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

FORM 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For The Fiscal Year Ended December 31, 2012

OR

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

Commission File Number: 000-5465

STEEL PARTNERS HOLDINGS L.P.

(Exact name of registrant as specified in its charter)

Delaware	**13-3727655**
(State of Incorporation)	(I.R.S. Employer Identification No.)
590 Madison Avenue, 32nd Floor	
New York, New York	**10022**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(212) 520-2300**

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

Title of each class	Name of each exchange on which registered
Common units, $0 par	New York Stock Exchange

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

Common Units, no par value

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Non-accelerated filer	☑
Accelerated filer	o	Smaller reporting company	o

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

The aggregate market value of our common units held by non-affiliates of registrant as of June 29, 2012 was approximately $244.3 million.

On March 15, 2013, there were 30,254,539 common units outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

STEEL PARTNERS HOLDINGS L.P.

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As used in this Form 10-K, unless the context otherwise requires the terms “we,” “us,” “our,” “SPH” and the “Company” refer to Steel Partners Holdings L.P., a Delaware limited partnership.

PART I

FORWARD-LOOKING STATEMENTS

This report includes “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”), including, in particular, forward-looking statements under the headings “Item 7- Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8 - Financial Statements and Supplementary Data.” These statements appear in a number of places in this report and include statements regarding the Company’s intent, belief or current expectations with respect to (i) its financing plans, (ii) trends affecting its financial condition or results of operations, and (iii) the impact of competition. The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” and similar expressions are intended to identify such forward-looking statements; however, this report also contains other forward-looking statements in addition to historical information.

Item 1. Business

All monetary amounts used in this discussion are in thousands unless otherwise indicated.

Who We Are

Steel Partners Holdings L.P. is a global diversified holding company that engages in multiple businesses through consolidated subsidiaries, associated companies and other interests. We own and operate businesses and have significant interests in leading companies in various industries, including diversified industrial products, energy, defense, banking, insurance, food products and services, and sports-related industries.

Each of our companies has its own management team with significant experience and proven success in their industries. Our subsidiary, SP Corporate Services LLC (“SP Corporate”), provides certain executive and corporate management services to us and some of our companies. We seek to work with our companies to increase corporate value over the long term for our unitholders and all stakeholders by implementing our unique strategy discussed in more detail below.

As of December 31, 2012, our total equity attributable to our common unitholders is $527,344. Our capital structure enables us to manage our businesses with a long-term time horizon.

Our History

SPH is a limited partnership formed in the State of Delaware on December 16, 2008. SPH is the successor through a merger on December 31, 2008 with WebFinancial Corporation (formerly Rose's Holdings, Inc.), a Delaware corporation that was incorporated in 1997 to act as a holding company for Rose's Stores, Inc., an operator of general merchandise discount stores founded in 1927. WebFinancial Corporation (“Webfinancial”) completed the sale of its store operations in 1997 and acquired WebBank in 1998.

Effective as of July 15, 2009, we completed an exchange transaction in which we acquired the limited partnership interest of Steel Partners II, L.P. (“SPII”) pursuant to which we acquired net assets of $454,300 that were held by SPII, consisting of holdings in a variety of companies, in exchange for our common units which were distributed to certain former indirect investors in SPII (the “Exchange Transaction”). As a result, we became a global diversified holding company, with partners' capital of $367,100 as of July 15, 2009, which has increased to $527,344 as of December 31, 2012. Since July 15, 2009, we have concentrated our holdings into a select number of businesses.

In connection with the Exchange Transaction, we agreed to distribute to the holders of our common units a total of up to $87,500 (the “Target Distribution”), subject to certain limitations, during the period from July 16, 2009 to April 30, 2011, or the “Final Distribution Date.” On April 1, 2010, we distributed to our unitholders of record as of March 26, 2010 approximately $54,400 or $1.95 per common unit. On April 6, 2011, we distributed to our unitholders of record as of March 25, 2011 approximately $33,100, or $1.18 per common unit, representing the final required distribution in full satisfaction of the Target Distribution. We may, at our option, make further distributions to the unitholders although we currently have no plan to make any distributions in excess of the Target Distribution.

Our Structure

SPH is managed by SP General Services LLC (the "Manager"), pursuant to the terms of an amended and restated management agreement (the "Management Agreement") discussed in further detail in the section entitled "Executive Compensation - The Management Agreement." From its founding in 1990, the Manager and its affiliates have created significant increases in value for investors in the entities it has managed, including SPH and SPII.

Our wholly-owned subsidiary, Steel Partners Holdings GP Inc., formerly known as Web LLC and Steel Partners Holdings GP LLC, or the "General Partner", is our general partner. The General Partner converted from a limited liability company to a corporation on September 21, 2010. The General Partner has a board of directors (the "Board of Directors"). The Board of Directors is currently comprised of seven members, five of whom are elected annually by our unitholders and two of whom are appointed by the Manager. Warren G. Lichtenstein, the Chairman and Chief Executive Officer of our Manager, serves as the Chairman of the Board of Directors.

Our Strategy

We continuously evaluate the retention and disposition of existing operations and investigate possible acquisitions of new businesses, often focusing on businesses that are selling substantially below intrinsic value. We consider possible synergies and economies of scale in operating and/or making determinations to acquire or dispose of companies. We seek additional means to reduce costs and to encourage integration of operations and the building of business relationships among our companies consistent with our desire that our unitholders benefit from the diversified holding company structure.

We strive to enhance the business operations of our companies and increase long-term value for unitholders and stakeholders through balance sheet improvements, strategic allocation of capital and operational and growth initiatives. Our operational initiatives include creating efficiencies through consolidated purchasing and materials sourcing provided by the *Steel Partners Purchasing Council,* which arranges shared purchasing programs and is reducing costs for, and providing other benefits to, a number of our companies. We are reducing our companies' operational costs, and enhancing growth and profitability, through the implementation of *Steel Partners Operational Excellence Programs,* which include the deployment of Lean Manufacturing, Design for Six Sigma, Six Sigma and Strategy Deployment. We are focused on reducing corporate overhead of our companies by centralizing certain administrative and corporate services through *Steel Partners Corporate Services* that provides management, consulting and advisory services.

Generally, we seek to actively acquire and maintain control over our companies through our ability to influence their policies. Depending on the size of our ownership interests in any given company, this may be achieved by obtaining board representation and overseeing and providing assistance to the existing management team. We generally view our companies as long-term holdings and we expect to realize value by operating them with a view towards fostering growth and maximizing their value rather than through the sale of ownership interests. The securities of some of the companies in which we have interests are traded on national securities exchanges, while others are privately held or not actively traded.

Our Business Segments

The following table presents the composition of our segments, which include the operations of our consolidated subsidiaries, as well as income or loss from equity method investments and other investments. Our segments are categorized as follows:

Diversified Industrial	Energy	Financial Services	Corporate
Handy & Harman Ltd. ("HNH") (1)	Steel Excel Inc. ("Steel Excel")(1)	WebBank (1)	SPH Services, Inc. ("SPH Services") (1)
SL Industries, Inc. ("SLI") (2)	BNS Holding, Inc. ("BNS") (1), (3)		DGT Holdings Corp. ("DGT") (1)
			BNS Holdings Liquidating Trust ("BNS Liquidating Trust") (1), (3)
			CoSine Communications, Inc. ("CoSine")(2)
			Fox & Hound Acquisition Corp. ("Fox & Hound") (2)
			SPII Liquidating Trust (2)
			Other Investments (4)

(1) Consolidated subsidiary
(2) Equity method investment

(3) The operations of BNS are included in the Energy segment through June 30, 2012. The results of the BNS Liquidating Trust are included in the Corporate and Other segment from July 1, 2012 through December 31, 2012

(4) Other investments classified in Corporate and Other include various investments in available-for-sale securities in the Computer Software and Services, Aerospace/Defense, Manufacturing and Restaurant industries. Included in these investments are two of the Company's available-for-sale investments, API Group PLC ("API") and JPS Industries, Inc. ("JPS"). Effective December 31, 2011, these investments were reclassified from equity method investments to available-for-sale securities, and accordingly are included in the Corporate and Other segment in 2012.

Our Businesses - Consolidated Subsidiaries

Handy & Harman Ltd.

Our Ownership Interest

We have an ownership interest of approximately 54.3% as of December 31, 2012 in Handy & Harman Ltd. (NASDAQ (CM): HNH), formerly known as WHX Corporation, a Delaware corporation (“HNH”). On May 7, 2010, our ownership interest in HNH exceeded 50%, and as a result, HNH became a controlled subsidiary of SPH and is consolidated from that date. At December 31, 2012, we hold $21,552 principal amount of 10% subordinated secured notes issued by a subsidiary of HNH that mature on October 15, 2017 (the “Subordinated Notes”), which are eliminated in consolidation, and warrants (the “Warrants”) to purchase 406,324 shares of HNH common stock. The Subordinated Notes bear interest at a rate of 10% per annum, 6% of which is payable in cash and 4% of which is payable in-kind. The Warrants have an exercise price of $11.00 per share and are exercisable beginning October 14, 2013.

Four of our representatives serve on HNH's eight-member board of directors, one of whom serves as Chairman. Our representatives also serve as the Vice Chairman (Principal Executive Officer), Chief Financial Officer (Principal Accounting Officer), Chief Legal Officer and as Vice Presidents of HNH.

Description of Business

HNH is a diversified manufacturer of engineered niche industrial products with leading market positions in many of the markets it serves. Through its operating subsidiaries, HNH focuses on high margin products and innovative technology and serves customers across a wide range of end markets. HNH sells its products and services through direct sales
forces, distributors and manufacturer's representatives. It serves a diverse customer base, including the construction, electronics, telecommunications, home appliance, transportation, utility, medical, semiconductor, aerospace and aviation markets. Other
markets served include blade products and repair services for the food industry. HNH owns Handy & Harman Group Ltd. ("H&H Group"), which owns Handy & Harman ("H&H") and Bairnco Corporation ("Bairnco"). HNH manages its group of businesses on a decentralized basis with operations principally in North America. For the years ended December 31, 2012 and 2011, HNH generated net sales of $629,396 and $634,964, respectively.

HNH Products and Product Mix

Joining Materials

HNH's Joining Materials business primarily fabricates precious metals and their alloys into brazing alloys. Brazing alloys are used to join similar and dissimilar metals, as well as specialty metals and some ceramics, with strong, hermetic joints. Joining Materials segment offers these metal joining products in a wide variety of alloys, including gold, silver, palladium, copper, nickel, aluminum and tin. These brazing alloys are fabricated into a variety of engineered forms and are used in many industries including electrical, appliance, transportation, construction and general industrial, where dissimilar material and metal joining applications are required. Operating income from precious metal products is principally derived from the "value added" of processing and fabricating and not from the purchase and resale of precious metal. Joining Materials segment has limited exposure to the prices of precious metals due to the Company's hedging and pricing models. HNH believes that the business unit that comprises its Joining Materials business is the North American market leader in many of the markets that it serves. The Joining Materials business was formerly known as the Precious Metal business.

Tubing

HNH's tubing business manufactures a wide variety of steel tubing products. HNH believes that its Stainless Steel Tubing Group manufactures the world's longest continuous seamless stainless steel tubing coils, in excess of 5,000 feet, serving the petrochemical infrastructure and shipbuilding markets. HNH also believes it is the number one supplier of small diameter (<3mm) coil tubing to industry leading specifications serving the aerospace, defense and semiconductor fabrication markets. HNH's Specialty Tubing unit manufactures welded carbon steel tubing in coiled and straight lengths with a primary focus on products for the consumer and commercial refrigeration, automotive, heating, ventilation and cooling (HVAC), industrial heat exchanger, and oil and gas industries. In addition to producing bulk tubing, it produces value added fabrications for several of these industries.

Engineered Materials

HNH's Engineered Materials segment manufactures and supplies products primarily to the commercial construction and building industries. It manufactures fasteners and fastening systems for the U.S. commercial low slope roofing industry, which are sold to building and roofing material wholesalers, roofing contractors and private label roofing system manufacturers; a line of engineered specialty fasteners for the building products industry for fastening applications in the remodeling and construction of homes, decking and landscaping; and electro-galvanized and painted cold rolled sheet steel products primarily for the construction, entry door, container and appliance industries. HNH believes that its primary business unit in Engineered Materials is the market leader in fasteners and accessories for commercial low-slope roofing applications and that the majority of the net sales for the segment are for the commercial construction repair and replacement market. In January 2013, HNH divested substantially all of the assets and existing operations of our Continental Industries business unit, which manufactured plastic and steel fittings and connectors for natural gas, propane and water distribution service lines along with exothermic welding products for electrical grounding, cathodic protection and lightning protection.

Arlon Electronic Materials

HNH's Arlon Electronic Materials business provides high performance materials for the printed circuit board ("PCB") industry and silicone rubber-based insulation materials used in a broad range of industrial, military/aerospace, consumer and commercial markets. It also supplies high technology circuit substrate laminate materials to the PCB industry. Products are marketed principally to original equipment manufacturers (OEMs), distributors and PCB manufacturers globally. Arlon also manufactures a line of market leading silicone rubber materials used in a broad range of military, consumer, industrial and commercial products.

Kasco Blades and Route Repair Services

HNH's Kasco Blades and Route Repair Services provides meat-room blade products, repair services and resale products for the meat and deli departments of supermarkets, restaurants, meat and fish processing plants and for distributors of electrical saws and cutting equipment, principally in North America and Europe. Kasco also provides wood cutting blade products for the pallet manufacturing, pallet recycler and portable saw mill industries in North America.

Business Strategy

HNH's business strategy is to enhance the growth and profitability of the business units of HNH and to build upon their strengths through internal growth and strategic acquisitions. We expect HNH to continue to focus on high margin products and innovative technology. HNH also will continue to evaluate, from time to time, the sale of certain businesses and assets, as well as strategic and opportunistic acquisitions.

HNH uses a set of tools and processes called the HNH Business System to drive operational and sales efficiencies across each of its business units. The HNH Business System is designed to drive strategy deployment and sales and marketing based on lean principles. HNH pursues a number of ongoing strategic initiatives intended to improve its performance, including objectives relating to manufacturing improvement, idea generation, product development and global sourcing of materials and services. HNH utilizes lean tools and philosophies in operations and commercialization activities to increase sales, improve business processes, and reduce and eliminate waste, coupled with the tools targeted at variation reduction.

Customers

HNH is diversified across industrial markets and customers. HNH sells to customers in the construction, electronics, telecommunications, home appliance OEM, transportation, utility, medical, semiconductor, aerospace, military electronics, medical, automotive, railroad, and the food industry.

No customer accounted for more than 5% of consolidated sales in 2012, 2011 or 2010. However, HNH's 15 largest customers accounted for approximately 28% and 27% of consolidated HNH net sales in 2012 and 2011, respectively.

Foreign Revenue

The following table presents HNH revenue for the periods indicated; however, HNH revenue is only included in SPH's consolidation since May 7, 2010:

	Revenue		
	Year Ended December 31,		
	2012	2011	2010
U.S.	$ 562,338	$ 560,783	$ 487,251
Foreign (a)	67,058	74,181	53,220
	$ 629,396	$ 634,964	$ 540,471

(a) Foreign revenue is based on the country in which the legal subsidiary is domiciled.

Raw Materials

Besides precious metals, the raw materials used in the operations of the Joining Materials, Tubing, Engineered Materials and Kasco operations consist principally of stainless, galvanized and carbon steel, nickel alloys, a variety of high-performance alloys and various plastic compositions. HNH purchases all such raw materials at open market prices from domestic and foreign suppliers. HNH has not experienced any significant problem in obtaining the necessary quantities of raw materials. Prices and availability, particularly of raw materials purchased from foreign suppliers, are affected by world market conditions and government policies. The raw materials used by HNH in its non-precious metal products are generally readily available from more than one source.

The essential raw materials used in the Arlon segment are silicone rubber, fiberglass cloths, non-woven glass mats, pigments, copper foils, various plastic films, special release liners, various solvents, Teflon™ or PTFE dispersion, skive PTFE film, polyimide resin, epoxy resins, other thermoset resins, ceramic fillers, as well as various chemicals. Generally, these materials are each available from several qualified suppliers. There are, however, several raw materials used in products that are purchased from chemical companies that are proprietary in nature. Other raw materials are purchased from a single approved vendor on a "sole source" basis, although alternative sources could be developed in the future if necessary. However, the qualification procedure for new suppliers can take several months or longer and could therefore interrupt production if the primary raw material source became unexpectedly unavailable. Current suppliers are located in the United States, Asia and Europe.

Capital Investments

HNH believes that in order to be and remain competitive, its businesses must continuously strive to improve productivity and product quality, and control and/or reduce manufacturing costs. Accordingly, HNH expects to continue to incur capital investments that reduce overall manufacturing costs, improve the quality of products produced and broaden the array of products offered to the industries HNH serves, as well as replace equipment as necessary to maintain compliance with environmental, health and safety laws and regulations. HNH's capital expenditures for 2012, 2011 or 2010 for continuing operations were $20,900, $12,700 and $10,400, respectively. HNH anticipates funding its capital expenditures in 2013 from funds generated by operations and borrowed funds. HNH anticipates its capital expenditures to be in the range between $13,000 and $26,000 per year for the next several years.

HNH requires significant amounts of electricity and natural gas to operate its facilities and is subject to price changes in these commodities. A shortage of electricity or natural gas, or a government allocation of supplies resulting in a general reduction in supplies, could increase costs of production and could cause some curtailment of production.

Employees

As of December 31, 2012, HNH employed 1,648 employees worldwide. Of these employees, 355 were sales employees, 479 were office employees, 160 were covered by collective bargaining agreements, and 654 were non-union operating employees.

Competition

There are many companies, both domestic and foreign, which manufacture products of the type HNH manufactures. Some of these competitors are larger than HNH and have financial resources greater than it does. Some of these competitors enjoy certain other competitive advantages, including greater name recognition, greater financial, technical, marketing and other resources, a larger installed base of customers and well-established relationships with current and potential customers. Competition is based on quality, technology, service and price, and in some industries, new product introduction, each of which is of equal importance. HNH may not be able to compete successfully, and competition may have a negative impact on its business, operating results or financial condition by reducing volume of products sold and/or selling prices, and accordingly reducing revenues and profits.

Sales Channels

HNH distributes products to customers through its sales personnel, outside sales representatives and distributors in North and South America, Europe, Australia, the Far East and several other international markets.

Patents and Trademarks

HNH owns patents and registered trademarks under which certain of its products are sold. In addition, HNH owns a number of U.S. and foreign mechanical patents related to certain of its products, as well as a number of design patents. HNH does not believe that the loss of any or all of these trademarks would have a material adverse effect on its businesses. HNH's patents have remaining durations ranging from less-than-one year to 17 years, with expiration dates occurring in 2013 through 2030.

Environmental Regulation

HNH is subject to laws and regulations relating to the protection of the environment. HNH does not presently anticipate that compliance with currently applicable environmental regulations and controls will significantly change its competitive position, capital spending or earnings during 2013. HNH believes it is in compliance with all orders and decrees it has consented to with environmental regulatory agencies. Please see "Item 1A - Risk Factors," "Item 3 - Legal Proceedings" and Note 21 - "Commitments and Contingencies" to the SPH consolidated financial statements included in "Item 8 - Financial Statements and Supplementary Data."

Steel Excel Inc.

Our Ownership Interest

We have an ownership interest of approximately 51.2% as of December 31, 2012 in Steel Excel, a Delaware corporation formerly known as ADPT Corporation (OTC: SXCL.PK). Three of our representatives serve on Steel Excel's six-

member board of directors, one of whom serves as Chairman and another of whom serves as the Chief Executive Officer. One of our representatives also serves as Chief Financial Officer.

Description of Business

Steel Excel is primarily focused on capital redeployment and identification of new business operations in which they can utilize their existing working capital and maximize the use of their net tax operating losses (“NOLs”) in the future. The identification of new business operations includes, but is not limited to, the oilfield services, sports, training, education, entertainment, and lifestyle businesses. During Steel Excel's fiscal year ended December 31, 2012, they acquired two oilfield services businesses (Eagle Well Services and Sun Well Service, Inc.) and two sports-related businesses (Cross Fit South Bay and Cross Fit Torrance). On May 31, 2012, our ownership percentage exceeded 50%, and Steel Excel became a majority-owned subsidiary and is consolidated from that date forward (see Note 3 - "Acquisitions" to the SPH financial statements located elsewhere in this Form 10-K). In addition, Steel Excel owns several sports businesses. The results of Steel Excel are included in the Energy segment for the year ended December 31, 2012.

Sales

Steel Excel's sales and marketing activities are performed through its local operations in each geographic region within the United States. Steel Excel believes its local personnel can more effectively target marketing activities because they have an excellent understanding of region-specific issues and customer operations. Steel Excel's energy business customer base is concentrated and the loss of a significant customer could cause its revenue to decline substantially. Steel Excel has two customers, that make up 10% or more of its net revenues, and its top 15 customers made up 89% of net revenues during the seven month period owned by SPH in 2012.

Government Regulation

Steel Excel's operations are subject to multiple federal, state and local laws and regulations pertaining to worker safety, the handling of hazardous materials, transportation standards and the environment. Steel Excel cannot predict the level of enforcement or the interpretation of existing laws and regulations by enforcement agencies in the future, or the substance of future court rulings or permitting requirements. In addition, Steel Excel cannot predict what additional laws and regulations may be put in place in the future, or the effect of those laws and regulations on our business and financial condition. Steel Excel believes we are in substantial compliance with applicable environmental laws and regulations. While Steel Excel does not believe that the cost of compliance is material to our business or financial condition, it is possible that substantial costs for compliance or penalties for non-compliance may be incurred in the future.

Among other environmental laws, Steel Excel is subject to the Clean Water Act that establishes the basic structure for regulating discharges of pollutants into the waters of the United States and quality standards for surface waters. Steel Excel's operations could require permits for discharges of wastewater and/or stormwater. In addition, the Oil Pollution Act of 1990 imposes a multitude of requirements on responsible parties related to the prevention of oil spills and liability for damages resulting from such spills in the waters of the United States. These and similar state laws provide for administrative, civil and criminal penalties for unauthorized discharges and impose stringent requirements for spill prevention and response planning, as well as considerable potential liability for the costs of removal and damages in connection with unauthorized discharges.

The Comprehensive Environmental Response, Compensation and Liability Act, as amended, and comparable state laws (“CERCLA” or “Superfund”) impose liability without regard to fault or the legality of the original conduct on certain defined parties, including current and prior owners or operators of a site where a release of hazardous substances occurred and entities that disposed or arranged for the disposition of the hazardous substances found at the site. Under CERCLA, these parties may be subject to joint and several liability for the costs of cleaning up the hazardous substances that were released into the environment and for damages to natural resources. Further, claims may be filed for personal injury and property damages allegedly caused by the release of hazardous substances and other pollutants. Steel Excel may encounter materials that are considered hazardous substances in the course of our operations. As a result, Steel Excel may incur CERCLA liability for cleanup costs and be subject to related third-party claims. Steel Excel also may be subject to the requirements of the Resource Conservation and Recovery Act, as amended, and comparable state statutes (“RCRA”) related to solid wastes. Under CERCLA or RCRA, Steel Excel could be required to clean up contaminated property (including contaminated groundwater) or to perform remedial activities to prevent future contamination.

Steel Excel's operations are also subject to the Clean Air Act, as amended, and similar state laws and regulations that restrict the emission of air pollutants and impose various monitoring and reporting requirements. These laws and regulations may

require it to obtain approvals or permits for construction, modification or operation of certain projects or facilities and may require use of emission controls. Various scientific studies suggest that emissions of greenhouse gases, including, among others, carbon dioxide and methane, contribute to global warming (climate change). While it is not possible to predict how legislation or new regulations that may be adopted to address greenhouse gas emissions would impact Steel Excel's business, any new restrictions on emissions that are imposed could result in increased compliance costs for, or additional operating restrictions on, Steel Excel's customers and hence, affect its business.

Steel Excel is also subject to the federal Occupational Safety and Health Act, as amended, ("OSHA") and comparable state laws that regulate the protection of employee health and safety. OSHA's hazard communication standard requires that information about hazardous materials used or produced in Steel Excel's operations be maintained and provided to employees and state and local government authorities. Steel Excel believes they are in substantial compliance with the OSHA and comparable state law requirements, including general industry standards, recordkeeping requirements and monitoring of occupational exposure to regulated substances.

Competition

Steel Excel operates in a highly competitive industry that is influenced by price, capacity, reputation and experience. Because oil and natural gas prices and drilling activities are at high levels and service companies are seeing increased demand for their services and attractive returns on investment, oilfield services companies are ordering new equipment to expand their capacity. To be successful, Steel Excel must provide services that meet the specific needs of oil and gas exploration and production companies at competitive prices. In addition, a safe and well-trained work force provides a competitive advantage. Steel Excel strives to provide high-quality services and value to our customers by combining our state of the art equipment with highly-skilled and experienced personnel.

Steel Excel's services are affected by seasonal factors, such as inclement weather, fewer daylight hours, and holidays during the winter months. Heavy snow, ice, or rain can make it difficult to move equipment between work sites, which can reduce Steel Excel's ability to provide services and generate revenues. These seasonal factors affect Steel Excel's competitors as well. Demand for services in Steel Excel's industry as a whole fluctuates with the supply and demand for oil and natural gas. The oil and natural gas producers attempt to take advantage of a higher-priced environment when demand exceeds supply, which leads to the need for Steel Excel's services. Conversely, as supply equals or exceeds demand, the oil and natural gas producers become more risk-intolerant and will cut back on their well servicing needs.

Employees

As of December 31, 2012, Steel Excel had 360 employees that were all located in the United States, including nine part-time employees. Steel Excel considers its employee relations to be good and they are not party to any collective bargaining agreements.

WebBank

Our Ownership Interest

SPH's wholly owned subsidiary, WebFinancial Holding Corporation, conducts financial operations through its wholly-owned subsidiary, WebBank ("WebBank"). One of our representatives serves as the Chairman of the board of directors of WebBank.

Description of Business

WebBank is a Utah chartered industrial bank subject to the regulation, examination, and supervision of the Federal Deposit Insurance Corporation ("FDIC") and the State of Utah Department of Financial Institutions ("UDFI"). WebBank is not considered a "bank" for Bank Holding Company Act purposes and, as such, SPH is not regulated as a bank holding company. WebBank, whose deposits are insured by the FDIC, generates commercial, real estate, government guaranteed and consumer loans.

WebBank continues to evaluate its different business lines and consider various alternatives to maximize the aggregate value of its businesses and increase value, including seeking acquisitions and/or merger transactions, as well as product line extensions, additions and/or divestitures.

Sales

WebBank generates revenue through a combination of interest income and non-interest income. Interest income is primarily derived from interest and origination fees earned on loans, factored receivables and investments. Non-interest income is primarily derived from strategic partner fee income and loan servicing fees. For the years ended December 31, 2012, 2011 and 2010, two contractual lending programs accounted for 56%, 58% and 54%, respectively, of WebBank's total revenue.

Government Regulation

WebBank is subject to various regulatory capital requirements administered by the FDIC. Failure to meet minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a direct material adverse effect on WebBank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, WebBank must meet specific capital guidelines that involve quantitative measures of WebBank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. WebBank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Currently, WebBank meets or exceeds all of its capital requirements.

Competition

WebBank competes with a broad range of local and regional banks and finance companies across its various lines of business.

Employees

As of December 31, 2012, WebBank had 33 employees.

BNS Liquidating Trust

Our Ownership Interest

We have an ownership interest of approximately 84.9% as of December 31, 2012 in BNS Liquidating Trust (previously BNS Holding, Inc.). In June 2012, BNS, in accordance with its shareholder approval plan, distributed its assets and commenced its liquidation. See "Description of Business" section below for additional details.

Description of Business

BNS is a holding company with no operations as of June 1, 2012 due to the sale of Sun Well to Steel Excel on May 31, 2012 (see Note 3 - "Acquisitions" to the SPH consolidated financial statements found elsewhere in this Form 10-K). BNS' results include the operations of Sun Well (acquired on February 2, 2011) through the date of sale to Steel Excel. On June 18, 2012, BNS completed a distribution to its shareholders, pursuant to shareholder approval, and distributed cash of approximately $10,300 to its minority shareholders and 2,027,500 shares of Steel Excel common stock to its majority shareholder. In June 2012, BNS formed a liquidating trust, the BNS Liquidating Trust, assigned its assets and liabilities to the Trust and initiated its dissolution. The Trust is owned by the BNS former shareholders in the same proportion as their former shareholdings.

Prior to the acquisition of Sun Well on February 2, 2011, BNS operated primarily through its 80% ownership of Collins Industries, Inc. (“Collins”), a North American manufacturer of small school, activity and shuttle buses, ambulances, and terminal trucks/road construction equipment, until its disposition of Collins in February 2010.

Employees

The BNS had no employees as of December 31, 2012.

DGT Holdings Corp.

Our Ownership Interest

We have an ownership interest of approximately 59.2% as of December 31, 2012 in DGT Holdings Corp. (OTC: DGTC.OB), a New York corporation (“DGT”). On July 5, 2011, our ownership interest in DGT exceeded 50%, and as a result, DGT became a controlled subsidiary of SPH and is consolidated from that date. Two of our representatives serve on DGT's five-member board of directors, one of which serves as DGT's President, Chief Executive Officer and Chief Financial Officer.

Description of Business

As a result of the following transactions, DGT is currently a holding company whose primary assets are the two buildings mentioned below. In addition to management of these buildings, DGT's business is expected to consist primarily of capital redeployment and identification of new profitable operations where it can utilize its existing working capital and maximize the use of their net operating losses.

After obtaining the required two-thirds vote approval by its shareholders on August 16, 2012, DGT completed the sale of its Power Conversion business operated by RFI Corporation ("RFI") to EMS Development Corporation (“EMS”), a New York corporation and an affiliate of Ultra Electronics Defense, Inc. (“UEDI”). DGT retained the RFI facility and entered into a lease with EMS. The lease has a term of 5 years, with payments of $33,000 per month net to RFI, terminable by EMS, as the tenant, upon 30 days prior written notice. As a result, the operations of RFI are reflected as discontinued operations in our consolidated financial statements for the year ended December 31, 2012 and the period from July 5, 2011 to December 31, 2011.

In November 2011, DGT sold its subsidiary, Villa Sistemi Medicali S.p.A. (“Villa”), which comprised its Medical Systems Group division. As a result, the operations of Villa are reflected as discontinued operations in our consolidated financial statements for the period from July 5, 2011 to December 31, 2012. DGT retained the building in Milan, Italy, housing Villa’s operations, which is subject to an initial six-year lease with VIV and an option for a subsequent six-year period. Under the terms of the lease, the Company will receive €335 in annual rent, payable quarterly.

For additional information, see Note 4 - "Discontinued Operations" to the SPH financial statements found elsewhere in this Form 10-K.

Employees

As of December 31, 2012, DGT had no employees.

SPH Services, Inc.

Our Ownership Interest

SPH Services, Inc. (“SPH Services”) is our wholly-owned subsidiary. Three of our representatives serve as members, including as the Chairman, of the board of directors of SPH Services. These representatives also serve as SPH Services' Chief Executive Officer, President, Secretary, Chief Financial Officer and Treasurer.

Description of Business

SPH Services is a subsidiary of SPH, which commenced operations on January 1, 2012. It was created to consolidate the executive and corporate functions of SPH and certain of our affiliates, including SP Corporate and Steel Partners LLC, to provide legal, tax, accounting, treasury, consulting, auditing, administration, compliance, environmental health and safety, human resources, marketing, investor relations and similar services, to other affiliated companies. In connection with the formation of SPH Services, we acquired SP Corporate and Steel Partners LLC, our former manager, as well as certain assets from HNH.

SP Corporate has management services agreements with HNH, BNS, CoSine (as defined below), DGT, Steel Excel and WebBank, (as defined below) and other related companies. Services provided to SPH and its consolidated subsidiaries for the twelve months ended December 31, 2012 are eliminated in consolidation. For additional information on these service

agreements see Note 13 - "Related Party Transactions" to the SPH consolidated financial statements found elsewhere in this Form 10-K.

By consolidating corporate overhead and back office functions, SPH believes it will achieve cost savings over time for its affiliated companies while delivering more efficient and effective services. As a result of the synergies associated with SP Corporate's specialization and capabilities across a broad range of corporate and executive functions that are provided to SPH and other companies, SP Corporate believes that it will be able to create high value business partnerships by delivering higher quality services and more efficient professional transaction processing which will result in significant cost savings that can be achieved through standardization, clear processes and procedures, the elimination of non-value adding activities and economies of scale.

Employees

As of December 31, 2012, SPH Services had 61 employees.

Our Business - Equity Method Investments

Associated Companies

Associated companies are investments in operating companies in which we own between 20% and 50% of the outstanding equity and have the ability to exercise significant influence, but not control, over the investee. As such, the investments in these operating companies are accounted for under the equity method of accounting (see Note 2 - "Summary of Significant Accounting Policies" - to the SPH financial statements found elsewhere in this Form 10-K). The investments in associated companies are classified as Long-term investments in the Consolidated Balance Sheets (see Note 5 - "Investments" to the SPH financial statements found elsewhere in this Form 10-K).

Additional information related to the investments that are classified as associated companies as of December 31, 2012 is as follows:

SL Industries, Inc.

We have an ownership interest of approximately 24.1% as of December 31, 2012 in SL Industries, Inc. (AMEX:SLI), a New Jersey corporation ("SLI"). Two of our representatives serve on SLI's six-member board of directors, one of whom serves as Chairman. SLI designs, manufactures and markets power electronics, motion control, power protection, power quality electromagnetic and specialized communication equipment. SLI's products are used in a variety of medical, commercial and military aerospace, computer, datacom, industrial, telecom, transportation, utility, rail and highway equipment applications.

CoSine Communications, Inc.

We have an ownership interest of approximately 46.8% as of December 31, 2012 in CoSine Communications, Inc. (OTC: COSN.PK), a Delaware corporation ("CoSine"). Two of our representatives serve on CoSine's four-member board of directors, one of whom serves as the Chief Executive Officer and Chief Financial Officer. CoSine is currently in the business of seeking to acquire one or more business operations.

Fox & Hound Restaurant Group

We have an indirect ownership interest of approximately 50.0% as of December 31, 2012 in Fox & Hound Restaurant Group, a Delaware corporation ("Fox & Hound"). Two of our representatives serve on Fox & Hound's four-member board of directors. Fox & Hound is a privately held owner and operator of a chain of approximately 130 company-owned and 14 franchised social destination casual dining and entertainment-based restaurants in 32 states. On March 19, 2012, the Company invested $10,923 to acquire an indirect interest in Fox & Hound as part of a recapitalization, which involved the issuance by Fox & Hound of new common equity in conjunction with a long-term refinancing of Fox & Hound's debt. The Company elected to record its investment in Fox & Hound on the equity method at fair value in order to more appropriately reflect the value of Fox & Hound in its financial statements.

SP II Liquidating Trust

The Company's investment in each series of the SPII Liquidating Trust is accounted for at fair value under the equity method (see Note 2 - "Summary of Significant Accounting Policies" and Note 13 - “Related Party Transactions” to the SPH financial statements found elsewhere in this Form 10-K). The purpose of the SPII Liquidating Trust is to effect the orderly liquidation of certain assets previously held by SPII. SPH's financial position, financial performance and cash flows will be affected by the extent to which the operations of the SPII Liquidating Trust results in realized or unrealized gains (losses) and by distributions it makes in each reporting period. The investments in associated companies are classified as Long-term investments in the Consolidated Balance Sheets and the gains (losses) are recorded in Income (Loss) from other investments - related party in the Consolidated Statements of Operations (see Note 5 - "Investments" to the SPH financial statements found elsewhere in this Form 10-K).

Our Business - Other Investments

We also hold **v**arious investments in available for sale securities in the Computer Software and Services, Aerospace/Defense, Manufacturing and Restaurant industries (see Note 5 - "Investments" to the SPH financial statements found elsewhere in this Form 10-K). Included in those investments are our investments in API and JPS, which were reclassified to available for sale securities effective December 31, 2011.

Our Common Units

Our common units are quoted on the New York Stock Exchange (NYSE) under the symbol "SPLP".

Other Information

Our business address is 590 Madison Avenue, 32nd Floor, New York, New York 10022, and our telephone number is (212) 520-2300. Our website is www.steelpartners.com. The information contained in, or that can be accessed through, the website is not part of this Form 10-K. This Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, are available to you free of charge through our website as soon as reasonably practicable after those materials have been electronically filed with, or furnished to, the SEC.

Item 1A. Risk Factors

Item 1A. Risk Factors

Our business is subject to a number of risks. You should carefully consider the following risk factors, together with all of the other information included or incorporated by reference in this report, before you decide whether to purchase our common units. These factors are not intended to represent a complete list of the general or specific risks that may affect us. It should be recognized that other risks may be significant, presently or in the future, and the risks set forth below may affect us to a greater extent than indicated. If any of the following risks occur, our business, financial condition and results of operations could be materially adversely affected. In such case, the trading price of our common units could decline, and you may lose all or part of your investment.

Risks Related to Our Structure

For annual periods from January 1, 2009 to July 15, 2009 and for the year ended December 31, 2008 presented in Item 6. Selected Financial Data, our consolidated financial statements will not include meaningful comparisons to prior years.

The Exchange Transaction, pursuant to which SPII became a wholly-owned subsidiary of SPH on July 15, 2009, is accounted for as a transaction between entities under common control and as such SPII's accounts are consolidated with SPH for all periods presented. SPH's operations prior to July 16, 2009 and operations related to the assets acquired as a result of the acquisition of SPII as of July 15, 2009 are presented in the consolidated financial statements as “Diversified Industrial, Financial Services and Other”. The Company accounts for the consolidation of SPII in the consolidated financial statements as “Investment Operations” for all periods presented through July 15, 2009. Due to differences between the operating company accounting policies of Diversified Industrial, Financial Services and Other operations and the accounting policies of Investment

Operations, our consolidated financial statements will not include meaningful comparisons to 2009 and 2008 presented in *Item 6. Selected Financial Data.*

Being classified as an "investment company" would subject us to numerous restrictions and requirements that would be inconsistent with the manner in which we operate our business, and could have a material adverse effect on our business and operations.

We plan to continue to conduct our business and operations in such a manner as not to be deemed an investment company under the Investment Company Act of 1940, as amended (the "Investment Company Act"). An entity will generally be deemed to be an "investment company" for purposes of the Investment Company Act if: (a) it is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities; or (b) absent an applicable exemption, it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis (the "40% Test"). Since we operate as a diversified holding company engaged in a variety of operating businesses through our subsidiaries and controlled companies, we do not believe that we are primarily engaged in an investment company type business, nor do we propose to primarily engage in such a business. Our intent to operate in this manner may have a material adverse effect on us, as it may limit our ability to make certain investments or take certain actions or compel us to divest certain holdings or to take or forego certain actions that could otherwise be beneficial to us.

If we were deemed to be an investment company under the Investment Company Act, we could suffer adverse consequences, including a need to further adjust our business strategy and assets, including by divesting certain desirable assets immediately to fall outside of the definition or within an exemption, to register as an investment company or to cease operations.

Investment companies are subject to extensive, restrictive and potentially adverse regulations relating to, among other things, operating methods, management, capital structure, dividends and transactions with affiliates. If we were required to register as an investment company under the Investment Company Act, we would be subject to numerous restrictions and requirements that would be inconsistent with the manner in which we operate our business and which may have a material adverse effect on our operations, financial conditions and prospects, including restrictions on our capital structure and restrictions on our ability to transact business with affiliates, including our operating subsidiaries and controlled companies.

As a result of the Exchange Transaction, on July 14, 2009, we could no longer definitively conclude that we passed the 40% Test or were able to rely on any exception from the definition of an investment company. Since then, we have taken reasonable actions to alter our holdings so that we can comply with the 40% Test or a relevant exception as soon as reasonably practicable. These actions have included liquidating certain of our assets and acquiring additional interests in existing or new subsidiaries or controlled companies. Due to market conditions and other factors beyond our reasonable control, we were unable to complete all actions necessary to comply with the 40% Test or a relevant exception within the one-year grace period permitted under the Investment Company Act. As a result, on July 8, 2010, prior to the conclusion of the grace period, we filed an application with the SEC for an extended temporary exemption from the Investment Company Act. On April 27, 2012, the SEC posted a notice indicating an order granting the application will be issued unless the Commission orders a hearing. On May 23, 2012, the SEC granted the Company's request.

Our revenue, net income and cash flow are highly variable, which may prevent us from achieving steady earnings growth on a quarterly basis and may cause the price of the common units to be volatile.

Our revenue, net income and cash flow are highly variable. We may experience fluctuations in our results from quarter to quarter due to a number of factors, including changes in the values of our various operations, changes in our operating expenses, changes in asset values, changes in the competitive environment, and general economic and market conditions. Such fluctuations may lead to volatility in the trading price of the common units and cause our results for a particular period not to be indicative of our future performance. It may be difficult for us to achieve steady growth in net income and cash flow on a quarterly basis, which could lead to volatility in the price of the common units.

As our revenue, net income and cash flow are highly variable from period to period, we do not expect to provide any guidance. The lack of guidance may affect the expectations of analysts and could cause increased volatility in the price of the common units. Many of our operating companies are small cap and micro cap companies that are thinly traded and may trade at prices that do not reflect their intrinsic value. Such prices may affect the price at which the common units trade. In addition, some of our holdings are private companies for which there is no trading market.

The requirements of being a public entity and sustaining our growth may result in increased costs over prior years.

Effective as of February 13, 2012, we became subject to the reporting requirements of the Exchange Act. Consequently, we are required to file annual, quarterly and current reports with respect to our business and financial condition. In addition, sustained growth may require us to commit additional management, operational and financial resources to identifying new professionals to join us and to maintain adequate operational and financial systems to support expansion. These requirements may divert management's attention. We may incur significant additional annual expenses related to these steps, including additional directors' and officers' liability insurance, Exchange Act reporting costs, transfer agent fees, salaries and expenses for additional accounting, legal and administrative personnel.

Once we are required to comply with all of the requirements of Section 404 of the Sarbanes-Oxley Act, failure to comply with these requirements may have a material adverse effect on our results of operations.

We are required to comply with the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), and have furnished a report by our management on internal control over financial reporting. Beginning with our fiscal year ended December 31, 2013, our report must contain a statement that our auditors have attested to management's assessment of such internal control over financial reporting. We will be required to provide such auditor's attestation on management's assessment of internal controls as part of our 2013 Form 10-K.

If our auditors fail to issue an opinion that our internal controls over financial reporting are effective, this may trigger a negative reaction in the financial markets. We may also be required to incur costs to improve our internal control system and hire additional personnel.

The unitholders have limited recourse to maintain actions against the General Partner, the Board of Directors, our officers and the Manager.

The Limited Partnership Agreement of SPH, or the "Partnership Agreement," contains broad indemnification and exculpation provisions that limit the right of a unitholder to maintain an action against the General Partner, the Board of Directors, our officers and the Manager, or to recover losses or costs incurred by us as a result of their actions or failures to act.

If we are dissolved, unitholders may not realize the value that may otherwise be realized over time.

We may be dissolved at the election of the Board of Directors by a majority of the directors. If we are dissolved, unitholders may not realize the value that may otherwise be realized over time.

Our ability to timely file financial results will require the cooperation of certain of the companies in which we have interests. Our failure to timely file financial statements may have an adverse effect on our business and operations.

We require the financial results of certain of the companies in which we have interests in order to report our own financial results. As such, our ability to timely file financial statements will depend on the cooperation of those companies. There can be no assurance that those companies will produce financial results in a timely manner. Our failure to timely file financial statements may have an adverse effect on our business and operations.

Our Partnership Agreement contains certain limitations on the voting rights of unitholders.

Our Partnership Agreement contains specific provisions that are intended to comply with regulatory limitations on the ownership of our securities as a result of our ownership of WebBank. Under the Partnership Agreement, a person or group that acquires beneficial ownership of 10% or more of the common units without the prior approval of the Board of Directors may lose voting rights with respect to all of its common units in excess of 9.9%. Please see "Material Provisions of Steel Partners Holdings L.P. Partnership Agreement -- Limitations on Voting Rights."

We may have conflicts of interest with the minority shareholders of our businesses and decisions may need to be made by disinterested directors, without the participation of directors or officers associated with the Manager and SPH Services, which may be different from the decisions we would make. Companies in which we have interests but we do not control may make decisions that do not serve our interests and those of our unitholders.

The boards of directors and officers of our respective businesses, including directors and officers associated with our Manager and SPH Services, have fiduciary duties to their shareholders. As a result, they may make decisions that are in the best interests of their shareholders generally but which are not necessarily in our best interest or that of our unitholders. In dealings with us, the directors and officers of our businesses may have conflicts of interest and decisions may have to be made without

their participation. Such decisions may be different from the decisions we would make and may not be in the best interests of our common unitholders, which may have an adverse effect on our business and results of operations.

Our assets include interests in companies that we do not control. The majority stakeholders or the management of such companies may make decisions we do not agree with or which do not serve our interests. If any of the foregoing were to occur, the values of interests held by us may decrease and our financial condition, results of operations and cash flow may suffer as a result.

There are certain interlocking relationships among us and certain affiliates of Warren G. Lichtenstein, our Chairman and Chief Executive Officer, which may present potential conflicts of interest.

Warren G. Lichtenstein, our Executive Chairman and a substantial unitholder, is the Chief Executive Officer of our Manager. As of December 31, 2012 Mr. Lichtenstein directly owned approximately 5.2% of our outstanding common units. Affiliates of our Manager beneficially own an additional 22.0% of our outstanding units, although Mr. Lichtenstein disclaims beneficial ownership of any common units not directly held by him. We have entered into transactions and/or agreements with these entities. There can be no assurance that such entities will not have interests in conflict with our own. For more information regarding these relationships and other relationships between us and related parties, see "Certain Relationships and Related Transactions."

We have engaged, and in the future may engage, in transactions with our affiliates and may choose to purchase additional securities of entities that we control, and we could have to expend substantial resources in resolving any challenges to those transactions.

Generally, Delaware law, under which we are governed, requires that any transactions between us and any of our affiliates be on terms that, when taken as a whole, are substantially as favorable to us as those then reasonably obtainable from a person who is not an affiliate in an arms-length transaction. We believe that the terms of the agreements we have entered into with our affiliates satisfy the requirements of Delaware law, but in the event that one or more parties challenges the fairness of such terms we could have to expend substantial resources in resolving the challenge and we can make no guarantees as to the result. Similarly, we currently own significant equity positions in a number of companies. We may choose in the future to purchase additional securities of such companies. We intend to engage in any such transactions on terms that are fair to all shareholders and are the result of arms-length negotiations. However, one or more minority shareholders may choose to challenge the fairness of such purchases by a controlling shareholder. Defending against such potential challenges may cause us to expend substantial resources in resolving the challenge and we can make no guarantees as to the result.

Certain members of our management team may be involved in other business activities that may involve conflicts of interest.

Certain individual members of our management team may, from time to time, be involved in the management of other businesses, including those owned or controlled by our Manager and its affiliates. Accordingly, these individuals may focus a portion of their time and attention on managing these other businesses. Conflicts may arise in the future between our interests and the interests of the other entities and business activities in which such individuals are involved.

We, as a diversified holding company, may have substantial limitations on our ability to sell interests in the underlying operating companies.

We accumulate significant positions in underlying operating companies and have a significant role in the management of various underlying operating companies. As a result, we may face significant legal and market restrictions on selling our interests in the underlying operating companies. For example, employees of the Manager and SPH Services may also serve as managers or members of the board of directors of the underlying operating companies, and, thus, may receive material and confidential information concerning the operating companies that would preclude us, under federal securities laws, from trading securities of the relevant operating company. Some privately held businesses may be subject to shareholders agreements which may limit our ability to sell our interests in such companies. In addition, we may be limited in our ability to sell securities in an underlying operating company in light of the size of our ownership interest and the absence of liquidity in the market to absorb our ownership interest, or, alternatively, may be required to sell our ownership interest at a discounted and unfavorable price.

We hold and expect to continue to hold illiquid assets with a limited market for resale and, therefore, may be unable to dispose of such assets at a time and at a price that we deem desirable.

We may hold assets that have a limited market for resale. We may be unable to dispose of such assets at a time and at a price that we deem desirable. In the event that we desire to sell such assets on an expedited basis, we may not be able to obtain a price for such assets that are equal to or greater than what we could receive if there was a public market for such assets.

Risks Related to Our Business

We may not be able to fund future acquisitions of new businesses or raise funds for operating expenses due to the lack of availability of debt or equity financing on acceptable terms, which could materially adversely impact our financial condition, business and results of operations.

In order to make future acquisitions and fund operations, we may need to raise capital primarily through debt or equity financings. Since the timing and size of acquisitions or the need for additional capital cannot be readily predicted, we may need to obtain funding on short notice to benefit fully from attractive acquisition opportunities or to address business needs. Such funding may not be available on acceptable terms, or at all. In addition, the level of our indebtedness may impact our ability to borrow. Also, depending on market conditions and investor demand for the common units, we may not be able to raise capital by selling additional common units at prices that we consider to be in our interest. These risks may materially adversely affect our ability to pursue our acquisition strategy successfully and materially adversely affect our financial condition, business and results of operations.

We conduct operations or own interests in companies with operations outside of the U.S., which may expose us to additional risks not typically associated with companies that operate solely in the U.S.

We have operations or own interests in securities of companies with operations located outside the U.S. and they present certain risks not typically associated with U.S. operations, including risks relating to currency exchange matters, less developed or efficient financial markets than in the U.S., absence of uniform accounting, auditing and financial reporting standards, differences in the legal and regulatory environment, different publicly available information in respect of companies in non-U.S. markets, economic and political risks, and possible imposition of non-U.S. taxes. There can be no assurance that adverse developments with respect to such risks will not adversely affect our assets that are held in certain countries or the returns from these assets.

If certain of our operating subsidiaries are unable to access funds generated by their respective subsidiaries, such operating subsidiaries may not be able to meet their financial obligations.

Because certain of our operating subsidiaries are holding companies that conduct operations through their subsidiaries, such operating subsidiaries depend on those entities for dividends, distributions and other payments to generate the funds necessary to meet their financial obligations. Certain of such operating subsidiaries may face restrictions on their ability to transfer cash to their parent company pursuant to the terms of any credit agreement to which they are a party. Failure by one of those subsidiaries to generate sufficient cash flow and meet the requirements of their respective credit facilities could have a material adverse effect on our business, financial condition and results of operations.

Our businesses rely, and may rely, on their intellectual property and licenses to use others' intellectual property, for competitive advantage. If our businesses are unable to protect their intellectual property, are unable to obtain or retain licenses to use others' intellectual property, or if they infringe upon or are alleged to have infringed upon others' intellectual property, it could have a material adverse effect on their financial condition, business and results of operations.

The success of each of our businesses depends in part on its, or licenses to use others' brand names, proprietary technology and manufacturing techniques. These businesses rely on a combination of patents, trademarks, copyrights, trade secrets, confidentiality procedures and contractual provisions to protect their intellectual property rights. The steps they have taken to protect their intellectual property rights may not prevent third parties from using their intellectual property without their authorization or independently developing intellectual property that is similar. In addition, the laws of foreign countries may not protect our businesses' intellectual property rights effectively. Stopping unauthorized use of proprietary information and intellectual property, and defending claims of unauthorized use of others' proprietary information or intellectual property, may be difficult, time-consuming and costly and could subject our businesses to significant liability for damages and invalidate their property rights. Such unauthorized use could reduce or eliminate any competitive advantage our businesses have developed, cause them to lose sales or otherwise harm their business.

If our businesses are unable to continue the technological innovation and successful commercial introduction of new products and services, their financial condition, business and results of operations could be materially adversely affected.

The industries in which our businesses operate experience periodic technological changes and ongoing product improvements. Their results of operations depend significantly on the development of commercially viable new products, product upgrades and their ability to integrate new technologies. Our future growth will depend on their ability to gauge the direction of, and effectively respond to, the technological progress in key end-use markets and upon their ability to successfully develop new generations of products. Our businesses must make ongoing capital investments and may need to seek better educated and trained workers, who may not be available in sufficient numbers. Failure to effectively respond to technological developments may result in reduced sales and sunk developmental costs.

We are dependent on digital technologies to conduct our daily operations and maintain confidential information.

The Company relies on information technology systems to both manage its daily operations and to secure its intellectual property. A failure in or breach of operational or informational security systems or infrastructure, or those of its third party vendors and other service providers, as a result of information system failures or cyber attack, could disrupt business, result in the disclosure or misuse of confidential or proprietary information, including customer and vendor lists, damage its reputation and investor confidence, increase security and remediation costs and cause losses, including potential lawsuits, all of which could have a material adverse effect on its businesses, financial condition and results of operations.

We do not have long-term contracts with all of our customers and clients, the loss of which could materially adversely affect our financial condition, business and results of operations.

Our businesses are based primarily upon individual orders and sales with our customers and clients and not long-term supply contracts. As such, our customers and clients could cease using services or buying products at any time and for any reason and we will have no recourse in the event a customer or client no longer wants to use our businesses' services or purchase products from us. If a significant number of our customers or clients elect not to use such services or purchase products, it could materially adversely affect our financial condition, business and results of operations.

Our businesses are and may be subject to federal, state and foreign environmental laws and regulations that expose them to potential financial liability. Complying with applicable environmental laws requires significant resources, and if our businesses fail to comply, they could be subject to substantial liability.

Some of the facilities and operations of our businesses are, and may be, subject to a variety of federal, state and foreign environmental laws and regulations, including laws and regulations pertaining to the handling, storage and transportation of raw materials, products and wastes, and hazardous materials and wastes, which require and will continue to require significant expenditures to remain in compliance with such laws and regulations. Any material violations of these laws can lead to substantial liability, revocations of discharge permits, fines or penalties, which could negatively impact our financial condition, business and results of operations.

Defects in the products provided by our businesses could result in financial or other damages to our customers, which could result in reduced demand for our businesses' products and/or liability claims against our businesses.

Some of our businesses manufacture products to customer specifications that are highly complex and critical to customer operations. Defects in products could result in product liability suits, compensation for damages, or a reduction or cancellation of future purchases due to customer dissatisfaction. If these defects occur frequently, our reputation may be impaired. Any of these outcomes could negatively impact our financial condition, business and results of operations.

Some of our businesses are subject to certain risks associated with the movement of businesses offshore.

Some of our businesses are potentially at risk of losing business to competitors operating in lower cost countries. An additional risk is the movement offshore of some of our businesses' customers, leading them to procure products or services from more closely located companies. Either of these factors could negatively impact our financial condition, business and results of operations.

Loss of key customers of some of our businesses could negatively impact our financial condition.

Some of our businesses have significant exposure to certain key customers, the loss of which could negatively impact our financial condition, business and results of operations.

Our business strategy includes acquisitions which entail numerous risks.

Our business strategy and the strategy of our businesses includes acquisitions and entails several risks, including the diversion of management's attention from other business concerns and the need to finance such acquisitions with additional equity and/or debt. Any future acquisitions may also result in material changes in the composition of our assets and liabilities or the assets and liabilities of our businesses and if unsuccessful could reduce the value of our common units. In addition, once found, acquisitions entail further risks, including unanticipated costs and liabilities of the acquired businesses that could materially adversely affect our results of operations; difficulties in assimilating acquired businesses; negative effects on existing business relationships with suppliers and customers and losing key employees of the acquired businesses.

HNH sponsors a defined benefit pension plan which could subject it to substantial cash funding requirements in the future.

HNH's ongoing operating cash flow requirements consist of arranging for the funding of the minimum requirements of its defined benefit plan (the "WHX Pension Plan") and paying HNH's administrative costs. The significant decline in market value of stocks and other investments starting in 2008 across a cross-section of financial markets contributed to an unfunded pension liability of the WHX Pension Plan, which totaled $217,100 as of December 31, 2012 and $186,200 as of December 31, 2011. In addition, a reduction in interest rates has caused a change in the discount rate that is used to value the pension liability on the consolidated balance sheet. HNH expects to have required minimum pension plan contributions to the WHX Pension Plan for 2013, 2014, 2015, 2016, 2017 and thereafter of $13,400, $19,200, $20,400, $17,400, $16,900 and $49,000, respectively. Such required future contributions are determined based upon assumptions regarding such matters as discount rates on future obligations, assumed rates of return on plan assets and legislative changes. Actual future pension costs and required funding obligations will be affected by changes in the factors and assumptions described in the previous sentence, as well as other changes such as any plan termination.

Difficult economic, market and industry specific conditions may adversely affect our operations, which could materially reduce our revenue, cash flow and asset value, and adversely affect our financial condition.

We operate in a variety of competitive industries and market sectors, which are susceptible to economic and industry specific volatility. Our operations and assets are materially affected by conditions in the financial, manufacturing and energy markets, as well as economic conditions throughout the world that are outside our control, such as interest rates, availability of credit, inflation rates, economic and/or uncertainty, changes in laws, trade barriers, commodity prices, currency exchange rates and controls and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity and the value of our operations and assets, and we may not be able to or may choose not to manage our exposure to these market conditions.

Our operations' revenues and assets could also be affected by a continued economic downturn. Our operations may also have difficulty expanding and be unable to meet our debt service and pension obligations or other expenses as they become due. In addition, during periods of adverse economic conditions, it may be more difficult and costly or impossible to obtain funding for our operations. Furthermore, such conditions could also increase the risk of default with respect to our operations that have significant debt.

Legislative and regulatory actions taken now or in the future to address the current liquidity and credit crisis in the financial industry may significantly affect our liquidity or financial condition.

On July 21, 2010, President Barack Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act is intended primarily to overhaul the financial regulatory framework following the global financial crisis and will impact all financial institutions, including WebBank. The Dodd-Frank Act contains provisions that has, among other things, established a Bureau of Consumer Financial Protection, will establish a systemic risk regulator, consolidate certain federal bank regulators and impose increased corporate governance and executive compensation requirements. While many of the provisions in the Dodd-Frank Act are aimed at financial institutions significantly larger than ours, it will likely increase our regulatory compliance burden and may have a material adverse effect on us.

The Dodd-Frank Act also required the Government Accountability Officer (“GAO”) to conduct a study, within 18 months of the enactment, of the various exemptions in the Bank Holding Company Act for certain types of depository institutions, including industrial banks such as WebBank. SPH is not regulated as a bank holding company as a result of this exemption. The GAO completed its study in January, 2012. It is not clear, what impact, if any, the GAO study would have on the continued availability of this exemption.

In addition, the Dodd-Frank Act added a new Section 13 to the Bank Holding Company Act, the so-called “Volcker Rule,” which generally restricts certain banking entities, and their subsidiaries or affiliates, from engaging in proprietary trading

activities and owning equity in or sponsoring any private equity or hedge fund. The Volcker Rule became effective July 21, 2012. The draft implementing regulations for the Volcker Rule were issued by various regulatory agencies on October 11 and 12, 2011. Under the regulations, we (or our affiliates) may be restricted from engaging in proprietary trading, investing in third party hedge or private equity funds or sponsoring new funds unless we qualify for an exemption from the rule. We will not know the full impact of the Volcker Rule on our operations or financial condition until the final implementing regulations are adopted sometime in 2013.

Furthermore, effective July 21, 2011, all companies that directly or indirectly control an FDIC-insured bank are required to serve as a source of financial strength for such institution. As a result, SPH could be called upon by the FDIC to infuse additional capital into WebBank to the extent that WebBank fails to satisfy its capital requirements. Currently, WebBank meets or exceeds all such requirements.

Further, the U.S. Congress and state legislatures and federal and state regulatory authorities continually review banking laws, regulations and policies for possible changes. We cannot predict whether additional legislation will be enacted and, if enacted, the effect that it would have on our business, financial condition or results of operations.

Increased volatility in raw materials costs and availability may continue to reduce revenues and profitability in our diversified industrial businesses.

Certain of our Diversified Industrial operations are subject to risks associated with increased volatility in raw material prices and availability of key raw materials. If the price for raw materials continues to increase and our operations are not able to pass these price increases to their customers, or are unable to obtain key raw materials, our results of operations may be negatively impacted.

Our energy segment is highly dependent on the activity level of the North American oil and gas industry. Our markets may be adversely affected by industry conditions that are beyond our control.

The level of oil and natural gas exploration and production activity in the United States is volatile. Reduced discovery rates of new oil and natural gas reserves, or a decrease in the development rate of reserves in our market areas, weakness in oil and natural gas prices, or our customers' perceptions that oil and natural gas prices will decrease in the future, could result in a reduction in the utilization of our equipment and result in lower revenues or rates for the services of our Energy segment. Our customers' willingness to undertake these activities depends largely upon prevailing industry conditions that are influenced by many factors over which we have no control.

We and our businesses operate in highly competitive markets.

Many of our competitors and the competitors of our businesses are substantially larger and have considerably greater financial, technical and marketing resources than we do. Some competitors may have a lower cost of funds than we or our businesses do and access to financing sources that may not be available to us or our businesses. In addition, some of our competitors and the competitors of our businesses may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of business opportunities than we or our businesses can.

Risks Related to Our Manager

We depend on Warren G. Lichtenstein, the Chairman and Chief Executive Officer of the Manager and Jack Howard, the President of the Manager, the loss of whose services could have a material adverse effect on our business, results and financial condition.

Our success depends on the efforts, skills, reputation and business contacts of Warren G. Lichtenstein, the Chairman and Chief Executive Officer of the Manager and Jack Howard, the President of the Manager. While the key members of the Manager have worked for the Manager and its affiliates for many years, our Manager does not have any employment agreements with any of the key members of its management team and their continued service is not guaranteed. The loss of the services of Mr. Lichtenstein or Mr. Howard could have a material adverse effect on our asset value, revenues, net income and cash flows and could harm our ability to maintain or grow our existing operations or pursue additional opportunities in the future.

Certain members of the Manager's management team may be involved in other business activities that may involve conflicts of interest.

Certain individual members of the Manager's management team are involved in the management of other businesses. Accordingly, these individuals may focus a portion of their time and attention on managing these other businesses. Conflicts may arise in the future between our interests and the interests of the other entities and business activities in which such individuals are involved.

The interests of our Manager may not be aligned with our interests or those of our unitholders.

Our Manager receives a quarterly Management Fee at a rate of 1.5% of total partner's capital, payable on the first day of each quarter, subject to quarterly adjustment. Our Manager is entitled to receive a Management Fee regardless of our net income. In addition and as more fully described in “Management Agreement - Management Fees and Incentive Compensation”, our Manager was granted certain incentive units to receive Class B common units of SPH. The Manager may consider entering into or recommending riskier transactions that represent a potential higher reward in order for the Manager's units to be profitable. Any such riskier investment decisions or recommendations, if unsuccessful, could result in losses to us and a decline in the value of the common units.

We cannot determine the amount of the Management Fee that will be paid over time with any certainty.

The Management Fee is calculated by reference in part to our total partner's capital. Our total partner's capital will be impacted by the performance of our businesses and other businesses we may acquire in the future, as well as the issuance of additional common units. Changes in our total partner's capital and in the resulting Management Fee could be significant, resulting in a material adverse effect on our results of operations. In addition, if our performance declines, assuming our total partner's capital, remains the same, the Management Fee will increase as a percentage of our net income.

Our Manager's liability is limited under the Management Agreement, and we have agreed to indemnify our Manager against certain liabilities. Such indemnification may incentivize our Manager to take unnecessary risks with respect to actions for which it will be indemnified.

Under the Management Agreement, our Manager, its members, officers, employees, affiliates, agents and legal representatives are not liable for, and we have agreed to indemnify such persons from any loss or expense, including without limitations, any judgment, settlement, reasonable attorneys' fees and other costs and expenses incurred in connection with the defense of any actual or threatened proceeding, other than losses resulting from willful misconduct or gross negligence in the performance of such indemnified person's obligations and duties. Such indemnification may incentivize our Manager to take unnecessary risks with respect to actions for which it will be indemnified.

Risks Related to our Common Units

We may issue additional common units in the future without the consent of unitholders and at a discount to the market price of such common units. In particular, sales of significant amounts of the common units may cause the price of the common units to decline.

Under the terms of the Partnership Agreement, additional common units may be issued without the consent of unitholders at a discount to the market price. In addition, other classes of securities may be issued with rights that are senior to or which otherwise have preferential rights to the rights of the common units. Sales of significant amounts of the common units in the public market or the perception that such sales of significant amounts may occur could adversely affect its market price. Moreover, the perceived risk of any potential dilution could cause common unit holders to attempt to sell their common units and investors to “short” the common units, a practice in which an investor sells common units that he or she does not own at prevailing market prices, hoping to purchase common units later at a lower price to cover the sale. Any event that would cause the number of common units being offered for sale to increase would likely cause the common units' market price to further decline. These sales might also make it more difficult for us to sell additional common units in the future at a time and price that we deem appropriate.

Risks Related to Taxation

All statutory references in this section are to the Internal Revenue Code of 1986, as amended, or the “Code.”

Our unitholders may be subject to U.S. federal and other income tax on their share of our taxable income, regardless of whether they receive any cash distributions from us.

It is anticipated that we will be treated, for U.S. federal income tax purposes, as a partnership and not a publicly traded partnership taxable as a corporation. Our unitholders will be subject to U.S. federal, state, local and possibly, in some cases, foreign income tax on their allocable share of our taxable income, whether or not they receive cash distributions from us. We do not anticipate making any additional cash distributions or paying any cash dividends. Accordingly, our unitholders may be required to make tax payments in connection with their ownership of common units that significantly exceed their cash distributions in any given year.

Our tax treatment is not assured. If we are taxed as a corporation, it could adversely impact our results of operations.

A partnership is not a taxable entity and distributions by a partnership to a partner are generally not taxable to the partnership or the partner unless the amount of cash distributed to such partner exceeds the partner's adjusted basis in its partnership interest. Section 7704 provides that generally publicly traded partnerships are taxed as corporations. However, an exception, referred to as the “Qualifying Income Exception,” exists with respect to publicly traded partnerships of which 90 percent or more of the gross income for every taxable year consists of “qualifying income” as defined in the Code. We expect that we will meet the Qualifying Income Exception. However, the Qualifying Income Exception will not apply if we register, or are required to register, as an investment company under the Investment Company Act.

If the Qualifying Income Exception is not available to us, then we will be treated as a corporation instead of a partnership. In that event, the deemed incorporation of SPH should be tax-free, unless the corporation is an investment company for tax purposes and the partners are treated as diversifying their interests. If we were taxed as a corporation, (i) our net income would be taxed at corporate income tax rates, thereby substantially reducing our profitability, (ii) our unitholders would not be allowed to deduct their share of losses of SPH and (iii) distributions to our unitholders, other than liquidating distributions, would constitute dividends to the extent of our current or accumulated earnings and profits, and would be taxable as such.

Our structure involves complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available.

The U.S. federal income tax treatment of our unitholders depends in some instances on interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. Our Partnership Agreement permits our General Partner to modify it from time to time, including the allocation of items of income, gain, loss and deduction (including unrealized gain and unrealized loss to the extent allowable under U.S. federal income tax law), without the consent of our unitholders, to address certain changes in U.S. federal income tax regulations, legislation or interpretation or to preserve the uniformity of our common units. In some circumstances, such revisions could have a material adverse impact on some or all unitholders. In addition, we formed a subsidiary partnership, to which we contributed certain of our assets, or the “Subsidiary Partnership.” To preserve the uniformity of common units, we (but not the Subsidiary Partnership) will make an election permitted under Section 754 and we will adopt the remedial allocation method under Section 704(c) with respect to items of income, gain, loss and deduction attributable to assets contributed to us (which we will contribute to the Subsidiary Partnership), to account for any difference between the tax basis and fair market value of such assets at the time of contribution, or attributable to the “book-up” or “book-down” of our assets prior to their contribution to the Subsidiary Partnership, or while they were held by the Subsidiary Partnership, to account for the difference between the tax basis and fair market value of such assets at the time of a mark-to-market event. We intend generally to make allocations under Section 704(c) to our unitholders in accordance with their respective percentage interests. However, built-in gain or built-in loss in existence and allocable to the assets we contributed to the Subsidiary Partnership, when recognized, will be allocated to our unitholders as of the contribution date. We intend to prepare our tax returns on the basis that buyers of common units from such unitholders will not inherit such unitholders' built-in gains or built-in losses as of that date as a result of the election under Section 754. However, it is not clear whether this position will be upheld if challenged by the IRS. While we believe it represents the right result, there is no law directly on point.

We will prorate our items of income, gain, loss and deduction between transferors and transferees of our common units each month based upon the ownership of our common units on the first day of each month, instead of on the basis of the date a particular common unit is transferred. The IRS might challenge this treatment, which could change the allocation of items of income, gain, loss and deduction among our unitholders.

We will apply certain assumptions and conventions in an attempt to comply with applicable rules and to report income, gain, loss, deduction and credit to our unitholders in a manner that reflects such unitholders' beneficial ownership of partnership items, taking into account variation in unitholder ownership interests during each taxable year because of trading activity. Our allocations of items of taxable income and loss between transferors and transferees of our common units generally will be

determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of common units owned by each of them as of the opening of trading of our common units on any national exchange on which we are listed, on the first business day of every month. As a result, a unitholder transferring common units may be allocated items of income, gain, loss, deduction and credit realized after the date of transfer. However, those assumptions and conventions may not be in compliance with all aspects of applicable U.S. federal income tax requirements. If the IRS were to challenge this method or new Treasury Regulations were issued, we might be required to change the allocation of items of income, gain, loss, deduction and credit among our unitholders in a manner that adversely affects them.

Non-U.S. persons face unique U.S. tax issues from owning common units that may result in adverse tax consequences to them.

We generally do not intend to engage in activities that will cause us to be treated as engaged in a U.S. trade or business for U.S. federal income tax purposes. However, it is possible that we may acquire the stock of U.S. corporations owning significant U.S. real property. The gain from the sale of the stock of such corporations may be treated as effectively connected income ("ECI") with respect to non-U.S. unitholders. In addition, it is possible that we may acquire interests in U.S. real property (other than through corporations) as long as the income from the property is "qualifying income" under Section 7704. The income from such real property, including the gain from the sale of such property, may be ECI to non-U.S. unitholders. To the extent our income is treated as ECI, non-U.S. unitholders generally will be subject to withholding tax on their allocable share of such income when such income is distributed, will be required to file a U.S. federal income tax return for such year reporting their allocable share of income effectively connected with such trade or business and any other income treated as ECI, and will be subject to U.S. federal income tax at regular U.S. tax rates on any such income (state and local income taxes and filings may also apply in that event). Non-U.S. unitholders that are corporations may also be subject to a 30 percent branch profits tax on their allocable share of such income, which branch profits tax may be reduced or eliminated pursuant to an income tax treaty.

Certain passive income received by us, such as U.S. source dividends and interest that does not qualify as "portfolio interest," that is allocable to non-U.S. unitholders will be subject to U.S. federal withholding tax of 30 percent (in the absence of relief under an income tax treaty). We are required to pay to the IRS such withholding tax on such income allocable to non-U.S. unitholders even if we do not make distributions to them. We will apply this withholding tax in a manner intended to preserve the uniformity of our common units.

Tax-exempt entities face unique tax issues from owning common units that may result in adverse tax consequences to them.

A holder of common units that is a tax-exempt organization may be subject to U.S. federal income taxation to the extent that its allocable share of our income consists of unrelated business taxable income ("UBTI"). We may borrow money. A tax-exempt partner of a partnership may be treated as earning UBTI if the partnership regularly engages in a trade or business that is unrelated to the exempt function of the tax-exempt partner, if the partnership derives income from debt-financed property or if the tax-exempt organization's partnership interest itself is debt-financed.

Unitholders may be subject to state and local taxes and return filing requirements as a result of investing in our common units.

In addition to U.S. federal income taxes, our unitholders may be subject to other taxes, including state and local taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we conduct activities or own property, if any, now or in the future, even if our unitholders do not reside in any of those jurisdictions. Our unitholders may be required to file state and local income tax returns and pay state and local income taxes in some or all of these jurisdictions. Further, unitholders may be subject to penalties for failure to comply with those requirements. It is the responsibility of each unitholder to file all U.S. federal, state and local tax returns that may be required of such unitholder.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

All dollars used in this discussion are in thousands.

HNH

As of December 31, 2012, HNH had 25 active operating plants in the United States, Canada, China, United Kingdom, Germany, France, Poland and Mexico, with a total area of approximately 1,680,321 square feet, including warehouse, office and laboratory space. HNH also owns or leases sales, service and warehouse facilities at 8 other locations in the United States, which have a total area of approximately 284,201 square feet, and owns or leases 4 non-operating locations with a total area of approximately 266,950 square feet. Manufacturing facilities are located in: Camden and Bear, Delaware; Evansville, Indiana; Agawam, Massachusetts; Middlesex, New Jersey; Arden, North Carolina; Canfield, Ohio; Rancho Cucamonga, California; St. Louis, Missouri; Tulsa and Broken Arrow, Oklahoma; Cudahy, Wisconsin; Toronto and Montreal, Canada; Coahuila and Matamoros, Mexico; Gwent, Wales, United Kingdom; Pansdorf, Germany; Riberac, France; Gliwice, Poland; and Suzhou, People's Republic of China. All plants are owned except for the Middlesex, Arden, Rancho Cucamonga, Montreal, Coahuila and two of the Suzhou plants, which are leased.

HNH considers its manufacturing plants and service facilities to be well maintained and efficiently equipped, and therefore suitable for the work being done. The productive capacity and extent of utilization of its facilities is dependent in some cases on general business conditions and in other cases on the seasonality of the utilization of its products. Capacity can be expanded at some locations.

Steel Excel

As of December 31, 2012, Steel Excel leases 10 facilities, comprising an aggregate of 51,585 square feet of leased space in North Dakota and California.

Steel Excel's sports business leases its 2,038 square foot headquarters in Hermosa Beach, California, which expires November 30, 2014 and it leases 27.9 acres in Yaphank, New York where it has built four full-size and three youth-size fields along with a restaurant. Steel Excel's sports business recently began construction on an approximately 12,000 square foot indoor training facility on the property. The indoor training facility is expected to be completed by mid-June 2013. The lease in Yaphank expires December 13, 2016, with two options to extend and a first right of refusal to purchase the property. CrossFit South Bay leases a 2,300 square foot facility in Hermosa Beach, California, which expires on July 15, 2015.

BNS

As of December 31, 2012, BNS did not own or lease any properties.

DGT

As discussed elsewhere in this Form 10-K, on August 16, 2012 DGT completed the sale of its RFI subsidiary. DGT continues to own 55,000 square feet of real estate property in Bay Shore, New York and entered into a lease with the buyer of RFI.

As discussed elsewhere in this Form 10-K, on November 3, 2011 DGT completed the sale of Villa, its former Italian subsidiary. DGT continues to own 67,000 square feet of design and manufacturing space in Milan, Italy and has entered into a lease with the buyer.

WebBank

As of December 31, 2012, WebBank leases 8,000 square feet of office space headquartered in Salt Lake City, Utah. The term of the lease expires in March 2017. WebBank also leases office space in New Jersey through March 2014. WebBank believes that these facilities are adequate for its current needs and that suitable additional space will be available as required.

Item 3. Legal Proceedings

The information set forth under Note 21 - "Commitments and Contingencies" of our Notes to Consolidated Financial Statements, included in Part II, Item 8, Financial Statements, of this Report, is incorporated herein by reference. For an additional discussion of certain risks associated with legal proceedings, see the section entitled Part I, Item 1A, Risk Factors, of this Report.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

As of December 31, 2012, we had 30,786,100 common units issued and outstanding. Beginning on April 10, 2012, our common units, no par value, are quoted on the NYSE under the symbol "SPLP". The following table sets forth the information on the high and low sales prices of our common units during 2012.

Fiscal year ending December 31, 2012	High	Low
First Quarter (a)	$ 12.85	$ 11.69
Second Quarter	$ 13.50	$ 10.67
Third Quarter	$ 11.59	$ 10.15
Fourth Quarter	$ 12.50	$ 11.15

(a) Our common units were quoted on the over-the-counter market on the Pink Sheets until April 10, 2012.

During 2011, our common units, no par value, were quoted on the over-the-counter market on the Pink Sheets under the symbol "SPNHU.PK". The following table sets forth the high and low bid prices for our common units for the periods indicated as reported by the OTC Bulletin Board. Prior to April 19, 2011, there was no active trading market for our common units. The prices state inter-dealer quotations, which do not include retail mark-ups, mark-downs or commissions. These prices do not necessarily represent actual transactions.

Fiscal year ending December 31, 2011	High	Low
Second Quarter	$ 16.75	$ 15.50
Third Quarter	$ 16.75	$ 14.60
Fourth Quarter	$ 14.78	$ 11.50

Holders

As of December 31, 2012, there were approximately 170 unitholders of record.

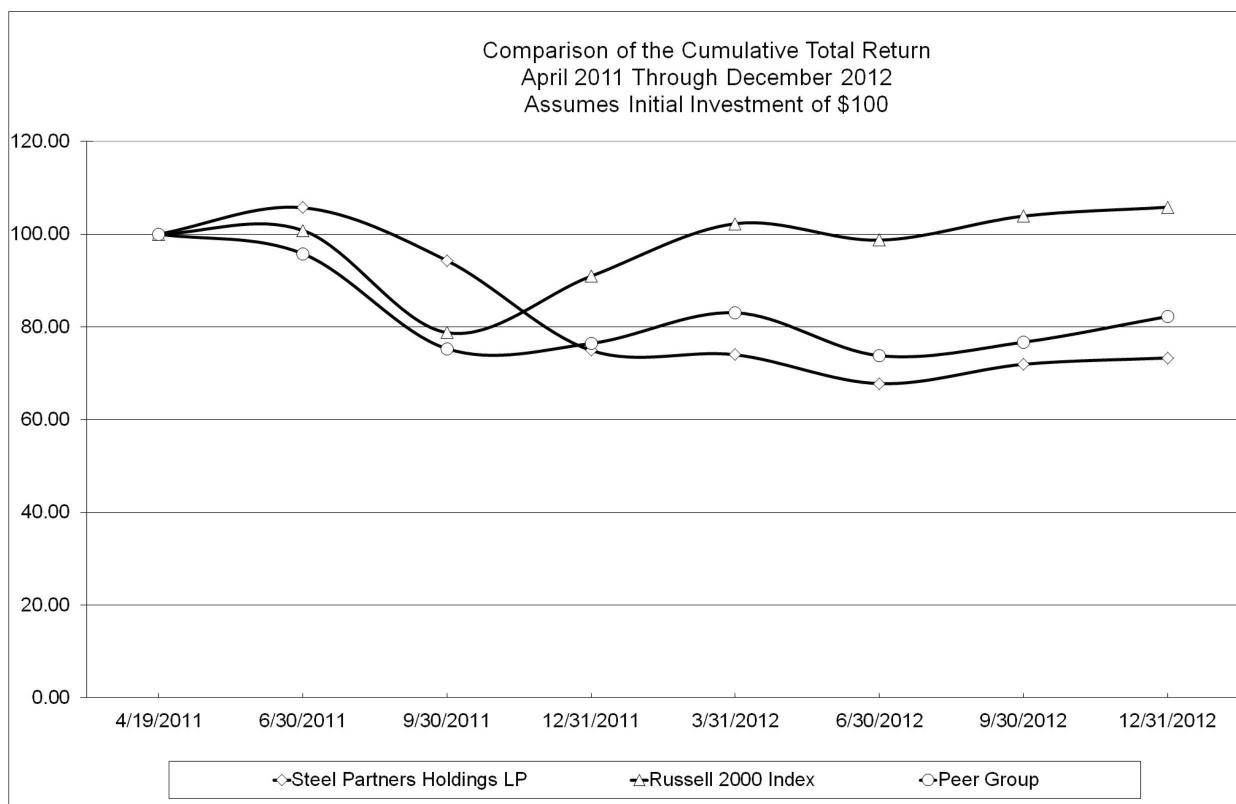
Distributions

In connection with the Exchange Transaction, we agreed to distribute to the holders of our common units the Target Distribution, subject to certain limitations, during the period from July 16, 2009 to the Final Distribution Date. On April 1, 2010, we distributed to our unitholders of record as of March 26, 2010, approximately $54.4 million, or $1.95 per common unit. On April 6, 2011, we distributed to our unitholders of record as of March 25, 2011, approximately $33.1 million, or $1.18 per common unit, representing the final required distribution in full satisfaction of the Target Distribution.

We may, at our option, make further distributions to the unitholders although we currently have no plan to make any distributions in excess of the Target Distribution.

Unit Performance Graph

The following graph compares the cumulative total return provided to unitholders on our common units since the common units began trading on April 19, 2011, relative to the cumulative total returns of the Russell 2000 index, and a customized peer group of seven companies that includes: Blackstone Group L.P., Leucadia National Corporation, Apollo Investment Corporation, Compass Diversified Holdings LLC, Gladstone Capital Corporation, Knights Capital Group, Inc. and Main Street Capital Corporation. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common units, in the peer group, and the index on April 19, 2011 and its relative performance is tracked through December 31, 2011. We did not declare or pay any dividends during the comparison period.



	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012
Steel Partners Holdings L.P.	$ 74.92	$ 73.99	$ 67.77	$ 71.94	$ 73.30
Russell 2000 Index	$ 90.96	$ 102.27	$ 98.72	$ 103.90	$ 105.83
Peer Group	$ 76.44	$ 83.05	$ 73.80	$ 76.71	$ 82.25

The unit price performance included in this graph is not necessarily indicative of future unit price performance

The performance graph shall not be deemed to be incorporated by reference by means of any general statement incorporating by reference this Form 10-K into any filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate such information by reference, and shall not otherwise be deemed filed under such acts.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1, 2012 through October 31, 2012	10,500	$11.22	N/A	N/A
November 1, 2012 through November 30, 2012	262,814	12.01	N/A	N/A
December 1, 2012 through December 31, 2012	268,747	12.22	N/A	N/A
Total	542,061		N/A	N/A

(1) All units were purchased by DGT Holdings Corp., an affiliate of the Company, in open market transactions for its own account.

Item 6. Selected Financial Data

The following table contains our selected historical consolidated financial data, which should be read in conjunction with our consolidated financial statements and the related notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Annual Report on Form 10-K. The selected financial data as of and for the years ended December 31, 2012, 2011 and 2010 have been derived from our audited consolidated financial statements at those dates and for those periods, contained elsewhere in this Annual Report on Form 10-K. The historical selected financial data as of December 31, 2009 and 2008 and the periods from January 1, 2009 to July 15, 2009 and July 16, 2009 to December 31, 2009 and for the fiscal year ended December 31, 2008 have been derived from our audited consolidated financial statements at those dates and for those periods, not contained in this Annual Report on Form 10-K.

SPH entered into the Exchange Transaction pursuant to which SPII became a wholly-owned subsidiary of SPH on July 15, 2009, subject to no further conditions. The Exchange Transaction is accounted for as a transaction between entities under common control and as such SPII's accounts are consolidated with SPH for all periods presented. The operations of SPH prior to taking into account the assets acquired as a result of the Exchange Transaction (the "Pre-Exchange Operations"), together with the operations related to the assets acquired as a result of the acquisition of SPII as of July 15, 2009 are accounted for and presented on an operating company basis of accounting, in accordance with U.S. generally accepted accounting principles ("GAAP"). These operations are presented in the consolidated financial statements as "Diversified Industrial, Financial Services and Other".

SPH accounts for the consolidation of SPII in the consolidated financial statements as "Investment Operations" on the basis of the specialized GAAP prescribed in ASC 946, "Financial Services – Investment Companies" for all periods presented through July 15, 2009. After July 15, 2009, the date which SPII became a subsidiary of SPH, SPH accounts for the assets it acquired as part of the Exchange Transaction in accordance with its accounting policies as an operating company, and therefore it does not report Investment Operations in its consolidated financial statements after July 15, 2009.

SPH acquired a controlling interest in HNH, which has been consolidated as of May 7, 2010. In addition, as discussed elsewhere in this Form 10-K, on February 2, 2011, through BNS, SPH acquired SWH, on July 5, 2011 SPH acquired a controlling interest in DGT and on May 31, 2012 SPH acquired a controlling interest in Steel Excel. These businesses have been consolidated since their acquisition dates and affect the comparability of our selected financial data presented below.

The table below presents discontinued operations as follows:

- The year ended December 31, 2012 includes the operations of RFI and Villa through their respective sale dates as well as the gain on sale of Villa and RFI. In addition, 2012 includes the operations of HNH's business, Continental.
- The year ended December 31, 2011 includes the operations of RFI, Villa, Continental and various other HNH discontinued operations.

- The year ended December 31, 2010 includes Continental and various other HNH operations as well as the gain on sale of BNS' former subsidiary, Collins, which was sold on February 18, 2010.
- The years ended December 2009 and 2008 include the operations of Collins.

	Year Ended December 31,			July 16, 2009 to December 31,	January 1, 2009 to July 15,	Year Ended December 31,
	2012	2011	2010	2009	2009	2008
STATEMENTS OF OPERATIONS DATA (a)						
Revenues:						
Diversified Industrial, Energy, Financial Services and Other	$ 761,454	$ 679,384	$ 406,395	$ 14,424	$ 2,225	$ 23,445
Investment Operations	—	—	—	—	(51,681)	(736,747)
Total revenues	$ 761,454	$ 679,384	$ 406,395	$ 14,424	$ (49,456)	$ (713,302)
Net income (loss) from continuing operations	$ 53,330	$ 78,389	$ 16,802	$ (4,254)	$ (57,527)	$ (756,949)
Income from discontinued operations	10,435	2,888	29,644	1,177	—	—
Net income (loss)	63,765	81,277	46,446	(3,077)	(57,527)	(756,949)
Net income attributable to redeemable partners' capital	—	—	—	—	54,064	767,812
Less: Net (income) loss attributable to non-controlling interests:	(22,747)	(45,808)	(14,699)	(442)	—	100
Net income (loss) attributable to common unitholders	$ 41,018	$ 35,469	$ 31,747	$ (3,519)	$ (3,463)	$ 10,963
Per common unit and per share						
Net income (loss) per common unit - basic						
Net income (loss) from continuing operations	$ 1.19	$ 1.34	$ 0.66	$ (0.16)	$ (1.59)	$ 5.02
Net income from discontinued operations	0.19	0.07	0.60	0.02	—	—
Net income (loss) attributable to common unitholders	$ 1.38	$ 1.41	$ 1.26	$ (0.14)	$ (1.59)	$ 5.02
Basic weighted average common units outstanding	29,748,746	25,232,985	25,234,827	25,219,420	2,183,366	2,183,366
Net income (loss) per common unit - diluted						
Net income (loss) from continuing operations	$ 1.19	$ 0.94	$ 0.60	$ (0.16)	$ (1.59)	$ 5.02
Net income from discontinued operations	0.19	0.05	0.56	0.02	—	—
Net income (loss) attributable to common unitholders	$ 1.38	$ 0.99	$ 1.16	$ (0.14)	$ (1.59)	$ 5.02
Diluted weighted average common units outstanding	29,774,527	29,669,582	27,482,804	25,219,420	2,183,366	2,183,366

	December 31,				
	2012	2011	2010	2009	2008
BALANCE SHEET DATA	(In thousands, except per unit data)				
Diversified Industrial, Energy, Financial Services and Corporate and Other:					
Cash and cash equivalents	$ 198,027	$ 127,027	$ 180,684	$ 114,247	$ 30,072
Marketable securities	199,128	—	—	—	—
Long-term investments	199,865	320,891	235,142	321,163	6,391
Investment Operations:					
Investments	—	—	—	—	1,118,294
Total assets	1,378,359	1,129,843	1,091,865	731,903	1,442,618
Redeemable partners' capital (b)	—	—	—	—	1,258,725
SPH Partners' capital	527,344	415,797	405,732	416,913	42,090
SPH Partners' capital per common unit	$ 17.13	$ 16.51	$ 16.07	$ 16.53	$ 19.28

(a) Statement of operations data for the Diversified Industrial segment includes the consolidation of the results of acquired entities from their respective acquisition dates: the acquisition of HNH effective May 7, 2010, the acquisition of SWH by BNS on February 2, 2011, the acquisition of DGT on July 5, 2011 and the acquisition of Steel Excel on May 31, 2012. On February 18, 2010, BNS sold its interest in Collins.

(b) The Exchange Transaction was subject to being unwound, in whole or part, until July 15, 2009. Accordingly, the entire partners' capital of SPII represented a redeemable interest in SPH and is presented as "Redeemable Partners' Capital" until July 15, 2009, when the capital relating to SPII was no longer subject to redemption.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes thereto that are available elsewhere in this Annual Report on Form 10-K. The following is a discussion and analysis of SPH's consolidated results of operations for the years ended December 31, 2012, 2011, and 2010. In addition to historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in "Risk Factors" in Item 1A.

All monetary amounts used in this discussion are in thousands except common units and share amounts.

Overview

We are a global diversified holding company that engages in multiple businesses through consolidated subsidiaries, associated companies and other interests. We have interests in a variety of businesses, including diversified industrial products, energy, defense, banking, insurance, food products and services, sports, training, education, and the entertainment and lifestyle industries. The securities of some of the companies in which we have interests are traded on national securities exchanges, while others are privately held or less liquid. We seek to work with our companies to increase corporate value over the long term for all stakeholders and shareholders by implementing Steel Partners Operational Excellence programs, the Steel Partners Purchasing Council, Steel Partners Corporate Services, balance sheet improvements, capital allocation policies and growth initiatives. We also own interests directly and indirectly in other companies and certain other interests that are accounted for as available-for-sale securities or held by the SPII Liquidating Trust.

Segment Information

The Company's reportable segments as of December 31, 2012 are outlined in the table below. Additional detail related to each one of the Company's reportable segments can be found in the "Diversified Industrial," "Energy", "Financial Services" and "Corporate" sections later in this Management's Discussion and Analysis.

Diversified Industrial	Energy	Financial Services	Corporate
Handy & Harman Ltd. ("HNH") (1)	Steel Excel Inc. ("Steel Excel") (1)	WebBank (1)	SPH Services, Inc. ("SPH Services") (1)
SL Industries, Inc. ("SLI") (2)	BNS Holding, Inc. ("BNS") (1), (3)		DGT Holdings Corp. ("DGT") (1)
			BNS Holdings Liquidating Trust ("BNS Liquidating Trust") (1), (3)
			CoSine Communications, Inc. ("CoSine") (2)
			Fox & Hound Acquisition Corp. ("Fox & Hound") (2)
			SPII Liquidating Trust (2)
			Other Investments (4)

(1) Consolidated subsidiary

(2) Equity method investment

(3) The operations of BNS are included in the Energy segment through June 30, 2012. The results of the BNS Liquidating Trust are included in the Corporate and Other segment from July 1, 2012 through December 31, 2012

(4) Other investments classified in Corporate and Other include various investments in available-for-sale securities in the Computer Software and Services, Aerospace/Defense, Manufacturing and Restaurant industries. Included in these investments are two of the Company's available-for-sale investments, API Group PLC ("API") and JPS Industries, Inc. ("JPS"). Effective December 31, 2011, these investments were reclassified from equity method investments to available-for-sale securities, and accordingly are included in the Corporate and Other segment in 2012.

RESULTS OF OPERATIONS

The following is a summary of SPH's consolidated operating results:

	Year Ended December 31,		
	2012	2011	2010
Revenue:			
Diversified industrial	$ 629,396	$ 634,964	$ 367,124
Energy	92,834	32,984	—
Financial services	21,155	14,921	10,803
Corporate	18,069	(3,485)	28,468
Total Revenue	$ 761,454	$ 679,384	$ 406,395
Net income (loss) from continuing operations before income taxes:			
Diversified industrial	$ 41,610	$ 46,568	$ 28,874
Energy	25,034	6,558	—
Financial services	12,913	6,165	4,381
Corporate	(8,580)	(46,021)	(13,931)
Total	70,977	13,270	19,324
Income tax provision (benefit)	17,647	(65,119)	2,522
Net income from continuing operations	53,330	78,389	16,802
Income from discontinued operations	10,435	2,888	29,644
Net income attributable to noncontrolling interests in consolidated entities	(22,747)	(45,808)	(14,699)
Net income attributable to common unitholders	41,018	35,469	31,747
Other comprehensive loss	(6,125)	(19,499)	(45,580)
Comprehensive income (loss) attributable to common unitholders	$ 34,893	$ 15,970	$ (13,833)

Diversified Industrial Segment

The following presents a summary of the Diversified Industrial segment operating results as reported in our consolidated financial statements:

	Year Ended December 31,		
	2012	2011	2010
Revenue:			
HNH	$ 629,396	$ 634,964	$ 367,124
Total Revenue	$ 629,396	$ 634,964	$ 367,124
Net income (loss) from continuing operations before income taxes:			
HNH	$ 39,814	$ 37,856	$ 7,696
Income of associated companies	1,796	8,712	21,178
Total	$ 41,610	$ 46,568	$ 28,874

As of December 31, 2012, the Diversified Industrial segment for financial reporting purposes consists of HNH, which is a consolidated subsidiary, and SLI which is an associated company. BNS' 2012 and 2011 results have been reclassified from the Diversified Industrial segment to the newly formed Energy segment (see below) for comparability. BNS was included in Corporate and Other in 2010 since it was a holding company with no continuing operations prior to its February of 2011 acquisition of Sun Well. For the years ended December 31, 2011 and 2010, Diversified Industrial results include the income or loss associated with its investments in API Group PLC ("API"), a leading manufacturer of specialized materials for packaging and JPS Industries, Inc. ("JPS"), a manufacturer of extruded urethanes, polypropylenes and mechanically formed glass. The investments in both API and JPS were accounted for as equity method investments throughout 2011 and 2010. Effective December 31, 2011, the Company's investments in API and JPS were reclassified from equity method investments to available for sale securities, and accordingly are currently classified in the Corporate and Other segment in 2012.

Total revenue for the Diversified Industrial segment increased to $629,396 for the year ended December 31, 2012, as compared to $634,964 in the prior year. Total revenue for the Diversified Industrial segment increased to $634,964 for the year ended December 31, 2011, as compared to $367,124 in the prior year period. This was a result of the consolidation of HNH effective May 7, 2010.

HNH

We consolidated HNH effective May 7, 2010, the date that our interest in HNH exceeded 50%. For comparative purposes however, unaudited pro forma revenues and earnings of HNH are presented in the tables and discussion below for the year ended December 31, 2010. We believe this presentation is more meaningful for management's discussion and analysis in that it allows comparability to prior periods.

The pro forma results of HNH for the year ended December 31, 2010 has been prepared as if the acquisition of the controlling interest in HNH had occurred on January 1, 2010. The pro forma information is not necessarily indicative of the results that actually would have occurred if the above transactions had been consummated for the periods, nor do they purport to represent the financial position and results of operations for future periods. The unaudited pro forma condensed combined statements of operations of HNH for the year ended December 31, 2010 has been derived from the financial statements of HNH which are included as exhibit 99.1 in this Form 10-K. The pro forma adjustments are described below.

The following presents a summary of HNH:

	Year Ended December 31,		
	2012	**2011**	**2010**
	(Historical)	(Historical)	(Pro Forma)
Sales	$ 629,396	$ 634,964	$ 540,471
Cost of sales	454,201	473,765	399,455
Gross profit	175,195	161,199	141,016
Selling, general and administrative expenses	122,038	109,047	100,314
Restructuring and impairment charges	—	460	507
Interest expense, net	14,166	11,926	13,808
Derivative activity (income) loss	(1,353)	397	5,983
Other expense, net	530	1,513	(1,069)
Net income from continuing operations before income taxes	$ 39,814	$ 37,856	$ 21,473

Pro forma adjustments

Unaudited pro forma information in the above table includes adjustments to HNH's operating results as reflected in the financial statements of HNH for the applicable periods. In accordance with ASC Topic 805, Business Combinations, the application of purchase accounting required us to allocate the total purchase price of HNH to the fair value of assets acquired and liabilities assumed based on their fair values at the acquisition date. Therefore, the amounts of assets, liabilities and expenses reflected for HNH at their acquisition date fair value in SPH's consolidated financial statements differ in certain respects from that reflected in HNH's separate financial statements. A summary of the key differences are as follows:

1. Property, plant and equipment and intangible assets were increased to their fair value, which impacted selling, general and administrative expenses. During the year ended December 31, 2010, SPH reflected pro forma additional depreciation and amortization expense amounts of approximately $680. In addition, asset impairment charges recorded by HNH of $1,643 in 2010 were not required on the SPH basis due to a lower SPH value for certain specified assets.

2. Amortizable intangible assets were recognized at fair value that resulted in additional amortization expense of $5,159 in 2010.

3. Pension expense recorded by HNH was reduced by SPH due to the application of purchase accounting. As a result, the pro forma pension income reflected in the above table is $4,573 for the year ended December 31, 2010, which is included in selling, general and administrative expenses.

4. Interest expense recorded by HNH of $12,502 in 2010, relating to debt payable to two series of the SPII Liquidating Trust was eliminated.

Comparison of the Years ended December 31, 2012 and 2011

Net sales for the year ended December 31, 2012 decreased by $5,568, or 0.9% when compared to 2011. Value added sales for the year ended December 31, 2012 increased $5,800 driven by higher demand for our products, primarily in the Engineered Materials segment. Lower average precious metal prices, principally silver, had a negative effect of $11,400 on net sales for the year ended December 31, 2012. The average silver price was approximately $31.22 per troy ounce in 2012, as compared to $35.40 per troy ounce for the year ended December 31, 2011.

Gross profit for the year ended December 31, 2012 increased by $13,996, or 8.7%, when compared to 2011, and, as a percentage of net sales, increased to 27.8% as compared to 25.4% in the same period in 2011. The gross margin improvement of 2.4% for the year ended December 31, 2012, was principally due to favorable product mix, effective cost control and improved operating efficiency at HNH's manufacturing plants, across all of its segments. In addition, lower average precious metal prices, principally silver, also contributed to the increase in gross margin by 0.7% during 2012. Since HNH's precious metal inventory is hedged and the cost of silver is passed through to the customer principally at market, lower silver prices generally result in an increase in the Joining Materials segment's gross profit margin.

Selling, general and administrative ("SG&A") expenses increased by $12,991, or 11.9%, for the year ended December 31, 2012, compared to 2011. SG&A as a percentage of net sales was 2.2% higher for the year ended December 31, 2012. The increase in SG&A as a percentage of net sales in 2012 was primarily due to higher selling and promotion costs related to product sales of the Engineered Materials segment, higher 2012 restricted stock awards, higher self-insured employee medical and workers' compensation insurance claim costs compared to 2011, as well as costs associated with the Company's business development activities in 2012, which resulted in the Inmet and Hickman business combinations. Also, the lower average precious metal prices had a negative impact on SG&A as a percentage of net sales, as compared to the prior year.

Interest expense increased by $2,240, or 18.8%, for the year ended December 31, 2012, compared to 2011. As a result of certain Subordinated Note repurchases during both 2012 and 2011, interest expense included a $1,400 loss for the year ended December 31, 2012 and a $200 gain in the year ended December 31, 2011 related to such repurchases. In addition, the Company wrote-off $1,100 in prior debt issuance costs based on the Company's fourth quarter of 2012 debt refinancing. These unfavorable impacts on interest expense were partially offset by a lower average amount of borrowings outstanding and lower average interest rates on outstanding debt in 2012.

Derivative activity income was $1,353 for the year ended December 31, 2012, and was a loss of $397 in the same period of 2011. Of the income in 2012, approximately $522 was attributable to precious metal contracts and approximately $831 was attributable to embedded derivative features of HNH's Subordinated Notes and related warrants. Of the loss in 2011, approximately $839 was attributable to a gain on the embedded derivative features of HNH's Subordinated Notes and approximately $1,236 was attributable to a loss on precious metal contracts. The gain related to precious metal derivative contracts for the year ended December 31, 2012 resulted principally from an average silver price decrease during the year. While decreasing the use of hedging contracts with brokers, HNH has entered into more fixed-price sales agreements with its customers; thereby hedging silver prices in that manner.

Comparison of the Years ended December 31, 2011 and 2010

Net sales for the year ended December 31, 2011 increased by $94,493, or 17.5%, to $634,964, as compared to $540,471 for the year ended December 31, 2010. The higher sales volume from most of the Company's segments was driven by both higher demand for HNH's products, and the impact of higher silver prices, which accounted for approximately $46,300 of the increase in sales for the year ended December 31, 2011. Higher sales were also driven by the impact of an increase in the average market price of silver, which increased by 75.6% in 2011 ($35.40 per troy oz.) as compared to 2010 ($20.16 per troy oz).

In addition, incremental sales were driven by higher volume of commercial roofing products and fasteners, increased sales of printed circuit board materials related to the telecommunications infrastructure in China, increased sales of flex heater and coil insulation products for the general industrial market, and higher sales of tubing to the petrochemical and ship building markets and the medical industry markets. This was partially offset by weakness in tubing sales to the refrigeration market.

Gross profit for the year ended December 31, 2011 increased to $161,199 as compared to $141,016 for the same period of 2010. Gross profit margin for the year ended December 31, 2011 decreased to 25.4% as compared to 26.1% during the same

period of 2010. The lower gross margin was primarily due to higher silver costs from the Joining Materials segment. Since HNH's precious metal inventory is hedged and the cost of silver is passed-through to the customer principally at market, higher silver prices generally result in moderation or, at times, a reduction in the Joining Materials segment's gross profit margin.

SG&A expenses were $8,733 higher for the year ended December 31, 2011 compared to the same period of 2010, reflecting higher variable selling costs and non-cash restricted stock expense of approximately $3,100. SG&A as a percentage of net sales was 17.2% for the year ended December 31, 2011 as compared to 18.6% for the same period of 2010.

Realized and unrealized loss on derivatives totaled $397 for the year ended December 31, 2011, compared to a loss of $5,983 in the same period of 2010. The lower loss in 2011 was primarily driven by a reduction in the amount of ounces under contract in 2011 as compared to 2010. The derivative financial instruments utilized by HNH are precious metal forward and future contracts which are used to economically hedge HNH's precious metal inventory against price fluctuations. The trend in the market price of silver could significantly affect the income from continuing operations of the Company. If there is a material increase in silver prices, it could reasonably be expected to cause a loss on HNH's open silver derivatives contracts.

Interest expense was $11,926 for the year ended December 31, 2011, compared to $13,808 in the same period of 2010. The decrease was primarily due to lower interest rates as a result of the Company's debt refinancing during the fourth quarter of 2010.

Income (loss) of Associated Companies

Income (loss) of associated companies includes income or loss we recognize on investments where we own between 20% and 50% of the outstanding equity and have the ability to exercise influence, but not control, over the investee. Income (loss) of associated companies included in the Diversified Industrial segment net income from continuing operations includes the following:

	Ownership at December 31,	Year Ended December 31,		
	2012	2012	2011	2010
HNH [(a)]	54.3%	$ —	$ —	$ 8,670
DGT [(b)]	59.2%	—	213	886
JPS [(c)]	39.3%	—	—	1,228
API [(d)]	32.4%	—	9,809	2,615
SLI [(e)]	24.1%	1,796	(1,310)	7,779
		$ 1,796	8,712	$ 21,178

(a) Effective May 7, 2010 we consolidated HNH. Prior to this date the investment in HNH was accounted for under the equity method at fair value.
(b) Effective July 5, 2011, we consolidated DGT. Prior to this date the investment in DGT was accounted for under the equity method.
(c) Effective December 31, 2011 the Company discontinued the equity method of accounting and reclassified JPS to Investments at fair value and began classifying JPS as an available for sale security. No income or loss was recorded in 2011, as the information was not available. Changes in fair value of JPS are reported in Accumulated Other Comprehensive Income.
(d) Effective December 31, 2011 the Company discontinued the equity method of accounting and reclassified API to Investments at fair value and began classifying API as an available for sale security. Changes in fair value of API continue to be reported in the consolidated statement of operations.
(e) Associated company.

Energy Segment

The following presents a summary of the Energy segment operating results on a pro forma basis:

	Year Ended December 31,	
	2012	2011
	(Pro Forma)	(Pro Forma)
Revenue:		
Steel Excel (Pro Forma) (a)	$ 103,444	$ 49,771
BNS (Historical) (b)	20,432	32,984
Total Revenue	123,876	$ 82,755
Net income from continuing operations before income taxes:		
Steel Excel (Pro Forma) (a)	$ 11,181	$ 5,832
BNS (Historical) (b)	3,678	6,558
Income of associated companies (c)	13,139	—
Total	$ 27,998	$ 12,390

(a) Steel Excel's reported revenue and net income from continuing operations before income taxes, included in SPH's consolidated financial statements was $72,402 and $8,217 for the year ended December 31, 2012.
(b) Includes five months and eleven months of Sun Well's operating results in 2012 and 2011, respectively.
(c) Effective January 1, 2012, equity method income or loss for Steel Excel was reclassified to the Energy segment due to acquisitions of oil field servicing companies. During 2011, equity method income or losses from Steel Excel are classified in the Corporate and other segment as Steel Excel did not have any significant operations at that time. As discussed below, the Company consolidated Steel Excel effective May 31, 2012, the date that its interest in Steel Excel exceeded 50%.

SPH's newly formed Energy segment consists of its consolidated subsidiary Steel Excel, which was acquired on May 31, 2012, and BNS. For comparability, BNS's results for 2012 (from January, 2012 through June 30, 2012) and 2011, have been reclassified from the Diversified Industrial segment to the Energy segment since the results of BNS for the years ended December 31, 2012 and 2011 include the results of Sun Well prior to its sale to Steel Excel. BNS was included in Corporate and Other in 2010 since it was a holding company with no continuing operations, prior to its February 2011 acquisition of Sun Well.

Steel Excel owns several oil field services companies, including Sun Well as of May 31, 2012, providing premium well services to exploration and production (“E&P”) companies operating primarily in the Williston Basin in North Dakota and eastern Montana. Steel Excel provides critical services needed by E&P operators, including well completion, well maintenance and workover, well recompletion, hydrostatic tubular testing and plug and abandonment services. In addition, Steel Excel has a sports business ("Steel Sports") which is a network of branded participatory and experience-based businesses engaged in sports, training, entertainment and consumer lifestyle. The operations of Steel Sports are not considered material and are included in the Energy segment. Steel Excel was previously accounted for as an associated company at fair value prior to SPH increasing its ownership over 50%. Seven months of Steel Excel's results are included in the Energy segment for the year ended December 31, 2012.

Financial Services Segment

The Financial Services segment, for financial reporting purposes, consists of our consolidated and wholly-owned subsidiary WebBank (which operates in niche banking markets), and WF Asset Corp (which consists of a portfolio of investments). WebBank provides commercial and consumer loans and services. WebBank's deposits are insured by the FDIC, and the bank is examined and regulated by the FDIC and UDFI.

The following presents a summary of the Financial Services segment operating results as reported in our consolidated financial statements:

	Year Ended December 31,		
	2012	2011	2010
Revenue:			
Interest income (including fees)	$ 16,051	$ 10,749	$ 8,055
Non-interest income	5,104	4,172	2,748
	21,155	14,921	10,803
Costs and expenses:			
Interest	957	941	796
(Recovery of) provision for loan losses	(416)	8	(420)
Selling, general and administrative expenses	7,700	6,763	6,046
Asset impairment charge	1	1,044	—
	8,242	8,756	6,422
Net income from continuing operations before income taxes	$ 12,913	$ 6,165	$ 4,381

Net Interest Income, Margin and Interest Rate Spreads

Net interest income is the difference between interest earned on interest-bearing assets and interest incurred on interest-bearing liabilities. By its nature, net interest income is especially vulnerable to changes in the mix and amounts of interest-earning assets and interest-bearing liabilities. In addition, changes in the interest rates and yields associated with these assets and liabilities can significantly impact net interest income. The following table summarizes the average balances, the amount of interest earned or incurred and the applicable yields for interest-earning assets and the costs of interest-bearing liabilities that generate net interest income. For purposes of calculating the yields in these schedules, the average loan balances also include the principal amounts of nonaccrual and restructured loans. However, interest received on nonaccrual loans is included in income only to the extent that cash payments have been received and not applied to principal reductions. In addition, interest on restructured loans is generally accrued at reduced rates.

	Year Ended December 31,								
	2012			2011			2010		
	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Yield/ Rate
Interest Earning Assets:									
Loans Receivable	$ 45,377	$ 15,822	34.8%	$ 39,666	$ 10,598	26.7%	$ 35,819	$ 7,978	22.3%
Mortgaged-Backed Security	—	—	—	1	—	—	1	—	—
Available for Sale Investments	523	16	3.1%	507	19	—	—	—	—
Fed Funds Sold	1,634	2	0.1%	1,438	2	—	4,854	8	0.2%
Interest Bearing Deposits in other Banks	83,127	209	0.3%	52,916	130	—	28,369	69	0.2%
Total Interest-Earning Assets	130,661	16,049	12.3%	94,528	10,749	11.4%	69,043	8,055	11.7%
Non Interest-Earning Assets	1,240			865			984		
Total Assets	$ 131,901			$ 95,393			$ 70,027		
Interest-Bearing Liabilities:									
Money Market Accounts	$ 13,789	57	0.4%	$ 8,902	31	0.3%	$ 6,280	23	0.4%
Time Deposits	70,677	900	1.3%	61,476	910	1.5%	45,510	773	1.7%
Other Borrowings	—	—	—	—	—	—	10	—	—
Total Interest-Bearing Liabilities	84,466	957	1.1%	70,378	941	1.3%	51,800	796	1.5%
Other Non Interest-Bearing Liabilities	18,887			3,148			2,483		
Total Liabilities	103,353			73,526			54,283		
Shareholder's Equity	28,548			21,867			15,744		
Total Liabilities & Shareholder's Equity	$ 131,901			$ 95,393			$ 70,027		
Net Interest Income		$ 15,092			$ 9,808			$ 7,259	
Spread on Average Interest-Bearing Funds			11.2%			10.1%			10.1%
Net Interest Margin			11.6%			13.9%			10.5%
Return on Assets			6.2%			7.5%			6.2%
Return on Equity			24.4%			28.3%			27.6%
Equity to Assets			21.5%			26.4%			25.9%

WebBank has several lending arrangements with companies where it originates private label credit card and other loans for consumers and small businesses. These loans are classified as held for sale and are typically sold a few days after origination. As part of these arrangements WebBank earns origination fees that are recorded in interest income, and which increase WebBank's yield on loans.

Interest Income

Interest income increased by $5,302, or 49.3%, in the year ended December 31, 2012, compared to 2011. The increases were due primarily to two new lending programs with favorable rates. The programs began in the third quarter of 2012.

Interest income increased by $2,694, or 33.4%, in 2011 compared to 2010 due primarily to a new lending program. The program began in the third quarter of 2010.

Interest Expense

Interest expense represents interest accrued on WebBank depositor accounts.

Interest expense increased $16, or 1.7%, for the twelve months ended December 31, 2012, compared to 2011, due to increased deposits to fund asset growth.

Interest expense increased $145, or 18.2%, for the year ended December 31, 2011, compared to 2010, largely due to growth in average deposits partially offset by a decrease in average interest rates on certificates of deposits. Deposits increased $34,003, or 54.9%, from December 31, 2010 to December 31, 2011. The increase in deposits occurred late in the third quarter in order to fund the increased liquidity needs of an existing lending program.

The following table presents the effects of changing rates and volumes on WebBank's net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The total column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Year Ended December 31,								
	2012 vs 2011			2011 vs. 2010			2010 vs. 2009		
Rate/Volume	Increase/ (Decrease) Due to Volume	Increase/ (Decrease) Due to Rate	Total Increase/ (Decrease)	Increase/ (Decrease) Due to Volume	Increase/ (Decrease) Due to Rate	Total Increase/ (Decrease)	Increase/ (Decrease) Due to Volume	Increase/ (Decrease) Due to Rate	Total Increase/ (Decrease)
Interest Earning Assets:									
Loans Receivable	$ 1,675	$ 3,549	$ 5,224	$ 917	$ 1,702	$ 2,619	$ 115	$ 4,706	$ 4,821
Available For Sale Investments	—	—	—	19	—	19	—	—	—
Fed Funds Sold	—	—	—	(5)	(1)	(6)	(3)	(7)	(10)
Interest Bearing Deposits in other Banks	75	1	76	60	2	62	63	4	67
Total Interest-Earning Assets	1,750	3,550	5,300	991	1,703	2,694	175	4,703	4,878
Interest-Bearing Liabilities:									
Money Market Accounts	19	6	25	9	(1)	8	6	14	20
Time Deposits	(139)	130	(9)	216	(79)	137	340	(36)	304
Total Interest-Bearing Liabilities	(120)	136	16	225	(80)	145	346	(22)	324
Net Effect on Net Interest Income	$ 1,870	$ 3,414	$ 5,284	$ 766	$ 1,783	$ 2,549	$ (171)	$ 4,725	$ 4,554

Noninterest Income

Noninterest income increased $932, or 22.3% for the year ended December 31, 2012, compared to 2011, due primarily to increased fee income from a new lending program.

Noninterest income increased $1,424, or 51.8%, for the year ended December 30, 2011 compared to 2010, due primarily to increased fee income on existing lending programs and one new lending program.

(Recovery of) Provision for Loan Losses

At December 31, 2012, WebBank had an estimated $2,915 of impaired loans (of which $2,328 is guaranteed by the USDA or SBA) and an allowance for loan losses of $284.

The (recovery of) provision for loan losses is primarily related to WebBank's portfolio of local real estate loans. WebBank routinely obtains appraisals on underlying collateral of nonperforming loans and records a provision for losses if the value of the collateral declines below the value of the loans. WebBank recorded a reduction of provision for loan losses resulting from recoveries of principal amounts previously allowed against of $416 for the year ended December 31, 2012, compared to a provision of $8 for the year ended December 31, 2011.

WebBank recorded a provision for loan losses of $8 for the year ended December 31, 2011, compared to a reduction of $(420) for the year ended December 31, 2010.

Selling General and Administrative Expenses

The increase in SG&A expenses of $937, or 13.9%, for the year ended December 31, 2012, compared to the year ended December 31, 2011, was due to higher personnel expense in 2012, partially offset by a benefit in the reserve for off balance sheet credit exposures of $440, lower professional fees and other costs in 2012.

The increase in selling, general and administrative expenses of $717, or 11.9% for the year ended December 31, 2011 compared to 2010 was due primarily to higher personnel expense in 2011 partially offset by no expense in 2011 as compared to $775 of expense in 2010 related to the reserve for off balance sheet credit exposures.

Balance Sheet Analysis

Loan Portfolio

As of December 31, 2012, net loans accounted for 49% of WebBank's total assets compared to 35% at the end of 2011. The following table presents WebBank's loans outstanding by type of loan as of December 31, 2012 and the five most recent year-ends.

	As of December 31,									
	2012		2011		2010		2009		2008	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Real Estate Loans:										
Construction	$ —	—	$ —	—	$ 988	3.3%	$ 3,646	10.2%	$ 7,927	20.6%
Commercial - Owner Occupied	6,724	9.8%	8,340	18.8%	9,546	31.9%	10,425	29.3%	10,978	28.5%
Commercial - Other	318	0.5%	300	0.7%	276	0.9%	2,273	6.4%	902	2.4%
Total Real Estate Loans	7,042	10.3%	8,640	19.5%	10,810	36.1%	16,344	45.9%	19,807	51.5%
Commercial and Industrial:	9,832	14.4%	4,344	9.8%	6,219	20.8%	9,340	26.2%	16,887	43.9%
Total Commercial and Industrial	9,832	14.4%	4,344	9.8%	6,219	20.8%	9,340	26.2%	16,887	43.9%
Consumer:										
Credit Cards	—	—	—	—	—	—	517	1.5%	568	1.5%
Total Consumer	—	—	—	—	—	—	517	1.5%	568	1.5%
Loans Held for Sale:	51,505	75.3%	31,363	70.7%	12,903	43.1%	9,404	26.4%	1,198	3.1%
Total Loans	68,379	100%	44,347	100%	29,932	100%	35,605	100%	38,460	100%
Less:										
Deferred Fees and Discounts	21		(56)		(64)		(188)		(263)	
Allowance for Loan Losses	(285)		(529)		(1,541)		(2,193)		(2,302)	
Total Loans Receivable, Net	$ 68,115		$ 43,762		$ 28,327		$ 33,224		$ 35,895	

The following table includes a maturity profile for the loans that were outstanding at December 31, 2012, substantially all of which have floating or adjustable interest rates:

Due During Years Ending December 31,	Real Estate	Commercial & Industrial	Loans Held for Sale
2013	$ 207	$ 451	$ 51,505
2014-2018	2,235	2,928	—
2019 and following	4,599	6,453	—
Total	$ 7,041	$ 9,832	$ 51,505

Nonperforming Lending Related Assets

Total nonaccrual loans at December 31, 2012 decreased by $770 from December 31, 2011. The decrease included $767 for commercial owner occupied loans and $3 for commercial and industrial loans.

	December 31,				
	2012	2011	2010	2009	2008
Non-Accruing Loans:					
Commercial Real Estate - Construction	$ —	$ —	$ 988	$ 3,131	$ 544
Commercial Real Estate - Owner Occupied	147	914	207	705	47
Commercial Real Estate - Other	—	—	—	213	40
Commercial and Industrial	94	97	419	610	447
Other	—	—	—	114	—
Total	241	1,011	1,614	4,773	1,078
Accruing Loans Delinquent :					
90 Days or More	2,581	—	—	401	2,073
Total	2,581	—	—	401	2,073
Restructured Loans:					
Commercial Real Estate - Owner Occupied	—	1	18	—	—
Commercial and Industrial	—	—	7	—	—
Total	—	1	25	—	—
Foreclosed Assets:					
Commercial Real Estate - Construction	—	—	—	232	—
Commercial Real Estate - Owner Occupied	68	333	38	170	432
Commercial and Industrial	—	—	53	—	—
Other	—	—	—	257	514
Total	68	333	91	659	946
Total Non-Performing Assets	$ 2,890	$ 1,345	$ 1,730	$ 5,833	$ 4,097
Total as a Percentage of Total Assets	2.1%	1.1%	2%	8.9%	9.4%

Nonaccrual loans also include nonperforming loans which have been restructured and classified as troubled debt restructured loans (TDRs).

TDRs are loans which have been modified to accommodate a borrower who is experiencing financial difficulties, and for which the Company has granted a concession that it would not otherwise consider. These modifications are structured on a loan-by-loan basis, and depending on the circumstances, may include extended payment terms, a modified interest rate, forgiveness of principal (on occasion), or other concessions. However, not all modifications are TDRs; modifications are also performed in the normal course of business for borrowers that are not experiencing financial difficulty, wherein WebBank meets the customer's specific needs, comply with contractual commitments, as well as for competitive reasons.

WebBank considers many factors in determining whether to agree to a loan modification involving concessions, and seeks a solution that will both minimize potential loss to WebBank and attempt to help the borrower. WebBank evaluates the borrower's current and forecasted future cash flows, their ability and willingness to make current contractual or proposed modified payments, the value of the underlying collateral (if applicable), the possibility of obtaining additional security, and the potential costs related to a repossession or foreclosure and the subsequent sale of the collateral.

TDRs are classified as either accrual or nonaccrual loans. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a period of six months to demonstrate that the borrower can meet the restructured terms. However, performance prior to the restructuring or significant events that coincide with the restructuring are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of restructuring or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan.

Summary of Loan Loss Experience

The methodologies used to estimate the allowance for loan losses ("ALLL") depend upon the impairment status and portfolio segment of the loan. A comprehensive loan grading system is used to assign loss given default grades to each loan. Loss given default grades are based on both financial and statistical models and loan officers' judgment. Groupings of these grades are created for each loan class and calculate historic and industry loss rates ranging from the previous 36 to 48 months.

After applying historic loss experience, as described above, we review the quantitatively derived level of ALLL for each segment using qualitative criteria. We track various risk factors that influence our judgment regarding the level of the ALLL across the portfolio segments.

The following table summarizes activity in WebBank's allowance for loan and lease losses for the periods indicated:

	December 31,				
	2012	**2011**	**2010**	**2009**	**2008**
Balance at Beginning of Period	$ 529	$ 1,541	$ 2,193	$ 2,302	$ 269
Charge Offs:					
Commercial Real Estate - Construction	—	(440)	(80)	(4,350)	(56)
Commercial Real Estate - Owner Occupied	(1)	(422)	(482)	(500)	(48)
Commercial Real Estate - Other	—	—	(268)	(545)	(7)
Commercial and Industrial	—	(727)	(714)	(1,379)	(795)
Other	—	—	—	—	—
Total Charge Offs	(1)	(1,589)	(1,544)	(6,774)	(906)
Recoveries:					
Commercial Real Estate - Construction	—	466	961	—	—
Commercial Real Estate - Owner Occupied	47	27	2	—	—
Commercial Real Estate - Other	44	44	18	—	—
Commercial and Industrial	80	32	331	20	31
Total Recoveries	171	569	1,312	20	31
Net (Charge Offs) Recoveries	170	(1,020)	(232)	(6,754)	(875)
Additions Charged to Operations	(416)	8	(420)	6,645	2,908
Balance at End of Period	$ 283	$ 529	$ 1,541	$ 2,193	$ 2,302
Ratio of Net Charge Offs During the Period to Average Loans Outstanding During the Period	(0.4)%	2.6%	0.7%	19.6%	2.5%

The distribution of WebBank's allowance for losses on loans at the dates indicated is summarized as follows:

	December 31,									
	2012		2011		2010		2009		2008	
	Amount	% of Loans in Each Category of Total Loans	Amount	% of Loans in Each Category of Total Loans	Amount	% of Loans in Each Category of Total Loans	Amount	% of Loans in Each Category of Total Loans	Amount	% of Loans in Each Category of Total Loans
Commercial Real Estate - Construction	$ —	$ —	$ —	$ —	$ 200	3.3%	$ 85	10.2%	$ 851	20.6%
Commercial Real Estate - Owner Occupied	187	9.8%	346	18.8%	293	31.9%	596	29.3%	635	28.5%
Commercial Real Estate - Other	34	0.5%	47	0.7%	8	0.9%	300	6.4%	20	2.4%
Commercial and Industrial	64	14.4%	136	9.8%	565	20.8%	737	26.2%	665	43.9%
Credit Cards	—	—	—	—	—	—	—	1.5%	1	1.5%
Loans Held for Sale	—	75.3%	—	70.7%	—	43.1%	—	26.4%	—	3.1%
Unallocated	—	—	—	—	475	—	475	—	130	—
Total Loans	$ 285	100%	$ 529	100%	$ 1,541	100%	$ 2,193	100%	$ 2,302	100%

Corporate and Other

The following presents a summary of Corporate and Other segment operating results as reported in our consolidated financial statements:

	Year Ended December 31,		
	2012	2011	2010
Revenue:			
Investment and other income	$ 2,347	$ 867	$ 4,418
Net investment gains (losses)	15,722	(4,352)	24,050
	18,069	(3,485)	28,468
Costs and expenses:			
Interest	152	618	1,163
Selling, general and administrative expenses	15,990	10,373	12,933
Impairment charges	1,409	—	—
Management fees - related party	7,424	8,169	7,531
Increase (decrease) in deferred fee liability to related party	11,448	(6,107)	6,268
Other expense (income) (a)	133	(8,978)	—
	36,556	4,075	27,895
(Loss) income from continuing operations before income (loss) from equity method investments and investments held at fair value	(18,487)	(7,560)	573
Equity Method Investments:			
Loss of associated companies	(731)	(22,535)	(10,873)
Loss from other investments - related party	(8,329)	(15,743)	(3,220)
Total loss from equity method investments	(9,060)	(38,278)	(14,093)
Income (loss) from investments held at fair value	18,967	(183)	(411)
Net loss from continuing operations	$ (8,580)	$ (46,021)	$ (13,931)

(a) Amount in 2011 represents bargain purchase gain related to the acquisition of DGT (see Note 3 - "Acquisitions" to the SPH financial statements included elsewhere in this Form 10-K).

The Corporate and Other segment consists of several consolidated subsidiaries as well as various investments and cash and cash equivalents. Corporate assets, revenues and overhead expenses are not allocated to the segments. Corporate revenues primarily consist of investment and other income, investment gains and losses and rental income. As of December 31, 2012, the Corporate and other segment had investments in available-for-sale securities, the SPII Liquidating Trust, CoSine, Fox & Hound and cash and cash equivalents. Effective December 31, 2011, the Company's investments in API and JPS were reclassified from associated companies to available for sale securities, and accordingly are currently classified in the Corporate and Other segment in 2012. Below is additional information related to the consolidated businesses and equity method investments included in the Corporate and Other segment:

Consolidated businesses:

- SPH services provides legal, tax, accounting, treasury, consulting, auditing, administration, compliance, environmental health and safety, human resources, marketing, investor relations and similar services, to other affiliated companies.
- DGT's current operations are the leasing and management of two facilities that were not included in the assets sold to the new owners of Villa and RFI. In addition to management of the real estate business, DGT's business is expected to consist primarily of capital redeployment and identification of new profitable operations where it can utilize its existing working capital and maximize the use of the Company's net operating losses.
- The expenses related to the BNS Liquidating Trust are included in Corporate and Other from July 1, 2012 through December 31, 2012. On June 18, 2012, BNS completed a distribution to its shareholders, pursuant to shareholder approval. In June 2012, BNS formed a liquidating trust, (the "BNS Liquidating Trust"), assigned its assets and liabilities to the BNS Liquidating Trust and initiated its dissolution. The BNS Liquidating Trust is part of the Corporate and Other segment from July 1, 2012 through December 31, 2012. For additional information, see Note 16 - "Capital and Accumulated Other Comprehensive Loss."

Equity Method Investments:

- CoSine is in the business of seeking to acquire one or more business operations. We account for Cosine under the equity method of accounting.
- Fox & Hound is an owner of franchised social destination casual dining and entertainment based restaurants. We account for Fox & Hound under the equity method of accounting, and elected the fair value option.
- The SPII Liquidating Trust investments are accounted for under the fair value option; and changes in fair value are reported in the consolidated statement of operations and in the Corporate segment as “Loss from other investment - related party”.

Prior to December 31, 2012, the Corporate and Other segment also included the Company's direct and indirect investment in Barbican (which was sold in October 2012); BNS (through February 2, 2011, the date BNS acquired SWH), as well as associated company Steel Excel (through December 31, 2011). Associated company earnings for Steel Excel are classified in the Energy segment effective January 1, 2012 and the consolidated results of Steel Excel are included in the Energy segment Effective May 31, 2012 (the date it became a majority-owned subsidiary).

<u>Revenue</u>

Investment and other income is often based on a limited number of transactions, the timing and amounts of which are not always predictable. Net investment gains (losses) include realized gains and losses on sales of securities and write-downs of investments available-for-sale when there is deemed to be an other than temporary impairment. The Company's decision to sell securities and realize gains or losses generally includes its evaluation of strategic considerations, an individual security's value at the time and the prospect for changes in its value in the future. The timing of realized investment gains or losses is not predictable and does not follow any pattern from year to year. Interest and dividend income will vary depending on the type and amount of securities held from year to year.

Investment and other income increased by $1,480 or 170.7% for the year ended December 31, 2012, compared to 2011. The increase in 2012 was primarily due to higher dividend income as a result of an approximately $2,000 dividend from SLI (see Note 5 - "Investments" to the SPH financial statements found elsewhere in this Form 10-K for additional information.

Investment and other income decreased by $3,551, or 80.4% for the year ended December 31, 2011 compared to 2010. The decrease in 2011 was primarily due to a decline in the fair value of investments, partially offset by interest income. The income in 2010 is comprised primarily of interest income.

Net investment gains for the year ended December 31, 2012 were $15,722 compared to $4,352 in 2011. The net gains in 2012 were primarily due to the gain on the Company's investment in Steel Excel of approximately $13,500 resulting from remeasuring our investment to fair value upon acquisition of the majority interest in Steel Excel on May 31, 2012. The net investment losses in 2011 were primarily due to losses on certain derivative investments, partially offset by a gain on our investment in DGT of $7,921 resulting from the re-measurement of our investment upon the acquisition of a majority interest in DGT on July 5, 2011. See Note 3 - "Acquisitions" to the SPH financial statements found elsewhere in this Form 10-K for further information.

Net investment losses for the year ended December 31, 2011 were $4,352 compared to gains of $24,050 in the same period of 2010. The net loss in the 2011 period was due to losses on certain derivative investments, partially offset by the aforementioned a gain on our investment in DGT. The net gain in the 2010 period was due to realized gains on the sales of certain equity and other investments.

Interest Expense

In the ordinary course of business the Company may sell securities short and enter into foreign currency transactions which, in effect, in certain circumstances, may represent borrowings from the counterparty. Interest expense represents interest and other fees on such transactions.

Selling, General and Administrative Expenses

SG&A expenses consist primarily of legal, accounting, audit, tax, professional fees in all periods and common unit option expense in 2011 and 2010.

SG&A expenses increased by $5,617 or 54.2% in the twelve months ended December 31, 2012, compared to 2011, primarily due to the aforementioned reclassification of DGT (which was included for a full year in 2012) to the Corporate and Other segment in 2012 and the approximately $1,700 reduction of option expense recorded in 2011.

SG&A expenses decreased by $2,560 or 19.8% in the twelve months ended December 31, 2011, compared to 2010, primarily due to the reclassification of BNS to the Diversified Industrial segment in 2011 after BNS purchased SWH, which reduced 2011 Corporate SG&A expenses by approximately $1,500. In addition, the decrease in SG&A expenses was impacted by a decrease in expense related to the common unit option liability (see Note 16 - Capital and Comprehensive Income” in the SPH financial statements included elsewhere in this Form 10-K). These factors were partially offset by higher professional and consulting costs in 2011 compared to the same period in 2010.

Impairment Charges

In the third quarter of 2012, the Company recorded an impairment charge of $580 related to its investment in a Japanese real estate partnership (see Note 5 - "Investments" in the SPH financial statements found elsewhere in this Form 10-K). In addition, the Company recorded an other than temporary impairment of $829 related to an available for sale security that it holds.

Management Fees to Related Party

Under a management agreement with the Manager effective January 1, 2009 and amended July 15, 2009, SPH paid a monthly management fee based on 1.5% per annum of the net asset value of the Company’s common units. Effective January 1, 2012, SPH is paying a quarterly Management Fee at a rate of 1.5% of total partner’s capital, payable on the first day of each quarter and subject to quarterly adjustment. SPH also reimburses the Manager for any costs it incurs on behalf of the Company or in connection with its provision of services under the management agreement. For additional information, see Note 13 – “Related Party Transactions” to the SPH financial statements found elsewhere in this Form 10-K.

(Decrease) Increase in Deferred Fee Liability to Related Party

(Decrease) Increase in deferred fee liability to related party is an expense that arose beginning July 16, 2009 as a result of the assumption, in connection with the Exchange Transaction, of an obligation pursuant to a deferred fee agreement due to the Investment Manager, an affiliate of the Manager ("Deferred Fee Liability"). The increase in Deferred Fee Liability to related party of $11,448 recorded for the year ended December 31, 2012 was due to an increase in an index related to the value of SPH. On April 11, 2012, the Company and the Investment Manager terminated the Investor Services Agreement by mutual consent. As

a result of the termination of the Investor Services Agreement the full amount in the Deferred Fee Liability became immediately payable. As a result, on April 11 and May 11, 2012, 6,403,002 and 536,645 class B common units, respectively, were issued to the Investment Manager. In connection with the termination of the Investor Services Agreement, the Investment Manager agreed not to sell any of the common units issued as payment for the deferred fee during the one year period following the Termination Date. For additional information, see Note 13 - "Related Party Transactions" to the SPH financial statements found elsewhere in this Form 10-K.

Equity Method Investments

(Loss) Income of Associated Companies

Income (loss) of associated companies includes income or loss we recognize on investments where we own between 20% and 50% of the outstanding equity and have the ability to exercise influence, but not control, over the investee. (Loss) income of associated companies included in the Corporate and Other segment is as follows:

	Ownership at December 31,	Year Ended December 31,		
	2012	2012	2011	2010
Steel Excel(a)	51.2%	$ —	$ (22,092)	$ (10,439)
CoSine	46.8%	(328)	(385)	(440)
Fox & Hound (b)	50.0%	(403)	—	—
Other		—	(58)	6
		$ (731)	$ (22,535)	$ (10,873)

(a) Effective January 1, 2012, Steel Excel was reclassified to the Energy segment due to acquisitions of oil field servicing companies. The equity method losses in 2011 and 2010 are still classified in Corporate and Other as Steel Excel did not have any significant operations in those periods.

(b) Fox & Hound became an associated company in the first quarter of 2012 (see Note 5 - "Investments" to the SPH financial statements found elsewhere in this Form 10-K).

Income (Loss) From Other Investments - Related Party

Income (loss) from other investments - related party represents the change in fair value that we recognize on our 43.75% investment in each series of the SPII Liquidating Trust (for additional information see Note 5 - “Investments” of the SPH financial statements found elsewhere in this Form 10-K). The loss in 2012 was primarily due to the series of the SPII Liquidating Trust that holds an interest in Fox & Hound Restaurant Group ("F&H"). On March 19, 2012, in conjunction with a long-term refinancing of its debt, Fox & Hound issued new common equity. As a result of the transaction, our interest in F&H through the SPII Liquidating Trust was diluted and reduced by approximately $11,200, which was recorded in the first quarter of 2012. The loss in 2011 was primarily due to the series of the SPII Trusts that held an interest in Barbican and F&H.

Income (Loss) From Investments Held at Fair Value

Income (loss) from investments held at fair value for the year ended December 31, 2012 includes income or loss that the Company recognizes on its direct investment in Barbican and API. For the years ended December 31, 2011 and 2010, Income (Loss) from investments held at fair value includes income or loss related to Barbican only as API was classified in the Diversified Industrial segment when it was classified as an Associated company. For additional information see Note 5 - "Investments" to the SPH financial statements found elsewhere in this Form 10-K.

Income Taxes

As a limited partnership, we are generally not responsible for federal and state income taxes and our profits and losses are passed directly to our limited partners for inclusion in their respective income tax returns. Provision has been made for federal, state, local or foreign income taxes on the results of operations generated by our corporate subsidiaries and these are reflected within continuing and discontinued operations. The difference between the effective tax rate and statutory federal rate of 35% is principally due to changes in the valuation allowances, various permanent differences included in the provisions of our subsidiaries, and partnership income not subject to taxation. The Company’s tax provision represents the income tax expense or benefit of its consolidated subsidiaries. The Company's consolidated subsidiaries have recorded deferred tax valuation

allowances to the extent that they believe that it is more likely than not that the benefits of its deferred tax assets will not be realized in future periods.

For the year ended December 31, 2012, a tax provision of $17,647 from continuing operations was recorded while a tax benefit from continuing operations of $65,119 was recorded for the year December 31, 2011. For the year ended December 31, 2010 a tax provision of $2,522 was recorded.

During 2011, the Company changed its judgment about the realizability of its deferred tax assets at certain subsidiaries. The Company considered factors such as future operating income of our subsidiaries, expected future taxable income, mix of taxable income, and available carryforward periods. As a result, the Company estimated that it was more likely than not that it would be able to realize the benefit of certain deferred tax assets. However, in certain jurisdictions, the Company does not consider it more likely than not that all of the state net operating loss carryforwards will be realized in future periods, and has retained a valuation allowance against those. Because the determination of the realizability of deferred tax assets is based upon management's judgment of future events and uncertainties, the amount of the deferred tax assets realized could be reduced if actual future income or income tax rates are lower than estimated. In accordance with GAAP, the effect of a change in the beginning-of-the-year balance of a valuation allowance that results from a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years should be included in income from continuing operations in the period of the change (see Note 19 - “Income Taxes” to the SPH financial statements found elsewhere in this Form 10-K). As a result, included in the Company's tax benefit in 2011 is approximately $83,000 related to the release of valuation allowances primarily relating to NOL's. Of this amount, approximately $73,000 was related to HNH and approximately $9,400 was related to BNS. As noted below, BNS wrote off the remaining deferred tax asset in 2012.

At December 31, 2012, HNH has U.S. federal NOLs of approximately $162,900 (approximately $57,000 tax-effected), as well as certain state NOLs. The U.S. federal NOLs expire between 2020 and 2029. Also included in deferred income tax assets are tax credit carryforwards of $2,300. HNH's net tax provision reflects utilization of approximately $21,000 of Federal NOLs in 2012.

At December 31, 2012, WebFinancial Holding Corporation has $108 of net operating loss carryforwards that are scheduled to expire beginning in 2026. From its inception, Web Financial Holding Corporation has experienced a history of inconsistent earnings which has made it “more likely than not” that some portion or all of its deferred tax assets would not be realized. Accordingly, a valuation allowance of approximately $1,034 has been established for the net operating loss carryforward and related party accrued interest at December 31, 2012.

During 2012, BNS sold its entire investment in Sun Well Holdings to SXCL. Subsequent to the sale, BNS was liquidated. As a result of the liquidation, BNS recognized $7,236 of tax expense related to the write off of the remaining deferred tax assets at the time of the liquidation.

At December 31, 2012, DGT has $25,278 of federal net operating loss carryforwards that are scheduled to expire from 2020 to 2030. Because of the uncertainty of future earnings of DGT, a valuation allowance of $11,221 has been established for the net operating loss carryforwards and other net deferred tax assets at December 31, 2012.

At December 31, 2012, SXCL has $126,000 of federal net operating loss carryforwards that are scheduled to expire beginning in 2019. SXCL also has federal research and development credit carryforwards of $30,300 that are scheduled to expire beginning in 2019. SXCL's analysis of its deferred tax assets resulted in the determination that it was more likely than not that not all of its net deferred tax assets will be realized, resulting in a valuation allowance of $46,729.

FINANCIAL CONDITION

We rely on our available liquidity to meet our short-term and long-term needs, and to make acquisitions of new businesses and additional investments in existing businesses. Except as otherwise disclosed herein, our operating businesses do not generally require material funds from us to support their operating activities, and we do not depend on positive cash flow from our operating segments to meet our liquidity needs. The components of our consolidated businesses and investments may change frequently as a result of acquisitions or divestitures, the timing of which is impossible to predict, but which often have a material impact on our consolidated statements of cash flows in any one period. Further, the timing and amounts of distributions from certain of our investments accounted for under the equity method are generally outside our control. As a result, reported cash flows from operating, investing and financing activities do not generally follow any particular pattern or trend, and reported results in the most recent period should not be expected to recur in any subsequent period.

Cash Flow Summary

	Year Ended December 31,		
	2012	2011	2010
Net cash provided by (used in) operating activities	$ 65,498	$ 5,488	$ 46,661
Net cash provided by (used in) investing activities	54,231	(81,062)	118,225
Net cash (used in) provided by financing activities	(48,997)	22,192	(98,439)
Change in period	$ 70,732	(53,382)	66,447

Cash Flows from Operating Activities

Net cash provided by operating activities for the twelve months ended December 31, 2012 was $65,498. Net income of $63,765 was partially offset by a decrease of $15,535 relating to changes in operating assets and liabilities. Of this working capital decrease, $20,142 was from an increase on loans held for sale, $12,895 was from a decrease in accounts payable and accrued and other liabilities, partially offset by an decrease in accounts receivable of $19,112 , and a decrease in inventories $932. Net income was also impacted by $11,448 relating to the increase in the Deferred Fee Liability to related party and $2,389 relating to net cash provided by operating activities of discontinued operations. The decrease in accounts receivable relates primarily to principally due to the impact of lower silver prices on HNH in 2012, compared with rising prices in 2011.

Net cash provided by operating activities for the twelve months ended December 31, 2011 was $5,488. Significant items that decreased cash flow from operations included $57,446 relating to changes in operating assets and liabilities (of which $10,182 was from an increase in receivables, $29,935 was from a decrease in accounts payable and accrued and other liabilities and $18,460 was due to a net increase in loans held for sale). In addition, the deferred fee liability decreased by $6,107 and net cash used by operating activities of discontinued operations was $1,501.

Net cash provided by operating activities for the year ended December 31, 2010 was $46,661. Significant items that increased cash flow from operations included $24,572 relating to changes in operating assets and liabilities (of which $27,400 was from reductions in accounts receivable), $6,268 relating to the increase in the Deferred Fee Liability to related party and $8,059 relating to net cash provided by operating activities of discontinued operations. The reduction in accounts receivable primarily relates to distributions received from the SPII Liquidating Trust and cash collected on receivables by HNH.

Cash Flows from Investing Activities

Net cash provided by investing activities for the twelve months ended December 31, 2012 was $54,231. Significant items included net cash acquired in acquisitions of $29,941, primarily from the acquisition of Steel Excel, proceeds from the sales of discontinued operations of $33,505 and investment sales net of purchases of $46,665. These cash increases were partially offset by investments in associated companies of $16,628, which represents our investment in Fox & Hound and additional investment in Steel Excel, and purchases of property plant and equipment of $36,256.

Net cash used in investing activities for the twelve months ended December 31, 2011 was $81,062. Significant cash outflows included investment purchases net of sales of $141,239, acquisitions, net of cash acquired of $35,751, additional investments in associated companies of $23,072, offset in part by the release of restricted cash relating primarily to closing out foreign currency financial instruments of $119,962, and proceeds received from the sale of discontinued operations of $26,532.

Net cash provided by investing activities for the year ended December 31, 2010 was $118,225, as the net proceeds from the sale of investments of $141,492 and proceeds from sale of discontinued operations of $64,693 was offset in part primarily by cash paid for investments in associated companies of $51,675, and the purchase of subsidiary shares from noncontrolling interests of $14,134.

Cash Flows from Financing Activities

Net cash used in financing activities for the twelve months ended December 31, 2012 was $48,997. This was due primarily to distributions paid to noncontrolling interest holders of BNS of $10,316, repayments of term loans of $95,833, lower bank deposits held by WebBank of $16,273, repurchases of subordinated notes of $10,847 and net revolver payments of $23,849, partially offset by proceeds from term loans of $116,838 and a net change in overdrafts of $1,365.

Net cash provided by financing activities for the twelve months ended December 31, 2011 was $22,192. This was due to higher bank deposits held by WebBank of $33,189 and net proceeds from term loans and short-term debt of $21,615, partially offset by common unit cash distributions of $29,868.

Net cash used in financing activities for the year ended December 31, 2010 was $98,439. This was due primarily to a common unit cash distribution of $49,102, net repayment of debt in excess of borrowings by HNH of $36,415 and net repayment of debt relating to discontinued operations of $22,772.

LIQUIDITY AND CAPITAL RESOURCES

Holding Company

SPH (excluding its operating subsidiaries, the "Holding Company") is a global diversified holding company whose assets principally consist of the stock of its direct subsidiaries, cash and cash equivalents and other non-controlling investments in debt and equity securities. Its principal potential sources of funds are available cash resources, investments, borrowings, public and private capital market transactions, repayment of subsidiary advances, distributions or dividends from subsidiaries, as well as dispositions of existing businesses and investments. The Holding Company's investments are subject to changes that may result in amounts realized from any future sales that are at times significantly different from the value we are reporting at December 31, 2012. These investments, including those accounted for under the equity method, can be impacted by market conditions, changes in the specific business environments of our investees or by the underlying performance of these businesses.

In addition to cash and cash equivalents, the Holding Company considers investments at fair value included in its consolidated balance sheet as being generally available to meet its liquidity needs. Investments at fair value are not as liquid as cash and cash equivalents, but they are generally convertible into cash within a reasonable period of time. As of December 31, 2012, the Holding Company had cash and cash equivalents of $48,231 and investments of $119,692. The Holding Company had $24,742 of restricted cash which serves as collateral with respect to foreign currency financial instruments. The Holding Company is not able to use these funds for other purposes, and the Holding Company does not consider this amount to be available to meet its liquidity needs.

The Holding Company generally does not have access to the cash flow generated by the Company's operating businesses for its needs, and the operating businesses generally do not rely on the Holding Company to support their operating activities. The Holding Company's available liquidity, and the investment income realized from the Holding Company's cash, cash equivalents and marketable securities is used to meet the Holding Company's recurring cash requirements, which are principally the payment of its overhead expenses.

The Holding Company and its operating businesses may use their available liquidity to make acquisitions of new businesses and other investments, but, the timing and cost of any future investments cannot be predicted. The Company may seek external debt or equity financing and will rely on its existing liquidity to fund corporate overhead expenses and new acquisition opportunities. It may also dispose of existing businesses and investments. At December 31, 2012, the Holding Company and its consolidated subsidiaries had, in the aggregate, cash and cash equivalents of $198,027 available for operations in the ordinary course of business and for the acquisition of interests in businesses.

Discussion of Segment Liquidity and Capital Resources

HNH

As of December 31, 2012, HNH's current assets totaled $188,676, its current liabilities totaled $82,148, and its working capital was $106,528, as compared to working capital of $71,200 as of December 31, 2011.

HNH generated $58,439 of positive cash flow from operating activities in the twelve months ended December 31, 2012 and $21,600 of cash used in operating activities in the comparable 2011 period. The increase in cash flow from operations was principally attributable to a lower use of working capital during the twelve months ended December 31, 2012. SPH's consolidated financial statements reflect pre-tax income from continuing operations of $39,814 and $37,856 relating to HNH for the twelve months ended December 31, 2012 and 2011, respectively.

HNH's debt is principally held by H&H Group, a wholly-owned subsidiary of HNH. HNH's subsidiaries borrow funds in order to finance capital expansion programs and for working capital needs. The terms of certain of those financing arrangements

place restrictions on distributions of funds to HNH, subject to certain exceptions including required pension payments to the WHX Corporation Pension Plan. HNH does not expect these restrictions to have an impact on HNH's ability to meet its cash obligations. HNH's ongoing operating cash flow requirements consist primarily of arranging for the funding of the minimum requirements of the WHX Corporation Pension Plan and paying HNH's administrative costs. HNH expects to have required minimum contributions to the WHX Pension Plan of $13,400, $19,200, $20,400, $17,400, $16,900 and $49,000 in 2013, 2014, 2015, 2016, 2017 and thereafter, respectively. Such required contributions are estimated based upon assumptions regarding such matters as discount rates on future obligations, assumed rates of return on plan assets and legislative changes. Actual future pension costs and required funding obligations will be affected by changes in the factors and assumptions described in the previous sentence, as well as other changes such as any plan termination.

On November 8, 2012, H&H Group entered into a $205,000 senior secured credit facility, consisting of a revolving credit facility in an aggregate principal amount not to exceed $90,000 and a term loan in an aggregate principal amount of $115,000 (collectively, "Senior Credit Facility"). HNH believes it has access to adequate resources to meet its needs for normal operating costs, capital expenditure, mandatory debt redemptions and working capital for its existing business. These resources include cash and cash equivalents, cash provided by operating activities and unused lines of credit. In January 2013, HNH divested substantially all of the assets and existing operations of its Continental Industries business unit for a cash sales price totaling approximately $37,500 less transaction fees, subject to a final working capital adjustment, with proceeds of $3,700 currently held in escrow pending resolution of certain indemnification provisions contained in the sales agreement.

HNH's ability to satisfy debt service obligations, to fund planned capital expenditures and required pension payments, and make acquisitions will depend upon its future operating performance, which will be affected by prevailing economic conditions in the markets in which it operates, as well as financial, business and other factors, some of which are beyond its control. The ability of H&H Group to draw on the Senior Credit Facility is limited by a borrowing base of accounts receivable and inventory. In addition, the Senior Credit Facility is subject to certain mandatory prepayment provisions and restrictive and financial covenants. There can be no assurances that H&H Group will continue to have access to its lines of credit if its financial performance does not satisfy the relevant borrowing base criteria and financial covenants set forth in the financing agreement. If H&H Group does not meet certain of its financial covenants or satisfy its borrowing base criteria, and if it is unable to secure necessary waivers or other amendments from the respective lenders on terms acceptable to management, its ability to access available lines of credit could be limited, its debt obligations could be accelerated by the respective lenders and liquidity could be adversely affected.

Management is utilizing the following strategies to continue to enhance liquidity: (1) continuing to implement improvements, using the HNH Business System, throughout all of the Company's operations to increase sales and operating efficiencies, (2) supporting profitable sales growth both internally and potentially through acquisitions and (3) evaluating from time to time and as appropriate, strategic alternatives with respect to its businesses and/or assets. The Company continues to examine all of its options and strategies, including acquisitions, divestitures and other corporate transactions, to increase cash flow and stockholder value.

DGT

At October 27, 2012, its most recent fiscal period reported to the SEC on Form 10-Q, DGT had $19,282 in cash and cash equivalents and $33,160 of securities held for sale.

In August, 2012 DGT completed the sale of its Power Conversion business operated by RFI and in November 2011, DGT sold its subsidiary, Villa. As a result of these transactions, DGT is currently a holding company whose primary assets are the aforementioned RFI and Milan buildings. In addition to management of the real estate business, DGT's business is expected to consist primarily of capital redeployment and identification of new profitable operations where it can utilize its existing working capital and maximize the use of their net operating losses.

Steel Excel

As of December 31, 2012, Steel Excel's working capital was $276,233 Steel Excel's principal source of liquidity is cash, cash equivalents and marketable securities on hand.

At December 31, 2012, Steel Excel had $270,684 in cash, cash equivalents and marketable securities. The available-for-sale securities included short-term deposits, corporate obligations, United States government securities, and obligations of government agencies. In the future, Steel Excel may make additional acquisitions of businesses, and may use a significant portion of its available cash balances for such acquisitions or for working capital needs thereafter.

Steel Excel's subsidiary, Sun Well, entered into a credit agreement with Wells Fargo Bank, National Association in June 2011 that included a $20,000 term loan and a revolving line of credit for up to $5,000. The term loan is repayable in $1,000 quarterly installments from September 30, 2011 through June 30, 2015. The balance of the term loan at December 31, 2012 was $13,000 of which $4,000 is shown as a current liability. In February and March 2013 Steel Excel made extra principal payments totaling $13,000,000 on their term loan with Wells Fargo Bank. Sun Well has no borrowings outstanding on the revolving line of credit at December 31, 2012.

Steel Excel uses capitalized lease obligations to fund a portion of its capital acquisitions. At December 31, 2012, capitalized lease obligations for Sun Well were approximately $1,605 as compared to $1,800 at December 31, 2011.

Steel Excel believes that its cash balances and cash generated from operations will be sufficient to satisfy its anticipated cash needs for working capital and capital expenditures for at least the next 12 months. The consummation of acquisitions in fiscal 2011 and 2012 and the anticipation of additional acquisitions in the future, prevailing economic conditions and/or financial, business and other factors beyond their control could adversely affect our estimates of our future cash requirements. As such, Steel Excel could be required to fund its cash requirements by alternative financing. In these instances, Steel Excel may seek to raise such additional funds through public or private equity or debt financings or from other sources. As a result, Steel Excel may not be able to obtain adequate or favorable equity financing, if needed, due in part to its shares of common stock currently trading on the OTCQB Market. Any equity financing Steel Excel obtains may dilute existing ownership interests, and any debt financing could contain covenants that impose limitations on the conduct of its business. There can be no assurance that additional financing, if needed, would be available on terms acceptable to Steel Excel or at all.

WebBank

WebBank manages its liquidity to provide adequate funds to meet anticipated financial obligations such as certificate of deposit maturities and to fund customer credit needs. WebBank had $66,938 and $77,285 in cash at the Federal Reserve Bank and in its Fed Funds account at its correspondent bank at December 31, 2012 and 2011, respectively. WebBank had $8,400 and $5,500 in lines of credit from its correspondent banks at December 31, 2012 and 2011, respectively. WebBank had $3,276 and $2,116 available from the Federal Reserve discount window at December 31, 2012 and 2011, respectively. Additionally, WebBank has available a $4,000 line of credit from the Holding Company at December 31, 2012 and 2011. This line of credit was terminated in March 2013. WebBank had a total of $82,614 and $88,901 in cash, lines of credit, and access to the Federal Reserve Bank discount window at December 31, 2012 and 2011, respectively, which represents approximately 60% and 71%, respectively, of WebBank's total assets.

Contractual Commitments and Contingencies

Our consolidated contractual obligations as of December 31, 2012 are identified in the table below:

	Payments Due By Period				
	Less Than 1 Year	**1 - 3 Years**	**3 - 5 Years**	**Thereafter**	**Total**
Debt Obligations	$ 14,149	$ 52,639	$ 87,426	$ —	$ 154,214
Estimated interest expense(1)	7,487	14,146	11,009	—	32,642
Deposits (2)	69,281	23,358	11,507	—	104,146
Lease obligations	6,673	9,316	3,097	3,996	23,082
Uncertain tax positions (3)	—	7,340	—	—	7,340
Pension and other postemployment benefit plans	13,600	40,200	34,900	49,700	138,400
Total	$ 111,190	$ 146,999	$ 147,939	$ 53,696	$ 459,824

(1) Excludes interest.

(2) The Company is unable to predict the timing of payments related to uncertain tax positions.

(3) The interest rates for the estimated interest expense were based on interest rates at December 31, 2012.

Environmental Liabilities

Certain of BNS' and HNH's facilities are environmentally impaired. BNS' and HNH have estimated their liability to remediate these sites to be $7,320 and $7,159, respectively, at December 31, 2012. For further discussion regarding these commitments, among others, see Note 21, “Commitments and Contingencies,” to the SPH financial statements included elsewhere in this Form 10-K.

Deposits

Deposits at WebBank at December 31, 2012, and 2011 were as follows:

	2012	2011
Current	$ 43,744	$ 38,293
Long-term	34,865	56,589
Total	$ 78,609	$ 94,882

The increase in deposits at December 31, 2012 compared with 2011 is due to WebBank's strategic decision to build its liquidity in relation to contractual lending programs. The average original maturity for time deposits at December 31, 2012 was 34 months compared with 31 months at December 31, 2011. The following table details the maturity of time deposits as of December 31, 2012:

	Maturity				
	< 3 Months	3 to 6 Months	6 to 12 Months	> 12 Months	Total
	(Dollars in Thousands)				
Certificate of Deposits less than $100	$ 4,000	$ 2,093	$ 13,456	$ 34,348	$ 53,897
Certificate of Deposits of $100 or more	2,643	2,926	744	493	6,806
Total Certificates of Deposits	$ 6,643	$ 5,019	$ 14,200	$ 34,841	$ 60,703

Off-Balance Sheet Risk

It is not the Company's usual business practice to enter into off-balance sheet arrangements such as guarantees on loans and financial commitments, indemnification arrangements, and retained interests in assets transferred to an unconsolidated entity for securitization purposes. Certain customers and suppliers of HNH's Joining Materials business choose to do business on a “toll” basis. Such customers or suppliers furnish precious metal to subsidiaries of H&H for return in fabricated form or for purchase from or return to the supplier. When the customer's precious metal is returned in fabricated form, the customer is charged a fabrication charge. The value of pooled precious metal is not included in HNH's balance sheet. As of December 31, 2012, HNH's customer metal consisted of 208,433 ounces of silver, 541 ounces of gold, and 1,399 ounces of palladium.

Securities sold, not yet purchased, at fair value represent obligations to deliver the specified security at the contracted price and, thereby, create a liability to repurchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk as SPH's ultimate obligation to satisfy the sale of securities sold, not yet purchased, at fair value may exceed the amount recognized in the statement of financial condition. At December 31, 2012 and 2011, there were no outstanding securities sold, not yet purchased.

SPH uses the same credit policy in making commitments and conditional obligations as it does for on-balance sheet instruments.

WebBank is a party to financial instruments with off-balance sheet risk. In the normal course of business, these financial instruments include commitments to extend credit in the form of loans. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement WebBank has in particular classes of financial instruments.

WebBank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments.

At December 31, 2012 and 2011, WebBank's undisbursed loan commitments totaled $155,378 and $113,350, respectively. Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. WebBank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by WebBank upon extension of credit is based on management's credit evaluation of the borrower.

Critical Accounting Policies

A summary of our accounting policies is set forth in Note 2 - "Summary of Significant Accounting Policies" to the SPH consolidated financial statements found elsewhere in this Form 10-K. In our view, the policies that involve the most subjective judgment and that have the potential to materially affect our financial statements are set forth below.

Investments

For the Diversified Industrial, Energy, Financial Services and other operations, we evaluate our investments as consolidated subsidiaries, associated companies, available-for-sale or held-to-maturity. Held-to-maturity securities are those debt securities that the Company has the ability and intent to hold until maturity. Associated companies are companies where our ownership is between 20% and 50% of the outstanding equity and have the ability to exercise significant influence, but not control over the investee. All other securities not included in held-to-maturity or associated companies are classified as available-for-sale.

Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Available-for-sale and trading securities are recorded at fair value. Unrealized holding gains or losses on available-for-sale securities are excluded from earnings and reported, until realized, in accumulated other comprehensive income (loss) as a separate component of SPH partners' capital. Associated companies and other investments - related party are accounted for using the equity method of accounting. In applying the equity method for the equity method investments where the fair value option has not been elected, SPH records the initial investment at cost and subsequently increases or decreases the investment by its proportionate share of the net income or loss of the investee. Dividends received from investees are recorded as reductions in the carrying value of the investment. For equity method investments which the Company has elected to measure at fair value, unrealized gains and losses are reported in the consolidated statement of operations as part of income (loss) from equity method investments and include income (loss) of certain associated companies and loss from other investments - related party.

Impairment of Investments

We evaluate our investments for impairment on a quarterly basis and disclose when appropriate if the potential for impairment exists. Our determination of whether a security is other than temporarily impaired incorporates both quantitative and qualitative information; GAAP requires the exercise of judgment in making this assessment, rather than the application of fixed mathematical criteria. We consider a number of factors including, but not limited to, the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, the reason for the decline in fair value, changes in fair value subsequent to the balance sheet date, the ability and intent to hold investments to maturity, and other factors specific to the individual investment. Our assessment involves a high degree of judgment and accordingly, actual results may differ materially from those estimates and judgments.

Use of Fair Value Estimates

Under GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Further, a fair value hierarchy prioritizes inputs to valuation techniques into three broad levels. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), the next priority to inputs that don't qualify as Level 1 inputs but are nonetheless observable, either directly or indirectly, for the particular asset or liability (Level 2), and the lowest priority to unobservable inputs (Level 3).

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. Significant transfers, if any, between the levels within the fair value hierarchy are recognized at the beginning of the reporting period.

The Company employs various methods within the market approach, income approach and/or cost approach and have also considered whether there were observable inputs. Certain discounts and other judgment factors were applied to arrive at the investments' fair value. Accordingly, the estimates are not necessarily indicative of the amounts that the Company or holders of the instruments could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

Changes in the local and national economy, the federal and state legislative and regulatory environments for financial institutions, the stock market, interest rates and other external factors (such as natural disasters or significant world events) may occur from time to time, often with great unpredictability. Such factors may materially impact the fair value of our assets and liabilities. Based on their respective balances as of December 31, 2012, we estimate that in the event of a 10% adverse change in the fair values of our marketable securities, long-term investments and liabilities at fair value would decrease by approximately $20,000, $19,000 and $2,500, respectively.

Business Combinations, Intangible Assets and Goodwill

When we acquire a business, we allocate the purchase price to the assets acquired, liabilities assumed and any noncontrolling interests based on their fair values at the acquisition date. Significant judgment may be used to determine these fair values including the use of appraisals, discounted cash flow models, market value for similar purchases, or other methods applicable to the circumstances. The excess of any purchase price we pay over the fair value of the net assets acquired is recorded as Goodwill, an asset that is not amortized but is subject to an impairment test at least annually and between annual testing dates if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its net book value. If the fair value of the net assets exceeds the purchase price the excess is treated as a bargain purchase and recognized in income. At December 31, 2012, the book value of goodwill was $63,622 and was not impaired when tested.

Subsequent to the finalization of the purchase price allocation, any adjustments to the recorded values of acquired assets and liabilities would be reflected in the Company's consolidated statement of operations. Once final, the Company is not permitted to revise the allocation of the original purchase price, even if subsequent events or circumstances prove the Company's original judgments and estimates to be incorrect. In addition, long-lived assets recorded in a business combination like property and equipment, amortizable intangibles and goodwill may be deemed to be impaired in the future resulting in the recognition of an impairment loss. The assumptions and judgments made by the Company when recording business combinations will have an impact on reported results of operations for many years into the future.

During 2012, there was a goodwill impairment of $192 recorded by Steel Excel and no impairments of intangible assets. There were no impairments of goodwill or intangible assets in 2011 or 2010.

Legal, Environmental and Other Contingencies

The outcomes of legal proceedings and claims brought against us are subject to significant uncertainty. An estimated loss from a loss contingency such as a legal proceeding or environmental remediation obligation or claim is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a contingency is required if there is at least a reasonable possibility that a loss has been incurred. In determining whether a loss should be accrued we evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially impact our financial statements.

Income Taxes

We converted into a limited partnership effective December 31, 2008. As a limited partnership, we are generally not responsible for federal and state income taxes and our profits and losses are passed directly to our limited partners for inclusion in their respective income tax returns. Our subsidiaries that are corporate subsidiaries are subject to federal and state income taxes. The table in Note 19 - “Income Taxes” to the SPH consolidated financial statements, included elsewhere in this Form 10-K, reconciles a hypothetical calculation of federal income taxes based on the federal statutory rate of 34% applied to the (loss) / income from continuing operations before income taxes and associated companies. The tax effect of income passed through to common unitholders is subtracted from the hypothetical calculation.

Our subsidiaries that are subject to income taxes use the liability method of accounting for such taxes. Under the liability method, deferred tax assets and deferred tax liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and deferred tax liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and deferred tax liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Our subsidiaries and associated companies evaluate the recoverability of deferred tax assets and establish a valuation allowance when it is more likely than not that some portion of the deferred tax assets will not be realized.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Recent Accounting Standards

See Note 2- "Summary of Significant Accounting Policies" to the SPH financial statements found elsewhere in this Form 10-K for information on recent accounting standards.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

In this “Quantitative and Qualitative Disclosure About Market Risk” section, all dollar amounts are in thousands, except for per share amounts.

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and commodity prices. Our significant market risks are primarily associated with interest rates, equity prices and derivatives. The following sections address the significant market risks associated with our business activities.

SPH's quantitative and qualitative disclosures about market risk include forward-looking statements with respect to management's opinion about the risk associated with the Company's financial instruments. These statements are based on certain assumptions with respect to market prices, interest rates and other industry-specific risk factors. To the extent these assumptions prove to be inaccurate, future outcomes may differ materially from those discussed herein.

Risks Relating to Investments

The Company's investments are primarily classified as available-for-sale and consequently are recorded on the balance sheet at fair value with unrealized gains and losses reflected in equity. The Company evaluates its investments for impairment on a quarterly basis.

Included in the Company's available-for-sale investments are equity securities, which are recorded in the balance sheet at an aggregate fair value of $136,921 and which comprised 89% of the Company's total available-for-sale investments at December 31, 2012. These investments are subject to equity price risk.

In order to mitigate its equity price risk, the Company from time to time may engage in short sales. At December 31, 2012, SPH has no securities sold, not yet purchased. Short sales represent obligations to deliver the specified security at the contracted price and, thereby, create a liability to repurchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk as the Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased, at fair value may exceed the amount recognized in the statement of financial condition.

The Company is also subject to price risk related to its investment in SLI , for which it has elected the fair value option. At December 31, 2012, this investment is classified as an investment in associated companies and carried at a fair value of $17,907.

Risks Relating to Interest Rates

WebBank

The Company through its WebBank subsidiary derives a portion of its income from the excess of interest collected over interest paid. The rates of interest WebBank earns on assets and pays on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, WebBank's results of operations, like those of most financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of its assets and liabilities. The risk associated with changes in interest rates and the ability to adapt to these changes is known as interest rate risk.

WebBank monitors and measures its exposure to changes in interest rates in order to comply with applicable government regulations and risk policies established by WebBank's Board of Directors, and in order to preserve shareholder value. In monitoring interest rate risk, WebBank analyzes assets and liabilities based on characteristics including size, coupon rate, repricing frequency, maturity date, and likelihood of prepayment.

If WebBank's assets mature or reprice more rapidly or to a greater extent than its liabilities, then net portfolio value and net interest income would tend to increase during periods of rising rates and decrease during periods of falling interest rates. Conversely, if WebBank's assets mature or reprice more slowly or to a lesser extent than its liabilities, then net portfolio value and net interest income would tend to decrease during periods of rising interest rates and increase during periods of falling interest rates.

WebBank currently focuses lending efforts toward originating competitively priced adjustable loan products with short to intermediate terms to maturity, generally 5 years or less. This theoretically allows WebBank to maintain a portfolio of loans

that will have relatively little sensitivity to changes in the level of interest rates, while providing a reasonable spread to the cost of liabilities used to fund the loans.

The principal objective of WebBank's asset/liability management is to manage the sensitivity of Market Value of Equity (MVE) to changing interest rates. Asset/liability management is governed by policies reviewed and approved annually by WebBank's Board of Directors. WebBank's Board of Directors has delegated the responsibility to oversee the administration of these policies to WebBank's asset/liability committee, or ALCO. The interest rate risk strategy currently deployed by ALCO is to primarily use “natural” balance sheet hedging (as opposed to derivative hedging). ALCO fine tunes the overall MVE sensitivity by recommending lending and deposit strategies. WebBank then executes the recommended strategy by increasing or decreasing the duration of the loan and deposit products, resulting in the appropriate level of market risk WebBank's Board of Directors wants to maintain.

WebBank measures interest rate sensitivity as the difference between amounts of interest earning assets and interest-bearing liabilities that mature or reprice within a given period of time. The difference provides an indication of the extent to which an institution's interest rate spread will be affected by changes in interest rates. If the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities, then the bank is considered to be asset sensitive. If the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets, then the bank is considered to be liability sensitive. In a rising interest rate environment, an institution that is asset sensitive would be in a better position than an institution that is liability sensitive because the yield on its assets would increase at a faster pace than the cost of its interest-bearing liabilities. During a period of falling interest rates, however, an institution that is asset sensitive would tend to have its assets reprice at a faster rate than its liabilities, which would tend to reduce the growth in its net interest income. The opposite is true if the institution is liability sensitive.

WebBank's Board of Directors and relevant government regulations establish limits on the level of acceptable interest rate risk at WebBank, to which management adheres. There can be no assurance, however, that, in the event of an adverse change in interest rates, WebBank's efforts to limit interest rate risk will be successful.

HNH

At HNH, fair value of cash and cash equivalents, receivables, short-term borrowings and accounts payable approximate their carrying values and are relatively insensitive to changes in interest rates due to the short-term maturity of the instruments or the variable nature of underlying interest rates.

HNH is subject to interest rate risk on its long-term debt. Generally, the fair market value of debt securities with a fixed interest rate will increase as interest rates fall, and the fair market value will decrease as interest rates rise. At December 31, 2012, HNH's portfolio of debt was comprised of variable rate and fixed rate instruments. An increase or decrease in interest expense from a 1% change in interest rates would be approximately $700 on an annual basis based on HNH's debt outstanding as of December 31, 2012. Accordingly, the fair value of such instruments may be relatively sensitive to effects of interest rate fluctuations.

A reduction in long-term interest rates could materially increase HNH's cash funding obligations to the HNH Pension Plan.

Steel Excel

Steel Excel in exposed to interest rate risk related to its investment portfolio and debt issuances. As of December 31, 2012, their available-for-sale securities, excluding those classified as cash equivalents, aggregated $199,128 (see Note 5 - "investments" to the SPH financial statements found elsewhere in this Form 10-K) and included corporate obligations, government agencies and United States government securities, all of which are high investment grade as specified by our investment policy. Steel Excel's investment policy also limits investment concentrations, the final maturity of any investment and the overall duration of the portfolio to preserve capital, meet liquidity requirements and maximize total return. Given the overall market conditions, Steel Excel reviews their investment portfolio to ensure adherence to our investment policy and to monitor individual investments for risk analysis and proper valuation. If the yield-to-maturity on our current available-for-sale investments declines by 10%, their “Interest and other income, net” would be negatively impacted by approximately $0.1 million.

Steel Excel's wholly owned subsidiary, Sun Well, entered into a credit agreement with a bank on June 30, 2011. The agreement includes a term loan of $20,000 and a revolving loan of up to $5,000. The loans are secured by the assets of Sun Well

and bear interest at the greater of (a) the bank's prime rate, (b) the Federal Funds rate plus 1.5%, or (c) the Daily One-Month LIBOR rate plus 1.50% for base rate loans, or Libor plus 3.5%. Sun Well is subject to interest rate risk on its debt.

Risks Relating to Commodity Prices

In the normal course of business, HNH and its subsidiaries are exposed to market risk or price fluctuations related to the purchase of natural gas, electricity, precious metals, steel products and certain non-ferrous metals used as raw materials. HNH is also exposed to the effects of price fluctuations on the value of its commodity inventories, specifically, its precious metal inventories. The raw materials and energy which we use are largely commodities, subject to price volatility caused by changes in global supply and demand and governmental controls.

HNH's market risk strategy has generally been to obtain competitive prices for its products and services, sourced from more than one vendor, and allow operating results to reflect market price movements dictated by supply and demand.

HNH enters into commodity futures and forward contracts in order to economically hedge the portion of its precious metal inventory that is not subject to fixed price contracts with customers against price fluctuations. Future and forward contracts to buy or sell precious metals are the derivatives used for this objective. As these derivatives are not designated as accounting hedges under ASC Subtopic 815-10, *Derivatives and Hedging*, they are accounted for as derivatives with no hedge designation. These derivatives are marked to market, and both realized and unrealized gains and losses on these derivatives are recorded in current period earnings as other income (loss). The unrealized gain or loss on the derivatives is included in other current assets or accrued liabilities. As of December 31, 2012, HNH had entered into forward and future contracts, with settlement dates ranging from January 2013 to March 2013, for gold with a total value of $400 and for silver with a total value of $1,500.

Certain customers and suppliers of HNH choose to do business on a “toll” basis. Such customers or suppliers furnish precious metal to subsidiaries of H&H for return in fabricated form or for purchase from or return to the supplier. When the customer's precious metal is returned in fabricated form, the customer is charged a fabrication charge. The value of pooled precious metal is not included in HNH's balance sheet. As of December 31, 2012, HNH's customer metal consisted of 208,433 ounces of silver, 541 ounces of gold, and 1,399 ounces of palladium. As of December 31, 2011, HNH’s customer metal consisted of 240,568 ounces of silver, 609 ounces of gold, and 1,396 ounces of palladium.

To the extent that we have not mitigated our exposure to rising raw material and energy prices, we may not be able to increase our prices to our customers to offset such potential raw material or energy price increases, which could have a material adverse effect on our results of operations and operating cash flows.

Risks Relating to Foreign Currency Exchange

The Company, primarily through its HNH subsidiary, manufactures and sells its products in a number of countries throughout the world and, as a result, is exposed to movements in foreign currency exchange rates. The Company's major foreign currency exposures involve the markets in Asia, Europe, Canada and Mexico. The Company is subject to the risk of price fluctuations related to anticipated revenues and operating costs, firm commitments for capital expenditures and existing assets or liabilities denominated in currencies other than U.S. dollars. The Company and HNH have not generally used derivative instruments to manage these specific risks. However, the Company from time to time enters into foreign currency financial instruments for broader risk management purposes including hedges of net investments in international operations. For the years ended December 31, 2012, 2011 and 2010, the Company incurred losses from foreign currency financial instruments of $787, $4,903 and $14,099, respectively. Financial instruments include amounts payable in foreign currencies of $24,742 at December 31, 2012 and $23,736 at December 31, 2011, primarily relating to the JPY in 2012 and the GBP in 2011, which are subject to the risk of exchange rate changes. These financial instruments are collateralized by an equivalent amount included in restricted cash and have no maturity date.

Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Steel Partners Holdings, L.P.

We have audited the accompanying consolidated balance sheets of Steel Partners Holdings, L.P. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), changes in capital, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Steel Excel Inc. and Subsidiaries (from May 31, 2012, date of consolidation through December 31, 2012), WebFinancial Holding Corporation and WF Asset Corp. , which statements reflect total assets constituting $563 million and $127.3 million, respectively, of the consolidated total assets as of December 31, 2012 and 2011, and total revenues of $93.6 million,$15.1 million and $10.8 million, respectively, of the consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Steel Excel Inc. and Subsidiaries, WebFinancial Holding Corporation and WF Asset Corp., is based solely on the reports of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting.
Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Steel Partners Holdings, L.P. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

New York, New York
March 21, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Steel Excel, Inc.
San Ramon, California

We have audited the accompanying consolidated balance sheets of Steel Excel Inc. (formerly ADPT Corporation) as of December 31, 2012 and 2011 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Steel Excel Inc. at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited the reclassifications to the consolidated financial statements for the nine months ended December 31, 2010 resulting from presenting the Company's Aristos Business as a discontinued operation and retroactively adjusting outstanding share and per share information for a reverse/forward split, as described in Notes 1 and 5. In our opinion, such reclassifications are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the December 31, 2010 financial statements of the Company referred to above other than with respect to the reclassifications and, accordingly, we do not express an opinion or any other form of assurance on the December 31, 2010 financial statements taken as a whole. The reclassifications had no effect on net loss.

/s/ BDO USA, LLP

San Jose, California
March 8, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
WebFinancial Holding Corporation and subsidiaries

We have audited the accompanying consolidated balance sheets of WebFinancial Holding Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2012. WebFinancial Holding Corporation's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WebFinancial Holding Corporation as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/HANSEN, BARNETT & MAXWELL P.C.

Salt Lake City, Utah
February 21, 2013

Registered with the Public Company Accounting Oversight Board

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
WF Asset Corp

We have audited the accompanying consolidated balance sheets of WF Asset Corp as of December 31, 2012 and 2011, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2012. WF Asset Corp's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WF Asset Corp as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/HANSEN, BARNETT & MAXWELL P.C.

Salt Lake City, Utah
February 21, 2013

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STEEL PARTNERS HOLDINGS L.P.
Consolidated Balance Sheets
(in thousands except common units)

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 198,027	$ 127,027
Restricted cash	28,180	23,736
Marketable securities	199,128	—
Trade and other receivables (net of allowance for doubtful accounts of $2,264 in 2012 and $2,286 in 2011)	87,657	85,785
Receivable from related parties	145	116
Loans receivable, net	51,899	34,820
Inventories, net	53,155	50,189
Deferred income taxes	24,029	20,038
Prepaid and other current assets	15,154	15,947
Assets of discontinued operations	23,378	66,855
Total current assets	680,752	424,513
Long-term loans receivable, net	16,216	8,942
Goodwill	63,622	36,756
Other intangibles, net	130,345	123,505
Deferred income taxes	77,101	70,625
Other non-current assets	24,300	22,692
Property, plant and equipment, net	186,158	121,919
Long-term investments	199,865	320,891
Total Assets	$ 1,378,359	$ 1,129,843

See accompanying Notes to Consolidated Financial Statements

STEEL PARTNERS HOLDINGS L.P.
Consolidated Balance Sheets
(in thousands except common units)
(continued)

	December 31, 2012	December 31, 2011
LIABILITIES AND CAPITAL		
Current liabilities:		
Accounts payable	$ 39,024	$ 34,965
Accrued liabilities	46,097	39,691
Financial instruments	24,742	23,736
Deposits	43,744	38,293
Payable to related parties	2,716	4,930
Current portion of deferred fee liability to related party	—	1,107
Short-term debt	1,124	24,168
Current portion of long-term debt	13,025	8,531
Deferred income taxes	1,022	736
Other current liabilities	4,629	3,239
Liabilities of discontinued operations	3,428	19,441
Total current liabilities	179,551	198,837
Long-term deposits	34,865	56,589
Deferred fee liability to related party	—	57,640
Long-term debt	140,065	130,955
Accrued pension liability	217,141	186,212
Deferred income taxes	5,736	6,231
Other liabilities	24,254	12,959
Total Liabilities	601,612	649,423
Commitments and Contingencies	—	—
Capital:		
Partners' capital common units: 30,786,100 and 25,183,039 issued and outstanding (after deducting 4,154,371 and 2,808,725 held in treasury, at cost of $63,181 and $48,099) at December 31, 2012 and December 31, 2011, respectively.	545,206	427,534
Accumulated other comprehensive loss	(17,862)	(11,737)
Total Partners' Capital	527,344	415,797
Noncontrolling interests in consolidated entities	249,403	64,623
Total Capital	776,747	480,420
Total Liabilities and Capital	$ 1,378,359	$ 1,129,843

See accompanying Notes to Consolidated Financial Statements

STEEL PARTNERS HOLDINGS L.P.
Consolidated Statements of Operations
(in thousands except units and per unit data)

	Year Ended December 31,		
	2012	**2011**	**2010**
Revenue			
Diversified industrial net sales	$ 629,396	$ 634,964	$ 367,124
Energy net sales	92,834	32,984	—
Financial services revenue	21,155	14,921	10,803
Investment and other income	2,347	867	4,418
Net investment gains (losses)	15,722	(4,352)	24,050
Total revenue	761,454	679,384	406,395
Costs and expenses			
Cost of goods sold	514,466	492,051	277,450
Selling, general and administrative expenses	166,841	134,002	83,607
Impairment charges	1,602	1,505	—
Finance interest expense	1,176	1,571	2,022
(Recovery of) provision for loan losses	(415)	8	(420)
Interest expense	13,429	12,424	12,123
Realized and unrealized (gain) loss on derivatives	(1,352)	397	5,164
Management fees - related party	7,424	8,169	7,531
Deferred fee liability to related party - increase (decrease)	11,448	(6,107)	6,268
Other income	700	(7,655)	—
Total costs and expenses	715,319	636,365	393,745
Income from continuing operations before income taxes and equity method income (loss)	46,135	43,019	12,650
Income tax provision (benefit)	17,647	(65,119)	2,522
Income from equity method investments and investments held at fair value:			
Income (Loss) of associated companies, net of taxes	14,204	(13,823)	10,305
Loss from other investments - related party	(8,329)	(15,743)	(3,220)
Income (Loss) from investments held at fair value	18,967	(183)	(411)
Net income from continuing operations	53,330	78,389	16,802
Discontinued operations:			
Income (Loss) from discontinued operations, net of taxes	3,272	1,917	(1,648)
Gain on sale of discontinued operations, net of taxes	7,163	971	31,292
Income from discontinued operations	10,435	2,888	29,644
Net income	63,765	81,277	46,446
Net income attributable to noncontrolling interests in consolidated entities:			
Continuing operations	(17,977)	(44,521)	(248)
Discontinued operations	(4,770)	(1,287)	(14,451)
	(22,747)	(45,808)	(14,699)
Net income attributable to common unitholders	$ 41,018	$ 35,469	$ 31,747
Net income per common unit - basic			
Net income from continuing operations	$ 1.19	$ 1.34	$ 0.66
Net income from discontinued operations	0.19	0.07	0.60
Net income attributable to common unitholders	$ 1.38	$ 1.41	$ 1.26
Net income per common unit - diluted			
Net income from continuing operations	$ 1.19	$ 0.94	$ 0.60
Net income from discontinued operations	0.19	0.05	0.56
Net income attributable to common unitholders	$ 1.38	$ 0.99	$ 1.16
Weighted average number of common units outstanding - basic	29,748,746	25,232,985	25,234,827
Weighted average number of common units outstanding - diluted	29,774,527	29,669,582	27,482,804

See accompanying Notes to Consolidated Financial Statements

STEEL PARTNERS HOLDINGS L.P.
Consolidated Statements of Comprehensive Income
(in thousands except units and per unit data)

	Year Ended December 31,		
	2012	**2011**	**2010**
Net income	$ 63,765	$ 81,277	$ 46,446
Other comprehensive income (loss), net of tax:			
Unrealized gain (loss) on available for sale securities, net of tax (a)	8,337	14,114	(37,436)
Currency translation adjustment	(477)	(4,896)	557
Change in net pension liability and post-retirement benefit obligations, net of tax (b)	(32,881)	(56,045)	(15,607)
Other comprehensive loss	(25,021)	(46,827)	(52,486)
Comprehensive income (loss)	38,744	34,450	(6,040)
Comprehensive loss attributable to non-controlling interests	(3,851)	(18,480)	(7,793)
Comprehensive income (loss) attributable to common unit holders	$ 34,893	$ 15,970	$ (13,833)

(a) Includes a net tax benefit of $5,826 , a net tax provision of $3,014 and net tax benefit of $0 for the twelve months ended December 31, 2012, 2011 and 2010, respectively.

(b) Includes a net tax benefit of $16,635, $30,273 and $0, for the twelve months ended December 2012, 2011 and 2010, respectively.

See accompanying Notes to Consolidated Financial Statements

STEEL PARTNERS HOLDINGS L.P.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	$ 63,765	$ 81,277	$ 46,446
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Net investment (gains) losses	(15,722)	4,352	(24,050)
(Recovery of) Provision for loan losses	(415)	8	(420)
(Income) loss of associated companies	(14,204)	13,823	(10,305)
Loss from other investments - related party	8,329	15,743	3,220
(Income) Loss from investments held at fair value	(18,967)	183	411
Gain on sale of discontinued operations	(7,163)	(971)	(31,292)
Long-term interest on related party debt	—	—	4,275
Deferred income taxes	15,966	16,161	46
Income tax benefit from release of deferred tax valuation allowance	(5,500)	(82,731)	—
Non-cash interest and dividend income	—	—	(1,876)
Non-cash income from derivatives	(1,379)	(811)	—
Accrued interest not paid in cash	(125)	1,802	—
Depreciation and amortization	28,962	22,410	13,427
(Gain) Loss on extinguishment of debt	—	(189)	1,210
Amortization of debt related costs	2,551	2,216	1,226
Reclassification of net cash settlements on derivative instruments	(193)	1,047	5,124
Stock based compensation	7,452	4,509	528
Impairment charges	1,602	1,505	—
Bargain purchase gain	—	(8,978)	—
Other	2,237	(814)	(1,268)
Net change in operating assets and liabilities:			
Receivables	18,684	(11,529)	27,400
Receivables from related parties	428	1,347	—
Inventories	932	(147)	8,194
Dividends and interest receivable	—	—	1,379
Prepaid and other assets	1,203	618	(1,350)
Accounts payable, accrued and other liabilities	(12,895)	(29,935)	(6,779)
Payable to related parties	(3,745)	660	606
Dividends and interest payable	—	—	(319)
Increase (decrease) in deferred fee liability to related party	11,448	(6,107)	6,268
Net increase in loans held for sale	(20,142)	(18,460)	(3,499)
Net cash provided by (used in) operating activities of discontinued operations	2,389	(1,501)	8,059
Net cash provided by operating activities	65,498	5,488	46,661
Cash flows from investing activities:			
Purchases of investments	(216,669)	(187,459)	(359,575)
Proceeds from sales of investments	263,334	46,220	501,067
Net increase in time deposits placed and other short-term investments	—	851	—
Proceeds from sale of loans	—	—	2,054
Net decrease in loans receivable	(3,796)	2,447	3,616
Purchases of property and equipment	(36,256)	(21,391)	(7,296)
Reclassification of restricted cash	(1,006)	119,962	(19,493)
Net cash settlements on derivative instruments	193	(1,047)	(5,124)
Proceeds from sale of assets	7,731	1,648	457
Acquisitions, net of cash acquired	29,941	(35,751)	2,115
Purchase of subsidiary shares from noncontrolling interests	(5,452)	(8,827)	(14,134)
Investments in associated companies	(16,628)	(23,072)	(51,675)
Proceeds from sales of discontinued operations	33,505	26,532	64,693
Net cash (used in) provided by investing activities of discontinued operations	—	(787)	1,520
Other	(666)	(388)	—
Net cash provided by (used in) investing activities	54,231	(81,062)	118,225

See accompanying Notes to Consolidated Financial Statements

STEEL PARTNERS HOLDINGS L.P.
Consolidated Statements of Cash Flows (continued)
(in thousand

	Year Ended December 31,		
	2012	2011	2010
Cash flows from financing activities:			
Common unit cash distributions	—	(29,868)	(49,102)
Proceeds from term loans	116,838	67,981	46,000
Repurchases of Subordinated Notes	(10,847)	—	—
Net revolver borrowings	(23,849)	(18,785)	11,136
Net borrowings of term loans - foreign	1,547	—	—
Repayments of term loans - foreign	—	(707)	(1,970)
Repayments of term loans - domestic	(95,833)	(26,874)	(86,018)
Repayments of term loans - related party	—	—	(5,563)
Return of capital paid to noncontrolling interest holders	(10,316)	—	—
Repurchases of common stock	(2,776)	—	—
Deferred finance charges	(2,743)	(2,395)	(3,842)
Net change in overdrafts	(1,365)	95	2,088
Net (decrease) increase in deposits	(16,273)	33,189	11,604
Repayment of debt of discontinued operations	—	—	(22,772)
Net cash used in financing activities of discontinued operations	—	(219)	—
Other	(3,380)	(225)	—
Net cash (used in) provided by financing activities	(48,997)	22,192	(98,439)
Net change for the period	70,732	(53,382)	66,447
Effect of exchange rate changes on cash and cash equivalents	268	(275)	(10)
Cash and cash equivalents at beginning of period	127,027	180,684	114,247
Cash and cash equivalents at end of period	$ 198,027	$ 127,027	$ 180,684
Cash paid during the period for:			
Interest	$ 13,185	$ 13,591	$ 17,067
Taxes	$ 6,611	$ 5,053	$ 4,026
Non-cash investing activities:			
Reclassification of investment in associated company to cost of an acquisition	$ 137,532	$ 34,066	$ 26,084
Purchase of available-for-sale securities with funds on deposit	$ —	$ —	$ 5,932
Net (increase) decrease in restricted cash from purchase of foreign currency financial instruments	$ (1,006)	$ 114,087	$ (137,823)
Net transfers between loans and other assets	$ —	$ 569	$ 1,157
Reclassification from loans to other non-current assets	$ —	$ —	$ 2,729
Purchase of equipment through capital lease obligations	$ —	$ 969	$ —
Non-cash financing activities:			
Sale of property for mortgage note receivable	$ 842	$ —	$ 630
Common units issued for directors compensation	$ —	$ 275	$ 543

See accompanying Notes to Consolidated Financial Statements

STEEL PARTNERS HOLDINGS L.P.
Consolidated Statements of Changes in Capital
(dollars in thousands except per unit data)

	Common	Accumulated Other Comprehensive	Treasury Units		Partners'		Non-controlling	Total
	Units	Loss	Units	Dollars	Capital	Total	Interests	Capital
Balance at December 31, 2009	**27,945,450**	**$ 53,342**	**(2,726,030)**	**$ (47,107)**	**$ 363,571**	**$ 416,913**	**$ 13,928**	**$ 430,841**
Units issued	32,134				543	543	—	543
Net income					31,747	31,747	14,699	46,446
Unrealized loss on available-for-sale investments		(37,436)				(37,436)	—	(37,436)
Currency translation adjustment		658				658	(101)	557
Change in net pension and other benefit obligations		(8,802)				(8,802)	(6,805)	(15,607)
HNH Acquisition							26,035	26,035
Sale of Discontinued Operation							(8,099)	(8,099)
Interests Acquired					1,261	1,261	(15,395)	(14,134)
Other, net					848	848	318	1,166
Balance at December 31, 2010	**27,977,584**	**7,762**	**(2,726,030)**	**(47,107)**	**397,970**	**405,732**	**24,580**	**430,312**
Units issued	14,180				275	275	—	$ 275
Net income					35,469	35,469	45,808	81,277
Unrealized loss on available-for-sale investments		11,831				11,831	2,283	14,114
Currency translation adjustment		(3,502)				(3,502)	(1,394)	(4,896)
Change in net pension and other benefit obligations		(35,149)				(35,149)	(28,217)	(63,366)
Change in net pension and retiree medical liability		7,321				7,321	—	7,321
DGT acquisition							22,670	22,670
Purchases of treasury stock			(82,695)	(992)	(992)	(992)	—	(992)
Issuance of subsidiary shares							3,088	3,088
Purchase of subsidiary shares from noncontrolling interests					(4,632)	(4,632)	(4,195)	(8,827)
Other, net					(556)	(556)	—	(556)
Balance at December 31, 2011	**27,991,764**	**(11,737)**	**(2,808,725)**	**(48,099)**	**427,534**	**415,797**	**64,623**	**480,420**
Net income					41,018	41,018	22,747	63,765
Unrealized gain on available-for-sale investments		12,170				12,170	(3,833)	8,337
Currency translation adjustment		(214)				(214)	(263)	(477)
Changes in pension liabilities and post-retirement benefit obligations		(18,081)				(18,081)	(14,800)	(32,881)
Deferred fee liability settlement	6,939,647				70,195	70,195	—	70,195
Vesting of restricted stock	9,060					—	—	—
Steel Excel Acquisition						—	189,598	189,598
Return of capital to noncontrolling interest holders						—	(10,316)	(10,316)
Excess of fair value received over carrying value of Sun Well in the Steel Excel Acquisition					22,278	22,278	3,959	26,237
Subsidiary's purchases of the Company's Common Units			(1,345,646)	(15,082)	(15,082)	(15,082)	—	(15,082)
Purchases of subsidiary shares, net of issuances					(3,223)	(3,223)	(2,237)	(5,460)
Other, net					2,486	2,486	(75)	2,411
Balance at December 31, 2012	**34,940,471**	**$ (17,862)**	**(4,154,371)**	**$ (63,181)**	**$ 545,206**	**$ 527,344**	**$ 249,403**	**$ 776,747**

See accompanying Notes to Consolidated Financial Statements

1. NATURE OF THE BUSINESS AND BASIS OF PRESENTATION

Nature of the Business

Steel Partners Holdings L.P. (“SPH” or the “Company”) is a global diversified holding company that engages in multiple businesses through consolidated subsidiaries, associated companies and other interests. The Company seeks to work with its businesses to increase corporate value over the long term for all stakeholders and shareholders by implementing Steel Partners Operational Excellence programs, the Steel Partners Purchasing Council, Steel Partners Corporate Services, balance sheet improvements, capital allocation policies and growth initiatives.

The Company operates through consolidated subsidiaries and associated companies, which represent significant equity interests in operating businesses. The Company also reports certain other equity investments, investment activity and unallocated corporate expenses within its Corporate segment.

Steel Partners Holdings GP Inc. (“SPH GP”), a Delaware corporation, is the general partner of SPH and is wholly-owned by SPH. Until December 31, 2011, Steel Partners LLC (“SPLLC”) was the manager of SPH (the “Manager”). Effective January 1, 2012, SPLLC assigned its interests in the management agreement to SP General Services LLC (“SPGS”), formerly an affiliate of SPLLC. The unitholders of SPH have limited liability with respect to their interest in the Company. (See Note 13 - "Related Party Transactions" for additional information).

Basis of Presentation

Certain prior period amounts in the Consolidated Statements of Operations, Balance Sheets and Statement of Cash Flows have been reclassified to conform to the comparable 2012 presentation.

The consolidated financial statements include the consolidated financial results of SPH, its wholly owned subsidiary WebFinancial Holding Corporation (“WebFinancial”), Handy & Harman Ltd ("HNH"), BNS Holding, Inc. ("BNS"), the BNS Liquidating Trust, (BNS Liquidating Trust"), DGT Holdings Corp. ("DGT"), Steel Excel Inc. ("Steel Excel") and SPH Services, Inc. ("SPH Services"). Acquired companies are presented from their dates of acquisition (see Note 3 - "Acquisitions" for information on acquisition activity). DGT’s financial statements are recorded on a two-month lag, and as a result the statement of operations for the twelve months ended December 31, 2012 includes DGT’s activity for its twelve months ended October 27, 2012. In 2011, BNS changed its fiscal year end from October 31 to December 31. The twelve months ended December 31, 2011 includes two additional months for BNS, November and December of 2010.

On August 16, 2012, DGT completed the sale of its RFI subsidiary's Power Conversion assets and operations. Also, in January 2013, HNH divested substantially all of the assets and existing operations of its Continental Industries ("Continental")business unit, a wholly-owned subsidiary of H&H. The results and operations of RFI and Continental are presented as discontinued operations in SPH's consolidated financial statements for all periods presented in this Form 10-K (see Note 4 - "Discontinued Operations").

Reportable Segments

SPH’s operating units and investments are reported in the following segments: Diversified Industrial, Energy, Financial Services, and Corporate and Other which are managed separately and offer different products and services.

- *Diversified Industrial* operations are comprised primarily of manufacturing operations encompassing joining materials, tubing, engineered materials, electronic materials and cutting replacement products and services businesses.
- *Energy* operations are primarily conducted through the Company's ownership of several oil field services companies, which provide premium well services to exploration and production (“E&P”) companies operating primarily in the Williston Basin in North Dakota and eastern Montana.
- *Financial Service*s operations provide small business commercial and consumer loans and services.

- *Corporate and Other* consists of several consolidated subsidiaries as well as various investments and cash and cash equivalents. Corporate revenues primarily consist of investment and other income, investment gains and losses and rental income.

For additional details related to the Company's reportable segments see Note 18 - "Segment Information."

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

Principles of Consolidation

The consolidated financial statements include the accounts of SPH consolidated with the accounts of its subsidiaries. Acquired companies are presented from their dates of acquisition (see Note 3 - “Acquisitions” and Note 5 - “Investments in Associated Companies”). Significant inter-company accounts and transactions have been eliminated in consolidation.

Discontinued Operations

The results of operations for businesses that have been disposed of or classified as held-for-sale are eliminated from the results of the Company's continuing operations and classified as discontinued operations for each period presented in the Company's consolidated income statement. Similarly, the assets and liabilities of such businesses are reclassified from continuing operations and presented as discontinued operations for each period presented in the Company's consolidated balance sheet. Businesses are reported as discontinued operations when the Company no longer has continuing involvement in their operations and no longer has significant continuing cash flows from their operation. See note 4 - "Discontinued Operations" for additional information.

Use of Estimates in Preparation of Consolidated Financial Statements

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues, expenses, unrealized gains and losses during the reporting period. The more significant estimates include: (1) the valuation allowances of accounts receivable and inventory; (2) the valuation of goodwill, indefinite-lived intangible assets, long-lived assets and associated companies; (3) deferred tax assets; (4) environmental liabilities; (5) fair value of derivatives; (6) post-employment benefit liabilities; (7) estimates and assumptions used in the determination of fair value of certain securities, such as whether declines in value of securities are other than temporary; and (8) estimates of loan losses. Actual results may differ from the estimates used in preparing the consolidated financial statements; and, due to substantial holdings in and/or restrictions on certain investments, the value that may be realized could differ from the estimated fair value.

Revenue Recognition

Revenues are recognized when the title and risk of loss has passed to the customer. This condition is normally met when product has been shipped or the service performed. An allowance is provided for estimated returns and discounts based on experience. Cash received from customers prior to shipment of goods, or otherwise not yet earned, is recorded as deferred revenue. Rental revenues are derived from the rental of production facilities and certain equipment to the food industry where customers prepay for the rental period - usually 3 to 6 month periods. For prepaid rental contracts, sales revenue is recognized on a straight-line basis over the term of the contract. Service revenues consist of repair and maintenance work performed on equipment used at mass merchants, supermarkets and restaurants. For rental of production facilities, revenue is recognized when earned per the lease agreement.

HNH experiences a certain degree of sales returns that varies over time, but is able to make a reasonable estimation of expected sales returns based upon history. HNH records all shipping and handling fees billed to customers as revenue, and related costs are charged principally to cost of sales, when incurred. In limited circumstances, HNH is required to collect and remit sales tax on certain of its sales. HNH accounts for sales on a net basis, and as such sales taxes are not included in diversified industrial sales - net on the consolidated statements of operations.

Steel Excel recognizes revenue upon providing the product or service related to its energy or sports businesses. Steel Excel recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collection is reasonably assured. Revenue is recognized net of estimated allowances. Revenue is generated by short-term projects, most of which are governed by master service agreements (“MSAs”) that are short-term in nature. The MSAs establish per day or per usage rates for equipment services. Revenue related to its energy business is recognized daily on a proportionate performance method, based on services rendered. Revenue is reported net of sales tax collected. For sports services revenues, Steel Excel does not recognize revenue until the tournament or league occurs. For sports products, Steel Excel recognizes revenue upon shipment.

Trade Accounts Receivable and Allowance for Doubtful Accounts

HNH extends credit to customers based on its evaluation of the customer's financial condition. HNH does not require that any collateral be provided by its customers. HNH has established an allowance for accounts that may become uncollectible in the future. This estimated allowance is based primarily on management's evaluation of the financial condition of the customer and historical experience. HNH monitors its accounts receivable and charges to expense an amount equal to its estimate of potential credit losses. Accounts that are outstanding longer than contractual payment terms are considered past due. HNH considers a number of factors in determining its estimates, including the length of time its trade accounts receivable are past due, HNH's previous loss history and the customer's current ability to pay its obligation. Trade accounts receivable balances are charged off against the allowance when it is determined that the receivable will not be recovered, and payments subsequently received on such receivables are credited to recovery of accounts written off. HNH does not charge interest on past due receivables. The Company believes that the credit risk with respect to trade accounts receivable is limited due to HNH's credit evaluation process, the allowance for doubtful accounts that has been established, and the diversified nature of its customer base.

Steel Excel's allowance for doubtful accounts is based on their assessment of the collectability of customer accounts. Steel Excel regularly reviews its receivables that remain outstanding past their applicable payment terms and establishes an allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. Steel Excel had no allowances for doubtful accounts as of December 31, 2012.

Restricted Cash

Restricted cash primarily represents cash collateral for foreign currency forward positions (see Note 7 - "Financial Instruments" for additional information). Restricted cash is reported separately as a current asset in the consolidated balance sheets at December 31, 2012 and 2011.

Cash and Cash Equivalents

Cash and cash equivalents include cash and deposits in depository institutions, financial institutions and banks. Cash at December 31, 2012 and 2011 also includes $3,022 and $781, respectively, of WebBank Federal Funds sold. The Company considers all highly liquid debt instruments with maturities of three months or less when purchased to be cash equivalents. Cash and cash equivalents exclude amounts where availability is restricted by loan agreements or other contractual provisions. Cash equivalents are stated at cost, which approximates market. There is a significant concentration of cash that, during the periods presented, exceeded the federally insured limit and exposed the Company to credit risk. The cash is held such that it is not subject to federal deposit insurance and where applicable exceeds the protection provided by the Securities Investor Protection Corporation. SPH does not anticipate any losses due to this concentration of cash at December 31, 2012. Restricted cash consists of collateral held against financial instruments including amounts payable in foreign currencies.

Investments

SPH determines the appropriate classifications of its investments in debt and equity securities at the acquisition date and re-evaluates the classifications at each balance sheet date. SPH classifies its investments as held-to-maturity or available-for-sale. Held-to-maturity investments are carried at amortized cost. All other securities are classified as available-for-sale, which are recorded at estimated fair value with unrealized holding gains or losses excluded from earnings and reported, until realized, in accumulated other comprehensive income (loss) as a separate component of partners' capital.

Equity Method Investments and Investments at Fair Value

SPH uses the equity method of accounting with respect to investments when it has the ability to exercise significant influence, but not control, over the operating and financial policies of the investee. Significant influence is generally presumed to exist if the Company has an ownership interest in the voting stock of the investee between 20% and 50%, although other factors, such as representation on the investee's board of directors, are considered in determining whether the equity method of accounting is appropriate. For the equity method investments where the fair value option has not been elected, SPH records the investment at cost and subsequently increases or decreases the investment by its proportionate share of the net income or losses and other comprehensive income of the investee. Dividends received from investees are recorded as reductions in the carrying value of the investment. For equity method investments which the Company has elected to measure at fair value, unrealized gains and losses are reported in the consolidated statement of operations as part of income (loss) from equity method investments and include income (loss) of certain associated companies and loss from other investments - related party. In applying the equity method with respect to investments previously accounted for as available-for-sale at fair value, the carrying value of the investment is adjusted as if the equity method had been applied from the time the investment was first acquired.

Dividend and interest income are recognized when earned. Realized gains and losses on securities are included in earnings and are derived using the specific-identification method. Unrealized and realized gains or losses on securities sold, not yet purchased are included in earnings.

Unrealized holding gains or losses on available-for-sale securities are excluded from earnings and reported, until realized, in accumulated other comprehensive income (loss) as a separate component of SPH partners' capital.

Commission expense is recorded as a reduction of sales proceeds on investment transactions and is included in net investment gains in the consolidated statements of operations. Commission expense on purchases is included in the cost of investments in the consolidated balance sheets.

Fair Value Option

The Company has the one-time option to elect fair value for financial assets or liabilities as of the election date. Changes in fair value of these financial instruments are recorded as unrealized gain (loss) in the consolidated statements of operations. The factors considered in electing the fair value option include the availability of otherwise required financial information, differing fiscal year end of an investee and differing basis of financial reporting used by investee companies.

Other Than Temporary Impairment

If the Company believes a decline in the market value of any available-for-sale or held-to-maturity security below cost is other than temporary, a loss is charged to earnings which establish a new lower cost basis for the security. The impairment losses are included in Asset impairment charges in the consolidated statements of operations. SPH's determination of whether a security is other than temporarily impaired incorporates both quantitative and qualitative information; GAAP requires the exercise of judgment in making this assessment, rather than the application of fixed mathematical criteria. The Company considers a number of factors including, but not limited to, the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, the reason for the decline in fair value, changes in fair value subsequent to the balance sheet date, the ability and intent to hold investments to maturity, and other factors specific to the individual investment. SPH's assessment involves a high degree of judgment and accordingly, actual results may differ materially from those estimates and judgments.

Variable Interest Entities

For each Variable Interest Entity (“VIE”) in which it holds a variable interest, the Company initially determines whether it is the primary beneficiary of the VIE by performing a quantitative and qualitative analysis of the Company's obligation to absorb expected losses and its right to receive expected residual benefits of the VIE and evaluating the VIE's capital structure, the contractual terms affecting the management and operation of the VIE, related party relationships of SPH, and which interests create and absorb variability. The determination of whether the Company is the primary beneficiary of each variable interest entity is reviewed upon the occurrence of certain reconsideration events.

The Company holds variable interests in each series of the SPII Liquidating Trust (see Note 5 - “Investments" and Note 13 - "Related Party Transaction). The purpose of the SPII Liquidating Trust is to effect the orderly liquidation of certain assets previously held by SPII. The Company determined that each VIE in which it held a variable interest since January 1, 2010 met the deferral criteria of ASC 810. Accordingly, these VIEs will continue to be assessed under the overall guidance on the consolidation of VIEs or other applicable guidance.

The Company has determined that it is not the primary beneficiary of any series of the SPII Liquidating Trust because it does not absorb a majority of the expected losses or receive a majority of the expected residual returns based on its equity ownership interests in each of the series. In addition, there are no related parties of SPH that, when considered together as a group, would cause the Company and its related party group to absorb a majority of expected losses or receive a majority of the expected residual returns. There are also no other contractual arrangements that would cause the Company to absorb a majority of the expected losses or receive a majority the expected residual returns. The Company also does not have a defacto agency relationship with any series of the SPII Liquidating Trust.

Concentration of Revenue and Trade Accounts Receivable

In 2012, the 15 largest customers accounted for approximately 28% of the diversified industrial segment's net sales and no customer accounted for more than 5% of revenue. In 2011, the 15 largest customers accounted for approximately 26% of the diversified industrial segment's net sales and no customer accounted for more than 5% of revenue. For the period from May 7, 2010 (the date HNH was acquired) to December 31, 2010, the 15 largest customers accounted for approximately 31% of diversified industrial net sales and no customer accounted for more than 5% of revenue. As of December 31, 2012, the 15 largest diversified industrial customers accounted for 27% of the segment's trade receivables.

The Energy segment Excel has two customers that make up 10% or more of its net revenues, and its top 15 customers make up 89% of net revenues during the period owned by SPH in 2012. As of December 31, 2012, the 15 largest Energy customers accounted for 90% of the segment's trade receivables.

For the years ended December 31, 2012, 2011 and 2010, 2 contractual lending programs accounted for 56%, 58% and 54%, respectively, of the financial services segment's revenue.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out (“LIFO”) method for precious metal inventories. Non precious metal inventories are stated at the lower of cost (principally FIFO or average cost) or market. For precious metal inventories, no segregation among raw materials, work in process and finished goods is practicable.

Non-precious metal inventory is evaluated for estimated excess and obsolescence based upon assumptions about future demand and market conditions and is adjusted accordingly. If actual market conditions are less favorable than those projected, write-downs may be required.

Derivatives and Risks

Precious Metals Risk

HNH enters into commodity futures and forward contracts in order to economically hedge the portion of its precious metal inventory that is not subject to fixed price contracts with customers against price fluctuations. Future and forward contracts to sell or buy precious metal are the derivatives used for this objective. As these derivatives are not designated as accounting hedges under U.S. GAAP, they are accounted for as derivatives with no hedge designation. These derivatives are marked to market, and both realized and unrealized gains and losses on these derivatives are recorded in current period earnings as other income (expense). The unrealized gain or loss (open trade equity) on the derivatives is included in other current assets or accrued liabilities, respectively.

Financial Instruments

SPH invested in buying calls and selling puts in place of holding stock in two companies to create similar risk/reward characteristics of a direct investment in these companies. The option contracts were exchange traded in active markets and

SPH estimated the fair value of the options through use of quoted prices obtained on internationally recognized exchanges. These derivative financial instruments were reported at fair value as financial instruments in the consolidated balance sheet and changes in fair value were reported in the consolidated statement of operations. SPH had no puts or calls in place at December 31, 2012.

SPH common unit options issued to the Manager (see Note 16 - “Capital and Comprehensive Income”) are accounted for as a derivative financial instrument. The common unit option liability is recorded at fair value and reported in other current liabilities on the consolidated balance sheets. Changes in fair value of the common unit option liability are reported in selling, general and administrative expenses on the consolidated statements of operations. The SPH unit options expired on December 31, 2011.

Financial instruments include amounts payable denominated in foreign currency and are valued at fair value. Changes in fair value of the financial instruments are reported in net investment gains (losses) in the consolidated statements of operations.

Foreign Currency Exchange Rate Risk

Financial instruments include amounts payable in foreign currencies which are subject to the risk of exchange rate changes. These financial instruments resulted from transactions entered into for risk management purposes, are collateralized by an equivalent amount included in restricted cash and have no maturity date.

Loans Receivable

WebBank grants commercial and consumer loans to customers. Loans that WebBank has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield. The accrual of interest on loans is generally discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

WebBank has originated government guaranteed loans to customers under a United States Department of Agriculture (“USDA”) program and Small Business Administration (“SBA”) program. The USDA program guarantees 70% to 90% of each loan and the SBA loans provide guarantees of 75% to 85% of each loan. Generally, WebBank sells the guaranteed portion of each loan to a third party and retains the unguaranteed portion in its own portfolio. Loans held for sale are carried at the lower of cost or estimated market value in the aggregate. WebBank is required to retain a minimum of 5% of each USDA loan sold and 10% of each SBA loan sold and to service the loan for the investor. Based on the specific loan sale agreement that WebBank enters into with the investor, the difference between the yield on the loan and the yield paid to the buyer is the servicing fee. Fees earned for servicing loans for others are reported as income when the related loan payments are collected, less amortization of the servicing asset. Loan servicing costs are charged to expense as incurred. Servicing assets represent the allocated value of retained servicing rights on loans sold.

Loan Impairment and Allowance for Loan Losses

A loan is considered impaired when, based on current information and events, it is probable that WebBank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by WebBank in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. WebBank determines the significance of payment delays and payment shortfalls on a case-by-case basis. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable fair value, or the fair value of the collateral, less any selling costs, if the loan is secured by collateral. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses and is charged to earnings. Loan losses are charged against the allowance when WebBank believes the uncollectibility of a loan or receivable balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by WebBank and is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Servicing Assets

The servicing assets of WebBank represent the allocated value of retained servicing rights on loans sold. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on stratifying the underlying financial assets by date of origination and term. Fair value is based upon discounted cash flows using market-based assumptions. Any impairment, if temporary, of a grouping is reported as a valuation allowance, to the extent that fair value is less than the capitalized amount for the grouping. The Bank has one class of servicing assets; the sold guaranteed portion of USDA and SBA loans. Servicing fees are included in other noninterest income. When loans are charged off, the related servicing asset is also removed as a charge to operations.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Depreciation of property, plant and equipment is provided principally on the straight line method over the estimated useful lives of the assets, which range as follows: machinery & equipment 3 to 15 years and buildings and improvements 10 to 30 years. Leasehold improvements are amortized over the shorter of the terms of the related leases or the estimated useful lives of the improvements. Interest cost is capitalized for qualifying assets during the assets' acquisition period. Maintenance and repairs are charged to expense and renewals and betterments are capitalized. Profit or loss on dispositions is credited or charged to other expenses.

Goodwill, Intangibles and Long-Lived Assets

Goodwill is reviewed annually for impairment in accordance with GAAP. The Company uses judgment in assessing whether assets may have become impaired between annual impairment tests. Circumstances that could trigger an interim impairment test include but are not limited to: the occurrence of a significant change in circumstances, such as continuing adverse business conditions or legal factors; an adverse action or assessment by a regulator; unanticipated competition; loss of key personnel; the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed; or results of testing for recoverability of a significant asset group within a reporting unit.

The testing of goodwill for impairment is performed at a level referred to as a reporting unit. Goodwill is allocated to each reporting unit based on actual goodwill valued in connection with each business combination consummated within each reporting unit. Reporting units of the Company have goodwill assigned to them.

Goodwill impairment testing consists of a two-step process. Step 1 of the impairment test involves comparing the fair values of the applicable reporting units with their carrying values, including goodwill. The reporting unit fair value is based upon consideration of various valuation methodologies, including an income approach and market approach, as further described below. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, Step 2 of the goodwill impairment test is performed to determine the amount of impairment loss. Step 2 of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit's goodwill against the carrying value of that goodwill. In performing the first step of the impairment test, the Company also reconciles the aggregate estimated fair value of its reporting units to its enterprise value (which may include a control premium).

The income approach is based on a discounted cash flow analysis (“DCF”) and calculates the fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting the after-tax cash flows to a present value using a risk-adjusted discount rate. The discount rates, which are intended to reflect the risks inherent in future cash flow projections, used in the DCF are based on estimates of the weighted-average cost of capital ("WACC") of a market participant. Such estimates are derived from our analysis of peer companies and considered the industry weighted-average return on debt and equity from a market participant perspective.

A market approach values a business by considering the prices at which shares of capital stock of reasonably comparable companies are trading in the public market, or the transaction price at which similar companies have been acquired.

Relative weights are then given to the results of each of these approaches, based on the facts and circumstances of the business being valued. The use of multiple approaches (the income and market approaches) is considered preferable to a single method. Significant weight is given to the income approach because it generally provides a reliable estimate of value for an ongoing business which has a reliable forecast of operations.

For other intangible assets with indefinite lives, impairment occurs when the carrying amount of an asset is greater than its fair value. A charge is recorded for the difference between the carrying amount and the estimated fair value. The Company's estimates of fair value are based primarily on a discounted cash flow approach that requires significant management judgment with respect to future revenue and expense growth rates, changes in working capital use, inflation and the selection of an appropriate discount rate.

Intangible assets with finite lives are amortized over their estimated useful lives. The Company also estimates the depreciable lives of property, plant and equipment. Property, plant and equipment and intangible assets with finite lives are reviewed for impairment if events, or changes in circumstances, indicate that we may not recover the carrying amount of an asset. Long-lived assets consisting of land and buildings used in previously operating businesses are carried at the lower of cost or fair value, and are included in other non-current assets in the consolidated balance sheets. A reduction in the carrying value of such long-lived assets used in previously operating businesses is recorded as an asset impairment charge in the consolidated statement of operations.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available-for-sale, are reported as a separate component of the capital section of the consolidated balance sheets. Such items, along with net income, are components of comprehensive income (loss).

Fair Value of Financial Instruments

As defined under GAAP, fair value is the price received or paid between independent participants acting voluntarily in the principal or most advantageous markets for the assets or liabilities traded. A disclosure framework prioritizes and ranks the level of market price observability used in measuring investments at fair value. Considerable judgment may be required in estimating fair value. Estimates of fair value are not necessarily indicative of the amounts that could be realized in a current or future transaction.

ASC 820, “Fair Value Measurements and Disclosures”, requires disclosures about investments that are measured and reported at fair value. ASC 820 establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are listed debt and equity securities.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities.

Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments which are generally included in this category include private investments, non-exchange traded derivative contracts, and currency and interest rate swaps.

Investments in equity securities are classified as Level 1 or Level 2 based on its trading activity in the period. Investments may move between Level 1 and Level 2 if the market activity increases or decreases in the period.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. Significant transfers, if any, between the levels within the fair value hierarchy are recognized at the beginning of the reporting period.

The Company employs various methods within the market approach, income approach and/or cost approach and has also considered whether there were observable inputs. Certain discounts and other judgment factors were applied to arrive at the investments' fair value. SPH's private investments are valued utilizing unobservable pricing inputs. Management's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors. The valuation methodology applied for each is determined based on the nature of the investment. A fair value analysis for each of Level 3 investment is prepared, reviewed and then approved by SPH's valuation committee.

Environmental Liabilities

The Company accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study.

Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

Legal Contingencies

The Company provides for legal contingencies when the liability is probable and the amount of the associated costs is reasonably determinable. The Company regularly monitors the progress of legal contingencies and revises the amounts recorded in the period in which a change in estimate occurs.

Foreign Currency Translation

Revenues and expenses of foreign-based associated companies are translated into United States dollars using average exchange rates for the period. Assets and liabilities are translated at the exchange rate as of the end of the reporting period. Cumulative translation adjustments arising from the resulting translation are included in partners' capital as a component of accumulated other comprehensive income. Gains and losses arising from transactions denominated in a currency other than the functional currency of the entity that is party to the transaction are included in earnings.

Income Taxes

SPH and certain of its subsidiaries, as limited partnerships, are generally not responsible for federal and state income taxes and their profits and losses are passed directly to their partners for inclusion in their respective income tax returns. SPH's subsidiaries that are corporate entities are subject to federal and state income taxes and file corporate income tax returns.

SPH's subsidiaries that are subject to income taxes use the liability method of accounting for such taxes. Under the liability method, deferred tax assets and deferred tax liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and deferred tax liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and deferred tax liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Such subsidiaries evaluate the recoverability of deferred tax assets and establish a valuation allowance when it is more likely than not that some portion of the deferred tax assets will not be realized.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is provided for and reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

SPH's policy is to record estimated interest and penalties related to the underpayment of income taxes as income tax expense in the statements of operations.

Other Taxes

Certain foreign dividend income is subject to a withholding tax. Such withholding tax is netted against dividend income in the consolidated statements of operations.

Advertising Costs

Advertising costs consist of sales promotion literature, samples, cost of trade shows and general advertising costs, and are included in selling, general and administrative expenses on the consolidated statements of operations. Advertising, promotion and trade show costs totaled approximately $2,485, $2,266 and $1,229 for the years ended December 31, 2012, 2011 and 2010, respectively.

Net Income (Loss) per Common Unit

Net income (loss) per common unit - basic is computed by dividing net income (loss) by the weighted-average number of common units outstanding for the period. Net income (loss) per common unit - diluted gives effect to potentially dilutive units as if they had been outstanding during the period.

Recently Adopted Accounting Standards

Comprehensive Income (Topic 220): Presentation of Comprehensive Income – In June 2011, the FASB issued guidance on presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income, or two separate but consecutive statements. The Company adopted this guidance in the first quarter of 2012, which resulted in presentation changes only.

Fair Value Measurement – In May 2011, the FASB issued guidance related to fair value measurements. This guidance changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the guidance does not result in a change in the application of the current fair value measurement and disclosure requirements. Some of the amendments clarify the FASB’s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The guidance, which was effective for the Company on January 1, 2012, did not have a material impact on the Company’s consolidated financial statements.

3. ACQUISITIONS

2012 Acquisitions

Steel Excel Acquisition

On April 30, 2012, Steel Excel and BNS entered into a definitive Share Acquisition Agreement, pursuant to which on May 31, 2012, (the "Acquisition Date") Steel Excel acquired all of the capital stock of SWH, Inc. ("SWH"), a wholly owned subsidiary of BNS and the parent company of Sun Well Services, Inc. ("Sun Well"), for an acquisition price of $85,000 less net debt (debt outstanding minus cash), subject to certain adjustments, resulting in net consideration of $68,747. The acquisition price was paid through a combination of 2,027,500 shares of common stock of Steel Excel, preliminarily valued at $30 per share, and $7,922 in cash. The $68,747 exceeded the carrying value of Sun Well by $26,237. Pursuant to ASC 810-10-45-23, the excess of fair value received over the carrying value of Sun Well in the Steel Excel acquisition of $26,237 was credited to Capital. Also, Sun Well's assets and liabilities were maintained at their historical basis in the consolidated financial statements.

As a result of the transaction, Steel Excel became a majority-owned controlled subsidiary and is consolidated with SPH from that date. Prior to obtaining a controlling interest on the Acquisition Date, SPH owned 4,584,399 shares of Steel Excel (42.0% of the outstanding shares), which were acquired beginning July 15, 2009 and were accounted for under the equity method at fair value. The additional shares of Steel Excel acquired on the Acquisition Date brought the total number of shares owned by SPH to 6,611,899, representing 51.1% of the outstanding shares of Steel Excel.

Steel Excel is primarily focused on capital redeployment and identification of new business operations in which it can utilize its existing working capital and maximize the use of its net tax operating losses (“NOLs”) in the future. The identification of new business operations includes, but is not limited to, oilfield services, sports, training, education, entertainment, and lifestyle businesses. SPH acquired Steel Excel in order to further its business as a global diversified holding company.

The Company's previously held equity interest and the noncontrolling interest in Steel Excel were valued at $30 per share, which is the fair value of Steel Excel shares specified in the Share Acquisition Agreement. The fair value of Steel Excel's total equity was based on preliminary valuations using the market and income approaches.

In accordance with ASC Topic 805, Business Combinations, the application of purchase accounting requires that the total purchase price be allocated to the fair value of identifiable assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding the fair values recorded as goodwill. Goodwill represents the future economic benefit arising from other assets acquired that could not be individually identified and separately recognized. The allocation process requires, among other things, an analysis of acquired fixed assets, contracts, and contingencies to identify and record the fair value of all assets acquired and liabilities assumed.

The Company utilized a third-party appraiser to assist in assessing the fair value of Steel Excel's equity, and in allocating the purchase price to the fair value of the assets acquired and liabilities assumed. Key assumptions in the valuation include (1) weighted average cost of capital rates of approximately 15%, (2) a terminal value based on long-term sustainable growth rates of 3%, and (3) financial multiples of companies deemed to be similar to Steel Excel.

The acquisition-date fair value of the Company's equity interest in Steel Excel was $137,532 prior to the 2,027,500 shares acquired on the Acquisition Date. As a result of remeasuring our equity interest to fair value, the Company recognized an investment gain of $13,524 which is included in Net investment (loss) gain in the consolidated statements of operations.

Estimates of fair value are based on industry data and trends and by reference to relevant market rates and transactions, and discounted cash flow valuation methods, among other factors. The foregoing estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond our reasonable control. Therefore, the provisional measurements of fair value reflected are subject to change and such changes could be significant. The Company expects to finalize the valuations and complete the purchase price allocations as soon as practicable but no later than one year from the acquisition date. Future adjustments may result from:

- Completion of valuation reports associated with long-lived tangible and intangible assets which may result in further adjustments or recording of additional assets or liabilities;
- Adjustments to deferred tax assets and liabilities, which may be based upon additional information, including adjustments to fair value estimates of underlying assets or liabilities; or
- Adjustments to the fair value of the non-cash consideration received for Steel Excel.

The following table summarizes the consideration paid for the controlling interest in Steel Excel:

		Consideration Paid
Acquisition-date fair value of previously held equity interest	$	137,532
Fair value of SWH transferred to Steel Excel		68,747
Less: cash received from Steel Excel for SWH		(7,922)
Total	$	198,357

The following table summarizes the preliminary estimates of the fair values of the assets acquired and liabilities assumed at the Acquisition Date and the fair value of the noncontrolling interest in Steel Excel on the Acquisition Date:

		Amount
Assets:		
Cash and cash equivalents	$	41,963
Marketable securities		217,526
Accounts receivable		23,435
Prepaid expenses and other current assets		3,129
Property, plant and equipment		74,880
Goodwill		48,468
Identifiable intangible assets		22,793
Other assets		4,088
Total assets acquired	$	436,282
Liabilities:		
Accounts payable and accrued liabilities	$	10,842
Debt		17,968
Other long-term liabilities		19,517
Total liabilities assumed		48,327
Fair value of non-controlling interests		189,598
Net assets acquired	$	198,357

The goodwill of $48,468 arising from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of Sun Well and Steel Excel's oilfield services operations. All of the goodwill was assigned to the Company's Energy segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

The valuation of the intangible assets acquired and related amortization periods are as follows:

		Amount	Amortization Period (Years)
Products and customer relationships	$	16,191	8 to 10 Years
Trademarks		5,890	5 to 7 Years
Favorable lease		47	2 Years
Non-compete agreement		469	5 Years
Other		196	
Total identifiable intangible assets	$	22,793	

The fair values of the acquired identifiable intangible assets and their amortization period are provisional pending receipt of the final valuations for those assets. Amortization expense of $2,837 was recorded for the period from May 31, 2012

through December 31, 2012. The estimated amortization of intangibles from the acquisition will be approximately $3,982 in 2013, $3,265 in 2014, $2,807 in 2015, $2,186 in 2016, $1,664 in 2017 and $6,052 thereafter.

Accounts receivable substantially represents the gross amount due and expected to be collected.

For the period from the Acquisition Date through December 31, 2012, revenues and pretax income from continuing operations reported in the consolidated financial statements relating to Steel Excel were $72,402 and $8,217, respectively.

HNH Acquisitions

Zaklad Przetwórstwa Metali INMET Sp. z o.o.

On November 5, 2012, a subsidiary of H&H acquired 100% of the stock of Zaklad Przetwórstwa Metali INMET Sp. z o.o., a Polish manufacturer of brazing alloys and contact materials, for a cash purchase price of $4,000, net of cash acquired. The assets acquired and liabilities assumed included net working capital of accounts receivable, inventories and trade payables totaling $3,100; property, plant and equipment of $2,200; as well as assumed debt of $1,600. This acquisition provides H&H with a new family of fabricated joining materials and a broader presence in the European market. The amount of net sales and net loss of the acquired business included in the consolidated income statement for the period from acquisition through December 31, 2012 was approximately $1,700 and $100 respectively, including $1,200 of intercompany sales which were eliminated in consolidation. The results of operations of the acquired business are reported as a product line within HNH's Joining Materials segment.

W.P. Hickman Company

On December 31, 2012, a subsidiary of H&H acquired substantially all of the assets of W.P. Hickman Company ("Hickman"), a North American manufacturer of perimeter metal roof edges for low slope roofs. The initial purchase price was $8,400, paid in cash, and is subject to a final working capital adjustment. The assets acquired and liabilities assumed included net working capital of accounts receivable, inventories and trade payables; property, plant and equipment; and intangible assets, primarily trade names and customer relationships, valued at $2,700, $1,200and $1,500, respectively, on a preliminary basis. This acquisition provides H&H with an add on product category to its existing roofing business. The results of operations of the acquired business will be reported as a product line within HNH's Engineered Materials segment. In connection with the Hickman acquisition, HNH has recorded goodwill totaling approximately $3,300 on a preliminary basis. The preliminary purchase price allocation is subject to a final working capital adjustment and finalization of third party valuations of certain acquired assets and liabilities.

There is additional contingent consideration that could be due from HNH under the Hickman asset purchase agreement if the combined net sales of certain identified products exceed the parameters set forth in the asset purchase agreement in 2013 and 2014. In no event shall the additional contingent consideration exceed $1,500. In accordance with Accounting Standards Codification ("ASC") 805, *Business Combinations*, the estimated fair value, $200, related to the contingent portion of the purchase price was recognized at the acquisition date.

2011 Acquisitions

During 2011, the Company made the following acquisitions:

- On July 5, 2011, SPH acquired for cash 193,305 additional shares of DGT common stock for $1,933, bringing total shares owned as of July 5, 2011 to 1,977,023 representing 51.1% of the outstanding shares. Accordingly, the accounting for the investment in DGT was changed from the equity method to a majority-owned controlled subsidiary and is consolidated with SPH from that date.

  As of July 5, 2011, SPH's investment had a carrying value of approximately $13,500. The fair value of our equity interest in DGT was $21,389 prior to the 193,305 shares purchased on July 5, 2011. As a result of remeasuring our equity interest to fair value, the Company recognized an investment gain of $8,177 which is included in Net investment (loss) gain in the 2011 consolidated statements of operations.

  The fair value of the identifiable net assets acquired by SPH of $32,687 exceeded the fair value of SPH's basis upon acquisition of the controlling interest in DGT of $23,709. Accordingly, the acquisition was accounted for as a bargain

purchase and, as a result, the Company recognized a gain of $8,978 in 2011 associated with the acquisition. The gain was included in Other income in the 2011 consolidated statements of operations.

- Pursuant to an Asset Purchase Agreement dated March 23, 2011, a subsidiary of HNH acquired certain assets and assumed certain liabilities of Tiger Claw, Inc., a company that among other businesses, develops and manufactures hidden fastening systems for deck construction. The final purchase price was $8,500 and was paid in cash. The assets acquired included, among other things, machinery, equipment, inventories, certain contracts, accounts receivable and intellectual property rights, all as related to the acquired business and as provided in the asset purchase agreement.

  There was additional contingent consideration that would have been due from HNH under the asset purchase agreement if the net sales of certain identified products exceeded the parameters set forth in the asset purchase agreement in 2011 and 2012. No amount related to the contingent portion of the purchase price was recognized at the acquisition date in accordance with ASC 805. Based on actual 2011 and 2012 net sales, no additional contingent consideration is expected to be paid under the terms of the asset purchase agreement.

- On February 2, 2011, BNS acquired all of the capital stock of SWH for $50,463 in cash. SWH owns all of the capital stock of Sun Well, its sole asset. Sun Well is a work-over rig provider to oil and gas exploration companies throughout the Williston Basin in North Dakota. SWH was acquired to further the Company's position as a global diversified holding company. Revenue and net income of SWH included in the Consolidated statement of operations for the twelve months ended December 31, 2011 are $32,984 and $4,536, respectively.

The allocation of the purchase price of SWH's assets acquired and liabilities assumed is as follows:

Assets:	**Amount**
Current assets	$ 8,066
Property, plant and equipment	18,258
Goodwill	24,836
Identifiable intangible assets	8,991
Other assets - restricted cash	2,572
Total assets acquired	62,723
Total liabilities acquired	12,260
Net assets acquired	$ 50,463

2010 Acquisition

- On May 7, 2010, (the “Acquisition Date”), SPH acquired 57,801 shares of HNH bringing total shares owned to 6,123,876, or 50.3% of the outstanding shares. Accordingly, HNH became a majority-owned controlled subsidiary and is consolidated with SPH from that date. Prior to obtaining a controlling interest on the Acquisition Date, SPH owned 6,066,075 shares (49.8% of the outstanding shares), which were acquired beginning July 15, 2009 and were accounted for under the equity method at fair value. On May 7, 2010, prior to the acquisition of a controlling interest, the fair value and carrying value of HNH was $26,084, which was included in investments in associated companies on the consolidated balance sheet. An unrealized gain of $8,670 was recorded in income of associated companies on the consolidated statement of operations for the period from January 1, 2010 to May 7, 2010. Included in the 2010 net income is a one-time charge to cost of goods sold of $9,538 resulting from application of the acquisition method relating to acquired manufacturing profit in inventory at the Acquisition Date of which $7,825 is included in continuing operations.

The allocation of the purchase price of HNH's assets acquired and liabilities assumed is as follows:

Assets:	**Amount**
Current assets of continuing operations	$ 157,141
Assets of discontinued operations	41,162
Total current assets	198,303
Property, plant and equipment	93,580
Goodwill	16,131
Other intangibles	129,320
Other assets	12,673
Total assets acquired	450,007
Liabilities:	
Current liabilities	136,334
Long-term debt and accrued interest	154,109
Accrued pension liability	97,502
Other liabilities	9,688
Total liabilities assumed	397,633
Non-controlling interests	26,035
Net assets acquired	$ 26,339

The following unaudited pro forma results of operations for the twelve months ended December 31, 2012, 2011 and 2010 assumes that the above acquisitions were made at the beginning of the year prior to acquisition. This unaudited pro forma information does not purport to be indicative of the results that would have been obtained if the acquisitions had actually occurred at the beginning of the year prior to acquisition, nor of the results that may be reported in the future.

	Year Ended December 31,		
	2012	**2011**	**2010**
Revenue	$ 792,626	$ 738,918	$ 638,283
Net income attributable to common unitholders	41,951	47,511	28,438
Net income per common unit - basic	1.41	1.88	1.13
Net income per common unit - diluted	1.41	1.40	1.03

4. DISCONTINUED OPERATIONS

Assets and Liabilities of discontinued operations at December 31, 2012 consists of HNH's Continental subsidiary ("Continental"). The December 31, 2011 discontinued operations relate to DGT's former subsidiaries, RFI and Villa Sistemi Medicali S.p.A. (“Villa”).

	December 31,	
	2012	2011
Assets of discontinued operations:		
Trade and other receivables	$ 2,729	$ 17,710
Inventories	2,765	14,990
Other current assets	64	1,887
Goodwill	6,041	10,567
Other intangibles, net	6,665	15,779
Property, plant and equipment, net	5,107	5,873
Other assets	7	49
Total assets	$ 23,378	$ 66,855
Liabilities of discontinued operations:		
Trade payables and accrued liabilities	$ 3,428	$ 10,578
Other current liabilities	—	7,021
Other liabilities	—	1,842
Total liabilities	$ 3,428	$ 19,441

Summary results for our discontinued operations included in the Company's Consolidated Statements of Operations are detailed in the table below. Discontinued operations for the year ended December 31, 2012 includes the operations of RFI and Villa through their respective sale dates as well as the gain on sale of Villa and RFI (see discussion below). In addition discontinued operations in 2012 includes the operations of Continental. Discontinued operations for the year ended December 31, 2011 includes RFI, Villa and various HNH discontinued operations described below and Discontinued operations for the year ended December 31, 2010 includes various HNH operations described below and the gain on sale of Collins.

	Year Ended December 31,		
	2012	2011	2010
Sales	$ 47,596	$ 66,535	$ 78,187
Net income (loss)	3,272	1,917	(1,648)
Gain (loss) after taxes and noncontrolling interests	1,638	1,074	(1,025)
Gain on sale of discontinued operations after taxes and noncontrolling interests	4,026	526	15,972

DGT's Discontinued Operations

Sale of RFI

After obtaining the required two-thirds vote approval by its shareholders on August 16, 2012, DGT completed the sale of its Power Conversion business operated by RFI to EMS Development Corporation ("EMS"), a New York corporation and an affiliate of Ultra Electronics Defense, Inc. ("UEDI"). In consideration for the sale of RFI, EMS paid an aggregate of $12,500 in cash. $1,250 of such amount is being held in escrow to serve as security for payments in satisfaction of certain of DGT's and RFI's indemnification obligations and $237 is being held in escrow to cover any potential net working capital adjustment. The working capital adjustment is expected to be $480 unfavorable to the Company and is reflected as a reduction to the escrow cash balance, thereby netting to $1,007. DGT retained the RFI facility and entered into a lease with EMS. The lease has a term of 5 years, with payments of $33 per month net to RFI, terminable by EMS, as the tenant, upon 30 days prior written notice. SPH's net gain on the sale of RFI, which was recorded in SPH's fourth quarter of 2012 due to the recording of DGT's results of operations on a two-month lag, was approximately $4,600.

Sale of Villa

On November 3, 2011, DGT completed a share purchase agreement (the "Share Purchase Agreement") with VIV s.r.1., a limited liability company incorporated under Italian law ("VIV"), pursuant to which DGT sold all of the shares of its

Italian subsidiary, Villa, its medical and dental imaging systems segment, to VIV. The Company retained the building in Milan, Italy, housing Villa's operations, which is subject to an initial six year lease with VIV and an option for a subsequent six year period. Under the terms of the lease, the Company will receive €335 in annual rent, payable quarterly. The rent may be adjusted annually for changes in the consumer price index as specified in the lease.

In consideration for the sale of the shares of Villa to VIV, DGT received $22,761 in cash of net proceeds and an unsecured subordinated promissory note (the "Note") made by VIV in the amount of €500 (initially valued at $688). The Note has a term of 5 years with interest accruing at a rate of 6% per annum beginning 18 months after issuance. The Note may be prepaid at any time and if prepayment in full occurs during the first 18 months following the date of issuance, the total principal amount will be reduced to €400. Payment of the Note will be subordinated to the repayment of the loan extended to VIV by Banca Intesa to provide financing for the Villa sale. DGT also repurchased 28,104 shares of common stock from two employees of Villa for $820. DGT also received, as part of the transaction, a dividend of cash held by Villa as of the closing date in the amount of $4,538. SPH's net after-tax gain on the sale of Villa, which was recorded in SPH's year ended December 31, 2012, was $2,585.

HNH's Discontinued Operations

Continental Industries

In January 2013, HNH divested substantially all of the assets and existing operations of its Continental Industries business unit, a wholly-owned subsidiary of H&H, for a cash sales price totaling approximately $37,500 less transaction fees, subject to a final working capital adjustment, with proceeds of $3,700 currently held in escrow pending resolution of certain indemnification provisions contained in the sales agreement. The sales price is subject to a final working capital adjustment. Located in the State of Oklahoma, Continental Industries manufactures plastic and steel fittings and connectors for natural gas, propane and water distribution service lines along with exothermic welding products for electrical grounding, cathodic protection and lightning protection.

Kasco-France

During the third quarter of 2011, HNH sold its stock of Eurokasco, S.A.S. ("Kasco-France"), a part of its Kasco segment, to the former management team for one Euro plus 25% of any pre-tax earnings over the next 3 years. No additional consideration is expected to be collected for 2012. Additionally, Kasco-France signed a 5 year supply agreement to purchase certain products from Kasco. As a result of the sale, the Company recorded an after tax loss of $266.

Arlon AFD

On February 4, 2011, Arlon LLC ("Arlon"), an indirect wholly-owned subsidiary of HNH, sold substantially all of its assets and existing operations located primarily in the State of California related to its Adhesive Film Division for an aggregate sale price of $26,543. Net proceeds of approximately $24,200 from this sale were used to repay indebtedness under HNH's revolving credit facility. A gain on the sale of these assets of $3,494, net of tax, was recorded in 2011.

Arlon ECP and SignTech

On March 25, 2011, Arlon and its subsidiaries sold substantially all of their assets and existing operations located primarily in the State of Texas related to Arlon's Engineered Coated Products Division and SignTech subsidiary for an aggregate sale price of $2,500. In addition, Arlon sold a coater machine to the same purchaser for a price of $500. A loss of $2,256, net of tax, was recorded in 2011. The net proceeds from these asset sales were used to repay indebtedness under HNH's revolving credit facility.

Amounts held in escrow in connection with the asset sales, totaling $3,000, are recorded in Trade and other receivables on the consolidated balance sheet as of December 31, 2011, and were received by HNH in the second quarter of 2012.

The total gain as a result of these asset sales of $972, net of tax, as a result of the sales of the California and Texas based businesses of Arlon, and Kasco-France, is reported in discontinued operations on the consolidated statements of operations in 2011. The discontinued operations had an aggregate loss in 2011 from their operations of $508, net of tax.

BNS's Discontinued Operations

On February 18, 2010, BNS sold its interest in Collins for net proceeds of $64,818 in cash net of $100 in fees. SPH recorded a gain on sale of discontinued operations of $31,254 ($16,238 after noncontrolling interest) in the year ended December 31, 2010.

5. INVESTMENTS

A) Short-Term Investments

Marketable Securities

The Company's short-term investments, consisting of its marketable securities portfolio, resulted from the acquisition of Steel Excel on May 31, 2012. Steel Excel's investment policy focuses on three objectives: to preserve capital, to meet liquidity requirements, and to maximize total return. The investment policy establishes minimum ratings for each classification of investments when purchased and investment concentration is limited to minimize risk. The policy also limits the final maturity on any investment and the overall duration of the portfolio. During the twelve-month period ended December 31, 2012, Steel Excel's Board of Directors executed a written consent permitting the investment of up to $10,000 in publicly traded companies engaged in certain oilfield servicing, energy services, and related businesses, which is an exception to the investment policy. Additional exceptions to the investment policy may be approved in the future. Given the overall market conditions, Steel Excel regularly reviews its investment portfolio to ensure adherence to its investment policy and to monitor individual investments for risk analysis and proper valuation. Steel Excel's portfolio of marketable securities at December 31, 2012 was as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
Available for sale securities				
Short-term deposits	$ 48,596	$ —	$ —	$ 48,596
Mutual funds	10,368	1,452	—	11,820
United States government securities	99,525	20	(68)	99,477
Equity securities	20,822	1,217	(1,922)	20,117
Commercial paper	22,292	5	(6)	22,291
Corporate obligations	48,683	308	(277)	48,714
Total marketable securities	250,286	3,002	(2,273)	251,015
Amounts classified as cash equivalents	(51,887)	—	—	(51,887)
Amounts classified as marketable securities	$ 198,399	$ 3,002	$ (2,273)	$ 199,128

Steel Excel's investment portfolio consists of both corporate and government securities that generally mature within three years. The longer the duration of these securities, the more susceptible they are to changes in market interest rates and bond yields. As yields increase, those securities purchased with a lower yield-at-cost show a mark-to-market unrealized loss. All unrealized losses are due to changes in interest rates and bond yields. Steel Excel has considered all available evidence and determined that the marketable securities in which unrealized losses were recorded in the periods ended December 31, 2012 were not deemed to be other-than-temporary. Steel Excel holds its marketable securities as available-for-sale and marks them to market. Classification of marketable securities as a current asset is based on the intended holding period and realizability of the asset.

Steel Excel sold $192,380 of marketable securities for the seven months ended December 31, 2012. Sales of marketable securities for the seven months ended December 31, 2012 resulted in gross gains of $500 and gross losses of $340.

These gains and losses are included in Other Income on the Consolidated Statement of Operations. The amortized cost and estimated fair value of investments in available-for-sale securities as of December 31, 2012, by contractual maturity, were as follows:

	Cost	Estimated Fair Value
Mature in one year or less	$ 214,817	$ 215,589
Mature after one year through three years	19,716	19,854
Mature after three years	15,753	15,572
	$ 250,286	$ 251,015

B. Long-Term Investments

The following table summarizes the Company's long-term investments as of December 31, 2012 and 2011. For those investments at fair value, the carrying amount of the investment equals its respective fair value.

	December 31,	
	2012	2011
	Investment Balance	
(A) AVAILABLE-FOR-SALE SECURITIES		
Fair Value Changes Recorded in OCI:		
Equity securities - U.S. (1), (2)		
Computer Software and Services	$ 3,824	$ 28,635
Aerospace/Defense	38,256	21,630
Manufacturing	28,032	31,455
Restaurants	15,012	9,364
Other	35,704	29,495
	120,828	120,579
Fair Value Changes Recorded in Consolidated Statement of Operations:		
API (1)	32,678	15,818
Barbican (3)	—	13,623
	32,678	29,441
	$ 153,506	**$ 150,020**
(B) EQUITY METHOD INVESTMENTS		
Investments in Associated Companies:		
At Cost:		
CoSine	$ 6,668	$ 6,944
At Fair Value:		
Fox & Hound (3)	10,521	—
SL Industries, Inc. (2)	17,907	16,049
Steel Excel (1)	—	105,225
	$ 35,096	**$ 128,218**
Other Investments at Fair Value - Related Party:		
SPII Liquidating Trust - Series B (3)	16	16,408
SPII Liquidating Trust - Series D (3)	542	11,783
SPII Liquidating Trust - Series G (3)	6,016	9,552
SPII Liquidating Trust - Series H (3)	3,891	3,496
SPII Liquidating Trust - Series I (3)	798	1,414
	$ 11,263	**$ 42,653**
Total Long-Term Investments	**$ 199,865**	**$ 320,891**

(1) Level 1 investment. Equity securities totaling $79,352 and $87,907 were classified as Level 1 investments as of December 31, 2012 and 2011, respectively.

(2) Level 2 investment. Equity securities totaling $41,476 and $32,672 were classified as Level 2 investments as of December 31, 2012 and 2011, respectively.

(3) Level 3 investment. For additional information related to the Company's Level 3 investments, see Note 6 - "Fair Value Measurements."

The following table presents activity for each of the long-term investments presented in the table above for the years ended December 31, 2012, 2011 and 2010:

	Year Ended December 31,			Ownership at December 31,	
	2012	2011	2010		
(A) AVAILABLE-FOR-SALE SECURITIES					
Fair Value Changes Recorded in OCI:					
Proceeds from sales	$ 29,317	$ 143,096	$ 262,934		
Gross gains from sales	$ 2,985	$ 20,850	$ 42,066		
Gross losses from sales	—	(2,439)	(3,668)		
Net investment gain	**$ 2,985**	**$ 18,411**	**$ 38,398**		
Change in net unrealized holding gains (losses) included in other comprehensive income	$ 336	$ 17,575	$ (37,188)		
Reclassified out of other comprehensive income (loss):					
Unrealized gains	$ 3,118	$ 9,275	$ 41,026		
Unrealized losses	(828)	—	(177)		
Total	$ 2,290	$ 9,275	$ 40,849		
Fair Value Changes Recorded in Consolidated Statement of Operations:					
API (1)	$ 16,859	$ —	$ —		
Barbican (3)	2,108	(183)	(411)		
Income (loss) from investments held at fair value	**$ 18,967**	**$ (183)**	**$ (411)**		
(B) EQUITY METHOD INVESTMENTS					
Investments in Associated Companies:				2012	2011
Equity Method:					
Cosine	$ (328)	$ (385)	$ (440)	46.8%	46.8%
DGT	—	213	886	59.2%	51.5%
JPS	—	—	1,228	39.3%	39.3%
Other	—	(58)	6		
SPH's share of (net loss) income	(328)	(230)	1,680		
Equity Method, at Fair Value:					
Fox & Hound	(403)	—	—	50.0%	—%
SLI	1,796	(1,310)	7,779	24.1%	21.7%
Steel Excel	13,139	(22,092)	(10,439)	51.2%	40.3%
API	—	9,809	2,615	32.4%	32.4%
HNH	—	—	8,670	54.3%	55.5%
Unrealized (loss) gain on associated companies accounted for at fair value	14,532	(13,593)	8,625		
(Loss) Income of associated companies, net of taxes	**$ 14,204**	**$ (13,823)**	**$ 10,305**		
Other Investments at Fair Value - Related Party:					
Gains (Loss) from other investments - related party	**$ (8,329)**	**$ (15,743)**	**$ (3,220)**		
Proceeds from sales	$ 23,061	$ 4,156	$ 13,494		
Gross gains from sales	$ —	$ —	$ 810		
Gross losses from sales	—	—	—		
Net investment gain	**$ —**	**$ —**	**$ 810**		

(A) AVAILABLE-FOR-SALE SECURITIES

Fair Value Changes Recorded in OCI

For purposes of determining gross realized gains and losses, the cost of securities sold is based on specific identification. Gross unrealized gains and gross unrealized losses are reported in Accumulated other comprehensive loss in the consolidated balance sheets. In 2012 the Company recognized an other than temporary impairment loss of approximately $829 related to an available-for-sale security which is included in Asset impairment charges in the Consolidated Statements of Operations.

On December 31, 2012 and December 31, 2011, HNH held an investment in the common stock of a single public company, which is classified as an available-for-sale security in non-current assets. The security has been in a continuous loss position for less than 12 months. Factors considered by HNH when determining that the reduction in fair value below cost should not be recorded as an impairment in the consolidated income statement include: the nature of the investment; the cause and duration of the decline in value; the extent to which fair value is less than cost; the financial condition and near term prospects of the issuer; and HNH's ability and intent to hold the security for a period of time sufficient to allow for the anticipated recovery in fair value.

The cost basis and unrealized gains and losses related to our available for sale securities is as follows:

	2012				2011			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Computer Software and Services	$ 4,447	$ 4	$ (627)	$ 3,824	$ 27,649	$ 3,132	$ (2,146)	$ 28,635
Aerospace/Defense	11,675	26,581	—	38,256	10,746	10,884	—	21,630
Manufacturing	16,278	11,754	—	28,032	16,495	14,960	—	31,455
Restaurants	5,974	9,038	—	15,012	5,974	3,390	—	9,364
Other	43,177	101	(7,574)	35,704	21,600	8,754	(859)	29,495
	$ 81,551	$ 47,478	$ (8,201)	$ 120,828	$ 82,464	$ 41,120	$ (3,005)	$ 120,579

Fair Value Changes Recorded in Consolidated Statement of Operations

Available for sale securities also includes the Company's investment in API and Barbican. The investment in Barbican was sold in the fourth quarter of 2012. Changes in the fair value of the API and Barbican investments are reported in the consolidated statement of operations as Income (loss) from investments held at fair value.

(B) EQUITY METHOD INVESTMENTS

Investments in Associated Companies

The Company’s investments in associated companies accounted for under the equity method of accounting (see Note 2 - "Summary of Significant Accounting Policies" for additional information). The Company elected to record certain investments under the equity method at fair value beginning on the dates these investments became subject to the equity method of accounting. Associated companies are included in either the Diversified Industrial segment, Energy segment or Corporate. Certain associated companies have a fiscal year end that differs from December 31. SPH’s equity in other comprehensive income (loss) of associated companies was $0, $5,833and $(737) for the years ended December 31, 2012, 2011 and 2010, respectively.

Additional information for each of SPH's investments in associated companies that have impacted the Consolidated Statement of Operations during 2012, 2011 or 2010 follows:

Equity Method

- The investment in CoSine is reported on the equity method. SPH recorded $52, $68 and $6 as its share of capital changes for the twelve months ended December 31, 2012, 2011 and 2010, respectively. The aggregate market value of the Company’s interest in CoSine was $9,559 and $9,320 at December 31, 2012 and 2011, respectively.

- On July 5, 2011, SPH purchased 193,305 DGT shares for cash on the open market for $1,933 which brought total shares owned by SPH to 1,977,023 (51.1% of the outstanding shares), and DGT became a majority-owned controlled subsidiary. DGT’s accounts are consolidated with the accounts of SPH from July 5, 2011 and accordingly, SPH’s investment in DGT was been removed from investments in associated companies as of that date. SPH recorded $231and $114 and as its share of capital changes including other comprehensive income/loss for the twelve months ended December 31, 2011, and 2010, respectively.

- Effective December 31, 2011, the Company determined that it no longer had significant influence over the operating and financial polices of JPS Industries, Inc. ("JPS"). The Company discontinued the equity method of accounting for JPS and began classifying JPS as an available for sale security included in Investments at fair value in the consolidated balance sheet. The Company did not record any income/loss or capital changes for JPS in the twelve months ended December 31, 2011 as the financial information was not available.

- The Company also has an investment in a Japanese real estate partnership. During the fourth quarter of 2011, the Company determined that it did not have significant influence over the operating and financial policies of the partnership. Therefore, effective December 31, 2011, the Company discontinued the equity method of accounting and began classifying this investment as an investment at cost with a value of $4,576 and $5,156 included in Other non-current assets in the December 31, 2012 and 2011 Consolidated Balance Sheets, respectively. The Company recorded an impairment of $580 for the twelve months ended December 31, 2012 which is included in Asset impairment charges in the Consolidated Statements of Operations.

Equity Method, At Fair Value:

- On March 19, 2012, the Company invested $10,923 to acquire an indirect interest in Fox & Hound as part of a recapitalization which involved the issuance by Fox & Hound of new common equity in conjunction with a long-term refinancing of Fox & Hound's debt. The Company elected to record its investment in Fox & Hound on the equity method at fair value in order to more appropriately reflect the value of Fox & Hound in its financial statements.

- SLI is a publicly traded company that designs, manufactures and markets power electronics, motion control, power protection and specialized communication equipment. In 2012, the Company received a dividend of approximately $2,000 from SLI which is recorded in Investment and other income in the Consolidated Statement of Operations

- During the second quarter of 2012, SPH acquired an additional 2,227,500 shares of Steel Excel, a publicly traded company. As a result SPH's ownership increased to 51.1% of the outstanding shares and Steel Excel became a majority-owned controlled subsidiary (for additional information on the transaction between Steel Excel and BNS, see Note 3 - "Acquisitions"). Steel Excel owns several oilfield services companies and is seeking to acquire additional business operations. The identification of new business operations includes, but is not limited to, the oilfield servicing, sports, training, education, entertainment, and lifestyle businesses.

- Effective December 31, 2011, the Company determined that it no longer had significant influence over the operating and financial polices of API Group LLC ("API"). The Company discontinued the equity method of accounting for API and began classifying API as Investments at fair value and will continue to report changes in fair value in the consolidated statement of operations.

- SPH accounted for its investment in HNH under the equity method at fair value prior to obtaining a controlling interest. HNH's accounts are consolidated with the accounts of SPH from May 7, 2010 and accordingly, SPH's investment in HNH has been removed from investments in associated companies on that date as described in Note 3 - “Acquisitions”.

The summary income statement amounts in the table below include results for Steel Excel for the period from January 1 through the date of acquisition in 2012.

Additional Disclosures Related to Associated Company Financial Statements

	December 31,		
	2012	2011	
Summary of balance sheet amounts:			
Current assets	$ 96,280	$ 443,740	
Noncurrent assets	252,005	55,540	
Total assets	$ 348,285	$ 499,280	
Current liabilities	$ 61,201	$ 39,727	
Noncurrent liabilities	170,857	26,504	
Total liabilities	232,058	66,231	
Parent equity	116,227	433,049	
Total liabilities and equity	$ 348,285	$ 499,280	
	Year Ended December 31,		
	2012	**2011**	**2010**
Summary income statement amounts:			
Revenue	$ 488,852	$ 161,659	$ 787,347
Gross profit	74,070	14,722	192,052
Income (loss) from continuing operations	(4,788)	10,823	(12,894)
Net income (loss) after noncontrolling interests	(13,477)	1,153	(19,661)

Other Investments at Fair Value - Related Party

Other investments - related party, classified as non-current assets at December 31, 2012 and 2011, consist of the Company's investment in each series of the SPII Liquidating Trust (see Note 13 - "Related Party Transactions") accounted for under the equity method. The purpose of the SPII Liquidating Trust is to effect the orderly liquidation of certain assets previously held by SPII. SPH's financial position, financial performance and cash flows will be affected by the extent to which the operations of the SPII Liquidating Trust results in realized or unrealized gains (losses) and by distributions it makes in each reporting period. The Company holds variable interests in each series of the SPII Liquidating Trust (for additional information on the Company's accounting policy related to variable interest entities, including the SPII Liquidating Trust, see Note 2 - "Summary of Significant Accounting Policies". The series consists of:

SPII Liquidating Trust - Series B ("Trust B")- Represents the Company's interest in the series of the SPII Liquidating Trust that holds preference shares and ordinary shares in Barbican. The SPII Liquidating Trust sold its holdings in preference shares and ordinary shares in Barbican in the fourth quarter of 2012, and received a cash distribution of approximately $19,000.

SPII Liquidating Trust - Series D ("Trust D") - Represents the Company's interest in the series of the SPII Liquidating Trust that holds common shares in F&H. As a result of Fox & Hound's recapitalization described in the "Equity Method at Fair Value" section above, our investment in Fox & Hound Restaurant Group ("F&H"), was diluted, resulting in an unrealized loss of $11,200 in the first quarter of 2012 in the consolidated statement of operations.

SPII Liquidating Trust - Series G ("Trust G") - Represents the Company's interest in the series of the SPII Liquidating Trust that holds the limited partnership interest in Steel Partners China Access I L.P. ("SPCA") (see Note 13 - "Related Party Transactions").

SPII Liquidating Trust - Series H ("Trust H") - Represents the Company's interest in the series of the SPII Liquidating Trust that holds the limited partnership interest in Steel Partners Japan Strategic Fund, L.P. ("SPJSF") (see Note 13 - "Related Party Transactions").

SPII Liquidating Trust - Series I ("Trust I")- Represents the Company's interest in the series of the SPII Liquidating Trust that holds certain other investments.

These investments were acquired and initially recorded in connection with an exchange transaction in which we acquired the limited partnership interest of Steel Partners II, L.P. ("SPII") consisting of holdings in a variety of companies, in exchange for our common units which were distributed to certain former indirect investors in SPII (the "Exchange

Transaction"). The Company elected to account for its investments in each series of the SPII Liquidating Trust under the equity method at fair value beginning July 16, 2009, the date these investments became subject to the equity method.

Each series of the SPII Liquidating Trust is separate and distinct with respect to its assets, liabilities and net assets. Each individual series has no liability or claim with respect to the liabilities or assets, of the other series. Each series shares in the costs, assets and liabilities, if any, that are not specifically attributable to a particular series. Each series generally holds the securities related to a specific investment and cash for operating expenses of the series. The investments in the SPII Liquidating Trust are not redeemable and distributions will be received from the SPII Liquidating Trust as the underlying assets held are sold over a period which is not determinable. There are no unfunded capital commitments with respect to these investments. The fair values for the investments in the SPII Liquidating Trust have been estimated using the net asset value of such interests as reported by the SPII Liquidating Trust.

The following tables provide combined summarized data with respect to the other investments - related party accounted for under the equity method, at fair value:

	December 31,	
	2012	2011
Summary of balance sheet amounts:		
Total assets	$ 25,824	$ 97,502
Total liabilities	(37)	—
Net Asset Value	$ 25,787	$ 97,502

	Year Ended December 31,		
	2012	2011	2010
Summary income statement amounts:			
Net increase (decrease) in net assets from operations	$ (18,996)	$ (35,959)	$ 2,757

Net Investment Gains (Losses)

Net investment gains (losses) in the consolidated statements of operations consist of the following:

	Year Ended December 31,		
	2012	2011	2010
Available-for-sale securities (See "**A) Available for Sale securities"** section in table above)	$ 2,985	$ 18,411	$ 38,398
Financial instruments (see Note 7)	(787)	(29,573)	(11,401)
Securities sold, not yet purchased (see Note 7)	—	(1,408)	(3,757)
Gain on re-measurement of investment in Steel Excel (See Note 3)	13,524	—	—
Investment holding gain on DGT (see Note 3)	—	8,177	—
Other	—	41	810
Total	$ 15,722	$ (4,352)	$ 24,050

6. FAIR VALUE MEASUREMENTS

Financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements as of December 31, 2012 and 2011 are summarized by type of inputs applicable to the fair value measurements as follows:

December 31, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Marketable securities (a)	$ 128,123	$ 69,222	$ 1,783	$ 199,128
Long-term investments (a)	112,030	59,383	21,784	193,197
Non-controlling interests in certain funds (b)	—	—	1,021	1,021
Commodity contracts on precious metals	127	—	—	127
Total	$ 240,280	$ 128,605	$ 24,588	$ 393,473
Liabilities:				
Financial instruments	$ —	$ 24,742	$ —	$ 24,742
Derivative features of subordinated notes	—	—	184	184
Commodity contracts on precious metals	—	27	—	27
Total	$ —	$ 24,769	$ 184	$ 24,953

December 31, 2011	Level 1	Level 2	Level 3	Total
Assets:				
Long-term investments (a)	$ 225,001	$ 32,672	$ 56,276	$ 313,949
Total	$ 225,001	$ 32,672	$ 56,276	$ 313,949
Liabilities:				
Financial instruments	$ —	$ 23,736	$ —	$ 23,736
Deferred fee liability to related party	—	—	58,747	58,747
Derivative features of subordinated notes	—	—	694	694
Commodity contracts on precious metals	165	64	—	229
Total	$ 165	$ 23,800	$ 59,441	$ 83,406

(a) For additional detail of the marketable securities and long-term investments see Note 5 - "Investments."
(b) Recorded within Other non-current assets.

Investments with a fair value of $32,243 were transferred from Level 1 to Level 2 based upon a reduction in the number of shares traded. Investments with a fair value of $2,735 were transferred from Level 2 to Level 1 based upon an increase in the number of shares traded. The futures contracts are Level 1 measurements since they are traded on a commodity exchange. The forward contracts are entered into with a counterparty, and are considered Level 2 measurements.

Following is a summary of changes in financial assets measured using Level 3 inputs:

	Investments in Associated Companies	Other Investments - Related Party	Other Investments	Total
Assets				
Balance at December 31, 2010	$ —	$ 62,553	$ 7,668	$ 70,221
Purchases	—	—	6,138	6,138
Sales	—	(4,156)	—	(4,156)
Unrealized gains	—	636	—	636
Unrealized losses	—	(16,380)	(183)	(16,563)
Balance at December 31, 2011	—	42,653	13,623	56,276
Purchases	10,923	—	—	10,923
Sales	—	(23,061)	(15,731)	(38,792)
Unrealized gains	—	3,265	2,108	5,373
Unrealized losses	(402)	(11,594)	—	(11,996)
Balance at December 31, 2012	$ 10,521	$ 11,263	$ —	$ 21,784

The Company and the SPII Liquidating Trust use specific valuation metrics appropriate for each investment to estimate the fair value of their debt and equity securities measured using Level 3 inputs. The Company estimates the value of its interest in Trust D and its indirect investment in Fox & Hound primarily using a discounted cash flow method using a market risk premium of 25%. Trust I is valued on a market multiple basis, primarily using an EBITDA multiple of three times trailing twelve months earnings. Trust's G and H are valued based on the net asset value of such funds, which hold investments all of which are valued based on Level 1 or Level 2 inputs. The investments held in these two trusts are not redeemable and distributions will be received from the SPII Liquidating Trust as the underlying assets held are sold over a period which is not determinable. Trust H's term ends in May 2013 and may be extended for up to one additional year at the discretion of its general partner. There are no unfunded capital commitments with respect to these investments.

The change in unrealized gains (losses) for investments still held at December 31, 2012 and 2011 was reported in the consolidated statements of operations as follows:

	Investments in Associated Companies	Other Investments - Related Party	Other Investments	Total
Year Ended December 31, 2012				
Gains				
Income from other investments - related party	$ —	$ 3,265	$ —	$ 3,265
Income from investments held at fair value	—	—	2,108	2,108
	—	3,265	2,108	5,373
Losses				
Losses from associated companies	(402)	—	—	(402)
Losses from other investments - related party	—	(11,594)	—	(11,594)
	(402)	(11,594)	—	(11,996)
Total	$ (402)	$ (8,329)	$ 2,108	$ (6,623)

Year Ended December 31, 2011								
Gains								
Gains from other investments - related party	$	—	$	636	$	—	$	636
Losses								
Losses from other investments - related party		—		(16,380)		—		(16,380)
Investment and other loss		—		—		(183)		(183)
		—		(16,380)		(183)		(16,563)
Total	$	—	$	(15,744)	$	(183)	$	(15,927)
Year Ended December 31, 2010								
Gains								
Gains from other investments - related party		—		4,054		—		4,054
		—		4,054		—		4,054
Losses								
Losses from other investments - related party		—		(7,274)		—		(7,274)
Investment and other loss		—		—		(411)		(411)
		—		(7,274)		(411)		(7,685)
Total	$	—	$	(3,220)	$	(411)	$	(3,631)

The realized and unrealized gains and losses in financial assets measured using Level 3 inputs are reported in the consolidated statement of operations are presented in the following table. There were no realized losses recorded in 2012, 2011 or 2010.

	Realized Gains		Unrealized Gains		Unrealized Losses		Total	
Year Ended December 31, 2012:								
Loss of associated companies	$	—	$	—	$	(402)	$	(402)
Income (loss) from other investments - related party		—		3,265		(11,594)		(8,329)
Income from investments held at fair value		—		2,108		—		2,108
Total	$	—	$	5,373	$	(11,996)	$	(6,623)
Year Ended December 31, 2011:								
Investment and other loss	$	—	$	—	$	(183)	$	(183)
Income (loss) from other investments- related party		—		636		(16,380)		(15,744)
Total	$	—	$	636	$	(16,563)	$	(15,927)
Year Ended December 31, 2010:								
Investment and other loss	$	—	$	—	$	(411)	$	(411)
Net investment gains		810		—		—		810
Income (loss) from other investments - related party		—		4,054		(7,274)		(3,220)
Total	$	810	$	4,054	$	(7,685)	$	(2,821)

Following is a summary of changes in financial liabilities measured using Level 3 inputs:

	Distribution Payable (a)	Deferred Fee Liability to Related Party (b)	Derivative Feature of Subordinated Notes (c)	Common Unit Option Liability (d)	Total
Balance at December 31, 2010	$ 29,869	$ 64,854	$ 2,866	$ 1,785	$ 99,374
Decrease in fair value reported in the consolidated statement of operations as income	—	(6,107)	(839)	(1,785)	(8,731)
Cash distribution on April 6, 2011	(29,869)	—	—	—	(29,869)
Settlements	—	—	(1,333)	—	(1,333)
Balance at December 31, 2011	—	58,747	694	—	59,441
Increase (decrease) in fair value reported in the consolidated statement of operations as expense (income)	—	11,448	(831)	—	10,617
Deferred fee settlement	—	(70,195)	—	—	(70,195)
Other	—	—	(47)	—	(47)
Balance at December 31, 2012	$ —	$ —	$ (184)	$ —	$ (184)

(a) See Note 16 - “Capital and Accumulated Other Comprehensive (Loss) Income" - Common Unit Distributions.

(b) See Note 13 - “Related Party Transactions”

(c) See Note 7 - “Financial Instruments”

(d) See Note 16 - “Capital and Accumulated Other Comprehensive (Loss) Income" - Common Unit Option Liability.

Assets Measured at Fair Value on a Nonrecurring Basis

The Company’s non-financial assets measured at fair value in 2012 and 2011 on a non-recurring basis include the assets acquired and liabilities assumed in the acquisitions described in Note 3 – “Acquisitions”. Significant judgments and estimates are made to determine the acquisition date fair values which may include the use of appraisals, discounted cash flow techniques or other information the Company considers relevant to the fair value measurement. Subsequent to initial measurement, the Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate, in management’s judgment, that carrying values may not be recoverable. Circumstances that could trigger an interim impairment test include but are not limited to: the occurrence of a significant change in circumstances, such as continuing adverse business conditions or legal factors; an adverse action or assessment by a regulator; unanticipated competition; loss of key personnel; the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed; or results of testing for recoverability of a significant asset group within a reporting unit.

As of December 31, 2012 and 2011, WebBank has impaired loans of $2,915, of which $2,328 is guaranteed by the USDA or SBA and $3,789, of which $2,354 is guaranteed by the USDA or SBA, respectively. These loans are measured at fair value on a nonrecurring basis using Level 3 inputs. Loans are considered impaired when, based on current information and events, it is probable that WebBank will be unable to collect all amounts due according to the contractual terms of loan agreements, including scheduled interest payments. When a loan has been identified as being impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate or, when appropriate, the loan’s observable fair value or the fair value of the collateral (less any selling costs) if the loan is collateral-dependent. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net of deferred loan fees or costs and unamortized premium or discount), an impairment is recognized by creating or adjusting an existing allocation of the allowance for loan losses, or by charging down the loan to its value determined in accordance with generally accepted accounting principles. Amounts charged against the allowance for loan losses were $1 and $1,589 for the years ended December 31, 2012 and 2011, respectively.

7. FINANCIAL INSTRUMENTS

Foreign Currency Exchange Rate Risk

Financial instruments include $24,742 and $23,736 at December 31, 2012 and 2011, respectively, of amounts payable in foreign currencies which are subject to the risk of exchange rate changes. These financial instruments resulted from transactions entered into for risk management purposes, are collateralized by an equivalent amount included in restricted cash and have no maturity date. The liabilities are accounted for at fair value on the balance sheet date with changes in fair value reported in the consolidated statement of operations included in net investment gain (loss). The liabilities are not designated as hedging instruments. The foreign currency financial instrument liabilities at December 31, 2012 and 2011 are as follows:

	December 31, 2012		December 31, 2011	
Currency	**Carrying Amount**	**Notional Amount**	**Carrying Amount**	**Notional Amount**
Japanese Yen	$ 1,695	¥146,991	$ 1,899	¥146,241
Pound Sterling	23,047	£14,186	21,837	£14,055
Total	$ 24,742		$ 23,736	

Information is summarized below for foreign currency financial liabilities and related restricted cash:

Foreign exchange transactions:	**Year Ended December 31,**	
	2012	**2011**
Balance, beginning of period	$ 23,736	$ 137,823
Sales of foreign currency financial instruments	—	20,170
Purchases of foreign currency financial instruments	—	(138,522)
Proceeds from sales of investments	—	(1,961)
Net investment losses	787	4,903
Receipt of dividends, net of interest expense	219	518
Other	—	805
Balance of foreign currency financial instruments liability and related restricted cash, end of period (a)	$ 24,742	$ 23,736

(a) The financial instruments payable in foreign currencies are entered into with a counterparty and are considered Level 2 measurements. Carrying value approximates fair value.

HNH business units are subject to the risk of price fluctuations related to anticipated revenues and operating costs, firm commitments for capital expenditures and existing assets or liabilities denominated in currencies other than U.S. dollars. HNH has not used derivative instruments to manage this risk.

Commodity Contracts

HNH enters into commodity futures and forwards contracts on precious metals that are subject to market fluctuations in order to economically hedge its precious metal inventory against price fluctuations. As of December 31, 2012, HNH had entered into forward and future contracts for gold with a total value of $400 and $1,500 for silver.

As of December 31, 2012, HNH had the following outstanding forward or future contracts with settlement dates ranging from January 2013 to March 2013:

Commodity	Amount
Silver	45,000 ounces
Gold	300 ounces

Option Contracts

SPH acquired the stock of two companies in conjunction with its acquisition of the assets of SPII on July 15, 2009. Subsequently, in place of these holdings, SPH invested in buying calls and selling puts in these two companies to create similar risk/reward characteristics of a direct investment in the common stock of the two companies. As of December 31, 2012 and December 31, 2011 there are no call or put options outstanding. During 2011, the option contracts were exchange traded in active markets and the Company estimated the fair value of the options through the use of quoted prices obtained on internationally recognized exchanges.

Information is summarized below for the option contracts for the years ended December 31, 2011 and 2010:

	Year Ended December 31,	
	2011	2010
Proceeds from sales	$ 18,099	$ 23,751
Realized gains (losses):		
Gross gains from sales	$ 2,580	$ 4,081
Gross losses from sales	(27,031)	(8,354)
Net realized investment gain	(24,451)	(4,273)
Unrealized gains (losses):		
Change in unrealized gains	1,982	8,441
Change in unrealized losses	(2,202)	(1,480)
Net unrealized investment gains (loss)	(220)	6,961
Net investment loss	$ (24,671)	$ 2,688

Securities Sold, Not Yet Purchased

There are no amounts outstanding at December 31, 2012 and 2011 for securities sold, not yet purchased. For risk management purposes during the year ended December 31, 2011, the Company sold securities short in order to economically hedge the risk of a decline in the stock market. Securities sold, not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to repurchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance-sheet risk as the Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased, at fair value may exceed the amount recognized in the consolidated balance sheet. The securities sold, not yet purchased were exchange traded in active markets and the Company estimated the fair value of the securities through the use of quoted prices obtained on internationally recognized exchanges.

Information is summarized below for securities sold, not yet purchased for the twelve months ended December 31, 2011 and 2010:

	Year Ended December 31,	
	2011	2010
Proceeds from sales	$ 20,045	$ 200,888
Realized gains (losses):		
Gross gains from sales	$ 14	$ 1,155
Gross losses from sales	(1,422)	(4,902)
Net realized investment loss	(1,408)	(3,747)
Unrealized gains (losses):		
Change in unrealized gains	—	—
Change in unrealized losses	—	—
Net unrealized investment gain	—	—
Net investment loss	$ (1,408)	$ (3,747)

Subordinated Notes

HNH's 10% Subordinated secured notes due 2017 ("the Subordinated Notes") have embedded call premiums and warrants associated with them. The Company has treated the fair value of these features together as both a discount and a derivative liability at inception of the loan agreement, valued at $2,634. The discount is being amortized over the life of the notes as an adjustment to interest expense, and the derivative liability is marked to market at each balance sheet date. As of December 31, 2012 and 2011, mark to market adjustments of $831 and $839 were recorded as unrealized gains on derivatives. The fair value of the derivative asset (liability) was $184 and $(694), respectively. The Subordinated Notes and embedded call premiums and warrants in the SPH consolidated financial statements and in the footnotes are presented net of intercompany amounts eliminated in consolidation.

As the above described derivatives are not designated as accounting hedges under ASC 815, "Accounting for Derivative Instruments and Hedging Activities" ("ASC 815"), they are accounted for as derivatives with no hedge designation. The derivatives are marked to market and both realized and unrealized gains and losses are recorded in current period earnings in the Company's consolidated statement of operations. The Company's hedging strategy is designed to protect it against normal volatility. However, abnormal price changes in the commodity, foreign exchange and stock markets could negatively impact the Company's earnings.

Fair Value of Derivative Instruments in the Consolidated Balance Sheets:

Derivative	Balance Sheet Location	December 31, 2012	December 31, 2011
Foreign currency financial instruments (a)	Financial instruments	$ 24,742	$ 23,736
Commodity contracts (a)	Other current assets	$ (127)	$ —
Commodity contracts (a)	Other current liabilities	$ 27	$ 229
Derivative features of subordinated notes (a)	Long-term debt	$ (184)	$ 694

(a) Carrying amount equals fair value.

Effect of derivative instruments on the Consolidated Statements of Operations:

		Year Ended December 31,		
		2012	2011	2010
Derivative	Statement of Operations Location	Gain (loss)	Gain (loss)	Gain (loss)
Foreign currency financial instruments	Net investment gains (losses)	$ (787)	$ (4,903)	$ (14,099)
Commodity contracts	Realized and unrealized (gain) loss on derivatives	522	(1,236)	(4,932)
Call options	Net investment gains (losses)	—	(8,539)	(4,974)
Put options	Net investment gains (losses)	—	(16,131)	7,662
Securities sold, not yet purchased	Net investment gains (losses)	—	(1,408)	(3,747)
Derivative features of subordinated notes	Realized and unrealized (gain) loss on derivatives	831	839	(232)
Total derivatives		$ 566	$ (31,378)	$ (20,322)

Financial Instruments with Off-Balance Sheet Risk

WebBank is a party to financial instruments with off-balance sheet risk. In the normal course of business, these financial instruments include commitments to extend credit in the form of loans. Those instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement WebBank has in particular classes of financial instruments.

At December 31, 2012 and 2011, WebBank's undisbursed loan commitments totaled $155,378 and $113,350, respectively. Commitments to extend credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. WebBank's commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. WebBank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by WebBank upon extension of credit is based on management's credit evaluation of the borrower.

WebBank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. WebBank uses the same credit policy in making commitments and conditional obligations as it does for on-balance sheet instruments.

WebBank also estimates an allowance for potential losses on off-balance sheet contingent credit exposure. WebBank determines an allowance for this contingent credit exposure based on historical experience and portfolio analysis. The allowance was $740 and $1,696 at December 31, 2012 and 2011, respectively, and is included within Other current liabilities in the consolidated balance sheets. Increases or decreases in the allowance are included in Selling, general and administrative expenses in the consolidated statements of operations. The amount included in Selling, general and administrative expenses for credit losses on off-balance sheet contingent credit exposure was a benefit of $440 and $22 for the years ended December 31, 2012 and 2011, respectively and an expense of $775 for year December 31, 2010.

8. TRADE, OTHER AND LOANS RECEIVABLE

Trade and Other Receivables

	December 31, 2012	December 31, 2011
Trade accounts receivable, net of allowance for doubtful accounts of $2,264 in 2012 and $2,286 in 2011	$ 85,463	$ 80,533
Other receivables	2,194	5,252
Total	$ 87,657	$ 85,785

Loans Receivable

Major classification of WebBank's loans receivable at December 31, 2012 and 2011 are as follows:

	Total				Current		Non-current	
	December 31, 2012	%	December 31, 2011	%	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Real estate loans:								
Commercial - owner occupied	$ 6,724	10%	$ 8,340	19%	$ 198	$ 302	$ 6,526	$ 8,038
Commercial – other	318	—%	300	—%	9	9	309	291
Total real estate loans	7,042	10%	8,640	19%	207	311	6,835	8,329
Commercial and industrial	9,832	15%	4,344	10%	451	3,731	9,381	613
Loans held for sale	51,505	75%	31,363	71%	51,505	31,363	—	—
Total loans	68,379	100%	44,347	100%	52,163	35,405	16,216	8,942
Less:								
Deferred fees and discounts	21		(56)		21	(56)	—	—
Allowance for loan losses	(285)		(529)		(285)	(529)	—	—
Total loans receivable, net (a)	$ 68,115		$ 43,762		$ 51,899	$ 34,820	$ 16,216	$ 8,942

(a) The carrying value is considered to be representative of fair value because the rates of interest are not significantly different from market interest rates for instruments with similar maturities. The fair value of loans receivable, net was $71,111 and $44,031 at December 31, 2012 and 2011, respectively.

Allowance for Loan and Lease Losses

The Allowance for Loan and Lease Losses ("ALLL") represents an estimate of probable and estimable losses inherent in the loan and lease portfolio as of the balance sheet date. Losses are charged to the ALLL when recognized. Generally, commercial loans are charged off or charged down at the point at which they are determined to be uncollectible in whole or in part. The amount of the ALLL is established by analyzing the portfolio at least quarterly, and the provisions for loan losses is adjusted so that the ALLL is at an appropriate level at the balance sheet date.

The methodologies used to estimate the ALLL depend upon the impairment status and portfolio segment of the loan. For the commercial and commercial real estate segments, a comprehensive loan grading system is used to assign loss given default grades to each loan. The credit quality indicators discussed subsequently are based on this grading system. Loss given default grades are based on both financial and statistical models and loan officers' judgment. Groupings of these grades are created for each loan class and calculate historic loss rates ranging from the previous 36 months.

After applying historic loss experience, as described above, the quantitatively derived level of ALLL is reviewed for each segment using qualitative criteria. Various risk factors are tracked that influence judgment regarding the level of the ALLL across the portfolio segments. Primary qualitative factors that may be reflected in the quantitative models include:

- Asset quality trends
- Risk management and loan administration practices
- Risk identification practices
- Effect of changes in the nature and volume of the portfolio
- Existence and effect of any portfolio concentrations
- National economic and business conditions
- Regional and local economic and business conditions
- Data availability and applicability

Changes in these factors are reviewed to ensure that changes in the level of the ALLL are consistent with changes in these factors. The magnitude of the impact of each of these factors on the qualitative assessment of the ALLL changes from quarter to quarter according to the extent these factors are already reflected in historic loss rates and according to the extent these factors diverge from one another. Also considered is the uncertainty inherent in the estimation process when evaluating the ALLL.

Changes in the allowance for loan and lease losses are summarized as follows:

	Real Estate				
	Commercial - Owner Occupied	Commercial - Other	Commercial & Industrial	Unallocated	Total
Beginning balance - December 31, 2011	$ 347	$ 46	$ 136	$ —	$ 529
Charge-offs	1	—	—	—	1
Recoveries	46	44	80	—	170
Provision	(207)	(56)	(152)	—	(415)
Ending Balance – December 31, 2012	$ 187	$ 34	$ 64	$ —	$ 285

The ALLL and outstanding loan balances according to the Company's impairment method are summarized as follows at December 31, 2012:

	Real Estate			
	Commercial - Owner Occupied	**Commercial - Other**	**Commercial & Industrial**	**Total**
Allowance for loan losses:				
Individually evaluated for impairment	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	187	34	64	285
Total	$ 187	$ 34	$ 64	$ 285
Outstanding Loan balances:				
Individually evaluated for impairment (1)	$ 2,728	$ —	$ 186	$ 2,914
Collectively evaluated for impairment	3,996	318	9,646	13,960
Total	$ 6,724	$ 318	$ 9,832	$ 16,874

(1) $2,328 is guaranteed by the USDA or SBA.

Nonaccrual and Past Due Loans

Loans are generally placed on nonaccrual status when payment in full of principal and interest is not expected, or the loan is 90 days or more past due as to principal or interest, unless the loan is both well secured and in the process of collection.

A nonaccrual loan may be returned to accrual status when all delinquent interest and principal become current in accordance with the terms of the loan agreement; and the loan, if secured, is well secured; the borrower has paid according to the contractual terms for a minimum of six months; and analysis of the borrower indicates a reasonable assurance of the ability to maintain payments. Payments received on nonaccrual loans are applied as a reduction to the principal outstanding.

Closed-end loans with payments scheduled monthly are reported as past due when the borrower is in arrears for two or more monthly payments. Similarly, open-end credit such as charge-card plans and other revolving credit plans are reported as past due when the minimum payment has not been made for two or more billing cycles. Other multipayment obligations (i.e., quarterly, semiannual, etc.), single payment, and demand notes are reported as past due when either principal or interest is due and unpaid for a period of 30 days or more. Loans past due 90 days or more and still accruing interest were $2,581 and $0 at December 31, 2012 and 2011, respectively.

Nonaccrual loans are summarized as follows:

	December 31, 2012	**December 31, 2011**
Real Estate Loans:		
Commercial - Owner Occupied	$ 147	$ 914
Total Real Estate Loans	147	914
Commercial and Industrial	94	97
Total Loans	$ 241	$ 1,011

Past due loans (accruing and nonaccruing) are summarized as follows at December 31, 2012:

	Current	30-89 days past due	90+ days past due	Total past due (2)	Total loans	Recorded investment in accruing loans 90+ days past due (3)	Nonaccrual loans that are current (1)
Real Estate Loans:							
Commercial - Owner Occupied	$ 3,996	$ —	$ 2,728	$ 2,728	$ 6,724	$ 2,581	$ —
Commercial - Other	318	—	—	—	318	—	—
Total Real Estate Loans	4,314	—	2,728	2,728	7,042	2,581	—
Commercial and Industrial	9,738	—	94	94	9,832	—	—
Total Loans	$ 14,052	$ —	$ 2,822	$ 2,822	$ 16,874	$ 2,581	$ —

(1) Represents nonaccrual loans that are not past due more than 30 days; however, full payment of principal and interest is still not expected.

(2) $2,317 is guaranteed by the USDA or SBA.

(3) $2,126 is guaranteed by the USDA or SBA.

Credit Quality Indicators

In addition to the past due and nonaccrual criteria, loans are analyzed using a loan grading system. Generally, internal grades are assigned to loans based on financial/statistical models and loan officer judgment. The Company reviews and grades all loans with unpaid principal balances of $100 or more once per year. Grades follow definitions of Pass, Special Mention, Substandard, and Doubtful. The definitions of Pass, Special Mention, Substandard, and Doubtful are summarized as follows:

- *Pass*: A Pass asset is a higher quality asset and does not fit any of the other categories described below. The likelihood of loss is considered remote.
- *Special Mention*: A receivable in this category has a specific weakness or problem but does not currently present a significant risk of loss or default as to any material term of the loan or financing agreement.
- *Substandard*: A substandard receivable has a developing or currently minor weakness or weaknesses that could result in loss or default if deficiencies are not corrected or adverse conditions arise.
- *Doubtful*: A doubtful receivable has an existing weakness or weaknesses that have developed into a serious risk of significant loss or default with regard to a material term of the financing agreement.

Outstanding loan balances (accruing and nonaccruing) categorized by these credit quality indicators are summarized as follows at December 31, 2012:

	Pass	Special Mention	Sub-standard (1)	Doubtful	Total loans
Real Estate Loans:					
Construction	$ —	$ —	$ —	$ —	$ —
Commercial - Owner Occupied	3,947	48	2,729	—	6,724
Commercial - Other	318	—	—	—	318
Total Real Estate Loans	4,265	48	2,729	—	7,042
Commercial and Industrial	9,646	—	186	—	9,832
Total Loans	$ 13,911	$ 48	$ 2,915	$ —	$ 16,874

(1) $2,328 is guaranteed by the USDA or SBA.

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable that WebBank will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. When loans are impaired, an estimate of the amount of the balance that is impaired is made and a specific reserve is assigned to the loan based on the estimated present value of the loan's future cash flows discounted at the loan's effective interest rate, the observable market price of the loan, or the fair value of the loan's underlying collateral less the cost to sell. When the impairment is based on amount on the fair value of the loan's underlying collateral, the portion of the balance that is impaired is charged off, such that these loans do not have a specific reserve in the ALLL. Payments received on impaired loans that are accruing are recognized in interest income, according to the contractual loan agreement. Payments received on impaired loans that are on nonaccrual are not recognized in interest income, but are applied as a reduction to the principal outstanding. Payments are recognized when cash is received.

Information on impaired loans is summarized as follows at December 31, 2012:

		Recorded investment				
	Unpaid principle balance	with no allowance	with allowance	Total recorded investment (1)	Related Allowance	Average recorded investment
Real Estate Loans:						
Commercial - Owner Occupied	$ 2,981	$ 2,729	$ —	$ 2,729	$ —	$ 3,199
Total Real Estate Loans	2,981	2,729	—	2,729	—	3,199
Commercial and Industrial	542	169	17	186	—	198
Total Loans	$ 3,523	$ 2,898	$ 17	$ 2,915	$ —	$ 3,397

(1) $2,328 is guaranteed by the USDA or SBA.

9. INVENTORIES

A summary of inventories is as follows:

	December 31, 2012	December 31, 2011
Finished products	$ 20,382	$ 18,742
In – process	9,513	8,351
Raw materials	16,507	16,641
Fine and fabricated precious metal in various stages of completion	9,599	8,658
	56,001	52,392
Inventory reserve	(2,846)	(2,203)
	$ 53,155	$ 50,189

Fine and Fabricated Precious Metal Inventory

In order to produce certain of its products, HNH purchases, maintains and utilizes precious metal inventory. HNH records its precious metal inventory at LIFO cost, subject to lower of cost or market with any adjustments recorded through cost of goods sold. The market value of the precious metal inventory exceeded LIFO cost by $2,846 and $2,203 as of December 31, 2012 and 2011, respectively.

Certain customers and suppliers of HNH choose to do business on a "toll" basis, and furnish precious metal to HNH for return in fabricated form ("customer metal") or for purchase from or return to the supplier. When the customer metal is returned in fabricated form, the customer is charged a fabrication charge. The value of this customer metal is not included in the Company's balance sheet. As of December 31, 2012, HNH's customer metal consisted of 208,433 ounces of silver, 541

ounces of gold, and 1,399 ounces of palladium. As of December 31, 2011, HNH's customer metal consisted of 240,568 ounces of silver, 609 ounces of gold, and 1,396 ounces of palladium.

	December 31, 2012	December 31, 2011
Supplemental inventory information:		
Precious metals stated at LIFO cost	$ 5,460	$ 4,447
Market value per ounce:		
Silver	30.20	27.95
Gold	1,675.40	1,565.80
Palladium	702.85	655.40

10. PROPERTY, PLANT AND EQUIPMENT, NET

A summary of property, plant and equipment, net is as follows:

	December 31, 2012	December 31, 2011
Land	$ 10,221	$ 7,718
Buildings and improvements	54,111	36,124
Machinery, equipment and other	154,530	91,315
Construction in progress	10,059	10,620
	228,921	145,777
Accumulated depreciation and amortization	(42,763)	(23,858)
Net property, plant and equipment	$ 186,158	$ 121,919

Depreciation expense was $18,728, $14,608 and $9,581 for the twelve months ended December 31, 2012, 2011 and 2010, respectively.

11. GOODWILL AND OTHER INTANGIBLES

A reconciliation of the change in the carrying value of goodwill is as follows:

	December 31, 2012	December 31, 2011
Balance at beginning of year	$ 36,756	$ 10,171
BNS sale of SWH to Steel Excel	(24,836)	—
Acquisition of Steel Excel	48,468	—
Acquisition of Hickman	3,267	—
Other acquisitions	154	—
Impairment	(192)	—
Acquisition of SWH	—	24,836
Acquisition of Tiger Claw	—	1,753
Currency translation adjustment	5	(4)
Balance at end of year	$ 63,622	$ 36,756

A summary of intangible assets other than goodwill is summarized as follows:

	December 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Product and customer relationships	$ 106,876	$ 15,242	$ 93,110	$ 8,276
Trademarks	24,630	2,145	23,260	850
Patents and technology	19,025	4,063	18,702	2,421
Other	2,446	1,182	892	912
	$ 152,977	$ 22,632	$ 135,964	$ 12,459

Trademarks with indefinite lives as of December 31, 2012 and 2011 were $8,020 and $13,010. In 2012 the Company changed the classification of $4,990 of indefinite life trademarks to trademarks with a life of 5 years. The change resulted from new information obtained during the purchase price valuation analysis for the Company's acquisition of Steel Excel. As a result, the Company recorded additional amortization in 2012 of approximately $582 pre-tax and $361 after tax in Selling general and administrative expenses and Net income from continuing operations, respectively.

Amortization expense related to intangible assets was $10,234, $7,802 and $4,055 for the twelve months ended December 31, 2012, 2011 and 2010, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

	Products and Customer Relationships	Trademarks	Patents and Technology	Other
2013	$ 7,530	$ 1,732	$ 1,636	$ 169
2014	6,914	1,637	1,636	163
2015	6,466	1,627	1,636	163
2016	5,972	1,618	1,636	45
2017	6,137	941	1,636	35
Thereafter	58,614	14,931	6,782	689
Total	$ 91,633	$ 22,486	$ 14,962	$ 1,264

12. BANK DEPOSITS

A summary of WebBank deposits is as follows:

	December 31, 2012	December 31, 2011
Time deposits year of maturity:		
2012	$ —	$ 28,017
2013	25,838	22,866
2014	9,094	18,514
2015	14,264	15,209
2016	11,507	—
Total time deposits	60,703	84,606
Money market deposits	17,906	10,276
Total deposits (a)	$ 78,609	$ 94,882
Current	$ 43,744	$ 38,293
Long-term	34,865	56,589
Total deposits	$ 78,609	$ 94,882
Time deposit accounts under $100	$ 53,897	$ 70,800
Time deposit accounts $100 and over	6,806	13,806
Total time deposits	$ 60,703	$ 84,606

(a) The carrying value is considered to be representative of fair value because the rates of interest are not significantly different from market interest rates for instruments with similar maturities. The fair value of Deposits was $104,707 and $97,082 at December 31, 2012 and 2011, respectively.

13. RELATED PARTY TRANSACTIONS

Deferred Fee Liability to Related Party

Pursuant to an assignment and assumption agreement effective as of July 15, 2009, SPH assumed from Steel Partners II (Offshore) Ltd. (“SPII Offshore”), an entity previously affiliated with SPII, a liability due WGL Capital Corp. (the “Investment Manager”), an affiliate of the Manager, pursuant to a deferred fee agreement (the “Deferred Fee Liability”) in the amount of $51,594 as of July 15, 2009. In exchange for assuming the liability, SPH received consideration of equal value from SPII Offshore comprised of $4,487 in cash and 2,725,533 common units of SPH (valued at $17.28 per common unit as determined in connection with the implementation of the Exchange Transaction) which are held by SPH as treasury units.

The amount of the Deferred Fee Liability was indexed to the value of SPH. The deferred fee was a fair value liability and increased or decreased quarterly by the same percentage as the increase or decrease in the index. The Deferred Fee Liability increased $11,448, decreased $6,107, and increased $6,268 for the twelve months ended December 31, 2012 , 2011 and 2010, respectively. These amounts are reported in the consolidated statements of operations as (Decrease) increase in deferred fee liability to related party. The fair value of the Deferred Fee Liability was $0 and $58,747 as of December 31, 2012 and 2011, respectively.

On April 11, 2012 (the "Termination Date"), the Company and the Investment Manager terminated the Investor Services Agreement, dated as of July 15, 2009, by mutual consent. Instead of receiving the deferred fee in cash, the Investment Manager elected for the total amount to be paid in common units of the Company. For additional information see Note 16 - "Capital and Accumulated Other Comprehensive Loss."

Management Agreement

Until December 31, 2011, SPLLC was the manager of SPH. Effective January 1, 2012, SPLLC assigned its interest in the management agreement to SPGS, formerly an affiliate of SPLLC.

On November 23, 2011, SPH, SPH Group LLC, a wholly owned subsidiary of SPH, and SPLLC entered into the Third Amended and Restated Management Agreement, effective as of January 1, 2012, to, among other things, revise the compensation to be paid to the Manager and to extend the term of the agreement. Effective January 1, 2012, the Manager will receive a quarterly Management Fee at a rate of 1.5% of total partner’s capital, payable on the first day of each quarter and subject to quarterly adjustment. The Management Agreement will continue until December 31, 2012 and will be automatically renewed thereafter for successive one-year terms unless otherwise determined at least 60 days prior to each renewal date by a majority of the independent directors. Prior to January 1, 2012, the Management Fee was at a rate of 1.5% per annum payable monthly and was calculated based on the sum of the net asset value of the common units and any amounts in the deferred fee accounts as of the last day of the prior calendar month.

SPH will bear (or reimburse the Manager with respect to) all its reasonable costs and expenses of the managed entities, the Manager, SPH GP or their affiliates, including but not limited to: legal, tax, accounting, auditing, consulting, administrative, compliance, investor relations costs related to being a public entity rendered for SPH or SPH GP as well as expenses incurred by the Manager and SPH GP which are reasonably necessary for the performance by the Manager of its duties and functions under the Management Agreement and certain other expenses incurred by managers, officers, employees and agents of the Manager or its affiliates on behalf of SPH. For the twelve months ended December 31, 2012, 2011 and 2010, the Manager earned a Management Fee of $7,412, $8,119 and $7,531, respectively. Unpaid amounts for management fees included in Payable to related parties were $2,097 and $2,205 at December 31, 2012 and 2011, respectively. The Manager incurred $1,179, $2,833 and $2,209 of reimbursable expenses during the twelve months ended December 31, 2012, 2011 and 2010, respectively, in connection with its provision of services under the Management Agreement. Unpaid amounts for reimbursable expenses were $573 and $1,488 at December 31, 2012 and 2011, respectively, and are included in Payable to related parties.

On November 23, 2011, SPH entered into the Third Amended and Restated Agreement of Limited Partnership of SPH, dated as of July 14, 2009, to, among other things, amend the existing limited partnership agreement to provide for the incentive compensation to be paid to Manager pursuant to the Third Amended and Restated Management Agreement.

On May 10, 2012, the Company, SPH Group LLC, a wholly owned subsidiary of the Company, and SPGS entered into that certain Fourth Amended and Restated Management Agreement, effective as of January 1, 2012, to clarify the manner in which the annual incentive fee is calculated.

Investment Manager

Effective as of July 15, 2009, SPH entered into an investor services agreement (the “Investor Services Agreement”) with the Investment Manager. Pursuant to the Investor Services Agreement, the Investment Manager performs certain investor relations services on SPH’s behalf and SPH pays the Investment Manager a fee in an amount of $50 per year (the “Investor Services Fee”). The Management Fee payable to the Manager pursuant to the Management Agreement is offset and reduced on each payment date by the amount of the Investor Services Fee payable to the Investment Manager under the Investor Services Agreement. In addition, SPH bears (or reimburses the Investment Manager with respect to) all reasonable costs and expenses of SPH GP, and the Investment Manager, or their affiliates relating to the investor relations services performed for SPH, including but not limited to all expenses actually incurred by the Investment Manager that are reasonably necessary for the performance by the Investment Manager of its duties and functions under the Investor Services Agreement. The Investment Manager earned an Investor Services Fee of $13, $50 and $50 for the twelve months ended December 31, 2012, 2011 and 2010, respectively. Unpaid amounts for the Investor Services Fee are included in Payable to related parties and were $0 and $12 at December 31, 2012 and 2011, respectively. On April 11, 2012, the Company and the Investment Manager terminated the Investor Services Agreement by mutual consent - See "*Deferred Fee Liability to Related Party"* section above.

Corporate Services

SP Corporate and SPLLC have agreements whereby for a fee they provide services to certain companies in which SPH has an interest. Certain officers of the Manager serve as directors of certain companies in which SPH has an interest and for which they receive compensation from those companies. Effective January 1, 2012, SP Corporate and SPLLC became wholly owned subsidiaries of the Company.

On January 1, 2012, SPH Services, a new subsidiary of SPH, was created to consolidate the executive and corporate functions of SPH and certain of its affiliates, including SP Corporate and SPLLC, and to provide such services to other portfolio companies. SPH Services acquired the membership interests of SP Corporate and SPLLC from Steel Partners, Ltd.,

an affiliate of the Manager. As a result, services provided to SPH and its subsidiaries for the twelve months ended December 31, 2012 are eliminated in consolidation. Additional details regarding the services provided by SP Corporate are as follows:

- Pursuant to a services agreement (the "Services Agreement") with SP Corporate, SP Corporate provides SPH with certain management, consulting, advisory services, accounting, investor relations, compliance and other services related to the operation of SPH. The fee to be paid is agreed upon by the parties from time to time. For the twelve months ended December 31, 2011 and 2010, SP Corporate earned $1,038 and $1,768, respectively. Unpaid amounts under the Services Agreement are included in Payable to related parties and were $181 at December 31, 2011.
- On March 10, 2011 and January 24, 2011, a special committee of the Board of Directors of HNH, composed entirely of independent directors, approved a management and services fee to be paid to SP Corporate in the amount of $1,740 for services to be performed in 2011 and $1,950 for services performed in 2010. This fee was the only consideration paid for the services of the five directors who are associated with the Manager for their service on the Board of Directors of HNH and as the Chairman of the Board, the Vice Chairman and Chief Executive Officer, and the Vice President of HNH, as well as other assistance from SP Corporate and its affiliates. The services provided included management and advisory services with respect to operations, strategic planning, finance and accounting, sale and acquisition activities and other aspects of the businesses of HNH. For the twelve months ended December 31, 2011 and 2010, HNH incurred $1,740 and $1,950, respectively, under the management and services fee. Unpaid amounts under the management and services fee are included in Payable to related parties and were $435 at December 31, 2011.
- On March 9, 2010, WebBank and SP Corporate entered into a servicing agreement. SP Corporate receives $63 quarterly and provides certain services to WebBank. The agreement is effective January 1, 2010, continues for three years and automatically renews for successive one-year terms unless terminated in accordance with the agreement. For both the twelve months ended December 31, 2011 and 2010, WebBank incurred $250 under the servicing agreement. There were no unpaid amounts at December 31, 2011.
- Effective July 1, 2007, BNS contracted with SP Corporate to provide BNS with financial management and administrative services, including the services of a chief financial officer and corporate secretary. Under the terms of an amended and restated services agreement effective as of May 12, 2010, SP Corporate receives $42 monthly for the provision of officers, financial management and administrative services. BNS incurred $1,083 (includes $500 for assistance provided to BNS related to a financing arrangement) for the period November 1, 2010 through December 31, 2011 (as discussed in Note 1 – "Basis of Presentation", BNS changed its fiscal year to a calendar year and the twelve months ended September 30, 2011 includes two additional months of statement of operations activity). BNS incurred $385 for the period November 1, 2009 through October 31, 2010 (its fiscal year). There were no unpaid amounts at December 31, 2011.
- Effective September 1, 2009, DGT contracted with SP Corporate to provide DGT with executive management services. Under the terms of an amended and restated services agreement effective as of October 1, 2011, SP Corporate receives $48 monthly for the provision of such services.
- Effective October 1, 2011, Steel Excel contracted with SP Corporate to provide Steel Excel with financial management and administrative services, including the services of a chief financial officer. Under the terms of the services agreement, SP Corporate was receiving $35 monthly for the provision of such services. Effective August 1, 2012, the agreement was amended and restated whereby SP Corporate will provide expanded services including the positions of CEO and CFO, responsibility for financing, regulatory reporting, and other administrative and operational functions. SP Corporate will receive $300 per month for these expanded services. On April 30, 2012, Steel Excel and BNS entered into a definitive Share Acquisition Agreement, pursuant to which on May 31, 2012, Steel Excel acquired all of the capital stock of SWH, the parent company of Sun Well. As a result of the transaction, Steel Excel became a majority-owned controlled subsidiary and is consolidated with SPH from that date (for additional information on the transaction between Steel Excel and BNS, see Note 3 - "Acquisitions"). Any Fees charged to Steel Excel subsequent to May 31, 2012 are eliminated in consolidation.

In addition to its servicing agreements with SPH and its consolidated subsidiaries, SP Corporate has management services agreements with other companies, including CoSine, NOVT, Ore Holdings, Inc., and Fox & Hound. For the twelve months ended December 31, 2012, SP Corporate charged $1,255 to these companies, as well as Steel Excel for the period prior to it becoming a majority-owned consolidated subsidiary. SP Corporate also has management services agreements with J. Howard Inc. and Steel Partners, Ltd., in which officers of SPH have ownership interests.

SPII Liquidating Trust

SPH holds interests in the SPII Liquidating Trust, an entity that holds certain investments which it acquired in connection with the Exchange Transaction, which the Manager and its affiliate serve as the manager and liquidating trustee, respectively, without compensation other than reimbursement for out-of-pocket expenses. SPH's interest in the SPII Liquidating Trust was $11,263 and $42,653 at December 31, 2012 and 2011, respectively, which is included in Other investments at fair value - related party on the consolidated balance sheet. See Note 5 - "Investments" for additional information.

The SPII Liquidating Trust has an investment in SPJSF and SPCA. At December 31, 2012, SPH's interest in the SPII Liquidating Trust related to SPJSF and SPCA was $3,890 and $6,016, respectively. At December 31, 2011, SPH's interest in the SPII Liquidating Trust related to SPJSF and SPCA was $3,496 and $9,552, respectively. For the twelve months ended December 31, 2012, SPH recorded unrealized gains of $394 on SPJSF and $489 on SPCA. For the twelve months ended December 31, 2011, SPH recorded an unrealized losses of $4,330 on SPJSF and $2,027 on SPCA. For the twelve months ended December 31, 2010, SPH recorded an unrealized loss of $2,479 on SPJSF and an unrealized loss of $293 on SPCA, SPH has no obligation to make any capital contributions to the SPII Liquidating Trust.

Mutual Securities

Pursuant to the Management Agreement, the Manager was responsible for selecting executing brokers. Securities transactions for SPH are allocated to brokers on the basis of reliability and best price and execution. The Manager has selected Mutual Securities as an introducing broker and may direct a substantial portion of the managed entities' trades to such firm among others. An officer of the Manager and SPH GP is affiliated with Mutual Securities. The Manager only uses Mutual Securities when such use would not compromise the Manager's obligation to seek best price and execution. SPH has the right to pay commissions to Mutual Securities, which are higher than those that can be obtained elsewhere, provided that the Manager believes that the rates paid are competitive institutional rates. Mutual Securities also served as an introducing broker for SPH's trades. The Commissions paid by SPH to Mutual securities were approximately $239, $1,105 and $1,006 for the twelve months ended December 31, 2012, 2011 and 2010, respectively. Such commissions are included in the net investment gains (losses) in the consolidated statements of operations. The portion of the commission paid to Mutual Securities ultimately received by such officer is net of clearing and other charges.

Other

On March 31, 2012, Steel Partners, Ltd. assigned its rights, obligations and title to its New York City office lease to SPH Services. In connection with the assignment, Steel Partners, Ltd. agreed to remit $3,286 to SPH Services, subject to adjustment, which represents the present value of the lease payment obligations over the fair value of the leased facilities. In addition, for a total consideration of $1,203, Steel Partners, Ltd. sold to SPH Services the fixed assets held by it relating to the New York City location, which includes furniture, equipment and leasehold improvements. This amount is included in payable to related parties as of December 31, 2012. The Company agreed to reimburse Steel Partners, Ltd. $254 for occupancy costs for the three months ended March 31, 2012. This amount was paid to Steel Partners, Ltd in the third quarter of 2012.

SPH has an arrangement whereby it holds an asset on behalf of a related party in which it has an investment. The asset had a fair value of $30,172 and $47,605 at December 31, 2012 and 2011, respectively. Under the terms of this arrangement, the related party is the sole beneficiary and SPH does not have an economic interest in the asset and SPH has no capital at risk with respect to such asset, other than indirectly through its indirect investment in such related party. No amounts related to this arrangement are recorded on the Consolidated balance sheet. For the twelve months ended December 31, 2012 and 2011, SPH was indirectly compensated for providing this arrangement by the payment of a fee. The fees were not material.

The Company's non-management directors receive an annual retainer of $150, of which $75 is paid in cash and $75 is paid in restricted common units of SPH. The restricted units vest over a three year period. These directors are also paid fees of $1 for each board committee meeting attended. The chairmen of the Audit Committee, Corporate Governance and Nominating Committee and Compensation Committee are paid an additional fee of $15, $5 and $5 annually, respectively. For the twelve months ended December 31, 2012, 2011 and 2010 non-management directors' fees expensed were $570, $437 and $560, respectively. Unpaid non-management directors' fees are included in Payable to related parties and were $44 and $437 at December 31, 2012 and 2011, respectively.

At December 31, 2012, several related parties and consolidated subsidiaries had deposits totaling $27,559 in WebBank. These deposits earned $146 in interest through December 31, 2012. Deposits of $25,537 and interest of $112 has been eliminated in consolidation. At December 31, 2011, several related parties and consolidated subsidiaries had deposits totaling $3,578 in WebBank. These deposits earned $9 in interest through December 31, 2011. Deposits of $1,069 and interest of $0 has been eliminated in consolidation.

SPH has an estimated liability of $116 as of December 31, 2012 and 2011 included in other current liabilities which, pursuant to the Amended Exchange Agreement, is indemnified by Steel Partners II (Onshore) LP ("SPII Onshore"). As a result, the Company recorded an amount receivable from SPII Onshore reported as Receivable from related parties in the consolidated balance sheet.

Prior to January 1, 2012, HNH provided certain accounting services to SPH. For the twelve months ended December 31, 2011 and 2010, SPH incurred $1,308 and $550 (of which $502 is eliminated in consolidation for the period after May 7, 2010), respectively, for these accounting services. Expenses and the unpaid amounts for accounting services for the twelve months ended December 31, 2011 are eliminated in consolidation.

14. DEBT AND CAPITAL LEASE OBLIGATIONS

Debt and capital lease obligations consists of the following:

	December 31, 2012	December 31, 2011
Short term debt:		
First Lien Revolver	$ —	$ 23,850
Foreign	778	318
3/4% Convertible Senior Subordinated Notes	346	—
Total short-term debt	1,124	24,168
Long-term debt - non related party:		
Senior Term Loans	115,000	—
First Lien Term Loans	15,340	36,518
Second Lien Term Loans	—	75,000
10% Subordinated Notes, net of unamortized discount	9,049	18,559
Other debt - domestic	8,597	7,034
Foreign loan facilities	4,713	2,000
Total debt to non related party	152,699	139,111
Less portion due within one year	13,025	8,531
Long-term debt to non related party	139,674	130,580
Long-term debt - related party:		
10% Subordinated Notes, net of unamortized discount	391	375
Total long-term debt	140,065	130,955
Total debt	$ 154,214	$ 163,654
Capital lease facility		
Current portion of capital lease	$ 1,039	$ 817
Long-term portion of capital lease	1,645	2,183
	$ 2,684	$ 3,000

The outstanding debt at December 31, 2012 and 2011 relates to HNH, Steel Excel and DGT. The above debt is collateralized by priority liens on substantially all of the assets of the indebted subsidiaries, which approximates $486,567 as of December 31, 2012.

Long-term debt and capital lease obligations as of December 31, 2012 matures in each of the next five years as follows:

	Total	2013	2014	2015	2016	2017	Thereafter
Long-term debt - non - related parties	$ 152,699	$ 13,025	$ 21,874	$ 30,765	$ 18,936	$ 68,099	$ —
Long term debt - related party	391	—	—	—	—	391	—
Total	$ 153,090	$ 13,025	$ 21,874	$ 30,765	$ 18,936	$ 68,490	$ —
Capital lease facility	$ 2,684	$ 1,039	$ 1,048	$ 463	$ 134	$ —	$ —

HNH Debt

Senior Credit Facility

On November 8, 2012, Handy & Harman Group Ltd. ("H&H Group"), a wholly owned subsidiary of HNH, entered into a $205,000 senior secured credit facility, consisting of a revolving credit facility ("Revolving Facility") in an aggregate principal amount not to exceed $90,000 and a term loan ("Senior Term Loan") in an aggregate principal amount of $115,000 (collectively, "Senior Credit Facility"). The credit facilities were used to refinance certain existing indebtedness as discussed below. The facility is guaranteed by substantially all existing and thereafter acquired or created domestic and Canadian wholly-owned subsidiaries of H&H Group. Borrowings under the facility bear interest, at H&H Group's option, at a rate based on LIBOR or the Base Rate, as defined, plus an applicable margin, as set forth in the loan agreement (3.00% and 2.00%, respectively, for LIBOR and Base Rate borrowings at December 31, 2012). The Revolving Facility provides for a commitment fee to be paid on unused borrowings, and usage under the revolving credit facility is governed by a defined Borrowing Base. The revolving facility also includes provisions for the issuance of letters of credit up to $15,000 with any such issuances reducing availability under the Revolving Facility. The term loan requires quarterly principal payments of $2,200, $3,600 $4,300, $4,300 and $4,300 in years 1 to 5 of the agreement, respectively. The facility will expire, with remaining outstanding balances due and payable, on June 15, 2017; provided, the maturity date shall be extended to 5 years following the closing date of the Senior Credit Facility if the Subordinated Notes discussed below are repaid, repurchased, retired, or refinanced, or if the maturity date of the Subordinated Notes is extended, in accordance with the terms of the agreement. The facility is subject to certain mandatory prepayment provisions and restrictive and financial covenants, which include a maximum ratio limit on Total Leverage and a minimum ratio limit on Fixed Charge Coverage, as defined, as well as a minimum liquidity level.

At December 31, 2012, no borrowings were outstanding under the Revolving Facility, and letters of credit totaling $3,800 had been issued. $2,800 of the letters of credit guarantee various insurance activities, and $1,000 are for environmental and other matters. Remaining excess availability under the Borrowing Base totaled $60,300 at December 31, 2012. The weighted average interest rate on the Senior Term Loan was 3.21% at December 31, 2012, and HNH was in compliance with all debt covenants at December 31, 2012.

The Senior Credit Facility restricts H&H Group's ability to transfer cash or other assets to HNH, subject to certain exceptions including required pension payments to the WHX Corporation Pension Plan ("WHX Pension Plan"). H&H Group has an option to increase the senior revolving credit facility in an amount not to exceed $50,000, provided no current lender shall be obligated to increase its revolving credit commitment and any new lender shall be subject to approval by the administrative agent for the Senior Credit Facility.

In connection with the Senior Credit Facility, H&H Group entered into an interest rate swap agreement in February 2013 to reduce its exposure to interest rate fluctuations. Under the interest rate swap, HNH receives one-month LIBOR in exchange for a fixed interest rate of 0.569% over the life of the agreement on an initial $56,400 notional amount of debt, with the notional amount decreasing by $1,100, $1,800 and $2,200 per quarter in 2013, 2014 and 2015, respectively. The agreement expires in February 2016.

First Lien Facility

On October 15, 2010, H&H Group, together with certain of its subsidiaries, entered into an Amended and Restated Loan and Security Agreement (the "First Lien Facility"), which provided for a $21,000 senior term loan (the "First Lien Term Loan")

and established a revolving credit facility ("First Lien Revolver") with borrowing availability of up to a maximum aggregate principal amount equal to $110,000 less the outstanding aggregate principal amount of the First Lien Term Loan, dependent on the levels of and collateralized by eligible accounts receivable and inventory. Principal payments of the First Lien Term Loan were due in equal monthly installments of approximately $350. The amounts outstanding under the First Lien Facility bore interest at LIBOR plus applicable margins of between 2.25% and 3.50%, or at the U.S. base rate (the prime rate) plus 0.25% to 1.50%. The applicable margins for the First Lien Revolver and the First Lien Term Loan were dependent on H&H Group's Quarterly Average Excess Availability for the prior quarter, as that term was defined in the agreement. All obligations outstanding under the First Lien Facility were settled with proceeds from the issuance of the Senior Credit Facility.

Second Lien Term Loans

The Amended and Restated Loan and Security Agreement with Ableco L.L.C. ("Ableco Facility") provided for three loans at a maximum value of $25,000 per loan ("Second Lien Term Loans"). The first and second Second Lien Term Loans bore interest at the U.S. base rate (the prime rate) plus 4.50% or LIBOR (or, if greater, 1.50%) plus 6.00%. The third Second Lien Term Loan bore interest at the U.S. base rate (the prime rate) plus 7.50% or LIBOR (or, if greater, 1.75%) plus 9.00%. All obligations outstanding under the Ableco Facility were settled with proceeds from the issuance of the Senior Credit Facility.

Subordinated Notes

On October 15, 2010, H&H Group refinanced the prior indebtedness of H&H and Bairnco to the SPII Liquidating Series Trusts (Series A and Series E)("Steel Trusts"), each constituting a separate series of the SPII Liquidating Trust as successor-in-interest to SPII. In accordance with the terms of an exchange agreement entered into on October 15, 2010 by and among H&H Group, certain of its subsidiaries and the Steel Trusts, H&H Group made an approximately $6,000 cash payment in partial satisfaction of prior indebtedness to the Steel Trusts and exchanged the remainder of such prior obligations for units consisting of (a) $72,900 aggregate principal amount of 10% subordinated secured notes due 2017 ("Subordinated Notes") issued by H&H Group pursuant to an Indenture, dated as of October 15, 2010 (as amended and restated effective December 13, 2010)("Indenture"), by and among H&H Group, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee, and (b) warrants, exercisable beginning October 15, 2013, to purchase an aggregate of 1,500,806 shares of the Company's common stock, with an exercise price of $11.00 per share ("Warrants"). The Subordinated Notes and Warrants may not be transferred separately until October 15, 2013.

The Subordinated Notes were issued by H&H Group pursuant to an Indenture, dated as of October 15, 2010 (as amended and restated effective December 13, 2010), by and among H&H Group, the guarantors party thereto and Wells Fargo, as trustee. All obligations outstanding under the Subordinated Notes bear interest at a rate of 10% per annum, 6% of which is payable in cash and 4% of which is payable in-kind. The Subordinated Notes, together with any accrued and unpaid interest thereon, mature on October 15, 2017. All amounts owed under the Subordinated Notes are guaranteed by substantially all of H&H Group's subsidiaries and are secured by substantially all of their assets. The Subordinated Notes are contractually subordinated in right of payment to the Wells Fargo Facility and the Ableco Facility. The Subordinated Notes are redeemable until October 14, 2013, at H&H Group's option, upon payment of 100% of the principal amount of the Notes, plus all accrued and unpaid interest thereon and the applicable premium set forth in the Indenture (the “Applicable Redemption Price”). If H&H Group or its subsidiary guarantors undergo certain types of fundamental changes prior to the maturity date of the Subordinated Notes, holders thereof will, subject to certain exceptions, have the right, at their option, to require H&H Group to purchase for cash any or all of their Subordinated Notes at the Applicable Redemption Price.

The Subordinated Notes have embedded call premiums and warrants associated with them, as described above. HNH has treated the fair value of these features together as both a discount and a derivative liability at inception of the loan agreement, valued at $4,700. The discount is being amortized over the life of the notes as an adjustment to interest expense, and the derivative is marked to market at each balance sheet date.

The Subordinated Notes contain customary affirmative and negative covenants, certain of which only apply in the event that the Senior Credit Facility and any refinancing indebtednesses with respect thereto is repaid in full, and events of default. HNH is in compliance with all of the debt covenants at December 31, 2012.

In connection with the issuance of the Subordinated Notes and Warrants, HNH and H&H Group also entered into a

Registration Rights Agreement dated as of October 15, 2010 (" Registration Rights Agreement") with the Steel Trusts. Pursuant to the Registration Rights Agreement, HNH agreed to file with the Securities and Exchange Commission ("SEC") and use its reasonable best efforts to cause to become effective a registration statement under the Securities Act of 1933, as amended ("Securities Act"), with respect to the resale of the Warrants and the shares of common stock of HNH issuable upon exercise of the Warrants. H&H Group also agreed, upon receipt of a request by holders of a majority in aggregate principal amount of the Subordinated Notes, to file with the SEC and use its reasonable best efforts to cause to become effective a registration statement under the Securities Act with respect to the resale of the Subordinated Notes.

On October 14, 2011, H&H Group redeemed $25,000 principal amount of its outstanding Subordinated Notes on a pro-rata basis among all holders thereof at a redemption price of 102.8%of the principal amount and accrued but unpaid payment-in-kind-interest thereof, plus accrued and unpaid cash interest. Until October 15, 2013, the Subordinated Notes are not detachable from the Warrants that were issued with the Subordinated Notes as units. Accordingly, a pro-rata portion of Warrants were also redeemed on October 14, 2011, as well as in subsequent redemptions. During 2011, HNH redeemed a total of approximately $35,100 of Subordinated Notes, including the October redemption. In 2012, H&H Group repurchased an aggregate $10,800 of Subordinated Notes, plus accrued interest. A (loss) gain of $(1,400) and $200 on repurchase of the Subordinated Notes is included in the consolidated income statements for the years ended December 31, 2012 and 2011, respectively.

Other Debt

A subsidiary of H&H has two mortgage agreements, each collateralized by real property. The mortgage balance on the first facility was $6,800 and $7,000 at December 31, 2012 and 2011, respectively. The mortgage bears interest at LIBOR plus a margin of 2.7%, or2.91% at December 31, 2012, and matures in 2015. On August 27, 2012, this subsidiary entered into a new $1,800 mortgage agreement on a second facility. The mortgage balance was $1,800 at December 31, 2012. The mortgage bears interest at LIBOR plus a margin of 2.7%, or 2.91% at December 31, 2012, and matures in 2017.

The foreign loans include a $2,000 borrowing by one of HNH's Chinese subsidiaries at both December 31, 2012 and 2011, which is collateralized by a mortgage on its facility. The interest rate on the foreign loan was 5.57% at December 31, 2012.

Sun Well Debt

Sun Well, a wholly owned operating subsidiary of Steel Excel, Inc. has a credit agreement with Wells Fargo Bank, National Association that includes a term loan of $20,000 and a revolving line of credit for up to $5,000. The loans are secured by the assets of Sun Well and bear interest, at the option of Sun Well, at LIBOR plus 3.5% or the greater of (a) the bank's prime rate, (b) the Federal Funds Rate plus 1.5%, or (c) the Daily One-Month LIBOR rate plus 1.5%% for base rate loans. Both options are subject to leverage ratio adjustments. The interest payments are made monthly. The term loan is repayable in $$1,000 quarterly principal installments from September 30, 2011 through June 30, 2015. Sun Well borrowed $20,000 on the term loan in July 2011 and has made $7,000 in scheduled principal payments through December 31, 2012. Borrowings under the revolving loan, which are determined based on eligible accounts receivable, mature on June 30, 2015. There are no borrowings under the revolving loan as of December 31, 2012.

Under the agreement, Sun Well is subject to certain financial covenants. As of December 31, 2012, Sun Well is in compliance with all such covenants.

15. PENSION BENEFIT PLANS

HNH maintains several qualified and non-qualified pension plans and other postretirement benefit plans. HNH's significant pension, health care benefit and defined contribution plans are discussed below. HNH's other pension and post-retirement plans are not significant individually or in the aggregate.

Qualified Pension Plans

HNH sponsors a defined benefit pension plan, the WHX Pension Plan, covering many of H&H's employees and certain employees of H&H's former subsidiary, Wheeling-Pittsburgh Corporation ("WPC"). The WHX Pension Plan was established in May 1998 as a result of the merger of the former H&H plans, which covered substantially all H&H employees, and the WPC plan. The WPC plan, covering most USWA-represented employees of WPC, was created pursuant to a collective bargaining agreement ratified on August 12, 1997. Prior to that date, benefits were provided through a defined contribution

plan, the Wheeling-Pittsburgh Steel Corporation Retirement Security Plan (“RSP Plan”). The assets of the RSP Plan were merged into the WPC plan as of December 1, 1997. Under the terms of the WHX Pension Plan, the benefit formula and provisions for the WPC and H&H participants continued as they were designed under each of the respective plans prior to the merger.

The qualified pension benefits under the WHX Pension Plan were frozen as of December 31, 2005 and April 30, 2006 for hourly and salaried non-bargaining participants, respectively, with the exception of a single operating unit. In 2011, the benefits were frozen for the remainder of the participants.

WPC employees ceased to be active participants in the WHX Pension Plan effective July 31, 2003, and as a result such employees no longer accrue benefits under the WHX Pension Plan.

Bairnco Corporation had several pension plans, which covered substantially all of its employees. In 2006, Bairnco froze the Bairnco Corporation Retirement Plan and initiated employer contributions to its 401(k) plan. On June 2, 2008, two Bairnco plans (Salaried and Kasco) were merged into the WHX Pension Plan. The remaining plan that has not been merged with the WHX Pension Plan covers certain employees at a facility located in Bear, Delaware (the “Bear Plan”), and the pension benefits under the Bear Plan have been frozen. Bairnco’s Canadian subsidiary provides retirement benefits for its employees through a defined contribution plan. In addition, HNH’s European subsidiaries provide retirement benefits for employees consistent with local practices. The foreign plans are not significant in the aggregate and therefore are not included in the following disclosures.

Pension benefits are based on years of service and the amount of compensation earned during the participants’ employment. However, as noted above, the qualified pension benefits have been frozen for all participants. Pension benefits for the WPC bargained participants include both defined benefit and defined contribution features, since the plan includes the account balances from the RSP. The gross benefit, before offsets, is calculated based on years of service and the benefit multiplier under the plan. The net defined benefit pension plan benefit is the gross amount offset for the benefits payable from the RSP and benefits payable by the Pension Benefit Guaranty Corporation from previously terminated plans. Individual employee accounts established under the RSP are maintained until retirement. Upon retirement, participants who are eligible for the WHX Pension Plan and maintain RSP account balances will normally receive benefits from the WHX Pension Plan. When these participants become eligible for benefits under the WHX Pension Plan, their vested balances in the RSP Plan becomes assets of the WHX Pension Plan. Account balances held in trust in individual RSP Plan participants’ accounts were included on a net basis in the assets or liabilities of the plan prior to 2011. Beginning in 2011, although these RSP assets cannot be used to fund any of the net benefit that is the basis for determining the defined benefit plan’s net benefit obligation at the end of the year, the HNH has included the amount of the RSP accounts at December 31, 2012 of $28,900 on a gross basis as both assets and liabilities of the plan as of December 31, 2012.

Certain current and retired employees of H&H are covered by postretirement medical benefit plans, which provide benefits for medical expenses and prescription drugs. Contributions from a majority of the participants are required, and for those retirees and spouses, HNH’s payments are capped. The measurement date for plan obligations is December 31. In 2010, benefits were discontinued under one of these postretirement medical plans, and as a result of the discontinuance of these benefits, HNH reduced its postretirement benefits expense by $700 in 2010.

The following table presents the components of pension expense and components of other post-retirement benefit (income) expense for the HNH benefit plans included the following:

	Pension Benefits			Other Postretirement Benefits		
	Year Ended December 31,			Year Ended December 31,		
	2012	2011	2010	2012	2011	2010
Service cost	$ —	$ 218	$ 138	$ —	$ —	$ —
Interest cost	21,652	22,553	15,455	163	171	127
Expected return on plan assets	(27,007)	(27,246)	(19,315)	—	—	—
Amortization of actuarial loss	2,852	—	—	86	41	28
Curtailment/Settlement	—	—	—	—	—	(712)
Total	$ (2,503)	$ (4,475)	$ (3,722)	$ 249	$ 212	$ (557)

Actuarial assumptions used to develop the components of defined benefit pension income and other postretirement expense/income were as follows:

	Pension Benefits			Other Postretirement Benefits		
	2012	2011	2010	2012	2011	2010
Discount rates:						
WHX Pension Plan	4.15%	4.95%	5.20%	N/A	N/A	N/A
Other postretirement benefit plans	N/A	N/A	N/A	4.20%	5.10%	5.50%
Bear Plan	4.55%	5.50%	6.05%	N/A	N/A	N/A
Expected return on assets	8.00%	8.00%	8.50%	N/A	N/A	N/A
Health care cost trend rate - initial	N/A	N/A	N/A	7.50%	7.50%	8.00%
Health care cost trend rate - ultimate	N/A	N/A	N/A	5.00%	5.00%	5.00%
Year ultimate reached	N/A	N/A	N/A	2022	2016	2016

The measurement date for plan obligations is December 31. The discount rate is the rate at which the plans' obligations could be effectively settled and is based on high quality bond yields as of the measurement date.

Summarized below is a reconciliation of the funded status for HNH's qualified defined benefit pension plans and other post-retirement benefit plans:

	Pension Benefits		Other Postretirement Benefits	
(in thousands)	**2012**	**2011**	**2012**	**2011**
Change in benefit obligation:				
Benefit obligation at January 1	$ 532,619	$ 472,526	$ 4,092	$ 3,454
Service cost	—	218	—	—
Interest cost	21,651	22,553	163	171
Actuarial loss	36,227	47,186	150	649
Participant contributions	—	—	9	17
Benefits paid	(36,058)	(33,920)	(206)	(199)
Inclusion of RSP	(6,983)	28,914	—	—
Transfers (to) from RSP	—	(4,858)	—	—
Benefit obligation at December 31	$ 547,456	$ 532,619	$ 4,208	$ 4,092
Change in plan assets:				
Fair value of plan assets at January 1	$ 346,408	$ 359,543	$ —	$ —
Actual returns on plan assets	10,924	(16,619)	—	—
Participant contributions	—	—	9	17
Benefits paid	(36,058)	(33,920)	(206)	(199)
Company contributions	16,180	15,328	197	182
Inclusion of RSP	(6,983)	28,914	—	—
Transfers (to) from RSP	—	(6,838)	—	—
Fair value of plan assets at December 31	330,471	346,408	—	—
Funded status	$ (216,985)	$ (186,211)	$ (4,208)	$ (4,092)
Accumulated benefit obligation (ABO) for qualified defined benefit pension plans :				
ABO at January 1	$ 532,619	$ 472,526	$ 4,092	$ 3,454
ABO at December 31	547,456	532,619	4,208	4,092
Amounts Recognized in the Statement of Financial Position:				
Current liability	$ —	$ —	$ (211)	$ (211)
Noncurrent liability	(216,985)	(186,211)	(3,997)	(3,881)
Total	$ (216,985)	$ (186,211)	$ (4,208)	$ (4,092)

The weighted average assumptions used in the valuations at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2012	2011	2012	2011
Discount rates:				
WHX Pension Plan	3.50%	4.15%	N/A	N/A
Bear Plan	4.00%	4.55%	N/A	N/A
Other postretirement benefit plans	N/A	N/A	3.65%	4.20%
Health care cost trend rate - initial	N/A	N/A	7.25%	7.50%
Health care cost trend rate - ultimate	N/A	N/A	5.00%	5.00%
Year ultimate reached	N/A	N/A	2022	2022

The effect of a 1% increase (decrease) in health care cost trend rates on other-postretirement benefits obligations is $500 and $(400), respectively.

Pretax amounts included in “Accumulated other comprehensive loss” at December 31, 2012 and 2011 were as follows:

	Pension Benefits		Other Postretirement Benefits	
(in thousands)	2012	2011	2012	2011
Net actuarial loss	$ 156,168	$ 106,710	$ 1,851	$ 1,787
Accumulated other comprehensive loss	$ 156,168	$ 106,710	$ 1,851	$ 1,787

The pretax amount of actuarial losses included in “Accumulated other comprehensive loss” at December 31, 2012 that is expected to be recognized in net periodic benefit cost in 2013 is $4,923

Other changes in plan assets and benefit obligations recognized in “Comprehensive loss” are as follows:

	Pension Benefits			Other Postretirement Benefits		
(in thousands)	2012	2011	2010	2012	2011	2010
Curtailment/Settlement loss	$ —	$ —	—	$ —	$ —	$ 64
Current year actuarial loss	52,309	93,030	13,680	150	649	253
Amortization of actuarial loss	(2,852)	—	—	(86)	(41)	(28)
Total recognized in comprehensive loss	$ 49,457	$ 93,030	$ 13,680	$ 64	$ 608	$ 289

The actuarial losses occurred principally because the investment returns on the assets of the WHX Pension Plan have been lower than the actuarial assumptions.

Benefit obligations were in excess of plan assets for all pension plans at both December 31, 2012 and 2011. The accumulated benefit obligation for all defined benefit pension plans was approximately $547,456 and $532,619 at December 31, 2012 and 2011, respectively. Additional information for plans with accumulated benefit obligations in excess of plan assets:

	Pension Benefits		Other Postretirement Benefits	
(in thousands)	2012	2011	2012	2011
Projected benefit obligation	$ 547,456	$ 532,619	$ 4,208	$ 4,092
Accumulated benefit obligation	547,456	532,619	4,208	4,092
Fair value of plan assets	330,471	346,408	—	—

In determining the expected long-term rate of return on assets, HNH evaluated input from various investment professionals. In addition, HNH considered its historical compound returns as well as HNH's forward-looking expectations. HNH determines its actuarial assumptions for its pension and postretirement plans on December 31 of each year to calculate liability information as of that date and pension and postretirement expense for the following year. The discount rate assumption is derived from the rate of return on high-quality bonds as of December 31 of each year.

HNH's investment policy is to maximize the total rate of return with a view to long-term funding objectives of the pension plan to ensure that funds are available to meet benefit obligations when due. Pension plan assets are diversified to the extent necessary to minimize risk and to achieve an optimal balance between risk and return. There are no target allocations. The WHX Pension Plan's assets are diversified as to type of assets, investment strategies employed and number of investment managers used. Investments may include equities, fixed income, cash equivalents, convertible securities, and private investment funds. Derivatives may be used as part of the investment strategy. HNH may direct the transfer of assets between investment managers in order to re-balance the portfolio in accordance with asset allocation guidelines established by the HNH.

The fair value of pension investments is defined by reference to one of three categories (Level1 , Level 2 or Level 3) based on the reliability of inputs, as such terms are defined in Note 2 - "Summary of Significant Accounting Policies":

The WHX/Bear Pension Plan's assets at December 31, 2012 and 2011, by asset category, are as follows:

WHX/Bear Pension Assets
(in thousands)

Fair Value Measurements as of December 31, 2012:

	Assets (Liabilities) at Fair Value as of December 31, 2012			
Asset Class	Level 1	Level 2	Level 3	Total
Equity securities:				
U.S. large cap	$ 20,572	$ 543	$ —	$ 21,115
U.S. mid-cap growth	36,065	—	209	36,274
U.S. small-cap value	15,295	138	—	15,433
International large cap value	16,118	116	—	16,234
Equity contracts	308	—	—	308
Preferred stocks	530	2,016	—	2,546
Fixed income securities:				
Corporate bonds	415	51,052	548	52,015
Other types of investments:				
Common trust funds (1)	—	68,830	—	68,830
Fund of funds (2)	—	37,142	—	37,142
	89,303	159,837	757	249,897
Futures contracts, net	(58,148)	5,478	—	(52,670)
Total	$ 31,155	$ 165,315	$ 757	197,227
Cash & cash equivalents				133,590
Net payables				(346)
Total pension assets				$ 330,471

Fair Value Measurements as of December 31, 2011:

	Assets (Liabilities) at Fair Value as of December 31, 2011			
Asset Class	Level 1	Level 2	Level 3	Total
Equity securities:				

U.S. large cap	$ 13,473	$ —	$ 593	$ 14,066
U.S. mid-cap growth	38,602	2,367	—	40,969
U.S. small-cap value	17,261	3	—	17,264
International large cap value	17,121	—	—	17,121
Emerging markets growth	—	642	—	642
Fixed income securities:				
Corporate bonds	2,474	35,437	—	37,911
Bank debt	—	839	—	839
Other types of investments:				
Common trust funds (1)	—	73,887	—	73,887
Fund of funds (2)	—	37,516	—	37,516
Insurance contracts (3)	—	8,513	—	8,513
	88,931	159,204	593	248,728
Futures contracts, net	(56,850)	(12,486)	—	(69,336)
Total	$ 32,081	$ 146,718	$ 593	179,392
Cash & cash equivalents				167,041
Net payables				(25)
Total pension assets				$ 346,408

(1) Common trust funds are comprised of shares or units in commingled funds that are not publicly traded. The underlying assets in these funds are primarily publicly traded equity securities, fixed income securities, and commodity-related securities and are valued at their Net Asset Values (“NAVs”) that are calculated by the investment manager or sponsor of the fund and have daily or monthly liquidity.

(2) Fund of funds consist of fund-of-fund LLC or commingled fund structures. The underlying assets in these funds are primarily publicly traded equity securities, fixed income securities and commodity-related securities. The LLCs are valued based on NAVs calculated by the fund and are not publicly available. In most cases, the liquidity for the LLCs is quarterly with advance notice and is subject to liquidity of the underlying funds. In some cases, there may be extended lock-up periods greater than 90 days or side-pockets for non-liquid assets.

(3) Insurance contracts contain general investments and money market securities. The fair value of insurance contracts is determined based on the cash surrender value, which is determined based on such factors as the fair value of the underlying assets and discounted cash flow. These contracts are with a highly-rated insurance company.

HNH's policy is to recognize transfers in and transfers out of Level 3 as of the date of the event or change in circumstances that caused the transfer. Changes in the WHX/Bear Pension Plan assets for which fair value is determined using significant unobservable inputs (Level 3) were as follows during 2012 and 2011:

Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Year Ended December 31, 2012	U.S. Large Cap	U.S. Mid Cap Growth	Corporate Bonds and Loans
Beginning balance as of January 1, 2012	$ 593	$ —	$ —
Transfers into Level 3 (a)	—	—	—
Transfers out of Level 3 (b)	—	—	—
Gains or losses included in changes in net assets	673	145	11
Purchases, issuances, sales and settlements			
Purchases	—	—	547
Issuances	—	64	—
Sales	(1,202)	—	(10)
Settlements	(64)	—	—
Ending balance as of December 31, 2012	$ —	$ 209	$ 548
Net unrealized gains (losses) included in the changes in net assets, attributable to investments still held at the reporting date	$ (198)	$ 145	$ 8

Year Ended December 31, 2011	Fixed income securities	Fund of funds	Insurance contracts	U.S. Small Cap Value
Beginning balance as of January 1, 2011	$ 595	$ 31,658	$ 9,268	$ 317
Transfers into Level 3 (a)	39	—	—	21
Transfers out of Level 3 (b)	—	(31,542)	(9,268)	—
Gains or losses included in changes in net assets	(41)	(116)	—	—
Purchases, issuances, sales and settlements				
Purchases	—	—	—	113
Issuances	—	—	—	—
Sales	—	—	—	(451)
Settlements	—	—	—	—
Ending balance as of December 31, 2011	$ 593	$ —	$ —	$ —
Net unrealized gains (losses) included in the changes in net assets, attributable to investments still held at the reporting date	$ (41)	$ (116)	$ —	$ —

a) Transferred from Level 2 to Level 3 because of lack of observable market data due to decreases in market activity for these securities.
b) Transfers from Level 3 to Level 2 upon expiration of the restrictions.

The following table presents the category, fair value, redemption frequency, and redemption notice period for those assets whose fair value is estimated using the NAV per share (or its equivalents) as of December 31, 2012 and December 31, 2011.

2012 Fair Value Estimated using NAV per Share (or its equivalent)

Class Name	Description	Fair Value December 31, 2012	Fair Value December 31, 2011	Redemption frequency	Redemption Notice Period
		(in thousands)			
Fund of funds	Long short equity fund	$ 4,862	$ 3,951	Quarterly	45 day notice
Fund of funds	Fund of fund composites	$ 32,280	$ 29,954	Quarterly	45 day notice
Common trust funds	Event driven hedge funds	$ 55,853	$ 58,683	Quarterly	45 day notice
Common trust funds	Event driven hedge funds	$ 12,977	$ 15,204	Monthly	90 day notice
Separately managed fund	Separately managed fund	$ 33,324	$ —	Monthly	30 day notice
Separately managed fund	Separately managed fund	$ 64,490	$ —	Quarterly	45 day notice

HNH's Pension Plans' asset allocations at December 31, 2012 and 2011, by asset category, are as follows:

	WHX/Bear Plans	
	2012	**2011**
Asset Category		
Cash and cash equivalents	40%	49%
Equity securities	12%	6%
Fixed income securities	16%	11%
Insurance contracts	—%	2%
Common trust funds	21%	21%
Fund of funds	11%	11%
Total	100%	100%

Contributions

Employer contributions consist of funds paid from employer assets into a qualified pension trust account. HNH's funding policy is to contribute annually an amount that satisfies the minimum funding standards of ERISA.

HNH expects to have required minimum contributions for 2013, 2014, 2015, 2016, 2017, and thereafter of $13,650, $19,500, $20,700, $17,700, $17,200, and $49,700, respectively. Required future contributions are based upon assumptions such as discount rates on future obligations, assumed rates of return on plan assets and legislative changes. Pension costs and required funding obligations will be affected by changes in the factors and assumptions described in the previous sentence, as well as other changes such as any plan termination.

Benefit Payments

Estimated future benefit payments for the benefit plans over the next ten years are as follows (in thousands):

Years	Pension Benefits	Other Postretirement Benefits
2013	$ 35,049	$ 206
2014	35,075	218
2015	34,975	238
2016	34,816	244
2017	34,606	246
2018-2022	166,321	1,272

Non-Qualified Pension Plans

In addition to the aforementioned benefit plans, H&H had a non-qualified pension plan for certain current and retired employees. Such plan adopted an amendment effective January 1, 2006 to freeze benefits under the plan. In 2009, H&H decided to cash out any remaining participants in the plan in 2010, and the final payout of participant balances was made in December 2010.

401(k) Plans

Beginning January 1, 2012, certain employees participate in a SPH sponsored savings plan which qualifies under Section 401(k) of the Internal Revenue Code. SPH presently makes a contribution to match 50% if the first 6% of the employees contribution. The charge to expense for SPH's matching contribution totaled $248 in 2012.

In addition, certain employees participate in a HNH sponsored savings plan which qualifies under Section 401(k) of the Internal Revenue Code. This savings plan allows eligible employees to contribute from 1% to 75% of their income on a pretax basis. HNH presently makes a contribution to match 50% of the first 6% of the employee’s contribution. The charge to expense for HNH’s matching contribution amounted to $1,800 in 2012, $2,000 in 2011 and $975 in 2010 .

16. CAPITAL AND ACCUMULATED OTHER COMPREHENSIVE LOSS

The Company has two classes of common units - Class A and Class B. Class B common units are identical to a Class A common unit, and the holder of a Class B common unit shall have the rights of a holder of a Class A common unit with respect to, without limitation, Partnership distributions and allocations of income, gain, loss or deductions, except that they may not be sold in the public market until the capital account allocable to such Class B common units is equal to the capital account allocable to the Class A common units. At December 31, 2012 there are 23,846,453 Class A units and 6,939,647 Class B units outstanding.

Common Unit Distributions

In connection with the Exchange Transaction, SPH agreed to distribute to the holders of its common units up to $87,506 (the “Target Distribution”), subject to certain limitations, during the period from July 16, 2009 to April 30, 2011. On April 1, 2010, SPH distributed to its unitholders of record as of March 26, 2010, $54,409 or $1.95 per common unit including $5,307 relating to treasury units. On April 6, 2011, SPH distributed to its unitholders of record as of March 25, 2011, $33,097 or $1.18 per common unit, including $3,228 relating to treasury units. With the Target Distribution having been met, the Company may, at its option, make future distributions to unitholders, although it currently has no plans to make any future distributions.

Common Units Issuance

Effective as of March 21, 2011, SPH issued to its independent directors an aggregate of 7,315 common units at a per unit value of $18.80, which was determined based on the net asset value of SPH common units as of September 30, 2010 and an aggregate of 6,865 common units at a per unit value of $20.03, which was determined based on the net asset value of SPH common units as of December 31, 2010. For the year ended December 31, 2011 each director earned annual equity

compensation in the amount of $75 in the form of restricted common units of SPH, with one-third of such restricted common units vesting on November 28, 2012, one-third on November 28, 2013 and one-third on November 28, 2014. The per unit value of such restricted common units is $13.80, determined based on the fair market value of SPH common units as of November 28, 2011. Total expense for the common units issued was approximately $120, $275 and $543 for the twelve months ended December 31, 2012, 2011 and 2010, respectively.

On April 11, 2012, the Company and the Investment Manager terminated the Investor Services Agreement, dated as of July 15, 2009, by mutual consent. As a result of the termination of the Investor Services Agreement the full amount of the Deferred Fee Liability became immediately payable. Instead of receiving the deferred fee in cash, the Investment Manager elected for the total amount to be paid in common units of the Company. Under the Deferred Fee Agreement, the number of common units issued is determined by applying a 15% discount to the market price of the common units, which represents the fair value of the common units giving effect to the discount for lack of marketability. As a result of the termination of the Investor Services Agreement the full amount in the Deferred Fee Liability became immediately payable. As a result, on April 11 and May 11, 2012, 6,403,002 and 536,645 class B common units, respectively, were issued to the Investment Manager. In connection with the termination of the Investor Services Agreement, the Investment Manager agreed not to sell any of the common units issued as payment for the deferred fee during the one year period following the Termination Date.

Common Unitholders — Allocation of Net Income (Loss)

For each period presented net (loss) income attributable to common unit holders is allocated to the common unitholders on a pro rata basis based on the number of units held.

Accumulated Other Comprehensive Loss

Changes, net of tax, in Accumulated other comprehensive loss are as follows:

	Unrealized gain on available-for-sale securities	Cumulative translation adjustment	Change in net pension and other benefit obligations	Total
Balance at December 31, 2011	$ 32,351	$ (1,649)	$ (42,439)	$ (11,737)
Current period other comprehensive gain (loss)	12,170	(214)	(18,081)	(6,125)
Balance at December 31, 2012	$ 44,521	$ (1,863)	$ (60,520)	$ (17,862)

For the twelve months ended December 31, 2012, there was no impact on comprehensive income related to companies accounted for under the equity method. At December 31, 2012 and 2011, Accumulated other comprehensive loss includes amounts for these companies of $1 and $2, respectively, for unrealized loss on available-for-sale securities.

For the twelve months ended December 31, 2011, comprehensive income includes amounts for companies accounted for under the equity method of $19 for unrealized loss on available-for-sale securities, $1,960 for currency translation adjustments and $7,321 for change in net pension and retiree medical liability.

Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities at December 31, 2012 represent the interests held by the noncontrolling shareholders of the BNS Liquidating Trust, HNH, DGT and Steel Excel. Noncontrolling interests in consolidated entities at December 31, 2011 represent the interests held by the noncontrolling shareholders of BNS, HNH and DGT.

Incentive Compensation

Effective January 1, 2012, the Manager was granted incentive units which may entitle the Manager to receive Class B common units of SPH upon the attainment of specified performance goals. The number of incentive units granted is equal to 100% of the sum of the common units outstanding. On the last day of each fiscal year SPH will issue to the Manager Class B common units equal to a percentage of the incentive units, on a fully diluted basis, based on the performance measurements. If

the performance measurements are not met, no units will be issued. The incentive units are measured and paid on an annual basis and is accrued on a quarterly basis. Accordingly, the expense accrued is adjusted to reflect the fair value of the units on the measurement date when the final calculation of the total annual incentive units is determined. In the event the calculated cumulative incentive unit expense accrued quarterly or for the full year is an amount less than the total previously accrued, the Company would record a negative incentive unit expense in the quarter when such over accrual is determined. Incentive unit expense of $100, representing approximately 8,000 units, was recorded in Selling, general and administrative expenses in the consolidated statements of operations for the twelve months ended December 31, 2012.

Common Unit Option Liability

The common unit options expired on December 31, 2011. Therefore, there are no common unit options outstanding as of December 31, 2012. During 2011, prior to the options expiring, the options were accounted for as a derivative liability at fair value with changes in fair value recognized during the period reported in Selling, General and Administrative expenses (“SG&A”) in the consolidated statements of operations. During the twelve months ended December 31, 2011 and 2010, the derivative liability decreased resulting in a reduction of SG&A expenses of $1,785 and an increase in SG&A expenses of $693, respectively. The fair value was estimated using the Black Scholes option pricing model that used assumptions as of December 31, 2010 for volatility of 36.6%, a term of 1 year and 2 years, a risk free interest rate of 0.29% and 1.14% based on the U.S. Treasury bill yield, and an expected dividend of 0%. The intrinsic value of the options was $0 as of December 31, 2010. The net asset value used in the fair value estimate was $18.27 at December 31, 2010, and was adjusted for a liquidity discount. Because the SPH common units have not significantly traded internally or in a public or non-public market, there was no practical means of estimating expected volatility. The volatility assumption was based on a calculated diversified industrial company peer group average of historical volatility.

BNS Liquidating Trust

On May 29, 2012, BNS shareholders approved a sale of SWH as well as a distribution to shareholders and a plan of liquidation, whereby BNS would be dissolved. On May 31, 2012 BNS sold its interest in SWH to Steel Excel. The sale proceeds included 2,027,500 shares of Steel Excel common stock and cash of $7,922. On June 18, 2012, BNS completed a distribution to its shareholders, pursuant to shareholder approval noted above, and distributed cash of approximately $10,300 to its minority shareholders and 2,027,500 shares of Steel Excel common stock to its majority shareholder. In June 2012, BNS formed the BNS Liquidating Trust, assigned its assets and liabilities to the Liquidating Trust, and BNS initiated its dissolution. The BNS Liquidating Trust is owned by the BNS former shareholders, in the same proportion as their former shareholdings. The BNS Liquidating Trust will continue to be included in the consolidated financial statements of SPH, as SPH owned approximately 84.9% of the BNS Liquidating Trust and of BNS as of December 31, 2012 and 2011, respectively. SPH has provided a contingent promissory note to the Liquidating Trust in an amount not to exceed $3,000. This note will only be funded to the extent that the Liquidating Trust is unable to meet its ongoing obligations and is eliminated in SPH's consolidated financial statements. The Liquidating Trust had assets of approximately $4,951 and liabilities of approximately $1,332 at December 31, 2012.

Subsidiary Purchases of Common Units

During the twelve months ended December 31, 2012, a subsidiary of the Company purchased 1,345,646 shares of the Company's common units at a total cost of $15,082. The purchases of these shares are reflected as treasury stock purchases in the Company's Consolidated Financial Statements.

17. NET INCOME PER COMMON UNIT

The following data was used in computing net income (loss) per common unit shown in the consolidated statements of operations:

	Year Ended December 31,		
	2012	2011	2010
Net income from continuing operations	$ 53,330	$ 78,389	$ 16,802
Decrease in deferred fee liability (a)	—	(6,107)	—
Restricted stock expense	121	—	—
Net income attributable to noncontrolling interests in consolidated entities	(17,977)	(44,521)	(248)
Net income from continuing operations	35,474	27,761	16,554
Income from discontinued operations	10,435	2,888	29,644
Net income attributable to noncontrolling interests	(4,770)	(1,287)	(14,451)
	5,665	1,601	15,193
Net income attributable to common unitholders	$ 41,139	$ 29,362	$ 31,747
Net income per common unit - basic			
Net income from continuing operations	$ 1.19	$ 1.34	$ 0.66
Net income from discontinued operations	0.19	0.07	0.60
Net income attributable to common unitholders	$ 1.38	$ 1.41	$ 1.26
Net income per common unit – diluted			
Net income from continuing operations	$ 1.19	$ 0.94	$ 0.60
Net income from discontinued operations	0.19	0.05	0.56
Net income attributable to common unitholders	$ 1.38	$ 0.99	$ 1.16
Weighted average common units outstanding - basic	29,748,746	25,232,985	25,234,827
Adjustment for deferred fee liabilities (a)	—	4,021,933	—
Adjustment for distribution payable (b)	—	414,110	2,247,977
Unvested restricted stock	25,781	554	—
Denominator for net income per common unit - diluted	29,774,527	29,669,582	27,482,804

(a) Includes common units assuming a common unit settlement of the deferred fee liability as described in Note 13 - “Related Party Transactions.”
(b) Includes common units assuming a common unit settlement of the distribution payable. The Target Distribution liability described in Note 16 - "Capital and Accumulated Other Comprehensive Loss" may be settled in common units.

18. SEGMENT INFORMATION

SPH’s reportable segments consist of its operating units, Diversified Industrial, Energy, Financial Services, and Corporate and Other which are managed separately and offer different products and services.

Diversified Industrial

As of December 31, 2012, the Diversified Industrial segment for financial reporting purposes consists of HNH, which is a consolidated subsidiary, and SLI which is an associated company. BNS' 2012 and 2011 results have been reclassified from the Diversified Industrial segment to the newly formed Energy segment (see below) for comparability. BNS was included in Corporate and Other in 2010 since it was a holding company with no continuing operations. For the years ended December 31, 2011 and 2010, Diversified Industrial results include the income or loss associated with its investments in API Group PLC (“API”), a leading manufacturer of specialized materials for packaging and JPS Industries, Inc. (“JPS”), a manufacturer of extruded urethanes, polypropylenes and mechanically formed glass. The investments in both API and JPS were accounted for as equity method investments throughout 2011 and 2010. Effective December 31, 2011, the Company's investments in API and JPS were reclassified from equity method investments to available for sale securities, and accordingly are currently classified in

the Corporate and Other segment in 2012. Additional information for the consolidated entity within the Diversified Industrial segment follows:

- HNH is a diversified holding company that owns a variety of manufacturing operations encompassing joining materials, tubing, engineered materials, electronic materials and cutting replacement products and services businesses. HNH became a consolidated, majority-owned subsidiary on May 7, 2010, when SPH's ownership exceeded 50%; prior to that date HNH was an associated company accounted for under the equity method of accounting at fair value.

Energy

SPH's newly formed Energy segment consists of its consolidated subsidiary Steel Excel, which was acquired on May 31, 2012, and BNS Holding, Inc. (“BNS”). For comparability, BNS's results for 2012 (from January, 2012 through June 30, 2012) and 2011, have been reclassified from the Diversified Industrial segment to the Energy segment since the results of BNS for the years ended December 31, 2012 and 2011 include the results of Sun Well prior to its sale to Steel Excel. BNS was included in Corporate and Other in 2010 since it was a holding company with no continuing operations.

- Steel Excel owns several oil field services companies, providing premium well services to exploration and production (“E&P”) companies operating primarily in the Williston Basin in North Dakota and eastern Montana. Steel Excel provides critical services needed by E&P operators, including well completion, well maintenance and workover, well recompletion, hydrostatic tubular testing and plug and abandonment services. In addition, Steel Excel has a sports business ("Steel Sports") which is a network of branded participatory and experience-based businesses engaged in sports, training, entertainment and consumer lifestyle. The operations of Steel Sports are not considered material and are included in the Energy segment. Steel Excel was previously accounted for as an associated company at fair value prior to SPH increasing its ownership over 50%. Seven months of Steel Energy's results are included in the Energy segment for the year ended December 31, 2012.
- BNS is currently a holding company with no operations as of June 1, 2012 due to the sale of Sun Well to Steel Excel on May 31, 2012 (see Note 3 - "Acquisitions"). BNS' results include the operations of Sun Well prior to the sale of Sun Well to Steel Excel on May 31, 2102.

Financial Services

The Financial Services segment primarily consists of our consolidated and wholly-owned subsidiary WebBank, which operates in niche banking markets. WebBank provides commercial and consumer loans and services. WebBank’s deposits are insured by the FDIC, and the bank is examined and regulated by the FDIC and UDFI.

Corporate and Other

The Corporate and Other segment consists of several consolidated subsidiaries as well as various investments and cash and cash equivalents. Corporate assets, revenues and overhead expenses are not allocated to the segments. Corporate revenues primarily consist of investment and other income, investment gains and losses and rental income. As of December 31, 2012, the Corporate and other segment had investments in available-for-sale securities, the SPII Liquidating Trust, CoSine, Fox & Hound and cash and cash equivalents. Effective December 31, 2011, the Company's investments in API and JPS were reclassified from associated companies to available for sale securities, and accordingly are currently classified in the Corporate and Other segment in 2012. Below is additional information related to the consolidated businesses and certain investments included in the Corporate and Other segment:

Consolidated businesses:

- SPH services provides legal, tax, accounting, treasury, consulting, auditing, administration, compliance, environmental health and safety, human resources, marketing, investor relations and similar services, to other affiliated companies. In 2012 SPH Services charged the Diversified Industrial and Energy segments approximately $11,000 and $2,000, respectively for these services. These amounts are eliminated in consolidation.
- DGT's current operations are the leasing and management of two facilities that were not included in the assets sold to the new owners of Villa and RFI. In addition to management of the real estate business, DGT's business is expected to

consist primarily of capital redeployment and identification of new profitable operations where it can utilize its existing working capital and maximize the use of the Company’s net operating losses.

- The expenses related to the BNS Liquidating Trust are included in Corporate and Other from July 1, 2012 through December 31, 2012. The BNS Liquidating Trust is part of the Corporate and Other segment from July 1, 2012 through December 31, 2012. For additional information on the BNS Liquidating Trust, see Note 16 - "Capital and Accumulated Other Comprehensive Loss."

Equity Method Investments:

- CoSine is in the business of seeking to acquire one or more business operations. We account for Cosine under the equity method of accounting.
- Fox & Hound is an owner of franchised social destination casual dining and entertainment based restaurants. We account for Fox & Hound under the equity method of accounting, and elected the fair value option.
- The SPII Liquidating Trust investments are accounted for under the fair value option; and changes in fair value are reported in the consolidated statement of operations and in the Corporate segment as “Loss from other investment - related party”.

Prior to December 31, 2012, the Corporate and Other segment also included the Company's direct and indirect investment in Barbican (which was sold in October 2012); BNS (through February 2, 2011, the date BNS acquired SWH), as well as associated company Steel Excel (through December 31, 2011). Associated company earnings for Steel Excel are classified in the Energy segment effective January 1, 2012 and the consolidated results of Steel Excel are included in the Energy segment Effective May 31, 2012 (the date it became a majority-owned subsidiary). Segment information is presented below:

	Year Ended December 31,		
	2012	2011	2010
Revenue:			
Diversified industrial	$ 629,396	$ 634,964	$ 367,124
Energy	92,834	32,984	—
Financial services	21,155	14,921	10,803
Corporate and other	18,069	(3,485)	28,468
Total	$ 761,454	$ 679,384	$ 406,395
Income (loss) from continuing operations before income taxes:			
Diversified industrial	$ 41,610	$ 46,568	$ 28,874
Energy	25,034	6,558	—
Financial services	12,913	6,165	4,381
Corporate and other	(8,580)	(46,021)	(13,931)
Income from continuing operations before income taxes	70,977	13,270	19,324
Income tax provision (benefit)	17,647	(65,119)	2,522
Net income (loss) from continuing operations	$ 53,330	$ 78,389	$ 16,802
Income (loss) from equity method investments:			
Diversified industrial	$ 1,796	$ 8,712	$ 21,178
Energy	13,139	—	—
Corporate and other	(9,060)	(38,278)	(14,093)
Total	$ 5,875	$ (29,566)	$ 7,085

Additional segment information as follows:

	Year ended December 31, 2012			December 31, 2012
	Interest expense	Capital expenditures	Depreciation and amortization	Goodwill
Diversified industrial	$ 14,165	$ (20,869)	$ 18,784	$ 15,112
Energy	(669)	(14,027)	9,227	48,429
Financial services	957	(37)	131	—
Corporate and other	152	(1,323)	820	81
Total	$ 14,605	$ (36,256)	$ 28,962	$ 63,622

	Year ended December 31, 2011			December 31, 2011
	Interest expense	Capital expenditures	Depreciation and amortization	Goodwill
Diversified industrial	$ 11,914	$ 12,765	$ 19,810	$ 11,838
Energy	509	8,227	2,508	24,837
Financial services	941	399	92	—
Corporate and other	631	—	—	81
Total	$ 13,995	$ 21,391	$ 22,410	$ 36,756

	Year ended December 31, 2010		
	Interest expense	Capital Expenditures	Depreciation and Amortization
Diversified industrial	$ 12,186	$ 7,252	$ 13,325
Financial services	796	44	102
Corporate and other	1,163	—	—
Total	$ 14,145	$ 7,296	$ 13,427

	December 31,	
	2012	2011
Identifiable Assets Employed:		
Diversified industrial	$ 521,854	$ 452,675
Energy	426,940	78,490
Financial services	138,249	126,208
Corporate and other	267,938	405,615
Segment totals	1,354,981	1,062,988
Discontinued operations	23,378	66,855
Total	$ 1,378,359	$ 1,129,843

The following table presents geographic revenue and long-lived asset information as of and for the year ended December 31, 2012 and 2011. In addition to property, plant and equipment, the amounts in 2012 and 2011 include $8,200 and $7,669, respectively, of inactive properties from previous operating businesses, and other non-operating assets that are carried at the lower of cost or fair value and are included primarily in other non-current assets in the consolidated balance sheets.

	2012		2011		2010
	Revenue	Long-lived assets	Revenue	Long-lived assets	Revenue
Geographic information:					
United States	$ 694,289	$ 157,438	$ 605,203	$ 107,843	$ 362,082
Foreign	67,165	28,720	74,181	21,745	44,313
Total	$ 761,454	$ 186,158	$ 679,384	$ 129,588	$ 406,395

Foreign revenue is based on the country in which the legal subsidiary is domiciled. Neither revenue nor long-lived assets from any single foreign country was material to the consolidated revenues of the Company.

19. INCOME TAXES

Details of the provision for (benefit from) income taxes are follows:

	Year Ended December 31,		
	2012	2011	2010
Income from continuing operations before income taxes and equity method income (loss):			
Domestic	$ 39,670	$ 34,873	$ 7,784
Foreign	6,465	8,146	4,866
Total	$ 46,135	$ 43,019	$ 12,650
Income taxes:			
Current:			
Federal	$ 4,297	$ 320	$ 213
State	3,628	1,012	1,290
Foreign	(165)	841	955
Total income taxes, current	7,760	2,173	2,458
Deferred:			
Federal	9,755	(64,786)	303
State	24	(2,877)	(169)
Foreign	108	371	(70)
Total income taxes, deferred	9,887	(67,292)	64
Income tax provision (benefit)	$ 17,647	$ (65,119)	$ 2,522

The following is a reconciliation of income tax expense computed at the federal statutory rate to the provision for income taxes:

	Year Ended December 31,		
	2012	2011	2010
Income from continuing operations before income taxes and equity method income (loss)	$ 46,135	$ 43,019	$ 12,650
Federal income tax provision at statutory rate	$ 15,729	$ 14,958	$ 4,310
Income passed through to common unitholders (a)	3,512	618	(785)
	19,241	15,576	3,525
State income taxes	3,072	1,356	706
Change in valuation allowance	(7,245)	(82,658)	(1,432)
Foreign tax rate differences	(931)	(227)	(767)
Elimination of deferred tax assets upon corporate subsidiary liquidation	7,236	—	—
Dividend income	—	929	370
Uncertain tax positions	8	43	233
Permanent differences and other	(3,734)	(138)	(113)
Income tax provision (benefit)	$ 17,647	$ (65,119)	$ 2,522

(a) Includes income that is not taxable to SPH and certain of its subsidiaries. Such income is directly taxable to SPH's common unitholders.

Deferred income taxes result from temporary differences in the financial basis and tax basis of assets and liabilities. The amounts shown on the following table represent the tax effect of temporary differences between the consolidated tax return basis of assets and liabilities and the corresponding basis for financial reporting, as well as tax credit and operating loss carryforwards.

	December 31,	
	2012	2011
Current Deferred Tax Items:		
Environmental costs	$ 2,377	$ 2,489
Accrued costs	5,473	4,015
Net operating loss carryforwards	14,570	8,926
Inventories	2,867	3,966
Other	978	1,665
Current deferred tax asset before valuation allowance	26,265	21,061
Valuation allowance	(1,924)	(1,023)
Gross current deferred tax assets	24,341	20,038
Current deferred tax liability -foreign	(1,022)	—
Net current deferred tax asset	**23,319**	**20,038**
Non-Current Deferred Tax Items:		
Postretirement and postemployment employee benefits	1,817	$ 1,051
Impairment of long-lived assets	2,528	2,519
Operating loss carryforwards	96,465	78,434
Additional minimum pension liability	81,228	69,435
Tax credit carryforwards	31,946	1,934
Foreign tax credit carryforwards	7,528	443
Stock compensation	1,187	919
Other	8,394	3,089
Non-current deferred tax asset before valuation allowance	231,093	157,824
Valuation allowance	(59,196)	(17,528)
Gross non-current deferred tax assets	171,897	140,296
Fixed assets	(18,874)	(17,867)
Intangible Assets	(40,020)	(43,244)
Unremitted foreign earnings	(29,959)	(8,560)
Net non-current deferred tax asset	**83,044**	**70,625**
Other deferred tax liabilities, primarily fixed assets and intangibles	**(10,107)**	**(6,231)**
Net deferred tax assets	**$ 96,256**	**$ 84,432**

During 2012 and 2011, the Company changed its judgment about the realizability of its deferred tax assets at certain subsidiaries. In accordance with GAAP under ASC 740, the effect of a change in the beginning-of-the-year balance of a valuation allowance that results from a change in circumstances that causes a change in judgment about the realizability of the related deferred tax asset in future years should be included in income from continuing operations in the period of the change. Accordingly, in 2012 and 2011, the Company recorded tax benefits in continuing operations of approximately $5,500 and $83,000 associated

with the reversal of its deferred tax valuation allowances. The valuation allowance release in 2012 was related to deferred tax liabilities recognized for the difference between the fair value and carrying basis of certain tangible and intangible assets obtained as part of the business combination, which can be used as a source of income to support realization of certain domestic deferred tax assets. The valuation allowance release in 2011 was primarily related to NOLs.

The increase in the deferred tax balances as of December 31, 2012 compared to December 31, 2011 was principally due to the inclusion of net deferred tax balances of Steel Excel which was included in the consolidated financial statements effective May 31, 2012.

Upon its emergence from bankruptcy in 2005, HNH experienced an ownership change as defined by Section 382 of the Internal Revenue Code upon its emergence from bankruptcy. Section 382 imposes annual limitations on the utilization of net operating carryforwards post-ownership change. HNH believes it qualifies for the bankruptcy exception to the general Section 382 limitations. Under this exception, the annual limitation imposed by Section 382 resulting from an ownership change will not apply; instead the NOLs must be reduced by certain interest expense paid to creditors who became stockholders as a result of the bankruptcy reorganization. Thus, HNH's U.S. federal NOLs of $162,900 as of December 31, 2012 include a reduction of $31,000 ($10,800 tax-effect).

At December 31, 2012, HNH has U.S. federal NOLs of approximately $162,900 (approximately $57,000 tax-effected), as well as certain state NOLs. The U.S. federal NOLs expire between 2020 and 2029. Also included in deferred income tax assets are tax credit carryforwards of $2,300. HNH's net tax provision reflects utilization of approximately $21,000 of Federal NOLs in 2012.

At December 31, 2012, WebFinancial Holding Corporation has $108 of net operating loss carryforwards that are scheduled to expire beginning in 2026. From its inception, Web Financial Holding Corporation has experienced a history of inconsistent earnings which has made it “more likely than not” that some portion or all of its deferred tax assets would not be realized. Accordingly, a valuation allowance of approximately $1,034 has been established for the net operating loss carryforward and related party accrued interest at December 31, 2012.

During 2012, BNS sold its entire investment in Sun Well Holdings to SXCL. Subsequent to the sale, BNS was liquidated and the loss carry forwards no longer exist. As a result of the liquidation, BNS recognized $7,236 of tax expense related to the write off of the remaining deferred tax assets at the time of the liquidation.

At October 31, 2012, DGT has $25,278 of federal net operating loss carryforwards that are scheduled to expire from 2020 to 2030. Because of the uncertainty of future earnings of DGT, a valuation allowance of $11,221 has been established for the net operating loss carryforwards and other net deferred tax assets at December 31, 2012.

At December 31, 2012, Steel Excel has $126,000 of federal net operating loss carryforwards that are scheduled to expire beginning in 2019. Steel Excel also has federal research and development credit carryforwards of $30,300 that are scheduled to expire beginning in 2019. Steel Excel's analysis of its deferred tax assets resulted in the determination that it was more likely than not that not all of its net deferred tax assets will be realized, resulting in a valuation allowance of $46,729.

As of December 31, 2012, HNH has a deferred income tax liability of $500 relating to $1,300 of undistributed earnings of foreign subsidiaries. In addition, there were approximately $12,600 of undistributed earnings of foreign subsidiaries that are deemed to be permanently reinvested, and thus, no deferred income taxes have been provided on these earnings.

At December 31, 2012, Steel Excel has a deferred income tax liability of $29,425 relating to undistributed earnings of foreign subsidiaries, which was offset by a reduction in the valuation allowance against its deferred tax assets.

GAAP provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. The change in the amount of unrecognized tax benefits (related solely to HNH and Steel Excel) for 2012 and 2011 was as follows:

Balance at December 31, 2010	$ 2,266
Additions for tax positions related to current year	325
Additions due to interest accrued	113
Tax positions of prior years:	—
Increases in liabilities, net	7
Payments	(2)
Due to lapsed statute of limitations	(403)
Balance at December 31, 2011	2,306
Additions for tax positions related to current year	368
Additions due to interest accrued	100
Addition due to acquisition of Steel Excel	29,903
Increase in liabilities, net	25
Payments	(3,526)
Due to lapsed statute of limitations	(484)
Balance at December 31, 2012	$ 28,692

At December 31, 2012, HNH had $2,273 of unrecognized tax benefits, all of which would affect the Company's effective tax rate if recognized. HNH recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2012, approximately $400 of interest related to uncertain tax positions was accrued. No penalties were accrued. It is reasonably possible that the total amount of unrecognized tax benefits will decrease by as much as $500 during the next twelve months as a result of the lapse of the applicable statutes of limitations in certain taxing jurisdictions. For federal income tax purposes, the statute of limitations for audit by the IRS is open for years 2009 through 2012. In addition, NOLs generated in prior years are subject to examination and potential adjustment by the IRS upon their utilization in future years' tax returns.

The IRS initiated an examination of the HNH consolidated income tax return for the 2010 tax year during the second quarter of 2012. The examination is currently in progress and no increase in the reserve for uncertain tax positions is considered necessary at this time. In addition, certain HNH subsidiaries were examined by the Commonwealth of Massachusetts (“Massachusetts”) for the years 2003 to 2005, and the results of the examination is currently being appealed. The reserve for uncertain tax positions was adjusted accordingly. Massachusetts is currently conducting an examination of the combined group for the 2008 year. The examination is currently in progress and no increase in the reserve for uncertain tax positions is considered necessary at this time.

At December 31, 2012, Steel Excel had $26,419 of unrecognized tax benefits, of which $7,400 would affect the Company's effective tax rate if recognized. This was an overall decrease of $3,484 in the gross unrealized tax benefits, primarily due to the reversal of reserves for foreign taxes as a result of an assessment with the Singapore taxing authorities. The Company recorded a benefit from income taxes of $1,400 for the year ended December 31, 2012, due to the refund received as a result of a settlement in Singapore.

Steel Excel recognized interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2012, the amount of interest and penalties accrued during the 2012 year were immaterial. It is not reasonably possible that the gross unrecognized tax benefits will change in the next twelve months. For federal income tax purposes, fiscal years 2005 onward remain open to examination by the IRS. Additionally, fiscal years 2000 onward remained open to examination in various foreign jurisdictions. U.S. tax attributes generated in fiscal years 2000 onward also remain subject to adjustment in subsequent years when they are utilized.

SPH's other subsidiaries file federal tax returns as well as state, local and foreign tax returns in various jurisdictions. Federal tax returns for all consolidated subsidiaries, including WebBank, BNS, and DGT, remain open and subject to examination by the Internal Revenue Service for all tax years after 2008. In addition, net operating losses generated in prior years are subject to examination and potential adjustment by the Internal Revenue Service upon their utilization in future years' tax returns. State income tax returns for most jurisdictions remain open generally for all tax years after 2008. Certain state income tax returns remain open and subject to examination for tax years after 2007.

20. REGULATORY MATTERS

SPH

The Company historically has conducted its business so as not to be deemed an investment company under the Investment Company Act of 1940, as amended (the "Act"). The Company has filed with the SEC a request for an order under the Act to provide the additional time for the Company to restructure its holdings so as not to be required to register as an investment company under the Act. Under the terms of the requested order, the Company would be required to undertake transactions consistent with certain qualitative tests related to the Company's assets and/or income and to refrain from trading for short-term speculative purposes. The Company would be required to meet these tests (or otherwise not be subject to the Act) within one year following the order date. On May 23, 2012, the SEC granted the Company's request. If the Company is unable to bring itself into conformity with the relevant tests within the relief period and is unable to otherwise remain outside of the Act's registration requirement, the Company would be forced to register as an investment company or seek other alternatives, such as making significant changes to the Company's business model to avoid investment company registration. Such significant changes could have a material adverse effect on the Company's performance.

WebBank

WebBank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a direct material effect on WebBank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, WebBank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. WebBank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require WebBank to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average quarterly assets (as defined). As of December 31, 2012, WebBank exceeded all the capital adequacy requirements to which it is subject.

As of December 31, 2012, WebBank was categorized as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events, since the most recent FDIC notification, which have changed WebBank's prompt corrective action category. To remain categorized as well-capitalized, WebBank will have to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage capital.

21. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Company leases certain facilities under non-cancelable operating lease arrangements. Rent expense recognized in the consolidated statement of operations for the years ended December 31, 2012 and 2011 was $8,123 and $6,679, respectively.

Future minimum operating lease and rental commitments under non-cancelable operating leases for SPH consolidated operations are as follows:

Payments due by period	Amount
Less than 1 year	$ 5,634
1-3 years	7,671
3-5 years	3,097
More than 5 years	3,996
Total	$ 20,398

In addition, the Company is the lessor for two properties. Future non-cancelable leases on those properties are approximately $440 for each of the next five years.

Environmental Matters

As discussed in more detail below, HNH and BNS have been designated as potentially responsible parties ("PRPs") by federal and state agencies with respect to certain sites with which they may have had direct or indirect involvement. These claims are in various stages of administrative or judicial proceedings and include demands for recovery of past governmental costs and for future investigations and remedial actions. In many cases, the dollar amounts of the claims have not been specified and, with respect to a number of the PRP claims, have been asserted against a number of other entities for the same cost recovery or other relief as was asserted against the HNH and BNS. The Company accrues costs associated with environmental matters, on an undiscounted basis, when they become probable and reasonably estimable. As of December 31, 2012, and 2011, on a consolidated basis, the Company has accrued $7,320 and $7,159, respectively, which represents its current estimate of the probable cleanup liabilities, including remediation and legal costs. In addition, the Company has insurance coverage available for several of these matters and believes that excess insurance coverage may be available as well.

Estimates of the Company's liability for remediation of a particular site and the method and ultimate cost of remediation require a number of assumptions that are inherently difficult to make, and the ultimate outcome may be materially different from current estimates.

HNH Environmental Matters

Handy & Harman ("H&H"), a subsidiary of HNH, entered into a consent order in 1989 with the Connecticut Department of Environmental Protection (“CTDEP”) with regard to the site of a former H&H manufacturing facility in Connecticut. The consent order covered a parcel that H&H sold in 2003 (the “Sold Parcel”), and also covered an adjacent parcel that H&H still owns (the “Adjacent Parcel”). With regard to the Sold Parcel, the CTDEP approved H&H's Soil Remediation Action Report. Remaining remediation and monitoring costs for the Sold Parcel are expected to approximate $100, and are no longer material to the Company. H&H also has been conducting an environmental investigation of the Adjacent Parcel, and will be initiating a more comprehensive field study in 2012 with subsequent evaluation of various options for remediation of the Adjacent Parcel. Since the total remediation costs for the Adjacent Parcel cannot be reasonably estimated at this time, there can be no assurance that the resolution of this matter will not be material to the financial position, results of operations and cash flow of H&H or the Company.

In 1986, Handy & Harman Electronics Material Corporation (“HHEM”), a subsidiary of H&H, entered into an administrative consent order (the “ACO”) with the New Jersey Department of Environmental Protection (“NJDEP”) with regard to certain property that it purchased in 1984 in New Jersey. The ACO involves investigation and remediation activities to be performed with regard to soil and groundwater contamination. HHEM is actively remediating the property and continuing to investigate effective methods for achieving compliance with the ACO. A remedial investigation report has been approved. HHEM anticipates entering into discussions with NJDEP to address that agency's potential natural resource damage claims, the ultimate scope and cost of which cannot be estimated at this time. Pursuant to a settlement agreement with the former owner/operator of the site, the responsibility for site investigation and remediation costs are shared with the former owner/operator. As of December 31, 2012, total investigation and remediation costs of approximately $3,400 have been expended by HHEM in accordance with the settlement agreement. Additionally, HHEM is currently being reimbursed

indirectly through insurance coverage for a portion of the costs for which HHEM is responsible. HHEM believes that there is additional excess insurance coverage, which it intends to pursue as necessary. HHEM anticipates that there will be additional remediation expenses to be incurred once a final remediation plan is agreed upon. There is no assurance that the former owner/operator or guarantors will continue to timely reimburse HHEM for expenditures and/or will be financially capable of fulfilling their obligations under the settlement agreement and the guaranties. The additional costs cannot be reasonably estimated at this time, and accordingly, there can be no assurance that the resolution of this matter will not be material to the financial position, results of operations and cash flow of HHEM or the Company.

Certain subsidiaries of H&H Group have been identified as PRPs under the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”) or similar state statutes at sites and are parties to administrative consent orders in connection with certain properties. Those subsidiaries may be subject to joint and several liabilities imposed by CERCLA on PRPs. Due to the technical and regulatory complexity of remedial activities and the difficulties attendant in identifying PRPs and allocating or determining liability among them, the subsidiaries are unable to reasonably estimate the ultimate cost of compliance with such laws.

In August 2006, H&H received a notice letter from the United States Environmental Protection Agency (“EPA”) formally naming H&H as a PRP at a superfund site in Massachusetts. H&H is part of a group of thirteen (13) other PRPs (the “PRP Group”) that is working cooperatively regarding remediation of the superfund site. The Department of Energy (“DOE”) is remediating certain unrelated radiological contamination at the superfund site, and accordingly the DOE and has not yet allowed access to the site to the PRP Group. It is currently anticipated that the DOE will allow access to the site late this year. Additional financial contributions will be required by the PRP Group when it obtains access to the site. H&H has recorded a significant liability in connection with this matter. There can be no assurance that the resolution of this matter will not be material to the financial position, results of operations and cash flow of H&H or the Company.

HHEM is continuing to comply with a 1987 consent order from the Massachusetts Department of Environmental Protection (“MADEP”) to investigate and remediate the soil and groundwater conditions at the MA Property that is the subject of litigation. On January 20, 2009, HHEM filed with MADEP a partial Class A-3 Response Action Outcome Statement (“RAO-P”) and an Activity & Use Limitation (“AUL”) for the MA Property. An MADEP audit and the opinion of HHEM's Licensed Site Professional constituted confirmation of the adequacy of the RAO-P and associated AUL. On March 31, 2010, the Massachusetts Attorney General executed a covenant not to sue (“CNTS”) to cover the MA Property. Following the execution of the CNTS, HHEM filed a Remedy Operation Status (“ROS”) on April 1, 2010. On June 30, 2010, HHEM filed a request to close the site since HHEM's licensed site professional concluded that groundwater monitoring demonstrated that conditions have stabilized or continue to improve at the site, and HHEM anticipates resolution of MADEP's audit process before the end of 2012. In addition, HHEM has entered into settlement agreements with certain abutters of the property and entered into settlement agreements with each of them. HHEM does not expect any other claims from any additional abutters, but there can be no such assurances that claims will not be asserted.

As discussed above, certain subsidiaries of H&H Group have existing and contingent liabilities relating to environmental matters, including capital expenditures, costs of remediation and potential fines and penalties relating to possible violations of national and state environmental laws. Those subsidiaries have substantial remediation expenses on an ongoing basis, although such costs are continually being readjusted based upon the emergence of new techniques and alternative methods.

Based upon information currently available, the H&H Group subsidiaries do not expect their respective environmental costs, including the incurrence of additional fines and penalties, if any, to have a material adverse effect on them or that the resolution of these environmental matters will have a material adverse effect on the financial position, results of operations and cash flows of such subsidiaries or the Company, but there can be no such assurances. The Company anticipates that the H&H Group subsidiaries will pay any such amounts out of their respective working capital, although there is no assurance that they will have sufficient funds to pay them. In the event that the H&H Group subsidiaries are unable to fund their liabilities, claims could be made against their respective parent companies, including H&H Group and/or HNH, for payment of such liabilities.

BNS Sub Environmental Matters

On August 12, 2008, a then subsidiary of BNS (“BNS Sub”) was identified as a PRP by the EPA as an alleged drum reconditioning customer (PRP) of New England Container Corp. (“NECC”). BNS Sub is presently investigating the matter and has joined a group of other alleged NECC drum reconditioning customers. The NECC drum reconditioning PRP’s have

incurred and will continue to incur costs in the investigation and each PRP has been assessed a pro-rata fee for its cost share of the assessment. BNS Sub believes that it has an adequate environmental liability accrual associated with the site, which is reflected in the remediation estimate discussed above. The liability accrual is part of the Liquidating Trust formed by BNS (see Note 16 - "Capital and Accumulated Other Comprehensive (Loss) Income").

Litigation Matters

HNH Litigation Matters

HNH and certain of its subsidiaries are defendants ("Subsidiary Defendants") in numerous cases pending in a variety of jurisdictions relating to welding emissions. Generally, the factual underpinning of the plaintiffs' claims is that the use of welding products for their ordinary and intended purposes in the welding process causes emissions of fumes that contain manganese, which is toxic to the human central nervous system. The plaintiffs assert that they were over-exposed to welding fumes emitted by welding products manufactured and supplied by the Subsidiary Defendants and other co-defendants. The Subsidiary Defendants deny any liability and are defending these actions. It is not possible to reasonably estimate the Subsidiary Defendants' exposure or share, if any, of the liability at this time.

In addition to the foregoing cases, there are a number of other product liability, exposure, accident, casualty and other claims against HNH or certain of its subsidiaries in connection with a variety of products sold by such subsidiaries over several years, as well as litigation related to employment matters, contract matters, sales and purchase transactions and general liability claims, many of which arise in the ordinary course of business. It is not possible at this time to reasonably estimate the probability, range or share of any potential liability of the Company or its subsidiaries in any of these matters.

There is insurance coverage available for many of the foregoing actions, which are being litigated in a variety of jurisdictions. To date, HNH and its subsidiaries have not incurred and do not believe they will incur any significant liability with respect to these claims, which they are contesting vigorously in most cases. However, it is possible that the ultimate resolution of such litigation and claims could have a material adverse effect on the Company's results of operations, financial position and cash flows when they are resolved in future periods.

BNS Litigation Matters

BNS Sub has been named as a defendant in 1,160 and 1,020 alleged asbestos-related toxic-tort claims as of December 31, 2012 and December 31, 2011, respectively. The claims were filed over a period beginning 1994 through June 30, 2012. In many cases these claims involved more than 100 defendants. Of the claims filed, 926 and 694 were dismissed, settled or granted summary judgment and closed as of December 31, 2012 and 2011, respectively. Of the claims settled, the average settlement was less than $3. There remained 234 and 326 pending asbestos claims as of December 31, 2012 and December 31, 2011, respectively. There can be no assurance that the number of future claims and the related costs of defense, settlements or judgments will be consistent with the experience to date of existing claims.

BNS Sub has insurance policies covering asbestos-related claims for years beginning 1974 through 1988 with estimated aggregate coverage limits of $183,000, with $2,282 and $1,660 at December 31, 2012 and 2011, respectively, in estimated remaining self insurance retention (deductible). There is secondary evidence of coverage from 1970 to 1973 although there is no assurance that the insurers will recognize that the coverage was in place. Policies issued for BNS Sub beginning in 1989 contained exclusions related to asbestos. Under certain circumstances, some of the settled claims may be reopened. Also, there may be a significant delay in receipt of notification by BNS Sub of the entry of a dismissal or settlement of a claim or the filing of a new claim. BNS Sub believes it has significant defenses to any liability for toxic-tort claims on the merits. None of these toxic-tort claims have gone to trial and, therefore, there can be no assurance that these defenses will prevail. In addition, there can be no assurance that the number of future claims and the related costs of defense, settlements or judgments will be consistent with the experience to date of existing claims; and, that BNS Sub will not need to increase significantly its estimated liability for the costs to settle these claims to an amount that could have a material effect on the consolidated financial statements.

BNS Sub annually receives retroactive billings or credits from its insurance carriers for any increase or decrease in claims accruals as claims are filed, settled or dismissed, or as estimates of the ultimate settlement and defense costs for the then-existing claims are revised. As of December 31, 2012 and December 31, 2011, respectively, BNS Sub has accrued $1,020 and $635 relating to the open and active claims against BNS Sub. This accrual represents the Company's best estimate of the

likely costs to defend against or settle these claims by BNS Sub beyond the amounts accrued by the insurance carriers and previously funded, through the retroactive billings by BNS Sub. However, there can be no assurance that BNS Sub will not need to take additional charges in connection with the defense, settlement or judgment of these existing claims or that the costs of future claims and the related costs of defense, settlements or judgments will be consistent with the experience to date relating to existing claims. These claims are now being managed by the Liquidating Trust formed by BNS. See Note 16 - "Capital and Accumulated Other Comprehensive Loss" - *BNS Liquidating Trust*.

22. SUBSEQUENT EVENTS

Investment in ModusLink Global Solutions Inc. ("ModusLink")

On February 11, 2013, the Company entered into an agreement whereby, under certain conditions, it agreed to purchase shares of ModusLink common stock and receive warrants to purchase additional shares of ModusLink common stock (the "Investment Agreement”). The Investment Agreement was subject to certain conditions including approval by ModusLink stockholders, the election of two nominees made by the Company to ModusLink's Board of Directors, that no Material Adverse Effect (as defined in the Investment Agreement) shall have occurred and other customary closing conditions.

On March 12, 2013, following a vote by ModusLink's stockholders and under the previously announced Investment Agreement, the Company purchased 7,500,000 newly issued shares of common stock at a price of $4.00 per share. In addition, as part of the transaction, the Company received warrants to acquire 2,000,000 shares at an exercise price of $5.00 per share and the Company, together with certain affiliates, is allowed to purchase up to approximately 1,400,000 shares of ModusLink’s outstanding common stock, subject to proportionate adjustment.

HNH Note Redemption

The Company's HNH subsidiary has advised its note trustee it is considering redeeming $31,800 principal amount of its issued and outstanding 10% Subordinated Secured Notes due 2017 on April 25, 2013, representing all of the outstanding notes. This notice can be rescinded through March 25, 2013. The redemption price, including all accrued interest and call premiums as detailed in the note indenture, would be approximately $36,900. The Company currently holds $21,600 principal amount of these notes, and would receive approximately $24,900 in cash if the notes are redeemed.

Steel Excel Funding Commitment

Steel Excel is a holder of convertible debt in School Specialties Inc. (“School Specialties”), a company currently operating under a Chapter 11 bankruptcy petition.

On February 26, 2013, Steel Excel committed to participate in a debtor-in-possession loan to School Specialties in an amount up to $22,000. Steel Excel believes the loan, in conjunction with other sources of financing, will enable School Specialties to successfully execute a plan of reorganization or other alternative transaction.

Steel Excel Debt Payment

In February and March 2013 Steel Excel made extra principal payments totaling $13,000 on their term loan with Wells Fargo Bank. See Note 14 - "Debt and Capital Lease Obligations" for additional information on this term loan.

23. Quarterly Financial Data (unaudited)

Quarter	Revenue	Net Income (Loss) From Continuing Operations	Net Income (Loss) From Continuing Operations Attributable to Common Unit Holders		Net Income (Loss) Attributable to Common Unit Holders	Net Income (Loss) Attributable to Common Unit Holders	
			Per Common Unit Basic	Per Common Unit Diluted		Per Common Unit Basic	Per Common Unit Diluted
2012							
First	$ 175,673	$ 45,949	$ 1.74	$ 1.74	$ 45,970	$ 1.83	$ 1.83
Second	215,272	(7,140)	(0.33)	(0.33)	(10,237)	(0.33)	(0.33)
Third	195,616	7,953	0.09	0.09	3,487	0.11	0.11
Fourth	174,893	6,568	(0.03)	(0.03)	1,798	0.06	0.06
	$ 761,454	$ 53,330			$ 41,018		
2011							
First	$ 168,585	$ 12,788	$ 0.44	$ 0.39	$ 12,491	$ 0.49	$ 0.43
Second	189,897	21,146	0.50	0.50	12,597	0.50	0.50
Third	164,454	(8,549)	(0.50)	0.76	(12,389)	(0.50)	(0.75)
Fourth	156,448	53,004	0.90	0.81	22,770	0.92	0.81
	$ 679,384	$ 78,389			$ 35,469		

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we conducted an evaluation under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that as of December 31, 2012 our disclosure controls and procedures are effective in ensuring that all information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the internal control over financial reporting of the Company as referred to above as of December 31, 2012 as required by Rule 13a-15(c) under the Exchange Act. In making this assessment, the Company used the criteria set forth in the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation under the framework in Internal Control - Integrated Framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2012.

Changes in Internal Control over Financial Reporting

No change in internal control over financial reporting occurred during the quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, the Company 's internal control over financial reporting.

Inherent Limitations Over Controls

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The Company’s definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

Item 11. Executive Compensation

The Company’s definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The Company’s definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The Company’s definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The Company’s definitive proxy statement which will be filed with the SEC pursuant to Registration 14A within 120 days of the end of the Company's fiscal year is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements

The following financial statements of Steel Partners Holdings L.P., and subsidiaries, are included in Part II, Item 8 of this report:

Consolidated Balance Sheets as of December 31, 2012 and 2011

Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010,

Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010.

Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010

Consolidated Statements of Changes in Capital for the years ended December 31, 2012, 2011 and 2010

Notes to Consolidated Financial Statements

(b) *Exhibits.*

The following documents are filed as exhibits hereto:

Exhibit No.	Description
2.1	Share Acquisition Agreement, dated as of April 30, 2012, by and among Steel Excel Inc., BNS Holding, Inc., SWH, Inc. and SPH Group Holdings LLC. (incorporated by reference to Exhibit 2.1 of Steel Partners Holdings L.P.'s' Current Report on Form 8-K, filed June 6, 2012).
3.1	Certificate of Limited Partnership (incorporated by reference to Exhibit 3.1 to Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed December 15, 2011).

3.2	Amendment to the Certificate of Limited Partnership, dated April 2, 2009 (incorporated by reference to Exhibit 3.2 to Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed December 15, 2011).
3.3	Amendment to the Certificate of Limited Partnership, dated January 20, 2010 (incorporated by reference to Exhibit 3.3 to Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed December 15, 2011).
3.4	Amendment to the Certificate of Limited Partnership, dated October 15, 2010 (incorporated by reference to Exhibit 3.4 to Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed December 15, 2011).
3.5	Third Amended and Restated Limited Partnership Agreement of Steel Partners Holdings L.P., dated as of July 14, 2009 (incorporated by reference to Exhibit 3.5 to Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed December 15, 2011).
10.1	Third Amended and Restated Management Agreement by and between Steel Partners Holdings L.P. and Steel Partners LLC, dated January 1, 2012 (incorporated by reference to Exhibit 10.1 of Steel Partners Holdings L.P.'s' Form 10-K, filed March 21, 2012).
10.2	License Agreement by and between Steel Partners LLC and Steel Partners Holdings L.P., dated January 1, 2009 (incorporated by reference to Exhibit 10.3 to Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed December 15, 2011).
10.3	Assignment and Assumption Agreement by and among Steel Partners II (Offshore) Ltd., WGL Capital Corp. and Steel Partners Holdings L.P., dated July 15, 2009 (incorporated by reference to Exhibit 10.4 to Amendment No. 1 of Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed January 20, 2012).
10.4	Second Amended and Restated Deferred Fee Agreement, dated as of October 31, 2002, as amended and restated as of January 1, 2005, and as further amended and restated as of July 15, 2009, by and between Steel Partners Holdings L.P. and WGL Capital Corp (incorporated by reference to Exhibit 10.5 to Amendment No. 1 of Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed January 20, 2012).
10.5	Investor Services Agreement by and among Steel Partners Holdings L.P., Steel Partners LLC and WGL Capital Corp., dated July 15, 2009 (incorporated by reference to Exhibit 10.6 to Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed December 15, 2011).
10.6	Advance Agreement by and between Steel Partners Holdings L.P. and Steel Partners II Master Fund L.P., dated June 28, 2009 (incorporated by reference to Exhibit 10.7 to Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed December 15, 2011).
10.7	Amended and Restated Services Agreement by and between Steel Partners Holdings L.P. and SP Corporate Services, LLC, effective as of dated July 15, 2009 (incorporated by reference to Exhibit 10.8 to Amendment No. 1 of Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed January 20, 2012).
10.8	Letter Agreement by and between Steel Partners Holdings L.P. and Steel Partners II GP LLC, dated July 15, 2009 (incorporated by reference to Exhibit 10.9 to Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed December 15, 2011).
10.9	Management Services Agreement by and between SP Corporate Services LLC and Handy & Harman Ltd. and Handy & Harman Group Ltd., dated as of January 1, 2012 (incorporated by reference to Exhibit 10.10 to Amendment No. 1 of Steel Partners Holdings L.P.'s Registration Statement on Form 10 filed January 20, 2012).
10.10***	Employment Agreement by and among WHX Corporation, Handy & Harman, and James McCabe, Jr. dated as of February 1, 2007 (incorporated by reference to Exhibit 10.1 of Steel Partners Holdings L.P.'s' Form 10-Q, filed May 15, 2012).
10.11***	Amendment to Employment Agreement by and among WHX Corporation, Handy & Harman, and James F. McCabe, Jr., effective January 1, 2009 (incorporated by reference to Exhibit 10.2 of Steel Partners Holdings L.P.'s' Form 10-Q, filed May 15, 2012).
10.12***	Second Amendment to Employment Agreement by and among WHX Corporation, Handy & Harman, and James F. McCabe, Jr., effective January 4, 2009 (incorporated by reference to Exhibit 10.3 of Steel Partners Holdings L.P.'s' Form 10-Q, filed May 15, 2012).
10.13	Fourth Amended and Restated Management Agreement by and among Steel Partners Holdings L.P., SPH Group LLC and SP General Services LLC, dated as of May 11, 2012 (incorporated by reference to Exhibit 10.4 of Steel Partners Holdings L.P.'s' Form 10-Q, filed May 15, 2012).
21*	Subsidiaries of Steel Partners Holdings L.P.
24*	Power of Attorney (included in the signature page)
31.1*	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2*	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Financial Statements of Handy & Harman Ltd.
99.2*	Financial Statements of Steel Excel Inc.
99.3**	Financial Statements of SL Industries, Inc.
99.4*	Financial Statements of Steel Partners II Liquidating Series Trust.
Exhibit 101.INS*	XBRL Instance Document
Exhibit 101.SCH*	XBRL Taxonomy Extension Schema
Exhibit 101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
Exhibit 101.DEF*	XBRL Taxonomy Extension Definition Linkbase
Exhibit 101.LAB*	XBRL Taxonomy Extension Label Linkbase
Exhibit 101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** To be filed by amendment.

*** Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated:
March 21, 2013

STEEL PARTNERS HOLDINGS L.P.

By: Steel Partners Holdings GP Inc.
Its General Partner

/s/ Warren G. Lichtenstein

By: Warren G. Lichtenstein
Executive Chairman

POWER OF ATTORNEY

Steel Partners Holdings L.P. and each of the undersigned do hereby appoint Warren G. Lichtenstein and James F. McCabe, Jr., and each of them severally, its or his true and lawful attorney to execute on behalf of Steel Partners Holdings L.P. and the undersigned any and all amendments to this Annual Report on Form 10-K and to file the same with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission; each of such attorneys shall have the power to act hereunder with or without the other.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities indicated with respect to Steel Partners Holdings GP Inc., the general partner of Steel Partners Holdings L.P., and on behalf of the registrant and on the dates indicated below by the following persons in the capacities and on the dates indicated.

By: /s/ Warren G. Lichtenstein — March 21, 2013
Warren G. Lichtenstein, Executive Chairman — Date
(Principal Executive Officer)

By: /s/ James F. McCabe, Jr. — March 21, 2013
James F. McCabe, Jr., Chief Financial Officer — Date
(Principal Accounting Officer)

By: /s/ Jack L. Howard — March 21, 2013
Jack L. Howard, Director — Date

By: /s/ Anthony Bergamo — March 21, 2013
Anthony Bergamo, Director — Date

By: /s/ John P. McNiff — March 21, 2013
John P. McNiff, Director — Date

By: /s/ Joseph L. Mullen — March 21, 2013
Joseph L. Mullen, Director — Date

By: /s/ General Richard I. Neal — March 21, 2013
General Richard I. Neal, Director — Date

By: /s/ Allan R. Tessler — March 21, 2013
Allan R. Tessler, Director — Date

EXHIBIT 21

Schedule of Subsidiaries

STEEL PARTNERS HOLDINGS GP INC., a Delaware corporation

SPH GROUP LLC, a Delaware limited liability company

SPH GROUP HOLDINGS LLC, a Delaware limited liability company

SPH Services, Inc., a Delaware Corporation

SP Corporate Services LLC, a Delaware limited liability company

Steel Partners LLC, a Delaware limited liability company

BNS Liquidating Trust, a Delaware company

SP Asset Management LLC, a Delaware limited liability company

STEEL PARTNERS II L.P., a Delaware limited partnership

CHINA ACCESS PAPER INVESTMENT COMPANY LIMITED, a corporation organized under the laws of Mauritius

DGT HOLDINGS CORP., a Delaware corporation

HANDY & HARMAN LTD., a Delaware corporation

STEEL EXCEL INC., a Delaware corporation

WF ASSET CORP., a Delaware corporation

WEBFINANCIAL HOLDING CORPORATION, a Delaware corporation

WEBBANK, a Utah chartered industrial bank

WORKING CAPITAL SOLUTIONS, INC., a Delaware corporation

DGT HOLDINGS CORP. SUBSIDIARIES

DM IMAGING CORP., a Delaware corporation

VILLA IMMOBILIARE SRL, Italy

RFI CORPORATION, a Delaware corporation

HANDY & HARMAN LTD. SUBSIDIARIES

WHEELING-PITTSBURGH CAPITAL CORPORATION, a Delaware corporation.

WHX AVIATION CORPORATION, a Delaware corporation.

WHX METALS CORPORATION, a Delaware corporation.

WHX CS CORPORATION, a Delaware corporation.

HANDY & HARMAN GROUP, LTD., a Delaware corporation (“HHG”).

HANDY & HARMAN, a New York corporation (“HANDY & HARMAN”), a direct subsidiary of HHG.

BAIRNCO CORPORATION, a Delaware corporation (“BAIRNCO”), a direct subsidiary of HHG.

ALLOY RING SERVICE, INC., a Delaware corporation.

CANFIELD METAL COATING CORPORATION, a Delaware corporation.

DANIEL RADIATOR CORPORATION, a Texas corporation.

EAST 74th STREET HOLDINGS, INC., an Oklahoma corporation (formerly known as Continental Industries, Inc.)

ELE CORPORATION, a California corporation.

H&H PRODUCTIONS, INC., a Delaware corporation.

HANDY & HARMAN AUTOMOTIVE GROUP, INC., a Delaware corporation.

HANDY & HARMAN OF CANADA, LIMITED, a Province of Ontario Canada corporation.

HANDY & HARMAN ELE (ASIA) SND BHD., a corporation organized under the laws of Malaysia.

HANDY & HARMAN ELECTRONIC MATERIALS CORPORATION, a Florida corporation.

HANDY & HARMAN (EUROPE) LIMITED, a corporation organized under the laws of England and Wales.

HANDY & HARMAN INTERNATIONAL, LTD., a Delaware corporation.

HANDY & HARMAN MANAGEMENT HOLDINGS (HK) LIMITED, a corporation organized under the laws of Hong Kong. (1)

HANDY & HARMAN MANUFACTURING (SINGAPORE) PTE. LTD., a corporation organized under the laws of Malaysia.

HANDY & HARMAN NETHERLANDS, BV., a corporation organized under the laws of the Netherlands.

HANDY & HARMAN PERU, INC., a Delaware corporation.

HANDY & HARMAN TUBE COMPANY, INC., a Delaware corporation.

HANDY & HARMAN UK HOLDINGS LIMITED, a corporation organized under the laws of England and Wales.

HANDYTUBE CORPORATION, a Delaware corporation (formerly known as Camdel Metals Corporation)

INDIANA TUBE CORPORATION, a Delaware corporation.

INDIANA TUBE DANMARK A/S, a corporation of Kolding, Denmark.

INDIANA TUBE SOLUTIONS, S. De R.L. de C.V., a corporation organized under the law of Mexico.

KJ-VMI REALTY, INC., a Delaware corporation.

LUCAS-MILHAUPT, INC., a Wisconsin corporation.

LUCAS-MILHAUPT HONG KONG LIMITED, a corporation organized under the laws of Hong Kong.

LUCAS-MILHAUPT BRAZING MATERIALS (SUZHOU) CO. LTD., a corporation organized under the laws of China. (1)

LUCAS-MILHAUPT GLIWICE Sp. Z o.o., a corporation organized under the laws of Poland.

MARYLAND SPECIALTY WIRE, INC., a Delaware corporation.

MICRO-TUBE FABRICATORS, INC., a Delaware corporation.

OCMUS, INC., an Indiana corporation formerly known as Sumco, Inc.

OMG, INC., a Delaware corporation, formerly known as Olympic Manufacturing Group, Inc.

OMG ROOFING, INC., a Delaware corporation.

OMNI TECHNOLOGIES CORPORATION OF DANVILLE, a New Hampshire corporation.

PAL-RATH REALTY, INC., a Delaware corporation.

PLATINA LABORATORIES, INC., a Delaware corporation.

LUCAS MILHAUPT RIBERAC SA, a corporation organized under the laws of France.

RIGBY-MARYLAND (STAINLESS), LTD, a corporation organized under the laws of England and Wales.

SHEFFIELD STREET CORPORATION, a Connecticut corporation.

SWM, INC., a Delaware corporation.

WILLING B WIRE CORPORATION, a Delaware corporation.

BAIRNCO CORPORATION SUBSIDIARIES

ARLON, LLC., a Delaware limited liability company formerly Arlon, Inc. a Delaware corporation.

ARLON ADHESIVES & FILMS, INC., a Texas corporation.

ARLON INDIA PRIVATE LIMITED, a corporation organized under the laws of India.

ARLON MATERIALS FOR ELECTRONICS CO. LTD., a corporation organized under the laws of China.

ARLON MATERIAL TECHNOLOGIES CO. LTD., a corporation organized under the laws of China.

ARLON MED INTERNATIONAL, LLC, a Delaware Limited Liability Company.

ARLON PARTNERS, INC., a Delaware corporation.

ARLON SIGNTECH, LTD., a Texas Limited Partnership.

ARLON VISCOR, LTD., a Texas Limited Partnership.

ATLANTIC SERVICE CO. LTD., a corporation organized under the laws of Canada.

ATLANTIC SERVICE CO. (UK) LTD., a corporation organized under the laws of United Kingdom.

BERTRAM & GRAF GMBH, a corporation organized under the laws of Germany.

KASCO CORPORATION, a Delaware corporation.

KASCO ENSAMBLY S.A. DE C.V., a corporation organized under the laws of Mexico.

KASCO MEXICO LLC, a Delaware Limited Liability Company.

SOUTHERN SAW ACQUISITION CORPORATION, a Delaware corporation.

STEEL EXCEL INC. SUBSIDIARIES

ADAPTEC FAR EAST, INC., a California corporation

ADAPTEC GMBH, a corporation organized under the laws of Germany

ADAPTEC (INDIA) PVT LTD., a corporation organized under the laws of India

ADPT CAYMAN LICENSING LTD., a corporation organized under the laws of the Cayman Islands

ADPT CI LTD., a corporation organized under the laws of the Cayman Islands

ADPT (S) PTE. LTD., a corporation organized under the laws of Singapore

ADPT TECH HOLDING LTD., a corporation organized under the laws of the Cayman Islands

ARISTOS LOGIC CORPORATION. a Delaware corporation

BASEBALL HEAVEN INC., a Delaware corporation

ICP VORTEX COMPUTERSYSTEME GMBH, a corporation organized under the laws of Germany

PLATYS COMMUNICATIONS, INC., a Delaware corporation

ROGUE PRESSURE SERVICES LTD., a Delaware corporation

SOUTH BAY STRENGTH AND CONDITIONING LLC, a California limited liability company

STEEL ENERGY LTD., a Delaware corporation

STEEL SOCCER CITY, INC., a Delaware corporation

STEEL SPORTS INC., a Delaware corporation

SUN WELL SERVICE, INC., a North Dakota corporation

TORRANCE STRENGTH AND CONDITIONING LLC, a California limited liability company

EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Warren G. Lichtenstein, certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2012 of Steel Partners Holdings L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date:
March 21, 2013

/s/ Warren G. Lichtenstein

Warren G. Lichtenstein
Executive Chairman
of Steel Partners Holdings GP Inc.

EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, James F. McCabe, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K for the year ended December 31, 2012 of Steel Partners Holdings L.P.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    c) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    d) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date:

March 21, 2013

/s/ James F. McCabe, Jr.

James F. McCabe, Jr.
Chief Financial Officer of Steel Partners Holdings GP Inc.

EXHIBIT 32.1

Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Steel Partners Holdings L.P.(the “Partnership”) on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Warren G. Lichtenstein, Chief Executive Officer of Steel Partners Holdings GP Inc., the general partner of the Partnership, certify, pursuant to 18 U.S.C. Section § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

Date:
March 21, 2013

/s/ Warren G. Lichtenstein
Warren G. Lichtenstein
Executive Chairman
of Steel Partners Holdings GP Inc.

* The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

EXHIBIT 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Steel Partners Holdings L.P.(the “Partnership”) on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James F. McCabe, Jr., Chief Financial Officer of Steel Partners Holdings GP Inc., the general partner of the Partnership, certify, pursuant to 18 U.S.C. Section § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

Date:
March 21, 2013

/s/ James F. McCabe, Jr.
James F. McCabe, Jr.
Chief Financial Officer
of Steel Partners Holdings GP Inc.

*The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

EXHIBIT 99.1

HANDY & HARMAN LTD.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Handy & Harman Ltd.

We have audited the accompanying consolidated balance sheets of Handy & Harman Ltd. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Handy & Harman Ltd. and subsidiaries as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2013 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

New York, New York
February 28, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Handy & Harman Ltd.

We have audited the internal control over financial reporting of Handy & Harman Ltd. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2012, and our report dated February 28, 2013 expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

New York, New York
February 28, 2013

HANDY & HARMAN LTD.
Consolidated Balance Sheets

(Dollars and shares in thousands)	December 31, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 15,301	$ 6,841
Trade and other receivables - net of allowance for doubtful accounts of $2,264 and $2,286, respectively	70,271	78,173
Inventories, net	51,862	48,592
Deferred income tax assets - current	24,373	19,693
Prepaid and other current assets	9,390	12,245
Assets of discontinued operations	17,479	16,603
Total current assets	188,676	182,147
Property, plant and equipment at cost, less accumulated depreciation	86,899	74,227
Goodwill	59,783	56,511
Other intangibles, net	33,218	34,077
Investments in marketable securities	17,229	25,856
Deferred income tax assets	112,568	107,685
Other non-current assets	13,988	12,687
Total assets	$ 512,361	$ 493,190
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade payables	$ 34,570	$ 33,438
Accrued liabilities	26,426	27,406
Accrued environmental liabilities	6,346	6,524
Accrued interest - related party	634	609
Short-term debt	778	24,168
Current portion of long-term debt	8,943	4,452
Deferred income tax liabilities - current	1,022	736
Liabilities of discontinued operations	3,429	3,092
Total current liabilities	82,148	100,425
Long-term debt	128,807	114,616
Long-term debt - related party	19,916	20,045
Accrued pension liability	217,141	186,211
Other post-retirement benefit obligations	5,452	5,299
Other liabilities	6,969	7,596
Total liabilities	460,433	434,192
Commitments and Contingencies		
Stockholders' Equity:		
Common stock - $.01 par value; authorized 180,000 shares; issued and outstanding 13,140 and 12,646 shares, respectively	131	127
Accumulated other comprehensive loss	(226,168)	(188,389)
Additional paid-in capital	559,970	555,746
Accumulated deficit	(282,005)	(308,486)
Total stockholders' equity	51,928	58,998
Liabilities and stockholders' equity	$ 512,361	$ 493,190

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HANDY & HARMAN LTD.
Consolidated Income Statements

(in thousands except per share)	Year Ended December 31, 2012	2011	2010
Net sales	$ 629,396	$ 634,964	$ 540,471
Cost of goods sold	453,463	472,771	398,776
Gross profit	175,933	162,193	141,695
Selling, general and administrative expenses	120,604	109,389	98,869
Pension expense	3,313	6,357	4,349
Asset impairment charge	—	700	1,643
Operating income	52,016	45,747	36,834
Other:			
Interest expense	16,719	16,268	26,310
Realized and unrealized (gain) loss on derivatives	(2,582)	(418)	5,983
Other expense	530	1,513	180
Income from continuing operations before tax	37,349	28,384	4,361
Tax provision (benefit)	13,879	(106,060)	3,086
Income from continuing operations, net of tax	23,470	134,444	1,275
Discontinued operations:			
Income from discontinued operations, net of tax	2,990	1,650	3,725
Gain on disposal of assets, net of tax	21	2,681	90
Net income from discontinued operations	3,011	4,331	3,815
Net income	$ 26,481	$ 138,775	$ 5,090
Basic and diluted income per share of common stock			
Income from continuing operations, net of tax, per share	$ 1.80	$ 10.71	$ 0.11
Discontinued operations, net of tax, per share	0.23	0.34	0.31
Net income per share	$ 2.03	$ 11.05	$ 0.42
Weighted average number of common shares outstanding	13,032	12,555	12,179

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HANDY & HARMAN LTD.
Consolidated Statements of Comprehensive Income (Loss)

	Year Ended December 31,		
(in thousands)	**2012**	**2011**	**2010**
Net income	$ 26,481	$ 138,775	$ 5,090
Other comprehensive (loss) income, net of tax:			
Changes in pension liability and post-retirement benefit obligations	(43,702)	(82,805)	(16,649)
Tax effect of changes in pension liability and post-retirement benefit obligations	14,455	27,211	—
Change in market value of securities	(14,948)	7,835	—
Tax effect of change in market value of securities	6,054	(3,014)	—
Foreign currency translation adjustments	362	(1,751)	(814)
Other comprehensive loss	(37,779)	(52,524)	(17,463)
Comprehensive (loss) income	$ (11,298)	$ 86,251	$ (12,373)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Handy & Harman LTD.
Consolidated Statements of Changes in Stockholders' Equity (Deficit)

(Dollars and shares in thousands)

	Common Stock		Accumulated Other Comprehensive	Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Loss	Capital	Deficit	Deficit
Balance, January 1, 2010	12,179	$ 122	$ (118,402)	$ 552,834	$ (452,351)	$ (17,797)
Changes in pension liability and post-retirement benefit obligations, net of tax	—	—	(16,649)	—	—	(16,649)
Foreign currency translation adjustments	—	—	(814)	—	—	(814)
Amortization of stock options	—	—	—	10	—	10
Net income	—	—	—	—	5,090	5,090
Balance, December 31, 2010	12,179	122	(135,865)	552,844	(447,261)	(30,160)
Amortization, issuance and forfeitures of restricted stock grants	467	5	—	2,902	—	2,907
Unrealized gain on available-for-sale investments, net of tax	—	—	4,821	—	—	4,821
Changes in pension liability and post-retirement benefit obligations, net of tax	—	—	(55,594)	—	—	(55,594)
Foreign currency translation adjustments	—	—	(1,751)	—	—	(1,751)
Net income	—	—	—	—	138,775	138,775
Balance, December 31, 2011	12,646	127	(188,389)	555,746	(308,486)	58,998
Amortization, issuance and forfeitures of restricted stock grants	494	4	—	4,224		4,228
Unrealized loss on available-for-sale investments, net of tax	—	—	(8,894)	—	—	(8,894)
Changes in pension liability and post-retirement benefit obligations, net of tax	—	—	(29,247)	—	—	(29,247)
Foreign currency translation adjustments	—	—	362	—	—	362
Net income	—	—	—	—	26,481	26,481
Balance, December 31, 2012	13,140	$ 131	$ (226,168)	$ 559,970	$ (282,005)	$ 51,928

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HANDY & HARMAN LTD.
Consolidated Statements of Cash Flows

	Year Ended December 31,		
(in thousands)	**2012**	**2011**	**2010**
Cash flows from operating activities:			
Net income	$ 26,481	$ 138,775	$ 5,090
Adjustments to reconcile net income to net cash provided by operating activities, net of acquisitions:			
Depreciation and amortization	14,538	15,351	15,871
Non-cash stock-based compensation	4,476	3,146	221
Amortization of debt issuance costs	2,654	2,628	1,606
Loss (gain) on early retirement of debt	1,368	(189)	1,210
Accrued interest not paid in cash	1,333	2,358	11,045
Deferred income taxes	11,014	(105,669)	(392)
(Gain) loss from asset dispositions	(145)	(50)	44
Asset impairment charge	—	700	1,643
Non-cash gain from derivatives	(2,389)	(1,465)	(14)
Reclassification of net cash settlements on precious metal contracts to investing activities	(193)	1,047	5,585
Net cash provided by (used in) operating activities of discontinued operations, including non-cash gain on sale of assets	261	(7,808)	5,242
Change in operating assets and liabilities:			
Trade and other receivables	11,738	(9,351)	(8,139)
Inventories	628	(697)	(3,694)
Prepaid and other current assets	746	(501)	(1,379)
Other current liabilities	(13,419)	(14,395)	10,445
Other items, net	(652)	(2,326)	414
Net cash provided by operating activities	58,439	21,554	44,798
Cash flows from investing activities:			
Additions to property, plant and equipment	(20,869)	(12,725)	(10,353)
Net cash settlements on precious metal contracts	193	(1,047)	(5,585)
Acquisitions	(12,434)	(8,508)	—
Proceeds from sales of assets	2,257	186	384
Investments in marketable securities	(6,321)	(18,021)	—
Proceeds from sale of discontinued operations	—	26,532	1,410
Net cash used in discontinued operations	(708)	(701)	(252)
Net cash used in investing activities	(37,882)	(14,284)	(14,396)
Cash flows from financing activities:			
Proceeds from term loans - domestic	116,838	50,000	46,000
Net revolver (repayments) borrowings	(23,849)	(18,785)	24,002
Net borrowings (repayments) on loans - foreign	1,547	(707)	(2,049)
Repayments of term loans	(91,374)	(4,452)	(89,690)
Repurchases of Subordinated Notes	(10,847)	(35,074)	(6,000)
Deferred finance charges	(2,743)	(1,469)	(3,842)
Net change in overdrafts	(1,365)	95	1,494
Net cash used to repay debt of discontinued operations	—	—	(135)
Other financing activities	(437)	1,200	(92)
Net cash used in financing activities	(12,230)	(9,192)	(30,312)
Net change for the year	**8,327**	**(1,922)**	**90**

	Year Ended December 31,		
Effect of exchange rate changes on cash and cash equivalents	133	1	(124)
Cash and cash equivalents at beginning of year	6,841	8,762	8,796
Cash and cash equivalents at end of year	**$ 15,301**	**$ 6,841**	**$ 8,762**
Cash paid during the year for:			
Interest	$ 11,272	$ 11,159	$ 10,127
Taxes	$ 4,191	$ 4,344	$ 2,747
Non-cash financing activities:			
Sale of property for mortgage note receivable	$ 842	$ —	$ 630

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – The Company and Nature of Operations

Handy & Harman Ltd. ("HNH") is a diversified manufacturer of engineered niche industrial products with leading market positions in many of the markets it serves. Through its operating subsidiaries, HNH focuses on high margin products and innovative technology and serves customers across a wide range of end markets. HNH's diverse product offerings are marketed throughout the United States and internationally. HNH owns Handy & Harman Group Ltd. ("H&H Group"), which owns Handy & Harman ("H&H") and Bairnco Corporation ("Bairnco"). HNH manages its group of businesses on a decentralized basis with operations principally in North America. HNH's business units encompass the following segments: Joining Materials, Tubing, Engineered Materials, Arlon Electronic Materials ("Arlon") and Kasco Blades and Route Repair Services ("Kasco"). The Joining Materials segment was formerly known as the Precious Metal segment. All references herein to "we," "our" or the "Company" refer to HNH, together with all of its subsidiaries.

Note 2 – Summary of Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of HNH and its subsidiaries. All material intercompany transactions and balances have been eliminated. Discontinued operating entities are reflected as discontinued operations in the Company's results of operations and statements of financial position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, inventories, long-lived assets, intangibles, accrued expenses, income taxes, pensions and other post-retirement benefits, and contingencies and litigation. Estimates are based on historical experience, future cash flows and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Discontinued Operations

The results of operations for businesses that have been disposed of or classified as held-for-sale are eliminated from the results of the Company's continuing operations and classified as discontinued operations for each period presented in the Company's consolidated income statement. Similarly, the assets and liabilities of such businesses are reclassified from continuing operations and presented as discontinued operations for each period presented in the Company's consolidated balance sheet. Businesses are reported as discontinued operations when the Company no longer has continuing involvement in their operations and no longer has significant continuing cash flows from their operation.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and on deposit and highly liquid debt instruments with original maturities of three months or less. As of December 31, 2012 and 2011, the Company had cash held in foreign banks of $8.0 million and $4.6 million, respectively. The Company's credit risk arising from cash deposits held in U.S. banks in excess of insured amounts is reduced given that cash balances in U.S. banks are generally utilized to pay down the Company's revolving credit loans (see Note 11 - "Debt"). At December 31, 2012, the Company held cash and cash equivalents which exceeded federally-insured limits by approximately $6.5 million.

Revenue Recognition

Revenues are recognized when title and risk of loss has passed to the customer. This condition is normally met when product has been shipped or the service performed. An allowance is provided for estimated returns and discounts based on experience. Cash received by the Company from customers prior to shipment of goods, or otherwise not yet earned, is recorded

as deferred revenue. Rental revenues are derived from the rental of certain equipment to the food industry where customers prepay for the rental period, usually three to six month periods. For prepaid rental contracts, sales revenue is recognized on a straight-line basis over the term of the contract. Service revenues consist of repair and maintenance work performed on equipment used at mass merchants, supermarkets and restaurants.

The Company experiences a certain degree of sales returns that varies over time, but is able to make a reasonable estimation of expected sales returns based upon history. The Company records all shipping and handling fees billed to customers as revenue, and related costs are charged principally to cost of sales, when incurred. In limited circumstances, the Company is required to collect and remit sales tax on certain of its sales. The Company accounts for sales taxes on a net basis, and such sales taxes are not included in net sales on the consolidated income statement.

Accounts Receivable and Allowance for Doubtful Accounts

The Company extends credit to customers based on its evaluation of the customer's financial condition. The Company does not require that any collateral be provided by its customers. The Company has established an allowance for accounts that may become uncollectible in the future. This estimated allowance is based primarily on management's evaluation of the financial condition of the customer and historical experience. The Company monitors its accounts receivable and charges to expense an amount equal to its estimate of potential credit losses. Accounts that are outstanding longer than contractual payment terms are considered past due. The Company considers a number of factors in determining its estimates, including the length of time its trade receivables are past due, the Company's previous loss history and the customer's current ability to pay its obligation. Accounts receivable balances are charged off against the allowance when it is determined that the receivable will not be recovered, and payments subsequently received on such receivables are credited to recovery of accounts written-off. The Company does not charge interest on past due receivables.

The Company believes that the credit risk with respect to trade accounts receivable is limited due to the Company's credit evaluation process, the allowance for doubtful accounts that has been established and the diversified nature of its customer base. There were no customers which accounted for more than 5% of consolidated net sales in 2012, 2011 or 2010. In 2012, 2011 and 2010, the 15 largest customers accounted for approximately 28%, 27% and 28% of consolidated net sales, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in, first-out ("LIFO") method for precious metal inventories held in the United States. Non-precious metal inventories are stated at the lower of cost (determined by the first-in, first-out method or average cost method) or market. For precious metal inventories, no segregation among raw materials, work in process and finished products is practicable.

Non-precious metal inventories are evaluated for estimated excess and obsolescence based upon assumptions about future demand and market conditions and is adjusted accordingly. If actual market conditions are less favorable than those projected, write-downs may be required.

Derivatives and Risks

Precious Metal Risk

HNH enters into commodity futures and forward contracts in order to economically hedge the portion of its precious metal inventory that is not subject to fixed price contracts with customers against price fluctuations. Future and forward contracts to sell or buy precious metal are the derivatives used for this objective. As these derivatives are not designated as accounting hedges under U.S. GAAP, they are accounted for as derivatives with no hedge designation. These derivatives are marked to market, and both realized and unrealized gains and losses on these derivatives are recorded in current period earnings as other income (expense). The unrealized gain or loss (open trade equity) on the derivatives is included in other current assets or accrued liabilities, respectively.

Foreign Currency Exchange Rate Risk

H&H and Bairnco are subject to the risk of price fluctuations related to anticipated revenues and operating costs, firm commitments for capital expenditures and existing assets or liabilities denominated in currencies other than U.S. dollars. H&H and Bairnco have not generally used derivative instruments to manage this risk.

Property, Plant and Equipment

Property, plant and equipment is recorded at historical cost. Depreciation of property, plant and equipment is provided principally on the straight line method over the estimated useful lives of the assets, which range as follows: machinery and equipment 3 – 15 years and buildings and improvements 10 – 30 years. Interest cost is capitalized for qualifying assets during the asset's acquisition period. Maintenance and repairs are charged to expense, and renewals and betterments are capitalized. Gain or loss on dispositions is credited or charged to operating income.

Goodwill, Intangibles and Long-Lived Assets

Goodwill represents the difference between the purchase price and the fair value of net assets acquired in a business combination. Goodwill is reviewed annually for impairment in accordance with U.S. GAAP. The Company uses judgment in assessing whether assets may have become impaired between annual impairment tests. Circumstances that could trigger an interim impairment test include, but are not limited to: the occurrence of a significant change in circumstances, such as continuing adverse business conditions or legal factors; an adverse action or assessment by a regulator; unanticipated competition; loss of key personnel; the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed; or results of testing for recoverability of a significant asset group within a reporting unit.

The testing of goodwill for impairment is performed at a level referred to as a reporting unit. Goodwill is allocated to each reporting unit based on actual goodwill valued in connection with each business combination consummated within each reporting unit. Six reporting units of the Company have goodwill assigned to them.

Goodwill impairment testing consists of a two-step process. Step 1 of the impairment test involves comparing the fair values of the applicable reporting units with their carrying values, including goodwill. The reporting unit fair value is based upon consideration of various valuation methodologies, including an income approach and market approach, as further described below. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, Step 2 of the goodwill impairment test is performed to determine the amount of impairment loss. Step 2 of the goodwill impairment test involves comparing the implied, fair value of the affected reporting unit's goodwill against the carrying value of that goodwill. In performing the first step of the impairment test, the Company also reconciles the aggregate estimated fair value of its reporting units to its enterprise value, which includes a control premium.

The income approach is based on a discounted cash flow analysis ("DCF") and calculates the fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting the after-tax cash flows to a present value using a risk-adjusted discount rate. The discount rates, which are intended to reflect the risks inherent in future cash flow projections, used in the DCF are based on estimates of the weighted-average cost of capital of a market participant. Such estimates are derived from our analysis of peer companies and considered the industry weighted-average return on debt and equity from a market participant perspective.

A market approach values a business by considering the prices at which shares of capital stock, or related underlying assets, of reasonably comparable companies are trading in the public market, or the transaction price at which similar companies have been acquired.

Relative weights are then given to the results of each of these approaches, based on the facts and circumstances of the business being valued. The use of multiple approaches (income and market approaches) is considered preferable to a single method. In our case, more weight is given to the income approach because it generally provides a reliable estimate of value for an ongoing business which has a reliable forecast of operations, and suitable comparable public companies are generally not available to be used under the market approach.

Intangible assets with finite lives are amortized over their estimated useful lives. We also estimate the depreciable lives of property, plant and equipment, and review the assets for impairment if events, or changes in circumstances, indicate that we may not recover the carrying amount of an asset. Long-lived assets consisting of land and buildings used in previously operating businesses are carried at the lower of cost or fair value and are included primarily in other non-current assets in the consolidated balance sheet. A reduction in the carrying value of such long-lived assets used in previously operating businesses is recorded as an asset impairment charge in the consolidated income statement.

Investments

Investments are accounted for using the equity method of accounting if the investment provides the Company the ability to exercise significant influence, but not control, over an investee. Significant influence is generally deemed to exist if the Company has an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation

on the investee's Board of Directors, or additional shares held by affiliates, are considered in determining whether the equity method of accounting is appropriate.

Investments in equity securities that have readily determinable fair values that are classified as available-for-sale are measured at fair value on the consolidated balance sheet. Unrealized holding gains and losses on available-for-sale securities (including those classified as current assets) are excluded from earnings and reported in other comprehensive income (loss) until realized. Dividend and interest income, if any, are included in earnings. The Company uses the specific identification method to determine the cost of a security sold and the amount of realized gain or loss associated with any sales. The Company assesses whether an available-for-sale investment is impaired in each quarterly reporting period. If it is determined that an impairment is other than temporary, then an impairment loss is recognized in earnings equal to the difference between the investment's cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of an impairment does not include partial recoveries after the balance sheet date if they occur.

Stock-Based Compensation

The Company accounts for stock options and restricted stock granted to employees, directors and service providers as compensation expense, which is recognized in exchange for the services received. The compensation expense is based on the fair value of the equity instruments on the grant-date and is recognized as an expense over the service period of the recipients.

Income Taxes

Income taxes currently payable or tax refunds receivable are recorded on a net basis and included in accrued liabilities on the consolidated balance sheet. Deferred income taxes reflect the tax effect of net operating loss carryforwards ("NOLs"), capital loss or tax credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting and income tax purposes, as determined under enacted tax laws and rates. Valuation allowances are established if, based on the weight of available evidence, it is more likely than not that some portion or the entire deferred income tax asset will not be realized. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

Earnings Per Share

Basic earnings per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted earnings per share gives effect to dilutive potential common shares outstanding during the period.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries are translated at current exchange rates and related revenues and expenses are translated at average rates of exchange in effect during the year. Resulting cumulative translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss).

Advertising Costs

Advertising costs consist of sales promotion literature, samples, cost of trade shows, and general advertising costs, and are included in selling, general and administrative expenses on the consolidated income statement. Advertising, promotion and trade show costs totaled approximately $2.4 million in 2012, $2.2 million in 2011 and $2.0 million in 2010.

Legal Contingencies

The Company provides for legal contingencies when the liability is probable and the amount of the associated costs is reasonably determinable. The Company regularly monitors the progress of legal contingencies and revises the amounts recorded in the period in which a change in estimate occurs.

Environmental Liabilities

The Company accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study.

Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable.

Reclassifications

Certain amounts for prior years have been reclassified to conform to the current year presentation. In particular, the assets, liabilities and income or loss of discontinued operations (see Note 5 - "Discontinued Operations") have been reclassified into separate lines on the consolidated financial statements to segregate them from continuing operations.

Note 3 – Recently Adopted Accounting Pronouncements

Presentation of Comprehensive Income - In June 2011, the Financial Accounting Standards Board issued guidance on presentation of comprehensive income. The new guidance eliminated the option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity is required to present comprehensive income in either a continuous statement of income and other comprehensive income or two separate but consecutive statements. The Company adopted this guidance in the first quarter of 2012, which resulted in presentational changes only.

Note 4 – Acquisitions

2012 Acquisitions

Zaklad Przetwórstwa Metali INMET Sp. z o.o.

On November 5, 2012, a subsidiary of H&H acquired 100% of the stock of Zaklad Przetwórstwa Metali INMET Sp. z o.o., a Polish manufacturer of brazing alloys and contact materials, for a cash purchase price of $4.0 million, net of cash acquired. The assets acquired and liabilities assumed included net working capital of accounts receivable, inventories and trade payables totaling $3.1 million; property, plant and equipment of $2.2 million; as well as assumed debt of $1.6 million. This acquisition provides H&H with a new family of fabricated joining materials and a broader presence in the European market. The amount of net sales and net loss of the acquired business included in the consolidated income statement for the period from acquisition through December 31, 2012 was approximately $1.7 million and $0.1 million, respectively, including $1.2 million of intercompany sales which were eliminated in consolidation. The results of operations of the acquired business are reported as a product line within the Company's Joining Materials segment.

W.P. Hickman Company

On December 31, 2012, a subsidiary of H&H acquired substantially all of the assets of W.P. Hickman Company ("Hickman"), a North American manufacturer of perimeter metal roof edges for low slope roofs. The initial purchase price was $8.4 million, paid in cash, and is subject to a final working capital adjustment. The assets acquired and liabilities assumed included net working capital of accounts receivable, inventories and trade payables; property, plant and equipment; and intangible assets, primarily trade names and customer relationships, valued at $2.7 million, $1.2 million and $1.5 million, respectively, on a preliminary basis. This acquisition provides H&H with an add on product category to its existing roofing business. The results of operations of the acquired business will be reported as a product line within the Company's Engineered Materials segment. In connection with the Hickman acquisition, the Company has recorded goodwill totaling approximately $$3.3 million on a preliminary basis. The preliminary purchase price allocation is subject to a final working capital adjustment and finalization of third party valuations of certain acquired assets and liabilities.

There is additional contingent consideration that could be due from the Company under the Hickman asset purchase agreement if the combined net sales of certain identified products exceed the parameters set forth in the asset purchase agreement in 2013 and 2014. In no event shall the additional contingent consideration exceed $1.5 million. In accordance with Accounting Standards Codification ("ASC") 805, *Business Combinations*, the estimated fair value, $0.2 million, related to the contingent portion of the purchase price was recognized at the acquisition date.

2011 Acquisition

Tiger Claw, Inc.

Pursuant to an Asset Purchase Agreement dated March 23, 2011, a subsidiary of H&H acquired certain assets and assumed certain liabilities of Tiger Claw, Inc., a company that among other businesses, develops and manufactures hidden fastening systems

for deck construction. The final purchase price was $8.5 million and was paid in cash. The assets acquired included, among other things, machinery, equipment, inventories, certain contracts, accounts receivable and intellectual property rights, all as related to the acquired business and as provided in the asset purchase agreement. The amount of net sales and earnings of the acquired business included in the consolidated income statement for the period from acquisition through December 31, 2011 was approximately $6.6 million and $1.0 million, respectively. The results of operations of the acquired business are reported as a product line within the Company's Engineered Materials segment, and goodwill totaling approximately $1.8 million was allocated to the segment in connection with the acquisition. HNH believes this acquisition enhances its product offerings of fastening systems for deck construction.

There was additional contingent consideration that would have been due from the Company under the asset purchase agreement if the net sales of certain identified products exceeded the parameters set forth in the asset purchase agreement in 2011 and 2012. No amount related to the contingent portion of the purchase price was recognized at the acquisition date in accordance with ASC 805. Based on actual 2011 and 2012 net sales, no additional contingent consideration is expected to be paid under the terms of the asset purchase agreement.

Note 5 – Discontinued Operations

The following businesses are classified as discontinued operations in the accompanying consolidated financial statements for 2012 and for the comparable periods of 2011 and 2010.

Continental Industries

In January 2013, the Company divested substantially all of the assets and existing operations of its Continental Industries business unit, a wholly-owned subsidiary of H&H, for a cash sales price totaling approximately $37.5 million less transaction fees, subject to a final working capital adjustment, with proceeds of $3.7 million currently held in escrow pending resolution of certain indemnification provisions contained in the sales agreement. Located in the State of Oklahoma, Continental Industries manufactures plastic and steel fittings and connectors for natural gas, propane and water distribution service lines along with exothermic welding products for electrical grounding, cathodic protection and lightning protection. It was part of the Company's Engineered Materials reporting segment.

Kasco-France

During the third quarter of 2011, the Company sold the stock of EuroKasco, S.A.S. ("Kasco-France"), a part of its Kasco segment, to Kasco-France's former management team for one Euro plus 25% of any pretax earnings over the next three years. No additional consideration is expected to be collected for 2012. Additionally, Kasco-France signed a five year supply agreement to purchase certain products from Kasco.

Arlon AFD

On February 4, 2011, Arlon LLC, an indirect wholly-owned subsidiary of HNH, sold substantially all of its assets and existing operations located primarily in the State of California related to its Adhesive Film Division for an aggregate sales price of $27.0 million. Net proceeds of approximately $24.2 million from this sale were used to repay indebtedness under the Company's revolving credit facility.

Arlon ECP and SignTech

On March 25, 2011, Arlon LLC and its subsidiaries sold substantially all of their assets and existing operations located primarily in the State of Texas related to Arlon LLC's Engineered Coated Products Division and its SignTech subsidiary for an aggregate sales price of $2.5 million. In addition, Arlon LLC sold a coater machine to the same purchaser for a price of $0.5 million. The net proceeds from these asset sales of $2.3 million were used to repay indebtedness under the Company's revolving credit facility.

Amounts held in escrow in connection with the Arlon LLC asset sales, totaling $3.0 million, were recorded in trade and other receivables on the consolidated balance sheet as of December 31, 2011 and were received by the Company during the second quarter of 2012.

Sumco

Sumco, Inc. ("Sumco") was engaged in the business of providing electroplating services primarily to the automotive market and relied on the automotive market for over 90% of its sales. In light of its ongoing operating losses and future prospects, the Company decided to exit this business, which had been part of the Joining Materials segment. In October 2010, the Company completed the sale of the assets of Sumco.

Indiana Tube Denmark

During 2009, Indiana Tube Denmark ("ITD") ceased operations and sold or disposed of its inventory and most of its equipment. ITD sold its facility for approximately $2.4 million in 2012, which included a note receivable for $0.8 million payable over a five year term. ITD was part of the Company's Tubing segment.

The assets and liabilities of discontinued operations have been segregated in the accompanying consolidated balance sheets as of December 31, 2012 and 2011. These balances are entirely related to Continental Industries.

	December 31,	
(in thousands)	2012	2011
Assets of Discontinued Operations:		
Trade and other receivables	$ 2,729	$ 3,088
Inventories	2,765	1,793
Prepaid and other current assets	64	70
Property, plant and equipment, net	2,765	2,496
Goodwill	9,156	9,156
	$ 17,479	$ 16,603
Liabilities of Discontinued Operations	$ 3,429	$ 3,092

The net income from discontinued operations includes the following:

	Year Ended December 31,		
(in thousands)	2012	2011	2010
Net sales	$ 33,360	$ 46,833	$ 115,904
Asset impairment charge	—	—	(1,347)
Operating income	4,773	2,534	4,045
Interest/other (expense) income	—	(39)	9
Income tax expense	(1,783)	(845)	(329)
Income from discontinued operations, net	$ 2,990	$ 1,650	$ 3,725
Gain on sale of assets	21	6,041	90
Income tax expense	—	(3,360)	—
Net income from discontinued operations	$ 3,011	$ 4,331	$ 3,815

Note 6 – Asset Impairment Charges

A non-cash asset impairment charge of $0.7 million was recorded in 2011 related to vacant land owned by the Company's Arlon segment located in Rancho Cucamonga, California. The Company reduced this property's carrying value by $0.7 million to reflect its lower fair market value. During the second quarter of 2010, Kasco commenced a restructuring plan to move its Atlanta, Georgia operation to an existing facility in Mexico. As a result, the Company performed a valuation of its land, building and houses located in Atlanta, and a non-cash asset impairment charge of $1.6 million was recorded as part of income from continuing operations. The impairment charge represented the difference between the assets' book value and fair market value as a result of the declining real estate market in the area where the properties are located. The fair market value was determined by reference to market prices for similar properties.

Note 7 – Inventories

Inventories at December 31, 2012 and December 31, 2011 were comprised of:

(in thousands)	December 31, 2012	December 31, 2011
Finished products	$ 20,382	$ 19,152
In-process	9,513	8,351
Raw materials	16,507	16,642
Fine and fabricated precious metals in various stages of completion	9,599	8,658
	56,001	52,803
LIFO reserve	(4,139)	(4,211)
	$ 51,862	$ 48,592

In order to produce certain of its products, H&H purchases, maintains and utilizes precious metal inventory. H&H records its precious metal inventory at last-in, first-out cost, subject to lower of cost or market, with any adjustments recorded through cost of goods sold. The market value of the precious metal inventory exceeded LIFO cost by $4.1 million as of December 31, 2012 and $4.2 million as of December 31, 2011. The Company recorded non-cash LIFO liquidation gains of $0.6 million, $1.9 million and $0.2 million in 2012, 2011, and 2010, respectively.

Certain customers and suppliers of H&H choose to do business on a "pool" basis and furnish precious metal to H&H for return in fabricated form or for purchase from or return to the supplier. When the customer metal is returned in fabricated form, the customer is charged a fabrication charge. The value of this customer metal is not included in the Company's consolidated balance sheet. To the extent H&H is able to utilize customer precious metal in its production processes, such customer metal replaces the need for H&H to purchase its own inventory. As of December 31, 2012, H&H's customer metal consisted of 208,433 ounces of silver, 541 ounces of gold and 1,399 ounces of palladium.

Supplemental inventory information: (in thousands, except per ounce)	December 31, 2012	December 31, 2011
Precious metals stated at LIFO cost	$ 5,460	$ 4,447
Market value per ounce:		
Silver	$ 30.20	$ 27.95
Gold	$ 1,675.40	$ 1,565.80
Palladium	$ 702.85	$ 655.40

Note 8 – Property, Plant and Equipment

(in thousands)	December 31, 2012	December 31, 2011
Land	$ 7,495	$ 6,096
Buildings, machinery and equipment	176,001	157,491
Construction in progress	7,677	5,379
	191,173	168,966
Accumulated depreciation	104,274	94,739
	$ 86,899	$ 74,227

Depreciation expense for the years ended 2012, 2011 and 2010 was $11.2 million, $12.0 million and $12.8 million, respectively.

Note 9 – Goodwill and Other Intangibles

The changes in the net carrying amount of goodwill by reportable segment for the years ended December 31, 2012 and 2011 were as follows:

(in thousands)

Segment	Balance at January 1, 2012	Foreign Currency Translation Adjustment	Additions	Balance at December 31, 2012	Accumulated Impairment Losses
Joining Materials	$ 1,489	$ 5	$ —	$ 1,494	$ —
Tubing	1,895	—	—	1,895	—
Engineered Materials	43,829	—	3,267	47,096	—
Arlon	9,298	—	—	9,298	(1,140)
Total	$ 56,511	$ 5	$ 3,267	$ 59,783	$ (1,140)

(in thousands)

Segment	Balance at January 1, 2011	Foreign Currency Translation Adjustment	Additions	Balance at December 31, 2011	Accumulated Impairment Losses
Joining Materials	$ 1,492	$ (3)	$ —	$ 1,489	$ —
Tubing	1,895	—	—	1,895	—
Engineered Materials	42,076	—	1,753	43,829	—
Arlon	9,298	—	—	9,298	(1,140)
Total	$ 54,761	$ (3)	$ 1,753	$ 56,511	$ (1,140)

Other intangible assets as of December 31, 2012 and December 31, 2011 consisted of:

(in thousands)	December 31, 2012			December 31, 2011			Weighted-Average Amortization Life (in Years)
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	
Products and customer relationships	$ 38,825	$ (13,232)	$ 25,593	$ 37,965	$ (10,666)	$ 27,299	15.7
Trademarks, trade names and brand names	5,048	(1,634)	3,414	4,398	(1,354)	3,044	16.2
Patents and patent applications	4,789	(1,523)	3,266	4,466	(1,192)	3,274	15.2
Non-compete agreements	906	(809)	97	906	(754)	152	7.1
Other	1,762	(914)	848	1,409	(1,101)	308	6.9
Total	$ 51,330	$ (18,112)	$ 33,218	$ 49,144	$ (15,067)	$ 34,077	

Amortization expense totaled $3.3 million, $3.3 million and $3.0 million for the years ended December 31, 2012, 2011 and 2010, respectively. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

(in thousands)	Products and Customer Relationships	Trademarks, Trade Names, and Brand Names	Patents and Patent Applications	Non-Compete Agreements	Other	Total
2013	$ 2,618	$ 324	$ 331	$ 30	$ 278	$ 3,581
2014	2,618	324	331	30	278	3,581
2015	2,618	324	331	30	236	3,539
2016	2,618	324	312	7	48	3,309
2017	2,611	203	239	—	8	3,061
Thereafter	12,510	1,915	1,722	—	—	16,147
	$ 25,593	$ 3,414	$ 3,266	$ 97	$ 848	$ 33,218

Note 10 – Investments

On December 31, 2012 and December 31, 2011, the Company held an investment in the common stock of a single public company, which is classified as an available-for-sale security in non-current assets. The unrealized gain or loss associated with such securities is included in accumulated other comprehensive loss on the consolidated balance sheet and also on the consolidated statement of changes in stockholders' equity (deficit). There have been no sales or realized gains or losses from this marketable security, and no impairments, whether other-than-temporary or not, have been recognized. The security has been in a continuous loss position for less than 12 months. Factors considered by the Company when determining that the reduction in fair value below cost should not be recorded as an impairment in the consolidated income statement include: the nature of the investment; the cause and duration of the decline in value; the extent to which fair value is less than cost; the financial condition and near term prospects of the issuer; and the Company's ability and intent to hold the security for a period of time sufficient to allow for the anticipated recovery in fair value.

(in thousands)	Cost	Gross Unrealized (Loss) Gain	Fair Value
December 31, 2012			
Available-for-sale equity securities	$ 24,343	$ (7,114)	$ 17,229
December 31, 2011			
Available-for-sale equity securities	$ 18,021	$ 7,835	$ 25,856

Note 11 – Debt

Debt at December 31, 2012 and December 31, 2011 was as follows:

(in thousands)	December 31, 2012	December 31, 2011
Short-term debt		
First Lien Revolver	$ —	$ 23,850
Foreign	778	318
Total short-term debt	778	24,168
Long-term debt		
Senior Term Loan	115,000	—
First Lien Term Loan	—	16,100
Second Lien Term Loans	—	75,000
Subordinated Notes, net of unamortized discount	9,440	18,934
Other H&H debt - domestic	8,597	7,034
Foreign loan facilities	4,713	2,000
Sub total	137,750	119,068
Less portion due within one year	8,943	4,452
Long-term debt	128,807	114,616
Long-term debt - related party		
Subordinated Notes, net of unamortized discount	19,916	20,045
Total long-term debt	148,723	134,661
Total debt	$ 158,444	$ 163,281

Long-term debt as of December 31, 2012 matures in each of the next five years as follows:

(in thousands)	Total	2013	2014	2015	2016	2017	Thereafter
Long-term debt	$ 137,750	$ 8,943	$ 17,786	$ 23,595	$ 18,936	$ 68,490	$ —
Long-term debt - related party	19,916	—	—	—	—	19,916	—
	$ 157,666	$ 8,943	$ 17,786	$ 23,595	$ 18,936	$ 88,406	$ —

Senior Credit Facility

On November 8, 2012, H&H Group entered into a $205.0 million senior secured credit facility, consisting of a revolving credit facility ("Revolving Facility") in an aggregate principal amount not to exceed $90.0 million and a term loan ("Senior Term Loan") in an aggregate principal amount of $115.0 million (collectively, "Senior Credit Facility"). The credit facilities were used to refinance certain existing indebtedness as discussed below. The facility is guaranteed by substantially all existing and thereafter acquired or created domestic and Canadian wholly-owned subsidiaries of H&H Group. Borrowings under the facility bear interest, at H&H Group's option, at a rate based on LIBOR or the Base Rate, as defined, plus an applicable margin, as set forth in the loan agreement (3.00% and 2.00%, respectively, for LIBOR and Base Rate borrowings at December 31, 2012). The Revolving Facility provides for a commitment fee to be paid on unused borrowings, and usage under the revolving credit facility is governed by a defined Borrowing Base. The revolving facility also includes provisions for the issuance of letters of credit up to $15.0 million, with any such issuances reducing availability under the Revolving Facility. The term loan requires quarterly principal payments of $2.2 million, $3.6 million, $4.3 million, $4.3 million and $4.3 million in years 1 to 5 of the agreement, respectively. The facility will expire, with remaining outstanding balances due and payable, on June 15, 2017; provided, the maturity date shall be extended to 5 years following the closing date of the Senior Credit Facility if the Subordinated Notes discussed below are repaid, repurchased, retired, or refinanced, or if the maturity date of the Subordinated Notes is extended, in accordance with the terms of the agreement. The facility is subject to certain mandatory prepayment provisions and restrictive and financial covenants, which include a maximum ratio limit on Total Leverage and a minimum ratio limit on Fixed Charge Coverage, as defined, as well as a minimum liquidity level.

At December 31, 2012, no borrowings were outstanding under the Revolving Facility, and letters of credit totaling $3.8 million had been issued. $2.8 million of the letters of credit guarantee various insurance activities, and $1.0 million are for environmental and other matters. Remaining excess availability under the Borrowing Base totaled $60.3 million at December 31, 2012. The weighted average interest rate on the Senior Term Loan was 3.21% at December 31, 2012, and the Company was in compliance with all debt covenants at December 31, 2012.

The Senior Credit Facility restricts H&H Group's ability to transfer cash or other assets to HNH, subject to certain exceptions including required pension payments to the WHX Corporation Pension Plan ("WHX Pension Plan"). H&H Group has an option to increase the senior revolving credit facility in an amount not to exceed $50.0 million, provided no current lender shall be obligated to increase its revolving credit commitment and any new lender shall be subject to approval by the administrative agent for the Senior Credit Facility.

In connection with the Senior Credit Facility, H&H Group entered into an interest rate swap agreement in February 2013 to reduce its exposure to interest rate fluctuations. Under the interest rate swap, the Company receives one-month LIBOR in exchange for a fixed interest rate of 0.569% over the life of the agreement on an initial $56.4 million notional amount of debt, with the notional amount decreasing by $1.1 million, $1.8 million and $2.2 million per quarter in 2013, 2014 and 2015, respectively. The agreement expires in February 2016.

First Lien Facility

On October 15, 2010, H&H Group, together with certain of its subsidiaries, entered into an Amended and Restated Loan and Security Agreement (the "First Lien Facility"), which provided for a $21 million senior term loan (the "First Lien Term Loan") and established a revolving credit facility ("First Lien Revolver") with borrowing availability of up to a maximum aggregate principal amount equal to $110 million less the outstanding aggregate principal amount of the First Lien Term Loan, dependent on the levels of and collateralized by eligible accounts receivable and inventory. Principal payments of the First Lien Term Loan were due in equal monthly installments of approximately $0.35 million. The amounts outstanding under the First Lien Facility bore interest at LIBOR plus applicable margins of between 2.25% and 3.50%, or at the U.S. base rate (the prime rate) plus 0.25% to 1.50%. The applicable margins for the First Lien Revolver and the First Lien Term Loan were dependent on H&H Group's Quarterly Average Excess Availability for the prior quarter, as that term was defined in the agreement. All obligations outstanding under the First Lien Facility were settled with proceeds from the issuance of the Senior Credit Facility.

Second Lien Term Loans

The Amended and Restated Loan and Security Agreement with Ableco L.L.C. ("Ableco Facility") provided for three loans at a maximum value of $25.0 million per loan ("Second Lien Term Loans"). The first and second Second Lien Term Loans bore interest at the U.S. base rate (the prime rate) plus 4.50% or LIBOR (or, if greater, 1.50%) plus 6.00%. The third Second Lien Term Loan bore interest at the U.S. base rate (the prime rate) plus 7.50% or LIBOR (or, if greater, 1.75%) plus 9.00%. All obligations outstanding under the Ableco Facility were settled with proceeds from the issuance of the Senior Credit Facility.

Subordinated Notes

On October 15, 2010, H&H Group refinanced the prior indebtedness of H&H and Bairnco to the SPII Liquidating Series Trusts (Series A and Series E)("Steel Trusts"), each constituting a separate series of the SPII Liquidating Trust as successor-in-interest to Steel Partners II, L.P. In accordance with the terms of an exchange agreement entered into on October 15, 2010 by and among H&H Group, certain of its subsidiaries and the Steel Trusts, H&H Group made an approximately $6 million cash payment in partial satisfaction of prior indebtedness to the Steel Trusts and exchanged the remainder of such prior obligations for units consisting of (a) $72.9 million aggregate principal amount of 10% subordinated secured notes due 2017 ("Subordinated Notes") issued by H&H Group pursuant to an Indenture, dated as of October 15, 2010 (as amended and restated effective December 13, 2010)("Indenture"), by and among H&H Group, the guarantors party thereto and Wells Fargo Bank, National Association, as trustee, and (b) warrants, exercisable beginning October 15, 2013, to purchase an aggregate of 1,500,806 shares of the Company's common stock, with an exercise price of $11.00 per share ("Warrants"). The Subordinated Notes and Warrants may not be transferred separately until October 15, 2013.

All obligations outstanding under the Subordinated Notes bear interest at a rate of 10% per annum, 6% of which is payable in cash and 4% of which is payable in-kind. The Subordinated Notes, together with any accrued and unpaid interest thereon, mature on October 15, 2017. All amounts owed under the Subordinated Notes are guaranteed by substantially all of H&H Group's subsidiaries and are secured by substantially all of their assets. The Subordinated Notes were contractually subordinated in right of payment to the First Lien Facility and the Ableco Facility and are now contractually subordinated in right of payment to the Senior Credit Facility. The Subordinated Notes are redeemable until October 14, 2013, at H&H Group's option, upon payment of 100% of the principal amount of the notes, plus all accrued and unpaid interest thereon and the applicable premium set forth in the Indenture ("Applicable Redemption Price"). If H&H Group or its subsidiary guarantors undergo certain types of fundamental changes prior to the maturity date of the Subordinated Notes, holders thereof will, subject to certain exceptions, have the right, at their option, to require H&H Group to purchase for cash any or all of their Subordinated Notes at the Applicable Redemption Price.

The Subordinated Notes have embedded call premiums and warrants associated with them, as described above. The Company has treated the fair value of these features together as both a discount and a derivative liability at inception of the loan agreement, valued at $4.7 million. The discount is being amortized over the life of the notes as an adjustment to interest expense, and the derivative is marked to market at each balance sheet date.

The Subordinated Notes contain customary affirmative and negative covenants, certain of which only apply in the event that the Senior Credit Facility and any refinancing indebtednesses with respect thereto is repaid in full, and events of default. The Company is in compliance with all of the debt covenants at December 31, 2012.

In connection with the issuance of the Subordinated Notes and Warrants, the Company and H&H Group also entered into a Registration Rights Agreement dated as of October 15, 2010 (" Registration Rights Agreement") with the Steel Trusts. Pursuant to the Registration Rights Agreement, the Company agreed to file with the Securities and Exchange Commission ("SEC") and use its reasonable best efforts to cause to become effective a registration statement under the Securities Act of 1933, as amended ("Securities Act"), with respect to the resale of the Warrants and the shares of common stock of the Company issuable upon exercise of the Warrants. H&H Group also agreed, upon receipt of a request by holders of a majority in aggregate principal amount of the Subordinated Notes, to file with the SEC and use its reasonable best efforts to cause to become effective a registration statement under the Securities Act with respect to the resale of the Subordinated Notes.

On October 14, 2011, H&H Group redeemed $25.0 million principal amount of its outstanding Subordinated Notes on a pro-rata basis among all holders thereof at a redemption price of 102.8% of the principal amount and accrued but unpaid payment-in-kind-interest thereof, plus accrued and unpaid cash interest. Until October 15, 2013, the Subordinated Notes are not detachable from the Warrants that were issued with the Subordinated Notes as units. Accordingly, a pro-rata portion of Warrants were also redeemed on October 14, 2011, as well as in subsequent redemptions. During 2011, the Company redeemed a total of approximately $35.1 million of Subordinated Notes, including the October redemption. In 2012, H&H Group repurchased an aggregate $10.8 million of Subordinated Notes, plus accrued interest. A (loss) gain of $(1.4) million and $0.2 million on repurchase of the Subordinated Notes is included in the consolidated income statements for the years ended December 31, 2012 and 2011, respectively.

Other Debt

A subsidiary of H&H has two mortgage agreements, each collateralized by real property. The mortgage balance on the first facility was $6.8 million and $7.0 million at December 31, 2012 and 2011, respectively. The mortgage bears interest at LIBOR plus a margin of 2.7%, or 2.91% at December 31, 2012, and matures in 2015. On August 27, 2012, this subsidiary entered into a

new $1.8 million mortgage agreement on a second facility. The mortgage balance was $1.8 million at December 31, 2012. The mortgage bears interest at LIBOR plus a margin of 2.7%, or 2.91% at December 31, 2012, and matures in 2017.

The foreign loans include a $2.0 million borrowing by one of the Company's Chinese subsidiaries at both December 31, 2012 and 2011, which is collateralized by a mortgage on its facility. The interest rate on the foreign loan was 5.57% at December 31, 2012.

Note 12 – Derivative Instruments

Precious Metal

H&H's precious metal inventory is subject to market price fluctuations. H&H enters into commodity futures and forward contracts on its precious metal inventory that is not subject to fixed-price contracts with its customers in order to economically hedge against price fluctuations. As of December 31, 2012, the Company had entered into forward and future contracts with a value of $0.4 million for gold and $1.5 million for silver.

The forward contracts, in the amount of $3.3 million, were made with a counter party rated A by Standard & Poors, and the futures are exchange traded contracts through a third party broker. Accordingly, the Company has determined that there is minimal credit risk of default. The Company estimates the fair value of its derivative contracts through the use of market quotes or broker valuations when market information is not available.

As these derivatives are not designated as accounting hedges under U.S. GAAP, they are accounted for as derivatives with no hedge designation. The derivatives are marked to market and both realized and unrealized gains and losses are recorded in current period earnings in the Company's consolidated income statement. The Company's hedging strategy is designed to protect it against normal volatility; therefore, abnormal price increases in these commodities or markets could negatively impact H&H's costs. For the years ended December 31, 2012, 2011 and 2010, the Company recorded gains (losses) of $0.5 million, $(1.2) million and $(5.6) million, respectively, on precious metal contracts.

As of December 31, 2012, the Company had the following outstanding forward and future contracts with settlement dates ranging from January 2013 to March 2013.

Commodity	Amount	
Silver	45,000	ounces
Gold	300	ounces

The Company maintains collateral on account with the third-party broker. Such collateral consists of both cash that varies in amount depending on the value of open futures contracts, as well as ounces of precious metal held on account by the broker.

Debt Agreements

The Company's Subordinated Notes issued in October 2010 have call premiums as well as Warrants associated with them. The Company has treated the fair value of these features together as both a discount and a derivative liability at inception of the loan agreement. The discount is being amortized over the life of the notes as an adjustment to interest expense, and the derivative is marked to market at each balance sheet date. The mark to market gain (loss) recorded for the years ended December 31, 2012, 2011 and 2010 is indicated in the table below. The embedded derivative features of the Subordinated Notes and related Warrants are considered Level 3 measurements of fair value, as defined in Note 18 - "Fair Value Measurements."

In connection with the Senior Credit Facility, H&H Group entered into an interest rate swap agreement in February 2013 to reduce its exposure to interest rate fluctuations. See Note 11 - "Debt" for further discussion of the terms of this arrangement.

Effect of Derivative Instruments on the Consolidated Income Statements

(in thousands)		Year Ended December 31,		
Derivative	**Income Statement Line**	**2012**	**2011**	**2010**
Commodity contracts	Realized and unrealized gain (loss) on derivatives	$ 522	$ (1,236)	$ (5,571)
Derivative features of Subordinated Notes	Realized and unrealized gain (loss) on derivatives	2,060	1,654	(412)
	Total derivatives not designated as hedging instruments	$ 2,582	$ 418	$ (5,983)
	Total derivatives	$ 2,582	$ 418	$ (5,983)

U.S. GAAP requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet.

Fair Value of Derivative Instruments in the Consolidated Balance Sheets

(in thousands)		December 31,	December 31,
Derivative	**Balance Sheet Location**	**2012**	**2011**
Commodity contracts	Other current assets (accrued liabilities)	$ 100	$ (229)
Derivative features of Subordinated Notes	Long-term debt and long-term debt - related party	793	(1,314)
	Total derivatives not designated as hedging instruments	$ 893	$ (1,543)
	Total derivatives	$ 893	$ (1,543)

Note 13 – Pensions and Other Post-Retirement Benefits

The Company maintains several qualified and non-qualified pension plans and other post-retirement benefit plans. The Company's significant pension, post-retirement health care benefit and defined contribution plans are discussed below. The Company's other pension and post-retirement plans are not significant individually or in the aggregate.

Qualified Pension Plans

HNH sponsors a defined benefit pension plan, the WHX Pension Plan, covering many of H&H's employees and certain employees of H&H's former subsidiary, Wheeling-Pittsburgh Corporation ("WPC"). The WHX Pension Plan was established in May 1998 as a result of the merger of the former H&H plans, which covered substantially all H&H employees, and the WPC plan. The WPC plan, covering most United Steel Workers of America-represented employees of WPC, was created pursuant to a collective bargaining agreement ratified on August 12, 1997. Prior to that date, benefits were provided through a defined contribution plan, the Wheeling-Pittsburgh Steel Corporation Retirement Security Plan ("RSP Plan"). The assets of the RSP Plan were merged into the WPC plan as of December 1, 1997. Under the terms of the WHX Pension Plan, the benefit formula and provisions for the WPC and H&H participants continued as they were designed under each of the respective plans prior to the merger.

The qualified pension benefits under the WHX Pension Plan were frozen as of December 31, 2005 and April 30, 2006 for hourly and salaried non-bargaining participants, respectively, with the exception of a single operating unit. In 2011, the benefits were frozen for the remainder of the participants.

WPC employees ceased to be active participants in the WHX Pension Plan effective July 31, 2003, and as a result, such employees no longer accrue benefits under the WHX Pension Plan.

Bairnco Corporation had several pension plans, which covered substantially all of its employees. In 2006, Bairnco froze the Bairnco Corporation Retirement Plan and initiated employer contributions to its 401(k) plan. On June 2, 2008, two Bairnco plans (Salaried and Kasco) were merged into the WHX Pension Plan. The remaining plan that has not been merged with the WHX Pension Plan covers certain employees at a facility located in Bear, Delaware (the "Bear Plan"), and the pension benefits under the Bear Plan have been frozen.

Some of the Company's foreign subsidiaries provide retirement benefits for their employees through defined contribution plans or otherwise provide retirement benefits for employees consistent with local practices. The foreign plans are not significant in the aggregate and therefore are not included in the following disclosures.

Pension benefits are based on years of service and the amount of compensation earned during the participants' employment. However, as noted above, the qualified pension benefits have been frozen for all participants.

Pension benefits for the WPC bargained participants include both defined benefit and defined contribution features, since the plan includes the account balances from the RSP. The gross benefit, before offsets, is calculated based on years of service and the benefit multiplier under the plan. The net defined benefit pension plan benefit is the gross amount offset for the benefits payable from the RSP and benefits payable by the Pension Benefit Guaranty Corporation from previously terminated plans. Individual employee accounts established under the RSP are maintained until retirement. Upon retirement, participants who are eligible for the WHX Pension Plan and maintain RSP account balances will normally receive benefits from the WHX Pension Plan. When these participants become eligible for benefits under the WHX Pension Plan, their vested balances in the RSP Plan become assets of the WHX Pension Plan. Account balances held in trust in individual RSP Plan participants' accounts were included on a net-basis in the assets or liabilities of the plan prior to 2011. Beginning in 2011, although these RSP assets cannot be used to fund any of the net benefit that is the basis for determining the defined benefit plan's net benefit obligation at the end of the year, the Company has included the amount of the RSP accounts of $22.6 million and $28.9 million on a gross-basis as both assets and liabilities of the plan as of December 31, 2012 and December 31, 2011, respectively.

Certain current and retired employees of H&H are covered by post-retirement medical benefit plans, which provide benefits for medical expenses and prescription drugs. Contributions from a majority of the participants are required, and for those retirees and spouses, the Company's payments are capped. The measurement date for plan obligations is December 31. In 2010, benefits were discontinued under one of these post-retirement medical plans, and as a result of the discontinuance of these benefits, the Company reduced its post-retirement benefits expense by $0.7 million in 2010.

In 2011 and 2010, the unrecognized actuarial losses were amortized over the average future service years of active participants in the WHX Pension Plan, which was approximately 10 years. Beginning in 2012, the actuarial losses are being amortized over the average future lifetime of the participants, which is expected to be approximately 21 years. The Company believes that the future lifetime of the participants is more appropriate because the WHX Pension Plan is now completely inactive.

The components of pension expense and components of other post-retirement benefit expense (income) for the Company's benefit plans included the following:

	Pension Benefits			Other Post-Retirement Benefits		
(in thousands)	2012	2011	2010	2012	2011	2010
Service cost	$ —	$ 218	$ 190	$ —	$ —	$ —
Interest cost	21,651	22,553	24,117	163	171	191
Expected return on plan assets	(27,005)	(27,249)	(28,899)	—	—	—
Amortization of prior service cost	44	63	63	—	—	—
Amortization of actuarial loss	8,623	10,772	8,878	86	41	42
Curtailment/Settlement	—	—	—	—	—	(712)
Total	$ 3,313	$ 6,357	$ 4,349	$ 249	$ 212	$ (479)

Actuarial assumptions used to develop the components of defined benefit pension expense and other post-retirement benefit expense were as follows:

	Pension Benefits			Other Post-Retirement Benefits		
	2012	2011	2010	2012	2011	2010
Discount rates:						
WHX Pension Plan	4.15 %	4.95 %	5.55 %	—	N/A	N/A
Other post-retirement benefit plans	N/A	N/A	N/A	4.20 %	5.10 %	5.55 %
Bear Plan	4.55 %	5.50 %	6.05 %	—	N/A	N/A
Expected return on assets	8.00 %	8.00 %	8.50 %	—	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A
Health care cost trend rate - initial	N/A	N/A	N/A	7.50 %	7.50 %	8.00 %
Health care cost trend rate - ultimate	N/A	N/A	N/A	5.00 %	5.00 %	5.00 %
Year ultimate reached	N/A	N/A	N/A	2022	2016	2016

The measurement date for plan obligations is December 31. The discount rate is the rate at which the plans' obligations could be effectively settled and is based on high quality bond yields as of the measurement date.

Summarized below is a reconciliation of the funded status for the Company's qualified defined benefit pension plans and post-retirement benefit plans:

	Pension Benefits		Other Post-Retirement Benefits	
(in thousands)	2012	2011	2012	2011
Change in benefit obligation:				
Benefit obligation at January 1	$ 532,619	$ 472,526	$ 4,092	$ 3,454
Service cost	—	218	—	—
Interest cost	21,651	22,553	163	171
Settlement	—	—	—	—
Actuarial loss	36,227	47,186	150	649
Participant contributions	—	—	9	17
Benefits paid	(36,058)	(33,920)	(206)	(199)
Insurance contract termination	(6,983)	—	—	—
Inclusion of RSP	—	28,914	—	—
Transfers (to) from RSP	—	(4,858)	—	—
Benefit obligation at December 31	$ 547,456	$ 532,619	$ 4,208	$ 4,092
Change in plan assets:				
Fair value of plan assets at January 1	$ 346,408	$ 359,543	$ —	$ —
Actual return on plan assets	10,924	(16,619)	—	—
Participant contributions	—	—	9	17
Benefits paid	(36,058)	(33,920)	(206)	(199)
Company contributions	16,180	15,328	197	182
Insurance contract termination	(6,983)	—	—	—
Inclusion of RSP	—	28,914	—	—
Transfers (to) from RSP	—	(6,838)	—	—
Fair value of plan assets at December 31	330,471	346,408	—	—
Funded status	$ (216,985)	$ (186,211)	$ (4,208)	$ (4,092)
Accumulated benefit obligation ("ABO") for qualified defined benefit plans:				
ABO at January 1	$ 532,619	$ 472,526	$ 4,092	$ 3,454
ABO at December 31	$ 547,456	$ 532,619	$ 4,208	$ 4,092
Amounts recognized in the consolidated balance sheet:				
Current liability	—	—	(211)	(211)
Noncurrent liability	(216,985)	(186,211)	(3,997)	(3,881)
Total	$ (216,985)	$ (186,211)	$ (4,208)	$ (4,092)

The weighted average assumptions used in the valuations at December 31 were as follows:

	Pension Benefits		Other Post-Retirement Benefits	
	2012	2011	2012	2011
Discount rates:				
WHX Pension Plan	3.5 %	4.15 %	N/A	N/A
Bear Plan	4 %	4.55 %	N/A	N/A
Other post-retirement benefit plans	N/A	N/A	3.65 %	4.20 %
Rate of compensation increase	N/A	N/A	N/A	N/A
Health care cost trend rate - initial	N/A	N/A	7.25 %	7.50 %
Health care cost trend rate - ultimate	N/A	N/A	5.00 %	5.00 %
Year ultimate reached	N/A	N/A	2022	2022

The effect of a 1% increase (decrease) in health care cost trend rates on other post-retirement benefit obligations is $0.5 million ($0.4 million).

Pretax amounts included in accumulated other comprehensive loss at December 31, 2012 and 2011 were as follows:

	Pension Benefits		Other Post-Retirement Benefits	
(in thousands)	2012	2011	2012	2011
Prior service cost	$ 32	$ 75	$ —	$ —
Net actuarial loss	269,005	225,319	1,851	1,787
Accumulated other comprehensive loss	$ 269,037	$ 225,394	$ 1,851	$ 1,787

The pretax amount of actuarial losses and prior service cost included in accumulated other comprehensive loss at December 31, 2012 that is expected to be recognized in net periodic benefit cost in 2013 is $10.5 million and $0.0 million, respectively, for defined benefit pension plans and $0.1 million and $0.0 million, respectively, for other post-retirement benefit plans.

Other changes in plan assets and benefit obligations recognized in comprehensive income (loss) are as follows:

	Pension Benefits			Other Post-Retirement Benefits		
(in thousands)	2012	2011	2010	2012	2011	2010
Curtailment/Settlement gain (loss)	$ —	$ —	$ —	$ —	$ —	$ (64)
Current year actuarial loss	(52,305)	(93,031)	(25,176)	(150)	(649)	(380)
Amortization of actuarial loss	8,623	10,772	8,866	86	41	42
Amortization of prior service cost	44	62	63	—	—	—
Total recognized in comprehensive loss	$ (43,638)	$ (82,197)	$ (16,247)	$ (64)	$ (608)	$ (402)

The actuarial losses occurred principally because the investment returns on the assets of the WHX Pension Plan have been lower than actuarial assumptions.

Benefit obligations were in excess of plan assets for all pension plans and other post-retirement benefit plans at both December 31, 2012 and 2011. The accumulated benefit obligation for all defined benefit pension plans was $547.5 million and $532.6 million at December 31, 2012 and 2011, respectively. Additional information for plans with accumulated benefit obligations in excess of plan assets:

	Pension Benefits		Other Post-Retirement Benefits	
(in thousands)	2012	2011	2012	2011
Projected benefit obligation	$ 547,456	$ 532,619	$ 4,208	$ 4,092
Accumulated benefit obligation	547,456	532,619	4,208	4,092
Fair value of plan assets	330,471	346,408	—	—

In determining the expected long-term rate of return on plan assets, the Company evaluated input from various investment professionals. In addition, the Company considered its historical compound returns, as well as the Company's forward-looking expectations. The Company determines its actuarial assumptions for its pension and post-retirement plans on December 31 of each year to calculate liability information as of that date and pension and post-retirement expense for the following year. The discount rate assumption is derived from the rate of return on high-quality bonds as of December 31 of each year.

The Company's investment policy is to maximize the total rate of return with a view to long-term funding objectives of the pension plan to ensure that funds are available to meet benefit obligations when due. Pension plan assets are diversified to the extent necessary to minimize risk and to achieve an optimal balance between risk and return. There are no target allocations. The WHX Pension Plan's assets are diversified as to type of assets, investment strategies employed and number of investment managers used. Investments may include equities, fixed income, cash equivalents, convertible securities and private investment funds. Derivatives may be used as part of the investment strategy. The Company may direct the transfer of assets between investment managers in order to rebalance the portfolio in accordance with asset allocation guidelines established by the Company.

The fair value of pension investments is defined by reference to one of three categories (Level 1, Level 2 or Level 3) based on the reliability of inputs, as such terms are defined in Note 18 - "Fair Value Measurements."

The WHX/Bear Pension Plan assets at December 31, 2012 and 2011, by asset category, are as follows:

(in thousands)

Fair Value Measurements as of December 31, 2012:

	Assets (Liabilities) at Fair Value as of December 31, 2012			
Asset Class	Level 1	Level 2	Level 3	Total
Equity securities:				
U.S. large cap	$ 20,572	543	$ —	$ 21,115
U.S. mid-cap growth	36,065	—	209	36,274
U.S. small-cap value	15,295	138	—	15,433
International large cap value	16,118	116	—	16,234
Equity contracts	308	—	—	308
Preferred stocks	530	2,016	—	2,546
Fixed income securities:				
Corporate bonds and loans	415	51,052	548	52,015
Other types of investments:				
Common trust funds (1)	—	68,830	—	68,830
Fund of funds (2)	—	37,142	—	37,142
	89,303	159,837	757	249,897
Futures contracts, net	(58,148)	5,478	—	(52,670)
Total	$ 31,155	$ 165,315	$ 757	$ 197,227
Cash and cash equivalents				133,590
Net payables				(346)
Total pension assets				$ 330,471

Fair Value Measurements as of December 31, 2011:

	Assets (Liabilities) at Fair Value as of December 31, 2011			
Asset Class	Level 1	Level 2	Level 3	Total
Equity securities:				
U.S. large cap	$ 13,473	$ —	$ 593	$ 14,066
U.S. mid-cap growth	38,602	2,367	—	40,969
U.S. small-cap value	17,261	3	—	17,264
International large cap value	17,121	—	—	17,121
Emerging markets growth	—	642	—	642
Fixed income securities:				
Corporate bonds and loans	2,474	35,437	—	37,911
Bank debt	—	839	—	839
Other types of investments:				
Common trust funds (1)	—	73,887	—	73,887
Fund of funds (2)	—	37,516	—	37,516
Insurance contracts (3)	—	8,513	—	8,513
	88,931	159,204	593	248,728
Futures contracts, net	(56,850)	(12,486)	—	(69,336)
Total	$ 32,081	$ 146,718	$ 593	$ 179,392
Cash and cash equivalents				167,041
Net payables				(25)
Total pension assets				$ 346,408

(1) Common trust funds are comprised of shares or units in commingled funds that are not publicly traded. The underlying assets in these funds are primarily publicly traded equity securities, fixed income securities and commodity-related securities and are valued at their Net Asset Values ("NAV") that are calculated by the investment manager or sponsor of the fund.

(2) Fund of funds consist of fund-of-fund LLC or commingled fund structures. The underlying assets in these funds are primarily publicly traded equity securities, fixed income securities and commodity-related securities. The LLCs are valued based on NAVs calculated by the fund and are not publicly available.

(3) Insurance contracts contain general investments and money market securities. The fair value of insurance contracts is determined based on the cash surrender value, which is determined based on such factors as the fair value of the underlying assets and discounted cash flow. These contracts are with a highly-rated insurance company.

The Company's policy is to recognize transfers in and transfers out of Level 3 as of the date of the event or change in circumstances that caused the transfer.

Changes in the WHX/Bear Pension Plan assets for which fair value is determined using significant unobservable inputs (Level 3) were as follows during 2012 and 2011:

Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Year Ended December 31, 2012 (in thousands)	U.S. Large Cap	U.S. Mid Cap Growth	Corporate Bonds and Loans
Beginning balance as of January 1, 2012	$ 593	$ —	$ —
Transfers into Level 3	—	—	—
Transfers out of Level 3	—	—	—
Gains or losses included in changes in net assets	673	145	11
Purchases, issuances, sales and settlements			
Purchases	—	—	547
Issuances	—	64	—
Sales	(1,202)	—	(10)
Settlements	(64)	—	—
Ending balance as of December 31, 2012	$ —	$ 209	$ 548
Net unrealized gains (losses) included in the changes in net assets, attributable to investments still held at the reporting date	$ (198)	$ 145	$ 8

Year Ended December 31, 2011 (in thousands)	Fixed Income Securities	Fund of Funds	Insurance Contracts	U.S. Small Cap Value
Beginning balance as of January 1, 2011	$ 595	$ 31,658	$ 9,268	$ 317
Transfers into Level 3 (a)	39	—	—	21
Transfers out of Level 3 (b)	—	(31,542)	(9,268)	—
Gains or losses included in changes in net assets	(41)	(116)	—	—
Purchases, issuances, sales and settlements				—
Purchases	—	—	—	113
Issuances	—	—	—	—
Sales	—	—	—	(451)
Settlements	—	—	—	—
Ending balance as of December 31, 2011	$ 593	$ —	$ —	$ —
Net unrealized gains (losses) included in the changes in net assets, attributable to investments still held at the reporting date	$ (41)	$ (116)	$ —	$ —

a) Transferred from Level 2 to Level 3 because of lack of observable market data due to decreases in market activity for these securities.

b) Transfers from Level 3 to Level 2 upon expiration of the restrictions.

The following tables present the category, fair value, redemption frequency and redemption notice period for those assets whose fair value was estimated using the NAV per share (or its equivalents), as well as plan assets which have redemption notice periods, as of December 31, 2012 and December 31, 2011 (in thousands):

Class Name	Description	Fair Value December 31, 2012	Redemption frequency	Redemption Notice Period
Fund of funds	Long short equity fund	$ 4,862	Quarterly	45 day notice
Fund of funds	Fund of fund composites	$ 32,280	Quarterly	45 day notice
Common trust funds	Event driven hedge funds	$ 55,853	Annually	45 day notice
Common trust funds	Event driven hedge funds	$ 12,977	Monthly	90 day notice
Separately managed fund	Separately managed fund	$ 33,324	Monthly	30 day notice
Separately managed fund	Separately managed fund	$ 64,490	Quarterly	45 day notice

The Company's pension plan asset allocations at December 31, 2012 and 2011, by asset category, are as follows:

	WHX/Bear Plans	
	2012	**2011**
Asset Category		
Cash and cash equivalents	40 %	49 %
Equity securities	12 %	6 %
Fixed income securities	16 %	11 %
Insurance contracts	—	2 %
Common trust funds	21 %	21 %
Fund of funds	11 %	11 %
Total	100 %	100 %

Contributions

Employer contributions consist of funds paid from employer assets into a qualified pension trust account. The Company's funding policy is to contribute annually an amount that satisfies the minimum funding standards of ERISA.

The Company expects to have required minimum contributions for 2013, 2014, 2015, 2016, 2017, and thereafter of $13.6 million, $19.5 million, $20.7 million, $17.7 million, $17.2 million, and $49.7 million, respectively. Required future contributions are based upon assumptions such as discount rates on future obligations, assumed rates of return on plan assets and legislative changes. Pension costs and required funding obligations will be affected by changes in the factors and assumptions described in the previous sentence, as well as other changes such as any plan termination.

Benefit Payments

Estimated future benefit payments for the benefit plans over the next ten years are as follows (in thousands):

Years	Pension Benefits	Other Post-Retirement Benefits
2013	$ 35,049	$ 206
2014	35,075	218
2015	34,975	238
2016	34,816	244
2017	34,606	246
2018-2022	166,321	1,272

In addition to the aforementioned benefit plans, H&H had a non-qualified pension plan for certain current and retired employees. Such plan adopted an amendment effective January 1, 2006 to freeze benefits under the plan. H&H decided to cash out any remaining participants in the plan and in December 2010, the final payout of participant balances of $0.2 million was made.

401(k) Plans

Certain employees participate in a Company sponsored savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. This savings plan allows eligible employees to contribute from 1% to 75% of their income on a pretax basis. The Company presently makes a contribution to match 50% of the first 6% of the employee's contribution. The charge to expense for the Company's matching contribution amounted to $1.8 million, $2.0 million and $1.3 million in 2012, 2011 and 2010, respectively.

Note 14 – Stockholders' Equity

The Company's authorized capital stock is a total of 185,000,000 shares, consisting of 180,000,000 shares of common stock and 5,000,000 shares of preferred stock.

Of the authorized shares, no shares of preferred stock have been issued. As of December 31, 2012 and 2011, 13,140,004 and 12,646,498 shares of common stock were issued and outstanding, respectively.

Although the Board of Directors of HNH is expressly authorized to fix the designations, preferences and rights, limitations or restrictions of the preferred stock by adoption of a Preferred Stock Designation resolution, the Board of Directors has not yet done so. The common stock of HNH has voting power, is entitled to receive dividends when and if declared by the Board of Directors and is subject to any preferential dividend rights of any then-outstanding preferred stock, and in liquidation, after distribution of the preferential amount, if any, due to preferred stockholders, are entitled to receive all the remaining assets of the corporation.

Accumulated other comprehensive (loss) income balances, net of tax, as of December 31, 2012 and 2011 were as follows:

	December 31,	
(in thousands)	2012	2011
Accumulated other comprehensive (loss) income, net of tax:		
Net actuarial losses and prior service costs and credits	$ (224,577)	$ (195,330)
Unrealized (loss) gain on marketable equity securities	(4,072)	4,822
Foreign currency translation adjustments	2,481	2,119
	$ (226,168)	$ (188,389)

Income tax benefits of $20.5 million and $24.2 million were recorded in accumulated other comprehensive loss for 2012 and 2011, respectively. No amount was recorded for income taxes in accumulated other comprehensive loss in 2010 due to the establishment of an offsetting deferred income tax valuation allowance, which was reversed in 2011 (see Note 16 - "Income Taxes").

Note 15 – Stock-Based Compensation

The Company has granted restricted stock awards and stock options under its 2007 Incentive Stock Plan, as amended ("2007 Plan"), to certain employees, members of the Board of Directors and service providers. On May 23, 2012, the Company's stockholders approved an increase in the number of shares authorized for issuance under the 2007 Plan from 1,200,000 shares to 1,650,000 shares.

Restricted Stock

Restricted stock grants made to employees are in lieu of the long term incentive plan component of the Company's bonus plan for those individuals who receive shares of restricted stock. Compensation expense is measured based on the fair value of the stock-based awards on the grant date, as measured by the NASDAQ closing price for the Company's common stock. Compensation expense is recognized in the consolidated income statement on a straight-line basis over the requisite service period, which is the vesting period.

In March 2011, the Compensation Committee of the Company's Board of Directors approved the grant of 495,600 shares of restricted stock awards to certain employees, members of the Board of Directors and service providers. The restricted stock grants made to the employees and service providers, totaling 289,600 shares, vested with respect to 25% of the award upon grant and vest in equal annual installments over a three year period from the grant date with respect to the remaining 75% of the award. Additionally, the Compensation Committee also approved the grant of (a) 1,000 shares of restricted stock to each Director other than the Chairman and Vice Chairman, and (b) 100,000 shares of restricted stock to each of the Chairman and Vice Chairman, or

a total of 205,000 shares to Directors. On June 17, 2011, the Company granted 1,000 shares in a restricted stock award to a newly-appointed Director. The restricted stock grants to the Directors vested one year from the date of grant.

In March, April and May of 2012, the Compensation Committee approved the grant of an aggregate 525,400 shares of restricted stock to certain employees, members of the Board of Directors and service providers. The restricted stock grants made to the employees and service providers in 2012 vest in equal annual installments over a three year period from the grant date. The restricted stock grants to the Directors vest one year from the grant date.

The Company allows grantees to forego the issuance of shares to meet any applicable income tax withholding due as a result of the vesting of restricted stock. Such shares are returned to the unissued shares of the Company's common stock. During the years ended December 31, 2012 and 2011, 20,494 and 21,816 shares, respectively, were foregone in connection with income tax withholding obligations.

Restricted stock activity under the 2007 Plan was as follows for the years ended December 31, 2012 and December 31, 2011:

(shares)	Employees	Directors	Total Shares
Balance, January 1, 2012	261,934	206,000	467,934
Granted	273,400	252,000	525,400
Forfeited	(11,400)	—	(11,400)
Reduced for income tax obligations	(20,494)	—	(20,494)
Balance, December 31, 2012	503,440	458,000	961,440
Vested at December 31, 2012	142,850	209,000	351,850
Non-vested at December 31, 2012	360,590	249,000	609,590

	Employees	Directors	Total Shares
Balance, January 1, 2011	—	—	—
Granted	289,600	206,000	495,600
Forfeited	(5,850)	—	(5,850)
Reduced for income tax obligations	(21,816)	—	(21,816)
Balance, December 31, 2011	261,934	206,000	467,934

The Company has recognized compensation expense related to restricted shares of $4.5 million and $3.1 million for the years ended December 31, 2012 and 2011, respectively. Unearned compensation expense related to restricted shares at December 31, 2012 is $4.0 million, which is net of an estimated 5% forfeiture rate for employees and service providers. This amount will be recognized over the remaining vesting period of the restricted shares.

Stock Options

In July 2007, stock options were granted to certain employees and Directors under the 2007 Plan. The 2007 Plan permits options to be granted up to a maximum contractual term of 10 years. The Company's policy is to use shares of unissued common stock upon exercise of stock options.

The Company estimated the fair value of the stock options granted in accordance with U.S. GAAP using a Black-Scholes option-pricing model. The expected average risk-free rate was based on a U.S. treasury yield curve. The expected average life represented the period of time that options granted are expected to be outstanding. Expected volatility was based on historical volatilities of HNH's common stock. The expected dividend yield was based on historical information and management's plan.

The Company recorded no compensation expense related to its stock options in 2012, 2011 or 2010 since the options fully vested prior to 2010.

Stock option activity under the Company's 2007 Plan was as follows in 2012:

Options	Shares (000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (000's)
Outstanding options at December 31, 2011	52	$ 90	4.34	—
Granted	—	—		—
Exercised	—	—		—
Forfeited or expired	(3)	$ 90		—
Outstanding at December 31, 2012	49	$ 90	3.34	—
Exercisable at December 31, 2012	49	$ 90	3.34	—

As of December 31, 2012, there were 639,560 shares reserved for future issuance under the 2007 Plan.

On July 6, 2007, the Compensation Committee adopted incentive arrangements for two members of the Board of Directors who are related parties to the Company. These arrangements provide, among other things, for each individual to receive a bonus equal to 10,000 multiplied by the difference of the fair market value of the Company's stock price and $90.00 per share. The incentive arrangements terminate July 6, 2015, to the extent not previously received. Under U.S. GAAP, the Company is required to adjust its obligation for the fair value of such incentive arrangements from the date of actual grant to the latest balance sheet date and to record such incentive arrangements as liabilities in the consolidated balance sheet. The Company has recorded $0.2 million and $0.1 million of non-cash income in 2012 and 2011, respectively, and $0.2 million of non-cash expense in 2010 related to these incentive arrangements.

Note 16 – Income Taxes

Income (loss) from continuing operations before tax for the three years ended December 31 is as follows:

	Year Ended December 31,		
(in thousands)	2012	2011	2010
Domestic	$ 30,852	$ 20,239	$ (2,526)
Foreign	6,497	8,145	6,887
Total income from continuing operations before tax	$ 37,349	$ 28,384	$ 4,361

The provision for (benefit from) income taxes for the three years ended December 31 is as follows:

	Year Ended December 31,		
(in thousands)	2012	2011	2010
Current			
Domestic	$ 2,748	$ 1,592	$ 1,932
Foreign	1,224	1,287	1,379
Total income taxes, current	$ 3,972	$ 2,879	$ 3,311
Deferred			
Domestic	$ 9,799	$ (109,309)	$ (130)
Foreign	108	370	(95)
Total income taxes, deferred	$ 9,907	$ (108,939)	$ (225)
Total income tax provision (benefit)	$ 13,879	$ (106,060)	$ 3,086

Deferred income taxes result from temporary differences in the financial basis and tax basis of assets and liabilities. The amounts shown on the following table represent the tax effect of temporary differences between the Company's consolidated tax return basis of assets and liabilities and the corresponding basis for financial reporting, as well as tax credit and operating loss carryforwards.

(in thousands)	December 31,	
Deferred Income Tax Sources	**2012**	**2011**
Current Deferred Income Tax Items:		
Inventories	$ 3,503	$ 4,064
Environmental costs	2,377	2,489
Net operating loss carryforwards	14,530	9,261
Accrued liabilities	3,264	3,197
Other items, net	1,023	1,017
Current deferred income tax assets before valuation allowance	24,697	20,028
Valuation allowance	(324)	(335)
Deferred income tax assets - current	$ 24,373	$ 19,693
Foreign	$ (1,022)	$ (736)
Deferred income tax liabilities - current	$ (1,022)	$ (736)
Non-Current Deferred Income Tax Items:		
Post-retirement and post-employment employee benefits	$ 1,817	$ 1,051
Net operating loss carryforwards	45,794	58,089
Pension liability	81,392	69,599
Impairment of long-lived assets	2,528	2,519
Foreign tax credits	—	443
Minimum tax credit carryforwards	2,287	1,934
Miscellaneous other	4,397	1,090
Non-current deferred income tax assets before valuation allowance	138,215	134,725
Valuation allowance	(1,814)	(2,257)
Non-current deferred income tax assets	136,401	132,468
Property, plant and equipment	(13,802)	(12,877)
Intangible assets	(7,526)	(8,345)
Undistributed foreign earnings	(534)	(1,983)
Other items, net	(1,971)	(1,578)
Non-current deferred income tax liabilities	(23,833)	(24,783)
Net non-current deferred income tax assets	$ 112,568	$ 107,685

As of December 31, 2010, the Company had established a deferred income tax valuation allowance of $116.7 million against its deferred income tax assets. The valuation allowance was recorded because the realizability of the deferred income tax benefit of the Company's net operating loss carryforwards and other deferred income tax assets was not considered "more likely than not." In the fourth quarter of 2011, the Company changed its judgment about the realizability of its deferred income tax assets. The recognition of this non-cash tax benefit followed an assessment of the Company's domestic operations and of the likelihood that the associated deferred income tax assets will be realized. We considered factors such as recent financial results, forecast future operating income of our subsidiaries, expected future taxable income, mix of taxable income and available carryforward periods. As a result, we estimated that it is more likely than not that we will be able to realize the benefit of certain deferred income tax assets. However, in certain jurisdictions, we do not consider it more likely than not that all of our state net operating loss carryforwards will be realized in future periods and have retained a valuation allowance against those. Because the determination of the realizability of deferred income tax assets is based upon management's judgment of future events and uncertainties, the amount of the deferred income tax assets realized could be reduced if actual future income or income tax rates are lower than estimated.

In accordance with ASC 740, *Income Taxes*, the effect of a change in the beginning-of-the-year balance of a valuation allowance that results from a change in circumstances that causes a change in judgment about the realizability of the related deferred income tax asset in future years should be included in income from continuing operations in the period of the change. Accordingly, in the fourth quarter of 2011, the Company recorded a non-cash tax benefit in income from continuing operations, net of tax, as a result of the reversal of its deferred income tax valuation allowance.

Included in deferred income tax assets as of December 31, 2012 is a $57.0 million tax effect of the Company's U.S. federal NOL of $162.9 million, as well as certain state NOLs. The U.S. federal NOLs expire between 2020 and 2029. Also included in

deferred income tax assets are tax credit carryforwards of $2.3 million. The Company's 2012 tax provision reflects utilization of approximately $21.0 million of federal NOLs.

In 2005, the Company experienced an ownership change as defined by Section 382 of the Internal Revenue Code upon its emergence from bankruptcy. Section 382 imposes annual limitations on the utilization of net operating carryforwards post-ownership change. The Company believes it qualifies for the bankruptcy exception to the general Section 382 limitations. Under this exception, the annual limitation imposed by Section 382 resulting from an ownership change will not apply; instead the NOLs must be reduced by certain interest expense paid to creditors who became stockholders as a result of the bankruptcy reorganization. Thus, the Company's U.S. federal NOLs of $162.9 million as of December 31, 2012 include a reduction of $31.0 million ($10.8 million tax-effect).

As of December 31, 2012, the Company has a deferred income tax liability of $0.5 million, which relates to $1.3 million of undistributed earnings of foreign subsidiaries. In addition, there were approximately $12.6 million of undistributed earnings of foreign subsidiaries that are deemed to be permanently reinvested, and thus, no deferred income taxes have been provided on these earnings.

Total federal, state and foreign income taxes paid in 2012, 2011 and 2010 were $4.2 million, $4.3 million and $2.7 million, respectively. On the consolidated balance sheet, net current income taxes totaled a $0.2 million receivable as of December 31, 2012 and a $0.3 million receivable as of December 31, 2011.

The provision (benefit) for income taxes differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

		Year Ended December 31,		
(in thousands)		2012	2011	2010
Income from continuing operations before tax		$ 37,349	$ 28,384	$ 4,361
Tax provision at statutory rate		$ 13,072	$ 9,934	$ 1,526
Increase (decrease) in tax due to:				
Foreign dividend income		—	929	381
State income tax, net of federal effect		2,463	928	1,058
Net decrease in valuation allowance		(454)	(116,689)	(234)
Increase in liability for uncertain tax positions	Increase in liability for uncertain tax positions	8	43	233
Net effect of foreign tax rate and tax holidays	Net effect of foreign tax rate and tax holidays	(942)	(369)	(794)
Other items, net		(268)	(836)	916
Tax provision (benefit)		$ 13,879	$ (106,060)	$ 3,086

U.S. GAAP provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. At both December 31, 2012 and 2011, the Company had $2.3 million of unrecognized tax benefits recorded, all of which, net of federal benefit, would affect the Company's effective tax rate if recognized. The changes in the amount of unrecognized tax benefits in 2012 and 2011 were as follows:

	Year Ended December 31,	
(in thousands)	2012	2011
Beginning balance	$ 2,306	$ 2,266
Additions for tax positions related to current year	368	325
Additions due to interest accrued	100	113
Tax positions of prior years:		
Increase in liabilities, net	25	7
Payments	(42)	(2)
Due to lapsed statutes of limitations	(484)	(403)
Ending balance	$ 2,273	$ 2,306

The Company recognizes interest and penalties related to uncertain tax positions in its income tax provision. As of December 31, 2012 and 2011, approximately $0.4 million and $0.3 million, respectively, of interest related to uncertain tax positions was accrued. No penalties were accrued. It is reasonably possible that the total amount of unrecognized tax benefits will decrease by as much as $0.5 million during the next twelve months as a result of the lapse of the applicable statutes of limitations in certain taxing jurisdictions. Adjustments to the reserve could occur in light of changing facts and circumstances with respect to the on-going examinations discussed below.

The Company is generally no longer subject to federal, state or local income tax examinations by tax authorities for any year prior to 2009, except as set forth below. However, NOLs generated in prior years are subject to examination and potential adjustment by the Internal Revenue Service ("IRS") upon their utilization in future years' tax returns.

The IRS initiated an examination of our federal consolidated income tax return for 2010 in the second quarter of 2012. The examination is currently in progress, and we do not currently believe an increase in the reserve for uncertain tax positions is necessary. In addition, certain subsidiaries were examined by the Commonwealth of Massachusetts ("Commonwealth") for the years 2003 to 2005, and the Company is currently appealing the results of the examination. The reserve for uncertain tax positions was adjusted accordingly. The Commonwealth is currently conducting an examination of the combined group for the year 2008. The examination is currently in progress, and we do not believe an increase in the reserve for uncertain tax positions is necessary.

Note 17 – Earnings Per Share

The computation of basic earnings per share of common stock is calculated by dividing net income by the weighted average number of shares of the Company's common stock outstanding.

	Year Ended December 31,		
(in thousands, except per share)	2012	2011	2010
Income from continuing operations, net of tax	$ 23,470	$ 134,444	$ 1,275
Weighted average number of common shares outstanding	13,032	12,555	12,179
Income from continuing operations, net of tax, per share	$ 1.80	$ 10.71	$ 0.11
Net income from discontinued operations	$ 3,011	$ 4,331	$ 3,815
Weighted average number of common shares outstanding	13,032	12,555	12,179
Discontinued operations, net of tax, per share	$ 0.23	$ 0.34	$ 0.31
Net income	$ 26,481	$ 138,775	$ 5,090
Weighted average number of common shares outstanding	13,032	12,555	12,179
Net income per share	$ 2.03	$ 11.05	$ 0.42

Diluted earnings per share gives effect to dilutive potential common shares outstanding during the reporting period. The Company had potentially dilutive common share equivalents, including stock options and other stock-based incentive compensation arrangements (see Note 15 - "Stock-Based Compensation"), during the years ended December 31, 2012, 2011 and 2010, although none were dilutive because the exercise price of such equivalents exceeded the market value of the Company's common stock during those periods. As of December 31, 2012, stock options for an aggregate of 49,000 shares are excluded from the calculations above.

Note 18 – Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. Fair value measurements are broken down into three levels based on the reliability of inputs as follows:

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. The valuation under this approach does not entail a significant degree of judgment ("Level 1").

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (e.g. interest rates and yield curves observable at commonly quoted

intervals or current market) and contractual prices for the underlying financial instrument, as well as other relevant economic measures ("Level 2").

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date ("Level 3").

The fair value of the Company's financial instruments, such as cash and cash equivalents, trade and other receivables and trade payables approximate carrying value due to the short-term maturities of these assets and liabilities. Carrying cost approximates fair value for the Company's long-term debt which have variable interest rates. The fair value of the Company's Subordinated Notes, which have a fixed interest rate, is approximately $35.5 million at December 31, 2012.

The fair value of the Company's available-for-sale equity investment is a Level 1 measurement because such security is listed on a national securities exchange.

The derivative instruments that the Company purchases, specifically commodity futures and forwards contracts on precious metals, are valued at fair value. The futures contracts are Level 1 measurements since they are traded on a commodity exchange. The forward contracts are entered into with a counterparty and are considered Level 2 measurements. The embedded derivative features of the Company's Subordinated Notes and related Warrants (see Note 11 - "Debt") are valued at fair value on a recurring basis and are considered Level 3 measurements.

The following table summarizes the Company's assets and liabilities that are measured at fair value on a recurring basis, the amounts on the consolidated balance sheet as of December 31, 2012 and 2011 and the activity in those assets and liabilities that are valued using Level 3 measurements.

	Asset (Liability) as of December 31, 2012			
(in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities	$ 17,229	$ 17,229	$ —	$ —
Commodity contracts on precious metals	$ 100	$ 127	$ (27)	$ —
Derivative features of Subordinated Notes	$ 793	$ —	$ —	$ 793

	Asset (Liability) as of December 31, 2011			
(in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Available-for-sale securities	$ 25,856	$ 25,856	$ —	$ —
Commodity contracts on precious metals	$ (229)	$ (165)	$ (64)	$ —
Derivative features of Subordinated Notes	$ (1,314)	$ —	$ —	$ (1,314)

(in thousands)	**Year ended December 31,**	
Activity	**2012**	**2011**
Beginning balance	$ (1,314)	$ (5,096)
Total net gains included in:		
Net income	2,060	1,654
Other comprehensive income	—	—
Purchases	—	—
Issuances	—	—
Sales	—	—
Settlements	47	2,128
Net transfers into / (out of) Level 3	—	—
Ending balance	$ 793	$ (1,314)

The income of $2.1 million and $1.7 million for the years ended December 31, 2012 and 2011, respectively, noted above are unrealized gains that are attributable to the fair value of the embedded derivatives associated with the Company's Subordinated Notes. The settlements relate to repurchases of certain Subordinated Notes during each year (see Note 11- "Debt").

The valuation of the derivative features of the Subordinated Notes and Warrants utilizes a customized binomial model, which values the embedded derivatives in such notes and the associated Warrants in a unified way, using a cash flow approach. Interest rates and the market price of HNH's stock are significant inputs that influence the valuation of the derivative.

The Company's non-financial assets and liabilities measured at fair value on a non-recurring basis include goodwill and intangible assets, any assets and liabilities acquired in a business combination, or its long-lived assets written-down to fair value. To measure fair value for such assets and liabilities, the Company uses techniques including an income approach, a market approach and/or appraisals (Level 3 inputs). The income approach is based on a discounted cash flow analysis and calculates the fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting the after-tax cash flows to a present value using a risk-adjusted discount rate. Assumptions used in the DCF require the exercise of significant judgment, including judgment about appropriate discount rates and terminal values, growth rates and the amount and timing of expected future cash flows. The discount rates, which are intended to reflect the risks inherent in future cash flow projections, used in the DCF are based on estimates of the weighted-average cost of capital of a market participant. Such estimates are derived from analysis of peer companies and consider the industry weighted-average return on debt and equity from a market participant perspective. A market approach values a business by considering the prices at which shares of capital stock, or related underlying assets, of reasonably comparable companies are trading in the public market or the transaction price at which similar companies have been acquired. If comparable companies are not available, the market approach is not used.

Long-lived assets consisting of land and buildings used in previously operating businesses and currently unused, which total $8.2 million as of December 31, 2012, are carried at the lower of cost or fair value, and are included primarily in other non-current assets in the consolidated balance sheet. A reduction in the carrying value of such long-lived assets is recorded as an asset impairment charge in the consolidated income statement. A non-cash asset impairment charge of $0.7 million was recorded for the year ended December 31, 2011, related to unused land owned by the Company's Arlon segment located in Rancho Cucamonga, California. The Company reduced this property's carrying value by $0.7 million to reflect its lower fair market value. During the second quarter of 2010, Kasco commenced a restructuring plan to move its Atlanta, Georgia operation to an existing facility in Mexico. In connection with this restructuring project, the Company performed a valuation of its land, building and houses located in Atlanta and recorded an asset impairment charge of $1.6 million. The impairment represented the difference between the assets' book value and fair market value as a result of a decline in the real estate market in the area where the properties are located.

Note 19 – Commitments and Contingencies

Operating Lease Commitments

The Company leases certain facilities under non-cancelable operating lease arrangements. Rent expense for the Company in 2012, 2011 and 2010 was $4.8 million, $5.3 million and$6.1 million, respectively. Future minimum operating lease and rental commitments under non-cancelable operating leases are as follows (in thousands):

Year	Amount
2013	$ 4,233
2014	2,978
2015	1,842
2016	1,444
2017	1,385
Thereafter	3,996
	$ 15,878

On June 30, 2008, Arlon Inc., a wholly owned subsidiary of Bairnco and part of the Arlon segment, (i) sold land and a building located in Rancho Cucamonga, California for $8.5 million and (ii) leased back such property under a 15 year operating lease with two 5-year renewal options. The annual lease payments are $0.6 million, and are subject to a maximum increase of 5% per annum. The lease expires in 2023. Such amounts are included in the operating lease commitment table above. Bairnco has agreed to guarantee the payment and performance of Arlon Inc. under the lease. To account for the sale leaseback, the property was removed from the books, but the recognition of a $1.8 million gain on the sale of the property was deferred and will be recognized ratably over the 15 year lease term as a reduction of lease expense. Approximately $1.2 million and $1.4 million of such deferred gain was included in other long-term liabilities on the consolidated balance sheets as of December 31, 2012 and 2011, respectively.

Legal Matters

Arista Development LLC v. Handy & Harman Electronic Materials Corporation

In 2004, Handy & Harman Electronic Materials Corporation ("HHEM"), a subsidiary of H&H, entered into an agreement to sell a commercial/industrial property in Massachusetts ("MA Property"). Disputes between the parties resulted in the purchaser (plaintiff) initiating litigation in Bristol Superior Court in Massachusetts. The plaintiff alleged that HHEM was liable for breach of contract relating to HHEM's alleged breach of the agreement, unfair and deceptive acts and practices and certain consequential and treble damages as a result of HHEM's termination of the agreement in 2005, although HHEM subsequently revoked its notice of termination. HHEM has denied liability and vigorously defended the case. In November 2011, the parties agreed to dismiss the litigation without prejudice in order to focus their time, energies and resources on negotiating a settlement and not further litigating the matter unless and until they conclude that settlement is not reasonably possible. It is not possible at this time to reasonably estimate the probability or range of any potential liability of HHEM associated with this matter, and accordingly, there can be no assurance that the resolution of this matter will not be material to the financial position, results of operations or cash flows of the Company.

Environmental Matters

Certain subsidiaries of H&H Group have existing and contingent liabilities relating to environmental matters, including capital expenditures, costs of remediation and potential fines and penalties relating to possible violations of national and state environmental laws. Those subsidiaries have substantial remediation expenses on an ongoing basis, although such costs are continually being readjusted based upon the emergence of new techniques and alternative methods. The Company had approximately $6.3 million accrued related to estimated environmental remediation costs as of December 31, 2012. In addition, the Company has insurance coverage available for several of these matters and believes that excess insurance coverage may be available as well. Based upon information currently available, the H&H Group subsidiaries do not expect their respective environmental costs, including the incurrence of additional fines and penalties, if any, will have a material adverse effect on them or that the resolution of these environmental matters will have a material adverse effect on the financial position, results of operations or cash flows of such subsidiaries or the Company, but there can be no such assurances. The Company anticipates that the H&H Group subsidiaries will pay any such amounts out of their respective working capital, although there is no assurance that they will have sufficient funds to pay them. In the event that the H&H Group subsidiaries are unable to fund their liabilities, claims could be made against their respective parent companies, including H&H Group and/or HNH, for payment of such liabilities.

In addition, certain subsidiaries of H&H Group have been identified as potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or similar state statutes at sites and are parties to administrative consent orders in connection with certain properties. Those subsidiaries may be subject to joint and several liabilities imposed by CERCLA on PRPs. Due to the technical and regulatory complexity of remedial activities and the difficulties attendant in identifying PRPs and allocating or determining liability among them, the subsidiaries are unable to reasonably estimate the ultimate cost of compliance with such laws.

Among the sites where certain subsidiaries of H&H Group may have existing and material environmental liabilities are the following:

H&H has been working with the Connecticut Department of Environmental Protection ("CTDEP") with respect to its obligations under a 1989 consent order that applies to a property in Connecticut that H&H sold in 2003 ("Sold Parcel") and an adjacent parcel ("Adjacent Parcel") that together with the Sold Parcel comprises the site of a former H&H manufacturing facility. Remediation of all soil conditions on the Sold Parcel was completed on April 6, 2007. H&H performed limited additional work on that site, solely in furtherance of now concluded settlement discussions between H&H and the purchaser of the Sold Parcel. Although no groundwater remediation is currently required, quarterly groundwater monitoring is required for at least another year. On September 11, 2008, the CTDEP advised H&H that it had approved H&H's December 28, 2007 Soil Remediation Action Report, as amended, thereby concluding the active remediation of the Sold Parcel. Approximately $29.2 million was expended to date, and the remaining remediation and monitoring costs for the Sold Parcel are expected to approximate $0.1 million. H&H previously received reimbursement of $2.0 million from an insurance company under a cost-cap insurance policy, and in January 2010, H&H received $1.0 million, net of attorney's fees, as the final settlement of H&H's claim for additional insurance coverage relating to the Sold Parcel. H&H also has been conducting an environmental investigation of the Adjacent Parcel and recently initiated a field study in order to assess various options for remediation of the Adjacent Parcel. The total remediation costs for the Adjacent Parcel cannot be reasonably estimated at this time. Accordingly, there can be no assurance that the resolution of this matter will not be material to the financial position, results of operations or cash flows of H&H or the Company.

In 1986, HHEM entered into an administrative consent order ("ACO") with the New Jersey Department of Environmental Protection ("NJDEP") with regard to certain property that it purchased in 1984 in New Jersey. The ACO involves investigation and remediation activities to be performed with regard to soil and groundwater contamination. Thereafter, in 1998, HHEM and H&H settled a case brought by the local municipality in regard to this site and also settled with certain of its insurance carriers. HHEM is actively remediating the property and continuing to investigate effective methods for achieving compliance with the ACO. A remedial investigation report was filed with the NJDEP in December 2007. By letter dated December 12, 2008, NJDEP issued its approval with respect to additional investigation and remediation activities discussed in the December 2007 remedial investigation report. HHEM anticipates entering into discussions with NJDEP to address that agency's potential natural resource damage claims, the ultimate scope and cost of which cannot be estimated at this time. Pursuant to a settlement agreement with the former owner/operator of the site, the responsibility for site investigation and remediation costs, as well as any other costs, as defined in the settlement agreement, related to or arising from environmental contamination on the property (collectively, "Costs") are contractually allocated 75% to the former owner/operator (with separate guaranties by the two joint venture partners of the former owner/operator for 37.5% each) and 25% jointly to HHEM and H&H after the first $1.0 million. The $1.0 million was paid solely by the former owner/operator. As of December 31, 2012, over and above the $1.0 million, total investigation and remediation costs of approximately $2.5 million and $0.9 million have been expended by the former owner/operator and HHEM, respectively, in accordance with the settlement agreement. Additionally, HHEM is currently being reimbursed indirectly through insurance coverage for a portion of the Costs for which HHEM is responsible. HHEM believes that there is additional excess insurance coverage, which it intends to pursue as necessary. HHEM anticipates that there will be additional remediation expenses to be incurred once a final remediation plan is agreed upon. There is no assurance that the former owner/operator or guarantors will continue to timely reimburse HHEM for expenditures and/or will be financially capable of fulfilling their obligations under the settlement agreement and the guaranties. The additional Costs cannot be reasonably estimated at this time, and accordingly, there can be no assurance that the resolution of this matter will not be material to the financial position, results of operations or cash flows of HHEM or the Company.

In August 2006, H&H received a notice letter from the United States Environmental Protection Agency ("EPA") formally naming H&H as a PRP at a superfund site in Massachusetts ("Superfund site"). H&H is part of a group of thirteen other PRPs ("PRP Group") that work cooperatively regarding remediation of the Superfund site. On June 13, 2008, H&H executed a participation agreement, consent decree and settlement trust that all of the other PRPs have signed as well. In December 2008, the EPA lodged the consent decree with the United States District Court for the District of Massachusetts and the consent decree was entered on January 27, 2009, after no comments were received during the thirty-day comment period. With the entry and filing of the consent decree, H&H was required to make two payments in 2009: one payment of $0.2 million relating to the "true-up" of monies previously expended for remediation and a payment of $0.3 million for H&H's share of the early action items for the remediation project. In addition, on March 11, 2009, HNH executed a financial guaranty of H&H's obligations in connection with the Superfund site in the amount of $2.6 million. The PRP Group has both chemical and radiological PRPs. H&H is a chemical PRP; not a radiological PRP. The remediation of radiological contamination at the Superfund site, under the direction of the Department of Energy ("DOE"), has been completed and the Final Status Survey was submitted to EPA in August 2012. Until the Final Status Survey is approved by the EPA, DOE will not turn over and allow access to the Superfund site to the PRPs. It is currently anticipated that the DOE will turn over the Superfund site in early 2013. Additional financial contributions will be required by the PRP Group when it obtains access to the Superfund site, as noted above. H&H's share is 14.69%. H&H has recorded a significant liability in connection with this matter. There can be no assurance that the resolution of this matter will not be material to the financial position, results of operations or cash flows of H&H or the Company.

HHEM is continuing to comply with a 1987 consent order from the Massachusetts Department of Environmental Protection ("MADEP") to investigate and remediate the soil and groundwater conditions at the MA Property that is the subject of the Arista Development litigation discussed above. On June 30, 2010, HHEM filed a Response Action Outcome Statement to close the site since HHEM's licensed site professional concluded that groundwater monitoring demonstrated that the groundwater conditions have stabilized or continue to improve at the site. HHEM anticipates a formal notice of audit findings from MADEP within the first half of 2013. While there can be no assurances, the Company does not expect any further liability in this matter to be material. In addition, HHEM has concluded settlement discussions with abutters of the MA Property and entered into settlement agreements with each of them. Therefore, HHEM does not expect that any claims from any additional abutters will be asserted, but there can be no such assurances.

Other Litigation

There are other claims against the Company or certain of its subsidiaries which arise in the ordinary course of business. It is not possible at this time to reasonably estimate the probability, range or share of any potential liability of the Company or its subsidiaries in any of these matters.

There is insurance coverage available for many of the foregoing actions, which are being litigated in a variety of jurisdictions. To date, HNH and its subsidiaries have not incurred and do not believe they will incur any significant liability with respect to these claims, which they are contesting vigorously. However, it is possible that the ultimate resolution of such litigation and claims could have a material adverse effect on the Company's results of operations, financial position and cash flows when they are resolved in future periods.

Note 20 – Related Party Transactions

As of December 31, 2012, SPH Group Holdings LLC ("SPHG Holdings") and its subsidiaries were the direct owner of 7,228,735 shares of the Company's common stock, representing approximately 55.01% of outstanding shares. The power to vote and dispose of the securities held by SPHG Holdings is controlled by Steel Partners Holdings GP Inc. ("SP Holdings GP"). Warren G. Lichtenstein, our Chairman of the Board of Directors, is also the Executive Chairman of SP Holdings GP. Certain other affiliates of SP Holdings GP hold positions with the Company, including Glen M. Kassan, as former Chief Executive Officer and present Vice Chairman, and Jack Howard, as Vice Chairman.

As more fully described in Note 11 - "Debt", the Company is indebted to Steel Partners Holdings ("SPH") under H&H Group's 10% Subordinated Notes. As of December 31, 2012, $0.6 million of accrued interest and $19.9 million of Subordinated Notes were owed to related parties.

On October 14, 2011, in connection with a redemption of $25.0 million of Subordinated Notes from all holders on a pro-rata basis, H&H Group redeemed $12.5 million face amount of notes held by SPHG Holdings for a total amount of $13.2 million, which included the redemption price of 102.8% of the principal amount, accrued but unpaid payment-in-kind-interest, plus accrued and unpaid cash interest. Until October 14, 2013, the Subordinated Notes and Warrants which comprise the Units are not detachable and, accordingly, a pro-rata portion of Warrants were also redeemed.

On January 1, 2012, the Company entered into a Management Services Agreement ("Management Services Agreement") with SP Corporate Services LLC ("SP Corporate"), which restructured its prior management services arrangements. SP Corporate is an affiliate of SPHG Holdings and is controlled by the Company's Chairman, Warren G. Lichtenstein. Pursuant to the Management Services Agreement, SP Corporate agreed to provide the Company with the continued services of Glen M. Kassan, as the Company's Chief Executive Officer, and James F. McCabe, Jr., as the Company's Chief Financial Officer, and certain other employees and corporate services. The Management Services Agreement further provides that the Company will pay SP Corporate a fixed annual fee of approximately $10.98 million, consisting of (a) $1.74 million in consideration of executive services provided by SP Corporate under the Management Services Agreement, and (b) $9.24 million in consideration of the corporate services provided by SP Corporate under the Management Services Agreement, including, without limitation, legal, tax, accounting, treasury, consulting, auditing, administrative, compliance, environmental health and safety, human resources, marketing, investor relations and other similar services rendered for the Company or its subsidiaries. The fees payable under the Management Services Agreement are subject to an annual review and such adjustments as may be agreed upon by SP Corporate and the Company. The Management Services Agreement has a term of one year, which will automatically renew for successive one-year periods unless and until terminated in accordance with the terms set forth therein, which include, under certain circumstances, the payment by the Company of a termination fee to SP Corporate.

In connection with the Management Services Agreement, the Company also entered into an Asset Purchase Agreement, dated January 1, 2012 ("Purchase Agreement"), pursuant to which the Company transferred to SP Corporate certain assets, which had previously been used, or held for use, by the Company and its subsidiaries to provide corporate services to the Company and its affiliates. In addition to certain fixed assets and contractual rights, approximately 37 employees of the Company and its subsidiaries were transferred to SP Corporate pursuant to the Purchase Agreement, including Mr. McCabe and certain other officers of the Company. All of the Company's officers who were transferred to SP Corporate pursuant to the Purchase Agreement continue to serve as officers of the Company pursuant to the Management Services Agreement. The Company's entry into the Management Services Agreement and the Purchase Agreement were approved by a special committee of the Board of Directors, composed entirely of independent directors. On December 21, 2012, the Audit Committee of the Board of Directors resolved that, effective January 1, 2013, certain individuals employed by SP Corporate and their related expenses would be transferred to the Company, and the fee paid under the Management Services Agreement will accordingly be reduced by approximately $2.0 million.

In January 2011, a special committee of the Board of Directors of the Company approved a management and services fee to be paid to SP Corporate in the amount of $1.95 million for services performed in 2010. Such amount was paid in 2011. Also, for services performed by SP Corporate in 2011, the Company incurred a management and services fee of $1.74 million. In connection with the approval of the management and services fee, in March 2011, the special committee of the Board also approved a sub-lease of office space from an affiliate of SPHG Holdings for an estimated aggregate occupancy charge of approximately $0.4 million per year. The 2011 management services fee was paid as consideration for management and advisory services with

respect to operations, strategic planning, finance and accounting, sale and acquisition activities and other aspects of the Company's businesses, as well as Glen Kassan's services as Chief Executive Officer, John Quicke's services as a Vice President and other assistance from affiliates of SPHG Holdings.

In 2011 and 2010, the Company provided certain accounting services to SPH. The Company billed SPH $1.3 million and $0.6 million on account of services provided in 2011 and 2010, respectively.

Note 21 – Reportable Segments

HNH, the parent company, manages a group of businesses on a decentralized basis. HNH is a diversified holding company whose strategic business units encompass the following segments: Joining Materials, Tubing, Engineered Materials, Arlon Electronic Materials and Kasco Blades and Route Repair Services. The Joining Materials segment was formerly known as the Precious Metal segment. The business units principally operate in North America.

Joining Materials segment primarily fabricates precious metals and their alloys into brazing alloys. Brazing alloys are used to join similar and dissimilar metals, as well as specialty metals and some ceramics, with strong, hermetic joints. Joining Materials segment offers these metal joining products in a wide variety of alloys, including gold, silver, palladium, copper, nickel, aluminum and tin. These brazing alloys are fabricated into a variety of engineered forms and are used in many industries including electrical, appliance, transportation, construction and general industrial, where dissimilar material and metal joining applications are required. Operating income from precious metal products is principally derived from the "value added" of processing and fabricating and not from the purchase and resale of precious metal. Joining Materials segment has limited exposure to the prices of precious metals due to the Company's hedging and pricing models. We believe that the business unit that comprises our Joining Materials segment is the North American market leader in many of the markets that it serves.

Tubing segment manufactures a wide variety of steel tubing products. We believe that our Stainless Steel Tubing Group manufactures the world's longest continuous seamless stainless steel tubing coils, in excess of 5,000 feet, serving the petrochemical infrastructure and shipbuilding markets. We also believe it is the number one supplier of small diameter (<3mm) coil tubing to industry leading specifications serving the aerospace, defense and semiconductor fabrication markets. Our Specialty Tubing unit manufactures welded carbon steel tubing in coiled and straight lengths with a primary focus on products for the commercial refrigeration, automotive, heating, ventilation and cooling (HVAC), industrial heat exchanger, and oil and gas industries. In addition to producing bulk tubing, it produces value added fabrications for several of these industries.

Engineered Materials segment manufactures and supplies products primarily to the commercial construction and building industries. It manufactures fasteners and fastening systems for the U.S. commercial low slope roofing industry, which are sold to building and roofing material wholesalers, roofing contractors and private label roofing system manufacturers; a line of engineered specialty fasteners for the building products industry for fastening applications in the remodeling and construction of homes, decking and landscaping; and electro-galvanized and painted cold rolled sheet steel products primarily for the construction, entry door, container and appliance industries. We believe that our primary business unit in the Engineered Materials segment is the market leader in fasteners and accessories for commercial low-slope roofing applications and that the majority of the net sales for the segment are for the commercial construction repair and replacement market.

Arlon provides high performance materials for the printed circuit board ("PCB") industry and silicone rubber-based insulation materials used in a broad range of industrial, military/aerospace, consumer and commercial markets. It also supplies high technology circuit substrate laminate materials to the PCB industry. Products are marketed principally to original equipment manufacturers ("OEMs"), distributors and PCB manufacturers globally. Arlon also manufactures a line of market leading silicone rubber materials used in a broad range of military, consumer, industrial and commercial products.

Kasco provides meat-room blade products, repair services and resale products for the meat and deli departments of supermarkets, restaurants, meat and fish processing plants and for distributors of electrical saws and cutting equipment, principally in North America and Europe. Kasco also provides wood cutting blade products for the pallet manufacturing, pallet recycler and portable saw mill industries in North America.

Management has determined that certain operating companies should be aggregated and presented within a single segment on the basis that such segments have similar economic characteristics and share other qualitative characteristics. Management reviews net sales, gross profit and operating income to evaluate segment performance. Operating income for the segments generally includes costs directly attributable to the segment and excludes other unallocated general corporate expenses. Other income and expense, interest expense and income taxes are not presented by segment since they are excluded from the measure of segment profitability reviewed by the Company's management.

The following tables present information about reportable segments for the years ended December 31, 2012, 2011 and 2010:

Income Statement Data	**Year Ended**		
(in thousands)	**December 31,**		
	2012	**2011**	**2010**
Net sales:			
Joining Materials	$ 174,621	$ 190,607	$ 128,360
Tubing	96,892	97,295	94,558
Engineered Materials	222,931	213,529	193,334
Arlon	80,815	81,282	75,398
Kasco	54,137	52,251	48,821
Total net sales	$ 629,396	$ 634,964	$ 540,471
Segment operating income:			
Joining Materials (a)	$ 23,942	$ 24,747	$ 14,455
Tubing (b)	14,815	13,371	13,361
Engineered Materials	23,841	20,679	17,495
Arlon (c)	11,594	8,348	8,808
Kasco (d)	4,431	4,227	1,349
Total segment operating income	78,623	71,372	55,468
Unallocated corporate expenses and non-operating units	(23,387)	(19,318)	(14,241)
Proceeds from insurance claims, net			
Unallocated pension expense	(3,313)	(6,357)	(4,349)
Gain (loss) from asset dispositions	93	50	(44)
Operating income	52,016	45,747	36,834
Interest expense	(16,719)	(16,268)	(26,310)
Realized and unrealized gain (loss) on derivatives	2,582	418	(5,983)
Other expense	(530)	(1,513)	(180)
Income from continuing operations before tax	$ 37,349	$ 28,384	$ 4,361

a) The results for the Joining Materials segment for 2012, 2011 and 2010 include gains of $0.6 million, $1.9 million and $0.2 million, respectively, resulting from the liquidation of precious metal inventory valued at LIFO cost.

b) Segment operating income for the Tubing segment for 2010 includes a gain of $1.3 million related to insurance proceeds from a fire claim settlement.

c) Segment operating income of the Arlon segment for 2011 includes an asset impairment charge of $0.7 million to write-down unused land located in Rancho Cucamonga, California to fair value.

d) Segment operating income for the Kasco segment for 2010 includes $0.5 million of costs related to restructuring activities and $1.6 million of asset impairment charges associated with certain real property located in Atlanta, Georgia.

	2012	2011	2010
Capital Expenditures			
Joining Materials	$ 2,951	$ 1,574	$ 687
Tubing	5,160	3,061	3,686
Engineered Materials	5,348	1,548	1,963
Arlon	5,113	5,055	2,552
Kasco	2,236	1,422	1,336
Corporate and other	62	64	129
	$ 20,869	$ 12,725	$ 10,353

	2012	2011	2010
Depreciation and Amortization			
Joining Materials	$ 1,110	$ 1,373	$ 1,472
Tubing	2,942	2,916	2,977
Engineered Materials	4,635	4,537	4,314
Arlon	3,828	4,041	4,150
Kasco	1,920	2,199	2,587
Corporate and other	103	285	371
	$ 14,538	$ 15,351	$ 15,871

	2012	2011
Total Assets		
Joining Materials	$ 53,088	$ 50,550
Tubing	41,717	41,346
Engineered Materials	130,527	120,111
Arlon	66,255	65,779
Kasco	25,215	24,129
Corporate and other	178,080	174,672
Discontinued operations	17,479	16,603
	$ 512,361	$ 493,190

The following table presents revenue and long-lived asset information by geographic area as of and for the years ended December 31. Foreign revenue is based on the country in which the legal subsidiary is domiciled. Long-lived assets in 2012 and 2011 consist of property, plant and equipment, plus approximately $8.2 million and $7.8 million, respectively, of land and buildings from previously operating businesses, and other non-operating assets that are carried at the lower of cost or fair value and are included primarily in other non-current assets in the consolidated balance sheets. Neither net sales nor long-lived assets from any single foreign country was material to the consolidated financial statements of the Company.

Geographic Information

(in thousands)	Net Sales		
	2012	2011	2010
United States	$ 562,338	$ 560,783	$ 487,251
Foreign	67,058	74,181	53,220
	$ 629,396	$ 634,964	$ 540,471

(in thousands)	Long-Lived Assets	
	2012	2011
United States	$ 71,707	$ 65,584
Foreign	23,150	16,682
	$ 94,857	$ 82,266

Note 22 – Parent Company Condensed Financial Information

As discussed in Note 11 - "Debt," certain of the Company's subsidiaries have long-term debt outstanding which place restrictions on distributions of funds to HNH, subject to certain exceptions including required pension payments to the WHX Pension Plan. As these subsidiaries' restricted net assets represent a significant portion of the Company's consolidated net assets, the Company is presenting the following parent company condensed financial information. The HNH parent company condensed financial information is prepared on the same basis of accounting as the HNH consolidated financial statements, except that the HNH subsidiaries are accounted for under the equity method of accounting.

HANDY & HARMAN LTD. (PARENT ONLY)
Balance Sheets
(Dollars and shares in thousands)

	December 31, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 735	$ 1,511
Deferred income tax assets - current	8,231	17,456
Prepaid and other current assets	105	95
Total current assets	9,071	19,062
Notes receivable from Bairnco	4,627	4,067
Investments in marketable securities	17,229	25,856
Deferred income tax assets	102,221	120,317
Investments in and advances to subsidiaries, net	226,878	144,757
Total assets	$ 360,026	$ 314,059
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Trade payables	$ 99	$ 225
Accrued liabilities	648	1,435
Deferred income tax liabilities - current	—	87
Total current liabilities	747	1,747
Accrued interest - Handy & Harman	12,193	8,106
Notes payable to Handy & Harman	80,083	60,664
Accrued pension liability	215,075	184,544
Total liabilities	308,098	255,061
Commitments and Contingencies		
Stockholders' Equity:		
Common stock - $.01 par value; authorized 180,000 shares; issued and outstanding 13,140 and 12,646 shares, respectively	131	127
Accumulated other comprehensive loss	(226,168)	(188,389)
Additional paid-in capital	559,970	555,746
Accumulated deficit	(282,005)	(308,486)
Total stockholders' equity	51,928	58,998
Liabilities and stockholders' equity	$ 360,026	$ 314,059

HANDY & HARMAN LTD. (PARENT ONLY)
Statements of Income and Comprehensive Income (Loss)
(in thousands)

	Year Ended December 31,		
	2012	**2011**	**2010**
Equity in income of subsidiaries, net of tax	$ 35,498	$ 40,044	$ 15,435
Selling, general and administrative expenses	(7,720)	(5,883)	(4,174)
Pension expense	(3,195)	(6,316)	(4,349)
Other:			
Interest expense - Handy & Handy notes payable	(4,087)	(2,889)	(2,033)
Interest income - Bairnco notes receivable	560	491	432
Other income (expense)	15	(3)	(8)
Income before tax	21,071	25,444	5,303
Tax benefit (provision)	5,410	113,331	(213)
Net income	26,481	138,775	5,090
Other comprehensive (loss) income, net of tax:			
Changes in pension liability and post-retirement benefit obligations	(43,702)	(82,805)	(16,649)
Tax effect of changes in pension liability and post-retirement benefit obligations	14,455	27,211	—
Change in market value of securities	(14,948)	7,835	—
Tax effect of change in market value of securities	6,054	(3,014)	—
Foreign currency translation adjustments	362	(1,751)	(814)
Other comprehensive loss	(37,779)	(52,524)	(17,463)
Comprehensive (loss) income	$ (11,298)	$ 86,251	$ (12,373)

HANDY & HARMAN LTD. (PARENT ONLY)
Statements of Cash Flows
(in thousands)

	Year ended December 31,		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net income	$ 26,481	$ 138,775	$ 5,090
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in income of subsidiaries, net of tax	(35,498)	(40,044)	(15,435)
Payment in kind interest expense - Handy & Harman	4,087	2,889	2,033
Payment in kind interest income - Bairnco	(560)	(491)	(432)
Non-cash stock-based compensation	4,476	2,837	223
Deferred income taxes	(5,410)	(113,490)	—
Change in operating assets and liabilities:			
Advances from affiliates	—	(424)	(41)
Pension payments - WHX Pension Plan	(15,919)	(15,235)	(9,522)
Pension expense	3,195	6,316	4,349
Other current assets and liabilities	(1,047)	(1,330)	1,429
Net cash used in operating activities	(20,195)	(20,197)	(12,306)
Cash flows from investing activities:			
Investments in marketable securities	(6,321)	(18,021)	—
Dividends from subsidiaries	6,321	18,021	—
Net cash provided by investing activities	—	—	—
Cash flows from financing activities:			
Notes payable - Handy & Harman	19,419	18,735	12,021
Net cash provided by financing activities	19,419	18,735	12,021
Net change for the year	(776)	(1,462)	(285)
Cash and cash equivalents at beginning of year	1,511	2,973	3,258
Cash and cash equivalents at end of year	$ 735	$ 1,511	$ 2,973

Note 23 – Unaudited Quarterly Results

Unaudited quarterly financial results during the years ended December 31, 2012 and 2011 were as follows:

(in thousands, except per share amounts)	Fiscal 2012 Quarter Ended (Unaudited)			
	March 31,	June 30,	September 30,	December 31,
Net sales	$ 156,713	$ 178,076	$ 156,540	$ 138,067
Operating income	$ 10,844	$ 20,092	$ 13,190	$ 7,890
Income from continuing operations before tax	$ 7,849	$ 17,202	$ 7,651	$ 4,647
Net income from discontinued operations	$ 377	$ 815	$ 997	$ 822
Net income	$ 5,097	$ 10,952	$ 5,927	$ 4,505
Comprehensive income (loss)	$ 4,946	$ 1,617	$ 9,551	$ (27,412)
Basic and diluted income per share of common stock				
Income from continuing operations, net of tax, per share	$ 0.37	$ 0.77	$ 0.37	$ 0.28
Discontinued operations, net of tax, per share	$ 0.03	$ 0.06	$ 0.08	$ 0.06
Net income per share	$ 0.40	$ 0.83	$ 0.45	$ 0.34

(in thousands, except per share amounts)	Fiscal 2011 Quarter Ended (Unaudited)			
	March 31,	June 30,	September 30,	December 31,
Net sales	$ 146,814	$ 180,176	$ 170,079	$ 137,895
Operating income	$ 7,856	$ 16,008	$ 15,159	$ 6,724
(Loss) income from continuing operations before tax	$ (605)	$ 17,704	$ 8,534	$ 2,751
Net income (loss) from discontinued operations	$ 6,410	$ 540	$ 346	$ (2,965)
Net income	$ 4,822	$ 16,760	$ 7,023	$ 110,170
Comprehensive income (loss)	$ 5,579	$ 16,603	$ 4,934	$ 59,135
Basic and diluted (loss) income per share of common stock				
(Loss) income from continuing operations, net of tax, per share	$ (0.13)	$ 1.28	$ 0.52	$ 8.95
Discontinued operations, net of tax, per share	$ 0.52	$ 0.04	$ 0.03	$ (0.24)
Net income per share	$ 0.39	$ 1.32	$ 0.55	$ 8.71

During the fourth quarter of 2011, a tax benefit of $110.4 million was recorded as a result of the non-cash reversal of the Company's deferred income tax valuation allowance. Other comprehensive losses of $29.2 million and $55.6 million, net of tax, were recorded in the fourth quarter of 2012 and 2011, respectively, principally from unrealized actuarial losses associated with the Company's defined benefit pension plans.

Note 24 – Subsequent Events

As further discussed in Note 5 - "Discontinued Operations," the Company divested substantially all of the assets and existing operations of its Continental Industries business unit in January 2013.

In connection with its Senior Credit Facility, H&H Group entered into an interest rate swap agreement in February 2013 to reduce its exposure to interest rate fluctuations. See Note 11 - "Debt" for further discussion of the terms of this arrangement.

EXHIBIT 99.2

FINANCIAL STATEMENTS OF STEEL EXCEL

1. Index to Financial Statements

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Steel Excel Inc.
San Ramon, California

We have audited the accompanying consolidated balance sheets of Steel Excel Inc. (formerly ADPT Corporation) as of December 31, 2012 and 2011 and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Steel Excel Inc. at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited the reclassifications to the consolidated financial statements for the nine months ended December 31, 2010 resulting from presenting the Company's Aristos Business as a discontinued operation and retroactively adjusting outstanding share and per share information for a reverse/forward split, as described in Notes 1 and 5. In our opinion, such reclassifications are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the December 31, 2010 financial statements of the Company referred to above other than with respect to the reclassifications and, accordingly, we do not express an opinion or any other form of assurance on the December 31, 2010 financial statements taken as a whole. The reclassifications had no effect on net loss.

/s/ BDO USA, LLP

San Jose, California
March 8, 2013

Report of Predecessor Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Steel Excel Inc.

In our opinion, the accompanying consolidated statements of operations, of comprehensive loss, of stockholders' equity and of cash flows, present fairly, in all material respects, the results of operations and cash flows of Steel Excel Inc. (formerly ADPT Corporation) and its subsidiaries for the nine month period ended December 31, 2010, before the effects of the adjustments to retrospectively reflect the discontinued operations and the reverse/forward stock split described in Note 1, in conformity with accounting principles generally accepted in the United States of America (the 2010 financial statements before the effects of the adjustments described in Note 1 are not presented herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit, before the effects of the adjustments described above, of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards required that we plan to perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts of disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively reflect the discontinued operations and the reverse/forward stock split described in Note 1 and accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by other auditors.

/s/ PricewaterhouseCoopers LLP
San Jose, California
March 3, 2011

STEEL EXCEL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands)

	Fiscal Year Ended December 31,		Nine-Month Fiscal Year Ended December 31,
	2012	**2011**	**2010**
Net revenues	$ 100,104	$ 2,502	$ -
Cost of revenues	66,064	1,459	-
Gross margin	34,040	1,043	-
Operating expenses			
Selling, general and administrative	28,031	9,585	11,045
Impairment of goodwill	192	-	-
Restructuring charges	-	(31)	3,944
Total operating expenses	28,223	9,554	14,989
Operating income (loss)	5,817	(8,511)	(14,989)
Interest and other income, net	1,067	8,358	5,208
Interest expense	(417)	(5)	(3)
Income (loss) from continuing operations before income taxes	6,467	(158)	(9,784)
Benefit from (provision for) income taxes	15,712	226	(7,602)
Income (loss) from continuing operations, net of taxes	22,179	68	(17,386)
Income (loss) from discontinued operations, net of taxes	(1,935)	1,624	(11,289)
Gain on disposal of discontinued operations, net of taxes	-	5,005	10,916
Income (loss) from discontinued operations	(1,935)	6,629	(373)
Net income (loss)	20,244	6,697	(17,759)
Net loss attributable to non-controlling interests in consolidated entities			
Continuing operations	(22)	-	-
Discontinued operations	(427)	(72)	-
	(449)	(72)	-
Net income (loss) attributable to Steel Excel Inc.	$ 20,693	$ 6,769	$ (17,759)
Basic income (loss) per share:			
Income (loss) from continuing operations, net of taxes	$ 1.83	$ 0.01	$ (1.50)
Income (loss) from discontinued operations, net of taxes	$ (0.16)	$ 0.61	$ (0.03)
Net income (loss) attributable to Steel Excel Inc.	$ 1.71	$ 0.62	$ (1.53)
Diluted income (loss) per share:			
Income (loss) from continuing operations, net of taxes	$ 1.83	$ 0.01	$ (1.50)
Income (loss) from discontinued operations, net of taxes	$ (0.16)	$ 0.61	$ (0.03)
Net income (loss) attributable to Steel Excel Inc.	$ 1.71	$ 0.62	$ (1.53)
Shares used in computing income (loss) per share:			
Basic	12,110	10,882	11,609
Diluted	12,133	10,897	11,609

See accompanying Notes to Consolidated Financial Statements.

STEEL EXCEL INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Fiscal Year Ended December 31, 2012	Nine-Month Fiscal Year Ended December 31, 2011	Transition Period Ended December 31, 2010
Net income (loss) attributable to Steel Excel Inc.	$ 20,693	$ 6,769	$ (17,759)
Other comprehensive income (loss), net of taxes			
Net foreign currency translation adjustment, net of taxes:			
Foreign currency translation adjustment, net of taxes	(100)	164	141
Release of foreign currency translation gains, net of taxes	-	(2,542)	-
Subtotal	(100)	(2,378)	141
Net unrealized gain (loss) on marketable securities, net of taxes	303	260	(1,566)
Comprehensive income	20,896	4,651	(19,184)
Comprehensive loss attributable to non-controlling interest	(449)	(72)	-
Comprehensive income (loss) attributable to Steel Excel Inc.	$ 20,447	$ 4,579	$ (19,184)

See accompanying Notes to Consolidated Financial Statements.

STEEL EXCEL INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31,	
	2012	**2011**
Assets		
Current assets:		
Cash and cash equivalents	$ 71,556	$ 8,487
Marketable securities	199,128	314,941
Accounts receivable, net of allowance for doubtful accounts of $0	17,257	4,660
Prepaid expenses and other current assets	3,670	2,055
Total current assets	291,611	330,143
Property and equipment, net	77,768	21,060
Goodwill	53,093	8,244
Intangible assets, net	39,887	5,786
Other long-term assets	4,136	3,444
Total assets	$ 466,495	$ 368,677
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 4,282	$ 1,841
Accrued expenses and other liabilities	6,337	3,826
Current portion of long-term debt	4,000	-
Current portion of capital lease obligations	413	-
3/4% convertible senior subordinated notes due 2023	346	346
Total current liabilities	15,378	6,013
Capital lease obligations, net of current portion	984	-
Long-term debt, net of current portion	9,000	-
Other long-term liabilities	9,171	10,767
Total liabilities	34,533	16,780
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock; $0.001 par value; Authorized shares, 1,000; Series A Shares, 250 designated; outstanding shares, none	-	-
Common stock; $0.001 par value; Authorized shares, 40,000; outstanding shares, 12,907 and 10,892 at December 31, 2012 and 2011, respectively	13	11
Additional paid-in capital	231,170	171,636
Accumulated other comprehensive income	946	743
Retained earnings	199,772	179,079
Total Steel Excel Inc. stockholders' equity	431,901	351,469
Non-controlling interest	61	428
Total stockholders' equity	431,962	351,897
Total liabilities and stockholders' equity	$ 466,495	$ 368,677

See accompanying Notes to Consolidated Financial Statements.

STEEL EXCEL INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	Non-controlling	
	Shares	Amount	Capital	Income	Earnings	Interest	Total
Balance, March 31, 2010	12,040	$ 12	$ 203,336	$ 4,286	$ 190,069	$ -	$ 397,703
Net loss attributable to Steel Excel Inc.	-	-	-	-	(17,759)	-	(17,759)
Other comprehensive loss	-	-	-	(1,425)	-	-	(1,425)
Sale of common stock under employee option plans	76	-	2,169	-	-	-	2,169
Net issuance of restricted shares	(62)	-	-	-	-	-	-
Net settlement of restricted shares	1	-	(861)	-	-	-	(861)
Stock-based compensation	-	-	1,123	-	-	-	1,123
Repurchase of common stock	(1,173)	(1)	(34,683)	-	-	-	(34,684)
Balance, December 31, 2010	10,882	11	171,084	2,861	172,310	-	346,266
Net income attributable to Steel Excel Inc.	-	-	-	-	6,769	-	6,769
Net loss attributable to non-controlling interest	-	-	-	-	-	(72)	(72)
Other comprehensive loss				(2,118)	-	-	(2,118)
Sale of common stock under employee option plans	1	-	29		-	-	29
Net issuance of restricted shares	5	-			-	-	-
Net settlement of restricted shares	4	-			-	-	-
Stock-based compensation	-	-	523		-	-	523
Non-controlling interest investment					-	500	500
Balance, December 31, 2011	10,892	11	171,636	743	179,079	428	351,897
Net income attributable to Steel Excel Inc.	-	-	-	-	20,693	-	20,693
Net loss attributable to non-controlling interest	-	-	-	-	-	(449)	(449)
Non-controlling interest investment in The Show						75	75

Other comprehensive income	-	-	-	203	-	-	203
Net issuance of restricted shares	85	-	-	-	-	-	-
Net settlement of restricted shares	14	-	-	-	-	-	-
Stock-based compensation	-	-	1,487	-	-	-	1,487
Issuance of common stock for acquisition	2,027	2	60,823	-	-	-	60,825
Repurchase of common stock	(111)	-	(2,776)	-	-	-	(2,776)
Non-controlling interest investment in CrossFit	-	-	-	-	-	82	82
Write-off of non-controlling interest of The Show	-	-	-	-	-	(75)	(75)
Balance, December 31, 2012	12,907	$ 13	$ 231,170	$ 946	$ 199,772	$ 61	$ 431,962

See accompanying Notes to Consolidated Financial Statements.

STEEL EXCEL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Fiscal Year Ended December 31, 2012	Fiscal Year Ended December 31, 2011	Nine-Month Transition Period Ended December 31, 2010
Cash Flows From Operating Activities:			
Net income (loss)	$ 20,693	$ 6,769	$ (17,759)
Less: Income (loss) from discontinued operations, net of taxes	(1,935)	6,915	(373)
Income (loss) from continuing operations, net of taxes	22,628	(146)	(17,386)
Adjustments to reconcile income (loss) from continuing operations, net of taxes, to net cash provided by (used in) operating activities of continuing operations:			
Stock-based compensation expense	1,487	523	470
Depreciation and amortization	16,728	2,809	3,214
Adjustment of deferred taxes	(15,105)	1,395	-
Loss on disposal of long-lived assets	819	-	-
Impairment of goodwill	192	-	-
Gain on release of foreign currency translation, net of taxes	-	(2,542)	-
Changes in current assets and liabilities:			
Accounts receivable	(5,469)	(569)	-
Prepaid expenses and other current assets	(970)	2,835	6,554
Assets held for sale	-	6,216	-
Other assets	(132)	(802)	153
Accounts payable	1,903	177	(7,120)
Accrued expenses and other liabilities	(2,098)	(5,934)	(6,717)
Net loss attributable to non-controlling interest	(449)	(72)	-
Net cash provided by (used in) operating activities of continuing operations	19,534	3,890	(20,832)
Net cash provided by (used in) operating activities of discontinued operations	(847)	6,933	6,519
Net cash provided by (used in) operating activities	18,687	10,823	(14,313)
Cash Flows From Investing Activities:			
Purchases of net assets in acquisitions	(52,567)	(36,530)	-
Purchases of property and equipment	(11,818)	(65)	-
Investment by non-controlling interest	75	-	-
Purchases of marketable securities	(523,443)	(537,898)	(198,403)
Sales of marketable securities	573,792	441,226	141,681
Maturities of marketable securities	64,253	92,321	49,536
Net cash provided by (used in) investing activities of continuing operations	50,292	(40,946)	(7,186)
Net cash provided by investing activities of discontinued operations	-	-	28,285
Net cash provided by (used in) investing activities	50,292	(40,946)	21,099
Cash Flows From Financing Activities:			
Proceeds from issuance of common stock	-	29	2,169
Repurchases of common stock	(2,776)	-	(34,684)
Repayments of capital lease obligations	(230)	-	-
Repayments of long-term debt	(3,000)	-	-
Net cash provided by (used in) financing activities	(6,006)	29	(32,515)

Effect of foreign currency translation on cash and cash equivalents	96	305	57
Net increase (decrease) in cash and cash equivalents	63,069	(29,789)	(25,672)
Cash and cash equivalents, beginning balance	8,487	38,276	63,948
Cash and cash equivalents, ending balance	$ 71,556	$ 8,487	$ 38,276

See accompanying Notes to Consolidated Financial Statements.

STEEL EXCEL INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

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. For details regarding the Company's historical business, which has been accounted for as discontinued operations, refer to Note 5 of the Notes to Financial Statements. The Company was previously known as ADPT Corporation.

Basis of Presentation

The consolidated financial statements, which include the Company and its wholly-owned subsidiaries, are prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company's Consolidated Financial Statements include the accounts of Steel Excel and its subsidiaries. The equity attributable to non-controlling interests in subsidiaries is shown separately in the accompanying consolidated balance sheets. All significant intercompany accounts and transactions have been eliminated in consolidation.

Change of Fiscal Year

On December 7, 2010, the Company's Board of Directors approved the change in its fiscal year-end from March 31 to December 31. As a result of this change, the transition fiscal year was a nine-month transition period from April 1, 2010 to December 31, 2010 (the "Transition Period"). References in these Notes to Consolidated Financial Statements (the "Notes") to "fiscal year 2012" or "fiscal 2012" refer to the calendar year of January 1, 2012 to December 31, 2012. References in these Notes to "fiscal year 2011" or "fiscal 2011" refer to the calendar year of January 1, 2011 to December 31, 2011.

During fiscal year 2012, the Company acquired one sports-related business, South Bay Strength and Conditioning LLC, and two oilfield servicing businesses, Sun Well Service Inc. and Eagle Well Services. During fiscal year 2011, the Company acquired two sports-related businesses, Baseball Heaven and The Show LLC, and one oilfield servicing business, Rogue Pressure Services LLC. See Note 3 for additional details. The Company operates in two reportable segments: Steel Sports and Steel Energy. See Note 16 for additional details.

Use of Estimates and Reclassifications

In accordance with GAAP, management utilizes certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ from those estimates.

Certain reclassifications have been made to prior years' amounts to conform to the current year's presentation. In July 2012, the Company reclassified The Show (acquired in August 2011) to discontinued operations as it was not meeting projections, with no expectation to perform as represented when acquired. In July 2011, the Company ceased its efforts to sell or license its intellectual property from its former enterprise-class external storage products business (the "Aristos Business") and finalized the wind down of such business. As such, The Show and the Aristos Business are reflected as a discontinued operations in the accompanying financial statements and prior periods have been reclassified to conform to this presentation.

Reverse/Forward Stock Split

At the close of business on October 3, 2011, the Company effected a reverse split (the "Reverse Split") immediately followed by a forward split (the "Forward Split" and together with the Reverse Split, the "Reverse/Forward Split"). At the Company's 2011 annual stockholders meeting, its stockholders approved a proposal authorizing the Board of Directors (the "Board") to effect the reverse/forward stock split at exchange ratios determined by the Board within certain specified ranges.

The exchange ratio for the Reverse Split was 1-for-500 and the exchange ratio for the Forward Split was 50-for-1. As a result of the Reverse Split, stockholders holding less than 500 shares (the "Cashed Out Stockholders") were entitled to a cash payment for all of their shares. All remaining stockholders following the Forward Split (the "Remaining Stockholders") were also entitled to a cash payment for any fractional shares that they would otherwise have received. The cash payment that each Cashed Out Stockholder or Remaining Stockholder was entitled to receive was based upon such stockholder's pro rata share of the total net proceeds received in the sale of the aggregated fractional shares by the Company's transfer agent at prevailing prices on the open market.

As a result of the Reverse/Forward Split, the Company's common stock outstanding went from 108,868,286 shares at September 30, 2011 to 10,886,829 shares at October 3, 2011. All shares outstanding and per share information for the current and previous financial periods being reported have been adjusted to reflect the Reverse/Forward Split.

Summary of Significant Accounting Policies

Fair Value Measurements

The Company measures fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The GAAP fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three broad levels, as described below:

Level 1 applies to quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 applies to observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3 applies to unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

See Notes 6 and 8.

Cash, Cash Equivalents and Marketable Securities Valuation

The Company's marketable securities are classified as available-for-sale and are reported at fair market value, inclusive of unrealized gains and losses, as of the respective balance sheet date. Marketable securities consist of corporate obligations, United States government securities, and government agencies. The Consolidated Balance Sheet is updated at each reporting period to reflect the change in the fair value of its marketable securities that have declined below or risen above their original cost. The Consolidated Statements of Operations reflect a charge in the period in which a determination is made that the decline in fair value is considered to be other-than-temporary. The Company does not hold its securities for trading or speculative purposes.

The Company recognizes an impairment charge for available-for-sale investments when a decline in the fair value of its investments below the cost basis is determined to be other than temporary. The Company considers various factors in determining whether to recognize an impairment charge, including the length of time the investment has been in a loss position, the extent to which the fair value has been less than the Company's cost basis, the investment's financial condition, and near-term prospects of the investee. If the Company determines that the decline in an investment's fair value is other than temporary, the difference is recognized as an impairment loss in its Consolidated Statements of Operations.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents, marketable securities and trade accounts receivable. Deposits held with banks, including those held in foreign branches of global banks, may exceed the amount of insurance provided on such deposits. These deposits may be redeemed upon demand and, therefore, bear minimal risk. The Company, by policy, limits the amount of credit exposure through diversification, and management regularly monitors the composition of its investment portfolio for compliance with the Company's investment policies.

Foreign Currency Translation

For foreign subsidiaries whose functional currency is the local currency, the Company translates assets and liabilities to United States Dollars using period-end exchange rates, and translates revenues and expenses using average monthly exchange rates. The resulting cumulative translation adjustments are included in "Accumulated other comprehensive income, net of taxes," as a separate component of stockholders' equity in the Consolidated Balance Sheets.

For foreign subsidiaries whose functional currency is the United States Dollar, certain assets and liabilities are remeasured at the period-end or historical rates are used as appropriate. Revenues and expenses are remeasured at the average monthly exchange rates. Currency transaction gains and losses are recognized in current operations and have not been material to the Company's operating results for the periods presented.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews its receivables that remain outstanding past their applicable payment terms and establishes an allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. There were no allowances for doubtful accounts as of December 31, 2012 and 2011.

Property and Equipment, Net

Property and equipment are recorded at cost and depreciated using the straight-line method with the following useful lives:

	Steel Sports	Steel Energy
	(in years)	
Buildings, improvements and sports fields	10 - 25	7 - 39
Rigs and workover equipment	N/A	7 - 15
Other equipment	5 - 10	4 - 7
Vehicles	N/A	4 - 7
Furniture and fixtures	5	5

Assets in progress are related to the construction of rigs and a building that have not yet been placed in service for their intended use. Depreciation for rigs commences once it is placed in service and depreciation for buildings commences once they are ready for their intended use.

Repairs and maintenance of property and equipment are expensed as incurred.

Impairment of Long-Lived Assets

Long-lived assets primarily relate to the Company's intangible assets and property and equipment. Intangible assets are amortized on a straight-line and an accelerated basis over their estimated useful lives, which range from five to ten years. Property and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which range from five to 25 years.

The Company regularly performs reviews to determine if facts or circumstances are present, either internal or external, which would indicate that the carrying values of its long-lived assets may not be recoverable. Indicators include, but are not limited to, a significant decline in the market price of a long-lived asset, an expectation that more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life or a current period operating or cash flow loss combined with a historical or projected operating or cash flow loss.

The recoverability of the carrying value of the long-lived assets, other than goodwill, is based on the estimated future undiscounted cash flows derived from the use of the asset. If a long-lived asset is determined to be impaired, the loss is measured based on the difference between the long-lived asset's fair value and its carrying value. The estimate of fair value of long-lived assets is based on a discounted estimated future cash flows method and application of a discount rate commensurate with the risks inherent in the current business model. The Company's current business model contains management's subjective estimates and judgments; however, actual results may be materially different than the assumptions made by management.

Based on the Company's decision to pursue the sale or disposition of assets and/or business operations, it evaluated its long-lived assets and recorded impairment charges in the Transition Period aggregating $10.2 million. Of this $10.2 million, $6.1 million related to the write-off of intangible assets and $4.1 million related to the reduction of the carrying value of property and equipment, net, to our estimated fair value. There were no impairment charges on long-lived assets recorded in fiscal 2012 and 2011.

Goodwill and Intangibles, Net

Goodwill represents the excess of cost over the value of net assets of businesses acquired and is carried at cost unless write-downs for impairment are required. The Company's goodwill as of December 31, 2012 is a result of its acquisitions in fiscal 2012 and 2011. The Company operates under three reporting units, Sun Well, Rogue and Sports, and accordingly, its goodwill has been recorded in these respective reporting units. The Company evaluates the carrying value of goodwill at its reporting unit on an annual basis during the fourth quarter and whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators would include a significant reduction in its market capitalization, a decrease in operating results or deterioration of its financial position. In the fourth quarter of fiscal 2012 and 2011, the Company tested the goodwill acquired. In fiscal 2012, it determined the goodwill from Baseball Heaven (the Sports reporting unit) was fully impaired and wrote off the $0.2 million. There was no impairment of the Sun Well and Rogue reporting units. The impairment analysis required a two-step approach and entailed certain assumptions and estimates of discounted cash flows and a residual terminal value categorized as Level 3 inputs under the fair value hierarchy. The Company used a discount rate of approximately 16% and assumed a multiple of EBITDA ranging from 4.6 to 6.0. There was no impairment indicated in fiscal 2011.

Intangible assets, net, for the Steel Sports segment, consist of acquisition-related customer relationships that are amortized over their estimated life of five years on a straight-line basis. Intangible assets, net, for the Steel Energy segment, consist of acquisition-related customer relationships and trade names. The customer relationships and trade names are amortized over the useful life of ten and five years, respectively, utilizing the accelerated amortization method that approximates the estimated future cash flows from the intangibles. Also, see Note 3 to the Consolidated Financial Statements. The Company evaluates other intangible assets for impairment whenever events and circumstances indicate that such assets might be impaired.

Environmental Liabilities

The Company is responsible in many cases for any environmental liabilities resulting from its oilfield services work. It does not anticipate significant environmental liabilities for work completed through December 31, 2012, so no reserve for environmental liabilities has been recorded.

Revenue Recognition

The Company recognizes revenue upon providing the product or service. It provides services and products through two segments: Steel Sports and Steel Energy. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collection is reasonably assured. Revenue is recognized net of estimated allowances. Revenue is generated by short-term projects, most of which are governed by master service agreements ("MSAs") that are short-term in nature. The MSAs establish per day or per usage rates for equipment services. Steel Energy revenue is recognized daily on a proportionate performance method, based on services rendered. Revenue is reported net of sales tax collected. For Steel Sports revenues, the Company does not recognize revenue until the tournament or league occurs. For sports products, revenue is recognized upon shipment.

Revenue recognition for the Company's discontinued operations was as follows:

The application of the appropriate accounting principle to the Company's revenue was dependent upon specific transactions or combination of transactions. As described below, significant management judgments and estimates were made and used in connection with the revenue recognized in any accounting period. Material differences may have resulted in the amount and timing of revenue for any period if management had made different judgments or utilized different estimates.

The Company recognized revenue from its product sales, including sales to original equipment manufacturers, when persuasive evidence of an arrangement existed, delivery had occurred or services had been rendered, the price was fixed or determinable and collectibility was reasonably assured. These criteria were usually met upon shipment from the Company, provided that the risk of loss had transferred to the customer, customer acceptance was obtained or acceptance provisions had lapsed, or the Company had established a historical pattern that acceptance by the customer was fulfilled. The Company's sales were based on customer purchase orders, and to a lesser extent, contractual agreements, which provided evidence that an arrangement existed.

The Company's distributor arrangements provided distributors with certain product rotation rights. Additionally, the Company permitted distributors to return products subject to certain conditions. The Company established allowances for expected product returns. The Company also established allowances for rebate payments under certain marketing programs entered into with distributors. These allowances comprised the Company's revenue reserves and were recorded as direct reductions of revenue and accounts receivable. The Company made estimates of future returns and rebates based primarily on its past experience as well as the volume of products in the distributor channel, trends in distributor inventory, economic trends that might impact customer demand for its products (including the competitive environment), the economic value of the rebates being offered and other factors. In the past, actual returns and rebates were not significantly different from the Company's estimates.

For products that contained software, where software was essential to the functionality of the product, or software product sales, the Company recognized revenue when passage of title and risk of ownership was transferred to customers, persuasive evidence of an arrangement existed, which was typically upon sale of product by the customer, the price was fixed or determinable and collectibility was probable. For software sales that were considered multiple element transactions, the entire fee from the arrangement was allocated to each respective element based on its vendor specific fair value or upon the residual method and recognized when revenue recognition criteria for each element was met. Vendor specific fair value for each element was established based on the sales price charged when the same element was sold separately or based upon a renewal rate.

Income Taxes

The Company accounts for income taxes for uncertain tax positions using a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed "more-likely-than-not" to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in our financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement. In addition, the Company continued to recognize interest and/or penalties related to uncertain tax positions as income tax expense in its Consolidated Statements of Operations.

The Company must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets, tax credits, benefits, deductions and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties related to those uncertain tax positions. Significant changes to these estimates may result in an increase or decrease to its tax provision in subsequent periods. Due to the complexity and uncertainty associated with the Company's tax contingencies, the Company cannot make a reasonably reliable estimate of the period in which the cash settlement will be made for the Company's liabilities associated with uncertain tax positions.

The Company must assess the likelihood that it will be able to recover its deferred tax assets. It considers positive and negative evidence such as historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. If recovery is not likely, it must increase its provision for taxes by recording a valuation allowance against the deferred tax assets that it estimates will not ultimately be recoverable.

In addition, the calculation of tax liabilities involves dealing with uncertainties in the application of complex global tax regulations. The Company recognizes liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on its estimate of whether, and the extent to which, additional taxes and related interest will be due. If it ultimately determines that payment of these amounts is unnecessary, the Company reverses the liability and recognizes a tax benefit during the period in which it determines that the liability is no longer necessary. The Company records an additional charge in its provision for taxes in the period in which it determines that the recorded tax liability is less than it expects the ultimate assessment to be.

Note 2. Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2013-02, Topic 350 - Comprehensive Income ("ASU 2013-02"), which amends Topic 220 to improve the reporting of reclassifications out of accumulated other comprehensive income to the respective line items in net income. ASU 2013-02 is effective for reporting periods beginning after December 15, 2012. The Company is evaluating the impact of this ASU and does not expect the adoption will have a material impact on its consolidated results of operations or financial condition.

In July 2012, the FASB issued ASU No. 2012-02, Topic 350 - Intangibles - Goodwill and Other ("ASU 2012-02"), which amends Topic 350 to allow an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. An entity would not be required to determine the fair value of the indefinite-lived intangible unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than the carrying value. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company is evaluating the impact of this ASU and does not expect the adoption will have an impact on its consolidated results of operations or financial condition.

Note 3. Acquisitions

During both fiscal 2012 and 2011, the Company completed six acquisitions as it began its redeployment of capital into operating businesses.

Baseball Heaven

On June 27, 2011, the Company acquired all the net assets of Baseball Heaven LLC and Baseball Café, Inc. (collectively, “Baseball Heaven”), respectively, for an aggregate purchase price of $6.0 million in cash. Baseball Heaven is in the business of marketing and providing baseball facility services, including training camps, summer camps, leagues and tournaments, and concession and catering events. Baseball Heaven is included in the Steel Sports reporting segment.

The Company accounted for the Baseball Heaven acquisition as a business combination and the total consideration of $6.0 million has been allocated to the net assets and liabilities acquired based on their respective estimated fair values at June 27, 2011 as follows:

	Amount *(in thousands)*
Accounts receivable	$ 149
Loan receivable	15
Property and equipment	5,855
Intangible assets	235
Deferred revenue	(416)
Total identifiable net assets acquired	5,838
Goodwill	192
Net assets acquired	$ 6,030

The intangible assets acquired, consisting of customer relationships, are being amortized on a straight-line basis with a life of five years. The amortization expense of $20,000 is included in “Selling, marketing, and administrative expenses” in the Consolidated Statements of Operations for fiscal year 2011. The goodwill of $0.2 million arose from the growth potential the Company saw for Baseball Heaven and was expected to be deductible for tax purposes. As of December 31, 2012, the Company found this goodwill to be impaired. The $0.2 million goodwill impairment charge is included in the Consolidated Statements of Operations for fiscal 2012.

The acquisition-related costs for the purchase of Baseball Heaven, included in "Selling, marketing, and administrative" expenses in the Consolidated Statements of Operations, were $0.2 million for fiscal year 2011.

The Show

On August 15, 2011, the Company acquired all of the net assets used by The Show, LLC ("The Show"), which it contributed to The Show in exchange for a 75% membership interest. The Company paid an aggregate purchase price of $1.5 million in cash for these assets. The Show was engaged in the business of outfitting little league baseball and softball players and coaches in fully licensed Major League Baseball, minor league, and college replica uniforms, and sponsoring, hosting, operating, and managing baseball and softball leagues, tournaments, and other events and related websites. The Show was included in the Steel Sports reporting segment.

The Company accounted for The Show acquisition as a business combination and the total consideration of $1.5 million was allocated to the net assets acquired (no liabilities were assumed in connection with this transaction) based on their respective estimated fair values at August 15, 2011 as follows:

	Amount
	(in thousands)
Inventory	$ 53
Property and equipment	151
Total identifiable net assets acquired	204
Non-controlling interest in The Show	(500)
Goodwill	1,796
Net assets acquired	$ 1,500

The goodwill of $1.8 million arose from the Company's expectations for the potential of The Show to expand and was expected to be deductible for tax purposes. In July 2012, the Company reclassified The Show to discontinued operations as it was not meeting projections, with no expectation to perform as represented when acquired. As such, this goodwill was written off. See Note 5 for additional details. The acquisition-related costs for the purchase of The Show, included in "Selling, marketing, and administrative" expenses in the Consolidated Statements of Operations, were $0.1 million for fiscal year 2011.

Rogue

On December 7, 2011, the Company acquired all of the net assets of Rogue Pressure Services, LLC ("Rogue") for an aggregate purchase price of $30.2 million, which includes cash of $29.0 million and a contingent consideration liability of $1.2 million pursuant to an earn-out clause based on the achievement of certain performance levels. Rogue provides 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). Rogue is included in the Steel Energy reporting segment.

The Company accounted for the Rogue acquisition as a business combination and the total cash consideration of $29.0 million was allocated to the net assets acquired and liabilities assumed based on their respective estimated fair values at December 7, 2011 as follows:

	Amount
	(in thousands)
Accounts receivable	$ 4,031
Inventory	138
Prepaid expenses	78
Property and equipment	15,309
Intangible assets	5,600
Accrued expenses	(1,194)
Total identifiable net assets acquired	23,962
Goodwill	6,256
Contingent consideration	(1,218)
Net assets acquired	$ 29,000

The intangible assets acquired consist of customer relationships and a trade name, which are being amortized on an accelerated basis over their useful lives, which range from five to ten years. The amortization expense of $29, 000 is included in “Cost of revenues” in the Consolidated Statements of Operations for fiscal year 2011. The goodwill of $6.3 million arises from the growth potential the Company sees for Rogue and is expected to be deductible for tax purposes. The acquisition-related costs for the purchase of Rogue included in “Selling, marketing, and administrative” expenses in the Consolidated Statements of Operations, were $0.2 million for fiscal 2011. The contingent consideration liability is included in “Accrued expenses and other liabilities” in the Consolidated Balance Sheet. As Rogue did not meet the requirements for payment of the contingent consideration liability for fiscal 2012, the Company recorded an adjustment to the liability of $0.7 million, which is included as a reduction of “Selling, general and administrative” expenses in the Consolidated Statements of Operations for fiscal 2012.

Eagle

On February 9, 2012, the Company acquired the business and assets of Eagle Well Services, Inc., which after the transaction operated as Well Services Ltd. (“Well Services”) for an aggregate purchase price of $48.1 million in cash. Well Services engaged in the business of workover rig well servicing, including down hole well maintenance and workover, down hole well repairs, well completions, well recompletions, well drill outs and clean outs, and well reentry.

The Company accounted for this acquisition as a business combination and the total cash consideration of $48.1 million has been allocated to the net assets acquired based on their respective estimated fair values at February 9, 2012 as follows:

	Amount *(in thousands)*
Property and equipment	$ 23,842
Intangible assets	14,300
Accrued expenses	(137)
Total net identifiable assets	38,005
Goodwill	10,126
Net assets acquired	$ 48,131

The intangible assets acquired consist of customer relationships, which are being amortized on an accelerated basis over the estimated useful life of ten years. The $10.1 million goodwill arises from the growth potential the Company sees for the Well Services business, along with expected synergies with the Company’s current Steel Energy businesses, and is expected to be deductible for tax purposes. The acquisition-related costs for the purchase of Well Services included in “Selling, general and administrative” expenses in the Consolidated Statement of Operations were $0.2 million for fiscal 2012.

Sun Well

On May 31, 2012, the Company completed its acquisition of SWH, Inc. (“SWH”), a subsidiary of BNS Holding, Inc. (“BNS”). SWH’s sole business is Sun Well Service, Inc. (“Sun Well”), which is a provider of premium well services to oil and gas exploration and production companies operating in the Williston Basin in North Dakota and Montana.

Pursuant to the terms of the Share Purchase Agreement, the Company acquired all of the capital stock of SWH for an acquisition price aggregating $68.7 million. The aggregate acquisition price consisted of the issuance of 2,027,500 shares of the Company’s common stock (valued at $30 per share) and cash of $7.9 million. Affiliates of Steel Partners Holdings L.P. (“Steel Partners”) owned approximately 40% of the Company’s outstanding common stock and 85% of BNS prior to the execution of the Share Purchase Agreement.

As a result of the acquisition and additional shares acquired on the open market, Steel Partners beneficially owned approximately 51.1% of the Company’s outstanding common stock. Both BNS and the Company appointed a special committee of independent directors to consider and negotiate the transaction because of the ownership interest held by Steel Partners in each company. Please see Note 18 for further details of this related party transaction.

The Company accounted for this acquisition as a business combination and the total acquisition price has been allocated to the net assets acquired based on their respective estimated fair values at May 31, 2012 as follows:

		Amount
		(in thousands)
Cash	$	3,561
Accounts receivable		7,233
Prepaid expense and other current assets		782
Property and equipment		29,787
Identifiable intangible assets		27,300
Other long-term assets		714
Accounts payable		(1,036)
Accrued expenses and other current liabilities		(3,464)
Long-term debt		(16,000)
Capital lease obligations		(1,622)
Deferred tax liabilities		(15,066)
Total net identifiable assets		32,189
Goodwill		36,557
Net assets acquired	$	68,746

The $27.3 million intangible assets acquired consist of customer relationships and a trade name, which will be amortized on an accelerated basis over their respective estimated useful lives of ten and five years, respectively. The $36.6 million goodwill arises from the growth potential the Company sees for Sun Well, along with expected synergies with the Company's current Steel Energy businesses, and is expected to be non-deductible for tax purposes. The acquisition-related costs for the purchase of SWH included in "Selling, general and administrative" expenses in the Consolidated Statements of Operations were $1.2 million for fiscal 2012.

Additionally, on May 31, 2012, the business of Well Services was combined with Sun Well and both businesses now operate as Sun Well, which is included in the Steel Energy reporting segment.

CrossFit

On November 5, 2012, we acquired 50% of CrossFit South Bay for $82,500 and 50% of the newly formed CrossFit Torrance. As part of the transaction, we also agreed to loan CrossFit Torrance up to $1.1 million to fund leasehold improvements and equipment. Both CrossFit companies provide strength and conditioning services and are included in Steel Sports. Due to having control over the operations, the Company accounted for the CrossFit South Bay acquisition as a business combination and the total consideration of $82,500 has been allocated to the net assets and liabilities acquired based on their respective estimated fair values at November 5, 2012, as follows:

		Amount
		(in thousands)
Cash	$	6
Property and equipment		18
Accounts payable		(14)
Total identifiable net assets acquired		10
Non-controlling interest in CrossFit South Bay		(82)
Goodwill		154
Net assets acquired	$	82

The $0.1 million of goodwill arises from the growth potential the Company sees for CrossFit South Bay, and is expected to be deductible for tax purposes. The acquisition-related costs for the acquisition of CrossFit South Bay included in "Selling, general and administrative" expenses in the Consolidated Statement of Operations aggregated $4,252 for fiscal 2012.

The results of operations of the acquisitions have been included in the accompanying financial statements since their respective acquisition dates. Since all previous operations of the Company prior to June 2011 have been discontinued, the revenues and cost of revenues of the acquired businesses represent the entire revenues and cost of revenues of the Company for the periods presented.

Pro Forma Financial Information

The Company is not including pro forma information for the operations of Baseball Heaven, The Show and CrossFit South Bay 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 results of the Company, Sun Well (including Eagle merged as Well Services) and Rogue, as if the acquisitions had occurred at the beginning of the fiscal year ended December 31, 2011. Such pro forma results are not necessarily indicative of what would have actually occurred had the acquisitions been in effect for the entire periods. The pro forma financial results are as follows:

	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011
	(unaudited) *(in thousands)*	
Net revenues	$ 123,876	$ 82,755
Income from continuing operations, net of taxes	$ 24,997	$ 8,347
Income (loss) from discontinued operations, net of taxes	$ (1,935)	$ 6,275
Net income attributable to Steel Excel Inc.	$ 23,511	$ 14,712

Note 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 disclosed in Note 1, all share information has been adjusted to reflect the Reverse/Forward Split.

As of December 31, 2012, 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 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 December 31, 2012, 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 stock option activity under all of the Company's equity incentive plans as of December 31, 2012 and for fiscal years ended December 31, 2012 and 2011, and for the Transition Period is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	(in thousands, except exercise price and contractual terms)			
Outstanding at March 31, 2010	488	$ 40.50		
Granted	9	$ 29.30		
Exercised	(76)	$ 28.50		
Forfeited	-	$ 38.70		
Expired	(341)	$ 44.00		
Outstanding at December 31, 2010	80	$ 35.61		
Granted	28	$ 28.73		
Exercised	(1)	$ 28.60		
Forfeited	(1)	$ 28.40		
Expired	(12)	$ 48.32		
Outstanding at December 31, 2011	94	$ 31.89		
Granted	3	$ 13.32		
Exercised	-	$ -		
Forfeited	(5)	$ 37.60		
Expired	(27)	$ 46.16		
Outstanding at December 31, 2012	65	$ 30.93	7.76	$ -
Options vested and expected to vest at				
December 31, 2012	65	$ 30.93	7.76	$ -
Options exercisable at:				
December 31, 2010	69	$ 36.60		
December 31, 2011	68	$ 33.12		
December 31, 2012	46	$ 31.98	7.21	$ -

There is no aggregate intrinsic value of options at December 31, 2012 and 2011 as there were no options "in-the-money." During fiscal year 2011 and the Transition Period, the aggregate intrinsic value of options exercised under the Company's equity incentive plans was minimal. The following table summarizes the Company's options outstanding and exercisable at December 31, 2012:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	(in thousands, except exercise price and contractual life)				
$25.00 - $30.00	45	8.56	$ 28.67	26	$ 28.88
$30.01 - $35.00	15	6.42	$ 32.84	12	$ 32.84
$35.01 - $40.00	-	-	$ -	-	$ -
$40.01 - $45.00	5	5.19	$ 40.72	8	$ 40.72
	65			46	

As of December 31, 2012, the total unamortized stock-based compensation expense related to non-vested stock options, net of estimated forfeitures, was approximately $0.1 million and this expense is expected to be recognized over a remaining weighted-average period of 1.7 years.

Restricted Stock: Restricted stock awards and restricted stock units (collectively, “restricted stock”) were granted under the Company’s 2004 Equity Incentive Plan and 2006 Director Plan. As of December 31, 2012, there were 86,041 shares of service-based restricted stock awards and 16,875 shares of restricted stock units outstanding. The cost of restricted stock, determined to be the fair market value of the shares at the date of grant, is expensed ratably over the period the restrictions lapse. Certain non-employee directors received restricted stock shares that will vest immediately if the relationship between the Company and the non-employee director ceases for any reason. These non-vested shares are recognized and fully expensed as stock-based compensation expense at the date of grant.

A summary of activity for restricted stock as of December 31, 2012 and changes during fiscal years 2012 and 2011, and the Transition Period is as follows:

	Shares	Weighted Average Grant Date Fair Value
	(in thousands)	
Non-vested stock at March 31, 2010	172	$ 30.10
Awarded	8	$ 29.30
Vested	(45)	$ 32.80
Forfeited	(127)	$ 29.10
Non-vested stock at December 31, 2010	8	$ 29.40
Awarded	17	$ 37.61
Vested	(10)	$ 28.97
Forfeited	-	$ 28.39
Non-vested stock at December 31, 2011	15	$ 29.40
Awarded	100	$ 27.34
Vested	(12)	$ 29.09
Forfeited	-	$ -
Non-vested stock at December 31, 2012	103	$ 23.34

All restricted stock units issued prior to December 31, 2011 were awarded at the par value of $0.001 per share (adjusted to $0.01 per share to reflect the Reverse/Forward Split). As of December 31, 2012, the total unamortized stock-based compensation expense related to non-vested restricted stock units that is expected to vest, net of estimated forfeitures, was immaterial.

Stock-Based Compensation

The Company measures and recognizes stock-based compensation for all stock-based awards made to its employees and directors based on estimated fair values using a straight-line amortization method over the respective requisite service period of the awards and adjusts it for estimated forfeitures. In addition, the Company applies the simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee stock-based compensation, which is available to absorb tax shortfalls.

In May 2010, the Compensation Committee of the Board of Directors modified all employees' unvested stock-based awards, including stock options, restricted stock awards and restricted stock units, including those with performance-based vesting (none of which affect the Company's Interim President and Chief Executive Officer). The modification of the unvested stock-based awards was effective the earlier of (1) June 8, 2010, the date the Company consummated the Purchase Agreement with PMC-Sierra for the sale of the DPS Business and PMC-Sierra assumed certain liabilities related to the DPS Business or (2) the date in which an employee was involuntarily terminated (other than for cause) as part of the actions the Company took related to its sale of the DPS Business. The modifications included the acceleration of unvested stock-based awards and a settlement of unvested stock-based awards in the form of a fixed cash payment, resulting in total stock-based compensation expense of $0.2 million and cash compensation expense of $1.2 million, respectively, for the Transition Period.

Stock-based compensation expense included in the Consolidated Statements of Operations for the Transition Period and fiscal 2012 and 2011 is as follows:

	Fiscal Year Ended December 31, 2012	Fiscal Year Ended December 31, 2011	Nine-Month Transition Period Ended December 31, 2010(2)
	(in thousands)		
Stock-based compensation expense by caption			
Selling, marketing and administrative	$ 1,487	$ 524	$ 470
Effect on income (loss) from continuing operations, net of taxes (1)	$ 1,487	$ 524	$ 470
Stock-based compensation expense by type of award:			
Stock options	$ 92	$ 69	$ 215
Restricted stock awards and restricted stock units	1,395	455	255
Effect on income (loss) from continuing operations, net of taxes (1)	$ 1,487	$ 524	$ 470

(1) The total stock-based compensation, net of taxes, recorded on the Consolidated Statements of Operations and Consolidated Statements of Cash Flows for Transition Period and fiscal 2010, differs from the Consolidated Statements of Stockholders' Equity as the Consolidated Statements of Stockholders' Equity includes both continuing and discontinued operations.

(2) The stock-based compensation recorded in the Transition Period excluded the cash compensation expense of $1.2 million paid to employees related to the settlement of unvested stock-based awards in the form of a fixed cash payment.

Stock-based compensation expense in the above table does not reflect any significant income tax expense, which is consistent with the Company's treatment of income or loss from its United States operations for tax purposes. For the fiscal 2012 and 2011, and the Transition Period, there are no income tax benefits realized for the tax deductions from option exercises of the stock-based payment arrangements. In addition, there was no stock-based compensation costs capitalized as part of an asset in the Transition Period and fiscal 2012 and 2011 as the amounts were immaterial.

Valuation Assumptions

The Company used the Black-Scholes option pricing model for determining the estimated fair value for all stock-based awards. The fair value of the stock-based awards granted in the Transition Period and fiscal 2012 and 2011 were estimated using the following weighted-average assumptions:

	Fiscal Year Ended December 31, 2012	Fiscal Year Ended December 31, 2011	Nine-Month Transition Period Ended December 31, 2010
Expected life (in years)	1.1	4.3	5.5
Risk-free interest rate	0.2 %	1.5 %	1.7 %
Expected volatility	58 %	44 %	44 %
Dividend yield	-	-	-
Forfeiture rate	40 %	40 %	40 %
Weighted average fair value			
Stock options	$ 13.32	$ -	$ 12.30
Restricted stock	$ 27.34	$ 28.40	$ 28.30

Note 5. Business Disposition and Wind Down

The Company sold its business of providing data storage and software solutions and products (the “DPS Business”) to PMC-Sierra, Inc. (“PMC-Sierra”) on June 8, 2010. The purchase price for the DPS Business was $34.3 million, of which $29.3 million was received by the Company upon the closing of the transaction and the remaining $5.0 million was withheld in an escrow account (“DPS Holdback”). The DPS Holdback was released to the Company on June 8, 2011, one year after the consummation of the sale, except for $0.1 million to provide for one disputed claim, and was recognized as contingent consideration in discontinued operations when received. The $0.1 million was received in September 30, 2011. The Company recorded a gain of $10.7 million, net of taxes of $6.6 million, on the disposal of the DPS Business in the Transition Period, which is included in the “Loss from discontinued operations, net of taxes” in the Consolidated Statements of Operations.

Further, on June 8, 2010, the Company entered into a transition service agreement with PMC-Sierra, in which the Company provided certain services required for the operation of the DPS Business through December 2010 and the direct costs associated with providing these services were reimbursed by PMC-Sierra. As a result of the transition service agreement, cash of $1.7 million was received on behalf of PMC-Sierra upon collection of accounts receivable and was classified as “Restricted cash” and included in “Accounts payable” on the Company’s Consolidated Balance Sheets at December 31, 2010. In the Transition Period, the Company incurred approximately $1.3 million in direct costs under the transition service agreement with PMC-Sierra, which were reimbursed by PMC-Sierra.

In July 2011, the Company ceased its efforts to sell or license its intellectual property from the Aristos Business and finalized the wind down of such business. As such, the disposed DPS Business and wound down Aristos Business are reflected as discontinued operations in the accompanying financial statements and prior periods have been reclassified to conform to this presentation.

As disclosed above, in July 2012, the Company reclassified The Show to discontinued operations as it was not meeting projections, with no expectation to perform as represented when acquired.

Revenues and the components of income related to The Show, the DPS Business and the Aristos Business included in discontinued operations in the fiscal years ended December 31, 2012 and 2011, and nine-month transition period ended December 31, 2010 are as follows:

	Fiscal Year Ended December 31,		Nine-Month Transition Period Ended December 31,
	2012	**2011**	**2010**
		(in thousands)	
Revenues	$ 451	$ 91	$ 20,620
Income (loss) from discontinued operations before income taxes	$ (1,935)	$ 1,624	$ (17,647)
Benefit from income taxes	-	-	6,358
Income (loss) from discontinued operations, net of taxes	$ (1,935)	$ 1,624	$ (11,289)

Income from discontinued operations for fiscal year ended December 31, 2011, includes the sale of patents from the DPS Business for $1.9 million and activity from The Show. There was no financial activity from the Aristos Business during fiscal year 2011. The loss from discontinued operations for the fiscal year ended December 31, 2012 includes activity of The Show only.

Note 6. Marketable Securities

During February 2012, the Company’s Board of Directors executed a written consent permitting it to invest up to $10 million in publicly traded companies engaged in certain oilfield servicing, energy services, and related businesses, which was an exception to its investment policy at that time. In June 2012, the Board established an Investment Committee, which was formed to develop investment strategies for the Company and to set and implement investment policies with respect to its cash. The Investment Committee was directed by the Board to establish and implement an investment policy for the Company’s portfolio that meets the following general objectives: preserve principal; maximize total return given overall market conditions; meet internal liquidity requirements; and comply with applicable accounting, internal control and reporting requirements and standards. The Investment Committee is authorized, among other things, to invest its excess cash directly or allocate investments to outside managers for investment in equity or debt securities, provided that the Investment Committee may not invest more than $25 million in any single investment or with any single asset manager without the Board’s approval. Given the overall market conditions, the Company regularly reviews its investment portfolio to ensure adherence to the investment policy and to monitor individual investments for risk analysis and proper valuation.

The Company's portfolio of marketable securities at December 31, 2012 was as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Available-for-sale securities:				
Short-term deposits	$ 48,596	$ -	$ -	$ 48,596
Mutual funds	10,368	1,452	-	11,820
United States government securities	99,299	178	-	99,477
Corporate securities	20,842	1,255	(1,980)	20,117
Corporate obligations	48,708	283	(277)	48,714
Commerical paper	22,275	16	-	22,291
Total available-for-sale securities	250,088	3,184	(2,257)	251,015
Amounts classified as cash equivalents	(51,887)	-	-	(51,887)
Amounts classified as marketable securities	$ 198,201	$ 3,184	$ (2,257)	$ 199,128

The Company's portfolio of marketable securities at December 31, 2011 was as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Available-for-sale securities:				
Short-term deposits	$ 3,029	$ -	$ -	$ 3,029
United States government securities	309,189	593	(3)	309,779
Government agencies	3,505	21	-	3,526
Corporate obligations	1,513	8	-	1,521
Total available-for-sale securities	317,236	622	(3)	317,855
Amounts classified as cash equivalents	(2,914)	-	-	(2,914)
Amounts classified as marketable securities	$ 314,322	$ 622	$ (3)	$ 314,941

Sales of marketable securities resulted in gross realized gains of $0.6 million, $2.0 million, and $1.1 million for fiscal 2012 and 2011, and the Transition Period, respectively. Sales of marketable securities resulted in gross realized losses of $0.3 million, $0.3 million, $0.5 million for fiscal 2012 and 2011, and the Transition Period, respectively.

The following table summarizes the fair value and gross unrealized losses of the Company's available-for-sale marketable securities, aggregated by type of investment instrument and length of maturity for individual securities that were in an unrealized loss position at December 31, 2012:

	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)			
U.S. government securities	$ 88,420	$ -	$ 11,056	$ -	$ 99,476	$ -
Corporate oligations	24,346	(2)	24,370	(272)	48,716	(274)
Total	$ 112,766	$ (2)	$ 35,426	$ (272)	$ 148,192	$ (274)

The following table summarizes the fair value and gross unrealized losses of the Company's available-for-sale marketable securities, aggregated by type of investment instrument and length of maturity for individual securities that were in an unrealized loss position at December 31, 2011:

	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)					
U.S. government securities	$ 15,186	$ (3)	$ -	$ -	$ 15,186	$ (3)

The Company's investment portfolio consists of both corporate and government securities that generally mature within three years. The longer the duration of these securities, the more susceptible they are to changes in market interest rates and bond yields. As yields increase, those securities purchased with a lower yield-at-cost show a mark-to-market unrealized loss. All unrealized losses are due to changes in interest rates and bond yields. The Company has considered all available evidence and determined that the marketable securities in which unrealized losses were recorded in the Transition Period and fiscal years 2012 and 2011 were deemed to be temporary. The Company holds its marketable securities as available-for-sale and marks them to market through a corresponding adjustment to other comprehensive income (loss) in stockholders' equity. Classification of marketable securities as a current asset is based on the intended holding period and realizability of the asset.

The amortized cost and estimated fair value of investments in available-for-sale debt securities at December 31, 2012, by contractual maturity, were as follows:

	Cost	Estimated Fair Value
	(in thousands)	
Mature in one year or less	$ 214,784	$ 215,589
Mature after one year through three years	19,550	19,854
Mature in more than three years	15,753	15,572
Total	$ 250,087	$ 251,015

Note 7. Accumulated Other Comprehensive Income

Changes, net of tax, in Accumulated other comprehensive income are as follows:

	Unrealized Gain on Securities	Cumulative Translation Adjustment	Total
Balance at December 31, 2011	$ 624	$ 119	$ 743
Other comprehensive income (loss)	303	(100)	203
Balance at December 31, 2012	$ 927	$ 19	$ 946

Note 8. Fair Value Measurements

Fair value is defined as the price that would be received for selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The accounting standard surrounding fair value measurements establishes a fair value hierarchy, consisting of three levels, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Financial Assets Measured at Fair Value on a Recurring Basis

The Company utilized levels 1, 2 and 3 to value its financial assets on a recurring basis. Level 1 instruments use quoted prices in active markets for identical assets or liabilities, which include the Company's cash accounts, short-term deposits and money market funds as these specific assets are liquid. Level 1 instruments also include United States government securities, government agencies, and state and municipalities, as these securities are backed by the federal or state governments and traded in active markets frequently with sufficient volume. Level 2 instruments are valued using the market approach, which uses quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities and include mortgage-backed securities, corporate obligations and asset-backed securities as similar or identical instruments can be found in active markets. Level 3 is supported by little or no market activity and requires a high level of judgment to determine fair value, which includes the Company's two venture fund investments and the Rogue contingent consideration. The carrying amount of the contingent consideration is measured at fair value on a recurring basis using unobservable inputs in which little or no market activity exists. The Company periodically monitors its two venture capital funds and records these investments within "Other long-term assets" on the Condensed Balance Sheets based on quarterly statements the Company receives from each of the funds. The statements are generally received one quarter in arrears, as more timely valuations are not practical. The statements reflect the net asset value, which the Company uses to determine the fair value for these investments, which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. The assumptions used by the Company, due to lack of observable inputs, may impact the fair value of these equity investments in future periods. In the event that the carrying value of its equity investments exceeds their fair value, or the decline in value is determined to be other-than-temporary, the carrying value is reduced to its current fair value, which is recorded in "Interest and other income, net," in the Condensed Statements of Operations. At December 31, 2012, there were no significant transfers that occurred between any of the levels of the Company's financial assets.

A summary of financial assets measured at fair value on a recurring basis at December 31, 2012 is as follows:

		Fair Value Measurements at Reporting Date Used		
	Total	**Quoted Prices in Active Markets For Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(in thousands)		
Assets				
Cash, including short-term deposits(1)	$ 80,085	$ 80,085	$ -	$ -
United States government securities(2)	99,477	99,477	-	-
Corporate securities(2)	20,117	20,117	-	-
Commercial paper(2)	22,291	-	22,291	-
Corporate obligations(2)	48,714	-	46,931	1,783
Non-controlling interests in certain funds (3)	1,021	-	-	1,021
	$ 271,705	$ 199,679	$ 69,222	$ 2,804
Liabilities				
Rogue contingent consideration(4)	$ (475)	$ -	$ -	$ (475)

(1) At December 31 2012, the Company recorded $68.2 million and $11.9 million within "Cash and cash equivalents" and "Marketable securities," respectively.

(2) Recorded within "Marketable securities."

(3) Recorded within "Other long-term assets."

(4) Recorded within "Accrued expenses and other liabilities."

A summary of financial assets measured at fair value on a recurring basis at December 31, 2011 is as follows:

		Fair Value Measurements at Reporting Date Used		
	Total	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets				
Cash, including short-term deposits(1)	$ 8,601	$ 8,601	$ -	$ -
U.S. government securities(2)	309,780	309,780	-	-
Government agencies(2)	3,526	3,526	-	-
Corporate obligations(2)	1,521	-	1,521	-
Non-controlling interests in certain funds (3)	1,117	-	-	1,117
	$ 324,545	$ 321,907	$ 1,521	$ 1,117
Liabilities				
Rogue contingent consideration(4)	$ (1,218)	$ -	$ -	$ (1,218)

(1) At December 31 2011, the Company recorded $8.5 million and $0.1 million within “Cash and cash equivalents” and “Marketable securities,” respectively.

(2) Recorded within “Marketable securities.”

(3) Recorded within “Other long-term assets.”

(4) Recorded within “Accrued expenses and other liabilities.”

A reconciliation of the beginning and ending balances of the Rogue contingent consideration for the years ended December 31, 2012 and 2011 is as follows:

	Amount
	(in thousands)
Balance, December 31, 2010	$ -
Acquisition of Rogue	(1,218)
Change in fair value	-
Balance, December 31, 2011	(1,218)
Change in fair value	743
Balance, December 31, 2012	$ (475)

The Company’s other financial instruments include accounts payable and accrued and other liabilities. Carrying values of these financial liabilities approximate their fair values due to the relatively short maturity of these items. The related cost basis for the Company’s 3/4% Convertible Senior Notes due December 22, 2023 (the “3/4% Notes”) at December 31, 2012 and 2011 was approximately $0.3 million on both dates. Although the remaining balance of its 3/4% Notes is relatively small and the market trading is very limited, the Company expects the cost basis for the 3/4% Notes of approximately $0.3 million at December 31, 2012 to approximate fair value. The Company’s convertible debt is recorded at its carrying value, not the estimated fair value.

Non-Financial Assets Measured at Fair Value on a Non-Recurring Basis

The Company utilized Level 3 to value its non-financial assets on a non-recurring basis. Level 3 is categorized as significant unobservable inputs. The Company has no non-financial assets measured at fair value on a non-recurring basis as of December 31, 2012 and 2011. At December 31, 2010, the Company had $6.0 million of long-lived assets held-for-sale classified as Level 3 non-financial assets measured at fair value on a non-recurring basis. These assets were originally classified as held and used for $10.1 million, but were written down to the impaired fair value of $6.0 million on July 2, 2010, resulting in an impairment charge of $4.1

million included in the Consolidated Statement of Operations for the Transition Period. Other long-lived assets held and used were written down to zero value during the Transition Period, resulting in an impairment charge of $6.1 million.

Note 9. Long-Lived Assets and Goodwill

Property and Equipment, Net

The components of property and equipment, net, at December 31, 2012 and 2011 are as follows:

	December 31, 2012	December 31, 2011
	(in thousands)	
Rigs and workover equipment	$ 42,945	$ 11,750
Buildings and improvements	6,110	-
Land	1,068	-
Leasehold improvements	5,909	5,677
Other equipment	25,440	3,205
Vehicles	1,639	648
Furniture and fixtures	308	100
Assets in progress	2,342	-
	85,761	21,380
Accumulated depreciation	(7,993)	(320)
Property and equipment, net	$ 77,768	$ 21,060

Assets in progress as of December 31, 2012 include a new indoor facility and restaurant building renovations at Baseball Heaven and a rig, service trucks and a building at Sun Well. The estimated cost to complete these assets is $1.3 million.

Depreciation expense for fiscal 2012 was $7.8 million, with $6.4 million and $1.4 million being included in “Cost of revenues” and “Selling, general and administrative” expenses, respectively, in the Consolidated Statements of Operations. Depreciation expense for fiscal 2011 was $0.3 million, with $0.1 million and $0.2 million being included in “Cost of revenues” and “Selling, general and administrative” expenses, respectively, in the Consolidated Statements of Operations. Depreciation expense in the Transition Period was $0.3 million and was included in “Loss from discontinued operations, net of taxes.” The Company impaired certain of its assets in the Transition Period, resulting in a write-down of $4.1 million, which was also included in “Loss from discontinued operations.”

Goodwill

A reconciliation of the changes to the Company’s carrying amount of goodwill for fiscal 2012 and 2011 are as follows:

	Amount
	(in thousands)
Balance, December 31, 2010	$ -
Goodwill acquired in the acquisition of Baseball Heaven	192
Goodwill acquired in the acquisition of The Show	1,796
Goodwill acquired in the acquisition of Rogue	6,256
Balance, December 31, 2011	8,244
Goodwill acquired in the acquisition of Eagle	10,126
Goodwill acquired in the acquisition of Sun Well	36,557
Goodwill acquired in the acquisition of CrossFit South Bay	154
Impairment of goodwill of The Show	(1,796)
Impairment of goodwill of Baseball Heaven	(192)
Balance, December 31, 2012	$ 53,093

The components of goodwill at December 31, 2012 and 2011 are as follows:

	December 31, 2012	2,011
	(in thousands)	
Goodwill	$ 55,081	$ 8,244
Accumulated impairment	(1,988)	-
Net goodwill	$ 53,093	$ 8,244

Intangible Assets, Net

The acquisitions made in fiscal 2012 and 2011 resulted in customer relationships and trade names aggregating $47.4 million as of December 31, 2012.

The components of intangible assets, net, at December 31, 2012and their amortization details are as follows:

	December 31, 2012				
	Cost	Accumulated Amortization	Net	Amortization Method	Estimated Useful Life (years)
		(in thousands)			
Steel Sports:					
Customer relationships	$ 235	$ (67)	168	Straight-line	5
Steel Energy:					
Customer relationships	43,100	(6,356)	36,744	Accelerated	10
Trade names	4,100	(1,125)	2,975	Accelerated	5
	47,200	(7,481)	39,719		
	$ 47,435	$ (7,548)	$ 39,887		

The components of intangible assets, net, at December 31, 2011and their amortization details are as follows:

	December 31, 2011				
	Cost	Accumulated Amortization	Net	Amortization Method	Estimated Useful Life (years)
		(in thousands)			
Steel Sports:					
Customer relationships	$ 235	$ (20)	215	Straight-line	5
Steel Energy:					
Customer relationships	4,700	(29)	4,671	Accelerated	10
Trade names	900	-	900	Accelerated	5
	5,600	(29)	5,571		
	$ 5,835	$ (49)	$ 5,786		

Estimated aggregate future amortization expenses for the next five years for the intangible assets are as follows:

	Steel Sports	Steel Energy	Total
		(in thousands)	
For the year ended December 31:			
2013	$ 47	$ 8,534	$ 8,581
2014	47	6,565	6,612
2015	47	5,267	5,314
2016	27	4,216	4,243
2017	-	3,158	3,158
Thereafter	-	11,979	11,979
	$ 168	$ 39,719	$ 39,887

Amortization expense for fiscal 2012 was $7.5 million, which is included in “Selling, general and administrative” expenses in the Consolidated Statement of Operations. Amortization expense for fiscal 2011 was $49,000, which is included in “Selling, general and administrative” expenses in the Consolidated Statements of Operations. Amortization expense for the Transition Period was $9.9 million and is included in “Loss from discontinued operations, net of taxes” in the Consolidated Statements of Operations.

Impairment Review

In June 2010, the Company made a decision to wind down its Aristos Business and notified its customers that final shipments would occur by the end of September 2010. The Company also planned to put its building up for sale towards the end of the Transition Period. As a result of these actions, the Company evaluated the carrying value of its long-lived assets at July 2, 2010 and determined that the carrying value of such assets may not be fully recoverable. The Company then measured the impairment loss and recognized the amount in which the carrying value exceeded the estimated fair value by recording an impairment charge of $10.2 million in the Transition Period, which is included in “Loss from discontinued operations, net of taxes,” in the Consolidated Statements of Operations. Of the $10.2 million impairment charge, $6.1 million related to the write off of intangible assets and the remaining $4.1 million related to the reduction of the carrying value of its property and equipment, net, to its estimated fair value. The estimated fair value was based on the market approach and considered the perspective of market participants using or exchanging the Company’s long-lived assets. The estimation of the impairment involved assumptions that required judgment by the Company.

Note 10. ¾% Notes

In December 2003, the Company issued $225.0 million in aggregate principal amount of 3/4% Notes. The issuance costs associated with the 3/4% Notes totaled $6.8 million, which was amortized to interest expense over five years, and the net proceeds to the Company from the offering of the 3/4% Notes were $218.2 million. The Company pays cash interest at an annual rate of 3/4% of the principal amount at issuance, payable semi-annually on June 22 and December 22 of each year. The 3/4% Notes are subordinated to all existing and future senior indebtedness of the Company. The Company does not apply the accounting standard issued in May 2008 by the FASB with regard to applying a nonconvertible debt borrowing rate on its 3/4% Notes, as the 3/4% Notes may not be settled in cash or other assets upon conversion.

The 3/4% Notes are convertible at the option of the holders into shares of the Company’s common stock, par value $0.001 per share, only under the following circumstances: (1) prior to December 22, 2021, on any date during a fiscal quarter if the closing sale price of the Company’s common stock was more than 120% of the then current conversion price of the 3/4% Notes for at least 20 trading days in the period of the 30 consecutive trading days ending on the last trading day of the previous fiscal quarter, (2) on or after December 22, 2021, if the closing sale price of the Company’s common stock was more than 120% of the then current conversion price of the 3/4% Notes, (3) if the Company elects to redeem the 3/4% Notes, (4) upon the occurrence of specified corporate transactions or significant distributions to holders of the Company’s common stock occur or (5) subject to certain exceptions, for the five consecutive business day period following any five consecutive trading day period in which the average trading price of the 3/4% Notes was less than 98% of the average of the sale price of the Company’s common stock during such five-day trading period multiplied by the 3/4% Notes then current conversion rate. Subject to the above conditions, each $1,000 principal amount of 3/4% Notes is convertible into approximately 8.5441 shares of the Company’s common stock (equivalent to an initial conversion price of approximately $117.04 per share of common stock).

In fiscal 2010, the Company repurchased a total of $0.1 million at a price equal to 100% of the principal amount of the 3/4% Notes. At December 31, 2012 and 2011, the Company had a remaining liability of $0.3 million of aggregate principal amount related to its 3/4% Notes. Each remaining holder of the 3/4% Notes may require the Company to purchase all or a portion of its 3/4% Notes on December 22, 2013, on December 22, 2018 or upon the occurrence of a change of control (as defined in the indenture governing the 3/4% Notes) at a price equal to the principal amount of 3/4% Notes being purchased plus any accrued and unpaid interest and the Company may redeem some or all of the 3/4% Notes for cash at a redemption price equal to 100% of the principal amount of the notes

being redeemed, plus accrued interest to, but excluding, the redemption date. The Company may seek to make open market repurchases of the remaining balance of its 3/4% Notes within the next twelve months.

Note 11. Liabilities

The components of accrued and other liabilities at December 31, 2012 and 2011 are as follows:

	December 31,	
	2012	2011
	(in thousands)	
Tax-related	$ 1,197	$ 56
Accrued compensation and related taxes	3,658	1,593
Deferred revenue	299	278
Professional services	282	485
Accrued fuel and rig-related charges	162	-
Accrued workers compensation	-	1,233
Other	739	181
	$ 6,337	$ 3,826

The components of other long-term liabilities at December 31, 2012 and 2011 are as follows:

	December 31,	
	2012	2011
	(in thousands)	
Tax-related	$ 7,373	$ 10,737
Phantom stock liability	1,798	-
	$ 9,171	$ 10,737

The tax-related long-term liabilities relate primarily to FIN 48 uncertainties primarily associated with our foreign subsidiaries. Through its acquisition of SWH, the Company has a phantom stock plan agreement (the "Phantom Plan"), in which the board of directors is authorized to grant phantom shares to employees and consultants. The value of the phantom shares outstanding was fixed as a result of the acquisition. If employees or consultants terminate from the Company other than by death or disability, their unvested shares are returned to the Phantom Plan. Phantom stockholders are entitled to receive a cash payment for their vested shares on February 1, 2016, unless there is a change of control or employee death. The Company is accounting for the unvested portion of the Phantom Plan as post-combination compensation expense by accreting a liability over the vesting period.

Sun Well has a credit agreement with Wells Fargo Bank, National Association that includes a term loan of $20.0 million and a revolving line of credit for up to $5.0 million. The loans are secured by the assets of Sun Well and bear interest, at the option of Sun Well, at LIBOR plus 3.5% or the greater of (a) the bank's prime rate, (b) the Federal Funds Rate plus 1.5%, or (c) the Daily One-Month LIBOR rate plus 1.5% for base rate loans. Both options are subject to leverage ratio adjustments. The interest payments are made monthly. The term loan is repayable in $1.0 million quarterly principal installments from September 30, 2011 through June 30, 2015. Sun Well borrowed $20.0 million on the term loan in July 2011 and has made $6.0 million and $1.0 million in scheduled and extra principal payments through December 31, 2012, respectively. Borrowings under the revolving loan, which are determined based on eligible accounts receivable, mature on June 30, 2015 with a balloon payment. There is no balance due on the revolving loan as of December, 2012. Under the agreement, Sun Well is subject to certain financial covenants, with which it was in compliance as of December 31, 2012.

The future principal payments due on the notes payable are as follows:

	Amount
	(in thousands)
For the year ended December 31:	
2013	$ 4,000
2014	4,000
2015	5,000
	$ 13,000

The Company made a principal payment of $10.0 million in February 2013 but intends to continue with the scheduled quarterly payments.

Through its acquisitions, the Company acquired certain equipment under capital lease obligations. The following is a schedule of the future annual minimum payments for these leases as of December 31, 2012:

	Amount
	(in thousands)
For the year ended December 31:	
2013	$ 490
2014	463
2015	463
2016	134
Total minimum lease payments	1,550
Less amount representing interest	(153)
Present value of net minimum lease payments	1,397
Less current portion	(413)
Capital lease obligations, net of current portion	$ 984

Note 12. Restructuring Charges

During fiscal 2011, the Company completed all of its outstanding restructuring plans. The Company had implemented restructuring plans in the Transition Period, and in fiscal 2010 and 2009. In addition, the Company had an acquisition-related restructuring plan in place from its fiscal year ended March 31, 2006. The goals of these plans were to bring the Company's operational expenses to appropriate levels relative to its historical net revenues, while simultaneously implementing extensive company-wide expense-control programs. All expenses, including adjustments, associated with the Company's restructuring plans are included in "Restructuring charges" and/or "Loss from discontinued operations, net of taxes" in the Consolidated Statements of Operations.

The activity in the restructuring accrual for all outstanding plans from December 31, 2010 through December 31, 2011 was as follows:

	Severance and Benefits	Other Charges	Total
		(in thousands)	
Accrual balance at December 31, 2010	$ 881	$ 350	$ 1,231
Accrual adjustments	(36)	-	(36)
Cash paid	(845)	(350)	(1,195)
Accrual balance at December 31, 2011	$ -	$ -	$ -

All restructuring plans were completed as of December 31, 2011 and the Company does not anticipate further plans being implemented.

Note 13. Commitments and Contingencies

Contractual Obligations

Through its acquisitions, the Company assumed additional leases of property with the following non-cancelable obligations:

		Amount
		(in thousands)
For the year ending December 31:		
2013	$	490
2014		463
2015		463
2016		134
2017		-
	$	1,550

Rent expense for property and equipment for the fiscal year ended December 31, 2012 was $2.7 million as a result of the various acquisitions. Rent expense for fiscal 2011 and the Transition Period were immaterial.

Legal Proceedings

From time to time, we are subject to litigation or claims, including claims related to businesses that we wound down or sold, which are normal in the course of business, and 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, results of operations or cash flows. However, because of the nature and inherent uncertainties of litigation, should the outcome of these actions be unfavorable, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

For an additional discussion of certain risks associated with legal proceedings, see "Item 1A. Risk Factors" of this Annual Report on Form 10-K.

Intellectual Property and Other Indemnification Obligations

The Company has agreements whereby it indemnified its directors and certain of its officers for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. These indemnification agreements are not subject to a maximum loss clause; however, the Company maintains a director and officer insurance policy which may cover all or a portion of the liabilities arising from its obligation to indemnify its directors and officers. It is not possible to make a reasonable estimate of the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, the Company has not incurred significant costs to defend lawsuits or settle claims related to such agreements and no amount has been accrued in the accompanying Consolidated Financial Statements with respect to these indemnification guarantees.

In addition, the Company entered into agreements with PMC-Sierra that included certain indemnification obligations related to the sale of the DPS Business. These indemnification obligations generally required the Company to compensate the other party for certain damages and costs incurred as a result of third party claims. In these circumstances, payment by the Company was conditional on the other party making a claim pursuant to the procedures specified in the particular agreements, which procedures typically allowed the Company to challenge the other party's claims. Further, the Company's obligations under these agreements was limited in terms of time and/or amount, and in some instances, the Company may have had recourse against third parties for certain payments made by it under these agreements. No liability resulted from the agreements with PMC-Sierra.

Product Warranty from Discontinued Operations

The Company provided an accrual for estimated future warranty costs based upon the historical relationship of warranty costs to sales. The estimated future warranty obligations related to product sales were recorded in the period in which the related revenue was recognized. The estimated future warranty obligations were affected by sales volumes, product failure rates, material usage and replacement costs incurred in correcting a product failure. If actual product failure rates, material usage or replacement costs differed from the Company's estimates, revisions to the estimated warranty obligations would be required. Substantially all of the Company's product warranty liability transferred to PMC-Sierra upon the sale of the DPS Business, except those amounts associated with the Company's Aristos Business. As of December 31, 2010, all product warranties were fulfilled.

Note 14. Interest and Other Income, Net

The components of interest and other income, net, for fiscal 2012, fiscal 2011, and the Transition Period are as follows:

	Fiscal Year Ended December 31, 2012	Fiscal Year Ended December 31, 2011	Nine-Month Transition Period Ended December 31, 2010
		(in thousands)	
Interest income	$ 2,184	$ 4,088	$ 5,101
Realized currency translation gains	79	3,934	18
Loss on disposal of long-lived assets	(679)	-	-
Other	(517)	336	89
	$ 1,067	$ 8,358	$ 5,208

Note 15. Income Taxes

The components of income (loss) from continuing operations before benefit from (provision for) income taxes for all periods presented are as follows:

	Fiscal Year Ended December 31,		Nine-Month Transition Period Ended December 31,
	2012	2011	2010
		(in thousands)	
Income (loss) from continuing operations before income taxes:			
Domestic	$ 6,326	$ (2,717)	$ (12,220)
Foreign	141	2,559	2,436
	$ 6,467	$ (158)	$ (9,784)

The components of the benefit from (provision) for income taxes from continuing operations for all periods presented are as follows:

	Fiscal Year Ended December 31,		Nine-Month Transition Period Ended December 31,
	2012	2011	2010
		(in thousands)	
Federal:			
Current	$ 34	$ (2,666)	$ 76
Deferred	15,066	-	-
	15,100	(2,666)	76
Foreign:			
Current	1,373	1,979	(7,961)
Deferred	-	921	276
	1,373	2,900	(7,685)
State			
Current	(979)	(8)	7
Deferred	218	-	-
	(761)	(8)	7
Benefit from (provision for) income taxes	$ 15,712	$ 226	$ (7,602)

The Company’s effective tax rate differed from the federal statutory rate for all periods presented as follows:

	Fiscal Year Ended December 31,		Nine-Month Transition Period Ended December 31,
	2012	2011	2010
Federal statutory rate	35.0 %	35.0 %	35.0 %
State taxes, net of federal benefit	15.1 %	-1.9 %	0.0 %
Foreign losses not benefited	-0.6 %	-19.6 %	1.2 %
Changes in tax reserves	0.0 %	640.3 %	-78.2 %
Change in valuation allowance	-297.8 %	5852.1 %	-33.6 %
Distributions from foreign subsidiaries	-4.9 %	-6599.8 %	-3.8 %
Other permanent differences	24.6 %	143.2 %	1.7 %
	-228.6 %	49.3 %	-77.7 %

The Company recorded a benefit from income taxes of $15.7 million for the year ended December 31, 2012, primarily due to the release of a portion of the valuation allowance and a refund received as a result of a tax settlement in Singapore. The valuation allowance release was related to deferred tax liabilities recognized for the difference between the fair value and carrying basis of certain tangible and intangible assets obtained as part of the business combination, which can be used as a source of income to support realization of certain domestic deferred tax assets. Under generally accepted accounting principles, changes in an acquirer's valuation allowance that stem from a business combination should be recognized as an element of the acquirer's deferred income tax expense (benefit) in the reporting period that includes the business combination. For income tax purposes, amounts assigned to particular assets acquired and liabilities assumed may be different than amounts used for financial reporting. The differences in assigned values for financial reporting and tax purposes result in temporary differences. In applying ASC 740, companies are required to recognize the tax effects of temporary differences related to all assets and liabilities. The Company paid $3.5 million in taxes in Singapore during fiscal 2012 for prior year assessments on a liability that was part of its FIN 48 reserve. The Singapore IRAS subsequently refunded $1.4 million of that assessment based on information the Company provided.

The Company recorded a benefit from income taxes of $0.2 million for the fiscal year ended December 31, 2011, primarily due to the reversal of reserves for foreign taxes as a result of a favorable settlement in Singapore. During fiscal 2011, the Company made significant changes to its historic investment portfolio to move to primarily low-risk interest-bearing government securities. These changes were significant enough, in the Company's judgment, to consider the legacy portfolio to have been disposed of for the purpose of tracking a disproportionate tax effect that arose in fiscal 2008. Fiscal 2011 also included the Company realizing certain currency translation gains due to substantial liquidation of certain of its foreign subsidiaries and the receipt of dividends from foreign subsidiaries. These taxes were partially offset by income tax benefits from losses incurred in the Company's foreign jurisdictions and the reversal of reserves for certain foreign taxes.

In the Transition Period, the Company's tax provision was associated with losses incurred from continuing operations being offset by state minimum taxes and taxes related to foreign subsidiaries. The tax provision included tax expenses of $7.9 million primarily due to changes in judgment related to the ongoing audits in its foreign jurisdictions.

The significant components of the Company's deferred tax assets and liabilities at December 31, 2012 and 2011 are as follows:

	December 31,	
	2012	**2011**
	(in thousands)	
Deferred tax assets:		
NOL carryover	$ 40,771	$ 58,870
Research and development credits	29,659	29,659
Compensatory and other accruals	1,200	688
Foreign tax credits	7,528	10,035
Fixed assets	-	155
Other, net	2,901	2,693
Gross deferred tax assets	82,059	102,100
Deferred tax liabilities:		
Unremitted earnings	(29,425)	(30,667)
Unrealized loss on investments	(321)	(229)
Intangible assets	(8,886)	-
Fixed assets	(4,403)	-
Other, net	-	(30)
Gross deferred tax liabilities	(43,035)	(30,926)
Valuation allowance	(37,173)	(69,508)
Deferred tax assets, net	$ 1,851	$ 1,666

The significant components of the Company's deferred tax assets and liabilities at December 31, 2012 and 2011 were classified in the Consolidated Balance Sheets as follows:

	December 31,	
	2012	2011
	(in thousands)	
Deferred tax assets:		
Other current assets	$ 188	$ -
Other long-term assets	1,696	1,711
Total deferred tax assets	1,884	1,711
Deferred tax liabilities:		
Other current liabilities	-	(15)
Other long-term liabilities	(33)	(30)
Total deferred tax liabilities	(33)	(45)
	$ 1,851	$ 1,666

The Company continues to provide United States deferred income taxes and foreign withholding taxes on its undistributed earnings. At December 31, 2012 and 2011, the Company recorded a deferred tax liability of $29.6 million and $30.7 million, respectively related to the foreign undistributed earnings, which was offset by a reduction in the Company's valuation allowance against its deferred tax assets.

The Company continuously monitors the circumstances impacting the expected realization of its deferred tax assets on a jurisdiction by jurisdiction basis. At December 31, 2012 and 2011, the Company's analysis of its deferred tax assets demonstrated that it was more likely than not that all of its net U.S. deferred tax assets will not be realized, resulting in a valuation allowance for deferred tax assets of $37.2 million and $69.5 million, which included immaterial out-of-period adjustments that had no impact to net loss, respectively. This resulted in a decrease to the valuation allowance by $32.3 million in the fiscal year ended December 31, 2012 and by $0.9 million in the fiscal year ended December 31, 2011. Factors that led to this conclusion included, but were not limited to, the Company's past operating results, cumulative tax losses in the United States, worthless securities, multiple acquisitions and uncertain future income on a jurisdiction by jurisdiction basis.

The Company continues to monitor the status of its NOLs, which may be used to offset future taxable income. If the Company underwent an ownership change, the NOLs would be subject to an annual limit on the amount of the taxable income that may be offset by its NOLs generated prior to the ownership change and additionally, the Company may be unable to use a significant portion of its NOLs to offset taxable income. At December 31, 2012, the Company had net operating loss carryforwards of $126.0 million for federal and $150.4 million for state purposes that expire in various years beginning in 2019 for federal and are currently expiring for state purposes. At December 31, 2012, the Company had research and development credits of $30.3 million for federal purposes that expire in various years beginning in 2019 and credits of $17.7 million for state purposes that carry forward indefinitely until fully exhausted. At December 31, 2012, the Company had foreign tax credits of $1.6 million that expire in various years beginning in 2013. Of the federal net operating loss carryforwards, $10.2 million were related to stock option deductions, the tax benefit of which will be credited to additional paid-in capital when realized.

Uncertainty in Income Taxes

The Company recognizes interest and/or penalties related to uncertain tax positions within "Benefit from (provision for) income taxes" in its Consolidated Statements of Operations. To the extent that accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. The amount of interest and penalties accrued during fiscal year 2012 and 2011, and the Transition Period was immaterial.

A reconciliation of the changes to the Company's gross unrecognized tax benefits for all periods presented is as follows:

	Fiscal Year Ended December 31,		Nine-Month Transition Period Ended December 31,
	2012	2011	2010
		(in thousands)	
Balance at beginning of period	$ 29,903	$ 31,818	$ 23,925
Tax positions related to current year:			
Additions	-	-	84
Tax positions related to prior years:			
Additions	-	951	7,809
Settlements	(3,484)	(2,866)	-
Balance at end of period	$ 26,419	$ 29,903	$ 31,818

The calculation of unrecognized tax benefits involves dealing with uncertainties in the application of complex global tax regulations. Management regularly assesses the Company's tax positions in light of legislative, bilateral tax treaty, regulatory and judicial developments in the countries in which the Company conducts or formerly conducted business. Management believes that it is not reasonably possible that the gross unrecognized tax benefits will change significantly within the next 12 months; however, tax audits remain open and the outcome of any tax audits are inherently uncertain, which could change this judgment in any given quarter.

As of December 31, 2012, the Company's total gross unrecognized tax benefits were $26.4 million, of which $7.4 million, if recognized, would affect the effective tax rate. There was an overall decrease of $3.5 million in the Company's gross unrealized tax benefits from fiscal 2011 to fiscal 2012, primarily due to the reversal of reserves for foreign taxes as a result of an assessment with the Singapore taxing authorities. The Company recorded a benefit from income taxes of $1.4 million for the year ended December 31, 2012, due to a refund received as a result of a settlement in Singapore.

The Company is subject to U.S. federal income tax as well as income taxes in many U.S. states and foreign jurisdictions in which the Company operates or formerly operated. As of December 31, 2012, fiscal years 2005 onward remained open to examination by the U.S. taxing authorities and fiscal years 2000 onward remained open to examination in various foreign jurisdictions. U.S. tax attributes generated in fiscal years 2000 onward also remain subject to adjustment in subsequent audits when they are utilized.

Note 16. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share gives effect to all potentially dilutive common shares outstanding during the period, which include certain stock–based awards, calculated using the treasury stock method, and convertible notes which are potentially dilutive at certain earnings levels, and are computed using the if-converted method. As disclosed in Note 1, all share information has been adjusted to reflect the Reverse/Forward Split.

A reconciliation of the numerator and denominator of the basic and diluted income (loss) per share computations for continuing operations, discontinued operations and net income (loss) for all periods presented is as follows:

	Fiscal Year Ended December 31,		Nine-Month Transition Period Ended December 31,
	2012	2011	2010
	(in thousands, except per share amounts)		
Numerators (basic and diluted):			
Income (loss) from continuing operations, net of taxes	$ 22,179	$ 68	$ (17,386)
Income (loss) from discontinued opertions, net of taxes	$ (1,935)	$ 6,629	$ (373)
Net income (loss) attributable to Steel Excel Inc.	$ 20,693	$ 6,769	$ (17,759)
Denominators:			
Weighted average shares outstanding - basic	12,110	10,882	11,609
Effect of common stock equivalents (if any):			
Stock-based awards	23	15	-
3/4% notes	-	-	-
Weighted average shares outstanding - diluted	12,133	10,897	11,609
Income (loss) per share:			
Basic			
Income (loss) from continuing operations, net of taxes	$ 1.83	$ 0.01	$ (1.50)
Income (loss) from discontinued opertions, net of taxes	$ (0.16)	$ 0.61	$ (0.03)
Net income (loss)	$ 1.71	$ 0.62	$ (1.53)
Diluted			
Income (loss) from continuing operations, net of taxes	$ 1.83	$ 0.01	$ (1.50)
Income (loss) from discontinued opertions, net of taxes	$ (0.16)	$ 0.61	$ (0.03)
Net income (loss)	$ 1.71	$ 0.62	$ (1.53)

Diluted loss per share for the Transition Period was based on the basic weighted average shares outstanding only, as the inclusion of any common stock equivalents would have been anti-dilutive. For the “Loss from continuing operations, net of taxes,” for fiscal 2011, the basic weighted average shares outstanding was also used, as the inclusion of any common stock equivalents would have been anti-dilutive. The potential common shares excluded for each of the periods presented are as follows:

	Fiscal Year Ended December 31,		Nine-Month Transition Period Ended December 31,
	2012	2011	2010
	(in thousands)		
Outstanding stock options	-	-	297
Outstanding restricted stock	-	20	43
3/4% convertible senior subordinated notes due 2023	3	3	3

Note 17. Segment Information

As disclosed earlier, during fiscal years 2012 and 2011, we made multiple acquisitions within the sports and oilfield servicing industries. We currently operate in these two reportable segments: Steel Sports and Steel Energy. These reportable segments are based on the product and/or service provided by the subsidiaries and the financial information used by the chief operating decision maker to allocate resources, make operating decisions and assess financial performance. In certain cases, two or more operating segments are aggregated into a reportable segment if they have similar economic characteristics and long-term average gross margins. The Steel

Energy reportable segment results from the aggregation of the Sun Well and Rogue operating segments. The accounting policies of the segments are the same as described in the significant accounting policies noted herein.

Steel Sports: provides services related to 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 November 2012 CrossFit South Bay acquisition provides strength and conditioning services.

Steel Energy: provides technological advances in 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).

Segment information for continuing operations as of December 31, 2012 and for the fiscal year then ended is as follows:

	Steel Sports	Steel Energy	General Corporate	Consolidated
		(in thousands)		
Net revenues	$ 2,913	$ 97,191	$ -	$ 100,104
Operating income (loss)	$ (2,062)	$ 16,836	$ (8,957)	$ 5,817
Depreciation and amortization expense	$ 518	$ 14,940	$ -	$ 15,458
Interest and other income (expense), net	$ -	$ (413)	$ 1,063	$ 650
Total assets	$ 7,613	$ 199,889	$ 258,993	$ 466,495
Accounts receivable	$ 158	$ 17,099	$ -	$ 17,257
Goodwill	$ 154	$ 52,939	$ -	$ 53,093
Property and equipment, net	$ 6,005	$ 71,763	$ -	$ 77,768

Two customers within the Steel Energy reporting segment comprise 10% or more of the Company’s consolidated net revenues for fiscal 2012 (Customer A had \$11.1 million and Customer B had \$11.0 million of net revenues, with \$3.6 million and \$2.9 million included in accounts receivable as of December 31, 2012, respectively). In addition, the top 15 Steel Energy customers made up 86% of consolidated net revenues in fiscal 2012

Segment information for continuing operations as of December 31, 2011 and for the fiscal year then ended is as follows:

	Steel Sports	Steel Energy	General Corporate	Consolidated
		(in thousands)		
Net revenues	$ 1,176	$ 1,417	$ -	$ 2,593
Operating income (loss)	$ (354)	$ 165	$ (8,322)	$ (8,511)
Depreciation and amortization expense	$ 206	$ 144	$ -	$ 350
Interest and other income (expense), net	$ -	$ -	$ 8,353	$ 8,353
Total assets	$ 8,697	$ 32,228	$ 327,766	$ 368,691
Accounts receivable	$ 156	$ 4,504	$ -	$ 4,660
Goodwill	$ 192	$ 8,052	$ -	$ 8,244
Property and equipment, net	$ 5,866	$ 15,194	$ -	$ 21,060

No customers comprised 10% or more of the Company’s net revenues for fiscal 2011.

Note 18. Related Party Transactions

As disclosed in Note 3, pursuant to the terms of the Share Purchase Agreement, the Company acquired all of the capital stock of SWH for an acquisition price aggregating $68.7 million. The aggregate acquisition price consisted of the issuance of 2,027,500 shares of the Company's common stock (valued at $30 per share) and cash of $7.9 million. Steel Partners owned approximately 40% of the Company's outstanding common stock and 85% of BNS prior to the execution of the Share Purchase Agreement. The Company appointed a special committee (the "Special Committee") comprised solely of independent directors to consider and negotiate the transaction, as did BNS, because of the interest of Steel Partners in each company. The Special Committee, with the assistance of its independent financial advisor, considered a number of factors in negotiating the acquisition price, including, without limitation, the fairness opinion from its financial advisor.

As a result of the acquisition and additional shares acquired on the open market, Steel Partners beneficially owned approximately 51.1% of the Company's outstanding common stock. Jack L. Howard, John J. Quicke, and Warren G. Lichtenstein are directors of the Company and each such person is deemed to be an affiliate of Steel Partners under the rules of the Securities Exchange Act of 1934, as amended. Each of the three directors 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. In addition, Mr. Quicke currently serves as the Interim President and CEO of the Company. He was previously compensated $30,000 by the Company per month in connection with this role (which was in addition to the compensation he receives as a non-employee Board member) prior to the entry into the Amended and Restated Management Services Agreement described below. Mr. Quicke also serves as an executive of other affiliates of Steel Partners.

Effective October 1, 2011, the Company contracted with SP Corporate Services LLC ("SP Corporate") to provide financial management and administrative services, including the services of a CFO. Under the terms of the services agreement, SP Corporate was receiving $35,000 monthly for the provision of such services. Effective August 1, 2012, the agreement was amended and restated whereby SP Corporate provides expanded services including the positions of CEO and CFO, responsibility for financing, regulatory reporting, and other administrative and operational functions. SP Corporate receives $300,000 per month for these expanded services. This services agreement was approved by a committee of the Company's independent directors. During the years ended December 31, 2012 and 2011, the Company incurred $2.1 million and $0.3 million, respectively, under the terms of the services agreements with SP Corporate. In addition, the Company reimburses SP Corporate and other Steel Partners affiliates, for certain expenses incurred on the Company's behalf. During the years ended December 31, 2012 and 2011, the Company incurred $0.6 million and $0.1 million of expense reimbursements, respectively. As of December 31, 2012 and 2011, the Company owed SP Corporate $0.3 million and $0.1 million, respectively.

The Company holds $15.1 million of short-term deposits at WebBank, an affiliate of Steel Partners, and recorded interest income of $0.1 million from them in fiscal 2012.

The Investment Committee of the Board of Directors is responsible for selecting executing brokers. Securities transactions for the Company are allocated to brokers on the basis of reliability and best price and execution. During fiscal 2012, the Investment Committee selected Mutual Securities as an introducing broker and may direct a substantial portion of the Company's trades to such firm among others. A member of the Investment Committee is affiliated with Mutual Securities. The Investment Committee only uses Mutual Securities when such use would not compromise the Investment Committee's obligation to seek best price and execution. The Company may pay commissions to Mutual Securities, which are higher than those that can be obtained elsewhere, provided that it believes that the rates paid are competitive institutional rates. Mutual Securities also served as an introducing broker for the Company's trades. The Commissions paid by the Company to Mutual securities were approximately $0.1 million for fiscal 2012. Such commissions are included in the net investment gains (losses) included in "Interest and other income, net" in the Consolidated Statement of Operations. The portion of the commission paid to Mutual Securities ultimately received by such Investment committee member is net of clearing and other charges.

Note 19. Supplemental Disclosures of Cash Flows

	Fiscal Year Ended December 31,		Nine-Month Transition Period Ended December 31,
	2012	2011	2010
		(in thousands)	
Interest paid	$ 434	$ 3	$ 4
Income taxes paid	$ 364	$ 2	$ 759
Income tax refund received	$ 1,494	$ 544	$ 1,649
Non-cash investing and financing activities:			
Acquisition of SWH, Inc. through issuance of common stock	$ 60,825	$ -	$ -
Unrealized gains (losses) on available-for-sale securities	$ 303	$ 260	$ (1,566)

Through its acquisition of Sun Well, the Company assumed long-term debt and capital lease obligations for equipment.

Note 20. Subsequent Events

On January 30, 2013, the Company acquired a 40% membership interest in Again Faster LLC (“Again Faster”) for a cash price of $4.0 million. On January 31, 2013, the Company acquired a 20% membership interest in Ruckus Sports LLC (“Ruckus”) for a cash price of $1.0 million. Again Faster and Ruckus provide a wide variety of fitness and athletic products and services.

In February 2013, the Company made an extra principal payment of $10.0 million on its term loan with Wells Fargo. See Note 11 for additional details.

In November 2012, the Company purchased $11.9 million face amount of 3.75% Unsecured Convertible Subordinated Debentures Due 2026 in School Specialty Inc., a market leader in school supplies and educational materials (“School Specialties”), at a total cost of $6.0 million. On January 28, 2013, School Specialties filed a Chapter 11 bankruptcy petition. Subsequently, on February 26, 2013, the Company committed to participate, with a share in the amount of approximately $22.0 million, in a $155.0 million debtor-in-possession loan to School Specialties. The Company believes the loan, in conjunction with other sources of financing, will enable School Specialties to successfully execute a plan of reorganization or other alternative transaction.

Note 21. Comparative Quarterly Financial Data (unaudited)

The following table summarizes the Company's quarterly financial data, which included reclassifications made to prior period reported amounts to conform to the current period presentation and to reflect discontinued operations:

	Three-Month Period Ended:			
	March 31, 2012	June 30, 2012 (1)	September 29, 2012	December 31, 2012
	(in thousands, except per share amounts)			
Net revenues	$ 14,445	$ 24,450	$ 34,294	$ 26,915
Gross profit (loss)	$ 5,686	$ 9,482	$ 12,204	$ 6,668
Income (loss) from continuing operations, net of taxes	$ (120)	$ 17,429	$ 4,866	$ 4
Income (loss) from discontinued operations, net of taxes	$ (2,348)	$ (121)	$ 483	$ 51
Net income (loss) attributable to Steel Excel Inc.	$ (1,888)	$ 17,308	$ 5,349	$ (76)
Income (loss) per share:				
Basic				
Income (loss) from continuing operations, net of taxes	$ (0.01)	$ 1.50	$ 0.37	$ 0.00
Income (loss) from discontinued operations, net of taxes	$ (0.22)	$ (0.01)	$ 0.04	$ 0.00
Net income (loss) attributable to Steel Excel Inc.	$ (0.17)	$ 1.49	$ 0.41	$ (0.01)
Diluted				
Income (loss) from continuing operations, net of taxes	$ (0.01)	$ 1.50	$ 0.37	$ 0.00
Income (loss) from discontinued operations, net of taxes	$ (0.22)	$ (0.01)	$ 0.04	$ 0.00
Net income (loss) attributable to Steel Excel Inc.	$ (0.17)	$ 1.49	$ 0.41	$ (0.01)
Shares used for computing income (loss) per share:				
Basic	10,891	11,588	12,982	12,984
Diluted	10,891	11,605	13,001	13,007

(1) The Company recorded a benefit from income taxes of $15.1 million during the second quarter of fiscal, 2012, primarily due to the release of a portion of the valuation allowance as a result of acquired deferred tax liabilities.

	Three-Month Period Ended:			
	April 1, 2011	July 1, 2011	September 30, 2011	December 31, 2011
	(in thousands, except per share amounts)			
Net revenues	$ -	$ -	$ 707	$ 1,795
Gross profit (loss)	$ -	$ -	$ 531	$ 512
Income (loss) from continuing operations, net of taxes	$ 1,817	$ (1,550)	$ (1,543)	$ 1,344
Income (loss) from discontinued operations, net of taxes	$ -	$ 6,830	$ 85	$ (286)
Net income (loss) attributable to Steel Excel	$ 1,817	$ 5,280	$ 1,335	$ (1,663)
Income (loss) per share:				
Basic				
Income (loss) from continuing operations, net of taxes	$ 0.17	$ (0.14)	$ (0.14)	$ 0.09
Income (loss) from discontinued operations, net of taxes	$ -	$ 0.63	$ 0.01	$ (0.03)
Net income (loss) attributable to Steel Excel	$ 0.17	$ 0.48	$ 0.12	$ (0.15)
Diluted				
Income (loss) from continuing operations, net of taxes	$ 0.17	$ (0.14)	$ (0.14)	$ 0.09
Income (loss) from discontinued operations, net of taxes	$ -	$ 0.63	$ -	$ (0.03)
Net income (loss)	$ 0.17	$ 0.48	$ 0.12	$ (0.15)
Shares used for computing income (loss) per share:				
Basic	10,880	10,881	10,881	10,887
Diluted	10,887	10,895	10,905	10,905

EXHIBIT 99.4

FINANCIAL STATEMENTS OF STEEL PARTNERS II LIQUIDATING SERIES TRUST

Report of Independent Certified Public Accountants

Statement of Net Assets as of December 31, 2010

Condensed Schedule of Investments of December 31, 2010

Statement of Operations for the year ended December 31, 2010

Statement of Changes in Net Assets the year ended December 31, 2010

Statement of Cash Flows the year ended December 31, 2010

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FINANCIAL STATEMENTS AND
REPORT OF THE INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

STEEL PARTNERS II LIQUIDATING SERIES TRUST

December 31, 2010

C O N T E N T S

Report of the Independent Certified Public Accountants

Financial Statements

- Statement of Net Assets
- Condensed Schedule of Investments
- Statement of Operations
- Statement of Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements

REPORT OF THE INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Trustees and the Beneficiaries of

Steel Partners II Liquidating Series Trust

We have audited the accompanying statement of net assets of Steel Partners II Liquidating Series Trust (the "Trust"), including the condensed schedule of investments, as of December 31, 2010, and the related statements of operations, changes in net assets and cash flows for the year ended December 31, 2010. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Steel Partners II Liquidating Series Trust as of December 31, 2010, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

New York, New York
May 10, 2011

Steel Partners II Liquidating Series Trust
Statement of Net Assets
December 31, 2010
(expressed in U.S. dollars)

ASSETS

	Series A	Series B	Series C	Series D	Series E	Series F	Series G	Series H	Series I	Total
Investments, at fair value (cost $143,430,688)	$ —	$ 56,242,255	$ —	$ 38,092,961	$ —	$ —	$ 26,052,733	$ 8,052,543	$ 70,144	$ 128,510,636
Cash and cash equivalents	9,335	1,184,910	30,143	1,206,188	36,006	—	381,771	9,807,324	1,670,664	14,326,341
Restricted cash	—	81,231	—	54,789	—	—	31,612	28,810	3,558	200,000
Total assets	$ 9,335	$ 57,508,396	$ 30,143	$ 39,353,938	$ 36,006	$ —	$ 26,466,116	$ 17,888,677	$ 1,744,366	$ 143,036,977

LIABILITIES AND NET ASSETS

	Series A	Series B	Series C	Series D	Series E	Series F	Series G	Series H	Series I	Total
Accrued expenses and other liabilities	$ 9,335	$ —	$ 30,143	$ —	$ 36,006	$ —	$ —	$ —	$ —	$ 75,484
Total liabilities	9,335	—	30,143	—	36,006	—	—	—	—	75,484
Total net assets	$ —	$ 57,508,396	$ —	$ 39,353,938	$ —	$ —	$ 26,466,116	$ 17,888,677	$ 1,744,366	$ 142,961,493

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Condensed Schedule of Investments
December 31, 2010
(expressed in U.S. dollars)

Shares	Series	Cost	Fair Value	Percentage of Net Assets
	Series B			
	Common Stock - Insurance, Europe			
377,818	Barbican Group Holdings Limited	$ 78,125	$ —	—%
	Total	78,125	—	—
	Preferred Stock - Insurance, Europe			
36,795,718	Barbican Group Holdings Limited	82,720,869	56,242,255	97.8
	Total	82,720,869	56,242,255	97.8
	Total investments, at fair value	$ 82,798,994	$ 56,242,255	97.8%
	Series D			
	Common Stock - Restaurants, United States			
72,236	F&H Acq Corp	$ 36,117,825	$ 38,092,961	96.8%
	Total	36,117,825	38,092,961	96.8
	Total investments, at fair value	$ 36,117,825	$ 38,092,961	96.8%
	Series G			
	Limited Partnership - Asia			
	Steel Partners China Access I LP	$ 13,450,054	$ 26,052,733	98.4%
	Total	13,450,054	26,052,733	98.4
	Total investments, at fair value	$ 13,450,054	$ 26,052,733	98.4%
	Series H			
	Limited Partnership - Asia			
	Steel Partners Japan Strategic Fund, L.P.	$ 3,895,212	$ 8,052,543	45.0%
	Total	3,895,212	8,052,543	45.0
	Total investments, at fair value	$ 3,895,212	$ 8,052,543	45.0%
	Series I			
	Preferred Stock - United States			
	Food - Miscellaneous/Diversified	$ 678,402	$ 49,177	2.8%
	Total Preferred Stock	678,402	49,177	2.8
	Debt - United States			
	Other	4,890,201	20,967	1.2
	Total	4,890,201	20,967	1.2
	Other - United States			
	Other	1,600,000	—	—
	Total	1,600,000	—	—
	Total investments, at fair value	$ 7,168,603	$ 70,144	4.0%

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Operations
Year ended December 31, 2010
(expressed in U.S. dollars)

	Series A	Series B	Series C	Series D	Series E	Series F	Series G	Series H	Series I	Total
Net realized and unrealized gain (loss) from investment transactions										
Realized gain (loss) from investments and foreign currency translation	$ 164,569	$ —	$ —	$ —	$ 835,431	$ —	$ —	$ —	$ —	$ 1,000,000
Change in unrealized gain (loss) from investments and foreign currency translation	—	(8,785,645)	—	5,075,911	—	—	(649,051)	(5,673,614)	19,442	(10,012,957)
Realized gain (loss) - other	—	—	—	—	—	—	—	22,349	—	22,349
Total net realized and unrealized gain (loss) from investment transactions and foreign currency translation	164,569	(8,785,645)	—	5,075,911	835,431	—	(649,051)	(5,651,265)	19,442	(8,990,608)
Investment income										
Interest	1,420,802	—	435,492	—	10,737,149	—	—	—	—	12,593,443
Total investment income	1,420,802	—	435,492	—	10,737,149	—	—	—	—	12,593,443
Expenses										
Professional fees	123,496	27,503	61,976	19,333	536,852	—	18,959	14,667	43,236	846,022
Total expenses	123,496	27,503	61,976	19,333	536,852	—	18,959	14,667	43,236	846,022
Net investment income (loss)	1,297,306	(27,503)	373,516	(19,333)	10,200,297	—	(18,959)	(14,667)	(43,236)	11,747,421
Net income (loss)	$ 1,461,875	$ (8,813,148)	$ 373,516	$ 5,056,578	$ 11,035,728	$ —	$ (668,010)	$ (5,665,932)	$ (23,794)	$ 2,756,813

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Changes in Net Assets
Year ended December 31, 2010
(expressed in U.S. dollars)

	Series A	Series B	Series C	Series D	Series E	Series F	Series G	Series H	Series I	Total
Increase (decrease) in net assets from operations										
Realized gain (loss) from investments and foreign currency translation	$ 164,569	$ —	$ —	$ —	$ 835,431	$ —	$ —	$ —	$ —	$ 1,000,000
Change in unrealized gain (loss) from investments and foreign currency translation	—	(8,785,645)	—	5,075,911	—	—	(649,051)	(5,673,614)	19,442	(10,012,957)
Realized gain (loss) - other	—	—	—	—	—	—	—	22,349	—	22,349
Net investment income (loss)	1,297,306	(27,503)	373,516	(19,333)	10,200,297	—	(18,959)	(14,667)	(43,236)	11,747,421
Net increase (decrease) in net assets from operations	1,461,875	(8,813,148)	373,516	5,056,578	11,035,728	—	(668,010)	(5,665,932)	(23,794)	2,756,813
Increase (decrease) in net assets from capital transactions										
Distributions	(14,491,688)	—	(23,615,979)	—	(67,855,516)	—	—	—	—	(105,963,183)
Net decrease in net assets from capital transactions	(14,491,688)	—	(23,615,979)	—	(67,855,516)	—	—	—	—	(105,963,183)
Net increase (decrease) in net assets	(13,029,813)	(8,813,148)	(23,242,463)	5,056,578	(56,819,788)	—	(668,010)	(5,665,932)	(23,794)	(103,206,370)
Net assets at the beginning of year	13,029,813	66,321,544	23,242,463	34,297,360	56,819,788	—	27,134,126	23,554,609	1,768,160	246,167,863
Net assets at the end of year	$ —	$ 57,508,396	$ —	$ 39,353,938	$ —	$ —	$ 26,466,116	$ 17,888,677	$ 1,744,366	$ 142,961,493
Cash flows from operating activities										

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Cash Flows
Year ended December 31, 2010
(expressed in U.S. dollars)

	Series A	Series B	Series C	Series D	Series E	Series F	Series G	Series H	Series I	Total
Cash flows from operating activities										
Net income (loss) from operations	$ 1,461,875	$ (8,813,148)	$ 373,516	$ 5,056,578	$ 11,035,728	$ —	$ (668,010)	$ (5,665,932)	$ (23,794)	$ 2,756,813
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:										
Realized gain (loss) from investments and foreign currency translation	(164,569)	—	—	—	(835,431)	—	—	—	—	(1,000,000)
Change in unrealized gain (loss) from investment and foreign currency transactions	—	8,785,645	—	(5,075,911)	—	—	649,051	5,673,614	(19,442)	10,012,957
Proceeds/repayment of debt distribution from investment	987,232	—	22,766,561	—	5,012,618	—	—	8,625,400	—	37,391,811
Purchases, payment-in-kind	(1,728,732)	—	(981,602)	—	(11,555,285)	—	—	—	—	(14,265,619)
Changes in assets and liabilities										
(Increase) decrease in operating assets										
Interest receivable	307,946	—	546,116	—	818,166	—	—	—	—	1,672,228
Redemption receivable	—	—	—	—	—	—	—	800,964	—	800,964
Restricted cash	9,816	(28,030)	17,287	(16,190)	40,746	—	(13,042)	(9,729)	(858)	—
Increase (decrease) in operating liabilities Accrued expenses & other liabilities	9,335	—	30,143	—	36,006	(32,928)	—	—	—	42,556
Net cash provided by (used in) operating activities	882,903	(55,533)	22,752,021	(35,523)	4,552,548	(32,928)	(32,001)	9,424,317	(44,094)	37,411,710
Cash flows from financing activities										
Capital distributions	(2,293,496)	—	(23,615,979)	—	(5,933,039)	(30,218,493)	(2,200,000)	—	—	(64,261,007)
Net cash (used in) financing activities	(2,293,496)	—	(23,615,979)	—	(5,933,039)	(30,218,493)	(2,200,000)	—	—	(64,261,007)
Net change in cash	(1,410,593)	(55,533)	(863,958)	(35,523)	(1,380,491)	(30,251,421)	(2,232,001)	9,424,317	(44,094)	(26,849,297)
Cash at December 31, 2009	1,419,928	1,240,443	894,101	1,241,711	1,416,497	30,251,421	2,613,772	383,007	1,714,758	41,175,638
Cash at December 31, 2010	$ 9,335	$ 1,184,910	$ 30,143	$ 1,206,188	$ 36,006	$ —	$ 381,771	$ 9,807,324	$ 1,670,664	$ 14,326,341

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Cash Flows (continued)
Year ended December 31, 2010
(expressed in U.S. dollars)

	Series A	Series B	Series C	Series D	Series E	Series F	Series G	Series H	Series I	Total
Noncash activities:										
Noncash assets delivered in exchange *										
Notes	$ (12,419,494)	$ —	$ —	$ —	$ (63,683,396)	$ —	$ —	$ —	$ —	$ (76,102,890)
Accrued interest	(404,669)	—	—	—	(1,417,791)	—	—	—	—	(1,822,460)
Total noncash assets delivered in exchange	$ (12,824,163)	$ —	$ —	$ —	$ (65,101,187)	$ —	$ —	$ —	$ —	$ (77,925,350)
Noncash assets received in exchange *										
Units (Notes & Warrants)	$ 12,001,500	$ —	$ —	$ —	$ 60,924,000	$ —	$ —	$ —	$ —	$ 72,925,500
Total noncash assets received in exchange	$ 12,001,500	$ —	$ —	$ —	$ 60,924,000	$ —	$ —	$ —	$ —	$ 72,925,500
Noncash assets distributed to beneficiaries*										
Units (Notes & Warrants)	$ 12,001,500	$ —	$ —	$ —	$ 60,924,000	$ —	$ —	$ —	$ —	$ 72,925,500
Accrued interest	196,692	—	—	—	998,477	—	—	—	—	1,195,169
Total noncash assets distributed to beneficiaries	$ 12,198,192	$ —	$ —	$ —	$ 61,922,477	$ —	$ —	$ —	$ —	$ 74,120,669

* Exchange transaction with respect to Bairnco Corporation and Handy & Harman debt held by Series A and E, respectively and subsequent distribution to beneficiaries - see note E.

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Notes to Financial Statements
December 31, 2010
(expressed in U.S. dollars)

NOTE A - ORGANIZATION

Steel Partners II Liquidating Series Trust (the "Trust"), a Delaware statutory trust, was formed and commenced operations on July 15, 2009. The purpose of the Trust is to effect the orderly liquidation of certain assets previously held by Steel Partners II, L.P. ("SPII") in connection with the withdrawal of the limited partners of Steel Partners II (Onshore) L.P. (the "Onshore Fund").

The Trust is divided into Series A through I (each a "Series"). Each Series is separate and distinct with respect to its assets, liabilities and net assets. Each individual Series has no liability or claim with respect to the liabilities or assets, respectively, of the other Series. Each Series shares in the costs, assets and liabilities, if any, that are not specifically attributable to a particular Series.

Steel Partners II GP LLC is the liquidating trustee (the "Liquidating Trustee"). CSC Trust Company of Delaware ("CSC") is the Delaware trustee whose responsibilities are generally limited to providing certain services in connection with the administration of the Trust. Steel Partners LLC is the investment manager of the Trust (the "Investment Manager"). The Liquidating Trustee and the Investment Manager are under common control.

On July 15, 2009, SPII contributed $243,832,751 of non-cash assets and $39,235,001 of cash to the Trust and became the initial beneficiary of each Series. In connection with the full withdrawal of the limited partners of the Onshore Fund on July 15, 2009, 56.25% of the beneficial interests of each Series were transferred to certain of the withdrawing limited partners, and SPII retained 43.75% of the beneficial interests of each Series. SPII held certain assets of the Trust for the benefit of the Trust as its nominee until such assets could be assigned to the Trust. As of December 31, 2009, SPII held no assets on behalf of the Trust. The Investment Manager serves as the manager of SPII and its parent, Steel Partners Holdings L.P. ("SPH"). SPII is a wholly owned subsidiary of SPH.

In December 2009 Series F was terminated. In February 2010 Series C was terminated. In December 2010 Series A and E were terminated.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). On June 3, 2009, the Financial Accounting Standards Board ("FASB") approved the FASB Accounting Standards Codification ("ASC") to provide a consistent reference for all authoritative nongovernmental US GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009. The Codification replaces the historical standards-based referencing with a topic-based model organized by ASC number. Subsequent authoritative US GAAP will be communicated via a new FASB document called an "Accounting Standards Update" ("ASU"). The Trust is using the Accounting Standards Codification for all footnote disclosures included herein and where appropriate has indicated the FASB references that were applicable prior to the ASC.

NOTE B (continued)

The following are the significant accounting policies adopted by the Trust:

Cash and Cash Equivalents and Restricted Cash

All cash and cash equivalents are maintained in money-market accounts held with an internationally recognized institutional fund. Restricted cash collateralizes certain indemnification undertakings of the Trust to CSC and is maintained in money-market accounts held with an internationally recognized institutional fund.

Use of Estimates

The preparation of financial statements in accordance with US GAAP requires the Trust to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from the estimates and differences may be material.

Investments and Income

Transactions and related revenues and expenses are recorded on a trade-date basis. Interest and dividend income are accrued as earned.

Taxation

The Trust is treated as a grantor trust for all federal, state and local tax purposes. Accordingly, no provision for income taxes has been made since all items of gain, loss, income and expense are allocable to the beneficiaries for inclusion in their respective income tax returns.

In accordance with the FASB's rules on Accounting for Uncertainty in Income Taxes, a tax position can be recognized in the financial statements only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. A liability is established for differences between positions taken in tax returns and amounts recognized in the financial statements.

As of December 31, 2010, the Trust has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions. The Trust is not aware of any tax positions for which it is reasonably possible that the total amounts of the unrecognized tax benefits will significantly change in the next twelve months.

The Trust files grantor trust tax returns for federal and state purposes. The statute of limitation remains open to examine the Trust's tax returns filed for the short tax period ended December 31, 2009 and the year ended December 31, 2010. To date, no examinations are in progress.

NOTE B (continued)

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into United States dollars at the exchange rates prevailing at the reporting date. Foreign currency transactions are translated at the rate in effect at the date of the transaction. Realized foreign exchange gains and losses arising from the sale of foreign currency investments (if any) are recorded within realized gain (loss) from investments and foreign currency translation included in the statement of operations. Unrealized foreign exchange gains and losses arising from changes in the value of investments relating to changes in exchange rates are included within change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations. Realized gains (losses) in foreign currency transactions from the translation of assets and liabilities other than investments are included within realized gain (loss) - other in the statement of operations.

NOTE C - RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2010-6, "Improving Disclosures About Fair Value Measurements" ("ASU 2010-6"). The guidance in ASU 2010-6 requires additional disclosures on transfers in and out of the Levels 1 and 2 fair value measurements in the fair value hierarchy and the reasons for the transfers. In addition the guidance requires that Level 3 purchases, sales, issuances and settlements activity on the Level 3 reconciliation be presented on a gross basis rather than a net basis. The new guidance also requires additional fair value measurement disclosures for each class of assets and liabilities; and, further disclosure on valuation techniques and inputs used to measure fair value for fair value measurements within Level 2 and Level 3. ASU 2010-6 is effective for interim periods and annual periods beginning after December 15, 2009, except for the Level 3 reconciliation disclosures which are effective for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-6 is not expected to have a material impact on the Trust's net assets or results of operation.

NOTE D - ALLOCATION OF NET INCOME OR LOSS

The net income or loss for each Series is allocated among the beneficiaries in proportion to their respective beneficial interests.

NOTE E - RELATED PARTY TRANSACTIONS

The Liquidating Trustee and the Investment Manager receive no compensation with respect to the services each provides to the Trust. The Liquidating Trustee and the Investment Manager are reimbursed for any expenses incurred by or paid on behalf of the Trust and are reimbursed for all costs and expenses they incur in connection with the services they provide to the Trust. The total for expenses paid by the Investment Manager on behalf of the Trust is $469,555 for the year ended December 31, 2010.

NOTE E (continued)

The investments held by Series A and Series E consisted of debt securities of wholly-owned subsidiaries of Handy and Harman, Ltd. ("HNH") (formerly known as WHX Corporation), a majority-owned subsidiary of SPH. During the year ended December 31, 2010, Series A and E recorded interest income of $1,420,802 and $10,737,149 respectively, from these investments and is included in the statement of operations. Based on the exchange, Series A and E recognized a realized gain of $164,569 and $835,431 respectively, from these investments and is included in the statement of operations. On October 15, 2010, HNH, through a newly formed subsidiary, Handy & Harman Group Ltd. ("H&H Group"), refinanced substantially all of its indebtedness in a simplified lending structure principally with its existing lenders or their affiliates, including the Trust. On October 15, 2010, H&H Group refinanced the prior indebtedness of Bairnco Corporation ("Bairnco") held by Series A and Handy & Harman ("H&H") held by Series E in accordance with the terms of an exchange agreement. Pursuant to the exchange agreement with respect to the Bairnco indebtedness held by Series A, H&H Group made a $987,232 cash payment in partial satisfaction of prior indebtedness to Series A and exchanged the remainder of the prior obligations for units consisting of (a) $12,001,500 aggregate principal amount of 10% subordinated secured notes due 2017 (the "Subordinated Notes") issued by H&H Group and (b) warrants (the "Warrants") to purchase an aggregate of 246,990.87 shares of HNH common stock, with an aggregate fair value of $12,001,500. The Warrants have an exercise price of $11.00 per share and are exercisable beginning October 14, 2013. The Subordinated Notes bear interest at a rate of 10%, 6% of which is payable in cash and 4% of which is payable in-kind. The Subordinated Notes, together with any accrued and unpaid interest thereon is due on October 15, 2017. Pursuant to the exchange agreement with respect to the H&H indebtedness held by Series E, H&H Group made a $5,012,618 cash payment in partial satisfaction of prior indebtedness to Series E and exchanged the remainder of the prior obligations for units consisting of (a) $60,924,000 aggregate principal amount the Subordinated Notes and (b) Warrants to purchase an aggregate of 1,253,815.92 shares of HNH common stock, with an aggregate fair value of $60,924,000. On December 14, 2010, Series A and Series E distributed to their beneficiaries on a pro rata basis the Subordinated Notes of $12,001,500 and $60,924,000, respectively (together with accrued interest of $196,692 and $998,477, respectively) and the 246,990.87 and 1,253,815.92 Warrants, respectively, received as described above. On December 29, 2010, Series A and Series E distributed to their beneficiaries on a pro rata basis $2,293,496 and $5,933,039 of cash, respectively.

Series C had an investment that consisted of a debt security of BNS Holding, Inc. ("BNS"), a majority- owned subsidiary of SPH. During the year ended December 31, 2010, Series C recorded interest income of $435,492 on its investment and is included in the statement of operations. On February 18, 2010 BNS repaid Series C the debt and outstanding interest in full. In May 2010, $23,615,979 was distributed pro rata to the Series C beneficiaries.

The investment held by Series G is an investment in Steel Partners China Access I L.P., a limited partnership which is co-managed by certain affiliates of the Investment Manager. During the year ended December 31, 2010, Series G recorded an unrealized loss of $649,035 on its investment and is included within change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations.

NOTE E (continued)

The investment held by Series H is an investment in Steel Partners Japan Strategic Fund, L.P. ("SPJ"), a limited partnership which is co-managed by certain affiliates of the Investment Manager. During the year ended December 31, 2010, Series H recorded an unrealized loss of $5,673,614 on its investment and is included within change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations. On December 22, 2010, Series H received an $8,625,400 distribution from SPJ. On March 22, 2011, $9,500,000 was distributed pro rata to the Series H beneficiaries.

Officers of the Investment Manager and employees of its affiliates hold executive level positions and/or board memberships in certain of the Trust's investments.

NOTE F - INVESTMENTS AT FAIR VALUE

The Trust complies with ASC 820 (formerly SFAS No. 157) "Fair Value Measurements," which establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Trust. Unobservable inputs are inputs that reflect the Trust's assumptions about the factors market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are listed equities.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments in this category include investments in private companies.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

NOTE F (continued)

The Trust employs various methods within the market approach, income approach and/or cost approach and has also considered whether there were observable inputs. Certain discounts and other judgment factors were applied to arrive at the investments' fair value. The Trust's private investments are valued utilizing unobservable pricing inputs. The Trust's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors. The valuation methodology applied for each is determined based on the nature of the investment. For private equity investments a market multiples approach that considers a specified financial measure (such as EBITDA or net tangible book value) and recent public market and private transactions and other available measures for valuing comparable companies may be used. A discounted cash flow approach may be used where significant assumptions and judgments are incorporated, including estimates of assumed growth rates, terminal values, discount rates, capital structure and other factors. For private debt investments, the valuation method considers comparable market yields for such instruments and recovery assumptions. The Trust may utilize observable pricing inputs and assumptions in determining the fair value of our private investments. Observable and unobservable pricing inputs and assumptions may differ by investment and in the application of the valuation methodologies. The reported fair value estimates could vary materially if different unobservable pricing inputs and other assumptions were used.

At December 31, 2010, all investments held by each Series are Level 3 investments.

At December 31, 2010, Series G held an investment in an investment fund whose objective is to achieve capital appreciation with respect to its stake in a Chinese listed company. The investment fund held by Series G ended its investment period in May 2009. Series H held an investment in an investment fund whose objective is to achieve capital appreciation with respect to its stakes in Japanese listed companies. Series G and H investment interests are not redeemable and distributions will be received as the underlying assets held are sold over a period which is not determinable. There are no unfunded capital commitments with respect to these investments. The fair values for the investments held by Series G and Series H have been estimated using the net asset value of such interests as reported by the respective investment fund.

Steel Partners II Liquidating Series Trust
Notes to Financial Statements (continued)
December 31, 2010
(expressed in U.S. dollars)

The changes in investments at fair value for which the Trust used Level 3 inputs to determine fair value are as follows for the year ended December 31, 2010:

	Series A	Series B	Series C	Series D	Series E	Series F	Series G	Series H	Series I	Total
Balance, January 1, 2010	$ 11,292,123	$ 65,027,900	$ 21,784,959	$ 33,017,050	$ 54,544,379	$ —	$ 26,701,784	$ 22,351,557	$ 50,702	$ 234,770,454
Realized gain (loss) from investments and foreign currency translation	164,569	—	—	—	835,431	—	—	—	—	1,000,000
Change in unrealized gain (loss) from investments and foreign currency translation	—	(8,785,645)	—	5,075,911	—	—	(649,051)	(5,673,614)	19,442	(10,012,957)
Distributed Assets	(12,198,192)	—	—	—	(61,922,477)	—	—	—	—	(74,120,669)
Purchases	1,728,732	—	981,602	—	11,555,285	—	—	—	—	14,265,619
Sales	(987,232)	—	(22,766,561)	—	(5,012,618)	—	—	(8,625,400)	—	(37,391,811)
Balance, December 31, 2010	$ —	$ 56,242,255	$ —	$ 38,092,961	$ —	$ —	$ 26,052,733	$ 8,052,543	$ 70,144	$ 128,510,636

The net change in unrealized gain (loss) from investments held at December 31, 2010, was $10,012,957 and is included in the change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations.

NOTE G - RISK MANAGEMENT

The Trust is exposed to a variety of risks, including but not limited to, market risk, concentration and credit risk and liquidity risk. Due to the nature of the Trust and its purpose, its ability to manage these risks is limited to its ability to manage, to the extent possible, the investments it holds until they may be sold. All cash as of December 31, 2010 is held as such that it is not subject to federal deposit insurance.

NOTE H - SUBSEQUENT EVENTS

The Trust has evaluated events and transactions that have occurred since December 31, 2010 through May 10, 2011, the date the financial statements were available for issuance and has determined the following subsequent events:

On March 22, 2011, $9,500,000 was distributed pro rata to the Series H beneficiaries.

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

STEEL PARTNERS II LIQUIDATING SERIES TRUST

December 31, 2011

C O N T E N T S

Report of Independent Certified Public Accountants

Financial Statements

- Statement of Net Assets
- Condensed Schedule of Investments
- Statement of Operations
- Statement of Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Trustees and the Beneficiaries of
Steel Partners II Liquidating Series Trust

We have audited the accompanying statement of net assets of Steel Partners II Liquidating Series Trust (the "Trust"), including the condensed schedule of investments, as of December 31, 2011, and the related statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Steel Partners II Liquidating Series Trust as of December 31, 2011, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

New York, New York
March 5, 2012

Steel Partners II Liquidating Series Trust
Statement of Net Assets
December 31, 2011
(expressed in U.S. dollars)

	Series A	Series B	Series C	Series D	Series E	Series G	Series H	Series I	Total
ASSETS									
Investments, at fair value (cost $150,530,987)	$ —	$ 36,284,258	$ —	$ 25,734,479	$ —	$ 21,440,845	$ 7,671,858	$ 903,616	$ 92,035,056
Cash and cash equivalents	—	1,148,754	—	1,144,286	—	360,797	290,568	2,323,015	5,267,420
Restricted cash	—	81,231	—	54,789	—	31,612	28,810	3,558	200,000
Total assets	$ —	$ 37,514,243	$ —	$ 26,933,554	$ —	$ 21,833,254	$ 7,991,236	$ 3,230,189	$ 97,502,476
LIABILITIES AND NET ASSETS									
Total net assets	$ —	$ 37,514,243	$ —	$ 26,933,554	$ —	$ 21,833,254	$ 7,991,236	$ 3,230,189	$ 97,502,476

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Condensed Schedule of Investments
December 31, 2011
(expressed in U.S. dollars)

Principal/ Shares	Series	Cost		Fair Value		Percentage of Series Net Assets
	Series B					
	Common Stock - Insurance, Europe					
377,818	Barbican Group Holdings Limited	$	62,038	$	—	—%
	Total		62,038		—	—
	Preferred Stock - Insurance, Europe					
36,795,718	Barbican Group Holdings Limited		66,066,556		36,284,258	96.7
	Total		66,066,556		36,284,258	96.7
	Total investments, at fair value	$	66,128,594	$	36,284,258	96.7%
	Series D					
	Common Stock - Restaurants, United States					
72,236	F&H Acq Corp	$	47,269,354	$	25,734,479	95.6%
	Total		47,269,354		25,734,479	95.6
	Total investments, at fair value	$	47,269,354	$	25,734,479	95.6%
	Series G					
	Limited Partnership - Asia					
	Steel Partners China Access I LP					
	(which holds an investment in the Heng					
	Feng Paper Company of 13,096,104 shares)	$	21,009,240	$	21,440,845	98.2%
	Total		21,009,240		21,440,845	98.2
	Total investments, at fair value	$	21,009,240	$	21,440,845	98.2%
	Series H					
	Limited Partnership - Asia					
	Steel Partners Japan Strategic Fund, L.P.					
	(which holds an investment in Aderans					
	Co Ltd of 501,975 shares)	$	14,373,745	$	7,671,858	96.0%
	Total		14,373,745		7,671,858	96.0
	Total investments, at fair value	$	14,373,745	$	7,671,858	96.0%

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Condensed Schedule of Investments (continued)
December 31, 2011
(expressed in U.S. dollars)

Principal/ Shares	Series	Cost	Fair Value	Percentage of Series Net Assets
	Series I			
	Debt - United States			
1,284,697	California Waste Services LLC - Promissory Note B	$ 872,277	$ 484,845	15.0%
1,253,008	California Waste Services LLC - Promissory Note C	853,912	416,750	12.9
	Other	23,865	2,021	0.1
	Total	1,750,054	903,616	28.0
	Total investments, at fair value	$ 1,750,054	$ 903,616	28.0%
	All Series			
	Total investments, at fair value	$ 150,530,987	$ 92,035,056	

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Operations
Year ended December 31, 2011
(expressed in U.S. dollars)

	Series A	Series B	Series C	Series D	Series E	Series G	Series H	Series I	Total
Net realized and unrealized gain (loss) from investment transactions									
Realized gain from investments and foreign currency translation	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 689,690	$ 689,690
Change in unrealized gain (loss) from investments and foreign currency translation	—	(19,957,997)	—	(12,358,482)	—	(4,611,888)	(380,685)	833,472	(36,475,580)
Realized gain (loss) - other	—	—	—	—	—	—	—	—	—
Total net realized and unrealized gain (loss) from investment transactions and foreign currency translation	—	(19,957,997)	—	(12,358,482)	—	(4,611,888)	(380,685)	1,523,162	(35,785,890)
Investment income									
Interest	—	114	—	115	—	36	38	213	516
Total investment income	—	114	—	115	—	36	38	213	516
Expenses									
Professional fees	—	36,270	—	62,017	—	21,010	16,794	37,552	173,643
Total expenses	—	36,270	—	62,017	—	21,010	16,794	37,552	173,643
Net investment loss	—	(36,156)	—	(61,902)	—	(20,974)	(16,756)	(37,339)	(173,127)
Net income (loss)	$ —	$ (19,994,153)	$ —	$ (12,420,384)	$ —	$ (4,632,862)	$ (397,441)	$ 1,485,823	$ (35,959,017)

The accompanying notes are an integral part of this statement.

eel Partners II Liquidating Series Trust
Statement of Changes in Net Assets
Year ended December 31, 2011
(expressed in U.S. dollars)

	Series A	Series B	Series C	Series D	Series E	Series G	Series H	Series I	Total
Increase (decrease) in net assets from operations									
Realized gain from investments and foreign currency translation	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 689,690	$ 689,690
Change in unrealized gain (loss) from investments and foreign currency translation	—	(19,957,997)	—	(12,358,482)	—	(4,611,888)	(380,685)	833,472	(36,475,580)
Net investment income loss	—	(36,156)	—	(61,902)	—	(20,974)	(16,756)	(37,339)	(173,127)
Net increase (decrease) in net assets from operations	—	(19,994,153)	—	(12,420,384)	—	(4,632,862)	(397,441)	1,485,823	(35,959,017)
Decrease in net assets from capital transactions									
Distributions	—	—	—	—	—	—	(9,500,000)	—	(9,500,000)
Net decrease in net assets from capital transactions	—	—	—	—	—	—	(9,500,000)	—	(9,500,000)
Net increase (decrease) in net assets	—	(19,994,153)	—	(12,420,384)	—	(4,632,862)	(9,897,441)	1,485,823	(45,459,017)
Net assets at the beginning of year	—	57,508,396	—	39,353,938	—	26,466,116	17,888,677	1,744,366	142,961,493
Net assets at the end of year	$ —	$ 37,514,243	$ —	$ 26,933,554	$ —	$ 21,833,254	$ 7,991,236	$ 3,230,189	$ 97,502,476

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Cash Flows
Year ended December 31, 2011
(expressed in U.S. dollars)

	Series A	Series B	Series C	Series D	Series E	Series G	Series H	Series I	Total
Cash flows from operating activities									
Net income (loss) from operations	$ —	$ (19,994,153)	$ —	$ (12,420,384)	$ —	$ (4,632,862)	$ (397,441)	$ 1,485,823	$ (35,959,017)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:									
Change in unrealized gain (loss) from investment and foreign currency transactions	—	19,957,997	—	12,358,482	—	4,611,888	380,685	(833,472)	36,475,580
Changes in assets and liabilities									
Decrease in operating liabilities									
Accrued expenses & other liabilities	(9,335)	—	(30,143)	—	(36,006)	—	—	—	(75,484)
Net cash provided by (used in) operating activities	(9,335)	(36,156)	(30,143)	(61,902)	(36,006)	(20,974)	(16,756)	652,351	441,079
Cash flows from financing activities									
Capital distributions	—	—	—	—	—	—	(9,500,000)	—	(9,500,000)
Net cash used in financing activities	—	—	—	—	—	—	(9,500,000)	—	(9,500,000)
Net change in cash and cash equivalents	(9,335)	(36,156)	(30,143)	(61,902)	(36,006)	(20,974)	(9,516,756)	652,351	(9,058,921)
Cash and Cash Equivalents, December 31, 2010	9,335	1,184,910	30,143	1,206,188	36,006	381,771	9,807,324	1,670,664	14,326,341
Cash and Cash Equivalents, December 31, 2011	$ —	$ 1,148,754	$ —	$ 1,144,286	$ —	$ 360,797	$ 290,568	$ 2,323,015	$ 5,267,420

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Notes to Financial Statements
December 31, 2011
(expressed in U.S. dollars)

NOTE A - ORGANIZATION

Steel Partners II Liquidating Series Trust (the "Trust"), a Delaware statutory trust, was formed and commenced operations on July 15, 2009. The purpose of the Trust is to effect the orderly liquidation of certain assets previously held by Steel Partners II, L.P. ("SPII") in connection with the withdrawal of the limited partners of Steel Partners II (Onshore) L.P. (the "Onshore Fund").

The Trust is divided into Series A through I (each a "Series"). Each Series is separate and distinct with respect to its assets, liabilities and net assets. Each individual Series has no liability or claim with respect to the liabilities or assets, respectively, of the other Series. Each Series shares in the costs, assets and liabilities, if any, that are not specifically attributable to a particular Series.

Steel Partners II GP LLC is the liquidating trustee (the "Liquidating Trustee"). CSC Trust Company of Delaware ("CSC") is the Delaware trustee whose responsibilities are generally limited to providing certain services in connection with the administration of the Trust including custody of cash and cash equivalents. Until December 31, 2011 Steel Partners LLC ("SPLLC") was the investment manager of the Trust (the "Investment Manager"). Effective December 31, 2011 SP General Services LLC ("SPGS") an affiliate of SPLLC became the investment manager. The Liquidating Trustee and SPGS are under common control. The Liquidating Trustee and SPLLC were under common control until December 31, 2011.

On July 15, 2009, SPII contributed $243,832,751 of non-cash assets and $39,235,001 of cash to the Trust and became the initial beneficiary of each Series. In connection with the full withdrawal of the limited partners of the Onshore Fund on July 15, 2009, 56.25% of the beneficial interests of each Series were transferred to certain of the withdrawing limited partners, and SPII retained 43.75% of the beneficial interests of each Series. SPII held certain assets of the Trust for the benefit of the Trust as its nominee until such assets could be assigned to the Trust. As of December 31, 2009, SPII held no assets on behalf of the Trust. The Investment Manager serves as the manager of SPII and its parent, Steel Partners Holdings L.P. ("SPH"). SPII is a wholly owned subsidiary of SPH.

In December 2009 Series F was terminated. In February 2010 Series C was terminated. In December 2010 Series A and E were terminated.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). On June 3, 2009, the Financial Accounting Standards Board ("FASB") approved the FASB Accounting Standards Codification ("ASC") to provide a consistent reference for all authoritative nongovernmental US GAAP. The Codification is effective for interim and annual periods ending after September 15, 2009. The Codification replaces the historical standards-based referencing with a topic-based model organized by ASC number. Subsequent authoritative US GAAP will be communicated via a new FASB document called an "Accounting Standards Update" ("ASU"). The Trust is using the Accounting Standards

NOTE B (continued)

Codification for all footnote disclosures included herein and where appropriate has indicated the FASB references that were applicable prior to the ASC.

The following are the significant accounting policies adopted by the Trust:

Cash and Cash Equivalents and Restricted Cash

All cash and cash equivalents are maintained by CSC in money-market funds held with an internationally recognized institutional fund. Restricted cash collateralizes certain indemnification undertakings of the Trust to CSC and is also maintained in the same money-market funds.

Use of Estimates

The preparation of financial statements in accordance with US GAAP requires the Trust management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from the estimates and differences may be material.

Investments and Income

Transactions and related revenues and expenses are recorded on a trade-date basis. Interest and dividend income are accrued as earned.

Taxation

The Trust is treated as a grantor trust for all federal, state and local tax purposes. Accordingly, no provision for income taxes has been made since all items of gain, loss, income and expense are allocable to the beneficiaries for inclusion in their respective income tax returns.

In accordance with the FASB's rules on Accounting for Uncertainty in Income Taxes, a tax position can be recognized in the financial statements only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. A liability is established for differences between positions taken in tax returns and amounts recognized in the financial statements.

As of December 31, 2011, the Trust has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions. The Trust is not aware of any tax positions for which it is reasonably possible that the total amounts of the unrecognized tax benefits will significantly change in the next twelve months.

NOTE B (continued)

The Trust files grantor trust tax returns for federal and state purposes. The statute of limitation remains open to examine the Trust's tax returns filed for the short tax period ended December 31, 2009 through the year ended December 31, 2011. To date, no examinations are in progress.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into United States dollars at the exchange rates prevailing at the reporting date. Foreign currency transactions are translated at the rate in effect at the date of the transaction. Realized foreign exchange gains and losses arising from the sale of foreign currency investments (if any) are recorded within realized gain (loss) from investments and foreign currency translation included in the statement of operations. Unrealized foreign exchange gains and losses arising from changes in the value of investments relating to changes in exchange rates are included within change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations. Realized gains (losses) in foreign currency transactions from the translation of assets and liabilities other than investments are included within realized gain (loss) - other in the statement of operations.

NOTE C - RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued guidance related to fair value measurements. This guidance changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the guidance does not result in a change in the application of the current fair value measurement and disclosure requirements. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This guidance will be effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a material impact on the Trust's net assets or results of operations.

NOTE D - ALLOCATION OF NET INCOME OR LOSS

The net income or loss for each Series is allocated among the beneficiaries in proportion to their respective beneficial interests.

NOTE E - RELATED PARTY TRANSACTIONS

The Liquidating Trustee and the Investment Manager receive no compensation with respect to the services each provides to the Trust. The Liquidating Trustee and the Investment Manager are reimbursed for any expenses incurred by or paid on behalf of the Trust and are reimbursed for all costs and expenses they incur in connection with the services they provide to the Trust. The total for expenses

NOTE E (continued)

paid by the Investment Manager on behalf of the Trust is $204,982 for the year ended December 31, 2011.

The investment held by Series G is an investment in Steel Partners China Access I L.P., a limited partnership which is co-managed by certain affiliates of the Investment Manager. During the year ended December 31, 2011, Series G recorded an unrealized loss of $4,611,888 on its investment and is included within change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations. The investment held by Series H is an investment in Steel Partners Japan Strategic Fund, L.P. ("SPJ"), a limited partnership which is co-managed by certain affiliates of the Investment Manager. During the year ended December 31, 2011, Series H recorded an unrealized loss of $380,685 on its investment and is included within change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations. On March 22, 2011, $9,500,000 was distributed pro rata to the Series H beneficiaries. Officers of the Investment Manager and employees of its affiliates hold executive level positions and/or board memberships in certain of the Trust's investments.

NOTE F - INVESTMENTS AT FAIR VALUE

The Trust complies with ASC 820 (formerly SFAS No. 157) "Fair Value Measurements," which establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Trust. Unobservable inputs are inputs that reflect the Trust's assumptions about the factors market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are listed equities.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities.

Level 3 – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments in this category include investments in private companies.

NOTE F (continued)

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The Trust employs various methods within the market approach, income approach and/or cost approach and has also considered whether there were observable inputs. Certain discounts and other judgment factors were applied to arrive at the investments' fair value. The Trust's private investments are valued utilizing unobservable pricing inputs. The Trust's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors. The valuation methodology applied for each is determined based on the nature of the investment. For private equity investments a market multiples approach that considers a specified financial measure (such as EBITDA or net tangible book value) and recent public market and private transactions and other available measures for valuing comparable companies may be used. A discounted cash flow approach may be used where significant assumptions and judgments are incorporated, including estimates of assumed growth rates, terminal values, discount rates, capital structure and other factors. For private debt investments, the valuation method considers comparable market yields for such instruments and recovery assumptions. The Trust may utilize observable pricing inputs and assumptions in determining the fair value of our private investments. Observable and unobservable pricing inputs and assumptions may differ by investment and in the application of the valuation methodologies. The reported fair value estimates could vary materially if different unobservable pricing inputs and other assumptions were used.

At December 31, 2011, all investments held by each Series are Level 3 investments.

At December 31, 2011, Series G held an investment in an investment fund whose objective is to achieve capital appreciation with respect to its stake in a Chinese listed company. The investment fund held by Series G ended its investment period in May 2009. Series H held an investment in an investment fund whose objective is to achieve capital appreciation with respect to its stakes in Japanese listed companies. Series G and H investment interests are not redeemable and distributions will be received as the underlying assets held are sold over a period which is not determinable. There are no unfunded capital commitments with respect to these investments. The fair values for the investments held by Series G and Series H have been estimated using the net asset value of such interests as reported by the respective investment fund.

Steel Partners II Liquidating Series Trust
Notes to Financial Statements (continued)
December 31, 2011
(expressed in U.S. dollars)

The changes in investments at fair value for which the Trust used Level 3 inputs to determine fair value are as follows for the year ended December 31, 2011:

	Series A	Series B	Series C	Series D	Series E	Series G	Series H	Series I	Total
Balance, January 1, 2011	$ —	$ 56,242,255	$ —	$ 38,092,961	$ —	$ 26,052,733	$ 8,052,543	$ 70,144	$ 128,510,636
Change in unrealized gain (loss) from investments and foreign currency translation	—	(19,957,997)	—	(12,358,482)	—	(4,611,888)	(380,685)	833,472	(36,475,580)
Realized gain from investments and foregin currency translation	—	—	—	—	—	—	—	689,690	689,690
Purchases	—	—	—	—	—	—	—	—	—
Sales	—	—	—	—	—	—	—	(689,690)	(689,690)
Balance, December 31, 2011	$ —	$ 36,284,258	$ —	$ 25,734,479	$ —	$ 21,440,845	$ 7,671,858	$ 903,616	$ 92,035,056
Changes in unrealized gain (loss) from investments held at December 31, 12011	—	(19,957,997)	—	(12,358,482)	—	(4,611,888)	(380,685)	882,649	(36,426,403)

The net change in unrealized gain (loss) from investments still held at December 31, 2011, was $36,426,403 and is included in the change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations.

NOTE G - RISK MANAGEMENT

The Trust is exposed to a variety of risks, including but not limited to, market risk, concentration and credit risk and liquidity risk. Due to the nature of the Trust and its purpose, its ability to manage these risks is limited to its ability to manage, to the extent possible, the investments it holds until they may be sold. All cash as of December 31, 2011 is held such that it is not subject to federal deposit insurance.

NOTE H - SUBSEQUENT EVENTS

The Trust has evaluated events and transactions that have occurred since December 31, 2011 through March 5, 2012, the date the financial statements were available for issuance and has determined there are no subsequent events, that would require disclosure.

FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

STEEL PARTNERS II LIQUIDATING SERIES TRUST

December 31, 2012

C O N T E N T S

Report of Independent Certified Public Accountants

Financial Statements

Statement of Net Assets

- Condensed Schedule of Investments
- Statement of Operations
- Statement of Changes in Net Assets
- Statement of Cash Flows
- Notes to Financial Statements

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Trustees and the Beneficiaries of
Steel Partners II Liquidating Series Trust

We have audited the accompanying financial statements of Steel Partners II Liquidating Series Trust (the “Trust”), which comprise the statement of net assets, including the condensed schedule of investments as of December 31, 2012, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Steel Partners II Liquidating Series Trust as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

New York, New York
March 14, 2013

Steel Partners II Liquidating Series Trust
Statement of Net Assets
December 31, 2012 (expressed in U.S. dollars)

ASSETS

	Series B	Series D	Series G	Series H	Series I	Total
Investments, at fair value (cost $75,240,871)	—	$ 69,574	$ 13,887,367	$ 8,605,553	$ 125,123	$ 22,687,617
Cash and cash equivalents	37,290	1,113,344	244,585	258,144	1,696,708	3,350,071
Restricted cash	—	57,993	85,292	47,351	9,364	200,000
Total assets	$ 37,290	$ 1,240,911	$ 14,217,244	$ 8,911,048	$ 1,831,195	$ 26,237,688

LIABILITIES AND NET ASSETS

	Series B	Series D	Series G	Series H	Series I	Total
Accrued expenses & other liabilites	$ 37,290	—	—	—	—	$ 37,290
Total liabilites	37,290	—	—	—	—	37,290
Total net assets	—	$ 1,240,911	$ 14,217,244	$ 8,911,048	$ 1,831,195	$ 26,200,398

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Condensed Schedule of Investments
December 31, 2012
(expressed in U.S. dollars)

Principal/ Shares	Series		Cost		Fair Value	Percentage of Series Net Assets
	Series D					
	Common Stock - Restaurants, United States					
722	F&H Acq Corp	$	47,269,354	$	69,574	5.6%
	Total		47,269,354		69,574	5.6
	Total investments, at fair value	$	47,269,354	$	69,574	5.6%
	Series G					
	Limited Partnership - Asia					
	Steel Partners China Access I LP					
	(which holds an investment in the Heng					
	Feng Paper Company of 12,429,573 shares)	$	11,847,718	$	13,887,367	97.7%
	Total		11,847,718		13,887,367	97.7
	Total investments, at fair value	$	11,847,718	$	13,887,367	97.7%
	Series H					
	Limited Partnership - Asia					
	Steel Partners Japan Strategic Fund, L.P.					
	(which holds an investment in Aderans					
	Co Ltd of 501,975 shares)	$	14,373,745	$	8,605,553	96.6%
	Total		14,373,745		8,605,553	96.6
	Total investments, at fair value	$	14,373,745	$	8,605,553	96.6%

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Condensed Schedule of Investments (continued)
December 31, 2012
(expressed in U.S. dollars)

Principal/ Shares	Series		Cost		Fair Value	Percentage of Series Net Assets
	Series I					
	Debt - United States					
1,284,697	California Waste Services LLC - Promissory Note B		872,277		68,988	3.8%
1,253,008	California Waste Services LLC - Promissory Note C		853,912		56,135	3.1
	Other		23,865		—	—
	Total		1,750,054		125,123	6.8
	Total investments, at fair value	$	1,750,054	$	125,123	6.8%
	All Series					
	Total investments, at fair value	$	75,240,871	$	22,687,617	

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Operations
Year ended December 31, 2012
(expressed in U.S. dollars)

	Series B	Series D	Series G	Series H	Series I	Total
Net realized and unrealized gain (loss)						
from investment transactions						
Realized loss from investments and foreign currency translation	$ (24,365,708)	—	—	—	—	$ (24,365,708)
Change in unrealized gain (loss)						
from investments and foreign						
currency translation	29,844,337	(25,664,905)	1,608,044	933,695	(778,493)	5,942,678
Total net realized and unrealized						
gain (loss) from investment transactions						
and foreign currency translation	5,478,629	(25,664,905)	1,608,044	933,695	(778,493)	(18,423,030)
Investment income						
Interest	454	180	97	44	323	1,098
Total investment income	454	180	97	44	323	1,098
Expenses						
Professional fees	73,023	27,918	24,151	13,927	20,824	159,843
Total expenses	73,023	27,918	24,151	13,927	20,824	159,843
Net investment loss	(72,569)	(27,738)	(24,054)	(13,883)	(20,501)	(158,745)
Net income (loss)	$ 5,406,060	$ (25,692,643)	$ 1,583,990	$ 919,812	$ (798,994)	$ (18,581,775)

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Changes in Net Assets
Year ended December 31, 2012
(expressed in U.S. dollars)

	Series B	Series D	Series G	Series H	Series I	Total
Increase (decrease) in net assets						
from operations						
Realized loss from investments and foreign currency translation	$ (24,365,708)	—	—	—	—	$ (24,365,708)
Change in realized and unrealized gain (loss)						—
from investments and						—
foreign currency translation	29,844,337	(25,664,905)	1,608,044	933,695	(778,493)	5,942,678
Net investment income loss	(72,569)	(27,738)	(24,054)	(13,883)	(20,501)	(158,745)
Net increase (decrease) in						
net assets from operations	5,406,060	(25,692,643)	1,583,990	919,812	(798,994)	(18,581,775)
Decrease in net assets from						
capital transactions						
Distributions	(42,920,303)	—	(9,200,000)	—	(600,000)	(52,720,303)
Net decrease in net assets						
from capital transactions	(42,920,303)	—	(9,200,000)	—	(600,000)	(52,720,303)
Net increase (decrease) in net assets	(37,514,243)	(25,692,643)	(7,616,010)	919,812	(1,398,994)	(71,302,078)
Net assets at the beginning of year	37,514,243	26,933,554	21,833,254	7,991,236	3,230,189	97,502,476
Net assets at the end of year	$ —	$ 1,240,911	$ 14,217,244	$ 8,911,048	$ 1,831,195	$ 26,200,398

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Cash Flows
Year ended December 31, 2012
(expressed in U.S. dollars)

	Series B	Series D	Series G	Series H	Series I	Total
Cash flows from operating activities						
Net income (loss) from operations	$ 5,406,060	$ (25,692,643)	$ 1,583,990	$ 919,812	$ (798,994)	$ (18,581,775)
Adjustments to reconcile net income(loss) to net cash provided by (used in) operating activities:						
Change in net unrealized gain (loss) from investment and foreign currency transactions	(5,478,629)	25,664,905	(1,608,044)	(933,695)	778,493	18,423,030
Proceeds, ditribution from investment	41,762,887	—	9,161,522	—	—	50,924,409
Changes in assets and liabilities						
Change in restricted cash	81,231	(3,204)	(53,680)	(18,541)	(5,806)	—
Increase in operating liabilities						
Accrued expenses & other liabilities	37,290	—	—	—	—	37,290
Net cash provided by (used in) operating activities	41,808,839	(30,942)	9,083,788	(32,424)	(26,307)	50,802,954
Cash flows from financing activities						
Capital distributions	(42,920,303)	—	(9,200,000)	—	(600,000)	(52,720,303)
Net cash used in financing activities	(42,920,303)	—	(9,200,000)	—	(600,000)	(52,720,303)
Net change in cash and cash equivalents	(1,111,464)	(30,942)	(116,212)	(32,424)	(626,307)	(1,917,349)
Cash and Cash Equivalents, December 31, 2011	1,148,754	1,144,286	360,797	290,568	2,323,015	5,267,420
Cash and Cash Equivalents, December 31, 2012	$ 37,290	$ 1,113,344	$ 244,585	$ 258,144	$ 1,696,708	$ 3,350,071

The accompanying notes are an integral part of this statement.

NOTE A - ORGANIZATION

Steel Partners II Liquidating Series Trust (the "Trust"), a Delaware statutory trust, was formed and commenced operations on July 15, 2009. The purpose of the Trust is to effect the orderly liquidation of certain assets previously held by Steel Partners II, L.P. ("SPII") in connection with the withdrawal of the limited partners of Steel Partners II (Onshore) L.P. (the "Onshore Fund").

The Trust is divided into Series A through I (each a "Series"). Each Series is separate and distinct with respect to its assets, liabilities and net assets. Each individual Series has no liability or claim with respect to the liabilities or assets, respectively, of the other Series. Each Series shares in the costs, assets and liabilities, if any, that are not specifically attributable to a particular Series.

Steel Partners II GP LLC is the liquidating trustee (the "Liquidating Trustee"). CSC Trust Company of Delaware ("CSC") is the Delaware trustee whose responsibilities are generally limited to providing certain services in connection with the administration of the Trust including custody of cash and cash equivalents. Until December 31, 2011 Steel Partners LLC ("SPLLC") was the investment manager of the Trust (the "Investment Manager"). Effective December 31, 2011 SP General Services LLC ("SPGS") an affiliate of SPLLC became the investment manager. The Liquidating Trustee and SPGS are under common control. The Liquidating Trustee and SPLLC were under common control until December 31, 2011.

On July 15, 2009, SPII contributed $243,832,751 of non-cash assets and $39,235,001 of cash to the Trust and became the initial beneficiary of each Series. In connection with the full withdrawal of the limited partners of the Onshore Fund on July 15, 2009, 56.25% of the beneficial interests of each Series were transferred to certain of the withdrawing limited partners, and SPII retained 43.75% of the beneficial interests of each Series. SPII held certain assets of the Trust for the benefit of the Trust as its nominee until such assets could be assigned to the Trust. As of December 31, 2009, SPII held no assets on behalf of the Trust. The Investment Manager serves as the manager of SPII and its parent, Steel Partners Holdings L.P. ("SPH"). SPII is a wholly owned subsidiary of SPH.

Pursuant to the Declaration of Trust, the term of the Trust was for a three year period from July 15, 2009. If the Trust property (as defined in the Declaration of Trust) has not been fully distributed to its beneficiaries, then the Liquidating Trustee may elect for the expiration of the three year anniversary not to be an event of dissolution and remain in existence for up to two successive one year periods, or such longer period as may be reasonably necessary to liquidate and distribute the assets in-kind. The Liquidating Trustee has elected for the Trust to remain in existence through July 15, 2014.

In December 2009 Series F was terminated. In February 2010 Series C was terminated. In December 2010 Series A and E were terminated.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The following are the significant accounting policies adopted by the Trust:

Cash and Cash Equivalents and Restricted Cash

All cash and cash equivalents are maintained by CSC in money-market funds held with an internationally recognized institutional fund. Restricted cash collateralizes certain indemnification undertakings of the Trust to CSC and is also maintained in the same money-market funds.

Use of Estimates

The preparation of financial statements in accordance with US GAAP requires the Trust management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from the estimates and differences may be material.

Investments and Income

Transactions and related revenues and expenses are recorded on a trade-date basis. Interest and dividend income are accrued as earned.

Taxation

The Trust is treated as a grantor trust for all federal, state and local tax purposes. Accordingly, no provision for income taxes has been made since all items of gain, loss, income and expense are allocable to the beneficiaries for inclusion in their respective income tax returns.

In accordance with the FASB's rules on Accounting for Uncertainty in Income Taxes, a tax position can be recognized in the financial statements only when it is more likely than not that the position will be sustained upon examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized upon settlement. A liability is established for differences between positions taken in tax returns and amounts recognized in the financial statements.

As of December 31, 2012, the Trust has recorded no liability for net unrecognized tax benefits relating to uncertain income tax positions. The Trust is not aware of any tax positions for which it is reasonably possible that the total amounts of the unrecognized tax benefits will significantly change in the next twelve months.

NOTE B (continued)

The Trust files grantor trust tax returns for federal and state purposes. The statute of limitation remains open to examine the Trust's tax returns filed for the tax period ended December 31, 2010 through the year ended December 31, 2012. To date, no examinations are in progress.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into United States dollars at the exchange rates prevailing at the reporting date. Foreign currency transactions are translated at the rate in effect at the date of the transaction. Realized foreign exchange gains and losses arising from the sale of foreign currency investments (if any) are recorded within realized gain (loss) from investments and foreign currency translation included in the statement of operations. Unrealized foreign exchange gains and losses arising from changes in the value of investments relating to changes in exchange rates are included within change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations. Realized gains (losses) in foreign currency transactions from the translation of assets and liabilities other than investments are included within realized gain (loss) - in the statement of operations.

NOTE C - RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued guidance related to fair value measurements. This guidance changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the guidance does not result in a change in the application of the current fair value measurement and disclosure requirements. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The guidance, which was effective for the Trust on January 1, 2012, did not have a material impact on the Trust's financial statements and has been incorporated into the financial statement disclosure.

NOTE D - ALLOCATION OF NET INCOME OR LOSS

The net income or loss for each Series is allocated among the beneficiaries in proportion to their respective beneficial interests.

NOTE E - RELATED PARTY TRANSACTIONS

The Liquidating Trustee and the Investment Manager receive no compensation with respect to the services each provides to the Trust. The Liquidating Trustee and the Investment Manager are reimbursed for any expenses incurred by or paid on behalf of the Trust and are reimbursed for all costs and expenses they incur in connection with the services they provide to the Trust. The total for expenses

NOTE E (continued)

paid by the Investment Manager on behalf of the Trust is $82,429 for the year ended December 31, 2012.

The investment held by Series G is an investment in Steel Partners China Access I L.P., a limited partnership which is co-managed by certain affiliates of the Investment Manager. During the year ended December 31, 2012, Series G recorded an unrealized gain of $1,608,044 on its investment and is included within change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations. The investment held by Series H is an investment in Steel Partners Japan Strategic Fund, L.P. ("SPJ"), a limited partnership which is co-managed by certain affiliates of the Investment Manager. During the year ended December 31, 2012, Series H recorded an unrealized gain of $933,695 on its investment and is included within change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations. On July 13, 2012 $9,200,000 was distributed to Series G and $600,000 to Series I beneficiaries.

At December 31, 2011, Series D owned 72,236 shares of Fox & Hound Acquisition Corp. ("F&H") common stock. The fair value of this interest in F&H was $25,734,479. On March 19, 2012, SPH, along with others, participated in a $25 million capital raise by F&H as a result of a rights issue. Due to the terms of its declaration of trust and lack of capital, the Trust did not participate in the capital raise. As a result the fair value of its investment in F&H was significantly diluted, as it was for all non-participating shareholders. The effect of this dilution reduced the Trusts's ownership of F&H equity from 48.7% to 0.3% and, accordingly, reduced the value of its investment in F&H.

Officers of the Investment Manager and employees of its affiliates hold executive level positions and/or board memberships in certain of the Trust's investments.

NOTE F - INVESTMENTS AT FAIR VALUE

The Trust's investments are carried at fair value pursuant to ASC 946 "Financial Services - Investments Companies." The Trust complies with ASC 820 "Fair Value Measurements," which establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Trust. Unobservable inputs are inputs that reflect the Trust's assumptions about the factors market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are listed equities.

NOTE F (continued)

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities.

Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments in this category include investments in private companies.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The Trust employs various methods within the market approach, income approach and/or cost approach and has also considered whether there were observable inputs. Certain discounts and other judgment factors were applied to arrive at the investments' fair value. The Trust's private investments are valued utilizing unobservable pricing inputs. The Trust's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are management's best estimates after consideration of a variety of internal and external factors. The valuation methodology applied for each is determined based on the nature of the investment. For private equity investments a market multiples approach that considers a specified financial measure (such as EBITDA) and recent public market and private transactions and other available measures for valuing comparable companies may be used. A discounted cash flow approach may be used where significant assumptions and judgments are incorporated, including estimates of assumed growth rates, terminal values, discount rates, capital structure and other factors. For private debt investments, the valuation method considers comparable market yields for such instruments and recovery assumptions. The Trust may utilize observable pricing inputs and assumptions in determining the fair value of our private investments. Observable and unobservable pricing inputs and assumptions may differ by investment and in the application of the valuation methodologies. The reported fair value estimates could vary materially if different unobservable pricing inputs and other assumptions were used.

A fair value memo for each of the Trusts' investment is prepared by the analyst or designees which monitor each investment. Once completed they are reviewed and then approved by the valuation committee which is comprised of the CEO, President and CFO of the liquidating Trustee.

At December 31, 2012, all investments held by each Series are Level 3 investments.

NOTE F (continued)

At December 31, 2012, Series G held an investment in an investment fund whose objective is to achieve capital appreciation with respect to its stake in a Chinese listed company. The investment fund held by Series G ended its investment period in May 2009. Series H held an investment in an investment fund whose objective is to achieve capital appreciation with respect to its stake in a Japanese listed company. Series G and H investment interests are not redeemable and distributions will be received as the underlying assets held are sold over a period which is not determinable. There are no unfunded capital commitments with respect to these investments. The fair values for the investments held by Series G and Series H have been estimated using the net asset value of such interests as reported by the respective investment fund.

At December 31, 2011, Series B had an investment in Barbican Group Holdings Limited (“Barbican”) with a fair value of $36,284,258. On October 5, 2012 an entity controlled by Carlson Capital L.P. (“Carlson”), an unrelated party, increased its stake in Barbican by acquiring the interests held by several entities, including Series B. Carlson paid $41,762,887 to Series B and as a result of this transaction, Series B recorded a net realized and unrealized gain of $5,478,629. On October 22, 2012 Series B distributed to its beneficiaries on a pro rata basis $42,920,303 of cash.

Per the Sale Purchase Agreement (“SPA”) with Carlson, in the event that any sale occurs on or prior to the first anniversary of the transaction completion date, additional proceeds will be due to Series B. The Trust believes that the likelihood of receiving any additional consideration is remote.

Steel Partners II Liquidating Series Trust
Notes to Financial Statements (continued)
December 31, 2012
(expressed in U.S. dollars)

The changes in investments at fair value for which the Trust used Level 3 inputs to determine fair value are as follows for the year ended December 31, 2012:

	Series B	Series D	Series G	Series H	Series I	Total
Balance, January 1, 2012	$ 36,284,258	$ 25,734,479	$ 21,440,845	$ 7,671,858	$ 903,616	$ 92,035,056
Change in unrealized gain (loss) from investments and foreign currency translation	29,844,337	(25,664,905)	1,608,044	933,695	(778,493)	5,942,678
Realized loss from investments and foreign currency translation	(24,365,708)	—	—	—	—	(24,365,708)
Purchases	—	—	—	—	—	—
Sales	(41,762,887)	—	(9,161,522)	—	—	(50,924,409)
Balance, December 31, 2012	$ —	$ 69,574	$ 13,887,367	$ 8,605,553	$ 125,123	$ 22,687,617
Changes in unrealized gain (loss) from investments held at December 31, 2012	—	(25,664,905)	1,608,044	933,695	(778,493)	(23,901,659)

The net change in unrealized gain (loss) from investments for the year ended December 31, 2012, was $5,942,678 and is included in the change in unrealized gain (loss) from investments and foreign currency translation in the statement of operations.

Significant Unobservable Inputs

The following table summarizes the significant unobservable inputs in the fair value measurements of our Level 3 investments by category of investment and valuation technique as of December 31, 2012:

Quantitative Information about Level 3 Fair Value Measurements

Investment	Fair Value as of December 31, 2012	Valuation Technique	Unobservable Input	Weighted Average
Series D	$ 69,574	Discounted cash flow	Growth rates	3%
			Market risk premium	25%
		Market multiple	EBITDA multiple	5.0x multiple
			Cost of Capital	15%
Series G	13,887,367	NAV*	n/a	n/a
Series H	8,605,553	NAV*	n/a	n/a
Series I	125,123	Market multiple	EBITDA multiple	3.0x multiple
Total investments, at fair value	$ 22,687,617			

*The fair values for the investments held by Series G and Series H have been estimated using the net asset value of such interests as reported by the respective investment fund.

NOTE G - RISK MANAGEMENT

The Trust is exposed to a variety of risks, including but not limited to, market risk, concentration and credit risk and liquidity risk. Due to the nature of the Trust and its purpose, its ability to manage these risks is limited to its ability to manage, to the extent possible, the investments it holds until they may be sold. All cash as of December 31, 2012 is held such that it is not subject to federal deposit insurance.

NOTE H - SUBSEQUENT EVENTS

The Trust has evaluated events and transactions that have occurred since December 31, 2012 through March 14, 2013, the date the financial statements were available for issuance and has determined there are no subsequent events, that would require disclosure.