible for fulfillment and acceptability of the materials, labor, and/or equipment). The Company views revenue by construction project end usage and disaggregated revenue into these categories. The recognition of revenue is related to earned revenue on existing projects and the table below is not indicative of the backlog of upcoming projects.

Disaggregated Revenue (in thousands) for the three months ended:

	Three Months Ended	
	March 31,	
	2021	2020
Industrial	\$ 24,300	\$ 339
Commercial	70,681	44,129
Government	739	3,565
Healthcare	8,461	7,162
Leisure	2,104	3,094
Convention	405	3,739
Transportation	8,567	15,836
	<u>\$ 115,257</u>	<u>\$ 77,864</u>

Contract costs include all direct material and labor costs, indirect costs, and an allocable portion of selling, general, and administrative expenses. Changes to total estimated contract cost or losses, if any, are recognized in the period in which they are determined as assessed at the contract level. Under typical payment terms, amounts are billed as work progresses in accordance with agreed-upon contractual terms at periodic intervals (e.g., biweekly or monthly) and customer payments are typically due within 30 to 60 days of billing, depending on the contract.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

The nature of the Company's contracts gives rise to several types of variable consideration, including claims and unpriced change orders; awards and incentive fees; and liquidated damages and penalties. The Company recognizes revenue for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Contracts and Retainages Receivable, Contract Assets, and Contract Liabilities – Contracts for performing steel fabrication and erection are based on contracted prices. Generally, the terms of the contracts permit monthly billings for materials purchased for the contract and work completed on the contract. Progress billings are usually approved by the customer prior to submission and included in contract receivables. In addition, receivables include retentions or amounts held back until project completion and acceptance by the customer. The Company has determined there are no significant financing components in our contracts as March 31, 2021.

The Company records an allowance for doubtful accounts based on specifically identified amounts that management believes might be uncollectible. As of March 31, 2021 and December 31, 2020 no allowance for doubtful accounts were identified.

Contract assets, which are classified as costs and estimated earnings in excess of billings on uncompleted contracts on the accompanying interim consolidated balance sheets, represent unbilled amounts where the right to payment is subject to more than merely the passage of time. The increase in contract assets was a result of normal business activity and not materially impacted by any other factors.

Contract liabilities, which are classified as billings in excess of costs and estimated earnings on uncompleted contracts on the accompanying interim consolidated balance sheets, represent amounts billed to clients in excess of revenue recognized to date. The Company anticipates that substantially all such amounts will be earned over the next 12 months. The increase in contract liabilities was a result of normal business activity and not materially impacted by any other factors.

Shipping and Handling Costs – The Company recognizes shipping and handling costs of the fabricated steel and other products delivered to the job site in cost of revenue.

Inventory – Inventory is stated at the lower of cost or net realizable value, cost being determined on the first-in, first-out (FIFO) method. Inventory consists primarily of raw materials not assigned to a specific contract. Materials that are purchased for specific contracts are charged at cost. The cost of materials charged to contracts is included in the calculation of costs and estimated earnings in excess of billings on uncompleted contracts or billings in excess of costs and estimated earnings on uncompleted contracts.

Property, Plant, and Equipment – The Company records property, plant, and equipment at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Major renewals and betterments are capitalized and also depreciated on the straight-line method. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the accounts, and any gain or loss is reflected in the determination of net income.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

Goodwill and Goodwill Impairment – Goodwill and intangible assets deemed to have indefinite lives are not amortized but rather are tested at least annually for impairment, or more often if events or changes in circumstances indicate that more likely than not the carrying amount of the asset may not be recoverable. Goodwill is tested for impairment at the reporting unit level. A reporting unit represents an operating segment or a component of an operating segment. Goodwill is tested for impairment by either performing a qualitative evaluation or a two-step quantitative test. The qualitative evaluation is an assessment of factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill.

Management may elect not to perform the qualitative assessment for some or all reporting units and perform a two-step quantitative impairment test. Fair value is determined based on discounted cash flow analyses. The discounted estimates of future cash flows include significant management assumptions such as revenue growth rates, operating margins, weighted average cost of capital, and future economic and market conditions. If the carrying value of the reporting unit exceeds fair value, goodwill is considered impaired. The amount of the impairment is the difference between the carrying value of the goodwill and the “implied” fair value, which is calculated as if the reporting unit had just been acquired and accounted for as a business combination.

The estimates of future cash flows involve considerable management judgment and are based upon assumptions about expected future operating performance, economic conditions, market conditions, and cost of capital. Inherent in estimating the future cash flows are uncertainties beyond our control, such as capital markets. The actual cash flows could differ materially from management’s estimates due to changes in business conditions, operating performance, and economic conditions.

Trademark – The Company amortizes its trademark value on a straight-line basis for a period of four years as established by an independent valuation at the time of the acquisition of Memco, Inc. on June 4, 2018.

Tradename and Contract Value – The Company amortizes its tradename on a straight-line basis for a period of four years and contract value on a straight-line basis for a period of 18 months, as established by an independent valuation firm on behalf of management at the time of acquisition of Derr & Isbell Construction, L.L.C. on December 31, 2019.

Impairment of Long-Lived Assets – Long-lived assets are reviewed for impairments whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of such assets to future net undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value. No triggering events or indications of impairment were identified for the three months ended March 31, 2021 and 2020.

Income Taxes – No provision is made in the accounts of the Company for federal or state income taxes because such taxes are generally liabilities of the Company’s individual members.

Fair Value Measurements – The Company follows FASB ASC Topic 820, *Fair Value Measurements*, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 2—Summary of significant accounting policies (continued)

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair Value of Financial Instruments – The carrying amounts of cash, contracts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments.

The carrying amount of long-term debt approximates fair value at December 31, 2020 and March 31, 2021, since a substantial portion of long-term debt is a variable rate, or at a rate consistent with market rates currently available to the Company.

Derivative Financial Instruments – The Company from time to time enters into interest rate swap transactions to manage its exposures to movements in interest rates as well as hedging transactions to manage its exposure to steel prices. The Company does not use derivatives for trading or other speculative purposes. The risk management strategy of the Company does not meet the criteria for hedge accounting. Due to the immaterial nature of these swap and hedging transactions, the Company does not carry the value of these contracts on its interim consolidated financial statements.

Upcoming Accounting Standard – In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring lessees to recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. This ASU is effective for fiscal years beginning after December 15, 2021 for private companies. The Company is currently evaluating the impact and implementation strategy for the standard.

Note 3—Concentrations of credit risk

Substantially all of the Company's receivables are due from companies engaged in the construction industry. Generally, the Company has the right to attach a lien on the property which it has sold or installed materials or make a claim against a payment bond if one has been furnished on the job. The Company performs ongoing credit evaluation of its customers and generally does not require collateral.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 3—Concentrations of credit risk (continued)

The Company maintains cash balances at several financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts. The Company from time to time may have amounts on deposit in excess of the insured limits. As of December 31, 2020 and March 31, 2021, the Company had \$4,285,000, and \$135,600, respectively, in excess of the FDIC limit.

The Company has not experienced significant losses in such accounts and does not believe it is exposed to any significant risk.

Note 4—Costs and billings on uncompleted contracts

	<u>March 31, 2021</u> <u>(Unaudited)</u>	<u>December 31, 2020</u>
Costs incurred on uncompleted contracts	\$ 1,133,065	\$ 1,142,820
Estimated earnings	<u>106,938</u>	<u>107,081</u>
	1,240,003	1,249,901
Less billings to date	<u>1,280,790</u>	<u>1,290,081</u>
	<u>\$ (40,787)</u>	<u>\$ (40,180)</u>

Included in the accompanying consolidated balance sheets under the following captions:

	<u>March 31, 2021</u> <u>(Unaudited)</u>	<u>December 31, 2020</u>
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 9,264	\$ 15,806
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>(50,051)</u>	<u>(55,986)</u>
	<u>\$ (40,787)</u>	<u>\$ (40,180)</u>

Note 5—Property, plant, and equipment

Depreciation expense for the three months ended March 31, 2021 and 2020 was \$1,309,000, and \$942,000 respectively.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 6—Intangible assets

Intangible assets, including goodwill, at December 31, 2020 and March 31, 2021 consist of the following (in thousands):

	March 31, 2021 (Unaudited)	December 31, 2020
Goodwill	\$ 15,323	\$ 15,323
Accumulated amortization		
	<u>\$ 15,323</u>	<u>\$ 15,323</u>
Contract value (profit)	\$ 832	\$ 832
Accumulated amortization	694	555
	<u>\$ 138</u>	<u>\$ 277</u>
Contract value (loss)	\$ (5,194)	\$ (5,194)
Accumulated accretion	5,194	5,194
	<u>\$ -</u>	<u>\$ -</u>
Tradename	\$ 700	\$ 700
Accumulated amortization	219	175
	<u>\$ 481</u>	<u>\$ 525</u>
Trademark	\$ 3,060	\$ 3,060
Accumulated amortization	2,863	2,835
	<u>\$ 197</u>	<u>\$ 225</u>
Total goodwill and intangible assets	\$ 14,721	\$ 14,721
Total accumulated amortization	(1,418)	(1,629)
	<u>\$ 16,139</u>	<u>\$ 16,350</u>

The future scheduled amortization expense for intangible assets as of March 31, 2021 is as follows (in thousands):

Years Ending	Contract Value	Tradename	Trademark	Total
For the remaining nine months ending December 31, 2021	\$ 138	\$ 131	\$ 84	\$ 353
2022	-	175	113	288
2023	-	175		175
	<u>\$ 138</u>	<u>\$ 481</u>	<u>\$ 197</u>	<u>\$ 816</u>

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 7—Line of credit

The Company had a revolving credit line agreement maturing January 24, 2021, which permitted borrowings up to \$30,000,000 and allowed the Company to issue letters of credit as needed up to certain pre-determined sub-limits. The interest rate on borrowings followed a rate schedule based upon the ratio of total debt to total earnings before interest, taxes, depreciation, and amortization. Loan pricing ranged from LIBOR plus 2.0% to 2.75%. The line was collateralized by substantially all of the Company's assets including contracts receivable, inventory, and equipment. The agreement was further collateralized by the assignment of life insurance policies on the Company's CEO. The revolving line of credit was refinanced in March 2020 with a new revolving line of credit agreement maturing March 31, 2024, which permits borrowings up to \$50,000,000 and allows the Company to issue letters of credit as needed up to certain pre-determined sub-limits. The interest rate on borrowings follows a rate schedule based upon the ratio of total debt to total earnings before interest, taxes, depreciation, and amortization. Loan pricing ranges from a LIBOR floor of 0.75% plus 2.25% to 2.75%. The LIBOR rate at December 31, 2020 was 0.16%, and .019% at March 31, 2021 and so the floor was used, for a total interest rate of 3%. The line is collateralized by substantially all of the Company's assets including contracts receivable, inventory, and equipment. The agreement is further collateralized by the assignment of life insurance policies on the Company's CEO. There was approximately \$750,000 and \$0- of borrowing outstanding as of March 31, 2021 and December 31, 2020, respectively.

The Company acquired an additional promissory note agreement maturing February 29, 2020 through the acquisition of Derr & Isbell Construction, L.L.C., which permits borrowings up to \$8,000,000. The interest rate on the loan is variable on a daily basis and is quoted as the prime rate in the most recently published issue of the Wall Street Journal (U.S. Edition) in the "Money rates" section. The interest rate payable on the outstanding balance of the line of credit agreement is an additional 3% on top of the previously mentioned prime rate. The line was subsequently extended through March 31, 2020, at which time all outstanding principal was paid and it was allowed to expire.

The line of credit contains covenants which, among other things, require the Company to maintain certain financial covenants and places limitations on distributions and indebtedness. The Company met the required covenants as of December 31, 2020 and March 31, 2021.

Note 8—Accrued expenses and other liabilities

Accrued expenses and other liabilities consisted of the following as of December 31, 2020 and March 31, 2021 (in thousands):

	March 31, 2021 (Unaudited)	December 31, 2020
Deferred payroll taxes	\$ 4,519	\$ 4,519
Compensation (including union liabilities)	2,308	3,908
Sales tax payable	2,017	2,639
Insurance liability	2,063	2,352
Deferred gain on sale-leaseback	482	482
Self-insurance liabilities	504	350
Other	543	216
	<u>\$ 12,436</u>	<u>\$ 14,466</u>

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 9—Notes payable and subordinated debt

Notes payable and long-term debt for the years ended December 31, 2020 and March 31, 2021 consisted of the following (in thousands):

	Final Maturity	March 31, 2021 (Unaudited)	December 31, 2020
Note payable, bank, interest of 4.97%, payable \$62,068 monthly which includes interest, collateralized with equipment.	2020	\$ -	\$ -
Note payable, bank, interest of 4.63%, payable \$3,200 monthly plus interest, collateralized with equipment.	2023	470	480
Note payable, bank, interest of 4.09%, payable \$20,844 monthly which includes interest, collateralized with equipment.	2024	852	887
Note payable, bank, interest of 4.10%, payable \$64,153 monthly which includes interest, collateralized with equipment.	2024	2,728	2,837
Note payable, finance company, interest of 5.52%, payable \$64,153 monthly which includes interest, collateralized with equipment.	2024	80	86
Note payable, bank, interest of 3.97%, payable \$32,804 monthly which includes interest, collateralized with equipment.	2025	1,398	1,454
Note payable, bank, interest of 3.50%, payable \$750,000 monthly which includes interest, collateralized with substantially all Company assets.	2025	12,000	12,750
		<u>17,528</u>	<u>18,494</u>
Subordinated Debt:			
Unsecured note payable, interest of 11.00%, interest only due to one of the members.	2024	6,267	6,267
		<u>6,267</u>	<u>6,267</u>
		23,795	24,761
Less current maturities		<u>4,275</u>	<u>4,267</u>
Total secured and subordinated debt		<u>\$ 19,520</u>	<u>\$ 20,494</u>

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 9—Notes payable and subordinated debt (continued)

Aggregate principal payments at March 31, 2021 on long-term debt were scheduled as follows (in thousands):

Years Ending December 31,	Notes Payable, Secured	Notes Payable, Subordinated	Total
For the remaining nine months ending December 31, 2021	\$ 3,200	\$ -	\$ 3,200
2022	4,275	-	4,275
2023	4,337	-	4,337
2024	4,902	6,267	11,169
2025	814	-	814
	<u>\$ 17,528</u>	<u>\$ 6,267</u>	<u>\$ 23,795</u>

Note 10—Sale-leaseback transaction

During the year ended December 31, 2018, Banker Steel Company, L.L.C. completed a transaction under which it sold its corporate headquarters and three of its fabrication facilities to an unrelated third party with the intention of leasing the facilities back from the purchaser for active use in its business. Net proceeds from the sale, all of which were cash, were approximately \$15,713,000.

The terms and provisions of the transaction demonstrate the buyer's initial and continuing investment in the property and the transfer of all of the risk and rewards of ownership as demonstrated by the absence of any continuing involvement by the seller. The Company has accounted for the transaction in accordance with the sale-leaseback provisions of ASC 840-40-20, whereby the properties have been removed from the Company's consolidated balance sheets and the Company has recognized a gain of approximately \$9,632,000, all of which has been deferred.

Concurrent with the sale, the Company entered into an agreement to lease the properties back from the purchaser over an initial lease term of 20 years. The master lease agreement for the properties includes an initial lease term of 20 years and (four) five-year renewal options. The Company evaluated the terms and conditions of the lease, on an asset-by-asset basis, and has classified the leases as operating leases.

The deferred gain on this transaction includes both a current and noncurrent portion, with the current portion based on the amount that is expected to amortize over the next 12 months. The current and noncurrent portions are included in accrued expenses and other liabilities and deferred gain, respectively, in the accompanying consolidated balance sheets.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 11—Operating leases

At March 31, 2021, the Company was leasing certain equipment and real estate under operating leases with future minimum rental payments as follows (in thousands):

<u>Years Ending December 31,</u>	<u>Amount</u>
For the remaining nine months ending December 31, 2021	\$ 6,164
2022	5,447
2023	5,447
2024	4,988
2025	4,237
2026	1,412
Thereafter	19,705
	<u>\$ 41,236</u>

Rental expense for the three month periods ended March 31, 2021 and 2020 was \$1,950,000 and \$1,307,000 respectively.

Note 12—Related party transactions

The Company utilizes the services of Banker Aviation, L.L.C. ("Aviation"). Aviation provides transportation services to the Company and outside third parties. One of the Company's members owns Aviation. The Company incurred expenses of approximately \$486,000 and \$453,000, respectively, for the three months ended March 31, 2021 and 2020 with Aviation.

The Company has a subordinated note payable to one of its members. The note is in the amount of \$6,267,000 and bears interest at 11%. Interest paid for the three months ended March 31, 2021 and 2020 was approximately \$172,000 in both periods.

Two of the Company's members issued a total of \$2,500,000 in letters of credit in favor of the Company's sureties, and are charging the Company, for these outstanding amounts, an annual fee equal to 15% of the average outstanding face amount. Additionally, the members are charging the Company a 3.5% renewal fee. Payment of the fees is subordinate in right-of-payment to any and all obligations of the Company's primary lender. Total fees charged to the Company by the two members for the three months ended March 31, 2021 and 2020 amount to approximately \$-0- and \$94,000, respectively. As of March 31, 2021 and December 31, 2020 no fees were accrued but not yet paid. These letters of credit expired on September 30, 2020. In addition, the Company has issued \$5,000,000 of letters of credit to its sureties. As of December 31, 2020 as well as the three month periods ended March 31, 2021 and 2020, there were no draws on any of the letters of credit.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 13—Retirement plan

The Company has a 401(k) profit-sharing plan covering substantially all employees other than certain employees covered by a collective bargaining agreement. Under the plan, participating employees may elect to reduce their compensation, not to exceed the maximum limitation allowed by the Internal Revenue Code ("IRC"), with such amount being contributed to the plan for their benefit. The Company contributes to the employees' accounts an amount equal to 100% of the first 3% of each participant's compensation contributed, plus an additional 50% of each participant's compensation contributed over 3% but not over 5%, provided total contributions by the Company do not exceed the maximum amount deductible under the IRC.

Contributions to the plan totaled approximately \$242,000 and \$244,000, respectively, for the three months ended March 31, 2021 and 2020. The Company can also make a discretionary contribution in an amount determined annually by the Company. There were no discretionary contributions made during the three month period ended March 31, 2021 and 2020.

Note 14—Income taxes

The Company is treated as a partnership for federal and state income tax purposes. In addition, the Company's subsidiaries are disregarded entities for federal and state income tax purposes. Consequently, federal and state income taxes are not payable, or provided for by the Company. Members are taxed individually on their share of the Company's earnings. The Company's net income is allocated among the members in accordance with the operating agreement of the Company. Accordingly, the interim consolidated financial statements do not reflect a provision for income taxes.

Management has evaluated the effect of the guidance provided in FASB ASC 740, *Income Taxes*. Management has evaluated all tax positions that could have a significant effect on the interim consolidated financial statements and determined the Company has no uncertain income tax positions as of December 31, 2020 or March 31, 2021.

Note 15—Supplemental cash flow information

Cash paid for interest was approximately \$436,000 and \$846,000, respectively, for the three months ended March 31, 2021 and 2020. During the three months ended March 31, 2021 and 2020, the Company did not purchased capital assets through the issuance of term note agreements.

Note 16—Limited liability company

The Company is a limited liability company and, accordingly, no member, manager, agent, or employee of the Company shall be personally liable for the debts, obligations, or liabilities of the Company, whether arising in contract, tort, or otherwise, or for the acts or omissions of any other member, director, manager, agent, or employee of the Company, unless the individual has signed a specific personal guarantee.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 17—Commitments and contingent liabilities

In the normal course of its operations, the Company is, from time to time, party to various disputes and litigation, including some that it has asserted against others. These matters generally relate to the Company's contracts, on various projects, for fabrication and erection of steel. Although the ultimate resolution of any of these matters is inherently unpredictable, management of the Company does not presently believe the outcome of any of these matters would have a material, adverse impact on the Company's consolidated financial position, results of operations, or cash flows.

Through its wholly-owned subsidiaries, Derr & Isbell Construction, L.L.C.; NYC Constructors, L.L.C.; and Banker Steel NJ, L.L.C.; the Company has entered into an international ironworkers' agreement covering approximately 300 employees, a separate six-year collective bargaining agreement covering approximately 200 employees, and a separate five-year collective bargaining agreement covering approximately 100 employees as of December 31, 2020 approximately 44% of the Company's employees are represented by unions and covered by an international agreement and collective bargaining agreements with no material differences in the agreement as of March 31, 2021.

Note 18—Self-insurance

As of December 31, 2020, the Company is self-insured for claims up to \$150,000 on each employee and approximately \$5,658,000 in aggregate claims during a policy year. The Company maintains an accrual for these costs based on claims filed and an estimate of claims incurred but not reported or paid, based upon historical data and management estimate. The accrued liability was approximately \$504,000 and \$350,000 as of March 31, 2021 and December 31, 2020.

Note 19—Changes in estimates

Accounting for contracts using the percentage-of-completion method requires management to make significant estimates with respect to contract values and costs to complete. Based upon the extended amount of time it takes to complete many of the Company's contracts, an estimate of total revenues and expenses at completion is a complex process and, accordingly, is subject to change.

During the quarters ended March 31, 2021 and 2020, no significant changes in estimates were identified (positive or negative).

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2021 AND 2020

Note 20—Risks and uncertainties

In January 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a "Public Health Emergency of International Concern," which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus outbreak and government responses have created disruption in global supply chains and adversely impacted many industries. Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, any significant disruptions to customer orders or production capacity caused by COVID-19 would result in a loss of sales and profits and other material, adverse effects.

Note 21—Subsequent events

Management has evaluated subsequent events through July 29, 2021 which is the date the interim consolidated financial statements were available to be issued. On May 27, 2021 the Company was sold to DBM Global, Inc., a subsidiary of HC2 Holdings, Inc. No additional reportable subsequent events were identified.

**BANKER STEEL HOLDCO, L.L.C.
AND SUBSIDIARIES**

**(A SUBSIDIARY OF BRIDGE FABRICATION BANKER
HOLDINGS L.L.C.)**

CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2019 and 2020

And Report of Independent Auditor

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
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Report of Independent Auditor

To the Members
Banker Steel Holdco, L.L.C.
Lynchburg, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Banker Steel Holdco, L.L.C. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2019 and 2020, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banker Steel Holdco, L.L.C. and subsidiaries as of December 31, 2019 and 2020, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Subsequent Event

As discussed in Note 22 to the financial statements, on May 27, 2021, the Company and its members sold the company and the related membership interest to DBM Global, Inc., a subsidiary of HC2 Holdings, Inc., an SEC issuer. The entire Company and its subsidiaries were sold in this transaction. Our opinion is not modified with respect to that matter.

Cherry Bekant LLP

Richmond, Virginia
July 29, 2021

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2019 AND 2020 (IN THOUSANDS)

	2019	2020
ASSETS		
Current Assets:		
Cash	\$ 936	\$ 1,799
Contracts receivable, net	61,511	92,197
Retainages receivable	31,938	41,122
Costs and estimated earnings in excess of billings on uncompleted contracts	9,151	15,806
Materials inventory	7,966	8,049
Contract value, net of accumulated amortization	980	277
Other current assets	1,266	1,209
Total Current Assets	<u>113,748</u>	<u>160,459</u>
Property, Plant, and Equipment:		
Buildings and improvements	2,354	2,588
Machinery and equipment	34,336	41,505
Office furniture and equipment	704	889
	<u>37,394</u>	<u>44,982</u>
Less accumulated depreciation	<u>8,235</u>	<u>12,121</u>
Total Property, Plant, and Equipment	<u>29,159</u>	<u>32,861</u>
Other Assets:		
Other	465	601
Goodwill	17,069	15,323
Tradenname, net of accumulated amortization	700	525
Trademark, net of accumulated amortization	338	225
Total Other Assets	<u>18,572</u>	<u>16,674</u>
Total Assets	<u><u>\$ 161,479</u></u>	<u><u>\$ 209,994</u></u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)

DECEMBER 31, 2019 AND 2020 (IN THOUSANDS)

	2019	2020
LIABILITIES AND MEMBERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 40,160	\$ 48,957
Accrued expenses and other liabilities	8,903	14,466
Retainages payable	5,033	6,976
Revolving credit line, current	5,547	-
Due to member	500	-
Current Maturities:		
Notes payable	3,993	4,267
Billings in excess of costs and estimated earnings on uncompleted contracts	14,996	55,986
Total Current Liabilities	<u>79,132</u>	<u>130,652</u>
Long-Term Liabilities:		
Notes payable	11,774	14,227
Revolving credit line	18,892	-
Subordinated notes payable, related party	6,267	6,267
Deferred gain (Note 12)	8,746	8,187
Total Long-Term Liabilities	<u>45,679</u>	<u>28,681</u>
Total Liabilities	124,811	159,333
Commitments and contingencies (Note 18)		
Members' equity	36,668	50,661
Total Liabilities and Members' Equity	<u><u>\$ 161,479</u></u>	<u><u>\$ 209,994</u></u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2019 AND 2020 (IN THOUSANDS)

	2019	2020
Contract revenue	\$ 361,762	\$ 397,194
Cost of revenue	<u>310,304</u>	<u>338,627</u>
Gross Profit	51,458	58,567
General and administrative expenses	<u>24,396</u>	<u>28,718</u>
Income from Operations	<u>27,062</u>	<u>29,849</u>
Other Income (Expense):		
Other expense	(5,293)	(5,444)
Interest expense	<u>(2,487)</u>	<u>(3,044)</u>
Total Other Expense	<u>(7,780)</u>	<u>(8,488)</u>
Net Income	<u><u>\$ 19,282</u></u>	<u><u>\$ 21,361</u></u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

YEARS ENDED DECEMBER 31, 2019 AND 2020 (IN THOUSANDS)

	2019	2020
Balance, beginning of year	\$ 24,351	\$ 36,668
Net income	19,282	21,361
Member distributions	(6,965)	(7,368)
Balance, end of year	<u>\$ 36,668</u>	<u>\$ 50,661</u>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2019 AND 2020 (IN THOUSANDS)

	2019	2020
Cash flows from operating activities:		
Net income	\$ 19,282	\$ 21,361
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	2,633	3,987
Loss on sale of asset	1,149	44
Amortization of contract value	808	555
Accretion of contract loss recognized through measurement period adjustment	-	(5,194)
Amortization of intangible assets	112	288
Accretion of deferred gain on lease back	(480)	(480)
(Increase) decrease in operating assets:		
Contracts receivable	(21,312)	(30,686)
Retainages receivable	(5,705)	(9,184)
Costs and estimated earnings in excess of billings on uncompleted contracts	(4,058)	(6,655)
Materials inventory	(1,292)	(83)
Other current assets	(119)	57
Other assets	(185)	(136)
Increase (decrease) in operating liabilities:		
Accounts payable	17,302	14,925
Accrued expenses and other liabilities	2,209	6,443
Retainages payable	2,710	1,943
Billings in excess of costs and estimated earnings on uncompleted contracts	(23,753)	40,990
Net cash (used in) provided by operating activities	(10,699)	38,174
Cash flows from investing activities:		
Business acquisition of IDS, LFS, and NYCCS	(2,862)	-
Business acquisition of Derr & Isbell Construction, L.L.C.	(75)	-
Purchase of property, plant, and equipment	(5,956)	(7,629)
Net cash used in investing activities	(8,893)	(7,629)
Cash flows from financing activities:		
Principal payments on term notes payable, bank	(3,872)	(12,375)
Principal payments on subordinated notes payable, member	-	(500)
Borrowings and repayments on revolving line of credit, net	13,106	(24,439)
Proceeds from issuance of term notes payable, bank	4,186	15,000
Proceeds from note payable to member	500	-
Member distributions	(6,965)	(7,368)
Net cash provided by (used in) financing activities	6,955	(29,682)
Net (decrease) increase in cash	(12,637)	863
Cash, beginning of year	13,573	936
Cash, end of year	\$ 936	\$ 1,799

The accompanying notes to the consolidated financial statements are an integral part of these statements.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 1—Nature of operations

Banker Steel Holdco, L.L.C. (the “Company”), a Delaware limited liability company, through its subsidiaries, is engaged in various commercial, industrial, and highway steel fabrication and erection projects throughout the United States. The Company was formed on November 13, 2019, at which time the members contributed 100% of their interests in Banker Steel Company, L.L.C. (“BSC”) to the Company, thereby resulting in the Company becoming the reporting entity.

Note 2—Summary of significant accounting policies

Basis of Consolidation – The consolidated financial statements include the accounts of Banker Steel Holdco, L.L.C. and its wholly-owned subsidiaries, Banker Steel Company, L.L.C. and Derr & Isbell Construction, L.L.C. In these consolidated financial statements and related footnotes, Banker Steel Holdco, L.L.C.; Derr & Isbell Construction, L.L.C.; and Banker Steel Company, L.L.C.; including its subsidiaries Banker Steel South, L.L.C.; Banker Steel Co. NJ, L.L.C.; US Erectors L.L.C.; NYC Constructors, L.L.C.; Memco L.L.C.; NYCC Equipment, L.L.C.; Innovative Detailing Services Ltd.; Innovative Engineering Services, L.L.C.; Lynchburg Freight and Specialty, L.L.C.; and NYC Construction Services, Ltd.; are known collectively as the “Company.” All intercompany transactions have been eliminated.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Significant items subject to such estimates include recognition of the amounts of revenue and earnings from construction contracts during the reporting period, the carrying amount of property, plant, and equipment; goodwill; carrying amount of accounts receivable; inventory; the determination of the fair value of certain assets and liabilities, including property, plant, and equipment; and intangible assets and the accounting for the sale-leaseback transaction and subsequent lease classification. Actual results could differ materially from these estimates.

Revenue and Cost Recognition – On January 1, 2019, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) *Topic 606, Revenue from Contracts with Customers*, including the subsequent Accounting Standards Updates (“ASUs”) that amended and clarified the related guidance. The Company recognizes steel fabrication and erection revenue over time, as performance obligations are satisfied, due to the continuous transfer of control to the customer as a project is completed. The Company considers its fixed-fee and cost-plus contracts as a single deliverable (a single performance obligation), in accordance with the guidance. Such contracts with customers are for significant construction of buildings occurring over multiple months. The transaction price is allocated to the performance obligation and such revenue is recognized over time. The transaction price is recognized over time utilizing the percentage-of-completion method, based primarily on contract costs incurred to date compared to total estimated contract costs. The Company believes, the percentage-of-completion method (an input method) is the most representative depiction of the Company’s performance because it directly measures the value of the services transferred to the customer. Substantially all of the Company’s revenue is generated from fabrication and erection where costs (material and labor costs) incurred are a reasonable gauge for progress in line with industry standards. The Company also maintains relationships with the customers including general contractors and only recognizes revenue when collectability is reasonably assured.

Variable consideration-contract modifications, through change orders, are routine in the performance of the Company’s contracts to account for changes in the contract specifications or requirements. In most instances contract modifications are not distinct from existing contracts due to the significant integration of services provided in the contract and are accounted for as a modification to the existing contract and performance obligation. Either the Company or its customers initiate change orders, which may include changes in specifications, design, manner of performance, materials, and completion of the work.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 2—Summary of significant accounting policies (continued)

The Company estimates variable consideration for performance obligations at the most likely amount to which the Company expects to be entitled. Variable consideration includes contract change orders which depends on approval from the customer for an agreed-upon modification to the contract. The Company uses judgment to determine what the most likely amount to be recognized considering outstanding change orders that have been approved or are likely to be approved.

From time to time the Company utilizes subcontractors to assist with construction activities. In these situations, gross subcontractor materials, labor, and equipment are included in revenue and cost of revenue, as management believes the Company is acting as a principal rather than as an agent (e.g., the Company integrates the materials, labor, and equipment into the deliverables promised to the customer or is otherwise primarily responsible for fulfillment and acceptability of the materials, labor, and/or equipment). The Company views revenue by construction project-end usage and disaggregated revenue into these categories. The recognition of revenue is related to earned revenue on existing projects and the table below is not indicative of the backlog of upcoming projects.

Disaggregated revenue (in thousands) as of December 31:

	2019	2020
Industrial	\$ -	\$ 43,852
Commercial	205,353	262,012
Government	8,914	10,380
Healthcare	16,521	28,489
Leisure	855	13,648
Convention	51,623	5,380
Transportation	78,496	33,432
	<u>\$ 361,762</u>	<u>\$ 397,193</u>

Contract costs include all direct material and labor costs, indirect costs, and an allocable portion of selling, general, and administrative expenses. Changes to total estimated contract cost or losses, if any, are recognized in the period in which they are determined as assessed at the contract level. Under typical payment terms, amounts are billed as work progresses in accordance with agreed-upon contractual terms at periodic intervals (e.g., biweekly or monthly) and customer payments are typically due within 30 to 60 days of billing, depending on the contract.

The nature of the Company's contracts gives rise to several types of variable consideration, including claims and unpriced change orders; awards and incentive fees; and liquidated damages and penalties. The Company recognizes revenue for variable consideration when it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Contracts and Retainages Receivable, Contract Assets, and Contract Liabilities – Contracts for performing steel fabrication and erection are based on contracted prices. Generally, the terms of the contracts permit monthly billings for materials purchased for the contract and work completed on the contract. Progress billings are usually approved by the customer prior to submission and included in contract receivables. In addition, receivables include retentions or amounts held back until project completion and acceptance by the customer. The Company has determined there are no significant financing components in its contracts as of December 31, 2020.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 2—Summary of significant accounting policies (continued)

The Company records an allowance for doubtful accounts based on specifically identified amounts that management believes might be uncollectible. As of December 31, 2019 and 2020, there is an allowance of \$229,000 and \$-0-, respectively.

Contract assets, which are classified as costs and estimated earnings in excess of billings on uncompleted contracts on the accompanying consolidated balance sheets, represent unbilled amounts where the right to payment is subject to more than merely the passage of time. The increase in contract assets was a result of normal business activity and not materially impacted by any other factors.

Contract liabilities, which are classified as billings in excess of costs and estimated earnings on uncompleted contracts on the accompanying consolidated balance sheets, represent amounts billed to clients in excess of revenue recognized to date. The Company anticipates substantially all such amounts will be earned over the next 12 months. The increase in contract liabilities was a result of normal business activity and not materially impacted by any other factors.

Shipping and Handling Costs – The Company recognizes shipping and handling costs of the fabricated steel and other products delivered to the job site in cost of revenue.

Inventory – Inventory is stated at the lower of cost or net realizable value, cost being determined on the first-in, first-out (FIFO) method. Inventory consists primarily of raw materials not assigned to a specific contract. Materials purchased for specific contracts are charged at cost. The cost of materials charged to contracts is included in the calculation of costs and estimated earnings in excess of billings on uncompleted contracts or billings in excess of costs and estimated earnings on uncompleted contracts.

Property, Plant, and Equipment – The Company records property, plant, and equipment at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Major renewals and betterments are capitalized and also depreciated on the straight-line method. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the accounts, and any gain or loss is reflected in the determination of net income.

Goodwill and Goodwill Impairment – Goodwill and intangible assets deemed to have indefinite lives are not amortized but rather are tested at least annually for impairment, or more often if events or changes in circumstances indicate that more likely than not the carrying amount of the asset may not be recoverable. Goodwill is tested for impairment at the reporting unit level. A reporting unit represents an operating segment or a component of an operating segment. Goodwill is tested for impairment by either performing a qualitative evaluation or a two-step quantitative test. The qualitative evaluation is an assessment of factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill.

Management may elect not to perform the qualitative assessment for some or all reporting units and perform a two-step quantitative impairment test. Fair value is determined based on discounted cash flow analyses. The discounted estimates of future cash flows include significant management assumptions such as revenue growth rates, operating margins, weighted average cost of capital, and future economic and market conditions. If the carrying value of the reporting unit exceeds fair value, goodwill is considered impaired. The amount of the impairment is the difference between the carrying value of the goodwill and the “implied” fair value, which is calculated as if the reporting unit had just been acquired and accounted for as a business combination.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 2—Summary of significant accounting policies (continued)

The estimates of future cash flows involve considerable management judgment and are based upon assumptions about expected future operating performance, economic conditions, market conditions, and cost of capital. Inherent in estimating the future cash flows are uncertainties beyond the Company's control, such as capital markets. The actual cash flows could differ materially from management's estimates due to changes in business conditions, operating performance, and economic conditions.

Trademark – The Company amortizes its trademark value on a straight-line basis for a period of four years as established by an independent valuation at the time of the acquisition of Memco, Inc. on June 4, 2018.

Tradenname and Contract Value – The Company amortizes its tradenname on a straight-line basis for a period of four years and contract value on a straight-line basis for a period of 18 months, as established by an independent valuation at the time of acquisition Derr & Isbell Construction, L.L.C. on December 31, 2019.

Impairment of Long-Lived Assets – Long-lived assets are reviewed for impairments whenever events or changes in circumstances indicate the related carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of such assets to future net undiscounted cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value. No impairment charges were considered necessary for the years ended December 31, 2019 or 2020.

Income Taxes – No provision is made in the accounts of the Company for federal or state income taxes because such taxes are generally liabilities of the Company's individual members.

Fair Value Measurements – The Company follows FASB ASC *Topic 820, Fair Value Measurements*, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair Value of Financial Instruments – The carrying amounts of cash, contracts receivable, accounts payable, and accrued liabilities approximate fair value because of the short maturity of these instruments.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 2—Summary of significant accounting policies (continued)

The carrying amount of long-term debt approximates fair value at December 31, 2019 and 2020, since a substantial portion of long-term debt is a variable rate or at a rate consistent with market rates currently available to the Company.

Derivative Financial Instruments – The Company from time to time enters into interest rate swap transactions to manage its exposures to movements in interest rates as well as hedging transactions to manage its exposure to steel prices. The Company does not use derivatives for trading or other speculative purposes. The risk management strategy of the Company does not meet the criteria for hedge accounting. Due to the immaterial nature of these swap and hedging transactions, the Company does not carry the value of these contracts on its consolidated financial statements.

Recently Issued Accounting Pronouncements

Adopted Accounting Standard – ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASC 606”), was issued by FASB in May 2014. This ASU supersedes the revenue recognition requirements in *Revenue Recognition (Topic 605)*. The Company adopted ASU No. 2014-09, including the subsequent amendments noted above, using the modified retrospective method. Prior periods were not restated and the cumulative effect of applying the new standard to all open contracts at January 1, 2019 was immaterial; therefore, no adjustment was made to 2019 beginning retained earnings. ASU No. 2014-09 also requires expanded revenue disclosures which are included above.

Upcoming Accounting Standard – In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring lessees to recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. This ASU is effective for fiscal years beginning after December 15, 2021. The Company is currently evaluating the impact and implementation strategy for the standard.

Note 3—Acquisitions

NYC Construction Services Ltd.

On April 15, 2019, Banker Steel Company, L.L.C., through its wholly-owned subsidiary, NYC Construction Services Ltd., acquired substantially all of the operating assets of DCM Building Solutions Inc. (“DCM”) for a total consideration of approximately \$200,000. Located in Ontario, Canada, DCM provides construction drafting services to the steel erection industry. The Company’s acquisition of DCM expands its capabilities and allows it to further integrate vertically, which management believes will allow the Company to better service its customers.

The purchase was accounted for using the acquisition method of accounting and the results of operations have been included in the consolidated financial statements from the date of acquisition. The acquisition was financed with available cash.

The total consideration for the acquisition of DCM has been allocated, in accordance with U.S. GAAP, among the acquired assets and assumed liabilities based upon fair values determined in accordance with U.S. GAAP and based upon a combination of independent appraisals and management’s estimates of those values.

Acquisition costs related to this acquisition were recorded in general and administrative expenses but were not material for this transaction.

Goodwill is the excess of the acquisition price over the identified assets at fair value and includes the knowledge and experience of the workforce, synergies, and efficiencies gained through integration.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 3—Acquisitions (continued)

A summary of the transaction follows (in thousands):

Consideration:

Cash	\$ 200
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Recognized amounts of identifiable assets acquired and liabilities assumed:

Property and equipment	\$ 60
	60
Goodwill	140
	\$ 200

Innovative Detailing Services Ltd.

On April 16, 2019, Banker Steel Company, L.L.C., through its wholly-owned subsidiary, Innovative Detailing Services Ltd., acquired substantially all of the operating assets of Innovative Detailing Services Inc. ("IDS") for a total consideration of approximately \$1,549,000. Located in Ontario, Canada, IDS provides steel detailing and design services to the steel erection industry. The Company's acquisition of IDS expands its detailing capabilities and allows it to further integrate vertically, which management believes will allow the Company to better service its customers.

The purchase was accounted for using the acquisition method of accounting and the results of operations have been included in the consolidated financial statements from the date of acquisition. The acquisition was financed with available cash.

The total consideration for the acquisition of IDS has been allocated, in accordance with U.S. GAAP, among the acquired assets and assumed liabilities based upon fair values determined in accordance with U.S. GAAP and based upon a combination of independent appraisals and management's estimates of those values.

Goodwill is the excess of the acquisition price over the identified assets at fair value and includes the knowledge and experience of the workforce, synergies, and efficiencies gained through integration.

Acquisition costs related to this acquisition were recorded in general and administrative expenses but were not material for this transaction.

A summary of the transaction follows (in thousands):

Consideration:

Cash	\$ 1,549
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Recognized amounts of identifiable assets acquired and liabilities assumed:

Accounts receivable	\$ 132
	132
Goodwill	1,417
	\$ 1,549

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 3—Acquisitions (continued)

Lynchburg Freight and Specialty L.L.C.

On July 12, 2019, the Banker Steel Company, L.L.C. acquired substantially all of the operating assets of Lynchburg Freight and Specialty L.L.C. ("LFS") for a total consideration of approximately \$1,113,000. Located in Lynchburg, Virginia, LFS provides transportation and logistics services to the Company and certain unrelated entities on a fee for service basis. The Company's acquisition of LFS expands its transportation capabilities and allows it to further integrate vertically, which management believes will allow the Company to better service its customers.

The purchase was accounted for using the acquisition method of accounting and the results of operations have been included in the consolidated financial statements from the date of acquisition. The acquisition was financed with available cash. Goodwill is the excess of the acquisition price over the identified assets at fair value and includes the knowledge and experience of the workforce, as well as synergies and efficiencies gained through integration.

The total consideration for the acquisition of LFS has been allocated, in accordance with U.S. GAAP, among the acquired assets and assumed liabilities based upon fair values determined in accordance with U.S. GAAP and based upon a combination of independent appraisals and management's estimates of those values.

Acquisition costs related to this acquisition were recorded in general and administrative expenses but were not material for this transaction.

A summary of the transaction follows (in thousands):

Consideration:

Cash	\$ 1,113
------	----------

Recognized amounts of identifiable assets acquired and liabilities assumed:

Accounts receivable and other assets	\$ 563
Property and equipment	581
Accounts payable and other liabilities	(331)
Accrued expenses	(11)
Financial liabilities	(390)
	<u>412</u>
Goodwill	<u>701</u>
	<u>\$ 1,113</u>

Derr & Isbell Construction, L.L.C.

On December 31, 2019, the Company acquired 100% of the membership interest in Derr & Isbell Construction, L.L.C. ("Derr") for a total consideration of approximately \$245,000. Located in Fort Worth, Texas, Derr provides construction engineering services, precast erection, structural steel erection, and related construction services to the steel erection industry. The Company's acquisition of Derr expands its capabilities and allows it to take on more robust projects because of Derr's location in the U.S.A. and due to the acquisition of Derr's assembled workforce and fixed assets. Management believes this acquisition will allow the Company to better service its customers and will allow the Company to complete more large-scale jobs.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 3—Acquisitions (continued)

The purchase was accounted for using the acquisition method of accounting and the results of operations have been included in the consolidated financial statements from the date of acquisition. The acquisition was financed with available cash. Fees and expenses directly related to the acquisition in the amount of \$426,000 were expensed as incurred and are included in general and administrative expenses within the consolidated statement of operations.

The purchase includes the assumption of gross customer accounts and retainage receivables totaling \$16,300,000. The Company estimates approximately \$950,000 of these receivables will not be collected, and \$10,200,000 are contingent on the settlement of an ongoing dispute. Management provisionally reserved for the full amount of these receivables pending further information on the most likely outcome. Therefore, the receivables were provisionally recorded at the estimated fair value of \$5,150,000. During 2020, a settlement was reached and no adjustment was necessary to the fair value of the acquired receivables. The \$10,200,000 and \$950,000 in receivables noted above were effectively removed from the acquired receivables.

Additionally, the purchase includes a contingent consideration arrangement that requires the Company to pay the former owners 50% of the net proceeds received on the above contingent receivables in excess of \$100,000, less certain agreed-upon acquisition costs. As a result of the inability to estimate the most likely outcome, management provisionally recorded the fair value of the contingent consideration as \$-0-. During 2020, a settlement was reached, and no adjustment was necessary to the fair value of the contingent consideration.

The total consideration for the acquisition of Derr was provisionally allocated, in accordance with U.S. GAAP, among the acquired assets and assumed liabilities based upon fair values and based upon a combination of independent appraisals and management's estimates of those values. During 2020, several adjustments were made to the allocation of acquired assets and assumed liabilities based on facts that existed at the acquisition date but were unknown at the time of the provisional allocation.

A summary of the transaction with the provisional and final purchase price allocation follows (in thousands):

	Provisional	Final
Consideration:		
Cash paid of \$245, net of cash acquired	\$ 75	\$ 75
 Recognized amounts of identifiable assets acquired and liabilities assumed: (in thousands)		
Financial assets	\$ 6,852	\$ 6,704
Tradename	700	700
Property, plant, and equipment	1,150	1,150
Financial liabilities	(18,739)	(16,849)
	(10,037)	(8,295)
Goodwill	10,112	8,370
	\$ 75	\$ 75

As allowed for in ASC Topic 805, the above measurement period adjustments were recognized in the current period without revision to previously reported amounts.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 4—Concentrations of credit risk

Substantially all of the Company's receivables are due from companies engaged in the construction industry. Generally, the Company has the right to attach a lien on the property which it has sold or installed materials or make a claim against a payment bond if one has been furnished on the job. The Company performs ongoing credit evaluation of its customers and generally does not require collateral.

The Company maintains cash balances at several financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts. The Company from time to time may have amounts on deposit in excess of the insured limits. As of December 31, 2019, the Company did not have cash in excess of the FDIC insured limit. As of December 31, 2020, the Company had \$4,285,000 in excess of the FDIC insured limit. The Company has not experienced significant losses in such accounts and does not believe it is exposed to any significant risk.

Note 5—Costs and billings on uncompleted contracts

(in thousands)	2019	2020
Costs incurred on uncompleted contracts	\$ 1,291,183	\$ 1,142,820
Estimated earnings	77,366	107,081
	1,368,548	1,249,901
Less billings to date	1,374,393	1,290,081
	<u>\$ (5,845)</u>	<u>\$ (40,180)</u>

Included in the accompanying consolidated balance sheets under the following captions:

(in thousands)	2019	2020
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 9,151	\$ 15,806
Billings in excess of costs and estimated earnings on uncompleted contracts	(14,996)	(55,986)
	<u>\$ (5,845)</u>	<u>\$ (40,180)</u>

Note 6—Property, plant, and equipment

Depreciation expense for the years ended December 31, 2019 and 2020 was \$2,633,000 and \$3,987,000, respectively.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 7—Intangible assets

Intangible assets, including goodwill, at December 31 consist of the following:

(in thousands)	2019	2020
Goodwill	\$ 17,069	\$ 17,069
Derr opening balance sheet adjustment		(1,746)
	<u>\$ 17,069</u>	<u>\$ 15,323</u>
Contract value (profit)	\$ 980	\$ 832
Accumulated amortization	-	(555)
	<u>\$ 980</u>	<u>\$ 277</u>
Contract value (loss)	\$ -	\$ (5,194)
Accumulated accretion	-	5,194
	<u>\$ -</u>	<u>\$ -</u>
Tradename	\$ 700	\$ 700
Accumulated amortization	-	(175)
	<u>\$ 700</u>	<u>\$ 525</u>
Trademark	\$ 3,060	\$ 3,060
Accumulated amortization	(2,722)	(2,835)
	<u>\$ 338</u>	<u>\$ 225</u>
Total goodwill and intangible assets	\$ 21,809	\$ 16,467
Total accumulated amortization	(2,722)	(116)
	<u>\$ 19,087</u>	<u>\$ 16,350</u>

The future scheduled amortization expense for intangible assets as of December 31, 2020 was as follows (in thousands):

Years Ending	Contract Value	Tradename	Trademark	Total
2021	\$ 277	\$ 175	\$ 112	\$ 564
2022	-	175	113	288
2023	-	175	-	175
	<u>\$ 277</u>	<u>\$ 525</u>	<u>\$ 225</u>	<u>\$ 1,027</u>

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 8—Line of credit

The Company had a revolving credit line agreement maturing January 24, 2021, which permitted borrowings up to \$30,000,000 and allowed the Company to issue letters of credit as needed up to certain pre-determined sub-limits. The interest rate on borrowings followed a rate schedule based upon the ratio of total debt to total earnings before interest, taxes, depreciation, and amortization. Loan pricing ranged from LIBOR plus 2.0% to 2.75%. The LIBOR rate at December 31, 2019 was 1.70%. The line was collateralized by substantially all of the Company's assets including contracts receivable, inventory, and equipment. The agreement was further collateralized by the assignment of life insurance policies on the Company's CEO. There was \$18,892,000 of borrowings outstanding as of December 31, 2019. The revolving line of credit was refinanced in March 2020 with a new revolving line of credit agreement maturing March 31, 2024, which permits borrowings up to \$50,000,000 and allows the Company to issue letters of credit as needed up to certain pre-determined sub-limits. The interest rate on borrowings follows a rate schedule based upon the ratio of total debt to total earnings before interest, taxes, depreciation, and amortization. Loan pricing ranges from a LIBOR floor of 0.75% plus 2.25% to 2.75%. The LIBOR rate at December 31, 2020 was 0.16%, and so the floor was used, for a total interest rate of 3%. The line is collateralized by substantially all of the Company's assets including contracts receivable, inventory, and equipment. The agreement is further collateralized by the assignment of life insurance policies on the Company's CEO. There was \$-0- borrowings outstanding as of December 31, 2020.

The Company acquired an additional promissory note agreement maturing February 29, 2020 through the acquisition of Derr & Isbell Construction, L.L.C., which permits borrowings up to \$8,000,000. The interest rate on the loan is variable on a daily basis and is quoted as the prime rate in the most recently published issue of the Wall Street Journal (U.S. Edition) in the "Money rates" section. The interest rate payable on the outstanding balance of the line of credit agreement is an additional 3% on top of the previously mentioned prime rate. There was \$5,547,000 of borrowings outstanding as of December 31, 2019. The line was subsequently extended through March 31, 2020, at which time all outstanding principal was paid and it was allowed to expire.

The line of credit contains covenants which, among other things, require the Company to maintain certain financial covenants and places limitations on distributions and indebtedness. The Company met the required covenants during the years ended December 31, 2019 and 2020.

Note 9—Accrued expenses and other liabilities

Accrued expenses and other liabilities consisted of the following as of December 31 (in thousands):

	2019	2020
Deferred payroll taxes	\$ -	\$ 4,519
Compensation (including union liabilities)	4,353	3,908
Sales tax payable	346	2,639
Insurance liability	2,805	2,352
Deferred gain on sale-leaseback	404	482
Self-insurance liabilities	500	350
Other	495	216
	<u>\$ 8,903</u>	<u>\$ 14,466</u>

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 10—Notes payable and subordinated debt

Notes payable and long-term debt at December 31 consisted of the following:

(in thousands)	Final Maturity	2019	2020
Secured Debt:			
Note payable, bank, interest of 5.125%, payable \$83,333 monthly plus interest, collateralized with substantially all Company assets.	2020	\$ 95	*
Note payable, bank, interest of 4.49%, payable \$964 monthly which includes interest, collateralized with equipment.	2020	2	*
Note payable, bank, interest of 4.49%, payable \$2,015 monthly which includes interest, collateralized with equipment.	2020	24	*
Note payable, bank, interest of 4.49%, payable \$404 monthly which includes interest, collateralized with equipment.	2020	16	*
Note payable, bank, interest of 4.49%, payable \$6,723 monthly which includes interest, collateralized with equipment.	2020	277	*
Note payable, bank, interest of 4.49%, payable \$478 monthly which includes interest, collateralized with equipment.	2020	20	*
Note payable, bank, interest of 4.49%, payable \$2,361 monthly which includes interest, collateralized with equipment.	2020	45	*
Note payable, bank, interest of 4.600%, payable \$85,000 quarterly plus interest, collateralized with equipment.	2020	2,125	*
Note payable, bank, interest of 4.490%, payable \$3,577.49 monthly which includes interest, collateralized with substantially all Company assets.	2020	174	*
Note payable, bank, interest of 5.390%, payable \$2,045.28 monthly which includes interest, collateralized with equipment.	2020	40	*
Note payable, bank, interest of 5.990%, payable \$575.19 monthly which includes interest, collateralized with substantially all Company assets.	2020	28	*
Note payable, bank, interest of 5.360%, payable \$32,362.24 monthly which includes interest, collateralized with equipment.	2020	1,237	*
Note payable, bank, interest of 4.00%, payable \$52,498 monthly which includes interest, collateralized with equipment.	2020	2,634	*

*Paid in full as of December 31, 2020

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 10—Notes payable and subordinated debt (continued)

	Final Maturity	2019	2020
Note payable, bank, interest of 4.97%, payable \$62,068 monthly which includes interest, collateralized with equipment.	2020	\$ 2,178	*
Note payable, bank, interest of 4.625%, payable \$3,200 monthly plus interest, collateralized with equipment.	2023	518	480
Note payable, bank, interest of 4.09%, payable \$20,844 monthly which includes interest, collateralized with equipment.	2024	1,095	887
Note payable, bank, interest of 4.100%, payable \$64,153 monthly which includes interest, collateralized with equipment.	2024	3,476	2,837
Note payable, finance company, interest of 5.52%, payable \$64,153 monthly which includes interest, collateralized with equipment.	2024	-	86
Note payable, bank, interest of 3.970%, payable \$32,804.04 monthly which includes interest, collateralized with equipment.	2025	1,783	1,454
Note payable, bank, interest of 3.500%, payable \$750,000 monthly which includes interest, collateralized with substantially all Company assets.	2025	-	12,750
		<u>15,767</u>	<u>18,494</u>
*Paid in full as of December 31, 2020			
Subordinated Debt:			
Unsecured note payable, interest of 11.00%, interest only due to one of the members.	2024	6,267	6,267
		<u>6,267</u>	<u>6,267</u>
		22,034	24,761
Less current maturities		<u>3,993</u>	<u>4,267</u>
Total secured and subordinated debt		<u>\$ 18,041</u>	<u>\$ 20,494</u>

Aggregate principal payments at December 31, 2020 on long-term debt were scheduled as follows:

(in thousands)	Notes Payable, Secured	Notes Payable, Subordinated	Total
Years Ending December 31,			
2021	\$ 4,267	\$ -	\$ 4,267
2022	4,337	-	4,337
2023	4,737	-	4,737
2024	4,390	6,267	10,657
2025	763	-	763
	<u>\$ 18,494</u>	<u>\$ 6,267</u>	<u>\$ 24,761</u>

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 11—Sale-leaseback transaction

During the year ended December 31, 2018, Banker Steel Company, L.L.C. completed a transaction under which it sold its corporate headquarters and three of its fabrication facilities to an unrelated third party with the intention of leasing the facilities back from the purchaser for active use in its business. Net proceeds from the sale, all of which were cash, were approximately \$15,713,000.

The terms and provisions of the transaction demonstrate the buyer's initial and continuing investment in the property and the transfer of all of the risk and rewards of ownership as demonstrated by the absence of any continuing involvement by the seller. The Company has accounted for the transaction in accordance with the sale-leaseback provisions of ASC 840-40-20, whereby the properties have been removed from the Company's balance sheet and the Company has recognized a gain of approximately \$9,632,000, all of which has been deferred.

Concurrent with the sale, the Company entered into an agreement to lease the properties back from the purchaser over an initial lease term of 20 years. The master lease agreement for the properties includes an initial lease term of 20 years and (four) five-year renewal options. The Company evaluated the terms and conditions of the lease, on an asset-by-asset basis, and has classified the leases as operating leases.

The deferred gain on this transaction includes both a current and noncurrent portion, with the current portion based on the amount expected to amortize over the next 12 months. The current and noncurrent portions are included in accrued expenses and other liabilities and deferred gain, respectively, in the accompanying consolidated balance sheets.

Note 12—Operating leases

At December 31, 2020, the Company was leasing certain equipment and real estate under operating leases with future minimum rental payments as follows (in thousands):

<u>Years Ending December 31,</u>	<u>Amount</u>
2021	\$ 5,165
2022	4,235
2023	3,813
2024	3,045
2025	3,064
Thereafter	22,797
	<u><u>\$ 42,119</u></u>

Total rental expense for the years ended December 31, 2019 and 2020 was approximately \$5,306,000 and \$7,111,000 respectively.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 13—Related party transactions

The Company utilizes the services of Banker Aviation, L.L.C. ("Aviation"). Aviation provides transportation services to the Company and outside third parties. One of the Company's members owns Aviation. The Company incurred expenses of approximately \$1,222,000 and \$1,867,000, respectively, for the years ended December 31, 2019 and 2020 with Aviation.

The Company has a subordinated note payable to one of its members. The note is in the amount of \$6,267,000 and bears interest at 11% maturing in 2024. Annual interest paid for December 31, 2019 and 2020 was \$689,000 in both years.

Two of the Company's members issued a total of \$2,500,000 in letters of credit in favor of the Company's sureties, and are charging the Company, for these outstanding amounts, an annual fee equal to 15% of the average outstanding face amount. Additionally, the members are charging the Company a 3.5% renewal fee. Payment of the fees is subordinate in right-of-payment to any and all obligations of the Company's primary lender. Total fees charged to the Company by the two members for 2019 and 2020 amounted to approximately \$463,000 and \$326,000, respectively. As of December 31, 2019 and 2020, approximately \$81,000 and \$0- of fees were accrued but not yet paid. These letters of credit expired on September 30, 2020. In addition, the Company has issued \$5,000,000 of letters of credit to its sureties. As of December 31, 2019 and 2020, there were no draws on any of the letters of credit.

Note 14—Retirement plan

The Company has a 401(k) profit-sharing plan covering substantially all employees other than certain employees covered by a collective bargaining agreement. Under the plan, participating employees may elect to reduce their compensation, not to exceed the maximum limitation allowed by the Internal Revenue Code ("IRC"), with such amount being contributed to the plan for their benefit. The Company contributes to the employees' accounts an amount equal to 100% of the first 3% of each participant's compensation contributed, plus an additional 50% of each participant's compensation contributed over 3% but not over 5%, provided total contributions by the Company do not exceed the maximum amount deductible under the IRC.

Contributions to the plan totaled approximately \$933,000 and \$962,000, respectively, for the years ended December 31, 2019 and 2020. The Company can also make a discretionary contribution in an amount determined annually by the Company. There were no discretionary contributions made during 2019 or 2020.

Note 15—Income taxes

The Company is treated as a partnership for federal and state income tax purposes. In addition, the Company's subsidiaries are disregarded entities for federal and state income tax purposes. Consequently, federal and state income taxes are not payable, or provided for, by the Company. Members are taxed individually on their share of the Company's earnings. The Company's net income is allocated among the members in accordance with the operating agreement of the Company. Accordingly, the consolidated financial statements do not reflect a provision for income taxes.

Management has evaluated the effect of the guidance provided in FASB ASC 740, *Income Taxes*. Management has evaluated all tax positions that could have a significant effect on the consolidated financial statements and determined the Company has no uncertain income tax positions at December 31, 2019 or 2020.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 16—Supplemental cash flow information

Cash paid for interest was approximately \$2,487,000 and \$3,044,000, respectively, for the years ended December 31, 2019 and 2020. During the years ended December 31, 2019 and 2020, the Company purchased capital assets of \$ 2,495,000 and \$102,000, respectively, through issuance of term note agreements.

Note 17—Limited liability company

The Company is a limited liability company and, accordingly, no member, manager, agent, or employee of the Company shall be personally liable for the debts, obligations, or liabilities of the Company, whether arising in contract, tort, or otherwise, or for the acts or omissions of any other member, director, manager, agent, or employee of the Company, unless the individual has signed a specific personal guarantee.

Note 18—Commitments and contingent liabilities

In the normal course of its operations, the Company is, from time to time, party to various disputes and litigation, including some that it has asserted against others. These matters generally relate to the Company's contracts, on various projects, for fabrication and erection of steel. Although the ultimate resolution of any of these matters is inherently unpredictable, management of the Company does not presently believe the outcome of any of these matters would have a material, adverse impact on the Company's consolidated financial position, results of operations, or cash flows.

Through its wholly-owned subsidiaries, Derr & Isbell Construction, L.L.C.; NYC Constructors, L.L.C.; and Banker Steel NJ, L.L.C.; the Company has entered into an international ironworkers' agreement covering approximately 300 employees, a separate six-year collective bargaining agreement covering approximately 200 employees, and a separate five-year collective bargaining agreement covering approximately 100 employees. During the years ended December 31, 2019 and 2020, approximately 44% of the Company's employees are represented by unions and covered by an international agreement and collective bargaining agreements.

Note 19—Self-insurance

As of December 31, 2020, the Company is self-insured for claims up to \$150,000 on each employee and approximately \$5,658,000 in aggregate claims during a policy year. The Company maintains an accrual for these costs based on claims filed and an estimate of claims incurred but not reported or paid, based upon historical data and management estimate. The accrued liability was \$500,000 and \$350,000, respectively, as of December 31, 2019 and 2020.

Note 20—Changes in estimates

Accounting for contracts using the percentage-of-completion method requires management to make significant estimates with respect to contract values and costs to complete. Based upon the extended amount of time it takes to complete many of the Company's contracts, an estimate of total revenues and expenses at completion is a complex process and, accordingly, is subject to change.

During 2020, significant changes in estimates were identified (positive and negative). A significant increase in estimated profit for three jobs resulted in a favorable catch-up adjustment of \$8.5M in 2020. Conversely, a decrease in estimated profit for two jobs resulted in a combined unfavorable catch-up adjustment of (\$6.1M). The net significant change in estimate at December 31, 2020 was favorable adjustment of \$2.4M. During 2019, there were no significant changes in estimates.

BANKER STEEL HOLDCO, L.L.C. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2020

Note 21—Risks and uncertainties

In January 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a "Public Health Emergency of International Concern," which continues to spread throughout the world and has adversely impacted global commercial activity and contributed to significant declines and volatility in financial markets. The coronavirus outbreak and government responses have created disruption in global supply chains and adversely impacted many industries. Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, any significant disruptions to customer orders or production capacity caused by COVID-19 would result in a loss of sales and profits and other material, adverse effects.

Note 22—Subsequent events

Management has evaluated subsequent events through July 29, 2021, which is the date the consolidated financial statements were available to be issued. On May 27, 2021 the Company was sold to DBM Global, Inc., a subsidiary of HC2 Holdings, Inc.

HC2 HOLDINGS, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined statements of operation for the six months ended June 30, 2021 and year ended December 31, 2020 of HC2 Holdings, Inc. ("HC2", "we", "us", "the Company", or "our") give effect to the following acquisition of Banker Steel Holdco LLC ("Banker Steel").

The unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2021 and year ended December 31, 2020 give effect to the acquisition as if they had occurred on January 1, 2020. The unaudited pro forma condensed combined financial statements and the notes to the unaudited pro forma condensed combined financial statements are based on, and should be read in conjunction with:

- Our historical unaudited condensed consolidated financial statements, related notes, and the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Quarterly Report on Form 10-Q as of and for the three and six months ended June 30, 2021, filed on August 6, 2021.
- Our historical audited consolidated financial statements, related notes, and the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K as of and for the year ended December 31, 2020, filed on March 10, 2021.
- Our historical unaudited pro forma financial statements and related notes giving effect to the disposition of Continental Insurance Group Ltd. and its wholly-owned subsidiaries Continental General Insurance Company and Continental LTC Inc. (the "Insurance Disposition") on Form 8-K, filed on July 1, 2021.
- Banker Steel historical unaudited condensed financial statements and related notes as of and for the three months ended March 31, 2021 (filed herein as Exhibit 99.1 to the Current Report on Form 8-K/A, filed on August 13, 2021)
- Banker Steel historical audited financial statements and related notes as of and for the year ended December 31, 2020 (filed as Exhibit 99.2 to the Current Report on Form 8-K/A, filed on August 13, 2021)

The unaudited pro forma condensed combined financial statements have been prepared by HC2's management using the acquisition method of accounting for business combinations under accounting principles generally accepted in the United States of America and are not necessarily indicative of the combined financial position or results of operations that would have been realized had the acquisitions been completed as of the dates indicated, nor are they meant to be indicative of the Company's anticipated combined financial position or future results of operations that the Company will experience after the acquisitions.

The historical consolidated financial statements have been adjusted to reflect factually supportable items that are directly attributable to the acquisition and, with respect to the unaudited pro forma condensed combined statements of operations, are expected to have a continuing impact on the results of operations of the combined company.

In connection with the post-acquisition integration of the operations of Banker Steel, HC2 anticipates that nonrecurring integration charges will be incurred. HC2 is not able to determine the timing, nature, and amount of these charges as of the date of this filing. However, these charges will impact the results of operations of the combined company in the period in which they are incurred.

HC2 HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Six Months Ended June 30, 2021
(in millions, except per share data amounts)

	HC2	Banker Steel (Note 4)	Pro Forma Adjustments	Ref.	Financing Adjustments	Ref.	Pro Forma
Revenue	\$ 415.6	\$ 197.5	\$ —		\$ —		\$ 613.1
Cost of revenue	348.7	174.7	0.2	(7a)	—		523.6
Gross profit	66.9	22.8	(0.2)		—		89.5
Operating expenses							
Selling, general and administrative	76.6	12.5	(2.3)	(7b)	—		86.8
Depreciation and amortization	8.7	0.5	4.0	(7c)	—		13.2
Other operating expenses	0.2	—	—		—		0.2
(Loss) income from operations	(18.6)	9.8	(1.9)		—		(10.7)
Other (expense) income:							
Interest expense	(33.8)	(0.8)	—		0.6	(7f)	(34.0)
Loss on early extinguishment of debt	(12.4)	—	—		—		(12.4)
Income from equity investees	3.8	—	—		—		3.8
Other (expense) income	(1.9)	(0.4)	—		—		(2.3)
(Loss) income before income taxes	(62.9)	8.6	(1.9)		0.6		(55.6)
Income tax expense	(3.7)	(0.5)	—	(7e)	—		(4.2)
(Loss) income from continuing operations	\$ (66.6)	\$ 8.1	\$ (1.9)		\$ 0.6		\$ (59.8)
Loss per common share - continuing operations							
Basic	\$ (0.82)						\$ (0.73)
Diluted	\$ (0.82)						\$ (0.73)
Weighted average common shares outstanding							
Basic	77.1						77.1
Diluted	77.1						77.1

See notes to unaudited pro forma condensed combined financial statements

HC2 HOLDINGS, INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
For the Year Ended December 31, 2020
(in millions, except per share data amounts)

	HC2 (Recast)	Banker Steel (Note 4)	Pro Forma Adjustments	Ref.	Financing Adjustments	Ref.	Pro Forma
Revenue	\$ 716.9	\$ 397.6	\$ —		\$ —		\$ 1,114.5
Cost of revenue	588.5	338.6	2.2	(7a)	—		929.3
Gross profit	128.4	59.0	(2.2)		—		185.2
Operating expenses							
Selling, general and administrative	145.4	31.6	(2.0)	(7b)	—		175.0
Depreciation and amortization	17.7	1.5	9.9	(7c)	—		29.1
Asset impairment expense	13.5	—	—		—		13.5
Other operating (income)	(20.0)	—	—		—		(20.0)
(Loss) income from operations	(28.2)	25.9	(10.1)		—		(12.4)
Other (expense) income:							
Interest expense	(79.4)	(3.0)	—		3.0	(7f)	(79.4)
Loss on early extinguishment of debt	(9.4)	—	—		—		(9.4)
Loss from equity investees	(3.4)	—	—		—		(3.4)
Other income (expenses)	65.6	(0.8)	—		—		64.8
(Loss) income before income taxes	(54.8)	22.1	(10.1)		3.0		(39.8)
Income tax expense	(15.8)	(0.6)	(1.5)	(7e)	—		(17.9)
Income (loss) from continuing operations	\$ (70.6)	\$ 21.5	\$ (11.6)		\$ 3.0		\$ (57.7)
Loss per share - continuing operations							
Basic	\$ (1.58)						\$ (1.33)
Diluted	\$ (1.58)						\$ (1.33)
Weighted average common shares outstanding							
Basic	50.3						50.3
Diluted	50.7						50.7

See notes to unaudited pro forma condensed combined financial statements

HC2 HOLDINGS, INC.
NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS
(in millions, except as noted otherwise)

1. Description of the Transaction

On May 27, 2021, HC2 Holdings, Inc. announced that DBM Global ("DBMG") completed the acquisition of 100% of the limited liability company membership interests of interest in Banker Steel. The purchase price for the acquisition of Banker Steel was \$145.0 million. The acquisition was financed with \$64.1 million from a partial draw on a new \$110.0 million revolving credit facility, \$49.6 million of sellers' notes, \$6.3 million of assumed debt of Banker Steel, and \$25.0 million in cash received from HC2 in the settlement of certain intercompany balances.

Banker Steel provides fabricated structural steel and erection services primarily for the East Coast and Southeast commercial and industrial construction market. Banker Steel consists of six operating companies: Banker Steel Co., LLC; NYC Constructors, LLC; Memco LLC; Derr & Isbell Construction LLC; Innovative Detailing and Engineering Solutions; and Lynchburg Freight and Specialty LLC.

2. Basis of Presentation

The unaudited pro forma statements of operations give effect to the Banker Steel Acquisition as if it had occurred on January 1, 2020. The unaudited pro forma consolidated statement of operations is derived from the unaudited historical financial statements of HC2 and Banker Steel for the six months ended June 30, 2021, and the unaudited pro forma consolidated statement of operations for the year ended December 31, 2020 is derived from the historical unaudited pro forma financial statements of HC2 recast to reflect the Insurance Disposition and the audited consolidated statements of operations Banker Steel, as adjusted to give effect to the transaction.

The acquisition of Banker Steel is accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") Topic 805, Business Combinations ("ASC 805"). ASC 805 requires, among other things, that identifiable assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Under the acquisition method of accounting, the purchase consideration is allocated to the assets acquired, including tangible assets, and identifiable intangible assets and liabilities assumed, based on their estimated fair market values on the date of acquisition. Any excess purchase price after the initial allocation to identifiable net tangible and identifiable intangible assets is assigned to goodwill. Amounts attributable to intangible assets other than goodwill are amortized using the straight-line method over the estimated economic useful life of the underlying intangible asset. Fair value measurements can be highly subjective, and it is possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

The size and breadth of the Banker Steel acquisition necessitates use of the allowable measurement period to adequately analyze all the factors used in establishing the asset and liability fair values as of the acquisition date. The preliminary acquisition accounting is based upon the Company's estimates of fair value. The primary areas of the preliminary acquisition accounting that are not yet finalized include the following: (i) finalizing the review and valuation of property and equipment (including the models, key assumptions, estimates and inputs used), (ii) finalizing the review and valuation of related intangible assets (including key assumptions, inputs and estimates), (iii) finalizing the valuation of certain in-place contracts or contractual relationships (including but not limited to leases), (iv) finalizing our review of certain assets acquired and liabilities assumed, (v) finalizing our estimate of the impact of acquisition accounting on deferred income taxes or liabilities. As the initial acquisition accounting is based on our preliminary assessments, actual values may differ (possibly materially) when final information becomes available that differs from our current estimates. We will continue to evaluate these items, until they are satisfactorily resolved and adjust our acquisition accounting accordingly, within the allowable measurement period (not to exceed one year from the date of acquisition), as defined by ASC 805.

The unaudited pro forma consolidated financial statements are not necessarily indicative of what the results from operations actually would have been had the acquisition been completed at the date indicated and includes adjustments which are preliminary and may be revised. Such revisions may result in material changes.

3. Accounting Policies

As part of preparing the unaudited pro forma condensed combined financial statements, HC2 conducted a review of the accounting policies of Banker Steel to determine if differences in accounting policies require restatement or reclassification of results of operations or reclassification of assets or liabilities to conform to HC2's accounting policies and classifications. Banker Steel had not yet adopted ASU 2016-02, *Leases*, and as a part of the acquisition, the Company performed an analysis to determine the proper accounting treatment for the adoption of ASU 2016-02, *Leases*. While the Company is still finalizing the acquisition accounting, as a result of the adoption, the Company recorded additional right of use assets and lease obligations of \$37.0 million and \$37.1 million, respectively. See Note 5. below for the pro forma impact on the Company's statement of operations.

4. Conforming Adjustments

The following adjustments conform Banker Steel's results for the three months ended March 31, 2021 to the presentation of HC2's consolidated financial statements and also incorporates the period April 1, 2021 to May 26, 2021 prior to the acquisition on May 27, 2021 by HC2 to reflect the full period results from January 1, 2021 to May 26, 2021. Unless otherwise indicated, defined line items included in the notes have the meanings given to them in the historical financial statements of Banker Steel.

BANKER STEEL
UNAUDITED CONDENSED STATEMENT OF OPERATIONS
For the Period January 1, 2021 - May 26, 2021
(in millions)

	Three Months Ended March 31, 2021				
	Banker Steel March 31, 2021	Conforming Adjustments	Banker Steel, as Adjusted	April 1 - May 26, 2021	Total Historical Banker Steel
Revenue	\$ 115.3	\$ —	\$ 115.3	\$ 82.2	\$ 197.5
Cost of revenue	106.4	—	106.4	68.3	174.7
Gross Profit	8.9	—	8.9	13.9	22.8
Operating expenses					
Selling, general and administrative	6.7	0.6 (1)	7.3	5.2	12.5
Depreciation and amortization	—	0.3 (1)	0.3	0.2	0.5
Income (loss) from operations	2.2	(0.9)	1.3	8.5	9.8
Other income (expense):					
Other expense	(1.3)	1.3 (1)	—	(0.4)	(0.4)
Interest expense	(0.4)	—	(0.4)	(0.4)	(0.8)
Total other expense	(1.7)	1.3	(0.4)	(0.8)	(1.2)
Income before income taxes	0.5	0.4	0.9	7.7	8.6
Income tax (expense) benefit	—	(0.4) (1)	(0.4)	(0.1)	(0.5)
Net income	\$ 0.5	\$ —	\$ 0.5	\$ 7.6	\$ 8.1

BANKER STEEL
UNAUDITED CONDENSED STATEMENT OF OPERATIONS
For the Twelve Months Ended December 31, 2020
(in millions)

	Banker Steel December 31, 2020	Conforming Adjustments	Banker Steel, as Adjusted
Revenue	\$ 397.2	\$ 0.4 (1)	\$ 397.6
Cost of revenue	338.6	—	338.6
Gross Profit	58.6	0.4	59.0
Operating expenses			
Selling, general and administrative	28.7	2.9 (1)	31.6
Depreciation and amortization	—	1.5 (1)	1.5
Income (loss) from operations	29.9	(4.0)	25.9
Other income (expense):			
Other expense	(5.4)	5.4 (1)	—
Other income (expense)	—	(0.8) (1)	(0.8)
Interest expense	(3.0)	—	(3.0)
Total other expense	(8.4)	4.6	(3.8)
Income before income taxes	21.5	0.6	22.1
Income tax (expense) benefit	—	(0.6) (1)	(0.6)
Net income	\$ 21.5	\$ —	\$ 21.5

(1) Adjustment to reclassify historical Banker Steel financial statement presentation to HC2 financial statement presentation. Adjustments include the reclassification of acquisition costs, legal costs, and income tax expense from the Other expense line on the Banker Steel financial statements to their respective lines in the HC2 financial statement presentation.

5. Unaudited Pro Forma Condensed Combined Statements of Operations Adjustments

Pro Forma Adjustments

Adjustments included in the "Pro Forma Adjustments" column in the accompanying unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2021 and the year ended December 31, 2020 are as follows:

		June 30, 2021	December 31, 2020
		Increase (decrease)	
(7a)	<i>Adjustments to Cost of revenue</i>		
	This adjustment reflects the impact of the adoption of ASC 842, which was not included in the Banker Steel financial statements.	\$ (0.5)	\$ (0.6)
	This adjustment reflects the impact of depreciation related to acquired assets.	0.7	2.8
		\$ 0.2	\$ 2.2
(7b)	<i>Adjustments to Selling, general, and administrative expenses</i>		
	This adjustment reflects the elimination of transaction costs incurred by Banker Steel that are directly attributable and factually supportable to the Banker Acquisition but nonrecurring.	\$ (0.8)	\$ (2.0)
	This adjustment reflects the elimination of transaction costs incurred by DBMG that are directly attributable and factually supportable to the Banker Acquisition but nonrecurring.	(1.5)	—
		\$ (2.3)	\$ (2.0)
(7c)	<i>Adjustments to Depreciation and amortization</i>		
	This adjustment reflects the impact of amortization and depreciation related to acquired assets.	\$ 4.0	\$ 9.9
(7e)	<i>Adjustment to Income tax (expense) benefit</i>		
	This adjustment reflects the impact of the Banker Acquisition on income taxes. Due to the valuation allowance at HC2 Holdings, Inc. & Subsidiaries, there is no provision for income taxes except for state taxes in certain jurisdictions that Banker Steel files separately.	\$ —	\$ (1.5)

Financing Adjustments

Adjustments included in the "Pro Forma Adjustments" column in the accompanying unaudited pro forma condensed combined statements of operations for the six months ended June 30, 2021 and the year ended December 31, 2020 are as follows:

		June 30, 2021	December 31, 2020
		Increase (decrease)	
(7f)	<i>Adjustments to Interest expense</i>		
	Adjustment to reflect interest expense on the refinancing of debt	\$ 0.6	\$ 3.0

	Six Months Ended June 30, 2021				
	As Filed	Banker Steel	Pro Forma Adjustments	Financing Adjustments	Pro Forma
(Loss) income from continuing operations	\$ (66.6)	\$ 8.1	\$ (1.9)	\$ 0.6	\$ (59.8)
Income attributable to noncontrolling interest and redeemable noncontrolling interest	4.4	—	—	—	4.4
(Loss) income from continuing operations attributable to the Company	(62.2)	8.1	(1.9)	0.6	(55.4)
Less: Preferred dividends, deemed dividends and repurchase gains	0.6	—	—	—	0.6
(Loss) income from continuing operations attributable to HC2 common stockholders	(62.8)	8.1	(1.9)	0.6	(56.0)
Earnings allocable to common shares:					
Participating shares at end of period:					
Weighted-average common stock outstanding	77.1				77.1
Unvested restricted stock	—				—
Preferred stock (as-converted basis)	—				—
Total	77.1				77.1
Percentage of loss allocated to:					
Common stock	100.0 %				100.0 %
Unvested restricted stock	— %				— %
Preferred stock	— %				— %
Numerator for earnings per share, basic:					
Net loss from continuing operations attributable to common stock, basic	\$ (62.8)			\$ (56.0)	
Net loss from continuing operations attributable to common stock, diluted	\$ (62.8)			\$ (56.0)	
Denominator for basic and dilutive earnings per share					
Weighted average common shares outstanding - basic	77.1				77.1
Effect of assumed shares under treasury stock method for stock options and restricted shares and if-converted method for convertible instruments	—				—
Weighted average common shares outstanding - diluted	77.1				77.1
Loss per share - continuing operations					
Basic	\$ (0.82)			\$ (0.73)	
Diluted	\$ (0.82)			\$ (0.73)	

Twelve Months Ended December 31, 2021					
	HC2 Recast	Banker Steel	Pro Forma Adjustments	Financing Adjustments	Pro Forma
(Loss) income from continuing operations	\$ (70.6)	\$ 21.5	\$ (11.6)	\$ 3.0	\$ (57.7)
Loss attributable to noncontrolling interest and redeemable noncontrolling interest	(6.1)	—	—	—	(6.1)
(Loss) income from continuing operations attributable to the Company	(76.7)	21.5	(11.6)	3.0	(63.8)
Less: Preferred dividends, deemed dividends and repurchase gains	3.6	—	—	—	3.6
(Loss) income from continuing operations attributable to HC2 common stockholders	\$ (80.3)	\$ 21.5	\$ (11.6)	\$ 3.0	\$ (67.4)
Earnings allocable to common shares:					
Participating shares at end of period:					
Weighted-average common stock outstanding	50.3				50.3
Unvested restricted stock	—				—
Preferred stock (as-converted basis)	0.4				0.4
Total	50.7				50.7
Percentage of loss allocated to:					
Common stock	99.2 %				99.2 %
Unvested restricted stock	— %				— %
Preferred stock	0.8 %				0.8 %
Numerator for earnings per share					
Net loss from continuing operations attributable to common stock, basic	\$ (79.7)			\$	(66.9)
Net loss from continuing operations attributable to common stock, diluted	\$ (80.3)			\$	(67.4)
Denominator for basic and dilutive earnings per share:					
Weighted average common shares outstanding - basic	50.3				50.3
Effect of assumed shares under treasury stock method for stock options and restricted shares and if-converted method for convertible instruments	0.4				0.4
Weighted average common shares outstanding - diluted	50.7				50.7
Loss per share - continuing operations					
Basic	\$ (1.58)			\$	(1.33)
Diluted	\$ (1.58)			\$	(1.33)