

April 8, 2013

Dear Unitholders:

In our letter to you last year, I discussed the transformation of Steel Partners Holdings L.P. (“SPHLP” or the “Company”) into a global, publicly traded holding company, and how, through that process, we were able to meet the stringent regulatory standards required for listing on the New York Stock Exchange.

Over the course of the past 12 months we have continued to deliver upon our commitment to build and increase value for our unitholders and other constituents – a goal that we put in place nearly 23 years ago when we founded the Company.

We believe one of the best ways to create unit holder value is to build a company that has market-leading businesses, a continuous improvement culture, rigid capital allocation policies and a value-based investment philosophy.

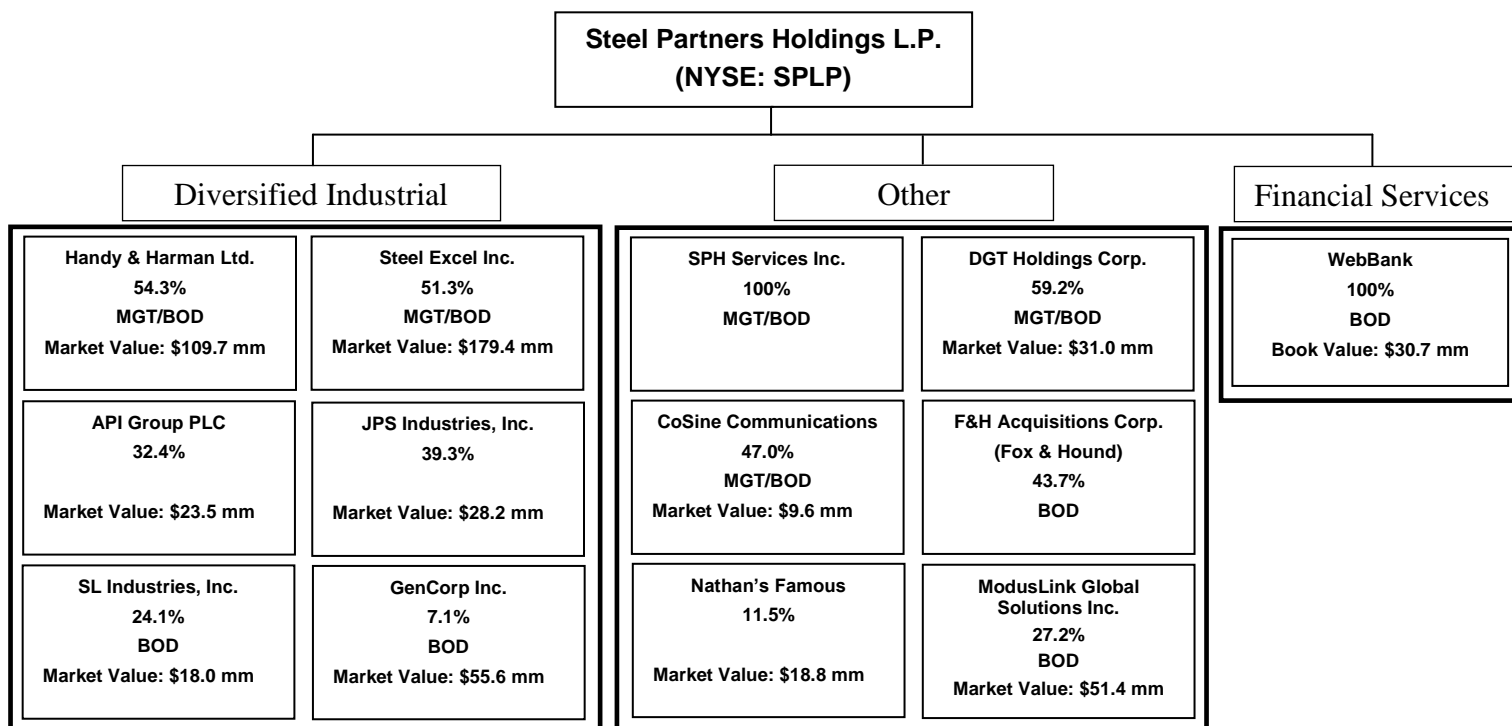
If we were to consolidate all of our holdings, SPHLP would have more than 7,500 employees in 97 plants and facilities – totaling approximately three million square feet – across 12 countries around the globe. Furthermore, according to each of our holding’s most recent year-end financial reports, the combined revenue would be in excess of \$2.3 billion.

During this past year, in the interest of increasing efficiencies and eliminating waste, we continued with our operational excellence programs, which include Lean Manufacturing, Design for Six Sigma, Six Sigma and Strategy Deployment.

SPHLP also continues to be guided by our philosophies and strategies:

- **Invest in good companies with simple business models at prices that have a built-in margin of safety;**
- **Create a continuous improvement culture and implement operational excellence programs;**
- **Control costs and use leverage prudently, or not at all;**
- **Avoid complex businesses or investments that cannot be easily explained or understood;**
- **Reward people who deliver results; and**
- **Ensure the right core principles and culture exists.**

Overall, both our competitive posture and foundation for profitable growth are stronger today than they were a year ago. This is illustrated in our updated organizational chart (below), which provides an overview on our main holdings, our percentage of ownership thereof, our role in both the associated management and boards, and the public market value of our holdings in each company, as of March 31, 2013.



### Steel Partners Holdings L.P. Overview

- As of March 15, 2013, there were 30,254,539 SPHLP common units outstanding.
- As of the year ended December 31, 2012, SPHLP's total assets were \$1.4 billion and unitholders' equity was \$527.3 million. Per-unit book value was \$17.13, an increase of \$0.62 over the previous year. SPHLP units at close-of-market on December 31, 2012 were \$11.79 per unit. Management's ownership as of December 31, 2012 was 29.5%.
- In the fourth quarter of 2012, an SPHLP majority owned subsidiary purchased 1,037,272 units of SPHLP, at a cost of \$11.4 million, and 14,254 shares of HNH common stock, at a cost of \$0.2 million. For the year in total, 1,345,646 units of SPHLP were purchased, at a cost of \$15.1 million, and 97,550 shares of HNH common stock, at a cost of \$1.3 million.
- Over the past year, we acquired and invested in multiple businesses that we believe can and will add value to our company. These include Steel Excel Inc.'s purchase of Sun Well Services Inc. (from BNS Holdings Inc.) as well as two other acquisitions – Inmet Metal Processing Plant Ltd., and W.P. Hickman Company – by wholly-owned subsidiaries of Handy & Harman Ltd. ("HNH").

- Our most recent acquisition, completed on March 12, 2013, is a \$30 million investment in ModusLink, a company in the supply chain management and logistics business. Our goal is to fix the supply chain business and utilize ModusLink's approximately \$2.0 billion of federal net operating loss carryforwards ("NOLs") as quickly as possible. We are looking to grow ModusLink through acquisitions. Please call us with any great ideas in this area.
- Steel Excel, Inc, through its wholly owned subsidiary Steel Sports Inc., has also made investments in sports entities, including CrossFit Torrance and CrossFit Southbay, Again Faster LLC and Ruckus Sports LLC.

I will go into detail on each of these transactions later in this letter.

Additionally, we sold three businesses that no longer fit our long term strategic vision:

- DGT Holdings Inc. sold subsidiary RFI Corporation to EMS Development Corporation, an affiliate of Ultra Electronics Defense, Inc., for \$12.5 million cash.
- Entities associated with Steel Partners II, LP sold their respective interests in Barbican Group Holdings Limited to an entity controlled by Carlson Capital L.P. Proceeds to SPHLP aggregate GBP21 million. We wish Clint Carlson and his team well with this investment, as they were great partners.
- HNH sold its wholly owned subsidiary Continental Industries to Burndy LLC, an affiliate of Hubbell Inc., for \$37.5 million.

In addition to our acquisitions, investments and divestitures, we firmly believe we can create greater unitholder value by hiring and incentivizing outstanding people.

SPHLP and its companies have a tremendous cadre of colleagues and intellectual capital throughout all of the industries in which we operate. This is illustrated not only in their day-to-day functions, but also through their steadfast adherence to ethical principles and compliance standards.

### **Detailed Review of Steel Partners Holdings L.P. Portfolio Businesses**



API Group PLC (API.LN); [www.apigroup.com](http://www.apigroup.com)

API Group PLC ("API") is a leading manufacturer of specialized materials for packaging, headquartered in the United Kingdom. As of March 29, 2013, we own approximately 32.4% of API, with a market value of \$23.5 million.

On February 8, 2012, SPHLP sent a letter to API expressing its belief that API's market price does not reflect its intrinsic value and that this value will only be realized through a sale of the company. On September 26, 2012, API's board announced the initiation of a formal sales process, during which time the company received several proposals. However, the board concluded that with no adequate offers having come forth, a sale was unlikely to gain recognition for the underlying value of the business or deliver the best value for its shareholders.

Subsequently, on February 13, 2013, API announced that its board has terminated the formal sales process. We are continuing to assess the performance of API.



**CoSine Communications, Inc. (OTC: COSN.PK); [www.cosinecom.com](http://www.cosinecom.com)**

CoSine Communications, Inc. ("CoSine") is seeking to redeploy its existing resources to identify and acquire, or invest in, one or more operating businesses with the potential for generating taxable income and/or capital gains. This strategy may enable CoSine to realize future cash flow benefits from its NOLs. No assurance can be given that CoSine will be able to utilize its existing NOLs.

CoSine's Certificate of Incorporation limits the ability of any group or person to acquire 5% or more of CoSine's common stock (subject to certain exceptions as provided in the Certificate of Incorporation), in order to protect CoSine's ability to utilize its NOLs and renders inapplicable to CoSine the limitations of Section 203 of the Delaware General Corporation Law.

As of March 29, 2013, we have an ownership interest of approximately 47% in CoSine, with a market value of \$9.6 million. CoSine has approximately \$355.7 million of NOLs.

CoSine announced a net loss of \$736,000, or \$0.07 loss per share, for the year ended December 31, 2012, as compared to a net loss of \$1,018,000, or \$0.10 per share, for the year ended December 31, 2011. Net loss for the quarter ended December 31, 2012 was \$240,000, or \$0.02 loss per share, as compared to a net loss of \$204,000, or \$0.02 per share, for the quarter ended December 31, 2011.

On March 16, 2011 CoSine filed a Form 15 with the Securities and Exchange Commission, deregistering its common stock and suspending its reporting obligations under the Securities Exchange Act of 1934, as amended. CoSine currently intends to continue to make available its periodic financial information.

Terry Gibson and Jack Howard are directors.



**DGT Holdings Corp. (OTC: DGTC.OB); [www.dgtholdings.com](http://www.dgtholdings.com)**

DGT Holdings Corp. (“DGT”), formerly Del Global Technologies Corp., is now a shell company with cash, marketable securities and NOLs, and is seeking to acquire one or more profitable business operations.

On August 16, 2012, DGT sold its subsidiary Power Conversion business, operated by RFI Corporation, to EMS Development Corporation, an affiliate of Ultra Electronics Defense, Inc., for \$12.5 million. DGT has retained the RFI facility in Bay Shore, N.Y., and is currently in a lease agreement with EMS.

At its annual meeting of shareholders, held February 27, 2013, 96% of voting shareholders approved two amendments to DGT’s Certificate of Incorporation; a reverse stock split at a ratio of 1-for-5,000, and a forward stock split at a ratio of 5,000-for-1.

As of March 29, 2013, SPHLP owns approximately 59.2% of the company, with a market value of \$31.0 million. DGT has NOLs of approximately \$32.4 million.

On March 6, 2013, DGT completed the reverse stock split and forward stock split. As such, shares of common stock held by shareholders of record owning few than 5,000 shares on March 1, 2013 have been cancelled, and such shareholders will receive a cash payment of \$13.50 per share. This reduces DGT’s record shareholders to less than 300, enabling the company to cease being an SEC registrant.

DGT wants to thank John Quicke for doing an outstanding job monetizing the business assets of the company. Upon closing the RFI sale (see above) and filing the 2012 Form 10-K, Mr. Quicke resigned from the board and as CEO. Terry Gibson, another SPHLP colleague, assumed the CEO role and became a director of the company.

Jack Howard is chairman.



**Fox & Hound Acquisition Corp. (Private); [www.foxandhound.com](http://www.foxandhound.com)**

Fox & Hound Acquisition Corp. (“Fox & Hound”) is a privately held owner and operator of a chain of 131 casual dining and entertainment based restaurants in throughout the United States. The performance of Fox & Hound and its Champps Restaurants have been disappointing year-to date, due in large part to increased competition in Fox & Hound’s late-night business and value pricing specials offered by many throughout the restaurant industry.

As of March 29, 2013, SPHLP's direct and indirect interest in Fox & Hound is approximately 43.7%.

In November 2012, the company entered into a forbearance agreement with its lenders. The agreement, which expired in January 2013, required Fox & Hound, among other items, to maintain a senior leverage ratio of under 2.85x, implement an operational improvement plan and hire a new CEO. As such, on January 3, 2013, Marc Buehler, a long-time restaurant chain executive, was hired as CEO. We are currently seeking several options regarding how we will move forward with Fox & Hound. Please visit a Fox & Hound or Champps restaurant near you – we can use the business.

John McNamara and Ken Kong are directors.



GenCorp Inc. (NYSE:GY); [www.gencorp.com](http://www.gencorp.com)

GenCorp Inc. ("GenCorp") is a manufacturer of aerospace and defense systems, and also has a real estate business, the activities of which include the entitlement, sale, and leasing of its real estate assets.

In July 2012, GenCorp announced it was acquiring United Technologies Company's Pratt & Whitney Rocketdyne, a manufacturer of liquid-fueled launch motors for space and defense uses, for \$550 million. The deal is expected to close during the first half of 2013. This will be a game-changer for GenCorp, Aerojet and the United States of America.

As of March 29, 2013, SPHLP owns approximately 7.1 % of GenCorp, with market value of \$55.6 million.

For the first quarter ended February 28, 2013, GenCorp reported net sales of \$243.7 million, versus \$201.9 million for the same period in 2012. Net loss for the first quarter of fiscal 2013 was \$14.0 million, or \$0.24 loss per share, compared to a net income of \$2.4 million, or \$0.04 diluted income per share, for the first fiscal quarter of 2012.

The company attributed the quarterly net loss to a \$5.7 million rise in non-cash retirement benefit expense; and \$5.5 million expenses incurred in the first quarter on the proposed acquisition of Rocketdyne; a \$5.2 million increase in interest expense primarily related to the financing of the proposed Rocketdyne Business acquisition; a \$2.6 million growth in the income tax provision; and a \$2.3 million rise in stock-based compensation. These factors were partially offset by higher sales generating additional operating profit.

Adjusted EBITDAP (Non-GAAP measure) for the first quarter of fiscal 2012 was \$29.8 million, or 12.2% of net sales, compared to \$26.2 million, or 13.0% of net sales, for the first quarter of fiscal 2012.

A reconciliation of the Non-GAAP measures to the most directly comparable GAAP measures is included in [GenCorp's 2013 First Quarter Results](#), dated April 5, 2012.

Warren Lichtenstein is a director.



**Handy & Harman Ltd. (NASDAQ (CM): HNH); [www.handyharman.com](http://www.handyharman.com)**

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 manages its group of businesses on a decentralized basis, with operations principally in North America.

As of March 29, 2013, we have an ownership interest of approximately 54.3% in HNH, with a market value of \$109.7 million. HNH has NOLs of approximately \$163 million.

- On November 8, 2012, Handy & Harman Group Ltd. (“HNH Group”), a wholly owned subsidiary of HNH, entered into a \$205.0 million senior secured credit facility, consisting of a revolving credit facility in an aggregate principal amount not to exceed \$90 million, and a term loan in an aggregate principal amount of \$115.0 million. The agreement, which matures June 15, 2017, provides flexibility for HNH Group and reduces interest costs.
- On November 14, 2012, Lucas-Milhaupt, Inc., a subsidiary of HNH, acquired alloy maker Inmet Metal Processing Plant Ltd., Gliwice, Poland. Inmet's product line is a complementary fit for Lucas-Milhaupt's business. The acquired company has been renamed Lucas-Milhaupt Gliwice.
- On December 31, 2012, HNH wholly owned subsidiary OMG, Inc. acquired substantially all of the assets of the W.P. Hickman Company of Asheville, N.C. The entity conducts its business as Hickman Engineered Systems, an OMG Roofing Products company.
- On January 18, HNH sold substantially all of the assets and existing operations of its Continental Industries business unit for a cash sales price totaling \$37.5 million less transaction fees. Continental's operations have been classified as discontinued operations in the consolidated financial statements for 2012 and for the comparable periods of 2011 and 2010.

For the year ended December 30, 2012, HNH reported income from continuing operations, net of tax, of \$26.5 million on net sales of \$629.4 million, compared with income from continuing operations, net of tax, of \$138.8 million on net sales of \$635.0 million in 2011. The principal reason for the decrease in net income was a significantly higher income tax provision in 2012, as compared to 2011.

HNH recorded the benefit of its remaining NOLs in the fourth quarter of 2011. The company's tax provision for the quarter and year ended December 31, 2011, includes the benefits of such NOLs, but the same periods in 2012 do not include any such benefits. For the year ended December 31, 2012, Adjusted EBITDA was \$74.0 million, as compared to Adjusted EBITDA of \$71.4 million for the same

period of 2011, an increase of \$2.5 million, or 3.6%.

A reconciliation of the Non-GAAP measures to the most directly comparable GAAP measures is included in [HNH's fourth quarter and year end 2012 financial results and outlook press release](#), dated February 28, 2013.

On March 26, 2013, HNH Group instructed Wells Fargo Bank, National Association ("Wells Fargo"), to redeem all of its outstanding 10% subordinated secured notes due 2017 (the "Subordinated Notes") to the holders of the Subordinated Notes. HNH Group has instructed Wells Fargo to redeem, on April 25, 2013, approximately \$31.8 million principal amount of Subordinated Notes, representing all of the outstanding Subordinated Notes, at a redemption price equal to 112.6% of the principal amount and accrued but unpaid payment-in-kind-interest thereof, plus accrued and unpaid cash interest. The Subordinated Notes are part of a unit ("Unit"), and each Unit consists of (i) Subordinated Notes and (ii) warrants to purchase shares of common stock of the Company (the "Warrants"). Until October 14, 2013, the Notes and Warrants which comprise the Unit are not detachable, and accordingly all Units are also being redeemed. HNH continues to carefully prune its portfolio of companies and is actively looking for strategic acquisition candidates.

Warren Lichtenstein serves as chairman, while Jack Howard and Glen Kassin are vice chairmen. John McNamara is a director.



**JPS Industries, Inc. (OTC: JPST.PK); [www.jps-industries.com](http://www.jps-industries.com)**

JPS Industries, Inc. ("JPS") is a major U.S. manufacturer of extruded urethanes, polypropylenes and mechanically formed glass substrates for specialty industrial applications. As of March 29, 2013, we have an ownership interest of approximately 39.3% in JPS, with a market value of \$28.2 million. JPS has NOLs of approximately \$57.9 million.

As noted in last year's letter, the JPS board of directors had determined it would explore potential strategic alternatives for JPS. It subsequently engaged global investment bank Houlihan Lokey to advise and assist in developing and executing those alternatives, should the board determine they would enhance shareholder value.

There have been no further public comments on this process, and we continue to monitor this investment.





**ModusLink Global Solutions Inc. (NASDAQ: MLNK); [www.moduslink.com](http://www.moduslink.com)**

ModusLink Global Solutions Inc. (NASDAQ: MLNK), through its wholly owned subsidiary, ModusLink Corporation, is a supplier of supply chain and logistics services aimed at improving clients' revenue, cost, sustainability and customer experience objectives.

ModusLink's operating infrastructure annually supports more than \$80 billion of its clients' revenue and manages approximately 470 million product shipments through more than 30 sites in 15 countries across North America, Europe, and the Asia/Pacific region.

On March 12, 2013, SPHLP purchased 7.5 million shares of ModusLink Global Solutions <sup>(TM)</sup>, Inc.'s common stock, at a price of \$4.00 per share, in a private transaction with the company. As a result of the purchase, SPHLP will account for its investment in ModusLink under the equity method of accounting (at fair value) in the first quarter of 2013. Further, under terms of the agreement, SPHLP may purchase up to 1.4 million shares of ModusLink outstanding common stock, subject to the proportionate adjustment. If, per the agreement, all stock is purchased and all warrants exercised, HNH and other SPHLP affiliates would own approximately 32.6% of ModusLink's outstanding shares.

Additionally, as per the agreement, Glen Kassan and Warren Lichtenstein have been voted Class I directors of ModusLink; Mr. Lichtenstein is also chairman of the board. As of March 29, 2013, we own about 27.2% of ModusLink, with a market value of \$51.4 million. ModusLink has NOLS of approximately \$2.0 billion.



**Nathan's Famous, Inc. (NASDAQ: NATH); [www.nathansfamous.com](http://www.nathansfamous.com)**

Nathan's Famous, Inc. products, which include beef hot dogs, fries and other products, are currently distributed in 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, the Cayman Islands and six foreign countries through its restaurant system, foodservice sales programs and product licensing activities.

Nathan's restaurant system currently consists of 308 units, comprised of 303 franchised units and five company-owned units (including two units temporarily closed due to Hurricane Sandy and one restaurant closed for redevelopment). The company continues to grow its store count and cash flow, and continues to be debt free with substantial cash reserves.

As of March 29, 2013, we own about 11.5% of the company, with a market value of approximately \$18.8 million.



**SL Industries, Inc. (AMEX: SLI); [www.slindustries.com](http://www.slindustries.com)**

SL Industries, Inc. (“SLI”) designs, manufactures and markets power electronics, motion control, power protection, power quality electromagnetic and specialized communication equipment used in a variety of medical, commercial and military aerospace, computer, datacom, industrial, telecom, transportation, utility, rail and highway equipment applications.

In November 2012, SL’s board of directors declared a cash dividend \$2.00 per share of Common Stock outstanding, payable in cash on December 17, 2012, to shareholders of record as of the close of business on December 6, 2012.

In the third quarter of 2012, SL Industries reached an agreement with the United States Department of Justice (“DOJ”) related to its liability for two facilities (OU-1 and OU-2) on its Pennsauken, N.J., site, which was named as part of the Puchack Well Field Superfund Site in 1998. SL Industries has agreed to both perform the remediation for OU-2 and to pay a fixed sum for the United States Environmental Protection Agency’s (“EPA”) past cost for OU-2 and a portion of the EPA’s past cost for OU-1. The payments are to be made annually in five equal payments of \$2,141,000 for a total \$10,705,000, plus interest. Further, SL Industries has agreed to pay the EPA’s costs for oversight of the OU-2 remediation.

Based on its most recent Form 10-K, filed March 28, 2013, for the period ending December 31, 2012, SLI has estimated a total combined potential liability for OU-1 and OU-2 to be in the range of \$20,378,000 to \$32,078,000. This agreement is expected to lift the cloud that has been hanging over SL Industries for several years.

As March 29, 2013, we have an ownership interest of approximately 24.1% in SL Industries, which has a market value of \$18.0 million. SLI has NOLs of approximately \$1.6 million.

For the year ended December 31, 2012, SL Industries reported net sales of \$200.6 million, compared with net sales of \$212 million for the year ended December 31, 2011. Net income for the year ended December 31, 2012 was \$7.8 million, or \$1.80 per diluted share, compared to net income of \$8.2 million, or \$1.79 per diluted share, for the year ended December 31, 2011.

SL Industries generated Adjusted EBITDA from continuing operations of \$18.6 million for the year ended December 31, 2012, as compared to \$22.2 million for the same period in 2011, a decrease of \$3.6 million, or 16%. A reconciliation of the Non-GAAP measures to the most directly comparable GAAP measures is included in [SLI’s 2012 full year and fourth quarter results press release](#).

Glen Kassan is chairman of the board; Warren Lichtenstein is a director.



**Steel Excel Inc. (OTC: SXCL.PK); [www.steelexcel.com](http://www.steelexcel.com)**

Steel Excel has two operating subsidiaries; Steel Energy Ltd. (“Steel Energy”) and Steel Sports Inc. (“Steel Sports”).

As of March 29, 2013, SPHLP owned approximately 51.3% of Steel Excel, with a market value of \$179.4 million. Steel Excel has cash and marketable securities of \$270.7 million and NOLs of approximately \$154 million.

On November 8, 2012, Steel Excel’s board of directors authorized a stock repurchase program. To date, approximately 190,000 shares have been purchased, at an average price of \$24.82, for an aggregate repurchase price of \$4.72 million. The repurchase program is continuing.

On May 31, 2012, Steel Excel acquired all of the capital stock of BNS’ operating subsidiary, Sun Well Services, Inc. (“Sun Well”). The acquisition of Sun Well constituted substantially all of BNS's operating assets. BNS received 2,027,500 shares of Steel Excel's common stock, valued at \$60.825 million, or \$30 per share, and approximately \$7.9 million of cash. BNS minority holders received a cash payment, and the company has been placed in a liquidating trust.

Sun Well ([www.sunwellservice.com](http://www.sunwellservice.com)) is one of Steel Energy’s two operating subsidiaries; Rogue Pressure Services, Inc. ([www.roguepressureservices.com](http://www.roguepressureservices.com)) is the other. Both companies provide premium oil well services to exploration and production companies working in the North Dakota and Montana portion of the Williston Basin, which includes the Bakken Shale formation.

Steel Sports is dedicated to acquiring, building, and strengthening a network of branded participatory and experienced-based businesses engaged in youth and amateur sports. This segment is a large, profitable market, and ripe for consolidation. For more information, please visit our website ([www.steel-sports.com](http://www.steel-sports.com)). Steel Sports currently has one operating subsidiary, Baseball Heaven, Inc. ([www.baseballheavenli.com](http://www.baseballheavenli.com)), a premier venue for amateur and youth baseball. Steel Sports has also made recent investments into four companies operating in the sports sector:

- On November 5, 2012, Steel Excel acquired 50% of CrossFit Southbay ([www.crossfitsouthbay](http://www.crossfitsouthbay)) and 50% of the newly formed CrossFit Torrance ([www.crossfittsac.com](http://www.crossfittsac.com)), both strength and conditioning gyms located in Hermosa Beach, Calif., and Torrance, Calif. They are now part of Steel Sports.
- On January 30, 2013, Steel Excel acquired a 40% membership interest in Again Faster LLC ([www.againfaster.com](http://www.againfaster.com)), a Needham, Mass.-based e-tailer that provides functional fitness equipment to athletes and gyms worldwide. On January 31, 2013, Steel Excel acquired a 20% membership interest in Ruckus Sports LLC ([www.runruckus.com](http://www.runruckus.com)), Cohasset, Mass., an obstacle course company targeting whole family participation. Both are part of Steel Sports.

Warren Lichtenstein is chairman, Jack Howard is vice chairman and principal executive officer, and John Quicke is a director.



**WebBank (Private); [www.webbank.com](http://www.webbank.com)**

SPHLP owns 100% of WebBank, an FDIC insured, Utah chartered industrial bank located in Salt Lake City. The bank is engaged in a full range of banking activities, including making loans, issuing credit cards and taking federally insured deposits. It is also a leading provider of national revolving and closed end consumer and small business financing programs.

Revenue is largely derived from several strategic partnerships that provide fee income and interest income on loans held. The Bank had a successful year in 2012, adding two new strategic partners and establishing its senior secured lending program. Pretax income of \$13.1 million in 2012 was an 83% improvement over pretax income of \$7.1 million in 2011.

The bank reported net income of \$8.1 for 2012 and a return on average equity of 28.6%. The bank made a \$5.0 million dividend payment to its parent in 2012, and had December 31, 2012 equity capital of \$28.3 million. The bank grew equity capital in 2012 by 32% (adjusted for the dividend payment).

John McNamara serves as executive chairman; Jack Howard is a director.

### **Steel Services**



**SPH Services, Inc. (SPHLP's corporate services subsidiary)**

SPHLP owns 100% of SPH Services, a subsidiary that was created last year to consolidate the executive and corporate functions of SPHLP and certain affiliates, as well as provide services, including legal, tax, accounting, treasury, consulting, auditing, administration, compliance, environmental health and safety, human resources, marketing, public and investor relations and other similar services, to other affiliate companies.

Through the consolidation of corporate overhead and back office functions, we continue to realize cost savings for our affiliated companies, while at the same time, are able to deliver more efficient and effective services.

SPHLP Services operates through its wholly owned subsidiaries, SP Corporate Services LLC ("SP Corporate") and Steel Partners LLC. SP Corporate currently has management services agreements with Handy & Harman and its subsidiaries, CoSine, DGT, Fox & Hound, Steel Excel and WebBank.

### **Steel Partners Japan Strategic Fund L.P.**

Steel Partners Japan Strategic Fund (“SPJ”) owns 27.7% of the outstanding shares of hair product and services supplier Aderans, making it that company’s largest shareholder.

Since my last letter, Aderans’ performance has continued to improve, as for the fiscal year ending February 28, 2013, sales are projected to be JPY50.7 billion, versus JPY47.4 billion in the prior year, and operating profit is projected to be JPY3.5 billion, versus JPY2.5 billion yen. These results reflect three consecutive years of operating profit improvement, the first time this has occurred in 10 years.

The closure of money-losing stores and businesses across the world has also served to positively impact the bottom line.

In July 2012, Aderans signed an agreement to acquire Hair Club from Regis Corp. We believe this acquisition will be accretive to earnings, primarily as a result of potential synergies between Aderans and Hair Club. Aderans owns Bosley, the global leader in hair transplantation services. We expect additional opportunities can be derived through sourcing, manufacturing, marketing and administrative department improvements. The closing of the transaction is contingent upon HSR approval.

During 2012, shares of Aderans increased from JPY990 to JPY1134, a 14.4% increase. As of April 5, 2013, Aderans was trading at JPY1,616.

Josh Schechter and Katsuyoshi Tanaka serve on the board of directors and oversee initiatives within the trust that are aimed at improving corporate and shareholder value.

*For a further discussion on Aderans, please see Appendix A, which follows directly behind this letter.*

### **Steel Partners China Access I L.P.**

Steel Partners China Access I L.P. (the “Fund”) distributed \$23 million in stock sales proceeds and dividends to the limited partners of the Fund on June 20, 2012.

The Fund currently holds a 13.5% interest in of Mudanjiang Heng Feng Paper Co., Ltd. (“Heng Feng”) (stock code 600356), and is exploring exit opportunities.

Heng Feng continues to perform well operationally and we expect further growth in revenue and earnings from increased capacity provided from the new plant. Additionally, planned capital expenditures are complete, and we expect the company to generate cash flow that could be used for debt repayment and/or increased dividends.

## Steel Partners II Liquidating Series Trust

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.

As outlined in our Form 10-K, 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.

Please note that in December 2009 Series F was terminated; in February 2010 Series C was terminated, and in December 2010 Series A and E were terminated.

The Series currently consists of:

- SPII Liquidating Trust – Series B, which represents the Company’s interest in the series of the SPII Liquidating Trust that holds preference shares and ordinary shares in Barbican. On October 5, 2012, an entity controlled by Carlson Capital L.P., acquired the interests in U.K.-based insurer/reinsurer Barbican Group Holdings Limited (“Barbican”), which had been previously held by entities associated with Steel Partners II, LP. As Barbican was not part of our strategic plan moving forward, we decided to divest our share in order to seek better opportunities for our capital. The purchaser paid GBP9.7 million to Steel Partners II, L.P. and GBP25.8 million to Steel Partners II Liquidating Trust Series B (the “Liquidating Trust”). Proceeds to SPHLP from these transactions, through its direct interest in Steel Partners II, LP and its indirect interest in the Liquidating Trust, aggregate GBP21 million. These proceeds were subsequently distributed to investors in the Liquidating Trust.
- SPII Liquidating Trust - Series D, which represents the Company’s interest in the series of the SPII Liquidating Trust that holds common shares in F&H.
- SPII Liquidating Trust - Series G, which 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. 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. On July 13, 2012, \$9.2 million was distributed to Series G beneficiaries.
- SPII Liquidating Trust - Series H, which 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”). 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.

- SPII Liquidating Trust - Series I, which represents the Company's interest in the series of the SPII Liquidating Trust that holds certain other investments. On July 13, 2012, \$600,000 was distributed to Series I beneficiaries.

## **Our Financial Reporting - Fair Value or Sum of the Parts**

As we noted in last year's letter, our financial statements are complex and are dictated by US GAAP and SEC reporting requirements. As such, due to the inherent limitations of the accounting policies we must apply for financial reporting purposes, book value does not necessarily reflect intrinsic value or even a "fair value" of SPHLP.

For instance, realized gains or losses on companies in which we own less than 20%, as well as certain other investments, flow through to net income. Unrealized gains and losses of companies in which we own greater than 50% do not.

Unrealized gains and losses, and some other items, are accounted for as "Other Comprehensive Income," which flows into the partners' capital. As such, changes in value (either up or down) in some of our holdings and certain other accounting items during the period may not be reflected in net income.

Additionally, if we sell an entire company, the realized gain/loss runs through the net income line during that period. We understand that this may be complex; however we do provide great detail in the footnotes and make all information as transparent as possible. For further information and all of our financial statements, please visit our website: [www.steelpartners.com](http://www.steelpartners.com), or call or email Michael McNamara, our director of investor relations, at 212-520-2356; [mmcnamara@steelpartners.com](mailto:mmcnamara@steelpartners.com).

## **Think Globally and Act Locally**

We have found that our approach to buying and managing businesses works on a global level. The fundamental importance we place upon our relationship with management, as well as with our fellow stakeholders, transcends borders, cultures and economies. Our approach to investing and acquiring businesses and assets has enabled us to become a worldwide investor and operator of businesses.

At Steel Partners, we think globally and act locally. We are well-positioned to capitalize on both domestic and foreign opportunities by leveraging our expertise in various markets, including, but not limited to, the United States, Europe, Mexico, Japan, China and South Korea.

Given that many of our companies maintain leadership positions in North America, we will continue to help identify and facilitate their expansion overseas through acquisitions, joint ventures and strategic investments.

While searching the globe for companies and businesses is exciting, it is difficult and painstaking work. The world is a very large place with plenty of opportunity. However, the businesses in which we are looking to invest must satisfy those requirements that have always guided our approach to investing. These businesses must offer substantial current value with a margin of safety and must also possess the potential to create substantial future value. If anyone has any ideas to help grow our portfolio of businesses, we would love to hear from you.

In closing, I'd like to acknowledge Glen Kassan, who retired this past December as CEO of Handy & Harman. Under Glen's seven-year stewardship, Handy & Harman and its subsidiaries, a cornerstone of our portfolio, have become recognized as market leaders in the various segments in which they operate. I'm pleased to note that Glen will continue to provide his knowledge and expertise, serving with me on the board of Handy & Harman, SL Industries and, most recently, ModusLink.

With our strong foundation, energy, ideas, people and a clear vision for our future, SPHLP and its companies will continue to create value for our unitholders.

Sincerely,

A handwritten signature in cursive script, reading "Warren Lichtenstein". The signature is written in black ink and is positioned above the typed name and title.

Warren G. Lichtenstein  
Executive Chairman  
Steel Partners Holdings GP Inc.

Steel Partners Holdings L.P. (NYSE: SPLP) is a global diversified holding company that engages in multiple businesses, including diversified industrial products, energy, defense, supply chain management and logistics, banking, food products and services, oilfield 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 not actively traded.



## **Aderans**

Aderans Co. Ltd. (8170: Tokyo); [www.aderans.com](http://www.aderans.com)

Aderans Co., Ltd. (“Aderans” or the “Company”) is a leading manufacturer and distributor of wigs, hair systems and extensions throughout the world. Aderans also owns Bosley, the global leader in hair transplantation. Other popular brands include Fontaine, a manufacturer of ready to wear women’s wigs; Renee of Paris; Noriko, and Revlon, with which Aderans has a licensing agreement.

Steel Partners Japan Strategic Fund, L.P. (“SPJ”) owns 27.7% of the outstanding shares of Aderans and is the company’s largest shareholder. SPJ has been invested in Aderans since 2004.

Despite its well-known brands, Aderans suffered through continuous declining performance from 2003 through 2008. Operating profit shrank from JPY13.0 billion (16.8% of sales) in fiscal year (FY) 2003, to JPY4.0 billion (5.4% of sales) in FY 2008. Return on equity also fell to zero during this period.

During this time, management was focused only on sales growth, often at the expense of profitability. Still, the Company missed each of its sales forecasts for six consecutive years. Additionally, management made a disastrous acquisition of MHR, Inc., an unprofitable hair transplantation company in the United States. This acquisition was subsequently written-off.

### **SPJ – Corporate Governance Changes**

Meanwhile, during this time, SPJ provided Aderans with several suggestions aimed at improving performance and shareholder value. However, management refused to alter its business and capital allocation plans, thus lowering both corporate and shareholder value.

Leading up to the annual shareholders’ meeting in May 2008, SPJ led a “vote no” campaign against the Aderans board of directors, which proved to be persuasive with our fellow shareholders. Both ISS and Glass Lewis, two leading proxy advisory firms, supported our campaign. Ultimately, management directors were not re-elected, and only two independent directors were elected to the Aderans board. Under the rules of Japanese corporate law, three directors must be elected in order to have a valid board. Thus, Aderans was required to hold an extraordinary shareholders’ meeting in order to elect a valid board.

Following negotiations between SPJ and Aderans, in August 2008 a new board was elected, consisting of seven people nominated by Aderans, and two nominated by SPJ – Josh Schechter of Steel Partners and Hironori Aihara, a former senior executive of Mitsubishi Corp.

During their initial terms, Messrs. Schechter and Aihara attempted to work with the rest of the board to both improve corporate value and operating performance. However, the majority of the other board members (including the entire management team) were interested only in selling the company to a group-friendly management team, and without regard to shareholder value. Over our strenuous objections, the board voted to recommend the sale of Aderans to Unison Capital for less than book value, through a coercive and undervalued takeover bid. Exacerbating the situation, management recommended that shareholders approve the sale of treasury shares at a price lower than the takeover bid.

In the face of management's disregard for shareholder value, SPJ submitted its own slate of directors at the May 2009 annual shareholders' meeting. As such, our slate was elected and our position remained the same: management was not committed to maximizing shareholder value.

Once again, our slate received the support of ISS and Glass Lewis. Although preliminary voting results indicated the management slate would not be elected at the annual meeting, management forced shareholders to manually re-vote at the actual annual meeting. Our slate ultimately prevailed.

Following our takeover of the board of the directors, we executed a shareholders' agreement with Mr. Nobuo Nemoto, the founder of Aderans and its second-largest shareholder. Today, Mr. Nemoto is chairman and representative director. Mr. Shigeru Ishiko, another of our hand-selected directors, is also a representative director. Several other key executives were recruited to the company either by SPJ or our board members. Today, those executives lead Aderans' finance, HR, supply chain management and legal departments.

## **Operational Improvement and Capital Allocation Policies**

### **Japan**

In a move aimed at increasing management efficiency, the new board led the integration of the various Japanese subsidiaries into one location. The former Aderans men's headquarters and other real estate were sold. Additionally, we also shuttered the unprofitable golf course owned by the Company.

In order to right-size Aderans' cost structure, the board was successful in implementing a significant headcount reduction. Despite a heavily unionized workforce, headcount was reduced by more than 500, or 20% of Aderans' total workforce in Japan, thereby permanently reducing the fixed cost structure. We also led the effort to close unprofitable stores.

Aderans maintains ownership of its former headquarters in Shinjuku.

### **United States**

Prior to our takeover of the board, the hair transplantation business in the U.S. was conducted under two brands: Bosley and MHR. After careful analysis, we spearheaded the integration of the two brands. This move resulted in significant improvement, achieved primarily through reduced marketing expenditures, reducing headcount and increasing efficiencies throughout corporate operations. We also incorporated five MHR offices into the Bosley network.

For 2012, Bosley generated approximately \$101 million in sales and operating income of \$8 million. Separately, Aderans sold its U.S headquarters in New York; since no other Aderans facilities were based in New York, the building was deemed non-essential to the U.S. operations.

In 2012, Aderans' U.S. wig business launched a line of wigs and extensions under a new brand, LuxHair. We are excited to have Sheri Shepherd (co-hostess of the daytime television show "The View"), Daisy Fuentes (former MTV VJ and model) and Tabitha Coffey (star of Bravo's "Salon Takeover") as spokeswomen for this new line.

## Europe and Asia

In Europe, several subsidiaries have been consolidated, resulting in greater cost savings and a more efficient management structure.

In Asia, unprofitable operations were closed in Korea. Additionally, Bosley acquired a leading hair transplant practitioner in Singapore. That operation has since been re-branded as Bosley, effective spring 2012.

## Results of Change in Corporate Culture and Policy

All strategic initiatives are viewed with an eye on adequate return on investment. This is in stark contrast to the period prior to our involvement.

As a result of the various initiatives led by the board, the Company has regained profitability. In 2010, Aderans had an operating loss of JPY5.3 billion. Conversely, for the year ended February 28, 2012, Aderans reported sales of JPY47.4 billion and an operating profit of JPY2.5 billion.

The Company's current forecast is for JPY50.7 of sales and JPY3.5 billion of operating profit. As of November 30, 2012, Aderans had JPY12.7 billion of net cash with no debt.

In July 2012, Aderans announced that it signed an agreement to acquire Hair Club, the leading provider of hair systems in the U.S., for \$163.5 million. This acquisition, scheduled to close by mid-April 2013, is expected to enable Aderans to deploy cash that was otherwise earning no return, into a high return business with clear synergies.

The Company continues to focus on improving its supply chain management function.

Now that profitability has been regained, the Company should be able to return excess capital and profits to shareholders through dividends and/or share repurchases.

