

Steel Excel Inc.
Form 10-Q
May 07, 2013

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013 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

2603 CAMINO RAMON, SUITE 200, SAN RAMON, CA 94583

(Former name, former address and former fiscal year, if changed since last report)

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

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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).

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

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

As of May 7, 2013, there were 12,789,589 shares of Steel Excel’s common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Steel Excel Inc.
CONDENSED STATEMENTS OF OPERATIONS
(unaudited)

	Three-Month Period Ended March 31,	
	2013	2012
	(in thousands, except per-share data)	
Net revenues	\$26,351	\$14,446
Cost of revenues	18,691	8,759
Gross margin	7,660	5,687
Operating expenses:		
Selling, general and administrative	5,593	4,636
Amortization of intangibles	2,400	813
Total operating expenses	7,993	5,449
(Loss) income from continuing operations	(333)	238
Interest and other income (expense), net	1,674	(220)
Income from continuing operations before income taxes	1,341	18
Benefit from (provision for) income taxes	1,633	(138)
Net income (loss) from continuing operations	2,974	(120)
Loss from discontinued operations, net of taxes	-	(2,348)
Net income (loss)	2,974	(2,468)
Net loss attributable to non-controlling interests in consolidated entities		
Continuing operations	(336)	-
Discontinued operations	-	(580)
	(336)	(580)
Net income (loss) attributable to Steel Excel Inc.	\$3,310	\$(1,888)
Basic income (loss) per share:		
Net income (loss) from continuing operations	\$0.23	\$(0.01)
Loss from discontinued operations, net of taxes	\$-	\$(0.22)

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Net income (loss) attributable to Steel Excel Inc.	\$0.26	\$(0.17)
Diluted income (loss) per share:		
Net income (loss) from continuing operations	\$0.23	\$(0.01)
Loss from discontinued operations, net of taxes	\$-	\$(0.22)
Net income (loss) attributable to Steel Excel Inc.	\$0.26	\$(0.17)
Shares used in computing income (loss) per share:		
Basic	12,886	10,891
Diluted	12,909	10,891

See accompanying Notes to Condensed Financial Statements.

Steel Excel Inc.
 CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (unaudited)

	Three-Month Period Ended March 31,	
	2013	2012
	(in thousands)	
Net income (loss)	\$2,974	\$(2,468)
Other comprehensive income (loss), net of taxes		
Foreign currency translation adjustment, net of taxes	(59)	5
Net unrealized gain on marketable securities, net of taxes	2,871	307
Comprehensive income (loss)	5,786	(2,156)
Comprehensive loss attributable to non-controlling interest	336	580
Comprehensive income (loss) attributable to Steel Excel Inc.	\$6,122	\$(1,576)

See accompanying Notes to Condensed Financial Statements.

Steel Excel Inc.
CONDENSED BALANCE SHEETS
(unaudited)

	March 31, 2013	December 31, 2012
(in thousands)		
Assets		
Current assets:		
Cash and cash equivalents	\$75,500	\$71,556
Marketable securities	186,338	199,128
Accounts receivable, net of allowance for doubtful accounts of \$0	15,190	17,257
Deferred income taxes	188	188
Prepaid expenses and other current assets	5,613	3,482
Total current assets	282,829	291,611
Property and equipment, net	77,673	77,768
Goodwill	58,257	53,093
Intangible assets, net	37,486	39,887
Investment in associated company	4,000	-
Deferred income taxes	1,696	1,696
Other long-term assets	2,322	2,440
Total assets	\$464,263	\$466,495
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	\$2,453	\$4,282
Accrued expenses and other liabilities	10,111	6,103
Current portion of long-term debt	-	4,000
Current portion of capital lease obligations	413	413
3/4% convertible senior subordinated notes due 2023	346	346
Total current liabilities	13,323	15,144
Capital lease obligations, net of current portion	878	984
Long-term debt, net of current portion	-	9,000
Deferred income taxes	39	33
Other long-term liabilities	9,753	9,372
Total liabilities	23,993	34,533
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock	13	13
Additional paid-in capital	229,692	231,170
Accumulated other comprehensive income	3,758	946
Retained earnings	203,082	199,772
Total Steel Excel Inc. stockholders' equity	436,545	431,901
Non-controlling interest	3,725	61

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Total stockholders' equity	440,270	431,962
Total liabilities and stockholders' equity	\$464,263	\$466,495

See accompanying Notes to Condensed Financial Statements.

Steel Excel Inc.
CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

Three-Month Period
Ended March 31,
2013 2012
(in thousands)

Cash Flows From Operating Activities:		
Net income (loss) attributable to Steel Excel Inc.	\$3,310	\$(1,888)
Less: Loss from discontinued operations	-	(2,348)
Net income from continuing operations, net of taxes	3,310	460
Adjustments to reconcile net income from continuing operations, to net cash provided by (used in) operating activities of continuing operations:		
Stock-based compensation expense	620	25
Depreciation and amortization	5,001	1,831
Accretion and amortization related to marketable securities, net	258	439
Adjustment of deferred income taxes	(1,818)	153
Loss on disposal of long-lived assets	23	-
Net loss attributable to non-controlling interest	(336)	(580)
Changes in current assets and liabilities:		
Accounts receivable	2,067	(6,926)
Prepaid expenses and other current assets	(2,130)	(1,408)
Other assets	119	(18)
Accounts payable	(2,059)	2,124
Accrued expenses and other liabilities	3,384	1,063
Net cash provided by (used in) operating activities of continuing operations	8,439	(2,837)
Net cash used in operating activities of discontinued operations	-	(709)
Net cash provided by (used in) operating activities	8,439	(3,546)
Cash Flows From Investing Activities:		
Purchases of net assets in acquisitions	-	(48,131)
Purchases of property and equipment	(2,459)	(1,625)
Investment in associated company	(4,000)	-
Investment by non-controlling interest	-	75
Purchases of marketable securities	(47,192)	(198,630)
Sales of marketable securities	8,315	261,312
Maturities of marketable securities	56,045	27,500
Net cash provided by investing activities	10,709	40,501
Cash Flows From Financing Activities:		
Repurchases of common stock	(2,098)	-
Repayments of capital lease obligations	(106)	-
Repayments of long-term debt	(13,000)	-
Net cash used in financing activities	(15,204)	-
Net increase in cash and cash equivalents	3,944	36,955
Effect of foreign currency translation on cash and cash equivalents	-	(4)

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Cash and cash equivalents, beginning balance	71,556	8,487
Cash and cash equivalents, ending balance	\$75,500	\$45,438

See accompanying Notes to Condensed Financial Statements.

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Steel Excel Inc.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(unaudited)

1. Description and Basis of Presentation

Description

Steel Excel Inc. (“Steel Excel” or the “Company”) currently operates in two reporting segments: Steel Sports and Steel Energy, while continuing to identify additional new business acquisition opportunities. The Company also reports certain other equity investments, investment activity and unallocated corporate expenses within its Corporate segment.

Steel Sports: Focuses on sports and health-related businesses. Services include marketing and providing baseball facility services, including training camps, summer camps, leagues and tournaments, concession and catering events and other events and related websites. In addition, the Company provides strength and conditioning services and products and obstacle course race events.

Steel Energy: Focuses on providing services to oil and gas companies, utilizing technological advances in supporting horizontal drilling and hydraulic fracturing. Services include snubbing services (controlled installation and removal of all tubulars - drill strings and production strings) in and out of the wellbore with the well under full pressure, flowtesting, and hydraulic work over/simultaneous operations (allows customers to perform multiple tasks on multiple wells on one pad at the same time).

For a complete discussion of the Company’s reporting segments, please refer to Notes 3 and 17 of the Notes to Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012

Basis of Presentation

In the opinion of management, the accompanying Condensed and Consolidated Financial Statements (“Condensed Financial Statements”) of Steel Excel and its wholly-owned subsidiaries have been prepared on a consistent basis with the December 31, 2012 audited financial statements. The Financial Statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (the “SEC”) and, therefore, omit certain information and footnote disclosures necessary to present the statements in accordance with accounting principles generally accepted in the United States of America and are considered unaudited and condensed. The December 31, 2012 Condensed Balance Sheet was derived from audited financial statements. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was filed with the SEC on March 11, 2013.

The Company’s Condensed Financial Statements include the accounts of Steel Excel and its subsidiaries. All significant intercompany accounts have been eliminated in consolidation.

The Company is reporting its quarterly financial information using a calendar convention; that is, the first, second and third quarters will consistently be reported as ending on March 31, June 30 and September 30, respectively. It has been the practice to establish actual quarterly closing dates using a predetermined “fiscal” calendar, which requires closing the books on a Saturday in order to minimize the potentially disruptive effects of quarterly closing on business processes. The effects of this practice are generally not significant to reported results for any quarter and only exist within a reporting year. In the event that differences in actual closing dates are material to year-over-year comparisons

of quarterly or year-to-date results, appropriate disclosures are provided. The actual closing dates for the three months ended March 31, 2013 and 2012 were March 30, 2013 and March 31, 2012, respectively.

2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Our significant accounting policies have not changed from those presented in Note 1 to the Consolidated Financial Statements in the Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

In February 2013, the FASB issued Accounting Standards Update (“ASC”) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component (the respective line items of net income). This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. The Company adopted this pronouncement for its fiscal year beginning January 1, 2013. The adoption of this pronouncement did not have a material effect on its financial statements.

In March 2013, the FASB issued ASC No. 2013-05, Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity, (“ASU 2013-05”). The objective of ASU 2013-05 is to resolve the diversity in practice regarding the release into net income of the cumulative translation adjustment upon derecognition of a subsidiary or group of assets within a foreign entity. ASU 2013-05 is effective prospectively for fiscal years beginning after December 15, 2013 and for interim reporting periods within those years, with early adoption being permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements, absent any material transactions involving the derecognition of subsidiaries or groups of assets within a foreign entity.

There were no other recent accounting pronouncements that are applicable or considered material to the Company.

3. Acquisitions

On January 31, 2013, the Company acquired a 20% membership interest in a sports event company for a cash price of \$1.0 million with an option to invest another \$2.0 million over the next two years. Pursuant to an operating agreement, the Company has the ability to control the operations of this company. In accordance with applicable accounting rules, the Company determined that this company was a variable interest entity (“VIE”) and that the Company was the primary beneficiary. Accordingly, the Company consolidated this company effective January 31, 2013. Therefore, this investment was accounted for as a business combination and the total cash consideration of \$1.0 million has been allocated on a preliminary basis to the net assets acquired based on their respective estimated fair values at January 31, 2013 as follows:

	Amount (in thousands)
Cash	\$840
Property and equipment	70
Other assets	2
Accounts payable	(71)
Accrued liabilities and other current liabilities	(952)
Long-term liabilities	(53)
	(164)
Non-controlling interest	(4,000)
Goodwill	5,164
Net assets acquired	\$1,000

The \$5.2 million of goodwill arises from the growth potential the Company sees for the investment, along with expected synergies with the Company’s current sports-related businesses, and is expected to be deductible for tax purposes. The acquisition-related costs for this purchase included in “Selling, general and administrative” expenses in

the Condensed Statements of Operations were \$30,240 for the three-month period ended March 31, 2013.

The carrying amounts and classifications of assets and liabilities included in the Company's March 31, 2013 Condensed Balance Sheet for this consolidated VIE are as follows:

	Amount (in thousands)
Current assets	\$526
Long-term assets	\$5,341
Current liabilities	\$1,209
Long-term liabilities	\$53

The sports-event company's results of operations are included in the accompanying financial statements since the acquisition date, January 31, 2013. The Company is in the process of completing its assessment of the fair value of net assets acquired from this acquisition. Therefore, the fair values presented are provisional pending completion of the final valuation of the net assets.

The Company is not including pro forma information for Steel Sports companies for the periods prior to their acquisition because they were not material to the Company's results of operations and earnings per share. The following pro forma financial information presents the combined fiscal 2012 period results of the Company and its Steel Energy companies, as if all acquisitions had occurred at the beginning of the fiscal 2012 period. Such pro forma results are not necessarily indicative of what would have actually occurred had the acquisitions been in effect for the entire period. The pro forma fiscal 2012 period financial results are as follows:

	Amount (in thousands)
Net revenues	\$30,148
Income from continuing operations, net of taxes	\$2,987
Income (loss) from discontinued operations, net of taxes	\$(2,348)
Net income attributable to Steel Excel Inc.	\$1,219

There is no pro forma information for the fiscal 2013 period as all companies are already included in the condensed financial statements as presented.

4. Stock Benefit Plans

The Company grants stock options and other stock-based awards to employees, directors and consultants under two equity incentive plans, the 2004 Equity Incentive Plan, as amended and restated on August 20, 2008 and as further amended thereafter (the "2004 Equity Incentive Plan") and the 2006 Director Plan, as amended.

As of March 31, 2013, the Company had an aggregate of 1.8 million shares of its common stock reserved for issuance under its 2004 Equity Incentive Plan, of which 0.1 million shares were subject to outstanding options and other stock-based awards and 1.7 million shares were available for future grants of options and other stock-based awards. As of March 31, 2013, the Company had an aggregate of 0.5 million shares of its common stock reserved for issuance under its 2006 Director Plan, of which 0.1 million shares were subject to outstanding options and other stock-based awards and 0.4 million shares were available for future grants of options and other stock-based awards.

Stock Benefit Plan Activities

Stock Options: A summary of option activity under all of the Company's equity incentive plans as of March 31, 2013 and changes during the three-month period then ended is as follows:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	65	\$30.93		
Granted	-	\$-		
Exercised	-	\$-		
Forfeited	-	\$-		
Expired	-	\$-		
Outstanding at March 31, 2013	65	\$30.93	7.51	\$4,647.50