

Steel Excel Inc.  
Form 10-Q  
May 09, 2014

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

---

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended March 31, 2014 or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-15071

---

Steel Excel Inc.  
(Exact name of Registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of incorporation or  
organization)

94-2748530  
(I.R.S. Employer Identification No.)

1133 WESTCHESTER AVENUE, SUITE N222  
WHITE PLAINS, NEW YORK  
(Address of principal executive offices)

10604  
(Zip Code)

Registrant's telephone number, including area code (914) 461-1300

---

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one).

Edgar Filing: Steel Excel Inc. - Form 10-Q

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of May 2, 2014, there were 11,966,904 shares of Steel Excel's common stock outstanding.

---

TABLE OF CONTENTS

|                 |   |           |
|-----------------|---|-----------|
| <u>Part I.</u>  | <u>Financial Statements</u>   |           |
| <u>Item 1.</u>  | <u>Unaudited Consolidated Financial Statements</u>  |           |
|                 | <u>Consolidated Statements of Operations for the three-month periods ended March 31, 2014 and 2013</u>                  | <u>3</u>  |
|                 | <u>Consolidated Statements of Comprehensive Income (Loss) for the three-month periods ended March 31, 2014 and 2013</u> | <u>4</u>  |
|                 | <u>Consolidated Balance Sheets as of March 31, 2014, and December 31, 2013</u>  | <u>5</u>  |
|                 | <u>Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2014 and 2013</u>                  | <u>6</u>  |
|                 | <u>Notes to Consolidated Financial Statements</u>   | <u>7</u>  |
| <u>Item 2.</u>  | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                            | <u>21</u> |
| <u>Item 4.</u>  | <u>Controls and Procedures</u>  | <u>24</u> |
| <br>            |   |           |
| <u>Part II.</u> | <u>Other Information</u>  |           |
| <u>Item 6.</u>  | <u>Exhibits</u>   | <u>26</u> |
|                 | <u>Signatures</u>   | <u>27</u> |

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Steel Excel Inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

|  | Three Months Ended March 31,          |          |   |
|--|---------------------------------------|----------|---|
|  | 2014                                  | 2013     |   |
|  | (in thousands, except per-share data) |          |   |
| Net revenues   | \$45,159                              | \$26,351 |   |
| Cost of revenues   | 34,310                                | 18,665   |   |
| Gross profit   | 10,849                                | 7,686    |   |
| Operating expenses:  |                                       |          |   |
| Selling, general and administrative expenses                                 | 8,262                                 | 5,312    |   |
| Amortization of intangibles  | 2,641                                 | 2,400    |   |
| Total operating expenses   | 10,903                                | 7,712    |   |
| Operating loss   | (54                                   | ) (26    | ) |
| Interest income, net   | 721                                   | 623      |   |
| Other income, net  | 2,928                                 | 1,139    |   |
| Income from continuing operations before income taxes and equity method loss | 3,595                                 | 1,736    |   |
| Benefit from income taxes  | 1,903                                 | 1,633    |   |
| Loss from equity method investees, net of taxes                              | (1,433                                | ) —      |   |
| Net income from continuing operations  | 4,065                                 | 3,369    |   |
| Loss from discontinued operations, net of taxes                              | —                                     | (395     | ) |
| Net income   | 4,065                                 | 2,974    |   |
| Net loss attributable to non-controlling interests in consolidated entities  |                                       |          |   |
| Continuing operations  | 326                                   | 20       |   |
| Discontinued operations  | —                                     | 316      |   |
| Net income attributable to Steel Excel Inc.                                  | \$4,391                               | \$3,310  |   |
| Basic income (loss) per share attributable to Steel Excel Inc.:              |                                       |          |   |
| Net income from continuing operations  | \$0.37                                | \$0.26   |   |
| Loss from discontinued operations, net of taxes                              | \$—                                   | \$(0.01  | ) |
| Net income   | \$0.37                                | \$0.26   |   |
| Diluted income (loss) per share attributable to Steel Excel Inc.:            |                                       |          |   |

Edgar Filing: Steel Excel Inc. - Form 10-Q

|   |        |         |   |
|---|--------|---------|---|
| Net income from continuing operations             | \$0.37 | \$0.26  |   |
| Loss from discontinued operations, net of taxes   | \$—    | \$(0.01 | ) |
| Net income  | \$0.37 | \$0.26  |   |
| Shares used in computing income (loss) per share: |        |         |   |
| Basic   | 11,981 | 12,886  |   |
| Diluted   | 11,999 | 12,909  |   |

See accompanying Notes to Consolidated Financial Statements.

3

---

Steel Excel Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

|   | Three Months Ended March 31, |         |
|---|------------------------------|---------|
|   | 2014                         | 2013    |
|   | (in thousands)               |         |
| Net income  | \$4,065                      | \$2,974 |
| Other comprehensive income (loss), net of taxes             |                              |         |
| Foreign currency translation adjustment, net of taxes       | —                            | (59 )   |
| Net unrealized gain on marketable securities, net of taxes  | 3,991                        | 2,871   |
| Comprehensive income  | 8,056                        | 5,786   |
| Comprehensive loss attributable to non-controlling interest | 326                          | 336     |
| Comprehensive income attributable to Steel Excel Inc.       | \$8,382                      | \$6,122 |

See accompanying Notes to Consolidated Financial Statements.

Steel Excel Inc.  
CONSOLIDATED BALANCE SHEETS  
(unaudited)

|   | March 31,<br>2014 | December 31,<br>2013 |
|---|-------------------|----------------------|
|   | (in thousands)    |                      |
| Assets  |                   |                      |
| Current assets:   |                   |                      |
| Cash and cash equivalents   | \$60,285          | \$73,602             |
| Marketable securities   | 198,965           | 178,485              |
| Accounts receivable, net of allowance for doubtful accounts of \$0  | 25,055            | 24,864               |
| Deferred income taxes   | 15                | —                    |
| Prepaid expenses and other current assets   | 6,647             | 4,979                |
| Current assets of discontinued operations   | 31                | 31                   |
| Total current assets  | 290,998           | 281,961              |
| Property and equipment, net   | 106,204           | 106,476              |
| Goodwill  | 68,139            | 68,139               |
| Intangible assets, net  | 42,257            | 44,388               |
| Other investments   | 28,826            | 25,844               |
| Investments in equity method investees  | 6,906             | 8,339                |
| Deferred income taxes   | 3,732             | 1,556                |
| Other long-term assets  | 1,647             | 1,754                |
| Total assets  | \$548,709         | \$538,457            |
| Liabilities and Stockholders' Equity:   |                   |                      |
| Current liabilities:  |                   |                      |
| Accounts payable  | \$3,640           | \$4,754              |
| Accrued expenses and other liabilities  | 13,068            | 7,526                |
| Current portion of long-term debt   | 13,214            | 13,214               |
| Current portion of capital lease obligations  | 412               | 412                  |
| 3/4% convertible senior subordinated notes due 2023   | —                 | 346                  |
| Deferred income taxes   | 3,838             | 3,612                |
| Current liabilities of discontinued operations  | 987               | 987                  |
| Total current liabilities   | 35,159            | 30,851               |
| Capital lease obligations, net of current portion   | 471               | 572                  |
| Long-term debt, net of current portion  | 75,982            | 79,286               |
| Deferred income taxes   | 2,043             | —                    |
| Other long-term liabilities   | 3,823             | 3,813                |
| Total liabilities   | 117,478           | 114,522              |
| Commitments and contingencies   |                   |                      |
| Stockholders' equity:   |                   |                      |
| Common stock (\$0.001 par value, 40,000 shares authorized; 14,517 shares and 14,508 shares issued and outstanding in 2014 and 2013, respectively) | 15                | 14                   |
| Additional paid-in capital  | 275,442           | 274,826              |
| Accumulated other comprehensive income  | 10,507            | 6,516                |
| Retained earnings   | 218,358           | 213,967              |
| Treasury stock, at cost (2014 - 2,550 shares; 2013 - 2,503 shares)  | (72,378)          | (71,001)             |
| Total Steel Excel Inc. stockholders' equity   | 431,944           | 424,322              |

Edgar Filing: Steel Excel Inc. - Form 10-Q

|  |           |           |   |
|--|-----------|-----------|---|
| Non-controlling interest                   | (713      | ) (387    | ) |
| Total stockholders' equity                 | 431,231   | 423,935   |   |
| Total liabilities and stockholders' equity | \$548,709 | \$538,457 |   |

See accompanying Notes to Consolidated Financial Statements.

5

---



Steel Excel Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

|   | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2014                         | 2013     |
|   | (in thousands)               |          |
| Cash Flows From Operating Activities:   |                              |          |
| Net income  | \$4,065                      | \$2,974  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |          |
| Loss from discontinued operations   | —                            | 394      |
| Loss from equity method investees   | 1,433                        | —        |
| Stock-based compensation expense  | 617                          | 620      |
| Depreciation and amortization   | 6,163                        | 4,994    |
| Deferred income tax benefit   | (2,020)                      | (1,818)  |
| Loss (gain) on sales of marketable securities                                     | (2,991)                      | 23       |
| Other   | 27                           | 258      |
| Changes in operating assets and liabilities, net of effects of acquisitions:      |                              |          |
| Accounts receivable   | (160)                        | 2,119    |
| Prepaid expenses and other assets   | (1,802)                      | (1,897)  |
| Accounts payable and other liabilities  | 4,526                        | 1,139    |
| Net cash used in operating activities of discontinued operations                  | —                            | (728)    |
| Net cash provided by operating activities   | 9,858                        | 8,078    |
| Cash Flows From Investing Activities:   |                              |          |
| Purchases of businesses, net of cash acquired                                     | (530)                        | —        |
| Purchases of property and equipment   | (3,279)                      | (2,347)  |
| Proceeds from sale of property and equipment                                      | 26                           | —        |
| Investments in equity method investees  | —                            | (4,000)  |
| Purchases of marketable securities  | (51,843)                     | (47,192) |
| Sales of marketable securities  | 40,579                       | 8,315    |
| Maturities of marketable securities   | —                            | 56,045   |
| Other investments   | (3,000)                      | —        |
| Net cash used in investing activities of discontinued operations                  | —                            | (112)    |
| Net cash provided by (used in) investing activities                               | (18,047)                     | 10,709   |
| Cash Flows From Financing Activities:   |                              |          |
| Repurchases of common stock   | (1,377)                      | (2,098)  |
| Repayment of subordinated notes   | (346)                        | —        |
| Repayments of capital lease obligations   | (101)                        | (106)    |
| Repayments of long-term debt  | (3,304)                      | (13,000) |
| Net cash used in financing activities   | (5,128)                      | (15,204) |
| Net increase (decrease) in cash and cash equivalents                              | (13,317)                     | 3,583    |
| Cash and cash equivalents at beginning of period                                  | 73,602                       | 71,556   |
| Cash and cash equivalents at end of period  | \$60,285                     | \$75,139 |
| See accompanying Notes to Consolidated Financial Statements.                      |                              |          |



Steel Excel Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description and Basis of Presentation

Steel Excel Inc. ("Steel Excel" or the "Company") currently operates in two reporting segments - Energy and Sports. Through its wholly-owned subsidiary Steel Energy Ltd. ("Steel Energy"), the Company's Energy business provides drilling and production services to the oil and gas industry. Through its wholly-owned subsidiary Steel Sports Inc., the Company's Sports business provides event-based sports services and other health-related services. The Company also continues to identify business acquisition opportunities in other unrelated industries.

The accompanying unaudited consolidated financial statements of Steel Excel and its subsidiaries, which have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles, should be read in conjunction with the notes to the consolidated financial statements contained in the Company's annual report on Form 10-K for the year ended December 31, 2013. The Company believes that all adjustments, consisting primarily of normal recurring accruals, necessary for a fair presentation have been included in the Financial Statements. The operating results of any period are not necessarily indicative of the results for the entire year or any future period.

In December 2013, the Company acquired the business and substantially all of the assets of Black Hawk Energy Services, Inc. ("Black Hawk"), a provider of drilling and production services to the oil and gas industry. The fair values recognized at December 31, 2013, were provisional pending further analysis and third-party valuations. In 2014, the Company recorded measurement period adjustments to reflect revised fair values of the assets and liabilities of Black Hawk. The Company's balance sheet at December 31, 2013, has been revised to reflect such measurement period adjustments as if they were recorded at the acquisition date (see Note 3).

The Company shut down the operations of Ruckus Sports LLC ("Ruckus"), a provider of obstacle course and mass-participation events, in November 2013. The consolidated financial statements reflect Ruckus as a discontinued operation in all periods presented (see Note 4).

Commencing with the quarterly period ended June 30, 2013, the Company's quarter-end dates coincide with the calendar quarter-end dates. Prior to that time, the Company's quarter-end dates were based on fiscal quarters ending on the thirteenth Saturday of such fiscal quarter. The Company's quarter-end dates were March 31 and March 30 for the 2014 and 2013 periods, respectively.

Certain other prior period amounts have been reclassified to conform to the 2014 presentation.

2. Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), which changes the requirements for reporting discontinued operations. Pursuant to this pronouncement, the disposal of a component of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that will have a major effect on an entity's operations and financial results. This pronouncement also requires additional disclosures for discontinued operations and requires disclosures about disposals of individually significant components of an entity that do not qualify for discontinued operations presentation in the financial statements. ASU No. 2014-08 is effective for annual reporting periods beginning after December 15, 2014, and for interim reporting

period within those years. The Company does not expect the adoption of ASU No. 2014-08 to have a material effect on the consolidated financial statements.

### 3. Acquisitions

On December 16, 2013, the Company acquired the business and substantially all of the assets of Black Hawk for approximately \$60.8 million in cash, subject to a post-closing working capital adjustment. The fair values recognized in 2013 in connection with the Black Hawk transaction were provisional pending the Company's continued evaluation, including assessing any identifiable intangible assets acquired, and completing a valuation of the tangible and intangible assets. During 2014, the Company recorded adjustments to the initial fair values based on the Company's continued assessment of the fair values of the assets and liabilities acquired, including a preliminary valuation. The following table summarizes the provisional

7

---

Edgar Filing: Steel Excel Inc. - Form 10-Q

fair values previously reported, the measurement period adjustments recognized in 2014, and the revised fair values of the assets and liabilities acquired.

|   | Previously<br>Reported | Measurement<br>Period<br>Adjustments | Revised  |
|---|------------------------|--------------------------------------|----------|
|   | (in thousands)         |                                      |          |
| Accounts receivable                       | \$9,663                | \$(40 )                              | \$9,623  |
| Prepaid expenses and other current assets | 208                    | 420                                  | 628      |
| Property and equipment                    | 30,581                 | 93                                   | 30,674   |
| Intangible assets                         | —                      | 12,160                               | 12,160   |
| Accounts payable                          | (1,333 )               | (251 )                               | (1,584 ) |
| Accrued expenses                          | (1,756 )               | (167 )                               | (1,923 ) |
| Total identifiable net assets acquired    | 37,363                 | 12,215                               | 49,578   |
| Goodwill                                  | 23,400                 | (12,215 )                            | 11,185   |
| Net assets acquired                       | \$60,763               | \$—                                  | \$60,763 |

The intangible assets acquired represented customer relationships, a trade name, and a non-compete arrangement with estimated fair values of \$11.3 million, \$0.8 million, and \$0.1 million, respectively. The intangible assets are being amortized over five-year periods. The revised amounts are subject to further revision pending the Company's continued assessment of the fair values of the assets and liabilities acquired, including completion of the valuation. The Company's balance sheet at December 31, 2013, has been revised to reflect the measurement period adjustments as if they had been recognized at the acquisition date. The measurement period adjustments did not have a material effect on the Company's statement of operations.

In February 2014, UK Elite Soccer, Inc. ("UK Elite"), the Sports segment soccer operation, acquired the business and assets of a provider of soccer clinics and camps for approximately \$0.5 million in cash. In connection with this acquisition, the Company recognized approximately \$0.5 million in intangible assets representing customer relationships.

The following unaudited pro forma financial information for the three months ended March 31, 2013, combines the results of operations of the Company with the results of operations of Black Hawk and UK Elite, which were acquired in December 2013 and June 2013, respectively, as if those acquisitions had occurred at the beginning of the year prior to the date of acquisition. The pro forma financial information does not include the results of Ruckus, which was acquired in January 2013 and is reported as a discontinued operation in the Company's consolidated financial statements. The pro forma financial information is not necessarily indicative of what would have actually occurred had the acquisitions been consummated at the beginning of the year prior to the date of acquisition or results that may occur in the future.

|   | Amount<br>(in thousands) |
|---|--------------------------|
| Net revenues                                | \$41,747                 |
| Net income from continuing operations       | \$3,281                  |
| Net income                                  | \$2,886                  |
| Net income attributable to Steel Excel Inc. | \$3,255                  |

#### 4. Discontinued Operations

In November 2013, the Company shut down the operations of Ruckus after it did not meet operational and financial expectations. For the three months ended March 31, 2013, Ruckus did not report any revenues and incurred a loss

from discontinued operations of \$0.4 million.

5. Investments

Marketable Securities

8

---

Edgar Filing: Steel Excel Inc. - Form 10-Q

All of the Company's marketable securities at March 31, 2014, and December 31, 2013, were classified as "available-for-sale" securities, with changes in fair value recognized in stockholders' equity as "other comprehensive income (loss)". Marketable securities at March 31, 2014, consisted of the following:

|   | Cost           | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---|----------------|------------------------------|-------------------------------|----------------------------|
|   | (in thousands) |                              |                               |                            |
| Short-term deposits                         | \$41,035       | \$—                          | \$—                           | \$41,035                   |
| Mutual funds                                | 15,722         | 4,945                        | —                             | 20,667                     |
| United States government securities         | 23,889         | 26                           | —                             | 23,915                     |
| Corporate securities                        | 105,272        | 13,881                       | (3,957                        | ) 115,196                  |
| Corporate obligations                       | 35,949         | 1,642                        | (3                            | ) 37,588                   |
| Commercial paper                            | 4,499          | —                            | —                             | 4,499                      |
| Total available-for-sale securities         | 226,366        | 20,494                       | (3,960                        | ) 242,900                  |
| Amounts classified as cash equivalents      | (43,935        | ) —                          | —                             | (43,935                    |
| Amounts classified as marketable securities | \$182,431      | \$20,494                     | \$(3,960                      | ) \$198,965                |

Marketable securities at December 31, 2013, consisted of the following:

|   | Cost           | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---|----------------|------------------------------|-------------------------------|----------------------------|
|   | (in thousands) |                              |                               |                            |
| Short-term deposits                         | \$60,909       | \$—                          | \$—                           | \$60,909                   |
| Mutual funds                                | 15,722         | 5,061                        | —                             | 20,783                     |
| United States government securities         | 50,356         | 23                           | —                             | 50,379                     |
| Corporate securities                        | 69,806         | 9,961                        | (5,208                        | ) 74,559                   |
| Corporate obligations                       | 31,356         | 885                          | (276                          | ) 31,965                   |
| Commercial paper                            | 1,799          | —                            | —                             | 1,799                      |
| Total available-for-sale securities         | 229,948        | 15,930                       | (5,484                        | ) 240,394                  |
| Amounts classified as cash equivalents      | (61,909        | ) —                          | —                             | (61,909                    |
| Amounts classified as marketable securities | \$168,039      | \$15,930                     | \$(5,484                      | ) \$178,485                |

Proceeds from sales of marketable securities were \$40.6 million and \$8.3 million for the three months ended March 31, 2014 and 2013, respectively. The company determines gains and losses from sales of marketable securities based on specific identification of the securities sold. Gross realized gains and losses from sales of marketable securities, all of which are reported as a component of "Other income (expense), net" in the consolidated statements of operations for the three months ended March 31, 2014 and 2013, were as follows:

|                       | Three Months Ended March 31, |         |
|-----------------------|------------------------------|---------|
|                       | 2014                         | 2013    |
|                       | (in thousands)               |         |
| Gross realized gains  | \$3,200                      | \$1,258 |
| Gross realized losses | (209                         | ) (42   |
| Realized gains, net   | \$2,991                      | \$1,216 |

The fair value of the Company's marketable securities with unrealized losses at March 31, 2014, and the duration of time that such losses had been unrealized, were as follows:

9

---



Edgar Filing: Steel Excel Inc. - Form 10-Q

|                       | Less than 12 Months |                         | 12 Months or Greater |                         | Total      |                         |
|-----------------------|---------------------|-------------------------|----------------------|-------------------------|------------|-------------------------|
|                       | Fair Value          | Gross Unrealized Losses | Fair Value           | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
|                       | (in thousands)      |                         |                      |                         |            |                         |
| Corporate securities  | \$30,339            | \$(3,299 )              | \$551                | \$(658 )                | \$30,890   | \$(3,957 )              |
| Corporate obligations | 1,045               | (3 )                    | —                    | —                       | 1,045      | (3 )                    |
| Total                 | \$31,384            | \$(3,302 )              | \$551                | \$(658 )                | \$31,935   | \$(3,960 )              |

The fair value of the Company's marketable securities with unrealized losses at December 31, 2013, and the duration of time that such losses had been unrealized, were as follows:

|                       | Less than 12 Months |                         | 12 Months or Greater |                         | Total      |                         |
|-----------------------|---------------------|-------------------------|----------------------|-------------------------|------------|-------------------------|
|                       | Fair Value          | Gross Unrealized Losses | Fair Value           | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
|                       | (in thousands)      |                         |                      |                         |            |                         |
| Corporate securities  | \$15,609            | \$(4,757 )              | \$803                | \$(451 )                | \$16,412   | \$(5,208 )              |
| Corporate obligations | 10,477              | (276 )                  | —                    | —                       | 10,477     | (276 )                  |
| Total                 | \$26,086            | \$(5,033 )              | \$803                | \$(451 )                | \$26,889   | \$(5,484 )              |

Gross unrealized losses primarily related to losses on corporate securities. The Company has evaluated such securities, which primarily consist of investments in publicly-traded entities, as of March 31, 2014, and has determined that there was no indication of other-than-temporary impairments. This determination was based on several factors, including the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the entity, and the Company's intent and ability to hold the corporate securities for a period of time sufficient to allow for any anticipated recovery in market value.

The amortized cost and estimated fair value of available-for-sale debt securities at March 31, 2014, by contractual maturity, were as follows:

|   | Cost           | Estimated Fair Value |
|---|----------------|----------------------|
|   | (in thousands) |                      |
| Debt securities:                          |                |                      |
| Mature in one year or less                | \$9,029        | \$9,030              |
| Mature after one year through three years | 21,681         | 21,812               |
| Mature in more than three years           | 33,627         | 35,160               |
| Total debt securities                     | 64,337         | 66,002               |
| Securities with no contractual maturities | 162,029        | 176,898              |
| Total                                     | \$226,366      | \$242,900            |

#### Equity-Method Investments

In January 2013, the Company acquired a 40% membership interest in Again Faster LLC, a fitness equipment company, for total cash consideration of \$4.0 million. In August 2013, the Company acquired 1,316,866 shares of the common stock of iGo, Inc. ("iGo"), in a cash tender offer for total consideration of \$5.2 million. The shares of common stock of iGo acquired by the Company represent approximately 44.7% of the issued and outstanding shares of iGo.



The following table summarizes the Company's equity method investments.

|              | Ownership         |                      | Carrying Value    |                      | Income (Loss) Recognized<br>Three Months Ended |                   |
|--------------|-------------------|----------------------|-------------------|----------------------|--|-------------------|
|              | March 31,<br>2014 | December 31,<br>2013 | March 31,<br>2014 | December 31,<br>2013 | March 31,<br>2014                              | March 31,<br>2013 |
|              |                   |                      | (in thousands)    |                      |  |                   |
| Again Faster | 40.0              | % 40.0               | % \$3,542         | \$3,671              | \$(129   | ) \$—             |
| iGo          | 44.7              | % 44.7               | % 3,364           | 4,668                | (1,304   | ) —               |
| Total        |                   |                      | \$6,906           | \$8,339              | \$(1,433                                       | ) \$—             |

Based on the closing market price of iGo's publicly-traded shares, the value of the Company's investment in iGo was approximately \$4.1 million at March 31, 2014.

The Company recognizes its equity in the losses of iGo on a one-quarter lag basis. The following table presents summarized income statement information for iGo for the three months ended December 31, 2013, the period on which the loss recognized by the Company for the three months ended March 31, 2014, was based.

|            | Amount<br>(in thousands) |
|------------|--------------------------|
| Revenues   | \$3,210                  |
| Gross loss | \$(1,146)                |
| Net loss   | \$(2,917)                |

#### Other Investments

The Company's other investments at March 31, 2014, include a \$25.0 million cost-method investment in a limited partnership that co-invested with other private investment funds in a public company. The investment in the limited partnership had an approximate fair value of \$28.5 million at March 31, 2014, based on the net asset value indicated in the monthly statement received from the partnership. The Company's other investments at March 31, 2014, also include investments in two venture capital funds totaling \$0.8 million and a promissory note with an amortized cost of \$3.0 million, which is a reasonable approximation of fair value at March 31, 2014.

#### 6. Fair Value Measurements

Fair values of assets and liabilities are determined based on a three-level measurement input hierarchy. Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the measurement date.

Level 2 inputs are other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs can include quoted prices in active markets for similar assets or liabilities, quoted prices in a market that is not active for identical assets or liabilities, or other inputs that can be corroborated by observable market data. The Company uses quoted prices of similar instruments with an active market to determine the fair value of its Level 2 investments.

Level 3 inputs are unobservable for the asset or liability when there is little, if any, market activity for the asset or liability. Level 3 inputs are based on the best information available, and may include data developed by the Company. The Company uses the net asset value included in quarterly statements it receives in arrears from two venture capital funds to determine the fair value of such funds. The Company determines the fair value of certain corporate securities and corporate obligations by incorporating and reviewing prices provided by third-party pricing services based on the

specific features of the underlying securities.

Assets and liabilities measured at fair value on a recurring basis at March 31, 2014, summarized by measurement input category, were as follows:

11

---

|  | Total<br>(in thousands) | Level 1   | Level 2  | Level 3  |
|--|-------------------------|-----------|----------|----------|
| Assets   |                         |           |          |          |
| Cash, including short-term deposits <sup>(1)</sup> | \$57,385                | \$57,385  | \$—      | \$—      |
| Mutual funds <sup>(2)</sup>                        | 20,667                  | 20,667    | —        | —        |
| United States government securities <sup>(2)</sup> | 23,915                  | 23,915    | —        | —        |
| Corporate securities <sup>(2)</sup>                | 115,196                 | 107,259   | —        | 7,937    |
| Commercial paper <sup>(3)</sup>                    | 4,499                   | —         | 4,499    | —        |
| Corporate obligations <sup>(2)</sup>               | 37,588                  | —         | 15,960   | 21,628   |
| Investments in certain funds <sup>(4)</sup>        | 826                     | —         | —        | 826      |
| Total  | \$260,076               | \$209,226 | \$20,459 | \$30,391 |

(1) Reported within "Cash and cash equivalents".

(2) Reported within "Marketable securities".

(3) \$2.9 million reported within "Cash and cash equivalents" and \$1.6 million reported within "Marketable securities."

(4) Reported within "Other investments".

Assets and liabilities measured at fair value on a recurring basis at December 31, 2013, summarized by measurement input category, were as follows:

|  | Total<br>(in thousands) | Level 1   | Level 2  | Level 3  |
|--|-------------------------|-----------|----------|----------|
| Assets   |                         |           |          |          |
| Cash, including short-term deposits <sup>(1)</sup> | \$72,602                | \$72,602  | \$—      | \$—      |
| Mutual funds <sup>(2)</sup>                        | 20,783                  | 20,783    | —        | —        |
| United States government securities <sup>(2)</sup> | 50,379                  | 50,379    | —        | —        |
| Corporate securities <sup>(2)</sup>                | 74,559                  | 68,624    | —        | 5,935    |
| Commercial paper <sup>(3)</sup>                    | 1,799                   | —         | 1,799    | —        |
| Corporate obligations <sup>(2)</sup>               | 31,965                  | —         | 14,535   | 17,430   |
| Investments in certain funds <sup>(4)</sup>        | 844                     | —         | —        | 844      |
| Total  | \$252,931               | \$212,388 | \$16,334 | \$24,209 |

(1) Reported within "Cash and cash equivalents."

(2) Reported within "Marketable securities."

(3) \$1.0 million reported within "Cash and cash equivalents" and \$0.8 million reported within "Marketable securities."

(4) Reported within "Other investments."

There were no transfers of securities among the various measurement input levels during the three months ended March 31, 2014.

Changes in the fair value of assets valued using Level 3 measurement inputs during the three months ended March 31, 2014, were as follows:

|   | Amount<br>(in thousands) |
|---|--------------------------|
| Balance, January 1, 2014                                  | \$24,209                 |
| Purchases   | 5,299                    |
| Sales   | (1,974 )                 |
| Unrealized gains recognized in other comprehensive income | 2,857                    |
| Balance, March 31, 2014                                   | \$30,391                 |

The Company's 3/4% Convertible Senior Notes due December 22, 2023, had a carrying value of approximately \$0.3 million at December 31, 2013, which was a reasonable approximation of fair value. The Company redeemed all outstanding Convertible Senior Notes in January 2014 with a cash payment of \$0.3 million.

#### 7. Property and Equipment, Net

Property and equipment at March 31, 2014, and December 31, 2013, consisted of the following:

|                             | March 31, 2014 | December 31,<br>2013 |
|-----------------------------|----------------|----------------------|
|                             | (in thousands) |                      |
| Rigs and other equipment    | \$102,208      | \$100,912            |
| Buildings and improvements  | 19,370         | 19,167               |
| Land                        | 1,164          | 1,164                |
| Vehicles                    | 1,905          | 1,869                |
| Furniture and fixtures      | 576            | 512                  |
| Assets in progress          | 2,756          | 1,114                |
|                             | 127,979        | 124,738              |
| Accumulated depreciation    | (21,775 )      | (18,262 )            |
| Property and equipment, net | \$106,204      | \$106,476            |

The amounts at December 31, 2013, have been revised to reflect measurement period adjustments for the three months ended March 31, 2014, related to Black Hawk as if they had been recognized at the acquisition date (see Note 3). Depreciation expense was \$3.5 million and \$2.6 million for the three months ended March 31, 2014, and 2013, respectively.

#### 8. Goodwill and Other Intangible Assets

The Company's intangible assets at March 31, 2014, and December 31, 2013, all of which are subject to amortization, consisted of the following:

Edgar Filing: Steel Excel Inc. - Form 10-Q

|                        | March 31, 2014 |                          |            | December 31, 2013 |                          |            |
|------------------------|----------------|--------------------------|------------|-------------------|--------------------------|------------|
|                        | Cost           | Accumulated Amortization | Net        | Cost              | Accumulated Amortization | Net        |
|                        | (in thousands) |                          |            |                   |                          |            |
| Energy segment:        |                |                          |            |                   |                          |            |
| Customer relationships | \$54,380       | \$(15,970)               | ) \$38,410 | \$54,380          | \$(13,700)               | ) \$40,680 |
| Trade names            | 4,860          | (2,584)                  | ) 2,276    | 4,860             | (2,315)                  | ) 2,545    |
| Non-compete agreement  | 120            | (7)                      | ) 113      | 120               | —                        | ) 120      |
|                        | 59,360         | (18,561)                 | ) 40,799   | 59,360            | (16,015)                 | ) 43,345   |
| Sports segment:        |                |                          |            |                   |                          |            |
| Customer relationships | 1,673          | (318)                    | ) 1,355    | 1,163             | (230)                    | ) 933      |
| Trade names            | 122            | (19)                     | ) 103      | 122               | (12)                     | ) 110      |
|                        | 1,795          | (337)                    | ) 1,458    | 1,285             | (242)                    | ) 1,043    |
| Total                  | \$61,155       | \$(18,898)               | ) \$42,257 | \$60,645          | \$(16,257)               | ) \$44,388 |

The amounts for the Energy segment at December 31, 2013, have been revised to reflect measurement period adjustments for the three months ended March 31, 2014, related to Black Hawk as if they had been recognized at the acquisition date (see Note 3).

Amortization expense was \$2.6 million and \$2.4 million for the three months ended March 31, 2014 and 2013, respectively. Estimated aggregate amortization expense related to the intangible assets for the next five years is as follows:

|                                 | Amount<br>(in thousands) |
|---------------------------------|--------------------------|
| For the year ended December 31: |                          |
| Remainder of 2014               | \$6,878                  |
| 2015                            | 8,097                    |
| 2016                            | 7,088                    |
| 2017                            | 5,858                    |
| 2018                            | 5,168                    |
| Thereafter                      | 9,168                    |
| Total                           | \$42,257                 |

The changes to the Company's carrying amount of goodwill were as follows:

|                                | Three Months Ended March 31, 2014 |         |          | Fiscal Year Ended December 31, 2013 |         |          |
|--------------------------------|-----------------------------------|---------|----------|-------------------------------------|---------|----------|
|                                | Energy                            | Sports  | Total    | Energy                              | Sports  | Total    |
|                                | (in thousands)                    |         |          |                                     |         |          |
| Balance at beginning of period | \$65,968                          | \$2,171 | \$68,139 | \$52,939                            | \$154   | \$53,093 |
| Acquisitions (see Note 3)      | —                                 | —       | —        | 11,185                              | 5,594   | 16,779   |
| Adjustments to fair value      | —                                 | —       | —        | 1,844                               | —       | 1,844    |
| Impairments                    | —                                 | —       | —        | —                                   | (3,577) | (3,577)  |
| Balance at end of period       | \$65,968                          | \$2,171 | \$68,139 | \$65,968                            | \$2,171 | \$68,139 |

The amounts for the Energy segment at December 31, 2013, have been revised to reflect measurement period adjustments for the three months ended March 31, 2014, related to Black Hawk as if they had been recognized at the

acquisition date (see Note 3). The adjustment to fair value in 2013 represents an adjustment to reflect additional acquisition-

14

---



date deferred income tax liabilities and non-current deferred compensation obligations related to the acquisition of Sun Well Service, Inc. (“Sun Well”) in May 2012. During the year ended December 31, 2013, the Company recognized a goodwill impairment of \$3.6 million related to shutdown of Ruckus.

The components of goodwill at March 31, 2014, and December 31, 2013, were as follows:

|                        | March 31, 2014 | December 31,<br>2013 |
|------------------------|----------------|----------------------|
|                        | (in thousands) |                      |
| Goodwill               | \$73,704       | \$73,704             |
| Accumulated impairment | (5,565         | ) (5,565 )           |
| Net goodwill           | \$68,139       | \$68,139             |

#### 9. Long-term Debt

In 2013, Steel Energy entered into a credit agreement, as amended (the “Amended Credit Agreement”), with Wells Fargo Bank National Association, RBS Citizens, N.A., and Comerica Bank that provided for a borrowing capacity of \$105.0 million consisting of a \$95.0 million secured term loan (the “Term Loan”) and up to \$10.0 million in revolving loans (the “Revolving Loans”) subject to a borrowing base of 85% of the eligible accounts receivable.

Borrowings under the Amended Credit Agreement are collateralized by substantially all the assets of Steel Energy and its wholly-owned subsidiaries Sun Well, Rogue Pressure Services, LLC (“Rogue”), and Black Hawk, and a pledge of all of the issued and outstanding shares of capital stock of Sun Well, Rogue, and Black Hawk. Borrowings under the Amended Credit Agreement are fully guaranteed by Sun Well, Rogue, and Black Hawk. The carrying values as of March 31, 2014, of the assets pledged as collateral by Steel Energy and its subsidiaries under the Amended Credit Agreement were as follows:

|                             | Amount<br>(in thousands) |
|-----------------------------|--------------------------|
| Cash and cash equivalents   | \$14,523                 |
| Accounts receivable         | 24,328                   |
| Property and equipment, net | 97,702                   |
| Intangible assets, net      | 40,798                   |
| Total                       | \$177,351                |

The Amended Credit Agreement has a term that runs through July 2018, with the Term Loan amortizing in quarterly installments of \$3.3 million and a balloon payment due on the maturity date. At March 31, 2014, \$89.2 million was outstanding under the Term Loan and no amount was outstanding under the Revolving Loans. Principal payments under the Amended Credit Agreement for the remainder of 2014 and subsequent years are as follows:

|                      | Amount<br>(in thousands) |
|----------------------|--------------------------|
| Remainder of 2014    | \$9,911                  |
| 2015                 | 13,214                   |
| 2016                 | 13,214                   |
| 2017                 | 13,214                   |
| 2018                 | 39,643                   |
| Total                | 89,196                   |
| Less current portion | 13,214                   |
| Total long-term debt | \$75,982                 |



The interest rate on the borrowings under the Amended Credit Agreement was 3.0% at March 31, 2014. For the three months ended March 31, 2014, the Company incurred interest expense of \$0.8 million in connection with the Amended Credit Agreement, consisting of \$0.7 million in interest on the Term Loans and \$0.1 million of amortization of deferred financing fees. The Company was in compliance with all financial covenants as of March 31, 2014. Sun Well previously had a credit agreement (the "Sun Well Credit Agreement") with Wells Fargo Bank, National Association, that included a term loan of \$20.0 million and a revolving line of credit for up to \$5.0 million. All amounts due under the Sun Well Credit Agreement were fully repaid in 2013 and the facility was terminated in July 2013. For three months ended March 31, 2013, the Company incurred interest expense of \$0.2 million in connection with the Sun Well Credit Agreement.

#### 10. Other Liabilities

"Accrued expenses and other current liabilities" consisted of the following:

|  | March 31, 2014 | December 31, 2013 |
|--|----------------|-------------------|
|  | (in thousands) |                   |
| Accrued compensation and related taxes | \$4,255        | \$4,207           |
| Deferred revenue                       | 2,799          | 857               |
| Insurance                              | 3,992          | 310               |
| Professional services                  | 660            | 608               |
| Accrued fuel and rig-related charges   | 514            | 652               |
| Tax-related                            | 258            | 385               |
| Other                                  | 590            | 507               |
| Total                                  | \$13,068       | \$7,526           |

"Other long-term liabilities" consisted of the following:

|                       | March 31, 2014 | December 31, 2013 |
|-----------------------|----------------|-------------------|
|                       | (in thousands) |                   |
| Deferred compensation | \$3,718        | \$3,709           |
| Tax-related           | 105            | 104               |
| Total                 | \$3,823        | \$3,813           |

#### 11. Interest and Other Income

"Interest income, net" consisted of the following:

|                      | Three Months Ended March 31, 2014 | 2013  |
|----------------------|-----------------------------------|-------|
|                      | (in thousands)                    |       |
| Interest income      | \$1,589                           | \$794 |
| Interest expense     | (868)                             | (171) |
| Interest income, net | \$721                             | \$623 |

"Other income (expense), net" consisted of the following:



|   | Three Months Ended March 31, |         |
|---|------------------------------|---------|
|   | 2014                         | 2013    |
|   | (in thousands)               |         |
| Realized gain on sale of marketable securities, net | \$2,991                      | \$1,216 |
| Other   | (63                          | ) (77   |
| Other income, net                                   | \$2,928                      | \$1,139 |

## 12. Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification (“ASC”) Topic 740, Income Taxes, which requires that deferred tax assets and liabilities are recognized using enacted tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities. ASC 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be realized. Based on its history of operating losses, the Company has offset its net deferred tax assets by a full valuation allowance. Any reversal of the corresponding valuation allowance will generally result in a tax benefit being recorded in the consolidated statement of operations in the respective period.

The Company recognized a benefit from income taxes of \$1.9 million and \$1.6 million for the three months ended March 31, 2014 and 2013, respectively, primarily due to a partial reversal of the Company's valuation allowance for deferred tax assets. In the 2014 and 2013 periods, the Company reversed \$2.1 million and \$1.8 million, respectively, of the valuation allowance as a result of recognizing deferred tax liabilities related to unrealized gains on marketable securities recorded during the period.

## 13. Stock Benefit Plans

The Company grants equity-based awards to employees under its 2004 Equity Incentive Plan, as amended (the “2004 Plan”), and grants equity-based awards to non-employee directors under its 2006 Director Plan, as amended (the “2006 Plan”, and together with the “2004 Plan”, the “Equity Plans”). Stock-based compensation expense by type of award, all of which was recognized as a component of “Selling, general, and administrative expenses” in the consolidated statements of operations for the three months ended March 31, 2014 and 2013, was as follows:

|                                | Three Months Ended March 31, |       |
|--------------------------------|------------------------------|-------|
|                                | 2014                         | 2013  |
|                                | (in thousands)               |       |
| Stock options                  | \$22                         | \$25  |
| Restricted stock               | 595                          | 595   |
| Total stock-based compensation | \$617                        | \$620 |

During the three months ended March 31, 2014, the Company granted 9,105 shares of restricted stock to its employees. The Company did not grant any stock options during the first three months of 2014.

## 14. Net Income (Loss) Per Share

Basic net income (loss) attributable to Steel Excel per share of common stock is computed by dividing net income (loss) attributable to Steel Excel by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share attributable to Steel Excel gives effect to all potentially dilutive common shares outstanding during the period.

Amounts used in the calculation of basic and diluted net income (loss) per share of common stock for the three months ended March 31, 2014 and 2013, were as follows:

17

---

Edgar Filing: Steel Excel Inc. - Form 10-Q

|   | Three Months Ended March 31,          |          |
|---|---------------------------------------|----------|
|   | 2014                                  | 2013     |
|   | (in thousands, except per share data) |          |
| Numerators:   |                                       |          |
| Net income from continuing operations   | \$4,065                               | \$3,369  |
| Non-controlling interest  | 326                                   | 20       |
| Net income from continuing operations attributable to Steel Excel Inc.            | \$4,391                               | \$3,389  |
| Loss from discontinued operations, net of taxes                                   | \$—                                   | \$(395)  |
| Non-controlling interest  | —                                     | 316      |
| Loss from discontinued operations, net of taxes, attributable to Steel Excel Inc. | \$—                                   | \$(79)   |
| Net income attributable to Steel Excel Inc.                                       | \$4,391                               | \$3,310  |
| Denominators:   |                                       |          |
| Basic weighted average common shares outstanding                                  | 11,981                                | 12,886   |
| Effect of dilutive securities:  |                                       |          |
| Stock-based awards  | 18                                    | 23       |
| Diluted weighted average common shares outstanding                                | 11,999                                | 12,909   |
| Basic income (loss) per share attributable to Steel Excel Inc.:                   |                                       |          |
| Net income from continuing operations   | \$0.37                                | \$0.26   |
| Income (loss) from discontinued operations, net of taxes                          | \$—                                   | \$(0.01) |
| Net income  | \$0.37                                | \$0.26   |
| Diluted income (loss) per share attributable to Steel Excel Inc.:                 |                                       |          |
| Net income from continuing operations   | \$0.37                                | \$0.26   |
| Income (loss) from discontinued operations, net of taxes                          | \$—                                   | \$(0.01) |
| Net income  | \$0.37                                | \$0.26   |

15. Accumulated Other Comprehensive Income

Changes in the components of "Accumulated other comprehensive income" were as follows:

Edgar Filing: Steel Excel Inc. - Form 10-Q

|  | Three Months Ended March 31, 2014               |                                   |          | Three Months Ended March 31, 2013 |                                   |          |
|--|---|-----------------------------------|----------|-----------------------------------|-----------------------------------|----------|
|  | Unrealized Gain on Securities<br>(in thousands) | Cumulative Translation Adjustment | Total    | Unrealized Gain on Securities     | Cumulative Translation Adjustment | Total    |
| Balance at beginning of period                       | \$6,921   | \$(405 )                          | \$6,516  | \$927                             | \$19                              | \$946    |
| Unrealized gain (loss) - pretax                      | 8,023   | —                                 | 8,023    | 5,854                             | (59 )                             | 5,795    |
| Tax effect on unrealized gain                        | (2,764 )  | —                                 | (2,764 ) | (2,230 )                          | —                                 | (2,230 ) |
| Unrealized gain (loss) - net of tax                  | 5,259   | —                                 | 5,259    | 3,624                             | (59 )                             | 3,565    |
| Reclassification to realized gain - pretax           | (1,934 )  | —                                 | (1,934 ) | (1,216 )                          | —                                 | (1,216 ) |
| Tax effect on reclassification                       | 666   | —                                 | 666      | 463                               | —                                 | 463      |
| Reclassification to realized gain - net of tax       | (1,268 )  | —                                 | (1,268 ) | (753 )                            | —                                 | (753 )   |
| Net current period other comprehensive income (loss) | 3,991   | —                                 | 3,991    | 2,871                             | (59 )                             | 2,812    |
| Balance at end of period                             | \$10,912  | \$(405 )                          | \$10,507 | \$3,798                           | \$(40 )                           | \$3,758  |

16. Segment Information

The Company currently reports its business in two reportable segments - Energy and Sports. The Company measures profit or loss of its segments based on operating income (loss).

Segment information relating to the Company's results of continuing operations was as follows:

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2014                         | 2013     |
|  | (in thousands)               |          |
| Revenues   |                              |          |
| Energy   | \$43,913                     | \$26,039 |
| Sports   | 1,246                        | 312      |
| Total revenues   | \$45,159                     | \$26,351 |
| Operating income (loss)  |                              |          |
| Energy   | \$5,467                      | \$3,227  |
| Sports   | (2,032 )                     | (986 )   |
| Total segment operating income   | 3,435                        | 2,241    |
| Corporate and other business activities                                      | (3,489 )                     | (2,267 ) |
| Interest income, net   | 721                          | 623      |
| Other income, net  | 2,928                        | 1,139    |
| Income from continuing operations before income taxes and equity method loss | \$3,595                      | \$1,736  |
| Depreciation and amortization expense:                                       |                              |          |
| Energy   | \$5,793                      | \$4,855  |
| Sports   | 370                          | 139      |



|   |         |         |
|---|---------|---------|
| Total depreciation and amortization expense | \$6,163 | \$4,994 |
|---|---------|---------|

19

---

Segment information related to the Company's assets was as follows:

|   | March 31,<br>2014 | December 31,<br>2013 |
|---|-------------------|----------------------|
|   | (in thousands)    |                      |
| Sports                                  | \$18,718          | \$20,495             |
| Energy                                  | 247,780           | 244,164              |
| Corporate and other business activities | 282,211           | 273,798              |
| Total assets                            | \$548,709         | \$538,457            |

#### 17. Related Party Transactions

SPLP beneficially owned approximately 55.2% of the Company's outstanding common stock as of March 31, 2014. The power to vote and dispose of the securities held by SPLP is controlled by Steel Partners Holdings GP Inc. ("SPH GP"). Warren G. Lichtenstein, the Chairman of the Board of Directors and President of the Company's Sports segment, is also the Executive Chairman of SPH GP. Certain other affiliates of SPH GP hold positions with the Company, including Jack L. Howard, as Vice Chairman and principal executive officer, James F. McCabe, Jr., as Chief Financial Officer, and Leonard J. McGill, as Vice President, General Counsel, and Secretary. Each of Warren G. Lichtenstein and Jack L. Howard is compensated with cash compensation and equity awards or equity-based awards in amounts that are consistent with the Company's Non-employee Director Compensation Policy.

Effective January 1, 2014, the services provided by SP Corporate Services LLC ("SP Corporate"), a SPLP affiliate, were expanded, with the Company paying SP Corporate \$0.7 million per month for such services. The services agreement with SP Corporate and subsequent amendments were approved by a committee of the Company's independent directors. In addition, the Company reimburses SP Corporate and other SPLP affiliates for certain expenses incurred on the Company's behalf. During the three months ended March 31, 2014 and 2013, the Company incurred expenses of \$2.2 million and \$1.0 million, respectively, related to services provided by SP Corporate and reimbursements of expenses incurred on its behalf by SP Corporate and its affiliates. The Company owed SP Corporate and its affiliates \$0.5 million at March 31, 2014.

In October 2013, iGo contracted with SP Corporate to provide certain executive, other employee, and corporate services for a fixed annual fee of \$0.4 million. In addition, iGo will reimburse SP Corporate for reasonable and necessary business expenses incurred on iGo's behalf. The services agreement was approved by the independent directors of iGo.

The Company holds \$15.2 million of short-term deposits at WebBank, an affiliate of SPLP, and recorded interest income of \$7,000 and \$25,000 for the three months ended March 31, 2014 and 2013.

#### 18. Supplemental Cash Flow Information

The Company did not have any non-cash investing and financing activities for the three months ended March 31, 2014 and 2013. Cash paid for interest and income taxes for the three months ended March 31, 2014 and 2013, was as follows:

|               | Three Months Ended March 31,<br>2014 | 2013  |
|---------------|--------------------------------------|-------|
|               | (in thousands)                       |       |
| Interest paid | \$735                                | \$192 |

|                   |      |       |
|-------------------|------|-------|
| Income taxes paid | \$44 | \$130 |
|-------------------|------|-------|

20

---

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements contained in this quarterly report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, the Company's actual results could differ materially from those set forth in the forward-looking statements. See Item I Part 1A in the Company's annual report on Form 10-K for the year ended December 31, 2013, for a description of certain factors that might cause such a difference.

Steel Excel Inc. ("Steel Excel" or the "Company") currently operates in two reporting segments - Energy and Sports. The Energy segment focuses on providing drilling and production services to the oil and gas industry. The Sports segment provides event-based sports services and other health-related services. The Company also continues to identify other new business acquisition opportunities.

In June 2013, the Company acquired 80% of the outstanding common stock of UK Elite Soccer, Inc. ("UK Elite"). UK Elite is included in the Company's Sports segment.

In December 2013, the Company acquired the business and substantially all of the assets of Black Hawk Energy Services, Inc. ("Black Hawk"), a provider of drilling and production services to the oil and gas industry. Black Hawk is included in the Company's Energy segment. The fair values of the assets and liabilities of Black Hawk recognized at December 31, 2013, were provisional pending further analysis and third-party valuations. In 2014, the Company recorded measurement period adjustments to reflect revised fair values of the assets and liabilities of Black Hawk. The Company's balance sheet at December 31, 2013, has been revised to reflect such measurement period adjustments as if they were recorded at the acquisition date.

In July 2013, Steel Energy Ltd, a wholly-owned subsidiary of the Company, entered into a credit agreement, as amended (the "Amended Credit Agreement") that provided for a borrowing capacity of \$105.0 million consisting of a \$95.0 million secured term loan and up to \$10.0 million in revolving loans.

In November 2013 the Company shut down the operations of Ruckus Sports LLC ("Ruckus"), an obstacle course and mass-participation events company that was controlled by the Company through its representation on the Ruckus board, after it did not meet operational and financial expectations. Ruckus, which was acquired in January 2013, is reported as a discontinued operation in the Company's consolidated financial statements.

Commencing with the quarterly period ended June 30, 2013, the Company's quarter-end dates coincide with the calendar quarter-end dates. Prior to that time, the Company's quarter-end dates were based on fiscal quarters ending on the thirteenth Saturday of such fiscal quarter. The Company's quarter-end dates were March 31 and March 30 for the 2014 and 2013 periods, respectively.

The following discussion and analysis should be read in conjunction with the Company's unaudited consolidated financial statements and notes thereto.

### Results of Operations

The net revenues and operating income by reportable segment for the three months ended March 31, 2014 and 2013, were as follows:

21

---

|   | Three Months Ended March 31, |             |
|---|------------------------------|-------------|
|   | 2014                         | 2013        |
|   | (in thousands)               |             |
| Energy net revenues                     | \$43,913                     | \$26,039    |
| Sports net revenues                     | 1,246                        | 312         |
| Consolidated net revenues               | \$45,159                     | \$26,351    |
| Energy operating income                 | \$5,467                      | \$3,227     |
| Sports operating loss                   | (2,032)                      | ) (986)     |
| Corporate and other business activities | \$(3,489)                    | ) \$(2,267) |
| Consolidated operating loss             | \$(54)                       | ) \$(26)    |

Three months ended March 31, 2014, compared to three months ended March 31, 2013

Net revenues for the three months ended March 31, 2014, increased by \$18.8 million as compared to the 2013 period. Net revenues from the Company's Energy segment increased by \$17.9 million primarily as a result of \$16.4 million in revenues from Black Hawk, which was acquired in December 2013, and an increase in revenues of \$1.5 million in the Energy segment's other operations from increased rig utilization in the period. Net revenues in the Company's Sports segment increased by \$0.9 million primarily as a result of \$0.5 million in revenues from UK Elite, which was acquired in June 2013, and an increase in revenues of \$0.3 million in the segment's baseball operations from the recently completed indoor facility.

Gross profit for the three months ended March 31, 2014, increased by \$3.2 million as compared to the 2013 period, but as a percentage of revenue declined to 24.0% from 29.2%. Gross profit in the Energy segment increased by \$3.2 million and as a percentage of revenue declined to 24.3% in the first quarter of 2014 from 28.8% in the comparable 2013 period. Gross profit in the Energy segment increased as a result of \$4.1 million in gross profit from Black Hawk. This increase was partially offset in by a decrease in gross profit of \$0.9 million in the Energy segment's other operations due primarily to a decline in average revenue per rig hour, increased rig staffing and related costs, and additional costs incurred because of adverse weather conditions. Gross profit in the Sports segment in the 2014 period was comparable to that in the 2013 period as increased gross profit in the segment's baseball operation resulting from the recently completed indoor facility was offset by expected seasonal winter losses at UK Elite.

SG&A expenses in the first quarter of 2014 increased by \$3.0 million as compared to the comparable 2013 period primarily as a result of costs incurred at Black Hawk and UK Elite, both of which were acquired subsequent to the 2013 period, and from increased costs incurred for services provided by affiliates of the Company.

The operating loss in the first quarter 2014 was \$54,000 as compared to a loss of \$26,000 in the 2013 period. Operating income in the Energy segment increased by \$2.2 million as a result of \$2.8 million in operating income from Black Hawk. This increase was partially offset by a decrease in operating income of \$0.6 million in the Energy segment's other operations primarily due to the decline in gross profit for the period. The operating loss in the Sports segment increased by \$1.0 million primarily due to the expected seasonal winter losses at UK Elite. The operating loss from Corporate and other business activities increased by \$1.0 million from increased costs incurred for services provided by affiliates of the Company.

Amortization of intangibles in the first quarter 2014 increased by \$0.2 million as compared to the comparable 2013 period as a result of amortization expense on the intangible assets recognized in connection with the acquisitions of Black Hawk and UK Elite, partially offset by a reduced rate of amortization in the second year for the intangible assets recognized in connection with prior year acquisitions.

Net interest income of \$1.6 million in the first quarter 2014 increased by \$0.1 million as compared to the 2013 period primarily as a result of increased interest income of \$0.8 million from the Company investing in higher yield money market funds and corporate obligations in the 2014 period, partially offset by an increase in interest expense of \$0.7 million primarily associated with the borrowings under the Amended Credit Agreement.

Other income of \$2.9 million in the first quarter 2014 primarily represented realized gains on the sale of marketable securities of \$3.0 million.

The Company recognized a benefit for income taxes of \$1.9 million and \$1.6 million for the three months ended March 31, 2014 and 2013, respectively, primarily as a result of a reversal of a portion of its valuation allowance for deferred income tax assets. Such reversals resulted from the deferred tax liabilities recognized in connection with unrealized gains on marketable securities included as a component of other comprehensive income.

#### Financial Condition

The Amended Credit Agreement provided for a borrowing capacity of \$105.0 million consisting of a \$95.0 million secured term loan (the "Term Loan") and up to \$10.0 million in revolving loans (the "Revolving Loans") subject to a borrowing base of 85% of the eligible accounts receivable. Borrowings under the Amended Credit Agreement, which totaled \$89.2 million at March 31, 2014, are collateralized by substantially all the assets of Steel Energy and its wholly-owned subsidiaries Sun Well Service, Inc. ("Sun Well"), Rogue Pressure Services, LLC ("Rogue"), and Black Hawk, and a pledge of all of the issued and outstanding shares of capital stock of Sun Well, Rogue, and Black Hawk. Borrowings under the Amended Credit Agreement are fully guaranteed by Sun Well, Rogue, and Black Hawk. The Company was in compliance with all financial covenants as of March 31, 2014.

The Company finances its operations and capital expenditure requirements from its existing cash and marketable securities balances, which at March 31, 2014, totaled \$60.3 million and \$199.0 million, respectively. Working capital in the first three months of 2014 increased by \$4.7 million.

Cash flows from operating activities of continuing operations increased by \$0.4 million in the first three months of 2014 as compared to the 2013 period primarily due to the timing of vendor payments partially offset by the timing of collections of trade receivables.

During the first three months of 2014, the Company made purchases of marketable securities, net of proceeds from sales, of \$11.3 million, made debt repayments on the Amended Credit Facility of \$3.3 million, made loan disbursements in connection with the Company's participation in a loan syndication of \$3.0 million, paid \$0.5 million for acquisitions net of cash acquired, invested \$3.3 million in property and equipment, and paid \$1.4 million to repurchase shares of its common stock.

At March 31, 2014, the Company had \$259.3 million in cash and marketable securities. Available-for-sale securities included short-term deposits, corporate debt and equity instruments, United States government securities, and securities of government agencies, and were recorded on our consolidated balance sheets at fair market value, with any related unrealized gain or loss reported as a component of "Accumulated other comprehensive income" in stockholders' equity. We expect to realize the full value of all our marketable securities upon maturity or sale, as we have the intent and ability to hold the securities until the full value is realized. However, we cannot provide any assurance that our invested cash and marketable securities will not be impacted by adverse conditions in the financial markets, which may require us to record an impairment charge that could adversely impact our financial results. In addition, we maintain our cash and marketable securities with certain financial institutions, in which our balances exceed the limits that are insured by the Federal Deposit Insurance Corporation. If the underlying financial institutions fail or other adverse events occur in the financial markets, our cash balances may be impacted.

We believe that our cash balances will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next twelve months. We anticipate making additional acquisitions and we may be required to use a significant portion of our available cash balances for such acquisitions or for working capital needs thereafter. The consummation of additional acquisitions, prevailing economic conditions, and financial, business and other factors beyond our control could adversely affect our estimates of our future cash requirements. As such, we could be required to fund our cash requirements by alternative financing. In these instances, we may seek to raise such additional funds through public or private equity or debt financings or from other sources. As a result, we may not be



able to obtain adequate or favorable equity financing, if needed, due in part to our shares of common stock currently trading on the OTCQB Market. Any equity financing we obtain may dilute existing ownership interests, and any debt financing could contain covenants that impose limitations on the conduct of our business. There can be no assurance that additional financing, if needed, would be available on terms acceptable to us or at all.

#### Commitments and Contingencies

#### Contractual Obligations

There were no material changes in the Company's contractual obligations at March 31, 2014, as compared to those reported in the Company's annual report on Form 10-K for the year ended December 31, 2013.

## Legal Proceedings

From time to time we are subject to litigation or claims that arise in the normal course of business. While the results of such litigation matters and claims cannot be predicted with certainty, we believe that the final outcome of such matters will not have a material adverse impact on our financial position or results of operations. However, because of the nature and inherent uncertainties of litigation, should the outcome of these actions be unfavorable, our business, financial condition, and results of operations could be materially and adversely affected.

## Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), which changes the requirements for reporting discontinued operations. Pursuant to this pronouncement, the disposal of a component of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that will have a major effect on an entity's operations and financial results. This pronouncement also requires additional disclosures for discontinued operations and requires disclosures about disposals of individually significant components of an entity that do not qualify for discontinued operations presentation in the financial statements. ASU No. 2014-08 is effective for annual reporting periods beginning after December 15, 2014, and for interim reporting period within those years. The Company does not expect the adoption of ASU No. 2014-08 to have a material effect on the consolidated financial statements.

## Critical Accounting Policies

The Company's critical accounting policies have not changed from those presented in the Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies in our annual report on Form 10-K for the year ended December 31, 2013.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Vice Chairman and our Chief Financial Officer ("CFO"), we conducted an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this quarterly report on Form 10-Q. Based upon that evaluation, our Vice Chairman and our CFO have concluded that the design and operation of our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) is accumulated and communicated to our management, including our Vice Chairman and CFO, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three-month period ended March 31, 2014, which was the period covered by this quarterly report on Form 10-Q, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Inherent Limitations on Effectiveness of Controls

A control system, no matter how well conceived and operated, can only provide reasonable assurance that the objectives of the control system are met. Because of these inherent limitations, no evaluation of our disclosure controls and procedures or our internal control over financial reporting will provide absolute assurance that misstatements due to error or fraud will not occur.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

24

---

In December 2013 the Company's Board of Directors authorized a stock repurchase program to acquire up to 200,000 shares of the Company's common stock. The following table summarizes, by month, the repurchases made during the three months ended March 31, 2014, under the repurchase programs.

| Period                 | (a)<br><br>Total Number<br>of Shares<br>Purchased | (b)<br><br>Average Price<br>Paid per Share | (c)<br><br>Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | (d)<br><br>Maximum<br>Number (or<br>Approximate<br>Dollar Value) of<br>Shares that May<br>Yet Be<br>Purchased<br>Under the Plans<br>or Programs |
|------------------------|---|--|---|---|
| Month of January 2014  | 23,193  | \$29.64                                    | 23,193  | 170,521   |
| Month of February 2014 | 12,525  | \$29.20                                    | 12,525  | 157,996   |
| Month of March 2014    | 10,879  | \$29.76                                    | 10,879  | 147,117   |
| Total                  | 46,597  | \$29.55                                    | 46,597  |   |

Item 6. Exhibits

- 10.1 Amendment No. 2 to the Amended and Restated Management Services Agreement between Steel Excel Inc. and SP Corporate Services LLC, dated as of January 1, 2014 (incorporated by reference to Exhibit No. 10.1 to the Current Report on Form 8-K filed by the Registrant with the Securities and Exchange Commission on January 14, 2014).
- 31.1\* Certification of the Principal Executive Officer, Jack L. Howard, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification of the Principal Financial Officer, James F. McCabe, Jr., pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\* Certifications of the Principal Executive Officer, Jack L. Howard, and the Principal Financial Officer, James F. McCabe, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS\*\* XBRL Instance Document.
- 101.SCH\*\* XBRL Taxonomy Extension Schema Document.
- 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

\*\* Furnished with this Form 10-Q. In accordance with Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for the purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

