Steel Excel Inc.
Form 10-Q
May 09, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014 or

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

For the transition period from to

Commission file number 0-15071

Steel Excel Inc.
(Exact name of Registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	94-2748530 (I.R.S. Employer Identification No.)
1133 WESTCHESTER AVENUE, SUITE N222 WHITE PLAINS, NEW YORK (Address of principal executive offices)	10604 (Zip Code)

Registrant's telephone number, including area code (914) 461-1300

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one).

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

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

As of May 2, 2014, there were 11,966,904 shares of Steel Excel's common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
Steel Excel Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31,	
	2014	2013
	(in thousands, except per-share data)	
Net revenues	$45,159	$26,351
Cost of revenues	34,310	18,665
Gross profit	10,849	7,686
Operating expenses:		
Selling, general and administrative expenses	8,262	5,312
Amortization of intangibles	2,641	2,400
Total operating expenses	10,903	7,712
Operating loss	(54)	(26)
Interest income, net	721	623
Other income, net	2,928	1,139
Income from continuing operations before income taxes and equity method loss	3,595	1,736
Benefit from income taxes	1,903	1,633
Loss from equity method investees, net of taxes	(1,433)	—
Net income from continuing operations	4,065	3,369
Loss from discontinued operations, net of taxes	—	(395)
Net income	4,065	2,974
Net loss attributable to non-controlling interests in consolidated entities		
Continuing operations	326	20
Discontinued operations	—	316
Net income attributable to Steel Excel Inc.	$4,391	$3,310
Basic income (loss) per share attributable to Steel Excel Inc.:		
Net income from continuing operations	$0.37	$0.26
Loss from discontinued operations, net of taxes	$—	$(0.01)
Net income	$0.37	$0.26
Diluted income (loss) per share attributable to Steel Excel Inc.:		

Net income from continuing operations	$0.37	$0.26
Loss from discontinued operations, net of taxes	$—	$(0.01)
Net income	$0.37	$0.26
Shares used in computing income (loss) per share:		
Basic	11,981	12,886
Diluted	11,999	12,909

See accompanying Notes to Consolidated Financial Statements.

Steel Excel Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Net income	$4,065	$2,974
Other comprehensive income (loss), net of taxes		
Foreign currency translation adjustment, net of taxes	—	(59)
Net unrealized gain on marketable securities, net of taxes	3,991	2,871
Comprehensive income	8,056	5,786
Comprehensive loss attributable to non-controlling interest	326	336
Comprehensive income attributable to Steel Excel Inc.	$8,382	$6,122

See accompanying Notes to Consolidated Financial Statements.

Steel Excel Inc.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2014	December 31, 2013
Assets	(in thousands)	
Current assets:		
Cash and cash equivalents	$60,285	$73,602
Marketable securities	198,965	178,485
Accounts receivable, net of allowance for doubtful accounts of $0	25,055	24,864
Deferred income taxes	15	—
Prepaid expenses and other current assets	6,647	4,979
Current assets of discontinued operations	31	31
Total current assets	290,998	281,961
Property and equipment, net	106,204	106,476
Goodwill	68,139	68,139
Intangible assets, net	42,257	44,388
Other investments	28,826	25,844
Investments in equity method investees	6,906	8,339
Deferred income taxes	3,732	1,556
Other long-term assets	1,647	1,754
Total assets	$548,709	$538,457
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$3,640	$4,754
Accrued expenses and other liabilities	13,068	7,526
Current portion of long-term debt	13,214	13,214
Current portion of capital lease obligations	412	412
3/4% convertible senior subordinated notes due 2023	—	346
Deferred income taxes	3,838	3,612
Current liabilities of discontinued operations	987	987
Total current liabilities	35,159	30,851
Capital lease obligations, net of current portion	471	572
Long-term debt, net of current portion	75,982	79,286
Deferred income taxes	2,043	—
Other long-term liabilities	3,823	3,813
Total liabilities	117,478	114,522
Commitments and contingencies		
Stockholders' equity:		
Common stock ($0.001 par value, 40,000 shares authorized; 14,517 shares and 14,508 shares issued and outstanding in 2014 and 2013, respectively)	15	14
Additional paid-in capital	275,442	274,826
Accumulated other comprehensive income	10,507	6,516
Retained earnings	218,358	213,967
Treasury stock, at cost (2014 - 2,550 shares; 2013 - 2,503 shares)	(72,378)	(71,001)
Total Steel Excel Inc. stockholders' equity	431,944	424,322

Non-controlling interest	(713)	(387)
Total stockholders' equity	431,231	423,935
Total liabilities and stockholders' equity	$548,709	$538,457

See accompanying Notes to Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Cash Flows From Operating Activities:		
Net income	$4,065	$2,974
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	—	394
Loss from equity method investees	1,433	—
Stock-based compensation expense	617	620
Depreciation and amortization	6,163	4,994
Deferred income tax benefit	(2,020)	(1,818)
Loss (gain) on sales of marketable securities	(2,991)	23
Other	27	258
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(160)	2,119
Prepaid expenses and other assets	(1,802)	(1,897)
Accounts payable and other liabilities	4,526	1,139
Net cash used in operating activities of discontinued operations	—	(728)
Net cash provided by operating activities	9,858	8,078
Cash Flows From Investing Activities:		
Purchases of businesses, net of cash acquired	(530)	—
Purchases of property and equipment	(3,279)	(2,347)
Proceeds from sale of property and equipment	26	—
Investments in equity method investees	—	(4,000)
Purchases of marketable securities	(51,843)	(47,192)
Sales of marketable securities	40,579	8,315
Maturities of marketable securities	—	56,045
Other investments	(3,000)	—
Net cash used in investing activities of discontinued operations	—	(112)
Net cash provided by (used in) investing activities	(18,047)	10,709
Cash Flows From Financing Activities:		
Repurchases of common stock	(1,377)	(2,098)
Repayment of subordinated notes	(346)	—
Repayments of capital lease obligations	(101)	(106)
Repayments of long-term debt	(3,304)	(13,000)
Net cash used in financing activities	(5,128)	(15,204)
Net increase (decrease) in cash and cash equivalents	(13,317)	3,583
Cash and cash equivalents at beginning of period	73,602	71,556
Cash and cash equivalents at end of period	$60,285	$75,139

See accompanying Notes to Consolidated Financial Statements.

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

1. Description and Basis of Presentation

Steel Excel Inc. (“Steel Excel” or the “Company”) currently operates in two reporting segments - Energy and Sports. Through its wholly-owned subsidiary Steel Energy Ltd. ("Steel Energy"), the Company’s Energy business provides drilling and production services to the oil and gas industry. Through its wholly-owned subsidiary Steel Sports Inc., the Company’s Sports business provides event-based sports services and other health-related services. The Company also continues to identify business acquisition opportunities in other unrelated industries.

The accompanying unaudited consolidated financial statements of Steel Excel and its subsidiaries, which have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with generally accepted accounting principles, should be read in conjunction with the notes to the consolidated financial statements contained in the Company’s annual report on Form 10-K for the year ended December 31, 2013. The Company believes that all adjustments, consisting primarily of normal recurring accruals, necessary for a fair presentation have been included in the Financial Statements. The operating results of any period are not necessarily indicative of the results for the entire year or any future period.

In December 2013, the Company acquired the business and substantially all of the assets of Black Hawk Energy Services, Inc. (“Black Hawk”), a provider of drilling and production services to the oil and gas industry. The fair values recognized at December 31, 2013, were provisional pending further analysis and third-party valuations. In 2014, the Company recorded measurement period adjustments to reflect revised fair values of the assets and liabilities of Black Hawk. The Company's balance sheet at December 31, 2013, has been revised to reflect such measurement period adjustments as if they were recorded at the acquisition date (see Note 3).

The Company shut down the operations of Ruckus Sports LLC (“Ruckus”), a provider of obstacle course and mass-participation events, in November 2013. The consolidated financial statements reflect Ruckus as a discontinued operation in all periods presented (see Note 4).

Commencing with the quarterly period ended June 30, 2013, the Company's quarter-end dates coincide with the calendar quarter-end dates. Prior to that time, the Company's quarter-end dates were based on fiscal quarters ending on the thirteenth Saturday of such fiscal quarter. The Company's quarter-end dates were March 31 and March 30 for the 2014 and 2013 periods, respectively.

Certain other prior period amounts have been reclassified to conform to the 2014 presentation.

2. Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update (“ASU”) No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), which changes the requirements for reporting discontinued operations. Pursuant to this pronouncement, the disposal of a component of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that will have a major effect on an entity’s operations and financial results. This pronouncement also requires additional disclosures for discontinued operations and requires disclosures about disposals of individually significant components of an entity that do not qualify for discontinued operations presentation in the financial statements. ASU No. 2014-08 is effective for annual reporting periods beginning after December 15, 2014, and for interim reporting period within those years. The Company does not expect the adoption of ASU No. 2014-08 to have a material effect on the consolidated financial statements.

3. Acquisitions

On December 16, 2013, the Company acquired the business and substantially all of the assets of Black Hawk for approximately $60.8 million in cash, subject to a post-closing working capital adjustment. The fair values recognized in 2013 in connection with the Black Hawk transaction were provisional pending the Company's continued evaluation, including assessing any identifiable intangible assets acquired, and completing a valuation of the tangible and intangible assets. During 2014, the Company recorded adjustments to the initial fair values based on the Company's continued assessment of the fair values of the assets and liabilities acquired, including a preliminary valuation. The following table summarizes the provisional fair values previously reported, the measurement period adjustments recognized in 2014, and the revised fair values of the assets and liabilities acquired.

	Previously Reported	Measurement Period Adjustments	Revised
	(in thousands)		
Accounts receivable	$9,663	$(40)	$9,623
Prepaid expenses and other current assets	208	420	628
Property and equipment	30,581	93	30,674
Intangible assets	—	12,160	12,160
Accounts payable	(1,333)	(251)	(1,584)
Accrued expenses	(1,756)	(167)	(1,923)
Total identifiable net assets acquired	37,363	12,215	49,578
Goodwill	23,400	(12,215)	11,185
Net assets acquired	$60,763	$—	$60,763

The intangible assets acquired represented customer relationships, a trade name, and a non-compete arrangement with estimated fair values of $11.3 million, $0.8 million, and $0.1 million, respectively. The intangible assets are being amortized over five-year periods. The revised amounts are subject to further revision pending the Company's continued assessment of the fair values of the assets and liabilities acquired, including completion of the valuation. The Company's balance sheet at December 31, 2013, has been revised to reflect the measurement period adjustments as if they had been recognized at the acquisition date. The measurement period adjustments did not have a material effect on the Company's statement of operations.

In February 2014, UK Elite Soccer, Inc. ("UK Elite"), the Sports segment soccer operation, acquired the business and assets of a provider of soccer clinics and camps for approximately $0.5 million in cash. In connection with this acquisition, the Company recognized approximately $0.5 million in intangible assets representing customer relationships.

The following unaudited pro forma financial information for the three months ended March 31, 2013, combines the results of operations of the Company with the results of operations of Black Hawk and UK Elite, which were acquired in December 2013 and June 2013, respectively, as if those acquisitions had occurred at the beginning of the year prior to the date of acquisition. The pro forma financial information does not include the results of Ruckus, which was acquired in January 2013 and is reported as a discontinued operation in the Company's consolidated financial statements. The pro forma financial information is not necessarily indicative of what would have actually occurred had the acquisitions been consummated at the beginning of the year prior to the date of acquisition or results that may occur in the future.

	Amount
	(in thousands)
Net revenues	$41,747
Net income from continuing operations	$3,281
Net income	$2,886
Net income attributable to Steel Excel Inc.	$3,255

4. Discontinued Operations

In November 2013, the Company shut down the operations of Ruckus after it did not meet operational and financial expectations. For the three months ended March 31, 2013, Ruckus did not report any revenues and incurred a loss from discontinued operations of $0.4 million.

5. Investments

Marketable Securities

All of the Company's marketable securities at March 31, 2014, and December 31, 2013, were classified as "available-for-sale" securities, with changes in fair value recognized in stockholders' equity as "other comprehensive income (loss)". Marketable securities at March 31, 2014, consisted of the following:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Short-term deposits	$41,035	$—	$—	$41,035
Mutual funds	15,722	4,945	—	20,667
United States government securities	23,889	26	—	23,915
Corporate securities	105,272	13,881	(3,957)	115,196
Corporate obligations	35,949	1,642	(3)	37,588
Commercial paper	4,499	—	—	4,499
Total available-for-sale securities	226,366	20,494	(3,960)	242,900
Amounts classified as cash equivalents	(43,935)	—	—	(43,935)
Amounts classified as marketable securities	$182,431	$20,494	$(3,960)	$198,965

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Short-term deposits	$60,909	$—	$—	$60,909
Mutual funds	15,722	5,061	—	20,783
United States government securities	50,356	23	—	50,379
Corporate securities	69,806	9,961	(5,208)	74,559
Corporate obligations	31,356	885	(276)	31,965
Commercial paper	1,799	—	—	1,799
Total available-for-sale securities	229,948	15,930	(5,484)	240,394
Amounts classified as cash equivalents	(61,909)	—	—	(61,909)
Amounts classified as marketable securities	$168,039	$15,930	$(5,484)	$178,485

Proceeds from sales of marketable securities were $40.6 million and $8.3 million for the three months ended March 31, 2014 and 2013, respectively. The company determines gains and losses from sales of marketable securities based on specific identification of the securities sold. Gross realized gains and losses from sales of marketable securities, all of which are reported as a component of "Other income (expense), net" in the consolidated statements of operations for the three months ended March 31, 2014 and 2013, were as follows:

	Three Months Ended March 31,	
	2014	2013
	(in thousands)	
Gross realized gains	$3,200	$1,258
Gross realized losses	(209)	(42)
Realized gains, net	$2,991	$1,216

The fair value of the Company's marketable securities with unrealized losses at March 31, 2014, and the duration of time that such losses had been unrealized, were as follows:

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
Corporate securities	$30,339	$(3,299)	$551	$(658)	$30,890	$(3,957)
Corporate obligations	1,045	(3)	—	—	1,045	(3)
Total	$31,384	$(3,302)	$551	$(658)	$31,935	$(3,960)

The fair value of the Company's marketable securities with unrealized losses at December 31, 2013, and the duration of time that such losses had been unrealized, were as follows:

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in thousands)					
Corporate securities	$15,609	$(4,757)	$803	$(451)	$16,412	$(5,208)
Corporate obligations	10,477	(276)	—	—	10,477	(276)
Total	$26,086	$(5,033)	$803	$(451)	$26,889	$(5,484)

Gross unrealized losses primarily related to losses on corporate securities. The Company has evaluated such securities, which primarily consist of investments in publicly-traded entities, as of March 31, 2014, and has determined that there was no indication of other-than-temporary impairments. This determination was based on several factors, including the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the entity, and the Company's intent and ability to hold the corporate securities for a period of time sufficient to allow for any anticipated recovery in market value.

The amortized cost and estimated fair value of available-for-sale debt securities at March 31, 2014, by contractual maturity, were as follows:

	Cost	Estimated Fair Value
	(in thousands)	
Debt securities:		
Mature in one year or less	$9,029	$9,030
Mature after one year through three years	21,681	21,812
Mature in more than three years	33,627	35,160
Total debt securities	64,337	66,002
Securities with no contractual maturities	162,029	176,898
Total	$226,366	$242,900

Equity-Method Investments

In January 2013, the Company acquired a 40% membership interest in Again Faster LLC, a fitness equipment company, for total cash consideration of $4.0 million. In August 2013, the Company acquired 1,316,866 shares of the common stock of iGo, Inc. ("iGo"), in a cash tender offer for total consideration of $5.2 million. The shares of common stock of iGo acquired by the Company represent approximately 44.7% of the issued and outstanding shares of iGo.

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

	Ownership		Carrying Value		Income (Loss) Recognized Three Months Ended	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	March 31, 2013
			(in thousands)			
Again Faster	40.0 %	40.0 %	$3,542	$3,671	$(129)	$—
iGo	44.7 %	44.7 %	3,364	4,668	(1,304)	—
Total			$6,906	$8,339	$(1,433)	$—

Based on the closing market price of iGo’s publicly-traded shares, the value of the Company’s investment in iGo was approximately $4.1 million at March 31, 2014.

The Company recognizes its equity in the losses of iGo on a one-quarter lag basis. The following table presents summarized income statement information for iGo for the three months ended December 31, 2013, the period on which the loss recognized by the Company for the three months ended March 31, 2014, was based.

	Amount (in thousands)
Revenues	$3,210
Gross loss	$(1,146)
Net loss	$(2,917)

Other Investments

The Company's other investments at March 31, 2014, include a $25.0 million cost-method investment in a limited partnership that co-invested with other private investment funds in a public company. The investment in the limited partnership had an approximate fair value of $28.5 million at March 31, 2014, based on the net asset value indicated in the monthly statement received from the partnership. The Company's other investments at March 31, 2014, also include investments in two venture capital funds totaling $0.8 million and a promissory note with an amortized cost of $3.0 million, which is a reasonable approximation of fair value at March 31, 2014.

6. Fair Value Measurements

Fair values of assets and liabilities are determined based on a three-level measurement input hierarchy. Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the measurement date.

Level 2 inputs are other than quoted market prices that are observable, either directly or indirectly, for an asset or liability. Level 2 inputs can include quoted prices in active markets for similar assets or liabilities, quoted prices in a market that is not active for identical assets or liabilities, or other inputs that can be corroborated by observable market data. The Company uses quoted prices of similar instruments with an active market to determine the fair value of its Level 2 investments.

Level 3 inputs are unobservable for the asset or liability when there is little, if any, market activity for the asset or liability. Level 3 inputs are based on the best information available, and may include data developed by the Company. The Company uses the net asset value included in quarterly statements it receives in arrears from two venture capital funds to determine the fair value of such funds. The Company determines the fair value of certain corporate securities and corporate obligations by incorporating and reviewing prices provided by third-party pricing services based on the specific features of the underlying securities.

Assets and liabilities measured at fair value on a recurring basis at March 31, 2014, summarized by measurement input category, were as follows:

	Total (in thousands)	Level 1	Level 2	Level 3
Assets				
Cash, including short-term deposits(1)	$57,385	$57,385	$—	$—
Mutual funds(2)	20,667	20,667	—	—
United States government securities(2)	23,915	23,915	—	—
Corporate securities(2)	115,196	107,259	—	7,937
Commercial paper(3)	4,499	—	4,499	—
Corporate obligations(2)	37,588	—	15,960	21,628
Investments in certain funds(4)	826	—	—	826
Total	$260,076	$209,226	$20,459	$30,391

(1) Reported within "Cash and cash equivalents".
(2) Reported within “Marketable securities”.
(3) $2.9 million reported within "Cash and cash equivalents" and $1.6 million reported within "Marketable securities."
(4) Reported within "Other investments".

Assets and liabilities measured at fair value on a recurring basis at December 31, 2013, summarized by measurement input category, were as follows:

	Total (in thousands)	Level 1	Level 2	Level 3
Assets				
Cash, including short-term deposits(1)	$72,602	$72,602	$—	$—
Mutual funds(2)	20,783	20,783	—	—
United States government securities(2)	50,379	50,379	—	—
Corporate securities(2)	74,559	68,624	—	5,935
Commercial paper(3)	1,799	—	1,799	—
Corporate obligations(2)	31,965	—	14,535	17,430
Investments in certain funds(4)	844	—	—	844
Total	$252,931	$212,388	$16,334	$24,209

(1) Reported within "Cash and cash equivalents."
(2) Reported within “Marketable securities.”
(3) $1.0 million reported within "Cash and cash equivalents" and $0.8 million reported within "Marketable securities."
(4) Reported within "Other investments."

There were no transfers of securities among the various measurement input levels during the three months ended March 31, 2014.

Changes in the fair value of assets valued using Level 3 measurement inputs during the three months ended March 31, 2014, were as follows:

	Amount (in thousands)
Balance, January 1, 2014	$24,209
Purchases	5,299
Sales	(1,974)
Unrealized gains recognized in other comprehensive income	2,857
Balance, March 31, 2014	$30,391

The Company’s 3/4% Convertible Senior Notes due December 22, 2023, had a carrying value of approximately $0.3 million at December 31, 2013, which was a reasonable approximation of fair value. The Company redeemed all outstanding Convertible Senior Notes in January 2014 with a cash payment of $0.3 million.

7. Property and Equipment, Net

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

	March 31, 2014	December 31, 2013
	(in thousands)	
Rigs and other equipment	$102,208	$100,912
Buildings and improvements	19,370	19,167
Land	1,164	1,164
Vehicles	1,905	1,869
Furniture and fixtures	576	512
Assets in progress	2,756	1,114
	127,979	124,738
Accumulated depreciation	(21,775)	(18,262)
Property and equipment, net	$106,204	$106,476

The amounts at December 31, 2013, have been revised to reflect measurement period adjustments for the three months ended March 31, 2014, related to Black Hawk as if they had been recognized at the acquisition date (see Note 3). Depreciation expense was $3.5 million and $2.6 million for the three months ended March 31, 2014, and 2013, respectively.

8. Goodwill and Other Intangible Assets

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

	March 31, 2014			December 31, 2013		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	(in thousands)					
Energy segment:						
Customer relationships	$54,380	$(15,970)	$38,410	$54,380	$(13,700)	$40,680
Trade names	4,860	(2,584)	2,276	4,860	(2,315)	2,545
Non-compete agreement	120	(7)	113	120	—	120
	59,360	(18,561)	40,799	59,360	(16,015)	43,345
Sports segment:						
Customer relationships	1,673	(318)	1,355	1,163	(230)	933
Trade names	122	(19)	103	122	(12)	110
	1,795	(337)	1,458	1,285	(242)	1,043
Total	$61,155	$(18,898)	$42,257	$60,645	$(16,257)	$44,388

The amounts for the Energy segment at December 31, 2013, have been revised to reflect measurement period adjustments for the three months ended March 31, 2014, related to Black Hawk as if they had been recognized at the acquisition date (see Note 3).

Amortization expense was $2.6 million and $2.4 million for the three months ended March 31, 2014 and 2013, respectively. Estimated aggregate amortization expense related to the intangible assets for the next five years is as follows:

	Amount (in thousands)
For the year ended December 31:	
Remainder of 2014	$6,878
2015	8,097
2016	7,088
2017	5,858
2018	5,168
Thereafter	9,168
Total	$42,257

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

	Three Months Ended March 31, 2014			Fiscal Year Ended December 31, 2013		
	Energy	Sports	Total	Energy	Sports	Total
	(in thousands)					
Balance at beginning of period	$65,968	$2,171	$68,139	$52,939	$154	$53,093
Acquisitions (see Note 3)	—	—	—	11,185	5,594	16,779
Adjustments to fair value	—	—	—	1,844	—	1,844
Impairments	—	—	—	—	(3,577)	(3,577)
Balance at end of period	$65,968	$2,171	$68,139	$65,968	$2,171	$68,139

The amounts for the Energy segment at December 31, 2013, have been revised to reflect measurement period adjustments for the three months ended March 31, 2014, related to Black Hawk as if they had been recognized at the acquisition date (see Note 3). The adjustment to fair value in 2013 represents an adjustment to reflect additional acquisition-date deferred income tax liabilities and non-current deferred compensation obligations related to the acquisition of Sun Well Service, Inc. ("Sun Well") in May 2012. During the year ended December 31, 2013, the Company recognized a goodwill impairment of $3.6 million related to shutdown of Ruckus.

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

	March 31, 2014	December 31, 2013
	(in thousands)	
Goodwill	$73,704	$73,704
Accumulated impairment	(5,565)	(5,565)
Net goodwill	$68,139	$68,139

9. Long-term Debt

In 2013, Steel Energy entered into a credit agreement, as amended (the "Amended Credit Agreement"), with Wells Fargo Bank National Association, RBS Citizens, N.A., and Comerica Bank that provided for a borrowing capacity of $105.0 million consisting of a $95.0 million secured term loan (the "Term Loan") and up to $10.0 million in revolving loans (the "Revolving Loans") subject to a borrowing base of 85% of the eligible accounts receivable.
Borrowings under the Amended Credit Agreement are collateralized by substantially all the assets of Steel Energy and its wholly-owned subsidiaries Sun Well, Rogue Pressure Services, LLC ("Rogue"), and Black Hawk, and a pledge of all of the issued and outstanding shares of capital stock of Sun Well, Rogue, and Black Hawk. Borrowings under the Amended Credit Agreement are fully guaranteed by Sun Well, Rogue, and Black Hawk. The carrying values as of March 31, 2014, of the assets pledged as collateral by Steel Energy and its subsidiaries under the Amended Credit Agreement were as follows: