

Steel Excel Inc.
Form 10-Q
November 06, 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 September 30, 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 October 31, 2014, there were 11,410,657 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- and nine-month periods ended September 30, 2014 and 2013</u> | <u>3</u> |
| | <u>Consolidated Statements of Comprehensive Income (Loss) for the three- and nine-month periods ended September 30, 2014 and 2013</u> | <u>4</u> |
| | <u>Consolidated Balance Sheets as of September 30, 2014, and December 31, 2013</u> | <u>5</u> |
| | <u>Consolidated Statement of Stockholders' Equity for the nine-month period ended September 30, 2014</u> | <u>6</u> |
| | <u>Consolidated Statements of Cash Flows for the nine-month periods ended September 30, 2014 and 2013</u> | <u>7</u> |
| | <u>Notes to Consolidated Financial Statements</u> | <u>8</u> |
| <u>Item 2.</u> | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>24</u> |
| <u>Item 4.</u> | <u>Controls and Procedures</u> | <u>29</u> |
| | | |
| <u>Part II.</u> | <u>Other Information</u> | |
| <u>Item 6.</u> | <u>Exhibits</u> | <u>31</u> |
| | <u>Signatures</u> | <u>32</u> |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Steel Excel Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---------------------------------------|------------|------------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands, except per-share data) | | | |
| Net revenues | \$58,583 | \$31,420 | \$155,666 | \$86,532 |
| Cost of revenues | 40,599 | 23,340 | 111,095 | 62,061 |
| Gross profit | 17,984 | 8,080 | 44,571 | 24,471 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 9,531 | 5,146 | 27,075 | 16,204 |
| Amortization of intangibles | 2,273 | 1,985 | 7,347 | 6,616 |
| Total operating expenses | 11,804 | 7,131 | 34,422 | 22,820 |
| Operating income | 6,180 | 949 | 10,149 | 1,651 |
| Interest income, net | 554 | 472 | 1,763 | 2,341 |
| Other income (expense), net | (1,299) |) 1,467 | 2,283 | 1,408 |
| Income from continuing operations before income taxes and equity method loss | 5,435 | 2,888 | 14,195 | 5,400 |
| Benefit from (provision for) income taxes | (1,537) |) 297 | 1,059 | 2,314 |
| Loss from equity method investees, net of taxes | (4,843) |) (138) |) (3,402) |) (218) |
| Net income (loss) from continuing operations | (945) |) 3,047 | 11,852 | 7,496 |
| Loss from discontinued operations, net of taxes | — | (888) |) — | (1,477) |
| Net income (loss) | (945) |) 2,159 | 11,852 | 6,019 |
| Net loss (income) attributable to non-controlling interests in consolidated entities | | | | |
| Continuing operations | (238) |) (178) |) 99 | (122) |
| Discontinued operations | — | 489 | — | 954 |
| Net income (loss) attributable to Steel Excel Inc. | \$(1,183) |) \$2,470 | \$11,951 | \$6,851 |
| Basic income (loss) per share attributable to Steel Excel Inc.: | | | | |
| Net income (loss) from continuing operations | \$(0.10) |) \$0.23 | \$1.02 | \$0.58 |
| Loss from discontinued operations, net of taxes | \$— |) \$(0.03) |) \$— | \$(0.04) |

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

| | | | | |
|---|----------|-----------|---------|----------|
| Net income (loss) | \$ (0.10 |) \$ 0.20 | \$ 1.02 | \$ 0.54 |
| Diluted income (loss) per share attributable to Steel Excel Inc.: | | | | |
| Net income (loss) from continuing operations | \$ (0.10 |) \$ 0.23 | \$ 1.01 | \$ 0.58 |
| Loss from discontinued operations, net of taxes | \$ — | \$ (0.03 |) \$ — | \$ (0.04 |
| Net income (loss) | \$ (0.10 |) \$ 0.20 | \$ 1.01 | \$ 0.54 |
| Shares used in computing income (loss) per share: | | | | |
| Basic | 11,437 | 12,529 | 11,769 | 12,736 |
| Diluted | 11,437 | 12,546 | 11,790 | 12,754 |

See accompanying Notes to Consolidated Financial Statements.

Steel Excel Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited)

| | Three Months Ended September 30, 2014 | | 2013 | | Nine Months Ended September 30, 2014 | | 2013 | | |
|--|---|--------|--------|----------|--|----------|--------|----------|--------|
| | (in thousands) | | | | | | | | |
| Net income (loss) | \$ | (945 |) | \$ | 2,159 | \$ | 11,852 | \$ | 6,019 |
| Other comprehensive income (loss): | | | | | | | | | |
| Foreign currency translation adjustment | | 16 | | (3 |) | 30 | | (39 |) |
| Reclassification to realized gains | | — | | (346 |) | — | | (346 |) |
| Net foreign currency translation adjustment ^(A) | | 16 | | (349 |) | 30 | | (385 |) |
| Marketable securities: | | | | | | | | | |
| Gross unrealized gains (losses) on marketable securities, net of tax ^(B) | (761 |) | 2,421 | | 6,622 | | 5,917 | | |
| Reclassification to realized gains, net of tax ^(C) | (911 |) | (1,176 |) | (2,488 |) | (1,158 |) | |
| Net unrealized gain (loss) on marketable securities, net of taxes | (1,672 |) | 1,245 | | 4,134 | | 4,759 | | |
| Comprehensive income (loss) | (2,601 |) | 3,055 | | 16,016 | | 10,393 | | |
| Comprehensive loss (income) attributable to non-controlling interest | (238 |) | 311 | | 99 | | 832 | | |
| Comprehensive income (loss) attributable to Steel Excel Inc. | \$ | (2,839 |) | \$ | 3,366 | \$ | 16,115 | \$ | 11,225 |
| (A) No tax effect on cumulative translation adjustments | | | | | | | | | |
| (B) Tax benefit (provision) on gross unrealized gains (losses) | \$ | 586 | | \$(1,351 |) | \$(3,449 |) | \$(3,455 |) |
| (C) Tax benefit on reclassifications to realized gains (losses) | \$ | 434 | | \$ | 687 | \$ | 1,296 | \$ | 676 |

See accompanying Notes to Consolidated Financial Statements.

Steel Excel Inc.
CONSOLIDATED BALANCE SHEETS
(unaudited)

| | September 30, 2014 | December 31, 2013 |
|---|-----------------------|----------------------|
| | (in thousands) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$46,677 | \$73,602 |
| Restricted cash | 20,264 | — |
| Marketable securities | 169,635 | 178,485 |
| Accounts receivable, net of allowance for doubtful accounts of \$0 | 29,930 | 25,355 |
| Deferred income taxes | 15 | — |
| Prepaid expenses and other current assets | 5,133 | 5,870 |
| Current assets of discontinued operations | 31 | 31 |
| Total current assets | 271,685 | 283,343 |
| Property and equipment, net | 108,337 | 105,890 |
| Goodwill | 67,530 | 67,530 |
| Intangible assets, net | 38,017 | 44,438 |
| Other investments | 28,540 | 25,844 |
| Investments in equity method investees (\$26,871 at fair value in 2014) | 32,728 | 8,339 |
| Deferred income taxes | 3,732 | 1,556 |
| Other long-term assets | 1,440 | 1,754 |
| Total assets | \$552,009 | \$538,694 |
| Liabilities and Stockholders' Equity: | | |
| Current liabilities: | | |
| Accounts payable | \$4,460 | \$4,754 |
| Accrued expenses and other liabilities | 10,942 | 7,763 |
| Financial instrument obligations | 20,264 | — |
| Current portion of long-term debt | 13,214 | 13,214 |
| Current portion of capital lease obligations | 412 | 412 |
| 3/4% convertible senior subordinated notes | — | 346 |
| Deferred income taxes | 3,838 | 3,612 |
| Current liabilities of discontinued operations | 987 | 987 |
| Total current liabilities | 54,117 | 31,088 |
| Capital lease obligations, net of current portion | 283 | 572 |
| Long-term debt, net of current portion | 69,375 | 79,286 |
| Deferred income taxes | 2,373 | — |
| Other long-term liabilities | 3,715 | 3,813 |
| Total liabilities | 129,863 | 114,759 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock (\$0.001 par value, 40,000 shares authorized; 14,224 and 14,508 shares issued in 2014 and 2013, respectively; 11,410 and 12,005 shares outstanding in 2014 and 2013, respectively) | 14 | 14 |
| Additional paid-in capital | 267,047 | 274,826 |
| Accumulated other comprehensive income | 10,680 | 6,516 |

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

| | | |
|--|-----------|-------------|
| Retained earnings | 225,918 | 213,967 |
| Treasury stock, at cost (2014 - 2,814 shares; 2013 - 2,503 shares) | (81,355 |) (71,001) |
| Total Steel Excel Inc. stockholders' equity | 422,304 | 424,322 |
| Non-controlling interest | (158 |) (387) |
| Total stockholders' equity | 422,146 | 423,935 |
| Total liabilities and stockholders' equity | \$552,009 | \$538,694 |

See accompanying Notes to Consolidated Financial Statements.

5

Steel Excel Inc.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(unaudited)

| | Steel Excel Inc. Common Stock | | Steel Excel Inc. Treasury Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income | Retained Earnings | Non-Controlling Interest | Total |
|--|-------------------------------|--------|---------------------------------|------------|----------------------------------|---|----------------------|-----------------------------|-----------|
| | Shares | Amount | Shares | Amount | | | | | |
| | (in thousands) | | | | | | | | |
| Balance, January 1, 2014 | 14,508 | \$ 14 | (2,503) | \$(71,001) | \$274,826 | \$ 6,516 | \$213,967 | \$ (387) | \$423,935 |
| Net income attributable to Steel Excel Inc. | — | — | — | — | — | — | 11,951 | — | 11,951 |
| Net loss attributable to non-controlling interests | — | — | — | — | — | — | — | (99) | (99) |
| Other comprehensive income | — | — | — | — | — | 4,164 | — | — | 4,164 |
| Net issuance of restricted shares | 13 | 1 | — | — | (14) | — | — | — | (13) |
| Stock-based compensation | — | — | — | — | 2,305 | — | — | — | 2,305 |
| Reverse/forward stock split | (297) | (1) | — | — | (10,070) | — | — | — | (10,071) |
| Repurchases of common stock | — | — | (311) | (10,354) | — | — | — | — | (10,354) |
| Contribution from non-controlling interest | — | — | — | — | — | — | — | 328 | 328 |
| Balance, September 30, 2014 | 14,224 | \$ 14 | (2,814) | \$(81,355) | \$267,047 | \$ 10,680 | \$225,918 | \$ (158) | \$422,146 |

See accompanying Notes to Consolidated Financial Statements.

Steel Excel Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

| | Nine Months Ended September | |
|---|-----------------------------|------------|
| | 30, | |
| | 2014 | 2013 |
| | (in thousands) | |
| Cash Flows From Operating Activities: | | |
| Net income | \$11,852 | \$6,019 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Loss from discontinued operations | — | 1,476 |
| Loss from equity method investees | 3,402 | 218 |
| Stock-based compensation expense | 2,305 | 1,979 |
| Depreciation and amortization | 18,127 | 14,361 |
| Deferred income tax benefit | (1,745 |) (2,364 |
| Gain on sales of marketable securities | (4,065 |) (1,834 |
| Loss on extinguishment of debt | — | 463 |
| Loss on financial instrument obligations | 752 | — |
| Loss on change to equity method at fair value | 568 | — |
| Other | 561 | 155 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (4,402 |) 2,419 |
| Prepaid expenses and other assets | 709 | (1,981 |
| Accounts payable and other liabilities | 2,725 | (1,690 |
| Net cash used in operating activities of discontinued operations | — | (1,894 |
| Net cash provided by operating activities | 30,789 | 17,327 |
| Cash Flows From Investing Activities: | | |
| Purchases of businesses, net of cash acquired | (517 |) (1,125 |
| Purchases of property and equipment | (13,610 |) (6,052 |
| Proceeds from sale of property and equipment | 413 | 527 |
| Investments in equity method investees | (144 |) (9,202 |
| Purchases of marketable securities | (99,296 |) (161,288 |
| Sales of marketable securities | 105,112 | 65,474 |
| Maturities of marketable securities | 4,302 | 134,669 |
| Proceeds from issuance of financial instrument obligations | 171 | — |
| Other investments | (3,000 |) (25,000 |
| Reclassification of restricted cash | (20,264 |) — |
| Net cash used in investing activities of discontinued operations | — | (196 |
| Net cash used in investing activities | (26,833 |) (2,193 |
| Cash Flows From Financing Activities: | | |
| Repurchases of common stock - treasury shares | (10,354 |) (17,816 |
| Repurchases of common stock - reverse/forward stock split | (10,071 |) — |
| Proceeds from issuance of long-term debt | — | 70,000 |
| Repayment of subordinated notes | (346 |) — |
| Repayments of capital lease obligations | (289 |) (314 |
| Payments for debt issuance costs | — | (1,130 |

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

| | | | |
|---|----------|-----------|---|
| Repayments of long-term debt | (9,911 |) (15,500 |) |
| Other financing activities | 60 | — | |
| Net cash provided by (used in) financing activities | (30,911 |) 35,240 | |
| Net increase (decrease) in cash and cash equivalents | (26,955 |) 50,374 | |
| Effect of foreign currency translation on cash and cash equivalents | 30 | (35 |) |
| Cash and cash equivalents at beginning of period | 73,602 | 71,556 | |
| Cash and cash equivalents at end of period | \$46,677 | \$121,895 | |
| See accompanying Notes to Consolidated Financial Statements. | | | |

7

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 Services 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 and investment 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, Black Hawk Energy Services Ltd. ("Black Hawk Ltd."), an indirect wholly-owned subsidiary of the Company, acquired the business and substantially all of the assets of Black Hawk Energy Services, Inc. ("Black Hawk Inc."), 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 valuations. In 2014, the Company recorded measurement period adjustments to reflect revised fair values of the assets and liabilities acquired from Black Hawk Inc. 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).

The Company's effected a 1-for-500 reverse stock split (the "Reverse Split") in June 2014, immediately followed by a 500-for-1 forward stock split (the "Forward Split", and together with the Reverse Split, the "Reverse/Forward Split"), of its common stock. The consolidated financial statements reflect the effects of the Reverse/Forward Split (see Note 19).

Certain other prior period amounts have been reclassified to conform to the 2014 financial statement 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 its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which establishes a core principle, achieved through a five-step process, that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective for public companies for annual reporting periods beginning after December 15, 2016, and for interim reporting periods within those years. Upon adoption, ASU No. 2014-09 can be applied either retrospectively to each reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. Early application is not permitted. The Company

needs to evaluate the impact on its consolidated financial statements of adopting ASU No. 2014-09 and will determine the implementation method to be used.

In June 2014, the FASB issued ASU No. 2014-12, Compensation — Stock Compensation (Topic 718), to address diversity in accounting for share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. ASU No. 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU No. 2014-12 is effective for annual reporting periods beginning after December 15, 2015, and for interim reporting period within those years, with earlier adoption permitted. The Company does not expect the adoption of ASU No. 2014-12 to have a material effect on its consolidated financial statements.

3. Acquisitions

On December 16, 2013, the Company acquired the business and substantially all of the assets of Black Hawk Inc. for approximately \$60.8 million in cash, subject to a post-closing working capital adjustment. The fair values recognized in 2013 in connection with this 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 value estimates based on the Company's continued assessment of the fair values of the assets and liabilities acquired, including a valuation. The following table summarizes the provisional fair values previously reported, the measurement period adjustments recognized in 2014, and the revised fair values of the assets and liabilities acquired.

| | Previously Reported | Measurement Period Adjustments | Revised |
|---|------------------------|--------------------------------------|------------|
| | (in thousands) | | |
| Accounts receivable | \$9,663 | \$451 | \$10,114 |
| Prepaid expenses and other current assets | 208 | 111 | 319 |
| Property and equipment | 30,581 | (493) |) 30,088 |
| Intangible assets | — | 12,210 | 12,210 |
| Accounts payable | (1,333) |) (251) |) (1,584) |
| Accrued expenses | (1,756) |) (404) |) (2,160) |
| Total identifiable net assets acquired | 37,363 | 11,624 | 48,987 |
| Goodwill | 23,400 | (12,824) |) 10,576 |
| Net assets acquired | \$60,763 | \$(1,200) |) \$59,563 |

The measurement period adjustments include an adjustment to the purchase price of \$1.2 million, which represents a payment received by the Company in 2014 for the post-closing working capital adjustment. 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. 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, including the amount due for the post-closing working capital adjustment. The measurement period adjustments did not have a material effect on the Company's statement of operations for the year ended December 31, 2013.

In 2014, UK Elite Soccer, Inc. ("UK Elite"), the Sports' segment soccer operation, acquired the business and assets of three independent providers of soccer clinics and camps for a total purchase price of \$1.0 million, or approximately \$0.5 million net of cash acquired. In connection with these acquisitions, the Company recognized approximately \$0.2 million in current assets, primarily trade receivables, approximately \$0.6 million in current liabilities, primarily deferred revenue, and approximately \$0.9 million in intangible assets representing customer relationships.

The following unaudited pro forma financial information for the three months ended September 30, 2013, combines the results of operations of the Company with the results of operations of Black Hawk Inc., which business was acquired in December 2013, as if the acquisition had occurred at the beginning of the year prior to the date of acquisition. The unaudited pro forma financial information for the nine months ended September 30, 2013, combines the results of operations of the

9

Company with the results of operations of Black Hawk Inc. and UK Elite, which business was acquired in June 2013, 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. No pro forma information is provided for the businesses acquired by UK Elite in 2014 since their results of operations are not material. 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.

| | Three Months Ended September 30, 2013 | Nine Months Ended September 30, 2013 |
|---|---|--|
| | (in thousands, except per-share data) | |
| Net revenues | \$48,696 | \$133,634 |
| Net income from continuing operations | \$6,890 | \$14,811 |
| Net income | \$6,002 | \$13,334 |
| Net income attributable to Steel Excel Inc. | \$6,313 | \$14,160 |
| Net income per share attributable to Steel Excel Inc. - Basic | \$0.50 | \$1.11 |
| Net income per share attributable to Steel Excel Inc. - Diluted | \$0.50 | \$1.11 |

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 nine months ended September 30, 2013, Ruckus reported revenues of \$1.0 million and a loss from discontinued operations of \$1.5 million. For the three months ended September 30, 2013, Ruckus reported revenues of \$0.4 million and incurred a loss from discontinued operations of \$0.9 million.

5. Investments

Marketable Securities

All of the Company's marketable securities at September 30, 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 September 30, 2014, consisted of the following:

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|----------------|------------------------------|-------------------------------|----------------------------|
| | (in thousands) | | | |
| Short-term deposits | \$42,554 | \$— | \$— | \$42,554 |
| Mutual funds | 15,722 | 5,153 | (116) |) 20,759 |
| Corporate securities | 105,932 | 13,539 | (2,675) |) 116,796 |
| Corporate obligations | 31,248 | 995 | (163) |) 32,080 |
| Total available-for-sale securities | 195,456 | 19,687 | (2,954) |) 212,189 |
| Amounts classified as cash equivalents | (42,554) |) — | — | (42,554) |
| Amounts classified as marketable securities | \$152,902 | \$19,687 | \$(2,954) |) \$169,635 |

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

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

| | Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair 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 \$105.1 million and \$65.5 million for the nine months ended September 30, 2014 and 2013, respectively, and \$9.4 million and \$20.4 million for the three months ended September 30, 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 and nine months ended September 30, 2014 and 2013, were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|------------------------------|-------------------------------------|-----------|------------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands) | | | |
| Gross realized gains | \$682 | \$1,914 | \$7,078 | \$5,779 |
| Gross realized losses | (1,683 |) (51 |) (3,012 |) (3,945 |
| Realized gains (losses), net | \$(1,001 |) \$1,863 | \$4,066 | \$1,834 |

The fair value of the Company's marketable securities with unrealized losses at September 30, 2014, all of which had unrealized losses for periods of less than twelve months, were as follows:

| | Fair Value | Gross Unrealized Losses |
|-----------------------|----------------|-------------------------------|
| | (in thousands) | |
| Corporate securities | \$28,611 | \$(2,675 |
| Corporate obligations | 7,592 | (163 |
| Mutual funds | 5,079 | (116 |
| Total | \$41,282 | \$(2,954 |

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:

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 | \$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 September 30, 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 and marketable securities with no contractual maturities at September 30, 2014, by contractual maturity, were as follows:

| | Cost | Estimated Fair Value |
|---|----------------|----------------------|
| | (in thousands) | |
| Debt securities: | | |
| Mature after one year through three years | \$223 | \$228 |
| Mature in more than three years | 31,025 | 31,852 |
| Total debt securities | 31,248 | 32,080 |
| Securities with no contractual maturities | 164,208 | 180,109 |
| Total | \$195,456 | \$212,189 |

Financial Instrument Obligations

In 2014, the Company entered into short sale transactions on certain financial instruments in which the Company received proceeds from the sale of such financial instruments and incurred obligations to deliver or purchase securities at a later date. Upon initially entering into such short sale transactions the Company recognized obligations totaling approximately \$19.5 million, with a comparable amount of the Company's cash and cash equivalents reclassified as restricted cash. Subsequent changes in the fair value of such obligations, determined based on the closing market price of the financial instruments, are recognized currently as gains or losses, with a comparable reclassification made between the amounts of the Company's unrestricted and restricted cash. The Company's obligations for such transactions are reported as "Financial instrument obligations" with a comparable amount reported as "Restricted cash" in the Company's consolidated balance sheet. As of September 30, 2014, the Company's financial instrument obligations consisted of the following.

| | Initial Obligation | Estimated Fair Value |
|----------------------|--------------------|----------------------|
| | (in thousands) | |
| Corporate securities | \$655 | \$532 |
| Market indices | 18,685 | 19,603 |
| Covered call options | 80 | 123 |
| Naked put options | 92 | 6 |

| | | |
|-------|-----------|-----------|
| Total | \$ 19,512 | \$ 20,264 |
|-------|-----------|-----------|

12

For the three and nine months ended September 30, 2014, the Company incurred losses on the financial instrument obligations totaling \$0.1 million and \$0.8 million, respectively, which are included as a component of "Other income (expense), net" in the Company's consolidated statements of operations.

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 represented approximately 44.7% of the issued and outstanding shares of iGo at the date of acquisition. Both Again Faster and iGo are accounted for using the traditional method of accounting for equity-method investments, with the Company recognizing its equity in the losses of iGo on a one-quarter lag basis.

In May 2014, the Company increased its holdings of the common stock of API Technologies Corp. ("API"), a designer and manufacturer of high performance systems, subsystems, modules, and components, to 11,377,192 shares through the acquisition of 1,666,666 shares on the open market. Upon acquiring such shares the Company held approximately 20.6% of the total outstanding common stock of API. Effective as of that date the investment in API has been accounted for as an equity-method investment using the fair value option, with changes in fair value based on the market price of API's common stock recognized currently as income or loss from equity method investees. The Company elected the fair value option to account for its investment in API in order to more appropriately reflect the value of API in its financial statements. Prior to such time the investment in API was accounted for as an available-for-sale security, and upon the change in classification the Company recognized a loss of approximately \$0.6 million that had previously been included as a component of "accumulated other comprehensive income".

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

| | Ownership | | Carrying Value | | Income (Loss) Recognized | | | |
|---------------------------|--------------------|-------------------|--------------------|-------------------|--------------------------|--------------------|--------------------|--------------------|
| | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 | Three Months Ended | | Nine Months Ended | |
| | | | | | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| (in thousands) | | | | | | | | |
| Traditional equity method | | | | | | | | |
| Again Faster | 40.0 | % 40.0 | % \$3,115 | \$3,671 | \$(263) | \$ (138) | \$(556) | \$(218) |
| iGo | 46.9 | % 44.7 | % 2,742 | 4,668 | (121) | — | (1,926) | — |
| Fair value option | | | | | | | | |
| API | 20.6 | % | 26,871 | — | (4,459) | — | (920) | — |
| Total | | | \$32,728 | \$8,339 | \$(4,843) | \$ (138) | \$(3,402) | \$(218) |

Based on the closing market price of iGo's publicly-traded shares, the value of the Company's investment in iGo was approximately \$4.2 million at September 30, 2014.

Other Investments

The Company's other investments at September 30, 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 \$23.4 million at September 30, 2014, based on the net asset value

indicated in the monthly statement received from the partnership. The Company's other investments at September 30, 2014, also include investments in a venture capital funds totaling \$0.5 million and a promissory note with an amortized cost of \$3.0 million, which is a reasonable approximation of fair value at September 30, 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 a venture capital fund to determine the fair value of such fund. 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 September 30, 2014, summarized by measurement input category, were as follows:

| | Total (in thousands) | Level 1 | Level 2 | Level 3 |
|--|-------------------------|------------------|-----------------|-----------------|
| Assets | | | | |
| Cash, including short-term deposits ⁽¹⁾ | \$46,677 | \$46,677 | \$— | \$— |
| Restricted cash | 20,264 | 20,264 | — | — |
| Mutual funds ⁽²⁾ | 20,759 | 20,759 | — | — |
| Corporate securities ⁽²⁾ | 116,796 | 100,409 | — | 16,387 |
| Corporate obligations ⁽²⁾ | 32,080 | — | 12,858 | 19,222 |
| Investments in equity-method investees | 26,871 | 26,871 | — | — |
| Investments in certain funds ⁽³⁾ | 540 | — | — | 540 |
| Total assets | \$263,987 | \$214,980 | \$12,858 | \$36,149 |
| Liabilities | | | | |
| Financial instrument obligations | \$(20,264) | \$(20,264) | \$— | \$— |

(1) Reported within "Cash and cash equivalents"

(2) Reported within "Marketable securities"

(3) 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 (in thousands) | Level 1 | Level 2 | Level 3 |
|--|-------------------------|------------------|-----------------|-----------------|
| Assets | | | | |
| Cash, including short-term deposits ⁽¹⁾ | \$72,602 | \$72,602 | \$— | \$— |
| Mutual funds ⁽²⁾ | 20,783 | 20,783 | — | — |
| United States government securities ⁽²⁾ | 50,379 | 50,379 | — | — |
| Corporate securities ⁽²⁾ | 74,559 | 68,624 | — | 5,935 |
| Commercial paper ⁽³⁾ | 1,799 | — | 1,799 | — |
| Corporate obligations ⁽²⁾ | 31,965 | — | 14,535 | 17,430 |
| Investments in certain funds ⁽⁴⁾ | 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 nine months ended September 30, 2014.

Changes in the fair value of assets valued using Level 3 measurement inputs during the three and nine months ended September 30, 2014 and 2013, were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------|----------------------------------|----------|---------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands) | | | |
| Balance, beginning of period | \$32,346 | \$20,952 | \$24,209 | \$2,804 |
| Purchases | 2,756 | — | 13,294 | 39,332 |
| Sales | (137 |) (32 |) (4,869 |) (22,958 |
| Realized gains (losses) on sale | — | — | (129 |) 1,556 |
| Unrealized gains (losses) | 1,184 | (2,210 |) 3,644 | (2,024 |
| Balance, end of period | \$36,149 | \$18,710 | \$36,149 | \$18,710 |

Realized gains and losses on the sale of investments using Level 3 measurement inputs are recognized as a component of "Other income (expense), net". Unrealized gains and losses on investments using Level 3 measurement inputs are recognized as a component of "Other comprehensive income".

The Company's 3/4% Convertible Senior Notes originally due in 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

Property and equipment at September 30, 2014, and December 31, 2013, consisted of the following:

| | September 30, | December 31, |
|-----------------------------|----------------|--------------|
| | 2014 | 2013 |
| | (in thousands) | |
| Rigs and other equipment | \$111,538 | \$100,884 |
| Buildings and improvements | 18,921 | 17,880 |
| Land | 1,893 | 1,893 |
| Vehicles | 2,170 | 1,869 |
| Furniture and fixtures | 690 | 512 |
| Assets in progress | 2,083 | 1,114 |
| | 137,295 | 124,152 |
| Accumulated depreciation | (28,958 |) (18,262 |
| Property and equipment, net | \$108,337 | \$105,890 |

The amounts at December 31, 2013, have been revised to reflect measurement period adjustments identified during the nine months ended September 30, 2014, related to the assets acquired from Black Hawk Inc. as if they had been recognized at the acquisition date (see Note 3). Depreciation expense was \$3.7 million and \$2.6 million for the three months ended September 30, 2014 and 2013, respectively. Depreciation expense was \$10.8 million and \$7.7 million for the nine months ended September 30, 2014 and 2013, respectively.

8. Goodwill and Other Intangible Assets

15

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

The Company's intangible assets at September 30, 2014, and December 31, 2013, all of which are subject to amortization, consisted of the following:

| | September 30, 2014 | | | December 31, 2013 | | |
|------------------------|--------------------|--------------------------|------------|-------------------|--------------------------|------------|
| | Cost | Accumulated Amortization | Net | Cost | Accumulated Amortization | Net |
| | (in thousands) | | | | | |
| Energy segment: | | | | | | |
| Customer relationships | \$54,430 | \$(19,999) |) \$34,431 | \$54,430 | \$(13,700) |) \$40,730 |
| Trade names | 4,860 | (3,006) |) 1,854 | 4,860 | (2,315) |) 2,545 |
| Non-compete agreement | 120 | (19) |) 101 | 120 | — |) 120 |
| | 59,410 | (23,024) |) 36,386 | 59,410 | (16,015) |) 43,395 |
| Sports segment: | | | | | | |
| Customer relationships | 2,089 | (550) |) 1,539 | 1,163 | (230) |) 933 |
| Trade names | 122 | (30) |) 92 | 122 | (12) |) 110 |
| | 2,211 | (580) |) 1,631 | 1,285 | (242) |) 1,043 |
| Total | \$61,621 | \$(23,604) |) \$38,017 | \$60,695 | \$(16,257) |) \$44,438 |

The amounts for the Energy segment at December 31, 2013, have been revised to reflect measurement period adjustments identified during the nine months ended September 30, 2014, related to the assets acquired from Black Hawk Inc. as if they had been recognized at the acquisition date (see Note 3).

Amortization expense was \$2.3 million and \$2.0 million for the three months ended September 30, 2014 and 2013, respectively. Amortization expense was \$7.3 million and \$6.6 million for the nine months ended September 30, 2014 and 2013, respectively. Estimated aggregate amortization expense related to the intangible assets for the next five years is as follows:

| | Amount (in thousands) |
|---------------------------------|--------------------------|
| For the year ended December 31: | |
| Remainder of 2014 | \$2,234 |
| 2015 | 8,210 |
| 2016 | 7,202 |
| 2017 | 5,971 |
| 2018 | 5,232 |
| Thereafter | 9,168 |
| Total | \$38,017 |

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

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

| | Nine Months Ended September 30, 2014 | | | Year Ended December 31, 2013 | | |
|------------------------------|--------------------------------------|---------|----------|------------------------------|---------|----------|
| | Energy | Sports | Total | Energy | Sports | Total |
| | (in thousands) | | | | | |
| Balance, beginning of period | \$65,359 | \$2,171 | \$67,530 | \$52,939 | \$154 | \$53,093 |
| Acquisitions | — | — | — | 10,576 | 5,594 | 16,170 |
| Adjustments to fair value | — | — | — | 1,844 | — | 1,844 |
| Impairments | — | — | — | — | (3,577) | (3,577) |
| Balance, end of period | \$65,359 | \$2,171 | \$67,530 | \$65,359 | \$2,171 | \$67,530 |

The amounts for the Energy segment at December 31, 2013, have been revised to reflect measurement period adjustments identified during the nine months ended September 30, 2014, related to the assets acquired from Black Hawk Inc. 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-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 the shutdown of Ruckus (see Note 4).

The components of goodwill at September 30, 2014, and December 31, 2013, were as follows:

| | September 30, 2014 | December 31, 2013 |
|------------------------|-----------------------|----------------------|
| | (in thousands) | |
| Goodwill | \$73,095 | \$73,095 |
| Accumulated impairment | (5,565) | (5,565) |
| Net goodwill | \$67,530 | \$67,530 |

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 Ltd., and a pledge of all of the issued and outstanding shares of capital stock of Sun Well, Rogue, and Black Hawk Ltd. Borrowings under the Amended Credit Agreement are fully guaranteed by Sun Well, Rogue, and Black Hawk Ltd. The carrying values as of September 30, 2014, of the assets pledged as collateral by Steel Energy and its subsidiaries under the Amended Credit Agreement were as follows:

| | Amount (in thousands) |
|-----------------------------|--------------------------|
| Cash and cash equivalents | \$22,625 |
| Accounts receivable | 28,195 |
| Property and equipment, net | 100,142 |
| Intangible assets, net | 36,386 |
| Total | \$187,348 |

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 September 30, 2014, \$82.6 million was outstanding under the Term Loan and no amount was outstanding under the Revolving Loans. The carrying value of the amount outstanding under the Amended Credit Agreement is a reasonable approximation of fair value since it is

variable rate debt. Principal payments under the Amended Credit Agreement for the remainder of 2014 and subsequent years are as follows:

17

| | Amount (in thousands) |
|----------------------|--------------------------|
| Remainder of 2014 | \$3,304 |
| 2015 | 13,214 |
| 2016 | 13,214 |
| 2017 | 13,214 |
| 2018 | 39,643 |
| Total | 82,589 |
| Less current portion | 13,214 |
| Total long-term debt | \$69,375 |

The interest rate on the borrowings under the Amended Credit Agreement was 3.0% at September 30, 2014. For the three months ended September 30, 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. For the nine months ended September 30, 2014, the Company incurred interest expense of \$2.4 million, consisting of \$2.0 million in interest on the Term Loans and \$0.4 million of amortization of deferred financing fees. The Company was in compliance with all financial covenants of the Amended Credit Agreement as of September 30, 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, at which time the Company recognized a loss on extinguishment of \$0.5 million. For the three and nine months ended September 30, 2013, the Company incurred interest expense of \$0.1 million and \$0.3 million, respectively, in connection with the Sun Well Credit Agreement.

10. Other Liabilities

“Accrued expenses and other current liabilities” consisted of the following:

| | September 30, 2014 | December 31, 2013 |
|--|-----------------------|----------------------|
| | (in thousands) | |
| Accrued compensation and related taxes | \$6,061 | \$4,207 |
| Deferred revenue | 941 | 857 |
| Insurance | 1,520 | 310 |
| Professional services | 287 | 608 |
| Accrued fuel and rig-related charges | 1,163 | 889 |
| Tax-related | 341 | 385 |
| Other | 629 | 507 |
| Total | \$10,942 | \$7,763 |

“Other long-term liabilities” of \$3.7 million and \$3.8 million at September 30, 2014, and December 31, 2013, respectively, primarily represented long-term deferred compensation arrangements.

11. Interest and Other Income

“Interest income, net” consisted of the following:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------|-------------------------------------|---------|------------------------------------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands) | | | |
| Interest income | \$1,332 | \$1,217 | \$4,231 | \$3,341 |
| Interest expense | (778) | (745) | (2,468) | (1,000) |
| Interest income, net | \$554 | \$472 | \$1,763 | \$2,341 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------|------------------------------------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands) | | | |
| Realized gain (loss) on sale of marketable securities, net | \$(1,001) | \$1,863 | \$4,066 | \$1,834 |
| Realized loss on financial instrument obligation | (83) | — | (752) | — |
| Realized loss upon change to equity method at fair value | — | — | (568) | — |
| Foreign exchange loss | (223) | — | (394) | — |
| Loss on extinguishment of debt | — | (463) | — | (463) |
| Other | 8 | 67 | (69) | 37 |
| Other income (expense), net | \$(1,299) | \$1,467 | \$2,283 | \$1,408 |

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.

For the three months ended September 30, 2014 and 2013, the Company recognized a provision for income taxes of \$1.5 million and a benefit from income taxes of \$0.3 million, respectively. The provision for income taxes in the 2014 period primarily reflects a \$1.0 million valuation allowance adjustment as a result of a decrease in deferred tax liabilities related to net unrealized gains on marketable securities. The benefit from income taxes in the 2013 period primarily reflects a \$0.7 million valuation allowance adjustment as a result of an increase in deferred tax liabilities related to net unrealized gains on marketable securities.

For the nine months ended September 30, 2014 and 2013, the Company recognized a benefit from income taxes of \$1.1 million and \$2.3 million, respectively. The benefit from income taxes in each period primarily reflects valuation allowance adjustments of \$2.2 million and \$2.8 million in the 2014 period and 2013 period, respectively, as a result of an increase in deferred tax liabilities related to net unrealized gains on marketable securities.

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 and nine months ended September 30, 2014 and 2013, was as follows:

19

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------|--------------------|-------|-------------------|---------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands) | | | |
| Stock options | \$— | \$25 | \$36 | \$76 |
| Restricted stock | 622 | 277 | 2,269 | 1,903 |
| Total stock-based compensation | \$622 | \$302 | \$2,305 | \$1,979 |

Restricted stock activity in the Equity Plans during the nine months ended September 30, 2014, was as follows:

| | Amount |
|--------------------------------------|----------------|
| | (in thousands) |
| Non-vested stock, January 1, 2014 | 142 |
| Awarded | 24 |
| Vested | (21) |
| Forfeited | (12) |
| Non-vested stock, September 30, 2014 | 133 |

The Company did not grant any stock options during the nine months ended September 30, 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 and nine months ended September 30, 2014 and 2013, were as follows:

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

| | Three Months Ended September 30, 2014 | | 2013 | | Nine Months Ended September 30, 2014 | | 2013 | |
|---|---|---|----------|---|--|--|-----------|---|
| | (in thousands, except per share data) | | | | | | | |
| Numerators: | | | | | | | | |
| Net income (loss) from continuing operations | \$ (945 |) | \$ 3,047 | | \$ 11,852 | | \$ 7,496 | |
| Non-controlling interest | (238 |) | (178 |) | 99 | | (122 |) |
| Net income (loss) from continuing operations attributable to Steel Excel Inc. | \$ (1,183 |) | \$ 2,869 | | \$ 11,951 | | \$ 7,374 | |
| Loss from discontinued operations, net of taxes | \$— | | \$ (888 |) | \$— | | \$ (1,477 |) |
| Non-controlling interest | — | | 489 | | — | | 954 | |
| Loss from discontinued operations, net of taxes, attributable to Steel Excel Inc. | \$— | | \$ (399 |) | \$— | | \$ (523 |) |
| Net income (loss) attributable to Steel Excel Inc. | \$ (1,183 |) | \$ 2,470 | | \$ 11,951 | | \$ 6,851 | |
| Denominators: | | | | | | | | |
| Basic weighted average common shares outstanding | 11,437 | | 12,529 | | 11,769 | | 12,736 | |
| Effect of dilutive securities: | | | | | | | | |
| Stock-based awards | — | | 17 | | 21 | | 18 | |
| Diluted weighted average common shares outstanding | 11,437 | | 12,546 | | 11,790 | | 12,754 | |
| Basic income (loss) per share attributable to Steel Excel Inc.: | | | | | | | | |
| Net income (loss) from continuing operations | \$ (0.10 |) | \$ 0.23 | | \$ 1.02 | | \$ 0.58 | |
| Loss from discontinued operations, net of taxes | \$— | | \$ (0.03 |) | \$— | | \$ (0.04 |) |
| Net income (loss) | \$ (0.10 |) | \$ 0.20 | | \$ 1.02 | | \$ 0.54 | |
| Diluted income (loss) per share attributable to Steel Excel Inc.: | | | | | | | | |
| Net income (loss) from continuing operations | \$ (0.10 |) | \$ 0.23 | | \$ 1.01 | | \$ 0.58 | |
| Loss from discontinued operations, net of taxes | \$— | | \$ (0.03 |) | \$— | | \$ (0.04 |) |
| Net income (loss) | \$ (0.10 |) | \$ 0.20 | | \$ 1.01 | | \$ 0.54 | |

The number of shares used in the calculation of diluted earnings (loss) per share for the three months ended September 30, 2014, excluded 23,000 incremental shares related to restricted stock awards. Such incremental shares were excluded from the calculation of diluted earnings (loss) per share due to their anti-dilutive effect on the loss from continuing operations.

15. Accumulated Other Comprehensive Income

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

| | Unrealized Gains on Securities (in thousands) | Cumulative Translation Adjustment | Total |
|---|--|---|-------------|
| Balance, January 1, 2014 | \$ 6,921 | \$ (405 |) \$ 6,516 |
| Current period other comprehensive income | 4,134 | 30 | 4,164 |
| Balance, September 30, 2014 | \$ 11,055 | \$ (375 |) \$ 10,680 |

16. Segment Information

21

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

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 September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|----------|---------------------------------|----------|
| | 2014 | 2013 | 2014 | 2013 |
| | (in thousands) | | | |
| Revenues | | | | |
| Energy | \$49,701 | \$25,162 | \$140,767 | \$78,272 |
| Sports | 8,882 | 6,258 | 14,899 | 8,260 |
| Total revenues | \$58,583 | \$31,420 | \$155,666 | \$86,532 |
| Operating income (loss) | | | | |
| Energy | \$8,551 | \$2,007 | \$21,923 | \$8,626 |
| Sports | 1,146 | 975 | (896) | (318) |
| Total segment operating income | 9,697 | 2,982 | 21,027 | 8,308 |
| Corporate and other business activities | (3,517) | (2,033) | (10,878) | (6,657) |
| Interest income, net | 554 | 472 | 1,763 | 2,341 |
| Other income (expense), net | (1,299) | 1,467 | 2,283 | 1,408 |
| Income from continuing operations before income taxes and equity method income | \$5,435 | \$2,888 | \$14,195 | \$5,400 |
| Depreciation and amortization expense: | | | | |
| Energy | \$5,519 | \$4,386 | \$16,924 | \$13,923 |
| Sports | 431 | 150 | 1,203 | 438 |
| Total depreciation and amortization expense | \$5,950 | \$4,536 | \$18,127 | \$14,361 |

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

| | September 30, 2014 | December 31, 2013 |
|---|--------------------|-------------------|
| | (in thousands) | |
| Sports | \$19,344 | \$20,495 |
| Energy | 256,416 | 244,401 |
| Corporate and other business activities | 276,249 | 273,798 |
| Total assets | \$552,009 | \$538,694 |

17. Related Party Transactions

Steel Partners Holdings L.P. ("SPLP") beneficially owned approximately 57.9% of the Company's outstanding common stock as of September 30, 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”), an affiliate of SPLP, were expanded, with the Company paying SP Corporate \$8.0 million annually for such services. In October 2014, the annual service fee was increased to \$8.2 million to include fees for executive services provided by SP Corporate to the Company's

22

Sports business. 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 September 30, 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. During the nine months ended September 30, 2014 and 2013, the Company incurred expenses of \$6.6 million and \$3.0 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 \$0.2 million at September 30, 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.

At September 30, 2014, the Company held \$15.2 million of short-term deposits at WebBank, an affiliate of SPLP. For the three months ended September 30, 2014 and 2013, the Company recorded interest income of \$23,000 and \$21,000, respectively, on such deposits. For the nine months ended September 30, 2014 and 2013, the Company recorded interest income of \$65,000 and \$69,000, respectively.

18. Supplemental Cash Flow Information

Cash paid for interest and income taxes and non-cash investing and financing activities for the nine months ended September 30, 2014 and 2013, was as follows:

| | Nine Months Ended September 30, | |
|---|---------------------------------|---------|
| | 2014 | 2013 |
| | (in thousands) | |
| Interest paid | \$2,092 | \$539 |
| Income taxes paid, net of refunds | \$151 | \$1,594 |
| Non-cash investing and financing activities: | | |
| Reclassification of available-for-sale securities to equity method investment | \$27,647 | \$— |
| Securities received in exchange for financial instrument obligations | \$19,341 | \$— |
| Contribution of advances by non-controlling interest | \$268 | \$— |
| Restricted stock awards surrendered to satisfy tax withholding obligations upon vesting | \$14 | \$— |

19. Stock Split

In June 2014, following stockholder approval and authorization from its board of directors, the Company effected a 1-for-500 reverse stock split (the "Reverse Split"), immediately followed by a 500-for-1 forward stock split (the "Forward Split", and together with the Reverse Split, the "Reverse/Forward Split"), of its common stock effective as of the close of business on June 18, 2014. As a result of the Reverse Split, stockholders holding fewer than 500 shares received a cash payment for all of their outstanding shares based on a per share price equal to the closing price of the Company's common stock on June 18, 2014, the effective date of the Reverse/Forward Split. Stockholders holding 500 or more shares as of the effective date of the Reverse/Forward Split did not receive any payments for fractional shares resulting from the Reverse Split, and therefore the total number of shares held by such holders did not change as a

result of the Reverse/Forward Split.

In connection with the Reverse Split, the Company paid \$10.1 million in July 2014 for 295,659 shares of common stock and the return of 1,388 non-vested restricted stock awards previously awarded to employees.

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 2014, UK Elite acquired the business and assets of three independent providers of soccer clinics and camps for a total purchase price of \$1.0 million, or approximately \$0.5 million net of cash acquired.

In December 2013, Black Hawk Energy Services Ltd. ("Black Hawk Ltd."), an indirect wholly-owned subsidiary of the Company, acquired the business and substantially all of the assets of Black Hawk Energy Services, Inc. ("Black Hawk Inc."), a provider of drilling and production services to the oil and gas industry. Black Hawk Ltd. is included in the Company's Energy segment. The fair values of the assets and liabilities of Black Hawk Inc. recognized at December 31, 2013, were provisional pending further analysis and valuations. In 2014, the Company recorded measurement period adjustments to reflect revised fair values of the assets and liabilities of Black Hawk Inc. 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 Services Ltd. ("Steel Energy"), 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.

In June 2014, following stockholder approval and authorization from its board of directors, the Company effected a 1-for-500 reverse stock split (the "Reverse Split"), immediately followed by a 500-for-1 forward stock split (the "Forward Split", and together with the Reverse Split, the "Reverse/Forward Split"), of its common stock effective as of the close of business on June 18, 2014. In connection with the Reverse Split, the Company paid \$10.1 million in July 2014 for 295,659 shares of common stock and the return of 1,388 non-vested restricted stock awards previously awarded to employees.

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 and nine months ended September 30, 2014 and 2013, were as follows:

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

| | Three Months Ended September | | Nine Months Ended September | |
|---|------------------------------|-----------|-----------------------------|-----------|
| | 30, 2014 | 2013 | 30, 2014 | 2013 |
| | (in thousands) | | | |
| Energy net revenues | \$49,701 | \$25,162 | \$140,767 | \$78,272 |
| Sports net revenues | 8,882 | 6,258 | 14,899 | 8,260 |
| Consolidated net revenues | \$58,583 | \$31,420 | \$155,666 | \$86,532 |
| Energy operating income | \$8,551 | \$2,007 | \$21,923 | \$8,626 |
| Sports operating income (loss) | 1,146 | 975 | (896) | (318) |
| Corporate and other business activities | \$(3,517) | \$(2,033) | \$(10,878) | \$(6,657) |
| Consolidated operating income | \$6,180 | \$949 | \$10,149 | \$1,651 |

Three months ended September 30, 2014, compared to three months ended September 30, 2013

Net revenues for the three months ended September 30, 2014, increased by \$27.2 million as compared to the 2013 period. Net revenues from the Company's Energy segment increased by \$24.5 million primarily as a result of \$19.9 million in revenues from Black Hawk Ltd., which business was acquired in December 2013, and an increase in revenues of \$4.6 million in the Energy segment's other operations due primarily to an increase in rig utilization for snubbing services and an increase in revenues from flow back services related to new equipment purchased in 2014.

Net revenues in the Company's Sports segment increased by \$2.6 million from an increase of \$2.3 million in revenues from UK Elite primarily as a result of an increase in services provided and operating the businesses acquired in 2014 and an increase in revenues of \$0.3 million in the segment's baseball operations.

Gross profit for the three months ended September 30, 2014, increased by \$9.9 million as compared to the 2013 period, and as a percentage of revenue increased to 30.7% in the third quarter of 2014 from 25.7% in the comparable 2013 period. Gross profit in the Energy segment increased by \$8.8 million and as a percentage of revenue increased to 27.9% in the third quarter of 2014 from 20.2% in the comparable 2013 period. Gross profit in the Energy segment increased as a result of \$6.0 million in gross profit from Black Hawk Ltd. and an increase in gross profit of \$2.7 million in the Energy segment's other operations due primarily to the increase in revenues. Gross profit in the Sports segment in the 2014 period increased by \$1.1 million primarily as a result of an increase of \$0.9 million in gross profit from UK Elite resulting from the increase in revenues and an increase in gross profit of \$0.2 million in the segment's baseball operations.

SG&A expenses in the third quarter 2014 increased by \$4.4 million as compared to the comparable 2013 period. SG&A expenses in the Energy segment increased by \$2.1 million partially as a result of \$0.9 million of costs incurred at Black Hawk Ltd. in the 2014 period. SG&A expenses in the Energy segment's other operations increased \$1.2 million as a result of the increase in revenues, business development costs incurred, and the reversal of a contingent consideration liability associated with a prior period acquisition and certain credits received related to insurance in the 2013 period with no comparable benefits recognized in the current period. SG&A expenses in the Sports segment increased by \$0.8 million primarily as a result of additional costs incurred at UK Elite associated with the increase in revenues in the period. SG&A expenses in corporate and other business activities increased by \$1.5 million primarily as a result of increased costs incurred for services provided by affiliates of the Company and an increase in stock-based compensation expense in the 2014 period.

Operating income in the third quarter 2014 was \$6.2 million as compared to \$0.9 million in the 2013 period. Operating income in the Energy segment increased by \$6.5 million as a result of \$4.5 million in operating income from Black Hawk Ltd. and an increase in operating income of \$2.0 million in the Energy segment's other operations. Operating income in the Sports segment increased by \$0.2 million primarily due to the operating results of UK Elite.

The operating loss from Corporate and other business activities increased by \$1.5 million from increased costs incurred for services provided by affiliates of the Company and an increase in stock-based compensation expense in the 2014 period.

Amortization of intangibles in the third quarter 2014 increased by \$0.3 million as compared to the comparable 2013 period as a result of amortization expense on the intangible assets recognized in connection with the businesses acquired by Black Hawk Ltd. and UK Elite, partially offset by a declining rate of amortization for the intangible assets recognized in connection with prior period acquisitions.

Net interest income of \$0.6 million in the third quarter 2014 increased by \$0.1 million as compared to the 2013 period primarily as a result of an increase in interest income on investments.

Other expense of \$1.3 million in the third quarter 2014 primarily represented realized losses on the sale of marketable securities of \$1.0 million and a foreign exchange loss of \$0.2 million.

The Company recognized a provision for income taxes of \$1.5 million and a benefit from income taxes of \$0.3 million for the three months ended September 30, 2014 and 2013, respectively. The provision for income taxes in the 2014 period primarily reflects a valuation allowance adjustment as a result of a decrease in deferred tax liabilities related to net unrealized gains on marketable securities. The benefit for income taxes in the 2013 period primarily reflects a valuation allowance adjustment as a result of an increase in deferred tax liabilities related to net unrealized gains on marketable securities.

Nine months ended September 30, 2014, compared to nine months ended September 30, 2013

Net revenues for the nine months ended September 30, 2014, increased by \$69.1 million as compared to the 2013 period. Net revenues from the Company's Energy segment increased by \$62.5 million primarily as a result of \$55.9 million in revenues from Black Hawk Ltd. and an increase in revenues of \$6.6 million in the Energy segment's other operations due primarily to an increase in rig utilization for snubbing services and an increase in revenues from flow back services related to new equipment purchased in 2014. Net revenues in the Company's Sports segment increased by \$6.6 million primarily as a result of \$5.5 million in revenues from UK Elite, which was acquired in June 2013, and an increase in revenues of \$1.0 million in the segment's baseball operations.

Gross profit for the nine months ended September 30, 2014, increased by \$20.1 million as compared to the 2013 period, and as a percentage of revenue increased slightly to 28.6% from 28.3%. Gross profit in the Energy segment increased by \$17.3 million, and as a percentage of revenue increased to 26.7% in the first nine months of 2014 from 26.0% in the comparable 2013 period. Gross profit in the Energy segment increased as a result of \$16.1 million in gross profit from Black Hawk Ltd. and an increase in gross profit of \$1.1 million in the Energy segment's other operations. Gross profit in the Sports segment in the 2014 period increased by \$2.8 million primarily as a result of \$2.2 million in gross profit from UK Elite and an increase in gross profit of \$0.6 million in the segment's baseball operations.

SG&A expenses in the first nine months of 2014 increased by \$10.9 million as compared to the comparable 2013 period. SG&A expenses in the Energy segment increased by \$3.5 million partially as a result of \$2.2 million of costs incurred at Black Hawk Ltd. in the 2014 period. SG&A expenses in the Energy segment's other operations increased \$1.3 million as a result of the increase in revenues, business development costs incurred, and from the reversal of a contingent consideration liability associated with a prior period acquisition and certain credits received related to insurance in the 2013 period with no comparable benefits recognized in the current period. SG&A expenses in the Sports segment increased by \$3.1 million primarily as a result of costs incurred at UK Elite, including those associated with operating the businesses acquired in the current period. SG&A expenses in corporate and other business activities increased by \$4.2 million primarily as a result of increased costs incurred for services provided by affiliates of the Company and an increase in stock-based compensation expense in the 2014 period.

Operating income in the first nine months of 2014 was \$10.1 million as compared to \$1.7 million in the 2013 period. Operating income in the Energy segment increased by \$13.3 million as a result of \$12.0 million in operating income from Black Hawk Ltd. and an increase in operating income of \$1.3 million in the Energy segment's other operations. The operating loss in the Sports segment increased by \$0.6 million primarily due to the expected seasonal losses incurred in the first half of the current year at UK Elite with no corresponding losses in the prior year. The operating loss from Corporate and other business activities increased by \$4.2 million from increased costs incurred for services provided by affiliates of the Company and an increase in stock-based compensation expense in the 2014 period.

Amortization of intangibles in the first nine months of 2014 increased by \$0.7 million as compared to the comparable 2013 period as a result of amortization expense on the intangible assets recognized in connection with the businesses acquired by Black Hawk Ltd. and UK Elite, partially offset by a declining rate of amortization for the intangible assets recognized in connection with prior period acquisitions.

Net interest income of \$1.8 million in the first nine months of 2014 decreased by \$0.6 million as compared to the 2013 period primarily as a result of an increase in interest expense of \$1.5 million resulting from the borrowings under the Amended Credit Agreement, partially offset by an increase in interest income on investments of \$0.9 million.

Other income of \$2.3 million in the first nine months of 2014 primarily represented realized gains on the sale of marketable securities of \$4.1 million, partially offset by a loss of \$0.8 million recognized on financial instrument obligations, a

loss of \$0.6 million recognized upon initially accounting for an investment under the equity method of accounting at fair value, and a foreign exchange loss of \$0.4 million.

The Company recognized a benefit for income taxes of \$1.1 million and \$2.3 million for the nine months ended September 30, 2014 and 2013, respectively. The benefit from income taxes in each period primarily reflects valuation allowance adjustments as a result of an increase in deferred tax liabilities related to unrealized gains on marketable securities.

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 \$82.6 million at September 30, 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 Ltd., and a pledge of all of the issued and outstanding shares of capital stock of Sun Well, Rogue, and Black Hawk Ltd. Borrowings under the Amended Credit Agreement are fully guaranteed by Sun Well, Rogue, and Black Hawk Ltd. The Company was in compliance with all financial covenants of the Amended Credit Agreement as of September 30, 2014.

The Company finances its operations and capital expenditure requirements from its existing cash and marketable securities balances, which at September 30, 2014, totaled \$46.7 million and \$169.6 million, respectively. Working capital in the first nine months of 2014 decreased by \$34.7 million due primarily to a decrease of \$27.8 million from a reclassification of current available-for-sale securities to non-current equity method investments and additional equity method investments made during the period, the repayment of \$9.9 million in long-term debt, and an increase of \$4.6 million in accounts receivable from the timing of collections, partially offset by an increase of \$2.9 million in accounts payable and accrued expenses from the timing of payments.

Cash flows from operating activities of continuing operations increased by \$11.6 million in the first nine months of 2014 as compared to the 2013 period due primarily to an increase in cash generated from net income.

During the first nine months of 2014, the Company used \$26.8 million of cash for investing activities. The Company made purchases of marketable securities, net of proceeds from sales and restricted cash, of \$10.1 million, invested \$13.6 million in property and equipment, and made other investments of \$3.0 million.

During the first nine months of 2014, the Company used \$30.9 million of cash for financing activities. The Company paid an aggregate of \$20.4 million to acquire treasury shares and repurchase common stock in connection with the Reverse Split, made debt repayments on the Amended Credit Facility of \$9.9 million, and paid \$0.5 million for acquisitions net of cash acquired.

At September 30, 2014, the Company had \$216.3 million in cash and marketable securities, exclusive of \$20.3 million of restricted cash related to short sale transactions on certain financial instruments for which the Company has an obligation to deliver or purchase securities at a later date.

Available-for-sale securities at September 30, 2014, included short-term deposits, corporate debt and equity instruments, and mutual funds, and were recorded on the consolidated balance sheet 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 investments, and we may be required to use a significant portion of our available cash balances for such acquisitions and investments 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

In 2014, the Company entered into short sale transactions on certain financial instruments in which the Company received proceeds from the sale of such financial instruments and incurred obligations to deliver or purchase securities at a later date. As of September 30, 2014, the Company's obligations for such transactions totaled approximately \$20.3 million, consisting of market indices for \$19.6 million, corporate securities for \$0.5 million, and option contracts, primarily covered calls, for \$0.1 million. There is no stated repayment date for the obligations related to market indices and corporate securities; the obligations related to option contracts come due within a period of no longer than four months. Such obligations are reported as "Financial instrument obligations" as a component of current liabilities in the Company's consolidated balance sheet.

There were no other material changes in the Company's contractual obligations at September 30, 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.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which establishes a core principle, achieved through a five-step process, that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 is effective for public companies for annual reporting periods beginning after December 15, 2016, and for interim reporting periods within those years. Upon adoption, ASU No. 2014-09 can be applied either retrospectively to each reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial

application. Early application is not permitted. The Company needs to evaluate the impact on its consolidated financial statements of adopting ASU No. 2014-09 and will determine the implementation method to be used. In June 2014, the FASB issued ASU No. 2014-12, Compensation — Stock Compensation (Topic 718), to address diversity in accounting for share-based payment awards that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards. ASU No. 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU No. 2014-12 is effective for annual reporting periods beginning after December 15, 2015, and for interim reporting period within those years, with earlier adoption permitted. The Company does not expect the adoption of ASU No. 2014-12 to have a material effect on its 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 September 30, 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

On December 16, 2013, and June 24, 2014, the Company's Board of Directors authorized stock repurchase programs to acquire up to 200,000 shares and 500,000 shares, respectively, of the Company's common stock. Any such repurchases will be made from time to time on the open market at prevailing market prices or in negotiated transactions off the market in compliance with applicable laws and regulations. The repurchase programs are expected to continue indefinitely, unless shortened by the Board of Directors.

The following table summarizes, by month, the repurchases made during the three months ended September 30, 2014, under the repurchase programs.

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

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|-------------------------|---|--|---|---|
| Month of July 2014 | 114,791 | \$35.01 | 114,791 | 402,999 |
| Month of August 2014 | 14,504 | \$32.96 | 14,504 | 388,495 |
| Month of September 2014 | 5,650 | \$31.04 | 5,650 | 382,845 |
| Total | 134,945 | \$34.63 | 134,945 | |

30

Item 6. Exhibits

- 10.1* Amendment No. 3 to the Amended and Restated Management Services Agreement between Steel Excel Inc. and SP Corporate Services LLC, dated as of January 1, 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.

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.

Steel Excel Inc.

By: /s/Jack L. Howard
Jack L. Howard
Vice Chairman
(Principal executive officer) Date: November 6, 2014

By: /s/James F. McCabe, Jr.
James F. McCabe, Jr.
Chief Financial Officer
(Principal financial officer) Date: November 6, 2014