Steel Excel Inc.
Form 10-Q
November 06, 2014

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

FORM 10-Q

(Mark One)

ý	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

o	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 ý 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 ý 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).

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

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

As of October 31, 2014, there were 11,410,657 shares of Steel Excel's common stock outstanding.

TABLE OF CONTENTS

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)

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,		Nine Months Ended September 30,	
	2014	2013	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
Assets	(in thousands)	
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

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.

Steel Excel Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(unaudited)

	Steel Excel Inc. Stockholders' Equity								
	Common Stock		Treasury Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Non-Controlling Interest	Total
	(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)

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.

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:

10

	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:

	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			
					Three Months Ended		Nine Months Ended	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013	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	Level 1	Level 2	Level 3
	(in thousands)			
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	Level 1	Level 2	Level 3
	(in thousands)			
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, 2014	December 31, 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

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:

	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 (in thousands)	December 31, 2013
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:

	Three Months Ended September 30,		Nine Months Ended 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:

	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	Cumulative Translation Adjustment	Total
	(in thousands)		
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

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