As filed with the Securities and Exchange Commission on December 15, 2011.

File No.

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

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
Pursuant to Section 12(b) or 12(g) of the Securities Exchange Act of 1934

STEEL PARTNERS HOLDINGS L.P.
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number: **(212) 520-2300**

Copies to:

Steve Wolosky, Esq.
Olshan Grundman Frome Rosenzweig & Wolosky LLP
Park Avenue Tower
65 East 55th Street
New York, New York 10022
(212) 451-2300

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

Title of each class to be so registered	Name of each exchange on which each class is to be registered
Not applicable.	

Securities to be registered pursuant to Section 12(g) of the Act:
Common Units, no par value

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 o
Non-Accelerated Filer ☒ (Do not check if a smaller reporting company)	Smaller Reporting Company o

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. You should assume that the information contained in this document is accurate as of the date of this Form 10 only.

As used in this Form 10, 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.

FORWARD-LOOKING STATEMENTS

Except for statements of historical fact, certain information described in this document contains "forward-looking statements" that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will," "would" or similar words. The statements that contain these or similar words should be read carefully because these statements discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other "forward-looking" information. SPH believes that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control. Further, we urge you to be cautious of the forward-looking statements which are contained in this Form 10 because they involve risks, uncertainties and other factors affecting our operations, market growth, service, products and licenses. The factors listed below in the section captioned "Risk Factors" within Item 1A as well as other cautionary language in this Form 10, describe such risks, uncertainties and events that may cause our actual results and achievements, whether expressed or implied, to differ materially from the expectations we describe in our forward-looking statements. The occurrence of any of the events described as risk factors could have a material adverse effect on our business, results of operations and financial position.

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, and food products and services.

Each of our companies has its own management team with significant experience and proven success in their industries. 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 September 30, 2011, our total equity attributable to our common unitholders is $396,427. Our capital structure enables us to manage our businesses with a long-term time horizon.

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 corporate 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 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 to reduce and eliminate waste. 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

We categorize our companies as follows:

Diversified Industrial	Financial Services	Corporate
Handy & Harman Ltd. (1)	WebBank (1)	Steel Excel Inc. (2)
BNS Holding, Inc. (1)		CoSine Communications, Inc. (2)
DGT Holdings Corp. (1)		Barbican Group Holdings Limited (3)
API Group PLC (2)		Fox & Hound Restaurant Group (3)
JPS Industries, Inc. (2)		GenCorp Inc. (3)
SL Industries, Inc. (2)		

(1) Consolidated subsidiary
(2) Associated company
(3) Other core company

Our Businesses

Handy & Harman Ltd.

Our Ownership Interest

We have an ownership interest of approximately 55.5% as of December 9, 2011 in Handy & Harman Ltd. (NASDAQ (CM): HNH), formerly known as WHX Corporation prior to January 3, 2011, a Delaware corporation ("HNH"). On May 7, 2010, our ownership interest in HNH exceeded 50%. As a result, HNH became a controlled subsidiary of SPH and is consolidated from that date. We hold as of October 14, 2011 $20,309 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 Chief Executive Officer, Chief Financial Officer and Vice President of HNH.

Description of Business

HNH is a diversified manufacturer of engineered niche industrial products with leading market positions in many of the markets that it serves. 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 in the United States and internationally. For the nine months ended September 30, 2011 and the year ended December 31, 2010, HNH generated net sales of $518.8 million and $568.2 million, respectively.

HNH uses a set of tools and processes called the HNH Business System to drive operational and sales efficiencies across each of its business segments. 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 improve business processes and reduce and eliminate waste coupled with the tools targeted at variation reduction.

HNH Business Segments

HNH manages a group of businesses on a decentralized basis with operations principally in North America. HNH's strategic business units encompass the following segments: Precious Metal, Tubing, Engineered Materials, Arlon Electronic Materials and Kasco Blades and Route Repair Services.

Precious Metal. HNH's Precious Metal 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. HNH 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. HNH's Precious Metal segment has limited exposure to the prices of precious metals due to its hedging and pricing model. HNH's products are marketed and sold through its Lucas-Milhaupt business unit, which HNH believes is the North American market leader in the markets it serves.

Tubing. HNH's Tubing segment manufactures a wide variety of steel tubing products. The Stainless Steel Seamless Tubing Group manufactures small-diameter precision-drawn seamless tubing both in straight lengths and coils. The Stainless Steel Tubing Group's capabilities in long continuous drawing of seamless stainless steel coils allow this Group to serve the petrochemical infrastructure and shipbuilding markets. The Stainless Steel Tubing Group also manufactures products for use in the medical, semiconductor fabrication, aerospace and defense industries. The Specialty Tubing Group manufactures welded carbon steel tubing in coiled and straight lengths with a primary focus on products for the consumer and commercial refrigeration, automotive, and heating, ventilation and cooling (HVAC), structural, and oil and gas industries. In addition to producing bulk tubing, the Specialty Tubing Group also produces value added products and assemblies for these industries.

Engineered Materials. HNH's Engineered Materials segment manufactures and supplies products primarily to the commercial construction and building industries. HNH manufactures:

- fasteners and fastening systems for the U.S. commercial low slope roofing industry which are sold to private label roofing system manufacturers, building and roofing material wholesalers and roofing contractors;

- a line of engineered specialty fasteners for the building products industry for fastening applications in the remodeling and construction of homes, decking and landscaping;

- 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; and

- electro-galvanized and painted cold rolled sheet steel products primarily for the construction, entry door, container and appliance industries.

HNH's products are primarily marketed and sold through its OMG business unit, the market leader in fasteners and accessories for commercial low-slope roofing applications. HNH believes the majority of its net sales for the segment are for the commercial construction repair and replacement market.

Arlon Electronic Materials. HNH's Arlon Electronic Materials ("Arlon") segment 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. HNH supplies high technology circuit substrate laminate materials to the PCB industry. Its products are marketed principally to Original Equipment Manufacturers ("OEMs"), distributors and PCB manufacturers globally. HNH 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. Kasco Blades and Route Repair Services ("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.

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		
	Nine Months Ended September 30, 2011	Year Ended December 31, 2010	2009
U.S.	$ 461,995	$ 514,992	$ 424,048
Foreign (a)	56,775	53,220	36,655
	$ 518,770	$ 568,212	$ 460,703

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

Raw Materials

The raw materials used by HNH in its non-precious metal segments 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 segments are generally readily available from more than one source.

The essential raw materials used in the Arlon segments are silicone rubber, fiberglass cloth, pigments, copper foil, aluminum and Alloy 600 foil, polyethylene foam and various plastic films, special papers and release liners, vinyl resins, various adhesives and solvents, Teflon™ or PTFE resin, polyimide resin, epoxy resins, other thermoset resins, 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 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 U.S., Asia, and Europe.

Regarding Kasco, high quality carbon steel and stainless steel are the principal raw materials used in the manufacture of band saw blades; they are purchased from multiple domestic and international suppliers. Tool steel is utilized in manufacturing meat grinder plates and knives and is purchased from qualified suppliers located in the U.S., Europe and Japan. Equipment, replacement parts, and supplies are purchased from a number of manufacturers and distributors in Asia, the U.S., and Europe. In France and Canada, certain specialty equipment and other items used in the supermarket industry and in the food processing industry are purchased and resold under exclusive distributorship agreements with the equipment manufacturers. All of the raw materials and purchased products utilized by this segment have been readily available throughout this last year.

Energy Requirements

HNH requires significant amounts of electricity and natural gas to operate its facilities and are 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.

Patents and Trademarks

HNH owns patents and registered trademarks under which certain of its products are sold. In addition, HNH owns a number of US 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 patents or 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 2011 through 2027.

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 2011. HNH believes it is in compliance with all orders and decrees consented to by HNH with environmental regulatory agencies.

Sales

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

Competition

There are many companies, both domestic and foreign, that manufacture products of the type manufactured by HNH. This results in intense competition in a number of markets in which HNH operates. Some of HNH's competitors are larger than HNH and have financial resources greater than those available to HNH. 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 lead to lower prices, lower levels of shipments and/or higher costs. This could have a negative impact on HNH's business, operating results or financial condition.

Employees

As of September 30, 2011, HNH employed 1,635 employees worldwide. Of these employees, 326 were sales employees, 481 were office employees, 157 were covered by collective bargaining agreements, and 671 were non-union operating employees.

BNS Holding, Inc.

Our Ownership Interest

We have an ownership interest of approximately 84.9% as of December 9, 2011 in BNS Holding, Inc. (OTC: BNSSA.PK), a Delaware corporation ("BNS"). Two of our representatives serve on BNS' three-member board of directors. Our representatives also serve as the Chief Executive Officer and Chief Financial Officer of BNS and as the Chief Executive Officer of its wholly-owned subsidiary, Sun Well Services, Inc. ("Sun Well").

Description of Business

BNS operates through Sun Well, a provider of premium well services to exploration and production ("E&P") companies operating primarily in the Williston Basin in North Dakota and eastern Montana. Sun Well 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.

On February 2, 2011, BNS acquired all of the capital stock of SWH, Inc. ("SWH") for an aggregate purchase price of approximately $50,806. SWH owns all of the capital stock of Sun Well, its sole asset. Prior to the acquisition of Sun Well and during the past five years, 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.

Sales

For the period February 2, 2011 through September 30, 2011, Sun Well generated $23.3 million of revenue from approximately 30 different customers. Sun Well's top customers are among the largest E&P operators in the Bakken shale formation. Sun Well's three largest customers accounted for approximately 64% of Sun Well's revenue for 2011.

Government Regulation

Sun Well operates under the jurisdiction of a number of regulatory bodies that regulate worker safety standards, the handling of hazardous materials and the protection of the environment. Regulations concerning equipment certification create an ongoing need for regular maintenance which is incorporated into Sun Well's daily operating procedures. The oil and gas industry is subject to environmental regulation pursuant to local, state and federal legislation.

Competition

Sun Well's competitors include some of the largest energy service companies in the United States. In addition, Sun Well competes with smaller, independent service providers.

Employees

As of September 30, 2011, Sun Well had 108 employees.

DGT Holdings Corp.

Our Ownership Interest

We have an ownership interest of approximately 51.5% as of December 9, 2011 in DGT Holdings Corp. (OTC: DGTC.OB), a New York corporation ("DGT"). Prior to July 5, 2011, we had an ownership interest of approximately 46.1% in DGT. On July 5, 2011, our ownership interest in DGT increased to 51.1%. As a result, DGT became a controlled subsidiary of SPH and is consolidated from that date. Two of our representatives serve on DGT's six-member board of directors, one of which serves as its Chief Executive Officer. One of our representatives serves as DGT's Chief Financial Officer.

Description of Business

DGT operates through its subsidiary, RFI Corporation ("RFI"), which comprises DGT's Power Conversion Group division. For its fiscal year ended July 30, 2011, RFI generated revenue of $10,783. In November 2011, DGT sold its subsidiary, Villa Sistemi Medicali S.p.A. ("Villa"), which comprised its Medical Systems Group division, which accounted for approximately 84% of DGT's total consolidated revenues for the year ended July 30, 2011. As a result, the operations of Villa are reflected as discontinued operations in our consolidated financial statements for the period from July 5, 2011.

RFI designs, manufactures, markets and sells high voltage precision components and sub-assemblies and electronic noise suppression components for a variety of applications. These products are utilized by OEMs who build systems that are used in a broad range of markets. RFI's products are sold under the following industry brands: RFI, Filtron, Sprague and Stanley.

Noise suppression filters and components are used to help isolate and reduce the electromagnetic interference (commonly referred to as "noise") among the different components in a system sharing the same power source. Examples of systems that use RFI's noise suppression products include aviation electronics, mobile and land-based telecommunication systems and missile guidance systems.

RFI also provides subsystems and components which are used in the manufacture of medical electronics, military and industrial applications in the following markets: aerospace; defense and homeland security; telecommunications; industrial/commercial and medical.

Marketing and Distribution

DGT markets its Power Conversion Group products through in-house sales personnel, independent sales representatives in the U.S., and international agents in Europe, Asia, the Middle East, Canada and Australia. DGT's sales representatives are compensated primarily on a commission basis and the international agents are compensated either on a commission basis or act as independent distributors. DGT's marketing efforts emphasize its ability to custom engineer products to optimal performance specifications. DGT emphasizes team selling where its sales representatives, engineers and management personnel all work together to market its products. DGT also markets its products through catalogs and trade journals and participation in industry shows.

Raw Materials and Principal Suppliers

DGT in most cases uses two or more alternative sources of supply for each of its raw materials, which consist primarily of electronic components and subassemblies, metal enclosures for its products and certain other materials. In certain instances, however, DGT will use a single source of supply when directed by a customer or by need. In order to ensure the consistent quality of its products, DGT follows strict supplier evaluation and qualification procedures, and where possible, enters into strategic relationships with its suppliers to assure a continuing supply of high quality critical components.

Trademark and Patents

The majority of DGT's products are based on technology that is not protected by patent or other rights. Certain of DGT's products and brand names are protected by trademarks, both in the U.S. and internationally. Because DGT does not have patent rights in its products, its technology may not preclude or inhibit competitors from producing products that have identical performance as DGT's products. DGT's future success is dependent primarily on the technological expertise and management abilities of its employees and the strength of its relationship with its worldwide dealer network.

Government Regulation

DGT is subject to various U.S. government guidelines and regulations relating to the qualification of its products for inclusion in government qualified product lists in order to be eligible to receive purchase orders from a government agency or for inclusion of a product in a system which will ultimately be used by a governmental agency. DGT has had many years of experience in designing, testing and qualifying its products for sale to governmental agencies. Certain government contracts are subject to cancellation rights at the government's election. DGT has experienced no material termination of any government contract and is not aware of any pending terminations of government contracts.

Product Development

DGT has a well developed engineering and technical staff in its Power Conversion Group. DGT's technical and scientific employees are generally employed in the engineering departments at its RFI business unit, and split their time, depending on business mix and their own technical background, between supporting existing production and development and research efforts for new product variations or new customer specifications.

Competition

DGT's Power Conversion Group competes with several small, privately owned suppliers of electronic systems and components. From DGT's perspective, competition is primarily based on each company's design, service and technical capabilities, and secondarily on price. Excluding the OEMs that manufacture their own components, based on market intelligence DGT has gathered, DGT believes that it is among the top two or three in market share in supplying these products.

The markets for DGT's Power Conversion Group's products are subject to limited technological changes and gradually evolving industry requirements and standards. DGT believes that these trends will continue into the foreseeable future.

Some of DGT's current and potential competitors may have substantially greater financial, marketing and other resources than DGT. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products than DGT can. Competition could increase if new companies enter the market or if existing competitors expand their product lines or intensify efforts within existing product lines. Although DGT believes that its products are more cost-effective than those of its primary competitors, certain competing products may have other advantages which may limit DGT's market. There can be no assurance that continuing improvements in current or new competing products will not make them technically equivalent or superior to DGT's products in addition to providing cost or other advantages. There can be no assurance that DGT's current products, products under development or ability to introduce new products will enable DGT to compete effectively.

Employees

As of September 30, 2011, DGT had 216 employees, of which 127 were employees of Villa, which was sold on November 3, 2011.

WebBank

Our Ownership Interest

WebBank is our wholly-owned subsidiary. 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, including federal funds sold. Non-interest income is primarily derived from strategic partner fee income, loan servicing fees and premiums earned on the sale of loans. For the nine months ended September 30, 2011 and the year ended December 31, 2010, WebBank generated approximately $10,199 and $10,803 in revenue, respectively. During the nine months ended September 30, 2011, two contractual lending programs accounted for 54% 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.

Competition

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

Employees

As of September 30, 2011, WebBank had 29 employees.

Associated Companies

API Group PLC

We have an ownership interest of approximately 32.4% as of December 9, 2011 in API Group PLC (API. LN), an English corporation ("API"). One of our representatives serves on API's six-member board of directors. API is a leading manufacturer of specialized materials for packaging premium branded goods. The main end use markets for API's products are in premium, fast-moving consumer goods such as alcoholic drinks, perfumery, cosmetics, healthcare, specialty food and tobacco. These sectors use high impact finishes and effects on labeling and packaging to reinforce and authenticate brand image.

JPS Industries, Inc.

We have an ownership interest of approximately 39.3% as of December 9, 2011 in JPS Industries, Inc. (OTC: JPST.PK), a Delaware corporation ("JPS"). JPS is a major U.S. manufacturer of extruded urethanes, polypropylenes and mechanically formed glass substrates for specialty industrial applications. JPS' specialty industrial products are used in a wide range of applications, including printed electronic circuit boards, advanced composite materials, aerospace components, filtration and insulation products, surf boards, construction substrates, high performance glass laminates for security and transportation applications, plasma display screens, commercial and industrial roofing systems, reservoir covers, and medical, automotive and industrial components.

In September 2011, SPH delivered a letter to JPS expressing SPH's willingness to acquire JPS for $8.00 per share in cash and encouraging the JPS Board to immediately commence a sale process overseen by a nationally recognized investment banking firm for the purpose of selling JPS, in whole or in parts, to the highest bidder. SPH also stated it would expect to participate in the sale process as a bidder, it would support any sale of JPS to the highest bidder, it intended to commence a consent solicitation of JPS stockholders for the purpose of removing and replacing a majority of the members of the JPS Board, and it indicated its interest in paying $8.00 per share for the approximately 60% of JPS it does not own. On October 17, 2011, SPH and JPS announced that they had entered into an agreement pursuant to which SPH has agreed to terminate its pending consent solicitation and not to commence a subsequent consent solicitation for a period of thirty (30) days. On November 14, 2011, the parties entered into an amendment to their agreement pursuant to which they agreed to a further thirty (30) day extension and on December 13, 2011, the parties agreed to an extension until January 12, 2012. JPS previously announced that it had formed a special committee of independent directors to evaluate strategic alternatives in order to maximize value for all JPS stockholders.

SL Industries, Inc.

We have an ownership interest of approximately 21.7% as of December 9, 2011 in SL Industries, Inc. (AMEX:SLI), a New Jersey corporation ("SLI"). Three 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.

Steel Excel Inc.

We have an ownership interest of approximately 40.0% as of December 9, 2011 in Steel Excel Inc., a Delaware corporation formerly known as ADPT Corporation ("Steel Excel") (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. Steel Excel is currently in the business of seeking to acquire one or more business operations. On December 9, 2011, Steel Excel issued a press release announcing that it had acquired the business and assets of Rogue Pressure Services, LLC, a Wyoming limited liability company ("Rogue"). The purchase price for Rogue was approximately $29 million, which was paid in cash, with the sellers receiving the opportunity to earn additional consideration based upon Rogue's achievement of certain performance levels pursuant to an earn-out.

CoSine Communications, Inc.

We have an ownership interest of approximately 47.3% as of December 9, 2011 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.

Other Core Companies

GenCorp Inc.

We have an ownership interest of approximately 6.9% as of December 9, 2011 in GenCorp Inc. (NYSE: GY), an Ohio corporation ("GenCorp"). One of our representatives serves on GenCorp's eight-member board of directors. GenCorp is a manufacturer of aerospace and defense systems that also has a real estate business. GenCorp's continuing operations are comprised of two segments, Aerospace and Defense and Real Estate. GenCorp's Aerospace and Defense segment includes the operations of Aerojet-General Corporation ("Aerojet"), which develops and manufactures propulsion systems for defense and space applications, armament systems for precision tactical weapon systems and munitions applications. GenCorp's Real Estate segment includes the entitlement, sale and leasing of its excess real estate.

Barbican Group Holdings Limited

We have an ownership interest, direct and indirect, of approximately 15.1% as of December 9, 2011 in Barbican Group Holdings Limited ("Barbican"). In addition, one of our affiliates shares 50/50 control over Barbican with another investor. Two of our representatives serve on Barbican's seven-member board of directors. Barbican is a privately-held company incorporated in Guernsey, which underwrites property and casualty insurance and reinsurance through its subsidiaries and its Lloyds of London syndicate.

Fox & Hound Restaurant Group

We have an indirect ownership interest of approximately 21.3% as of December 9, 2011 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.

Our History

SPH, formerly known as WebFinancial L.P., 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 $454.3 million 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 $367.1 million as of July 15, 2009, which has increased to $396.4 million as of September 30, 2011. Since July 15, 2009, we have concentrated our holdings into a select number of businesses. Certain of our privately held ownership interests, such as our indirect interest in Barbican and all of our indirect interest in Fox & Hound, are directly held by SPII Liquidating Series Trust ("SPII Liquidating Trust"), a Delaware statutory trust that SPII formed prior to the completion of the Exchange Transaction to hold certain assets previously held by SPII.

Our Structure

SPH is managed by Steel Partners LLC ("Steel Partners" or the "Manager"), pursuant to the terms of an amended and restated management agreement, or the "Management Agreement" discussed in further detail in the section entitled "Executive Compensation - The Management Agreement." From its founding in 1990, Steel Partners has created significant increases in value for investors in the entities it has managed, including SPH and SPII. Since our day-to-day business affairs are managed by our Manager, we do not have any employees.

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, or 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 Steel Partners, serves as the Chairman of the Board of Directors.

Our Common Units

Our common units are quoted on the over-the-counter market on the Pink Sheets under the symbol SPNHU.PK. Once this registration statement becomes effective, we intend to have our common units listed on a national securities exchange, depending on market conditions and meeting any applicable listing requirements.

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 registration statement.

Item 1A. Risk Factors

Our business, industry and common units are subject to numerous risks and uncertainties. The discussion below sets forth the risks and uncertainties we believe may be most important for you to consider.

Risks Related to Our Structure

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 prior years.

Being classified as an "investment company" 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.

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, which application is pending.

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.

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.

Short sales of the securities of the companies in which we have an interest could have an adverse effect on the value of the common units.

If individuals engage in short selling of the securities of the companies in which we have an interest, the trading price of such securities may decline, which may have an adverse effect on the value of the common units.

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

Once we become subject to the reporting requirements of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), we will 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 the evaluations of controls under Section 404 of the Sarbanes-Oxley Act and the management certifications under Section 302 of the Sarbanes-Oxley Act, failure to comply with these requirements may have a material adverse effect on our results of operations.

Once we become subject to the Exchange Act, we will be required to comply with Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), and we will be required to furnish a report by our management on internal control over financial reporting. This report must contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting and disclosure of any material weaknesses. In addition, the report must contain a statement that our auditors have issued an attestation report on management's assessment of such internal control over financial reporting. We expect that management will be required to provide a report on our internal control over financial reporting beginning with our annual report for the fiscal year ending December 31, 2011 and that we will be required to provide an auditor's attestation on management's assessment of internal controls beginning with our annual report for the fiscal year ending December 31, 2013.

If we fail to maintain an effective system of internal controls over financial reporting, we might be subject to sanctions or investigation by regulatory authorities such as the SEC. A material weakness in our internal control over financial reporting could adversely impact our ability to provide timely and accurate financial information and may cause investors to lose confidence in our financial statements and our common unit price may be adversely affected. If we fail to remedy any material weakness, our financial statements may be inaccurate, we may not have access to the capital markets, and our common unit price may be adversely affected. Further, 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 Steel Partners.

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 our manager, Steel Partners, 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 after December 31, 2011, or at an earlier date with the consent of Steel Partners. 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."

Risks Related to Our Business

General

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.

We may have conflicts of interest with the minority shareholders of our businesses because decisions may need to be made by disinterested directors, without the participation of directors or officers associated with Steel Partners, 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, 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 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 Chairman and Chief Executive Officer and a substantial unitholder, is the Chief Executive Officer of Steel Partners, our Manager. As of December 9, 2011, Mr. Lichtenstein beneficially owned approximately 22.4% of our outstanding common units. Mr. Lichtenstein also controls Steel Partners, SP Corporate Services, LLC ("SPCS") and WGL Capital Corp. ("WGL"), and is the managing member of Steel Partners II GP LLC ("SPIIGP"), which serves as the liquidating trustee of SPII Liquidating Trust. We have entered into transactions and/or agreements with each of these entities. In addition, through WGL, Mr. Lichtenstein can increase his beneficial ownership if WGL elects to receive its payment of certain deferred fees owed to it in the form of our common units. 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.

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.

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 may choose to purchase additional securities of entities that we control.

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.

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 are subject to unplanned business interruptions which may adversely affect our performance.

Operational interruptions and unplanned events at one or more of our businesses' production facilities could cause substantial losses in production capacity and may expose our businesses to liability from claims by customers who have in turn had to delay their deliveries or reschedule their operations. Such interruptions may also harm our reputation or the reputation of our businesses, potentially resulting in a loss of business. To the extent these losses are not covered by insurance, our financial position, results of operations and cash flows may be adversely affected by such events.

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.

The success of our businesses, including the operations and research and development of some of our services and technology, depends on the collective experience of our technical, management and sales employees. If these employees were to leave our businesses, our operations and our ability to compete effectively could be materially adversely impacted.

Our future success depends upon the continued service of our technical, management and sales personnel who have developed and continue to develop our services, technology and products. We compete with many other entities for skilled management and employees. If any of these employees leave our businesses, the loss of their knowledge and experience may materially adversely affect our operations and research and development. If we are not able to replace our technical, management and sales personnel with new employees with comparable experience or attract additional individuals, we may not keep up with innovations in the industries in which we operate. As a result, our ability to continue to compete effectively and our operations may be materially adversely affected.

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.

Potential supply constraints and significant price fluctuations of electricity, natural gas and other petroleum based products could adversely affect our businesses.

In our production and distribution processes, we consume significant amounts of electricity, natural gas, fuel and other petroleum-based commodities. The availability and pricing of these commodities are subject to market forces beyond our control. Variability in the supply and prices of these commodities could materially affect our operating results from period to period and rising costs could erode our profitability.

Adverse weather could materially affect our results.

A portion of our businesses involves on-site delivery, service and repair. Inclement weather affects the ability of our businesses to produce and distribute products and affects customers' short-term demand since their work also can be hampered by weather. Therefore, our results and the results of our businesses can be negatively affected by inclement weather. Severe weather such as hurricanes, tropical storms and earthquakes can damage our businesses' facilities resulting in increased repair costs and business disruption.

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.

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 Steel Partners 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 is equal to or greater than what we could receive if there was a public market for such assets.

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 include funding the minimum requirements of its defined benefit pension plan (the "WHX Pension Plan"). HNH expects to have required minimum contributions to the WHX Pension Plan of $2.9 million in the fourth quarter of 2011 and $19.2 million in 2012. 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.

Risks Related to Our Manager

We depend on Warren G. Lichtenstein, the Chairman and Chief Executive Officer of Steel Partners, Jack Howard, the President of Steel Partners, and the other key members of Steel Partners' management team, the loss of whose services could have a material adverse effect on our business, results and financial condition.

We have no employees. Our success depends on the efforts, skills, reputation and business contacts of Warren G. Lichtenstein, the Chairman and Chief Executive Officer of Steel Partners, Jack Howard, the President of Steel Partners, and the other key members of the management team of Steel Partners. While many of 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, Mr. Howard or any of the other key members of the management team 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 Steel Partners' management team may be involved in other business activities that may involve conflicts of interest.

Certain individual members of Steel Partners' 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 Steel Partners, our Manager, may not be aligned with our interests or those of our unitholders.

Our Manager receives a monthly management fee at a rate of 1.5% per annum of 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, payable monthly, or the "Management Fee". Effective January 1, 2012, our 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. 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 holds certain options to purchase common units at prices that may be significantly greater than the current expected trading price of the common units. 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.

Effective January 1, 2012, the Management Fee will be calculated by reference in part to our total partners' capital. Total partners' 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 total partners' 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 total partners' 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.

General Business Risks

Difficult economic and market 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 downturns. Our operations and assets are materially affected by conditions in the financial markets and economic conditions throughout the world that are outside our control, such as interest rates, availability of credit, inflation rates, economic 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 will, among other things, establish a Bureau of Consumer Financial Protection, 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 requires 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. It is too early to say 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 becomes 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 proposed 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 2012.

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.

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 Common Units

The value of the common units may be adversely affected by market volatility.

Even if an active trading market develops, the market price and trading of the common units may be highly volatile and could be subject to wide fluctuations. Some of the factors that could negatively affect the price or trading volume of the common units include additions or departures of key personnel, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, actions by unitholders, changes or proposed changes in laws or regulations, and general market and economic conditions.

Our common units lack a significant trading market.

Our common units are quoted on the over-the-counter market on the Pink Sheets. However, there is a limited trading market for our common units at this time. There is no assurance that an active trading market in our common units will develop, or if such a market develops, that it will be sustained. The Pink Sheets market is highly illiquid. As a result, an investor may find it more difficult to dispose of, or to obtain accurate quotations as to the market value of our common units or to obtain coverage for significant news events concerning us, and the common units could become substantially less attractive for margin loans, for investment by financial institutions, as consideration in future capital raising transactions or for other purposes.

Sales of significant amounts of the common units may cause the price of the common units to decline.

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.

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.

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.

We may not make future cash distributions to our unitholders.

In connection with the Exchange Transaction, we agreed to distribute to the holders of our common units a total of up to $87.5 million, or 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 $54.4 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.

Risks Related to Taxation

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

You may be subject to U.S. federal and other income tax on your share of our taxable income, regardless of whether you 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. You will be subject to U.S. federal, state, local and possibly, in some cases, foreign income tax on your allocable share of our taxable income, whether or not you receive cash distributions from us. We do not anticipate making any cash distributions or paying any cash dividends other than those necessary to meet the Target Distribution. Accordingly, you may be required to make tax payments in connection with your ownership of common units that significantly exceed your 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) you would not be allowed to deduct your share of losses of SPH and (iii) distributions to you, other than liquidating distributions, would constitute dividends to the extent of our current or accumulated earnings and profits, and would be taxable as such.

The tax treatment of (i) publicly traded partnerships or (ii) an investment in our common units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.

The current U.S. federal income tax treatment of (i) publicly traded partnerships, including us, or (ii) an investment in our common units may be modified by administrative, legislative or judicial interpretation at any time, possibly on a retroactive basis. The U.S. federal income tax rules are constantly under review by persons involved in the legislative process, the Internal Revenue Service ("IRS"), and the United States Treasury Department, frequently resulting in revised interpretations of established concepts, statutory changes, revisions to regulations and other modifications and interpretations. Changes to the U.S. federal income tax laws and interpretations thereof could make it more difficult or impossible to meet the Qualifying Income Exception, affect or cause us to change our investments, affect the tax considerations of an investment in us, or change the character or treatment of portions of our income. Any such changes could adversely impact the value of an investment in our common units.

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.

We do not expect to be able to furnish to each unitholder specific tax information within 90 days after the close of each calendar year, which means that holders of common units who are U.S. taxpayers should anticipate the need to file annually a request for an extension of the due date of their income tax returns.

It will most likely require longer than 90 days after the end of our fiscal year to obtain the requisite information so that IRS Form K-1s may be prepared for us. Further, we do not expect to provide estimates of such information within such time period. For this reason, holders of common units who are U.S. taxpayers should anticipate the need to file annually with the IRS (and certain states) a request for an extension past April 15 or the otherwise applicable due date of their income tax returns for the taxable year.

Item 2. Financial Information

SELECTED CONSOLIDATED FINANCIAL DATA

SPH selected statement of operations data for the nine months ended September 30, 2011 and 2010 and the selected balance sheet data as of September 30, 2011 were derived from the SPH unaudited consolidated financial statements included elsewhere in this Form 10. The selected statement of operations data for the year ended December 31, 2010, the periods from January 1, 2009 to July 15, 2009 and July 16, 2009 to December 31, 2009 and for the year ended December 31, 2008 and the selected balance sheet data as of December 31, 2010 and 2009 were derived from the SPH audited consolidated financial statements included elsewhere in this Form 10. The selected balance sheet data as of December 31, 2008 and the selected statement of operations data for the year ended December 31, 2007 was derived from SPH audited consolidated financial statements not included elsewhere in this Form 10. The selected statement of operations data for the year ended December 31, 2006 and the selected balance sheet data for the years ended December 31, 2007 and 2006 is unaudited and consolidates SPH (formerly known as WebFinancial L.P.), WebFinancial, and SPII for these periods based on information derived from SPH's and SPII's separately audited financial statements and other unaudited financial information on a basis consistent with the consolidated financial statements presented elsewhere in this Form 10. The separately audited financial statements of SPH and SPII for these periods are not included in this Form 10.

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, on February 2, 2011, through BNS, SPH acquired SWH and on July 5, 2011 acquired a controlling interest in DGT that have been consolidated since their acquisition dates. These acquisitions affect the comparability of our selected financial data presented below.

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Year Ended December 31, 2010	July 16, 2009 to December 31, 2009	January 1, 2009 to July 15, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006(d)
	(unaudited)	(unaudited)						(unaudited)
		(In thousands, except per unit amounts)						
STATEMENTS OF OPERATIONS DATA (a)								
Revenues:								
Diversified Industrial, Financial Services and Other	$ 543,927	$ 289,801	$ 424,665	$ 14,424	$ 2,225	$ 23,445	$ 5,534	$ 13,012
Investment Operations	-	-	-	-	(51,681)	(736,747)	94,665	443,048
Total revenues	$ 543,927	$ 289,801	$ 424,665	$ 14,424	$ (49,456)	$ (713,302)	$ 100,199	$ 456,060
Net income (loss) from continuing operations	$ 27,661	$ 27,914	$ 18,316	$ (4,254)	$ (57,527)	$ (756,949)	$ 19,724	$ 424,267
Income from discontinued operations	1,130	28,542	28,130	1,177	-	-	-	-
Net income (loss)	28,791	56,456	46,446	(3,077)	(57,527)	(756,949)	19,724	424,267
Net income attributable to redeemable partners' capital	-	-	-	-	54,064	767,812	(18,613)	(414,874)
Less: Net (income) loss attributable to non-controlling interests:	(16,094)	(16,374)	(14,699)	(442)	-	100	-	-
Net income (loss) attributable to common unitholders	$ 12,697	$ 40,082	$ 31,747	$ (3,519)	$ (3,463)	$ 10,963	$ 1,111	$ 9,393
Per common unit and per share (c)								
Net income (loss) per common unit - basic								
Net income (loss) from continuing operations	$ 0.48	$ 1.00	$ 0.69	$ (0.16)	$ (1.59)	$ 5.02	$ 0.51	$ 4.30
Net income from discontinued operations	0.02	0.59	0.57	0.02	-	-	-	-
Net income (loss) attributable to common unitholders	$ 0.50	$ 1.59	$ 1.26	$ (0.14)	$ (1.59)	$ 5.02	$ 0.51	$ 4.30
Basic weighted average common units outstanding	25,250	25,229	25,235	25,219	2,183	2,183	2,183	2,183
Net income (loss) per common unit - diluted								
Net income (loss) from continuing operations	$ 0.19	$ 0.89	$ 0.63	$ (0.16)	$ (1.59)	$ 5.02	$ 0.51	$ 4.30
Net income from discontinued operations	0.02	0.47	0.53	0.02	-	-	-	-
Net income (loss) attributable to common unitholders	$ 0.21	$ 1.36	$ 1.16	$ (0.14)	$ (1.59)	$ 5.02	$ 0.51	$ 4.30
Diluted weighted average common units outstanding	29,200	31,421	27,483	25,219	2,183	2,183	2,183	2,183

	September 30, 2011	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2007(d)	December 31, 2006(d)
BALANCE SHEET DATA	(unaudited)		(In thousands, except per unit data)		(unaudited)	(unaudited)
Diversified Industrial, Financial Services and Other:						
Cash and cash equivalents	$ 132,306	$ 180,684	$ 114,247	$ 30,072	$ 3,359	$ 7,473
Investments at fair value	-	71,872	200,015	1,325	13,610	11,704
Investments in associated companies	165,448	163,270	121,148	5,066	5,369	4,730
Investment Operations:						
Investments	-	-	-	1,118,294	2,801,447	2,317,047
Total assets	1,028,998	1,091,865	731,903	1,442,618	3,234,824	2,647,712
Redeemable partners' capital (b)	-	-	-	1,258,725	2,138,144	2,360,311
SPH Partners' capital	396,427	405,732	416,913	42,090	31,120	30,974
SPH Partners' capital per common unit	$ 15.74	$ 16.07	$ 16.53	$ 19.28	$ 14.25	$ 14.19

(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 and the acquisition of DGT on July 5, 2011. On February 18, 2010, BNS sold its interest in Collins. The criteria for discontinued operations presentation were met at the date of sale and Collins' operations are reported as discontinued operations for all periods presented.

(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.

(c) Prior to December 31, 2008, SPH (as WebFinancial) was a corporation with common shares outstanding. On December 31, 2008 SPH converted into a limited partnership. Each common share of WebFinancial Corporation was exchanged for a common unit of WebFinancial L.P., now known as SPH.

(d) The selected statement of operations data for 2006 and the selected balance sheet data for 2007 and 2006 is unaudited and consolidates SPH and SPII for these periods based on information derived from SPH's and SPII separately audited financial statements and other unaudited financial information on a basis consistent with the consolidated financial statements presented elsewhere in this registration statement on Form 10. The separately audited financial statements of SPH and SPII for these periods are not included in this registration statement on Form 10.

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 that are available elsewhere in this Form 10. The following is a discussion and analysis of SPH's consolidated results of operations for the nine months ended September 30, 2011 and 2010, the year ended December 31, 2010, the periods from January 1, 2009 to July 15, 2009 and July 16, 2009 to December 31, 2009, and the year ended December 31, 2008. 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 registration statement, particularly in "Risk Factors" in Item 1A.

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

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, defense, banking, and food products and services companies. 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.

The Company's consolidated subsidiaries, associated companies and other core companies are as follows:

Consolidated Subsidiaries	Associated Companies	Other Core Companies
Handy & Harman Ltd. (a)	API Group PLC (c)	GenCorp Inc.
BNS Holding, Inc.	JPS Industries, Inc.	Barbican Group Holdings Limited
DGT Holdings Corp. (b)	SL Industries, Inc. (d)	Fox & Hound Restaurant Corp.
WebBank	CoSine Communications, Inc.	
	Steel Excel Inc. (e)	

(a) HNH was an Associated Company until May 7, 2010, when it became a Consolidated Subsidiary.
(b) DGT was an Associated Company until July 5, 2011, when it became a Consolidated Subsidiary.
(c) API became an Associated Company on September 1, 2010.
(d) SLI became an Associated Company on December 31, 2010.
(e) Steel Excel, which was formerly known as ADPT, became an Associated Company on June 3, 2010 and is presented on the equity method on a retroactive basis in the consolidated financial statements for the period July 16, 2009 to December 31, 2009.

Segment Information

Our operations are conducted through consolidated subsidiaries and associated companies which represent significant equity interests in operating businesses that are accounted for under the equity method of accounting. We also own interests directly and indirectly in other core companies and certain other interests that are accounted for as available-for-sale securities or held by the SPII Liquidating Trust. Our reportable business segments are: Diversified Industrial (from July 14, 2009, the date SPH acquired BNS from SPII, Financial Services (for all periods presented), Investment Operations (for all periods through July 15, 2009) and Corporate.

Diversified Industrial

As of September 30, 2011, our Diversified Industrial segment for financial reporting purposes consists of HNH, BNS and DGT, which are consolidated subsidiaries, and API, SLI and JPS, which are associated companies. There were no Diversified Industrial operations presented for periods prior to July 14, 2009.

HNH is a holding company that owns and manages a group of businesses on a decentralized basis whose strategic business units encompass its five reportable segments: precious metal, tubing, engineered materials, electronic materials, and Kasco replacement products and services. Subsequent to December 31, 2009, SPH purchased additional shares of HNH in the open market and on May 7, 2010 its ownership exceeded 50%, at which point HNH became a controlled subsidiary. HNH's operations are consolidated with SPH from May 7, 2010. HNH was an associated company accounted for under the fair value option from July 15, 2009 until May 6, 2010.

The Diversified Industrial segment also includes our majority owned consolidated subsidiary BNS, which was acquired from SPII on July 14, 2009, which in turn principally operated through its 80% ownership of Collins, a manufacturer of small school, activity and shuttle buses, ambulances, and terminal trucks/road construction equipment. Collins was sold on February 18, 2010, and its results of operations and financial position are reported in our consolidated financial statements from July 15, 2009 as discontinued operations for all periods presented.

On February 2, 2011, BNS acquired all of the capital stock of SWH which 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 and eastern Montana. SWH was acquired to further the Company's position as a global diversified holding company.

DGT, through its subsidiary RFI, manufactures and sells electronic systems and components for a variety of applications. SPH purchased additional shares of DGT and on July 5, 2011 its ownership exceeded 50%, at which point DGT became a controlled subsidiary. DGT's operations are consolidated with SPH from July 5, 2011. In November 2011, DGT sold its subsidiary, 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. DGT was an associated company accounted for under the equity method from July 15, 2009 until July 5, 2011.

JPS, an associated company, is a major U.S. manufacturer of extruded urethanes, polypropylenes and mechanically formed glass substrates for specialty industrial applications. JPS is accounted for under the equity method of accounting from July 14, 2009.

Financial Services

Our Financial Services segment, for financial reporting purposes, 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.

Investment Operations

The Investment Operations segment consisted of the operations of SPII, an entity of the SPII Fund[1] acquired by SPH on July in an Exchange Transaction on July 15, 2009. The SPII operations are presented as the Investment Operations segment on an investment company basis for all periods through July 15, 2009. From July 16, 2009 the Investment Operations ceased upon the completion of the Exchange Transaction when SPII's net assets were in effect acquired by SPH and such net assets were no longer managed as an investment fund. After July 15, 2009 the SPII assets in effect acquired by SPH, as appropriate, are reported as part of the Company's Diversified Industrial, Financial Services and Corporate segments.

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[1] "SPII Fund" refers collectively to the entities that indirectly invested in SPII, Steel Partners II (Onshore) LP, ("SPII Onshore") and Steel Partners II (Offshore) Ltd. ("SPII Offshore").

See description of the Exchange Transaction in the SPH 2010 Audited Consolidated Financial Statements – Note 23 - “Exchange Transaction”.

Corporate

Corporate revenues primarily consist of investment and other income and investment gains and losses. Corporate assets, revenues, overhead expenses and interest expense are not allocated to the operating units. Corporate also has investments in Steel Excel and CoSine, which are currently in the business of seeking to acquire one or more business operations, investments in securities, investments in the SPII Liquidating Trust and, cash and cash equivalents. Steel Excel and CoSine are associated companies that we account for under the equity method of accounting, with Steel Excel reported at its fair value.

Basis of Presentation

Our financial statements include the consolidated financial results of SPH, WebFinancial (which was merged with and into SPH on December 31, 2008), and their subsidiaries for all periods presented. WebFinancial completed, through a merger transaction, its conversion into WebFinancial L.P., on December 31, 2008. Each share of WebFinancial was exchanged for limited partnership interests of WebFinancial L.P. designated as common units. WebFinancial L.P. was renamed Steel Partners Holdings L.P. in April 2009.

In the consolidated financial statements, the Diversified Industrial, Financial Services and Corporate segments are reported as “Diversified Industrial, Financial Services and Other” to denote the operations accounted for and reported on an operating company basis; the Investment Operations segment is reported 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 to denote the operations accounted for and reported on an investment company basis. From July 16, 2009 forward, the Company operates in three segments, Diversified Industrial, Financial Services and Corporate, and uses one basis of accounting, the operating company basis. To present the change from reporting two bases of accounting to reporting one basis of accounting, the operating company basis, beginning July 16, 2009 the consolidated statements of operations, cash flows and changes in capital and comprehensive income (loss) have been presented in two periods, January 1, 2009 to July 15, 2009 and July 16, 2009 to December 31, 2009.

History

The Company entered into the Exchange Transaction pursuant to which SPII became a wholly-owned subsidiary of SPH without further condition on July 15, 2009 (see “Asset Acquisitions and Unit Issuance” below). 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 Exchange Transaction, which initially occurred on January 1, 2009, was subject to being unwound, in whole or part, until July 15, 2009. Accordingly, the net assets of SPII on January 1, 2009 represented a redeemable interest of SPH, and are therefore presented as “Redeemable Partners’ Capital” in the consolidated financial statements for all periods presented until July 15, 2009. Redeemable Partners’ Capital accordingly only participated in 100% of the economic results of SPII and did not participate in the economic results of the Pre-Exchange Operations. At July 15, 2009, (i) certain assets of SPII were distributed in redemption of a portion of the Redeemable Partners’ Capital of equal value, (ii) the remaining net assets of SPII were then acquired by SPH in the Exchange Transaction as of July 15, 2009, and (iii) the unredeemed portion of the Redeemable Partners’ Capital (of equal value to the net assets of SPII then acquired) became nonredeemable and thereafter participates in an undivided interest in SPH and its economic results. See the consolidated statements of changes in capital and comprehensive income (loss) for 2009.

The SPII assets acquired by SPH in the Exchange Transaction as of July 15, 2009 were valued at fair value. The fair values of SPII assets acquired on July 15, 2009 established the initial carrying values from which operating company accounting principles began to be applied to such assets, including those applicable to accounting for investments and business combinations.

In the consolidated financial statements the primary difference between the operating company accounting policies of Diversified Industrial, Financial Services and Other operations and the investment company accounting policies of Investment Operations relate to accounting for investments:

- SPH evaluates its investments and determines the appropriate classification as a consolidated subsidiary, an equity method investment, an available-for-sale security, or a held-to-maturity security each with a different financial reporting treatment. For investments that are accounted for under the fair value option that otherwise would be subject to the equity method, unrealized gains and losses are presented in the consolidated statement of operations. Unrealized changes in the fair value of available for sale securities are presented in other comprehensive income in the consolidated statement of changes in capital and comprehensive income (loss).

- For Investment Operations, investments are accounted for in the consolidated financial statements at fair value with changes in fair value reported in the revenue section of the consolidated statements of operations as “change in unrealized gains (losses)” when they occur. Under investment company accounting, Investment Operations does not consolidate investments and it does not apply the equity method of accounting.

Asset Acquisitions and Unit Issuance

Acquisition of Assets of SPII

Effective as of July 15, 2009, SPH in effect acquired certain assets (the “Acquisition”) from certain former investors of the SPII Fund, which was managed by Steel Partners and its affiliates. Through this transaction SPH acquired from the SPII Fund net assets with a fair value of $454,262 as of July 15, 2009, which included interests in DGT, JPS, HNH, Steel Excel, various other companies and a 43.75% interest in the SPII Liquidating Trust and $251,547 in cash. In exchange the contributing SPII Fund investors received 25,761,587 SPH common units. This was implemented though the Exchange Transaction discussed below. The transaction contemplated that as a result SPH would become a global diversified holding company.

Acquisition of HNH

As part of the Acquisition, SPH acquired a 32.8% interest in HNH valued at $11,390. Through open market purchases between July 16, 2009 and December 31, 2009, SPH acquired, in the aggregate, 5.8% of additional interests in HNH for $1,069 bringing its ownership interest in HNH to 38.6% at December 31, 2009. As part of the Acquisition, SPH also acquired an indirect interest in certain debt held through the SPII Liquidating Trust of certain HNH subsidiaries valued at $29,296 at December 31, 2009 (representing its 43.75% pro rata interest). 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 SPII Liquidating Trust. H&H Group refinanced the prior indebtedness of Handy & Harman (“H&H”) and Bairnco Corporation (“Bairnco”) to the SPII Liquidating Trust pursuant to which H&H Group made an approximately $6,000 cash payment in partial satisfaction of prior indebtedness to the SPII Liquidating Trust and exchanged the remainder of such prior obligations for units consisting of (a) $72,926 aggregate principal amount of Subordinated Notes issued by H&H Group and (b) Warrants to purchase an aggregate of 1,500,806 shares of HNH common stock. 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. As a result, as a beneficiary of the SPII Liquidating Trust, SPH had an indirect interest in $31,905 of the Subordinated Notes and 656,605 of the Warrants. On December 14, 2010, the SPII Liquidating Trust distributed SPH’s indirect interest in the Subordinated Notes and Warrants to SPH such that as of September 30, 2011, the Company directly held $31,905 of the Subordinated Notes and 656,605 of the Warrants. As described below, on October 14, 2011, HNH redeemed $25,000 of its outstanding Subordinated Notes. Approximately $12,500 of this amount was paid to SPH to redeem its pro rata share of the Subordinated Notes. During 2010 and through September 30, 2011, SPH acquired an additional 16.9% interest in HNH for $15,889 through open market purchases bringing its ownership in HNH as of September 30, 2011 to 55.5%. SPH’s ownership and control of HNH reached 50.3% on May 7, 2010 and HNH became a majority-owned subsidiary; beginning on this date HNH is accounted for as a consolidated subsidiary of SPH.

Acquisition of BNS

SPII owned 50.2% of BNS at December 31, 2008. On July 14, 2009, SPH acquired for cash from SPII its 50.2% interest in BNS for $5,815, at the market price per share on that date. After July 15, 2009 SPH acquired 27,400 additional BNS shares for cash and owned 51.1% of BNS as of December 31, 2009. In addition, during 2010 SPH acquired for cash additional BNS shares through open market purchases and owns 84.9% of BNS as of September 30, 2011. SPH reports BNS as a consolidated subsidiary, including noncontrolling interests, from the July 14, 2009 purchase date. BNS operated primarily through its 80% ownership of Collins, which was sold on February 18, 2010. The Collins operations are classified in the consolidated financial statements as discontinued operations. BNS, subsequent to the sale of Collins, is currently in the business of seeking to acquire one or more new business operations. As part of the Acquisition, SPH also acquired an indirect interest from SPII in certain debt held through the SPII Liquidating Trust of BNS valued at $9,770 at December 31, 2009 (representing its 43.75% pro rata interest). This intercompany debt of BNS, related to Collins, is eliminated against the investment acquired from SPII. In connection with the sale of Collins, the intercompany debt held via the SPII Liquidating Trust was paid in full; all other debt was assumed by the acquirer of Collins. On February 2, 2011, BNS acquired all of the capital stock of SWH for an aggregate purchase price of $50,806 in cash. SWH owns all of the capital stock of Sun Well, its sole asset.

Acquisition of DGT

On July 5, 2011, SPH acquired for cash an additional 5% interest in DGT common stock for $1,933, bringing its total interest as of July 5, 2011 to 51.1%. Accordingly, the accounting for the investment in DGT has been changed from the equity method to a majority-owned controlled subsidiary and is consolidated with SPH from that date. Prior to July 5, 2011, SPH owned a 46.1% interest in DGT, which was acquired primarily between July 15, 2009 and March 2011.

Acquisition of API

We have an ownership of approximately 34.2% as of September 30, 2011 in API. The investment in API is reported at fair value. SPH’s ownership interest in API exceeded 20% on September 1, 2010, and, accordingly, API has been accounted for as an associated company using the fair value election from January 1, 2010.

Acquisition of CoSine

In two transactions on July 14, 2009 and July 15, 2009, SPH acquired for cash, in the aggregate, a 26.1% interest in CoSine from SPII for $4,211, at the market price per share on that date. On July 31, 2009, SPH acquired for cash from HNH an additional 18.8% interest in CoSine and on August 11, 2009, acquired an additional 2.5% interest in the open market for a total cost of $3,616, bringing its ownership interest to 47.3% at September 30, 2011.

Acquisition of JPS

On July 14, 2009, SPH acquired for cash an 18.2% interest in JPS from SPII for $6,427, at the market price per share on that date. As part of the Acquisition, SPH acquired an additional 11.3% interest in JPS valued at $4,722 at the Acquisition date. Through open market cash purchases between July 16, 2009 and December 31, 2009, SPH acquired, in the aggregate, 8.8% of additional interests in JPS for $2,742, bringing its ownership interest in JPS to 38.3% at December 31, 2009. SPH acquired an additional 1% interest in JPS for $560 through open market purchases, bringing its ownership in JPS as of September 30, 2011 to 39.3%.

Acquisition of SLI

On July 14, 2009, SPH acquired for cash, in the aggregate, a 11.5% interest in SLI from SPII for $5,524. The investment in SLI is reported at fair value. The Company’s ownership interest in SLI exceeded 20% on December 31, 2010 and, accordingly, SLI has been accounted for as an associated company using the fair value option election from January 1, 2010. At September 30, 2011, SPH’s ownership of SLI is 20.4%.

Acquisition of Steel Excel

As part of the Acquisition, SPH acquired an 8.4% interest in Steel Excel valued at $27,168. Through open market purchases between July 16, 2009 and December 31, 2009, SPH acquired, in the aggregate, 11.1% of additional interests in Steel Excel for $42,061 bringing its ownership interest in Steel Excel to 19.5% at December 31, 2009. During 2010, SPH acquired an additional 13.5% interest in Steel Excel for $37,202 through open market purchases, bringing its ownership in Steel Excel as of December 31, 2010 to 33.0%. From January 1, 2011 to September 30, 2011, SPH acquired an additional 4.7% interest for cash in the open market for $14,634, bringing its ownership interest in Steel Excel to 37.7%. On June 3, 2010, SPH ownership of Steel Excel reached 20% and Steel Excel became an associated company. Steel Excel is accounted for under the fair value option on a retroactive basis and is presented in SPH's results as an associated company for all periods subsequent to July 15, 2009.

Results of Operations

Substantially all of our operations are affected by worldwide economic conditions. Poor economic conditions have reduced demand for the products and services of our diversified industrial businesses, resulted in additional loan losses in our financial services business and may adversely impact the value of our associated companies and other core companies. The discussions below consider the effect of current economic conditions on results of operations and financial position. Should current conditions worsen or the U.S. enters another recession, we believe all of our operations could be adversely affected.

For the periods presented prior to July 16, 2009, revenue and costs and expenses in the consolidated statements of operations are presented in two sections. The Diversified Industrial, Financial Services and Other section represents the Pre-Exchange Operations presented on an operating company basis and the Investment Operations section represents SPII's investment operations (the Investment Operations segment) presented on an investment company basis.

- The consolidated statements of operations, cash flows and changes in capital and comprehensive income (loss) for 2009 are presented in two periods, January 1, 2009 to July 15, 2009 and July 16, 2009 to December 31, 2009, reflecting the financial results and the applicable basis of accounting for the period in 2009 before and after the completion of the Exchange Transaction on July 15, 2009, respectively.

- For all periods subsequent to July 15, 2009, Diversified Industrial, Financial Services and Other are presented on an operating company basis.

- Investment Operations, representing SPII's operations, for the period from January 1, 2009 to July 15, 2009, and for the year ended December 31, 2008 are presented on an investment company basis. Additionally, the net assets of the Investment Operations represented a redeemable interest in SPH which participated only in 100% of the economic results of the net assets of SPII. Accordingly, all of the net income or loss of Investment Operations is allocated to redeemable partners' capital in determining net income attributable to common units.

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

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Year Ended December 31, 2010	July 16, 2009 to December 31, 2009	January 1, 2009 to July 15, 2009	Year Ended December 31, 2008
Revenues:						
Diversified industrial	$ 543,434	$ 251,578	$ 385,805	$ —	$ —	$ —
Financial services	10,199	7,153	10,803	2,997	2,326	6,533
Investment operations	—	—	—	—	(51,681)	(736,747)
Corporate	(9,706)	31,070	28,057	11,427	(101)	16,912
Total Revenues	$ 543,927	$ 289,801	$ 424,665	$ 14,424	$ (49,456)	$ (713,302)
Net income from continuing operations before income taxes:						
Diversified industrial	$ 51,251	$ 29,775	$ 30,523	$ (2,141)	$ —	$ —
Financial services	4,432	2,511	4,381	(4,380)	(3,809)	(2,570)
Investment operations	—	—	—	—	(54,064)	(767,812)
Corporate	(30,113)	(2,745)	(13,931)	2,324	(522)	14,070
Totals	25,570	29,541	20,973	(4,197)	(58,395)	(756,312)
Income tax (provision) benefit	2,091	(1,627)	(2,657)	(57)	868	(637)
Net income from continuing operations	27,661	27,914	18,316	(4,254)	(57,527)	(756,949)
Income from discontinued operations	1,130	28,542	28,130	1,177	—	—
Net income attributable to redeemable partners' capital	—	—	—	—	54,064	767,812
Net (income) loss attributable to noncontrolling interests in consolidated entities	(16,094)	(16,374)	(14,699)	(442)	—	100
Net income (loss) attributable to common unitholders	$ 12,697	$ 40,082	$ 31,747	$ (3,519)	$ (3,463)	$ 10,963
Other Comprehensive income (loss)	(15,876)	(39,946)	(45,580)	53,374	247	7
Comprehensive income (loss) attributable to common unitholders)	$ (3,179)	$ 136	$ (13,833)	$ 49,855	$ (3,216)	$ 10,970

Diversified Industrial

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

	Nine Months Ended September 30,		Year Ended December 31,	
	2011	2010	2010	2009(1)
Revenue:				
HNH	$ 518,770	$ 251,578	$ 385,805	$ —
BNS	23,298	—	—	—
DGT	1,366	—	—	—
Total Revenue	$ 543,434	$ 251,578	$ 385,805	$ —
Net income from continuing operations before income taxes:				
HNH	$ 35,808	$ 10,765	$ 9,345	$ —
BNS	4,589	—	—	—
DGT	213	—	—	—
Income of associated companies	10,641	19,010	21,178	(2,141)
Total	$ 51,251	$ 29,775	$ 30,523	(2,141)

(1) Represents the period from July 16, 2009 through December 31, 2009.

Total revenue for the Diversified Industrial segment increased to $543,434 for the nine months ended September 30, 2011 as compared to $251,578 in the prior year period. This results from the consolidation of HNH effective May 7, 2010, the acquisition of SWH by BNS on February 2, 2011 and the acquisition of DGT on July 5, 2011.

Total revenue for the Diversified Industrial segment was $385,805 for the year ended December 31, 2010, which represents revenues of HNH for the period from May 7, 2010 through December 31, 2010. There was no revenue for this segment for the years ended December 31, 2009 and 2008.

HNH

As noted above, 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 all periods indicated. 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 nine months ended September 30, 2011 and 2010 and the fiscal years ended December 31, 2010 and 2009 have been prepared as if the acquisition of the controlling interest in HNH had occurred on January 1, 2009. 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 years ended December 31, 2010 and 2009 have been derived from the financial statements of HNH which are included as exhibit 99.1 in this Form 10. The unaudited pro forma condensed combined statements of operations of HNH for the nine months ended September 30, 2011 and 2010 have been derived from the financial statements of HNH which are also included in exhibit 99.1 in this Form 10. The pro forma adjustments are described below.

	Nine Months Ended September 30,		Year Ended December 31,	
	2011	2010	2010	2009
	(Historical)	(Pro Forma)	(Pro Forma)	(Pro Forma)
Sales	$ 518,770	$ 433,985	$ 568,212	$ 460,702
Cost of sales	385,705	318,867	417,383	353,741
Gross profit	133,065	115,118	150,829	106,961
Selling, general and administrative expenses	86,272	77,520	106,710	96,062
Restructuring and impairment charges	460	-	507	3,378
Interest expense, Net	8,260	9,985	13,808	14,881
Derivative activity loss	633	2,208	5,983	777
Other (income) expense, net	1,632	274	(1,068)	(4,013)
Net income from continuing operations before income taxes	$ 35,808	$ 25,131	$ 24,889	$ (4,124)

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 each of the years ended December 31, 2010 and 2009, SPH reflected pro forma additional depreciation and amortization expense amounts of approximately $680. In addition, asset impairment charges recorded by HNH of $1,643 and $1,860 in 2010 and 2009, respectively, were not required on the SPH basis due to a lower SPH value for certain specified assets.

2. Inventory was increased to its fair value which resulted in an additional charge to cost of sales in 2009 of $7,395.

3. Amortizable intangible assets were recognized at fair value that resulted in additional amortization expense of $5,159 and $5,170 in 2010 and 2009, respectively.

4. Pension expense recorded by HNH was reduced by SPH due to the application of purchase accounting. As a result, the pro forma pension expense (income) reflected in the above table is $(3,430) for the nine months ended September 30, 2010 and $(4,573) and $859 for the years ended December 31, 2010 and 2009, respectively, which is included in selling, general and administrative expenses.

5. Interest expense recorded by HNH of $12,502 and $10,860 in 2010 and 2009 relating to debt payable to two series of the SPII Liquidating Trust was eliminated.

Comparison of the Nine Months Ended September 30, 2011 and 2010

Net sales for the nine months ended September 30, 2011 increased by $84,875, or 19.5%, to $518,770, as compared to $433,985 for the nine months ended September 30, 2010. The higher sales during the nine months of 2011 were driven by both higher demand for HNH's products, and the impact of higher silver prices, which accounted for approximately $42,000 of the increase in sales for the nine months ended September 30, 2011. The average market price of silver increased by approximately $18.00 per troy ounce during the first nine months of 2011, as compared to the same period of 2010. 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 nine months ended September 30, 2011 increased to $133,065, as compared to $115,118 for the same period of 2010. Gross profit margin for the nine months ended September 30, 2011 was 0.9% lower compared to the same period of 2010. The lower gross margin was primarily due to higher silver costs from HNH's Precious Metal segment. Since the cost of silver is passed-through to the customer principally at cost plus a value-added services fee, higher silver prices generally result in a moderation or, at times, a reduction in the segment's gross profit margin.

SG&A expenses were $8,752 higher for the nine months ended September 30, 2011 compared to the same period of 2010, reflecting higher variable costs and non-cash restricted stock expense of approximately $2,400 during the first nine months of 2011. SG&A as a percentage of net sales was 1.2% lower for the nine months ended September 30, 2011 as compared to the same period of 2010.

Realized and unrealized loss on derivatives totaled $633 for the nine months ended September 30, 2011, compared to a loss of $2,208 in the same period of 2010. Of such amount in 2011, a $1,254 realized loss was attributable to precious metal contracts and a $621 gain was attributable to embedded derivative features of HNH's Subordinated Notes and warrants. The $2,208 loss in 2010 was all attributable to precious metal contracts. The lower loss on precious metal contracts was primarily the result of fewer ounces of precious metals under derivative contracts during the nine months of 2010 as compared to the same period of 2011.

Interest expense was $8,260 for the nine months ended September 30, 2011, compared to $9,985 for the nine months ended September 30, 2010. The decrease of $1,725 was primarily due to lower interest rates as a result of HNH's debt refinancing during the fourth quarter of 2010.

Comparison of the Twelve Months ended December 31, 2010 and 2009

Net sales for the twelve months ended December 31, 2010 increased by $107,510, or 23.3%, to $568,212, as compared to $460,702 for the twelve months ended December 31, 2009. The higher sales volume across all segments was primarily driven by higher demand resulting from the improvement in the world-wide economy and strengthening in the markets served by HNH that began in the fourth quarter of 2009. Precious metal product sales rose in 2010 compared to 2009 due to more volume to the commercial construction and electrical markets, as well as the impact of a 37.0% increase in the average market price of silver in 2010 ($20.16 per troy oz.) as compared to 2009 ($14.72 per troy oz). In addition, incremental sales were also driven by higher volume of commercial roofing and branded fasteners, electro-galvanized rolled sheet steel, electrical and gas connector products, higher tubing sales to refrigeration, automotive, and HVAC markets along with strong sales from petrochemical and precision material markets. In addition, there were increased sales of flex heater and coil insulation products for the general industrial market as a result of the economic rebound and increased sales of printed circuit board materials related to the telecommunications infrastructure in China.

Gross profit for the twelve months ended December 31, 2010 increased to $150,829 as compared to $106,961 for the same period of 2009. The 2009 period reflects a one-time charge of $7,395 to cost of sales related to the initial purchase accounting for HNH upon SPH acquiring a controlling interest. Gross profit margin for the twelve months ended December 31, 2010 improved to 26.5% as compared to 23.2% during the same period of 2009 (25.0% in 2009 excluding the one-time adjustment), with improvement in all segments. Greater absorption of fixed manufacturing costs due to a higher volume of production, more profitable product mix, and greater manufacturing efficiencies were the primary drivers that contributed to improved gross profit margin.

SG&A expenses were $10,648 higher for the twelve months ended December 31, 2010 compared to the same period of 2009, reflecting higher variable costs plus the reinstatement of certain employee compensation costs. The 2009 period reflected the suspension of these programs as well as a reduction in accruals related to incentive pay. These higher expenses were partially offset by a non-cash pension credit of ($4,573) for the twelve months ended December 31, 2010, as compared to $859 of non-cash pension expense for the same period of 2009. The reduction in non-cash pension expense in 2010 as compared to 2009 primarily represented interest on pension assets in excess of the interest on the pension liability in 2010. SG&A as a percentage of net sales was 18.8% for the twelve months ended December 31, 2010 as compared to 20.9% for the same period of 2009.

Interest expense was $13,808 for the twelve months ended December 31, 2010, compared to $14,881 in the same period of 2009. The decrease was primarily due to lower interest rates during the fourth quarter of 2010 as a result of HNH's debt refinancing.

Realized and unrealized losses on derivatives were $5,983 for the twelve months ended December 31, 2010 compared to $777 in the same period of 2009. The higher loss was primarily driven by much higher silver prices during 2010 as compared to the same period of the prior year. The derivative financial instruments utilized by H&H are precious metal forward and future contracts which are used to economically hedge H&H's precious metal inventory against price fluctuations.

For the twelve months ended December 31, 2010, HNH recorded a gain of $1,292 from insurance proceeds related to a loss from a fire that occurred at its Indiana Tube Mexico location. In 2009, HNH recorded income totaling $4,035 from the settlement of insurance claims. In one matter, H&H reached a settlement agreement with an insurer for reimbursement of $3,000 in connection with five sites where H&H and/or its subsidiaries had incurred environmental remediation expenses. In another matter, H&H accrued a settlement reached with an insurance company related to an environmental site, and in January 2010, H&H received $1,035 as the final settlement.

BNS

BNS operations for 2011 are reported in the Diversified Industrial segment. BNS operations include the results of its wholly owned subsidiary, Sun Well, from its February 2, 2011 acquisition date. Sun Well's revenue and net income included in the condensed consolidated statement of operations for the three and nine months ended September 30, 2011 are $9,928 and $2,765 and $23,298 and $5,676, respectively. Revenue for the nine months ended September 30, 2011 has grown by over 36% as compared to the nine months ended September 30, 2010. The revenue increase is due to an increase in the average number of rigs in operation (17 in 2011 and 14 in 2010) as well as an increase in revenue per rig hour. Total operating costs and expenses for the period from February 2, 2011 through September 30, 2011 were $18,468. Costs and expenses increased in the period ended September 30, 2011 as compared to the prior year period as Sun Well added additional rigs and employees to support the increase in customer demand.

DGT

As noted above, we consolidated DGT effective July 5, 2011, the date that our interest in DGT exceeded 50%. In addition, on November 3, 2011 DGT sold its Medical Systems Group, which comprised approximately 84% of DGT's net sales of $67,921 for its fiscal year ended July 30, 2011. As a result, the operations of Villa are reflected as discontinued operations in our consolidated financial statements for the period from July 5, 2011. Revenues for DGT's continuing operations, its Power Conversion Group, totaled $10,783 for the same period. Operating income reported by DGT for its Medical Systems and Power conversion groups for its fiscal year ended July 30, 2011 were $4,130 and $116, respectively.

Associated Companies

Income (loss) of associated companies included in the Diversified Industrial segment net income (loss) from continuing operations includes the following:

	Ownership at September 30, 2011	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Year Ended 2010	July 16, 2009 to December 31, 2009
HNH (a)	55.5%	$ —	$ 8,670	$ 8,670	$ (1,161)
DGT (b)	51.1%	213	782	886	(745)
JPS	39.3%	—	1,035	1,228	(754)
API	34.2%	11,022	3,581	2,615	146
SLI	20.4%	(594)	4,942	7,779	373
		$ 10,641	$ 19,010	$ 21,178	$ (2,141)

(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.

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. In 2009 we purchased certain investments from SPII, acquired additional investments on July 15, 2009 in connection with the Acquisition, and we purchased additional shares in the open market. We classify these investments as investments in associated companies, account for them using the equity method, report our share of their net income/loss in our consolidated statement of operations, report our share of their comprehensive income/loss in our consolidated statements of changes in capital and comprehensive income (loss) from the dates we reach 20% ownership. Through May 7, 2010, our investment in HNH is accounted for under the equity method at fair value. Unrealized gain/loss on HNH is reported in the consolidated statement of operations.

In the consolidated statements of operations, we recognize the income of associated companies only from the date the investment qualifies for equity method accounting where the fair value option has not been elected. Investment purchases in our associated companies were made from July 14, 2009 through December 31, 2009 resulting in increasing ownership interests throughout the period. As a result, amounts in our consolidated statement of operations represent less than a full year of operating results for our equity-method investees where the fair value option has not been elected, and may have been included based on a lower percentage interest than that held at December 31, 2009.

Financial information for JPS for 2011 has not yet been published. The last available financial information for JPS was for their fiscal year ending October 31, 2010 and JPS has not yet released any publicly available financial results since then. Accordingly, no income or loss has been included in the Company’s statement of operations in 2011. Because of the lack of available interim financial statements for JPS we considered the possibility of impairment and whether any adjustment was needed based on the current year operating results. As of September 30, 2011, the carrying value of the Company’s investment in JPS was $8,367 and the aggregate market value of the Company’s interest in JPS, based on trades in JPS shares on the OTC (JPST.PK), was $26,140. For the fiscal year ended October 30, 2010, JPS reported net income of $3,180 on sales of $186,712 compared with net income of $553, on sales of $191,327 for the same period in fiscal 2009. JPS reported that the revenue line decline was driven by timing of military contract awards rather than a softening in market demands and that both JPS’s Stevens® Urethane and JPS Composite Materials business units delivered equally strong performances and improved consistently over the course of 2010. The increase in net income was primarily a result of an increase in JPS’s gross profit margin to 16.7% in fiscal 2010 as compared to 13.1% in fiscal 2009. Based on the foregoing, we concluded that there was no impairment and that any adjustment based on our ownership interest would be immaterial to the Company’s financial statements. Management will continue to monitor its investment for any indication of future impairment.

Financial Services

For comparability purposes, in the following discussion, the revenue and costs and expenses for the periods from January 1, 2009 to July 15, 2009 and from July 16, 2009 to December 31, 2009 are combined. We believe this presentation is more meaningful for management’s discussion because the Financial Services segment is presented on an operating company basis for all periods, including all of 2009 and the segment existed prior to, and its basis of accounting was not changed, as a result of the Exchange Transaction. Accordingly, we believe that combining the two periods reported for 2009 for management’s discussion allows comparability to all prior periods presented.

The following presents a summary of the Financial Services segment:

	Nine Months Ended September 30,		Year Ended December 31,		
	2011	2010	2010	2009	2008
Revenue:					
Interest income (including fees)	$ 7,110	$ 5,142	$ 8,055	$ 3,177	$ 3,453
Non-interest income	3,089	2,011	2,748	2,146	3,080
	10,199	7,153	10,803	5,323	6,533
Costs and expenses:					
Interest	648	578	796	472	1,083
Provision for (recovery of) loan losses	192	(325)	(420)	6,645	2,908
Selling, general and administrative	4,927	4,389	6,046	6,395	5,112
	5,767	4,642	6,422	13,512	9,103
Net (loss) income from continuing operations before taxes	$ 4,432	$ 2,511	$ 4,381	$ (8,189)	$ (2,570)

Interest Income

Interest income increased by $2,007, or 39.0%, in the nine months ended September 30, 2011 due primarily to a new lending program. The program began in the third quarter of 2010.

Interest income increased by $4,878, or 153.5%, in 2010 compared to 2009, due primarily to two new lending programs. One program began in the 4th quarter of 2009 and the other program began in the 3rd quarter of 2010. The entire loan portfolio (gross) decreased $5,550, or 16%, primarily due to the sale of $2,729 of nonperforming loans sold to a subsidiary of SPH and $1,541 in charge offs during 2010.

Interest income decreased by $276, or 8.0%, in 2009 compared to 2008, due primarily to an increase in nonaccrual loans and charge offs which reduced the net loan portfolio by 7.4% at December 31, 2009 compared to the prior year-end. Loan balances were relatively flat in 2009 as loan growth was offset by principal payment, charge offs, and reserves.

Noninterest Income

Noninterest income increased $1,039, or 51.7%, in the nine months ended September 30, 2011 compared to 2010 due primarily to increased fee income on existing lending programs and one new lending program.

Noninterest income increased $602, or 28.0%, in 2010 compared to 2009 primarily due to increased fee income from lending programs.

Noninterest income declined $934, or 30.3%, in 2009 compared to 2008 primarily due to gains on loan sales recorded in 2008. At the end of 2008, WebBank curtailed loan growth under the U.S. Small Business Administration program resulting in fewer loans sold in 2009 compared to 2008.

Interest Expense

Interest expense represents interest accrued on WebBank depositor accounts.

Interest expense increased $70, or 12.1%, in the nine months ended September 30, 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 $32,551, or 52.7%, from December 31, 2010 to September 30, 2011. The increase in deposits occurred late in the third quarter in order to fund the increased liquidity needs of an existing lending program.

Interest expense increased $324, or 68.6%, in 2010 largely due to growth in average deposits partially offset by a decrease in average interest rates on certificates of deposit from 1.7% to 1.5%. Deposits increased $11,578, or 23.1%, in 2010 in order to fund the growth in assets. Interest expense decreased $611, or 56.4%, in 2009 largely due to a decline in average interest rates. The decline in interest rates is mostly due to the decline in overall interest rates, but is also due in part to shorter maturities in 2009, which carry lower rates. Average maturities on certificates of deposit were 3 months at December 31, 2008. By year end December 31, 2009 WebBank increased the average maturity to 22 months.

Provision for Loan Losses

Towards the end of 2008 and during 2009, WebBank made changes to its management team, suspended new loan activity in commercial real estate and addressed problem loans in its portfolio. Although WebBank started to increase its provision for nonperforming loans in the fourth quarter of 2008, it was necessary to continue to make substantial provisions for loan losses throughout 2009 due to the deteriorating economy.

At December 31, 2009, WebBank had an estimated $5,406 of impaired loans and an allowance for loan losses of $2,193. At December 31, 2010, WebBank had an estimated $2,627 of impaired loans and an allowance for loan losses of $1,541. The decrease in impaired loans of $2,779 from 2009 to 2010 was primarily related to the sale of nonperforming loans at the end of 2010 to a subsidiary of SPH. At September 30, 2011 WebBank had an estimated $3,606 of impaired loans and an allowance for loan losses of $947.

The 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. The full impact of the negative effects of the recession resulted in the significant increase in the provision for loan losses in 2009. WebBank recorded a provision for loan losses of $6,645 for the year ended December 31, 2009. During 2010, WebBank was able to recover previously charged off loans and workout or sell nonperforming loans resulting in a reduction of provision for loan losses of $420. WebBank recorded a provision for loan losses of $192 for the nine months ended September 30, 2011 for loans that were downgraded due to credit quality.

Selling General and Administrative Expenses

The increase in selling, general and administrative expenses of $538 for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 was due primarily to the higher expense in 2011 related to the reserve for off balance sheet credit exposures.

The decrease in 2010 selling, general and administrative expenses of $348, or 5.4% was due to additional provisions to the reserve for off-balance sheet credit exposures of $775 as compared to $1,250 in 2009 partially offset by increased professional fees and other miscellaneous costs.

The increase in 2009 selling, general and administrative expenses of $1,250 was due primarily to the establishment of a $1,250 reserve for off-balance sheet credit exposures and a provision of $533 to write down the value of foreclosed real estate assets, offset by a decrease in legal expenses.

Investment Operations

The Investment Operations segment consisted of the operations of SPII, an entity of the SPII Fund acquired by SPH in the Exchange Transaction described in Note 23 – "Exchange Transaction" in the consolidated financial statements for the year ended December 31, 2010. The SPII operations are presented as the Investment Operations segment in the consolidated financial statements on an investment company basis for accounting and financial reporting purposes until July 15, 2009. From July 16, 2009, the Investment Operations segment ceased upon the completion of the Exchange Transaction when SPII's net assets were acquired by and became part of SPH's business and such assets were no longer managed as an investment fund. Under investment company accounting policies, the Investment Operations segment recognized unrealized appreciation or depreciation of investments in net income whereas under SPH's accounting policies as an operating company, unrealized appreciation or depreciation of available-for-sale investments is reported in other comprehensive income as part of SPH capital. Under investment company accounting the Investment Operations segment did not consolidate investments in which it owned more than 50% and did not apply the equity method of accounting to investments that it owned between 20% and 50%.

The purpose of the Investment Operations segment until July 15, 2009 was to serve as the investment vehicle for the SPII Fund until July 15, 2009 before the completion of the Exchange Transaction. The SPII Fund had the objective of achieving capital appreciation by primarily investing in undervalued companies which it had the potential to exert a level of influence or control. It generally held its holdings for many years. The investment operations segment employed an active/value relationship strategy of investing in its companies and it worked constructively/cooperatively with management and boards to improve the businesses, through operational excellence programs to achieve higher returns on invested capital. When necessary to effect change at its companies to unlock value, SPII sought board representation and senior management roles.

SPII held a concentrated number of investments which often required a period of time for the value to be unlocked. Performance in any period was driven by the composition of SPII's investments in any such period, which varied from period to period. The concentrated nature of SPII's holdings and the timing of events with respect to particular companies often resulted in SPII's performance in a period, which was based upon the change in the fair value of its holdings for financial reporting purposes, to be inconsistent from period to period, rather than when considered over the longer term horizon over which SPII generally owned its companies. Investment Operations' past performance is not necessarily indicative of future results of SPH after its acquisition of SPII's assets.

Effective as of July 15, 2009, the SPII Fund redeemed from SPH cash and securities held by SPII in order for SPII Fund to redeem its investors in full and establish reserves for certain SPII Fund entities pursuant to the Exchange Transaction and the SPII Fund Plan, leaving in SPII the cash and other assets related to SPII Fund investors that elected to exchange their pro rata share of such assets for our common units. See "Asset Acquisition and Unit Issuance – Exchange Transaction" above.

The following presents a summary of the Investment Operations segment performance:

	January 1, 2009 to July 15, 2009	**2008**
Investment income	$ 12,014	$ 46,325
Investment expenses	2,383	31,065
Investment income, net	9,631	15,260
Net realized and unrealized loss on investment transactions	(63,695)	(783,072)
Net loss attributable to redeemable partners' capital	$ (54,064)	$ (767,812)

Discussion of the Investment Operations Segment's Performance (through July 15, 2009)

The following presents a summary of the operations for the period from January 1, 2009 to July 15, 2009 and for the year ended December 31, 2008; and a general discussion of the Investment Operations segment performance during those periods.

	January 1, 2009 to July 15, 2009	2008
Partners' Capital (a)	$ 466,000	$ 1,270,464
Period return (b)	-7.74%	-39.36%
Inception to date Return (b) (c)	11.51%	12.53%

(a) For SPII.
(b) As a result of a SPII Fund restructuring in 2007, the management and administration fees and incentive allocations to the SPII's general partner ("SPII General Partner") that were paid by SPII prior to 2007 were thereafter paid by other SPII Fund entities. The net return is for a limited partner that was admitted to SPII Onshore for the entire period in order to compare the results of Investment Operations for the period, along with the impact on such results of the management and administration fees paid by SPII Fund investors, with the inception to date return results.
(c) Represents the annualized return net of all management and administrative fees paid to affiliates of the Manager and incentive allocations to the SPII General Partner by SPII and SPII Onshore, as the case may be, from October 1993, the "Inception Date", through the stated period.

January 1, 2009 to July 15, 2009 Performance

Investment Operations had a net negative return of 7.74% for the period January 1, 2009 to July 15, 2009, representing a net loss of $54.1 million for the period.[2] The year began where 2008 left off with declining equity markets and debt markets that had virtually closed. This created many challenges for SPII's companies as they struggled to refinance debt, negotiate debt covenants and raise additional equity. The effect on Investment Operations was a net negative return of 16.5% through March 2009,[3] while gaining during the remainder of the period to end with a net negative return of 7.74%.[4] Conseco Inc. ("Conseco"), GenCorp, Unisys Corporation ("Unisys") and HNH, holdings of Investment Operations, came under extreme pressure during the period. The six months following the collapse of Lehman Brothers represented the worst performance over any six month period since SPII's inception in October 1993.

While Conseco reported net income before net realized investment losses, taxes and discontinued operations of $49 million for its fourth quarter ending December 31, 2008 versus $27 million in the year-earlier quarter, it also announced that its auditor sought more information about its investment portfolio, liquidity and debt covenants. As a result, the company's share price declined by approximately 95% from the beginning of the year through mid-March, and the company was forced to negotiate an amendment to its existing covenant agreements. These actions were received positively and the company's share price recovered between March and July 15, 2009, up approximately six-fold from its March 2009 lows and ultimately Conseco's market value declined by approximately 55% for the period.

HNH responded to declining sales and revenue by aggressively implementing significant cost containment and reduction actions across all of the company's businesses, as well as the corporate headquarters. These initiatives significantly contributed to HNH achieving positive adjusted EBITDA (a non-GAAP measure) of $18.4 million for the first six months of 2009, as compared to $27.0 million for the same period in 2008, despite sales declines of up to 30% in many of its underlying businesses. HNH's share price declined by approximately 65% during this period.

[2] As a result of a SPII Fund restructuring in 2007, the management and administration fees and incentive allocations to the SPII General Partner that were paid by SPII prior to 2007 were thereafter paid by other SPII Fund entities. The net return is for a limited partner that was admitted to SPII Onshore for the entire period in order to compare the results of Investment Operations for the period, along with the impact on such results of the management and administration fees paid by SPII Fund investors, with the inception to date return results.

[3] For SPII Onshore.

[4] For SPII Onshore.

With a turnaround in most asset classes following their March 2009 lows, several SPII companies re-entered the debt and equity markets in an effort to improve their balance sheets. SPII worked closely with HNH and GenCorp on strategies to refinance their debt. During the period, Unisys announced an exchange offer for its senior bondholders that, if accepted, would improve its liquidity by extending the maturity of the majority of its debt beyond 2013. The proposed exchange offer was greeted as positive news by shareholders and, along with continued cost cutting by management and new contracts, the company's stock appreciated approximately 100% for the period.

<u>2008 Performance</u>

Investment Operations had a net negative return of 39.36% in 2008, representing a net loss of $767.8 million for 2008.[5] The year's performance can be divided into two distinct periods. During the first eight months of 2008 and prior to the collapse of Lehman Brothers, Investment Operations had outperformed the broader market indices losing approximately 5% during that period.[6] During this same period, two SPII companies were sold. In August 2008, Angelica Corporation was sold to a private equity fund managed by Lehman Brothers and IKON Office Solutions was sold to Ricoh Company, Ltd., based in Japan, after the Manager actively engaged with both of these companies to maximize value for shareholders.

Additionally, SPII launched multiple proxy contests during the first few months of 2008 in order to enhance its level of control and influence over certain companies. SPII nominated directors at five of its companies including EnPro Industries, Inc. ("EnPro"), GenCorp, Point Blank Solutions Inc. ("PBSO"), and Rowan Companies, Inc ("Rowan"). SPII reached settlement agreements with EnPro, GenCorp, and Rowan where each of these companies appointed to their board of directors individuals affiliated with or nominated by the Manager. SPII successfully contested PBSO board of directors proposed slate resulting in individuals associated with or nominated by Manager being elected to its board. In addition, SPII requested but did not receive two board seats at Conseco.

In the approximate four months that followed the Lehman Brothers bankruptcy filing in September 2008 and the extraordinary financial conditions and government interventions that ensued, Investment Operations lost approximately 36%[7] of its value. Entering September 2008, SPII was modestly levered, which leverage was reduced to zero by the beginning of the fourth quarter of 2008. Throughout 2008, SPII sought to hedge out systemic market risk through the use of broad market shorts. The sporadic and specific use of market shorts was believed to be a prudent decision in light of the increased risk. During the depth of the financial crisis, equity share prices declined sharply and capital markets dried up. This made renegotiating or refinancing existing debt very difficult. Given the extremely challenging economic climate, many of SPII's companies took decisive action to control costs, pay down debt and reduce their workforce. Several of the industrial companies such as DGT, JPS, SL Industries, and HNH moved to improve their balance sheets and eliminate inefficiencies in the face of a dramatic decline in sales and revenue. Despite the success of these efforts, the share prices for these four companies declined approximately 69%, 24%, 56% and 56%, respectively for the period. Certain other equity investments such as Conseco, Unisys, and GenCorp came under pressure and suffered significant share price declines of approximately 59%, 82% and 68%, respectively in 2008.

Despite the extremely challenging macro environment, the equity of a few of SPII's companies including Steel Excel, KT&G Corp. ("KT&G") and Earthlink Inc. performed well relative to the overall market indices. These companies focused on their core businesses, generated significant free cash flow from operations, and held little or no debt on their balance sheets.

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[5] As a result of a SPII Fund restructuring in 2007, the management and administration fees and incentive allocations to the SPII General Partner that were paid by SPII prior to 2007 were thereafter paid by other SPII Fund entities. The net return is for a limited partner that was admitted to SPII Onshore for the entire period in order to compare the results of Investment Operations for the period, along with the impact on such results of the management and administration fees paid by SPII Fund investors, with the inception to date return results.

[6] For SPII Onshore.

[7] For SPII Onshore.

Comparison of Selected Financial Information for the Investment Operations Segment

Investment Income

Investment income consisting primarily of interest and dividend income, for the period from January 1, 2009 to July 15, 2009 and the year ended December 31, 2008 was $12,014 and $46,325, respectively. Investment income fluctuated depending upon the number and composition of securities held and the composition of securities sold, not yet purchased during the periods and, interest rates prevailing and dividends declared during the periods. The decline in 2009 compared to 2008 is also a result of the inclusion of only six and a half months of investment income in 2009 compared to a full year in 2008.

Interest income included in investment income for the period from January 1, 2009 to July 15, 2009 and the year ended December 31, 2008 was $8,051 and $28,510, respectively. Other than the inclusion of only six and half months of interest income in 2009 compared to 2008, the primary contributors to the decline in interest income in the period ending July 15, 2009 compared to 2008 was the repayment and reduction in the prime rate base rate for debt securities held by Investment Operations, together with a reduction in the number of securities sold, not yet purchased for which Investment Operations earned a rebate.

Dividend income for the period from January 1, 2009 to July 15, 2009 and the year ended December 31, 2008 was $3,963 and $17,586, respectively. Other than the inclusion of only six and half months of dividend income in 2009 compared to 2008, the dividend for a major holding is usually announced and recorded at the end of each year and is included in 2008 but not in the six and a half months 2009 period.

Investment Expense

Interest expense represents interest on margin account borrowings incurred for the purchase of securities and charges on certain securities sold, not yet purchased. Interest expense for the period from January 1, 2009 to July 15, 2009 and the year ended December 31, 2008 was $710 and $22,726, respectively. The decrease in interest expense was due to reduced borrowings as certain holdings were sold and the proceeds were used to pay down borrowings together with a reduction in the number of securities sold, not yet purchased for which investment Operations was charged a fee.

Dividends represent dividends due on securities sold not yet purchased. Dividends were $782 in 2009 compared with $4,942 in 2008. The decline in dividends resulted from a reduction of securities sold short.

Professional fees include expenses for administrators, legal, accounting, audit, tax and other consulting fees. Professional fees for the six and a half months ended July 15, 2009 were $891 compared with $3,397 for the year ended December 31, 2008. The decline in professional fees in 2009 was from the inclusion of only six and a half months of professional fees in 2009 compared to a full year in 2008.

Corporate

For comparability purposes, revenue and costs and expenses for the periods from January 1, 2009 to July 15, 2009 and from July 16, 2009 to December 31, 2009 are combined.

The following presents a summary of the Corporate segment:

	Nine Months Ended September 30,		Year Ended December 31,		
	2011	2010	2010	2009	2008
Revenue:					
Investment and other (loss) income	$ (1,251)	$ 3,210	$ 4,007	$ 1,781	$ 12,891
Net investment (losses) gains	(8,455)	27,860	24,050	9,545	4,021
	(9,706)	31,070	28,057	11,326	16,912
Costs and expenses:					
Interest	567	864	1,163	1,097	6
Selling, general and administrative	6,759	9,749	12,933	4,181	2,846
Management fees - related party	6,357	5,507	7,531	3,705	—
(Decrease) Increase in deferred fee liability to related party	(6,708)	2,636	6,268	6,992	—
Other income (a)	(8,978)	—	—	—	—
	(2,003)	18,756	27,895	15,975	2,852
(Loss) income from continuing operations before income (loss) from associated companies	(7,703)	12,314	162	(4,649)	14,060
(Loss) income of associated companies	(10,555)	(10,052)	(10,873)	9,411	10
Loss from other investment - related party	(11,855)	(5,007)	(3,220)	(2,960)	—
Net (loss) income from continuing operations	$ (30,113)	$ (2,745)	$ (13,931)	$ 1,802	$ 14,070

(a) Represents bargain purchase gain related to the acquisition of DGT (see Note 2 - "Acquisitions" to the financial statements of SPH for the three and nine months ended September 30, 2011 and 2010 included elsewhere in this Form 10 for additional information).

Corporate consists of BNS (through February 2, 2011, the date BNS acquired SWH) , as well as associated companies Steel Excel and CoSine, which are currently in the business of seeking to acquire one or more business operations, investments in securities, the SPII Liquidating Trust and cash and cash equivalents. We account for Cosine under the equity method of accounting, and have elected the fair value option to account for our investment in Steel Excel and the SPII Liquidating Trust. Corporate revenues primarily consist of investment and other income and investment gains and losses. Corporate assets, revenues and overhead expenses are not allocated to the segments. Corporate includes certain assets and the financial results for the period from July 16, 2009 to December 31, 2009 resulting from the Acquisition of SPII's assets effective July 15, 2009. 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". For comparability purposes, the revenue and costs and expenses for the periods from January 1, 2009 to July 15, 2009 and from July 16, 2009 to December 31, 2009 are combined. We believe this presentation is more meaningful for management's discussion because corporate is presented on an operating company basis for all periods including all of 2009.

Revenue

Investment and other (loss) income was ($1,251) for the first nine months of 2011 compared to $3,210 in the same period last year. The loss 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 (losses) gain for the first nine months of 2011 was ($8,455) compared to $27,860 in the same period last year. The net loss in the first nine months of 2011 was 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 2 to the financial statements of SPH for the three and nine months ended September 30, 2011 included elsewhere in this Form 10 for further information. The net gain in the nine months of 2010 was due to realized gains on the sales of certain equity and other investments.

Revenue for 2010 was $28,057 and revenue for 2009 was $11,326, of which $11,427 was generated during the period July 16, 2009 through December 31, 2009 from the investments acquired as part of the Acquisition. Revenue generated by SPH's corporate activities for the year ended December 31, 2008 was $16,912. 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 for 2009 consisted of interest and dividend income earned on certain assets acquired as part of the Acquisition from July 16, 2009 through December 31, 2009. Our investments were $200,015 at December 31, 2009 and included corporate bonds and other debt instruments and preferred shares which provided $1,781 in interest and dividend income in 2009. Net investment gains of $9,545 for 2009 were realized on available-for-sale securities acquired as part of the Acquisition. The gains were due primarily to net gains on sale of certain debt and equity available-for-sale securities, net of losses from short sales. Total proceeds from sales in 2009, including short sales, were $333,270.

Investment and other income in 2008 primarily resulted from $12,665 of interest income on a $9,458 investment in defaulted senior notes of Reunion Industries, Inc. ("Reunion"). The notes and accrued interest were repaid in cash in a negotiated settlement in July and August 2008. The Company also realized a gain of $5,983 on the sale of 762,500 shares of Reunion common stock in connection with the settlement. Such gain, net of a $1,962 write-down of another unrelated investment, is reported as net securities gains and losses for 2008.

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

Selling, general and administrative expenses ("SG&A") consist primarily of legal, accounting, audit, tax, professional fees and common unit option expense. SG&A expenses decreased from $9,749 in the first nine months of 2010 to $6,759 in the first nine months of 2011 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 – "Common Unit Option Liability" to the financial statements of SPH for the three and nine months ended September 30, 2011 and 2010 included elsewhere in this Form 10 for further information). These factors were partially offset by higher professional and consulting costs in the first nine months of 2011 compared to the same period in 2010.

SG&A expenses increased from $4,181 in 2009 to $12,933 in 2010 primarily due to higher general corporate expenses of approximately $2,000 and higher legal, audit and professional fees of approximately $5,400 related to the Company's transition to a more complex and diversified operating company which included the acquisition of HNH, the sale of Collins, increasing ownership positions in associated companies and the sale of non-strategic investments. Also, the higher professional fees reflect a full year in 2010 in connection with the Exchange Transaction during 2009. SG&A increased from $2,844 in 2008 to $4,181 in 2009 due primarily to SPH being a larger company as a result of the Exchange Transaction and becoming a global diversified holding company after July 15, 2009 and the related activity and associated costs.

Management Fees to Related Party

Under a management agreement with the Manager effective January 1, 2009 and amended July 15, 2009, SPH pays a monthly management fee based on 1.5% per annum of the net asset value of the Company's common units. When the common units are listed on a national securities exchange, the management fee will be based on the market capitalization of SPH. Effective January 1, 2012, SPH will pay 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. See Note 26 and Note 21 – "Related Party Transactions" in the 2010 audited consolidated financial statements and the financial statements of SPH for the three and nine months ended September 30, 2011 and 2010, respectively. No management fees were payable under the management agreement prior to July 15, 2009.

Management fees – related party increased from $5,507 in the first nine months of 2010 to $6,357 in the first nine months of 2011 due to changes in net asset value of the Company's common units. Management fees – related party increased from $3,705 in 2009 to $7,531 in 2010 primarily due to a full year of fees reflected in 2010 under the July 15, 2009 amended management agreement discussed above. Management fees – related party in 2009 became payable to the Manager after the Acquisition and were based on net asset value calculations for the period from July 16, 2009 to December 31, 2009.

(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 WGL Capital Corp. ("WGL"), an affiliate of the Manager ("Deferred Fee Liability"). The decrease in the deferred fee liability to related party of $(6,708) recorded in the first nine months of 2011 was due to a decrease in an index related to the value of SPH, partially offset by an increase in the number of units outstanding. The increase in the deferred fee liability to related party of $2,636 recorded in the first nine months of 2010 was due to an increase in the number of units outstanding, partially offset by a decrease in an index related to the value of SPH.

The increase in the deferred fee liability to related party of $6,268 recorded in 2010 was due to an increase in the number of units outstanding and an increase in an index related to the value of SPH.

The expense included in the consolidated statement of operations of $6,654 in 2009 is calculated in accordance with the terms of the deferred fee agreement. The 2009 expense represents an increase in the Deferred Fee Liability from $51,594 at July 16, 2009 to $58,586 at December 31, 2009 resulting from an increase in an index related to the value of SPH in effect during the period. See the discussion of the Deferred Fee Liability below.

Income (Loss) of Associated Companies

Income (loss) of associated companies included in the Corporate segment is as follows:

	Ownership at September 30, 2011	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010	Year Ended December 31, 2010	July 16, 2009 to December 31, 2009	January 1, 2009 to July 15, 2009	Year Ended December 31, 2008
Steel Excel	37.7%	$ (10,112)	$ (9,720)	$ (10,439)	$ 9,395	$ —	$ —
Cosine	47.3%	(385)	(342)	(440)	(127)	—	—
Other		(58)	10	6	80	63	10
		$ (10,555)	$ (10,052)	$ (10,873)	$ 9,348	$ 63	$ 10

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. In 2009, we purchased certain investments from SPII, acquired additional investments on July 15, 2009 in connection with the Acquisition, and we purchased additional shares in the open market. We classify these investments as investments in associated companies, account for them using the equity method, report our share of their net income/loss in our consolidated income statements, report our share of their comprehensive income/loss in our consolidated statements of changes in capital and comprehensive income (loss) from the dates we reach 20% ownership. Subsequent to December 31, 2009, the Company's ownership in Steel Excel exceeded 20% and the equity method is being applied on a retroactive basis from the initial acquisition of Steel Excel shares in connection with the Exchange Transaction on July 15, 2009. Our investment in Steel Excel is accounted for under the equity method at fair value. Unrealized gain/loss on Steel Excel is reported in the consolidated statement of operations and is included in the above segment results.

In the consolidated statements of operations, we recognize the income of associated companies only from the date the investment qualifies for equity method accounting (where the fair value option has not been elected). Investment purchases in our associated companies were made from July 14, 2009 through December 31, 2009 resulting in increasing ownership interests throughout the period. As a result, amounts in our consolidated statement of operations represent less than a full year of operating results for our equity-method investees where the fair value option has not been elected, and may have been included based on a lower percentage interest than that held at December 31, 2009. The discussions below are based on the fiscal year annual reported results of the associated companies.

Steel Excel sold substantially all of its operating businesses on June 8, 2010 and is currently seeking to acquire one or more businesses. This strategy may allow Steel Excel to realize future cash flow benefits from its net operating loss carryforwards ("NOLs"). At December 31, 2010, Steel Excel had NOLs of $239.5 million for federal and $254.1 million for state purposes that expire in various years beginning in 2019 for federal and 2011 for state purposes. No assurance can be given that Steel Excel will be able to utilize its existing NOLs. Steel Excel has historically provided innovative data center I/O solutions that protect, accelerate, optimize, and condition data in demanding data center environments. For the fiscal year ended March 31, 2010, Steel Excel incurred a net loss of $17,434 on net sales of $73,682, a 36% decline from the prior year. The net loss resulted from a decline in sales on lower volume and from restructuring costs. On December 9, 2011, Steel Excel issued a press release announcing that it had acquired the business and assets of Rogue Pressure Services, LLC. The purchase price for Rogue was approximately $29 million, which was paid in cash, with the sellers receiving the opportunity to earn additional consideration based upon Rogue's achievement of certain performance levels pursuant to an earn-out.

CoSine is a company currently seeking to acquire one or more new businesses. CoSine's results for the periods indicated above reflect administrative costs and costs incurred in seeking acquisitions. CoSine's strategic plan is 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 allow CoSine to realize future cash flow benefits from its NOLs. As of December 31, 2009, Cosine had federal NOLs of approximately $353.7 million, which will begin to expire in 2018 if not utilized and state NOLs of approximately $199 million, which will begin to expire in 2012 if not utilized. No assurance can be given that CoSine will be able to utilize its existing NOLs.

<u>Loss From Other Investments – Related Party</u>

Loss from other investments – related party includes income or loss we recognize on our 43.75% investment in each series of the SPII Liquidating Trust, as described in Note 8 – "Investments" of the consolidated financial statements. These investments were acquired and initially recorded as described in Note 5 "Acquisitions" in the consolidated financial statements in connection with the Exchange Transaction. See "Asset Acquisitions and Unit Issuance – Acquisition of Assets of SPII". 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. Unrealized gain/loss on each series of the SPII Liquidating Trust is reported in the consolidated statement of operations.

Income Taxes

As a limited partnership, for periods after December 31, 2008, 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 and partnership income not subject to taxation.

For the nine months ended September 30, 2011 and 2010, a tax benefit (provision) from continuing operations of $2,091 and $(1,627) was recorded, respectively. Included in the Company's tax benefit for the nine months ended September 30, 2011 is $(9,915) from the release of valuation allowances primarily relating to NOLs.

At December 31, 2010, HNH has U.S. federal NOLs of $187,000 ($65,400 tax-effected), as well as certain foreign and state NOLs. The U.S. federal NOLs expire between 2017 and 2029. In 2010, $7,877 of NOLs were utilized providing a tax benefit of $2,757.

At December 31, 2010, BNS has $24,395 of federal NOLs that are scheduled to expire from 2021 to 2027. In 2010, $18,025 of NOLs were utilized providing a tax benefit of $6,129.

At July 30, 2011, DGT has $52,161 of federal NOLs that expire at various times between July, 2020 and July, 2030.

At December 31, 2010, WebBank has $4,286 of NOLs that are scheduled to expire beginning in 2022. In 2010, $4,806 of NOLs were utilized providing a tax benefit of $1,634.

Other Comprehensive Income

The following presents a summary of other comprehensive income:

	Nine Months Ended September 30,		Year Ended December 31,	July 16, 2009 to December 31,	January 1, 2009 to July 15,	Year Ended December 31,
	2011	2010	2010	2009	2009	2008
Unrealized (loss) gain on available for sale investments	$ (15,975)	$ (39,797)	$ (37,436)	$ 57,989	$ 247	$ 7
Currency translation adjustment	99	(149)	658	1,194	—	—
Change in net pension and other benefit obligations	—	—	(8,802)	(5,809)	—	—
Other comprehensive (loss) income	$ (15,876)	$ (39,946)	$ (45,580)	$ 53,374	$ 247	$ 7

Other comprehensive income primarily represents the net unrealized gains and unrealized losses during the period on available-for-sale securities held at the end of each reporting period, adjusted for the reversal of unrealized gains and unrealized losses recognized in prior periods on available-for-sale securities sold during the period.

The majority of the Unrealized (loss) gain on available for sale securities for the nine months ended September 30, 2011 and 2010 was due to the reclassification of unrealized gains from other comprehensive income to income from continuing operations that were recognized on the sales of certain investments and the decline in value of certain other securities.

The decrease for the year ended December 31, 2010 was due to the reclassification of unrealized gains that were recognized on the sales of certain investments as well as the reclassification of certain investments from available-for-sale securities to associated companies in 2010. These decreases were partially offset by a net increase in the value of other investments. The increase in 2009 is primarily related to unrealized gains during the period July 16, 2009 to December 31, 2009 on available-for-sale securities acquired as part of the Acquisition, which as a result of an improvement in overall market conditions and company performance, resulted in an increase in the estimated fair value of our investments. In particular, GenCorp was a major contributor to this net increase in unrealized gains among our other core companies. The balance of the increase is driven by unrealized gains on available-for-sale securities that the Company holds pending redeployment of the capital for strategic purposes.

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. The Holding Company continuously evaluates the retention and disposition of its existing operations and investments and investigates possible acquisitions of new businesses in order to maximize unitholder value. Accordingly, further acquisitions, divestitures, investments and changes in capital structure are possible. 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 September 30, 2011. 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 September 30, 2011, the Holding Company had cash and cash equivalents of $7,420 and investments of $60,015. The Holding Company had $17,596 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's only long-term cash requirement is the payment of the Deferred Fee Liability which was valued at $58,145 as of September 30, 2011, and 1.9% of which is due in 2012, 8.5% of which is due in 2013, 19.6% of which is due in 2014, 12.4% of which is due in 2015 and 57.6% of which is due in 2016 through 2018. Assuming no increase or decrease in value of the Deferred Fee Liability as of September 30, 2011, $1,090 would be due in 2012, $4,927 would be due in 2013, $11,318 would be due in 2014, $7,173 would be due in 2015 and $33,324 would be due in 2016 through 2018, which would be payable in cash, unless WGL elects to have the amount paid through the issuance of common units. The Holding Company also provides a $4,000 line of credit to WebBank, which was undrawn as of September 30, 2011.

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, the payment of the Deferred Fee Liability, and new acquisition opportunities. It may also dispose of existing businesses and investments. At September 30, 2011, the Holding Company and its consolidated subsidiaries had, in the aggregate, cash and cash equivalents of $132,306 available for operations in the ordinary course of business and for the acquisition of interests in businesses. In addition, a portion of the Holding Company's investments at fair value, as may be determined from time to time not to be strategic, are also available to be sold and the proceeds of which may be used acquire interests in other businesses and finance operations in the ordinary course.

As of September 30, 2011, SPH's associated companies, without giving effect to SPH's ownership share of such companies, had, in the aggregate, $392,045 of cash and marketable securities (including $360,836 related to Steel Excel) available for operations in the ordinary course of business and potential acquisition of businesses. SPH does not have control of or access to this cash and marketable securities.

Discussion of Segment Liquidity and Capital Resources

Diversified Industrial

HNH

As of September 30, 2011, HNH's current assets totaled $183.0 million and its current liabilities totaled $143.8 million. Therefore, its working capital was $39.2 million, as compared to working capital of $15.3 million as of December 31, 2010.

On September 12, 2011, HNH's principal subsidiary, H&H Group, entered into an Amended and Restated Loan and Security Agreement (the "Ableco Refinancing") with Ableco, L.L.C., one of its existing lenders, to increase the size of the total term loan thereunder from $25.0 million to up to $75.0 million (the "Ableco Facility") and to amend certain covenants. The Ableco Facility now provides for three separate term loans ("Second Lien Term Loans") at a maximum value of $25.0 million per Second Lien Term Loan. The first and second Second Lien Term Loans bear interest at the U.S. base rate (the prime rate) plus 4.5% or LIBOR (or, if greater, 1.50%) plus 6.00%. The third Second Lien Term Loan bears interest at the U.S. base rate (the prime rate) plus 7.50% or LIBOR (or, if greater, 1.75%) plus 9.00%. In September, an additional $50.0 million was borrowed under the Ableco Facility, making the outstanding total of the Second Lien Term Loans $75.0 million. All amounts outstanding under the Ableco Facility are due and payable in full on July 1, 2013.

In connection with the Ableco Refinancing on September 12, 2011, H&H Group amended the Loan and Security Agreement (the "Wells Fargo Facility") dated October 15, 2010, as amended, by and between H&H Group, together with certain of its subsidiaries, and Wells Fargo Bank, National Association, as administrative agent for the lenders thereunder. The Wells Fargo Facility was amended to, among other things, permit the modification of the Ableco Facility, amend certain covenants and extend the maturity date of the Wells Fargo Facility to July 1, 2013.

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 14, 2013, the Subordinated Notes are not detachable from Warrants to purchase HNH's common stock, exercisable beginning October 14, 2013, that were issued with the Subordinated Notes as units. Accordingly, a pro rata portion of Warrants were also redeemed on October 14, 2011. After giving effect to the redemption on October 14, 2011, the principal amount of the outstanding Subordinated Notes was approximately $40.6 million."

For HNH, the parent company, sources of cash flow consist of its cash on-hand, distributions from its principal subsidiary, H&H Group, and other discrete transactions. H&H Group's credit facilities restrict H&H Group's ability to transfer any cash or other assets to HNH, subject to the following exceptions: (i) unsecured loans for required payments to the WHX Pension Plan, a defined benefit pension plan sponsored by HNH, (ii) payments by H&H Group to HNH for the payment of taxes by HNH that are attributable to H&H Group and its subsidiaries, and (iii) unsecured loans, dividends or other payments for other uses in the aggregate principal amount, together with the aggregate amount of all other such loans, dividends and payments, not to exceed $60.0 million in the aggregate (a portion of which has been used). These exceptions are subject to the satisfaction of certain conditions, including the maintenance of minimum amounts of excess borrowing availability under the credit facilities. H&H Group's credit facilities are collateralized by first priority liens on substantially all of the assets of H&H Group and its subsidiaries.

The ability of H&H Group to draw on its revolving line of credit under the Wells Fargo Facility (the "First Lien Revolver") is limited by its borrowing base of accounts receivable and inventory. As of September 30, 2011, HNH's availability under the First Lien Revolver was $85.0 million. This amount was relatively high due to the additional $50.0 million of Second Lien Term Loans borrowed from Ableco in September 2011, which were used to pay down the First Lien Revolver, thereby increasing availability. HNH subsequently redeemed Subordinated Notes and associated Warrants in October 2011 for $26.4 million. As of October 31, 2011, HNH's availability under the First Lien Revolver was approximately $53.0 million. There can be no assurances that H&H Group will continue to have access to its lines of credit if financial performance of its subsidiaries do not satisfy the relevant borrowing base criteria and financial covenants set forth in the applicable financing agreements. If H&H Group does not meet certain of its financial covenants or satisfy the borrowing base criteria in its credit facilities, 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.

HNH believes that it will be able to meet its cash requirements to fund its activities in the ordinary course of business for at least the next twelve months. However, that ability is dependent, in part, on HNH's continuing ability to materially meet its business plans. There can be no assurance that the funds available from operations and under HNH's credit facilities will be sufficient to fund its debt service costs, working capital demands, pension plan contributions, and environmental remediation costs. If HNH's planned cash flow projections are not met, management could consider the additional reduction of certain discretionary expenses and the sale of certain assets and/or businesses.

Furthermore, if HNH's cash needs are significantly greater than anticipated or HNH does not materially meet its business plans, HNH may be required to seek additional or alternative financing sources. There can be no assurance that such financing will be available or available on terms acceptable to HNH. HNH's inability to generate sufficient cash flows from its operations or through financing could impair its liquidity, and would likely have a material adverse effect on its businesses, financial condition and results of operations.

BNS

As of September 30, 2011, BNS current assets totaled $16.8 million and its current liabilities totaled $8.2 million, for a working capital of $8.6 million, as compared to working capital of $38.1 million at December 31, 2010. The decrease in working capital from December 31, 2010 to September 30, 2011 is due to the February 2, 2011 acquisition of SWH and its wholly owned subsidiary Sun Well. BNS funded the $50.8 million acquisition using its cash, supplemented by a $14.0 million loan from SPH, which was repaid in September 2011.

Sun Well entered into a credit agreement with Wells Fargo Bank, National Association in June 2011 that included a $20.0 million term loan and a revolving line of credit for up to $5.0 million. The term loan is repayable in $1.0 million quarterly installments from September 30, 2011 through June 30, 2015. The balance of the term loan at September 30, 2011 is $19.0 million, of which $4.0 million is shown as a current liability. There were no borrowings under the revolving line of credit during the nine months ended September 30, 2011.

Sun Well uses capitalized lease obligations to fund a portion of its capital acquisitions. At September 30, 2011 capitalized lease obligations were $1.9 million.

Sun Well paid a $20.0 million dividend to BNS in July 2011 and BNS used a portion of the dividend proceeds to repay the $14.0 million loan, plus accrued interest, to SPH in September 2011. BNS incurred a total of $946 in interest on such loan for the nine months ended September 30, 2011.

BNS source of cash flows are the cash flows generated by SWH and Sun Well. Sun Well uses its operating cash flows as well as the borrowings under its term loan and borrowings under capital leases to fund its operations and its debt obligations. The loan is secured by the assets of Sun Well and limits the amount of cash that it can distribute to BNS in the form of loans or dividends. The line of credit availability is limited based on Sun Well's borrowing base assets (primarily accounts receivable), and is only available if Sun Well is in compliance with the terms of its loan agreements and has sufficient borrowing base assets. There can be no assurances that Sun Well will continue to have access to its line of credit if its financial performance does not satisfy the relevant borrowing base criteria and financial covenants set forth in the applicable financing agreement. If Sun Well does not meet certain of its financial covenants or satisfy the borrowing base criteria in its credit facilities, and if it is unable to secure necessary waivers or other amendments from the respective lenders on terms acceptable to Sun Well, 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.

BNS expects that it will be able to fund its activities in the ordinary course of business over at least the next twelve months.

DGT

As noted above, DGT's most recent fiscal year ended on July 30, 2011. At July 30, 2011, DGT had $23.6 million in cash and cash equivalents. DGT's sources of capital include, but are not limited to, cash flow from operations and short-term credit facilities. DGT believes that available short-term and long-term capital resources are sufficient to fund DGT's working capital requirements, scheduled debt payments, interest payments, capital expenditures and income tax obligations for the next 12 months.

During the year ended July 31, 2011, DGT completed a Rights Offering which provided $14.3 million, net of expenses. DGT also received proceeds of $2.5 million for a mortgage on its Bay Shore, NY facility. In addition, approximately $2.4 million of long-term debt was repaid, including the approximately $1.0 million for the purchase price of the manufacturing facility in Milan, Italy at the conclusion of its lease in April 2011.

On September 12, 2011, DGT entered into a share purchase agreement (the "Share Purchase Agreement") with VIV s.r.l., a limited liability company incorporated under Italian law ("VIV"), pursuant to which DGT agreed to sell all of the shares of its Italian subsidiary, Villa, its medical and dental imaging systems segment, to VIV, subject to the terms and conditions set forth therein. The sale was consummated on November 3, 2011. As a result, the operations of Villa are reflected as discontinued operations in our consolidated financial statements for the period from July 5, 2011. In conjunction with the sale, immediately prior to the sale, Villa paid a dividend to DGT in the amount of $4,500. In consideration for the sale of the shares of Villa to VIV, DGT received $21,800 in cash and an unsecured subordinated promissory note (the "Note") made by VIV in the amount of €500. 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.

Financial Services

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 $85,141 and $51,756 in cash at the Federal Reserve Bank and in its Fed Funds account at its correspondent bank at September 30, 2011 and December 31, 2010, respectively. WebBank had a $3,000 line of credit from its correspondent bank and a $4,000 line of credit from the Holding Company at September 30, 2011 and December 31, 2010. Additionally, WebBank had $2,809 and $3,199 available from the Federal Reserve discount window at September 30, 2011 and December 31, 2010, respectively. WebBank had a total of $94,950 and $61,959 in cash, lines of credit, and access to the Federal Reserve Bank discount window at September 30, 2011 and December 31, 2010, respectively, which represents approximately 78% and 73%, respectively, of WebBank's total assets.

Contractual Obligations and Contingencies

Our consolidated contractual obligations as of December 31, 2010[(1)] are identified in the table below:

	Payments Due By Period						
	2011	2012	2013	2014	2015	Thereafter	Total
Debt Obligations (1)	$ 37,776	$ 4,452	$ 89,152	$ 252	$ 252	$ 37,472	$ 169,356
Estimated interest expense (1)	11,248	10,187	7,509	4,010	4,188	7,360	44,502
Deposits (2)	29,102	20,189	12,501	-	-	-	61,792
Lease obligations	6,242	4,940	2,168	1,387	1,187	5,437	21,361
Deferred fee liability to related party	-	1,216	5,499	12,633	8,007	37,196	64,551
Common unit distribution payable	29,869	-	-	-	-		29,869
Pension and other postemployment benefit plans (1)	15,300	19,100	18,800	23,100	18,200	37,200	131,700
Total	$ 129,537	$ 60,084	$ 135,629	$ 41,382	$ 31,834	$ 124,665	$ 523,131

(1) All amounts in this table are as of December 31, 2010 except for debt obligations and interest, which give effect to the amended loan agreements and redemptions for HNH on September 12, 2011 and October 14, 2011 described above, and pension obligations for HNH, which are based on recent information received from HNH's actuaries.
(2) Excludes interest. The weighted average interest rates on deposits are 1.32% in 2011, 2.06% in 2012 and 1.24% in 2013.

The interest rates for the estimated interest expense were based on interest rates at September 30, 2011. At September 30, 2011 the Deferred Fee Liability, as described above, is indexed to the net asset value of SPH; however, the amount ultimately payable in each year will depend upon the index selected and its performance in future periods which may result in the amount paid being materially different from the value as of September 30, 2011. The Deferred Fee liability can be paid in cash or, at the option of WGL, through the issuance of common units.

On August 5, 2011, HNH amended its debt facilities to among other things, extend the maturity dates of its First Lien Revolver, the First Lien Term Loan and Second Lien Term Loan to June 28, 2013.

Certain of BNS' and HNH's facilities are environmentally impaired. BNS' and HNH have estimated their liability to remediate these sites to be $624 and $5,500, respectively, at September 30, 2011. For further discussion regarding these commitments, among others, see Note 24, "Commitments and Contingencies," to the consolidated financial statements for the nine months ended September 30, 2011 included elsewhere in this Form 10.

As of July 30, 2011, DGT had contractual commitments of $3,458, of which $588 was due within one year, $692 were due in two to three years, and $2,378 were due in four to five years. Such commitments primarily relate to long-term debt obligations.

There were no other material changes in our contractual obligations or contingent liabilities reflected on our consolidated balance sheet during the nine months ended September 30, 2011 as compared to those reported above.

Deposits

Deposits at WebBank at September 30, 2011 and December 31, 2010 and 2009 were as follows:

	2011	2010	2009
Current	$ 38,612	$ 29,102	$ 14,111
Long-term	55,731	32,690	36,103
Total	$ 94,343	$ 61,792	$ 50,214

The increase in deposits at September 30, 2011 compared with December 31, 2010 and 2009 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 September 30, 2011 was 33 months compared with 25 months and 22 months at December 31, 2010 and 2009, respectively.

Off Balance Sheet Risk

It is not HNH'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 Precious Metal segment choose to do business on a "pool" 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 September 30, 2011, H&H's customer metal consisted of 210,239 ounces of silver, 719 ounces of gold, and 1,391 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 September 30, 2011 and December 31, 2010, 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 September 30, 2011 and December 31, 2010, WebBank's undisbursed loan commitments totaled $116,967 and $57,488, 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.

Common Unit Option Liability

The total common unit options outstanding at September 30, 2011 and December 31, 2010 are 4,973,863 and 4,971,361, respectively. The Manager has been granted an option to purchase 4,965,690 common units which is equal to 15% of the sum of common units outstanding and the number of notional common units attributable to the Deferred Fee Liability, each as of July 14, 2009. The options are fully vested, currently exercisable and expire on December 31, 2011. The options had an initial per common unit exercise price of $31.81, which is subject to adjustment for any cash distributions, any distributions-in-kind and the release of any reserves by SPII Onshore to its former limited partners. As of September 30, 2011 and December 31, 2010, the exercise price declined to $28.68 and $29.86, respectively, because of the April 2011 and 2010 distributions to unitholders. Moreover, if any issuance of common units, options, convertible securities or any other right to acquire common units results in an increase in the number of common units outstanding on a fully diluted basis as compared to the number outstanding as of the date of the most recent issuance (or, in the case of the first issuance, since the initial option grant date), the Manager will be issued additional options to purchase a number of common units so that as of the grant date of the additional option, after taking into account the number of outstanding common units on a fully diluted basis and all options granted since the initial option grant date, the Manager holds outstanding options (in the aggregate) to acquire 15% of the sum of outstanding common units on a fully diluted basis and the number of notional common units attributable to the Deferred Fee Liability. Each additional option will be immediately exercisable on the grant date, will have an exercise price per common unit equal to the fair market value of a common unit on the grant date and will otherwise be subject to the same terms as the initial option, unless the Manager otherwise agrees. Under these anti-dilution provisions, effective March 21, 2011, pursuant to the Management Agreement, Company granted to the Manager (i) an option to purchase 5,671 common units at an exercise price of $16.89, per common unit, as based on the net asset value of the common units as of June 30, 2010 and the exercise price declined to $15.71 because of the April 6, 2011 distribution to unitholders, (ii) an option to purchase 1,291 common units at an exercise price of $18.80, per common unit, as determined based on the net asset value of the common units as of September 30, 2010 and the exercise price declined to $17.62 because of the April 6, 2011 distribution to unitholders, and (iii) an option to purchase 1,211 common units at an exercise price of $20.03, per common unit, as determined based on the net asset value of the common units as of December 31, 2010 and the exercise price declined to $18.85 because of the April 6, 2011 distribution to unitholders.

Consolidated Statements of Cash Flows

As discussed above, 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.

The Acquisition of SPII is accounted for as a transaction between entities under common control and as such, cash flows of Investment Operations, acquired from SPII, are included in the consolidated statement of cash flows for all periods presented on an investment company basis through July 15, 2009. The cash flows from the Pre-Exchange Operations (Diversified Industrial, Financial Services and Other operations) are presented on an operating company basis for all periods presented. From July 16, 2009 forward all cash flow activity is reported on an operating company basis. The consolidated statements of cash flows for 2009 are presented in two periods, January 1, 2009 to July 15, 2009 and July 16, 2009 to December 31, 2009, reflecting the cash flows and the applicable basis of accounting for the period in 2009 before and after the completion of the Exchange Transaction on July 15 2009, respectively. Under investment company accounting, net unrealized gains and losses on investments from changes in fair values are reported in the consolidated statement of operations when they occur; and are reported as an adjustment to reconcile net income to net cash provided by operating activities in the consolidated statements of cash flow. Under investment company accounting, proceeds from sale of investments and purchases of investments are included in cash flows from operating activities; whereas under operating company accounting, these cash flows are investing activities.

Cash flow activity related to discontinued operations is combined and presented in separate captions on the consolidated statement of cash flows.

Cash Flows from Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2011 was $7,071. Significant items that decreased cash flow from operations included $53,724 relating to net increases in operating assets and liabilities (of which $29,352 was from increases in accounts receivable and $17,188 from decreases in accounts payable and accrued and other liabilities), $6,708 relating to the decrease in the deferred fee liability to related party and $4,079 relating to net cash provided by operating activities of discontinued operations. The increase in accounts receivable relates primarily the increase in sales by HNH during the nine months ended September 30, 2011.

Net cash provided by operating activities for the year ended December 31, 2010 was $50,160. Significant items that increased cash flow from operations included $29,514 relating to changes in operating assets and liabilities (of which $27,400 was from reductions in accounts receivable), $6,267 relating to the increase in the deferred fee liability to related party and $7,127 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.

Net cash provided by operating activities for the period from July 16, 2009 to December 31, 2009 was $1,430. The net cash provided by operating activities was due primarily to a net loss of $3,077 for the period adjusted for non-cash items included in net income and by changes in operating assets and liabilities. Significant items that increased cash flow from operations included $3,001 from the provision for loan losses, $6,992 for the increase in the deferred fee liability to related party, and $6,980 from an increase in operating assets of discontinued operations as a result of the sale of Collins. These increases to cash flows from operations were offset by investment gains of $9,568 arising from the sale of non-strategic investments and income from equity method investees of $7,207 driven primarily by the increase in the fair value of our investment in Steel Excel.

Net cash provided by operating activities was $134,465 for the period from January 1, 2009 to July 15, 2009. The amount provided was primarily due to a net loss of $57,527, of which $54,064 was attributed to Investment Operations' negative performance during the period, which is offset by the proceeds from net investment activity of Investment Operations (purchases, proceeds, gains and losses) of $108,707 and a decrease in restricted cash related to a reduction in securities sold but not yet purchased and swaps held by Investment Operations. Investment Operations net investment activity of $108,707 is driven by the net proceeds of the sale of investments less purchases of $58,788 and related net realized losses of $85,823 offset by $35,904 change in unrealized gains.

Net cash provided by operating activities for 2008 was $555,280 resulting primarily from a net loss of $756,949, which is primarily comprised of a net loss of $767,812 attributed to Investment Operations' negative performance during the year, which is offset by the proceeds from net investment activity of Investment Operations of $1,043,771. Investment Operations net investment activity of $1,043,771 is driven by the net proceeds of the sale of investments less purchases of $216,190, related net realized losses of $20,073 and an $807,508 change in unrealized loss.

Cash Flows from Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2011 was $61,542. Significant items included net purchases of investments of $132,014, acquisitions, net of cash acquired of $39,533 and investments in associated companies of $14,690, offset in part by the release of restricted cash relating primarily to closing out foreign currency financial instruments of $126,102 and proceeds from the sale of discontinued operations of $26,499.

Net cash provided by investing activities for the year ended December 31, 2010 was $114,726 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.

Net cash provided by investing activities for the period from July 16, 2009 to December 31, 2009 was $34,201 as the net proceeds from the sale of investments of $93,279 more than offset cash paid for investments in associated companies of $51,573. For the period from January 1, 2009 to July 15, 2009 net cash used in investing activities was $12,119 due primarily to the purchase of associated companies' shares.

Net cash used in investing activities was $2,162 in 2008, which was primarily due to $16,313 in proceeds from the sale of investments, net of purchases, offset by a net $16,423 primarily for increases in loans made by WebBank and $1,895 for the purchase of SPH shares from noncontrolling interests.

Cash Flows from Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2011 was $20,241. This was due primarily to higher bank deposits held by WebBank of $32,626, and net proceeds from term loans net of debt repayments of $15,983 offset by a common unit cash distribution of $29,869.

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.

Net cash used in financing activities for the period from July 16, 2009 to December 31, 2009 was $182,403. This was due primarily to the payments of redemptions from Redeemable Partners' Capital of $204,403 in October 2009, which were determined as of July 15, 2009 and were related to the implementation of the Exchange Transaction and the SPII Fund Plan. Net cash provided by financing activities after adjusting for the capital redemptions was $22,000, primarily resulting from the net increase in deposits of $26,033 and cash proceeds of $4,487 from the assumption of the Deferred Fee Liability offset by the financing activities of discontinued operations.

The net cash used in financing activities for the period from January 1, 2009 to July 15, 2009 of $7,251 resulted from a decrease in deposits.

Net cash used in financing activities for the year ended December 31, 2008 was $410,799. The cash used in 2008 resulted primarily from cash redemptions from Redeemable Partners' Capital of $438,549.

Critical Accounting Policies and Estimates

Use of Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with GAAP, which require the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and in the accompanying notes. Actual results may differ from those estimates. A summary of our accounting policies is set forth in Note 3 to the consolidated financial statements. 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, Financial Services and other operations, we evaluate our investments as consolidated subsidiaries, associated companies, core companies, available-for-sale, held-to-maturity, or trading securities. Held-to-maturity securities are those debt securities that the Company has the ability and intent to hold until maturity. Trading securities are purchased and held principally for the purpose of selling them in the near term. All other securities not included in held-to-maturity, trading, associated companies or core 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. Unrealized holding gains or losses on trading securities are recognized in the income statement. 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

Investments including associated companies with an impairment in value considered to be other than temporary, are written down to estimated fair value. The write-downs are included in net securities gains in the consolidated operating statements. 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. 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.

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. Once we finalize the purchase price allocation, any subsequent changes to it are reported in the operating statement. 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, 2010, the book value of goodwill was $16,212 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.

There were no impairments of intangible assets during 2010, 2009 and 2008.

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. For the years ended prior to December 31, 2008, WebFinancial was a corporation which filed consolidated tax returns. Our tax provisions for the years ended December 31, 2009 and 2008 reflect our prior status as a corporation and the tax provision of BNS from the date it became a consolidated subsidiary on July 15, 2009 and WebBank from January 1, 2009. The table in Note 24 – "Income Taxes" to our consolidated financial statements for the year ending December 31, 2010 included elsewhere in this Form 10 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 $67,643 and which comprised 100% of the Company's total available-for-sale investments at September 30, 2011. 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 September 30, 2011, SPH has $0 of 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 investments in Steel Excel, SLI and API, for which it has elected the fair value option. At September 30, 2011, these investments are classified as investments in associated companies and carried at fair values of $109,965, $15,624 and $17,030, respectively.

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-rate or fixed-rate 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.

At September 30, 2011, 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 $300 on an annual basis. Accordingly, the fair value of such instruments may be relatively sensitive to effects of interest rate fluctuations. In addition, the fair value of such instruments is also affected by investors' assessments of the risks associated with industries in which HNH operates as well as its overall creditworthiness and ability to satisfy such obligations upon their maturity. HNH is subject to interest rate risk on its long-term fixed interest rate 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.

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

BNS

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 metal, steel products and certain non-ferrous metals used as raw material. HNH is also exposed to the effects of price fluctuations on the value of its commodity inventories, specifically, its precious metal inventories.

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

HNH enters into commodity futures and forwards 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 ASC 815, 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 (open trade equity) on the derivatives is included in other current assets or other current liabilities. As of September 30, 2011, HNH had outstanding forward and future contracts with settlement dates ranging from October 2011 to December 2011 for 15,000 ounces of silver and 1,700 ounces of gold.

Certain customers and suppliers of HNH's subsidiary, H&H choose to do business on a "pool" 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 September 30, 2011, H&H's customer metal consisted of 210,239 ounces of silver, 719 ounces of gold, and 1,391 ounces of palladium.

Risks Relating to Foreign Currency Exchange

The Company, primarily through HNH, 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 this risk.

Item 3. Properties

All dollars used in this discussion are in thousands.

HNH

As of September 30, 2011, HNH had 22 active operating plants in the United States, Canada, China, United Kingdom, Germany, France, and Mexico, with a total area of approximately 1,475,000 square feet, including warehouse and office space. HNH also owns or leases sales, service and warehouse facilities at 7 other locations in the United States which have a total area of approximately 195,000 square feet, and owns or leases 6 non-operating locations with a total area of approximately 336,000 square feet. Manufacturing facilities are located in: Camden and Bear, Delaware; Evansville, Indiana; Agawam, Massachusetts; Middlesex, New Jersey; 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; and Suzhou, People's Republic of China. All plants are owned except for the Middlesex, Rancho Cucamonga, Riberac, 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.

BNS

As of September 30, 2011, Sun Well owned 15 and leased 2 well service rigs located in Montana and North Dakota. Sun Well also leases 3 facilities, comprising an aggregate of 20,630 square feet of leased space in North Dakota and owns a 15-acre parcel of land in Williams County, North Dakota. In May 2011, Sun Well signed a contract to commence construction of a new rig shop and headquarters building. The contract is for $4,817 and the building is expected to be completed in February 2012. BNS has no other properties other than the Sun Well properties noted herein.

BNS believes that the above facilities are adequate for SunWell's current needs and that suitable additional space will be available as required.

DGT

DGT's Power Conversion Group owns 55,000 square feet of manufacturing and office space headquartered in Bay Shore, New York. On September 1, 2010, RFI entered into a mortgage on this property in favor of People's Bank in the amount of $2,500 payable over 10 years at an annual rate of interest of 4.9%.

DGT believes that its current facilities are sufficient for its present and anticipated future requirements. DGT's manufacturing operations run on one shift and DGT has the ability to add a second shift, if needed.

WebBank

As of September 30, 2011, 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. Its WCS subsidiary leases office space in Des Plaines, Illinois through 2013.

WebBank believes that the above facilities are adequate for its current needs and that suitable additional space will be available as required.

Item 4. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information with respect to the beneficial ownership of our common units as of December 9, 2011 for (a) each director of the General Partner, (b) each executive officer of the General Partner, (c) each unitholder known to be the beneficial owner of more than five percent of any class of our voting securities, and (d) all directors and executive officers of the General Partner as a group. Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act and does not necessarily bear on the economic incidents of ownership or the rights to transfer the common units described below. Unless otherwise indicated, (a) each unitholder has sole voting power and dispositive power with respect to the indicated common units and (b) the address of each unitholder who is a director or executive officer is c/o Steel Partners Holdings L.P., 590 Madison Avenue, 32nd Floor, New York, New York 10022. The percentage of common units owned is based on 25,183,039 common units outstanding as of December 9, 2011.

Name of Beneficial Owner	Number of Common Units Beneficially Owned(1)	Percentage of Common Units Beneficially Owned(1)
5% Unitholders		
Steel Partners LLC	4,973,863(2)	16.5%
Entities affiliated with Benchmark Plus Institutional Partners, L.L.C.	2,501,624(3)	9.9%
Entities affiliated with Entrust Capital Diversified Fund Ltd	2,661,906(4)	10.6%
Directors and Executive Officers		
Warren G. Lichtenstein	6,757,449(5)	22.4%
Jack Howard	2,821,238(6)	11.2%
Anthony Bergamo	10,840	*
John P. McNiff	144,489(7)	*
Joseph L. Mullen	11,061	*
General Richard I. Neal	8,616	*
Allan R. Tessler	8,498	*
James F. McCabe, Jr.	–	*
All Directors and Executive Officers as a Group (8 persons)	9,762,191(8)	32.4%

* Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the SEC, based on factors including voting and investment power with respect to the common units. Common units subject to options currently exercisable, or exercisable within 60 days after December 9, 2011, are deemed outstanding for the purpose of computing the percentage ownership of the person holding such options, but are not deemed outstanding for computing the percentage ownership of any other person.

(2) Represents 4,973,863 common units issuable upon exercise of options.

(3) Consists of the following: (i) 1,453,211 common units beneficially owned by Benchmark Plus Institutional Partners, L.L.C., (ii) 492,894 common units beneficially owned by Benchmark Plus Long Short Select Partners, LP; (iii) 356,548 common units beneficially owned by Benchmark Plus Long Short Partners, LP; and (iv) 198,971 common units beneficially owned by Aviva Alternative Funds – Alpha Optimum. The address for the entities listed in (i) through (iii) above is 800 A Street, Suite 700, Tacoma, WA 98402. The address for Aviva Alternative Funds – Alpha Optimum is 5 Rue Plaetis, Luxembourg, L-2338.

(4) Consists of the following: (i) 1,936,033 common units beneficially owned by Entrust Capital Diversified Fund Ltd; (ii) 204,629 common units beneficially owned by Entrust Capital Diversified Fund LP; (iii) 127,992 common units beneficially owned by Entrust Capital Diversified Fund Ltd; (iv) 64,673 common units beneficially owned by Entrust Capital Diversified Fund II LP; (v) 59,168 common units beneficially owned by Entrust Diversified Select Equity Fund LP; (vi) 37,010 common units beneficially owned by Entrust Diversified Select Equity Fund Ltd; and (vii) 232,401 common units beneficially owned by Illinois State Board of Investment. The address for the entities listed in (i) through (iv) above is 1011 Centre Road, Suite 200, Wilmington, DE 19805. The address for Entrust Diversified Select Equity Fund LP is 375 Park Avenue, 24th Floor, New York, NY 10152. The address for Entrust Diversified Select Equity Fund Ltd is 90 Fort Street, Admiral Financial Center, 5th Floor, Grand Cayman, Cayman Islands, KY1-1208. The address for Illinois State Board of Investment is 180 North LaSalle Street, Suite 2015, Chicago, IL 60601. Absent banking regulatory approval, voting rights are forfeited with respect to all common units in excess of 9.9%, and such common units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes.

(5) Consists of the following: (i) 1,565,169 common units held directly by Mr. Lichtenstein; (ii) 100,026 common units beneficially owned by WGL Capital Corp. (“WGL”); (iii) 118,391 common units beneficially owned by Steel Partners, Ltd. (“SPL”) and (iv) 4,973,863 common units issuable upon exercise of options held by Steel Partners. Mr. Lichtenstein is the majority shareholder and President of WGL, Chief Executive Officer and Chairman of the Board of SPL and Chief Executive Officer of Steel Partners. Mr. Lichtenstein may be deemed to have sole investment and voting power with respect to the common units held by WGL, SPL and Steel Partners. Mr. Lichtenstein disclaims beneficial ownership of such common units beneficially owned by WGL, SPL and Steel Partners, except to the extent of his pecuniary interest therein.

(6) Consists of the following: (i) 543,648 common units held directly by Mr. Howard; (ii) 1,519,552 common units beneficially owned by The II Trust; (iii) 747,938 common units beneficially owned by The III Trust; and (iv) 10,100 common units held by EMH Howard, LLC (“EMH”). Mr. Howard is the trustee for The II Trust and The III Trust and the managing member of EMH. Mr. Howard may be deemed to have investment and voting power with respect to the common units held by The II Trust, The III Trust and EMH. Mr. Howard disclaims beneficial ownership of such common units beneficially owned by The II Trust, The III Trust and EMH, except to the extent of his pecuniary interest therein. Absent banking regulatory approval, voting rights are forfeited with respect to all common units in excess of 9.9%, and such common units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes.

(7) Consists of the following: (i) 54,937 common units in an account jointly owned by Mr. McNiff and his wife, Evelyn McNiff; (ii) 73,351 common units beneficially owned by the Evelyn B Olin Irrevocable Trust, or the “Olin Trust”; and (iii) 16,201 common units beneficially owned by the JNS Charitable Lead Annuity Trust, or the “JNS Trust”. Mr. McNiff is the co-trustee of each of the Olin Trust and the JNS Trust. Mr. McNiff may be deemed to have shared investment and voting power with respect to the common units held by the Olin Trust and the JNS Trust. Mr. McNiff disclaims beneficial ownership of such common units beneficially owned by the Olin Trust and the JNS Trust, except to the extent of his pecuniary interest therein.

(8) Consists of 4,797,224 common units and 4,973,863 common units issuable upon exercise of options.

Item 5. Directors and Executive Officers

The names, offices held and ages of the members of the Board of Directors of the General Partner are set forth below. The Board of Directors consists of a majority of independent directors and Steel Partners has two representatives serving as directors (Warren G. Lichtenstein and Jack Howard) while the Management Agreement is in effect.

Name	Age	Position
Warren G. Lichtenstein	46	Chairman of the Board
Jack Howard	50	Director
Anthony Bergamo(1)(2)(3)(6)	65	Director
John P. McNiff(1)(4)(5)(6)	50	Director
Joseph L. Mullen(1)(2)(6)(7)	65	Director
General Richard I. Neal(1)(2)(4)	69	Director
Allan R. Tessler(1)(4)	75	Director

(1) Independent Director.
(2) Member of Audit Committee.
(3) Chairman of Audit Committee.
(4) Member of Corporate Governance and Nominating Committee.
(5) Chairman of Corporate Governance and Nominating Committee.
(6) Member of Compensation Committee.
(7) Chairman of Compensation Committee.

Warren G. Lichtenstein has served as our Chairman of the Board and Chief Executive Officer since July 15, 2009. He has served as Chairman of the Board of HNH since July 2005. Mr. Lichtenstein is the Chairman and Chief Executive Officer of Steel Partners and has been associated with Steel Partners and its affiliates since 1990. He is a Co-Founder of Steel Partners Japan Strategic Fund (Offshore), L.P., a private investment partnership investing in Japan, and Steel Partners China Access I LP, a private equity partnership investing in China. He also co-founded SPII, a private investment partnership that is now our wholly-owned subsidiary, in 1993. Mr. Lichtenstein has served as a director of GenCorp Inc. since March 2008. Mr. Lichtenstein also served as the Chairman of the Board, President and Chief Executive Officer of SPAH, a company formed for the purpose of acquiring one or more businesses or assets, from February 2007 until October 2009. He has served as a director of SLI since March 2010. He previously served as a director (formerly Chairman of the Board) of SLI from January 2002 to May 2008 and served as Chief Executive Officer from February 2002 to August 2005. Mr. Lichtenstein has served as a director (currently Chairman of the Board) of Steel Excel, since October 2010. He served as a director of our predecessor, WebFinancial, a consumer and commercial lender, from 1996 to June 2005, as Chairman and Chief Executive Officer from December 1997 to June 2005 and as President from December 1997 to December 2003. From May 2001 to November 2007, Mr. Lichtenstein served as a director (formerly Chairman of the Board) of United Industrial Corporation ("United Industrial"), a company principally focused on the design, production and support of defense systems, which was acquired by Textron Inc. He served as a director of KT&G Corporation, South Korea's largest tobacco company, from March 2006 to March 2008. Mr. Lichtenstein served as a director of Layne Christensen Company, a provider of products and services for the water, mineral, construction and energy markets, from January 2004 to October 2006. We believe Mr. Lichtenstein is qualified to serve as Chairman of the Board due to his expertise in corporate finance, record of success in managing private investment funds and his related service as a director of, and advisor to, a diverse group of public companies, including other companies having attributes similar to the Company.

Jack Howard has served as our President since July 15, 2009 and has been a member of our Board of Directors since October 18, 2011. He also served as our Assistant Secretary from July 15, 2009 until September 19, 2011, at which time he became our Secretary. He has been a registered principal of Mutual Securities, Inc., a FINRA registered broker-dealer, since 1989. Mr. Howard is the President of Steel Partners and has been associated with Steel Partners and its affiliates since 1993. Mr. Howard co-founded SPII in 1993. Mr. Howard has been a director of HNH since July 2005. He has been a director of Steel Excel since December 2007. Mr. Howard has also served as a director of DGT since September 2011. Mr. Howard served as Chairman of the Board of our predecessor, WebFinancial, from June 2005 to December 2008, as a director since 1996 and its Vice President since 1997. From 1997 to May 2000, he also served as Secretary, Treasurer and Chief Financial Officer of WebFinancial. Mr. Howard served as a director of SPAH from February 2007 until June 2007, and was Vice-Chairman from February 2007 until August 2007. He also served as Chief Operating Officer and Secretary of SPAH from June 2007 and February 2007, respectively, until October 2009. He currently holds the securities licenses of Series 7, Series 24, Series 55 and Series 63. We believe Mr. Howard is qualified to serve as a member of the Board due to his financial expertise and record of success as a director, chairman and top-level executive officer of numerous public companies.

Anthony Bergamo has been a member of our Board of Directors since July 15, 2009. Mr. Bergamo held various positions with MB Real Estate, a property development and management company based in New York City and Chicago, since April 1996, including the position of Vice Chairman since May 2003. Mr. Bergamo served as Managing Director with Milstein Hotel Group, a hotel operator, since April 1996. He has also served as the Chief Executive Officer of Niagara Falls Redevelopment, LLC, a real estate development company, since August 1998. Mr. Bergamo was a director of Lone Star Steakhouse & Saloon, Inc., an owner and operator of restaurants, from May 2002 until December 2006, at which time such company was sold to a private equity fund. At the time of such sale, Mr. Bergamo was the Chairman of the Audit Committee of Lone Star Steakhouse & Saloon, Inc. He has also been a director since 1995, a Trustee since 1986 and currently is Chairman of the Audit Committee and Compensation Committee of Dime Community Bancorp. Mr. Bergamo is also the Founder of the Federal Law Enforcement Foundation, a foundation that provides economic assistance to both federal and local law enforcement officers suffering from serious illness and to communities recovering from natural disasters, and has served as its Chairman since 1988. Mr. Bergamo serves on the New York State Commission for Sentencing Reform, is a Board Member of New York Offtrack Betting Corporation and serves on the New York State Judicial Screening Committee. Mr. Bergamo serves as Chairman of the Audit Committee of the Board of Directors. He earned a B.S. in History from Temple University, and a J.D. from New York Law School. He is admitted to the New York, New Jersey and Federal Bars, the US Court of Appeals and the US Supreme Court. Mr. Bergamo's qualifications to sit on our Board of Directors include his broad experience as chief executive officer and operating officer of public and private companies and his more than fifteen years of service on boards of public companies and various public service organizations.

John P. McNiff has been a member of our Board of Directors since July 15, 2009. Mr. McNiff co-founded Mera Capital, an investment fund, in 2007. He has been chairman of Discovery Capital Management, LLC, a fund of funds, since 2004. Mr. McNiff has served as a director of ICM Insurance, a New York corporation, since 1999. In 1993, Mr. McNiff co-founded Longwood Investment Advisors, Inc., a Pennsylvania corporation, and served as President from 1993 until 2005. In 1991, Mr. McNiff also co-founded Radnor Holdings Corporation, a diversified chemical manufacturer, and served as its Senior Vice President, from 1991 until 2004. From 1988 until 1991, Mr. McNiff served as Vice President of Corporate Development of Airgas, a publicly traded New York Stock Exchange company. From 1986 until 1988, Mr. McNiff was an associate at the law firm of Davis Polk & Wardwell. Mr. McNiff has served on the boards of Colonial Penn Insurance Company, Lincoln Mortgage Company, Chartwell Investment Partners, Radnor Holdings Corporation, Insurance Capital Management, Cooke & Bieler, and Alliance Healthcare. He holds a B.A. from Yale University and a J.D. from New York University School of Law. Mr. McNiff is qualified to serve on our Board of Directors due to his extensive knowledge of securities law and financial management and his service on numerous boards.

Joseph L. Mullen has been a member of our Board of Directors since July 15, 2009. Mr. Mullen served as a director of our predecessor entity WebFinancial Corporation from 1995 until December 2008. Since January 1994, Mr. Mullen has served as Managing Partner of Li Moran International, Inc., a management consulting company, and has functioned as a senior officer overseeing the merchandise and marketing departments for such companies as Leewards Creative Crafts Inc. and Office Depot of Warsaw, Poland. Mr. Mullen's qualifications to sit on our board include his experience as a member of various audit committees, including membership on the audit committee of WebFinancial Corporation, as well as over 20 years experience working with various banks and retailers and as vice president of Hills Department Stores with line item responsibility.

General Richard I. Neal has been a member of our Board of Directors since July 15, 2009. General Neal became President of Sisvel US, Inc. in 2010 and is President of Audio MPEG since 2003; both companies license intellectual property. Additionally, General Neal was President of IP Global and Safer Display, both IP licensing companies. He was the Senior Mentor for the United States Marine Corps for five years and has been a Senior Fellow for the National Defense University since his retirement from the Marines Corps in 1998. General Neal currently serves as a director of Humanetics Corporation and is a Trustee for Norwich University and on the Board of Overseers for Northeastern University. He was recently selected to be a Senior Fellow for the Institute for Defense and Business. He was a director for United Industrial Corporation and for AgustaWestland Inc. Following graduation from Northeastern University in 1965, he was commissioned as a Second Lieutenant in the Marine Corps. For the next thirty-five years, General Neal commanded at every level within the Marine Corps; battery, battalion, brigade and as the Second Marine Division Commander. He served two tours in the Republic of Vietnam. During Operation Desert Storm, General Neal served as the Director of Operations for U.S. Central Command and was also responsible for briefing the international press on the war. Before his retirement in 1998, General Neal's last assignment was as the Assistant Commandant of the Marine Corps. General Neal holds a B.S. in History and Education from Northeastern University, and a M.Ed. from Tulane University and is a graduate of the National War College. General Neal's unique experience in negotiating licensing agreements, developing financial settlements, and collecting and distributing royalties, along with his experience as Chairman of the 38-member Board of the Military Officers Association of America that represents a membership of 375,000 and is intimately involved in governance issues and policy development, make General Neal qualified to serve on our Board of Directors.

Allan R. Tessler has been a member of our Board of Directors since July 15, 2009. Mr. Tessler has served as the Chairman and Chief Executive Officer of International Financial Group, Inc., an international merchant banking firm, since 1987. Mr. Tessler served as Chief Executive Officer of Epoch Holding Corporation, a publicly-held investment management company, from February 2000 until June 2004, and has served as Chairman of the Board since May 1994. Previously, he was Co-Chairman and Co-Chief Executive Officer of Interactive Data Corporation (formerly Data Broadcasting Corporation), a securities market data supplier, from June 1992 until February 2000. Mr. Tessler was co-founder and Chairman of the Board of Enhance Financial Services, Inc., a public insurance holding company, from 1986 until 2001, and was Chairman of the Board of Great Dane Holdings Inc., a private diversified holding company, from 1987 until 1996. He presently is lead director of Limited Brands, Inc. and director of TD Ameritrade Holding Corporation. He serves as Chairman of the Board of Trustees of the Hudson Institute and is a member of the Board of Governors of the Boys & Girls Clubs of America. Mr. Tessler received his undergraduate degree from Cornell University and L.L.B. from Cornell University Law School. As a result of his broad business experience and financial expertise, together with his involvement in various public policy issues, we believe Mr. Tessler is qualified to serve on our Board of Directors.

The names, offices held and ages of the executive officers of the General Partner are set forth below.

Name	Age	Position
Warren G. Lichtenstein	46	Chairman and Chief Executive Officer
Jack Howard	50	President and Secretary
James F. McCabe, Jr.	48	Chief Financial Officer

Please see above for biographical information of Warren G. Lichtenstein and Jack Howard.

James F. McCabe, Jr. has been our Chief Financial Officer since October 18, 2011 and has been the Senior Vice President of each of HNH and H&H, since March 2007, and Chief Financial Officer of HNH, since August 2008. From July 2004 to February 2007, Mr. McCabe served as Vice President of Finance and Treasurer, Northeast Region, of American Water Works Company. From August 1991 to September 2003, he was with Teleflex Incorporated where he served in senior management positions including President of Teleflex Aerospace, President of Sermatech International, Chief Operating Officer of Sermatech International, President of Airfoil Technologies International and Chief Financial Officer of Teleflex Aerospace.

Item 6. Executive Compensation

Since our Management Agreement provides that Steel Partners, our manager, is responsible for managing our affairs, our executive officers, who are employees of Steel Partners or one or more of its affiliates, do not receive cash compensation from us or any of our subsidiaries for serving as our executive officers. Accordingly, Steel Partners has informed us that it cannot identify the portion of the compensation awarded to our executive officers by Steel Partners that relates solely to their services to us, as Steel Partners does not compensate its employees specifically for such service.

Under the Management Agreement, Steel Partners receives a monthly Management Fee at a rate of 1.5% per annum payable monthly. Effective January 1, 2012, Steel Partners 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. Warren G. Lichtenstein, our Chairman and Chief Executive Officer, is the Chief Executive Officer of Steel Partners. Jack L. Howard, our President and Secretary, is also President of Steel Partners.

The Management Agreement

Under the Management Agreement, subject to the supervision of the Board of Directors, Steel Partners provides management services, including providing the services of the Chairman, Chief Executive Officer and President of the General Partner, to the managed entities, which includes: (i) us, (ii) SPII, and (iii) certain entities that Steel Partners designates as a managed entity from time to time.

Duties of Steel Partners

Pursuant to the terms of the Management Agreement, Steel Partners is responsible for the day-to day operations of the managed entities including, but not limited to:

(1) acting as a consultant with respect to the periodic reviews of the managed entities' business;

(2) investigating, analyzing and implementing business opportunities for the managed entities;

(3) negotiating with any and all counterparties with respect to business opportunities for the managed entities;

(4) entering into agreements on behalf of the managed entities;

(5) engaging independent contractors on behalf of the managed entities, including accountants, legal counsel, administrators and custodians;

(6) providing executive and administrative personnel, office space and office services required to perform its obligations under the Management Agreement;

(7) communicating with equity or debt interest holders in the managed entities;

(8) counseling the managed entities in connection with policy decisions to be made by the Board of Directors or the relevant management team of the managed entities;

(9) monitoring and reporting to the Board of Directors on the performance of the managed entities;

(10) handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which managed entities are involved arising out of the day-to-day operations of the managed entities;

(11) performing any other services in relation to the managed entities as the Board of Directors may from time to time reasonably request;

(12) appointing such other service providers, including any affiliates of Steel Partners, to provide services to the managed entities provided that if such services relate to services to be performed by Steel Partners under the Management Agreement and in respect of which Steel Partner receives the Management Fee, then Steel Partners must give prompt notice of such appointment to the independent directors of the Board of Directors;

(13) retaining, for and on behalf of, and at our sole cost and expense of, or the managed entities, such accountants, legal counsel, appraisers, insurers, brokers, transfer agents registrars, developers, investment banks, financial advisors, banks and other lenders as it deems necessary or advisable and we or the managed entities will reimburse Steel Partners or its affiliates performing such services for the cost and expenses thereof, provided that such costs and reimbursements to affiliates of Steel Partners are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis; and

(14) preparing or causing to be prepared such reports, financial or otherwise, with respect to us or the managed entities as may be reasonably required by the Board of Directors or required by law or regulation.

Steel Partners is not obligated to expend money in connection with the performance of its obligations in excess of any money available in any of our accounts or made available by the managed entities. Officers and other personnel of Steel Partners are entitled to serve as officers or personnel of the managed entities.

Devotion of Time and Additional Activities

Steel Partners must devote such time and personnel to the management of the managed entities as it reasonably deems necessary and appropriate from time to time. Steel Partners may provide services similar or identical to those it provides to us to other persons and entities including to those whose business is substantially similar to the managed entities.

Steel Partners and it members, officers, employees, agents and affiliates are not prevented from buying, selling or trading for its or their own account. Steel Partners and any person affiliated or associated with Steel Partners may contract and enter into transactions with the managed entities, and any unitholder, or any person the securities of which are held by or for the account of the managed entities, may be interested in any such transactions, except to the extent prohibited by applicable law.

Restrictions

Steel Partners may not, without the consent of the independent directors of the Board of Directors, consummate any transaction on behalf of the managed entities which would involve the purchase or sale by any of the managed entities of any interest or asset in which Steel Partners has a direct or indirect ownership interest or as would constitute an actual or potential conflict of interest for Steel Partners.

Term and Termination

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.

We may terminate the Management Agreement effective upon 30 days' prior written notice of termination from us to Steel Partners if (i) Steel Partners materially breaches any provision of the Management Agreement and such breach continues for a period of more than 30 days after written notice thereof specifying such breach and requesting that the same be remedied in such 30-day period, (ii) Steel Partners engages in any act of fraud, misappropriation of funds, or embezzlement against any managed entity, (iii) there is an event of gross negligence or willful misconduct on the part of Steel Partners in the performance of its duties under the Management Agreement, (iv) there is a commencement of any proceeding relating to Steel Partners' bankruptcy or insolvency, (v) there is a dissolution of Steel Partners or (vi) there is a change of control of Steel Partners, not consented to by us pursuant to the Management Agreement.

Steel Partners may terminate the Management Agreement effective upon 60 days' prior written notice of termination to us in the event that the managed entities default in the performance or observance of any material term, condition or covenant contained in the Management Agreement and such default continues for a period of 30 days after written notice thereof specifying such default and requesting that the same be remedied in such 30-day period.

Steel Partners may terminate the Management Agreement in the event any of the managed entities becomes regulated as an "investment company" under the Investment Company Act, with such termination deemed to have occurred immediately prior to such event.

Steel Partners may terminate the Management Agreement at any time immediately effective upon written notice of termination to us in the event that the election of the majority of the members of the Board of Directors that were originally elected and approved by Steel Partners no longer constitute a majority of the members of the Board of Directors, unless their replacements or successors were approved by Steel Partners.

Management Fees and Incentive Compensation

We do not employ personnel and therefore rely on the resources and personnel of Steel Partners to conduct our operations. For performing services under the Management Agreement, Steel Partners receives a Management Fee and incentive compensation based on our performance. Steel Partners also receives reimbursements for certain expenses.

Management Fee

Steel Partners receives a Management Fee at a rate of 1.5% per annum payable monthly. Until such time as the common units are listed on a national securities exchange, the Management Fee will be 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. Thereafter, the Management Fee will be based on the sum of the market capitalization of SPH and any amounts in the deferred fee accounts as of the last day of the prior calendar month. Effective January 1, 2012, Steel Partners receives 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. From July 16, 2009 through December 31, 2009 and from January 1, 2010 through December 31, 2010, the Manager was paid a Management Fee of $3,705 and $7,531, respectively. No Management Fee was payable from January 1, 2009 through July 15, 2009. The Manager was to be reimbursed $452 and $2,209 for expenses incurred during the period of July 16, 2009 to December 31, 2009 and January 1, 2010 through December 31, 2010, respectively, as provided under the Management Agreement. For the nine months ended September 30, 2011 and 2010, the Manager earned a Management Fee of $6,357 and $5,507 respectively. The Manager incurred $810 and $429 of reimbursable expenses during the three months ended September 30, 2011 and 2010, respectively and $2,413 and $1,475 of reimbursable expenses during the nine months ended September 30, 2011 and 2010, respectively in connection with its provision of services under the Management Agreement.

Steel Partners will compute each installment of the Management Fee within 15 business days after the last day of the immediately preceding month with respect to which the Management Fee is due. A copy of the computations made by Steel Partners to calculate such installment is to promptly be delivered to the Audit Committee of the Board of Directors for informational purposes only. At the request of Steel Partners, we are to, from time to time, advance to Steel Partners or its designees the amount of any Management Fee for such month based on Steel Partners' good faith estimate of the Management Fee for the month pending the final determination of the Management Fee for such month. Upon such delivery of the final computation of the Management Fee for that month, after taking into account any advances to Steel Partners or its designees, the amount due (i) to Steel Partners or its designees by us or (ii) to us by Steel Partners or its designees is to be paid no later than the first day of the next calendar month following the calendar month in which the final Management Fee computation was delivered to us. Effective January 1, 2012, Steel Partners will compute each installment of the Management Fee on a quarterly basis.

Any services provided by an affiliate of Steel Partners or any officers or employees thereof (other than services specifically required to be provided by Steel Partners pursuant to the Management Agreement), to other than the managed entities will be provided under a separate agreement.

Reimbursement of Expenses

We or the managed entities will bear (or reimburse Steel Partners or its designees with respect to) all reasonable costs and expenses of the managed entities, Steel Partners, the General Partner 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 the managed entities or the General Partner as well as expenses incurred by Steel Partners and the General Partner which are reasonably necessary for the performance by Steel Partners of its duties and functions under the Management Agreement and certain other expenses incurred by managers, officers, employees and agents of Steel Partners or its affiliates on behalf of the managed entities.

Steel Partners will prepare and deliver from time to time a statement documenting the expenses of the managed entities and the expenses incurred by Steel Partners on behalf of the managed entities. The managed entities must reimburse expenses incurred by and payable to Steel Partners within 30 days following the date of delivery of such statement.

Incentive Compensation

Steel Partners has been granted options to purchase an aggregate of 4,973,863 common units. Steel Partners was initially granted an option to purchase 4,965,690 common units, which is equal to 15% of the sum of the common units outstanding and the number of notional units used to determine the deferred fee accounts in accordance with that certain Second Amended and Restated Deferred Fee Agreement, effective as of July 15, 2009, between us and WGL, or the "Deferred Fee Agreement", each as of July 15, 2009, on a fully diluted basis. The options had an initial per common unit exercise price of $31.81, which is subject to adjustment for any cash distributions, any distributions-in-kind and the release of any reserves by SPII Onshore to its former limited partners. The exercise price decreased by $1.95 per unit to $29.86 for the April 1, 2010 common unit distribution and further decreased by $1.18 per unit to $28.68 for the April 6, 2011 common unit distribution. On March 21, 2011, Steel Partners was granted an additional (i) option to purchase 5,671 common units at an exercise price of $16.89, per common unit, as based on the net asset value of the common units as of June 30, 2010 and the exercise price decreased by $1.18 per unit to $15.71 for the April 6, 2011 common unit distribution, (ii) option to purchase 1,291 common units at an exercise price of $18.80, per common unit, as determined based on the net asset value of the common units as of September 30, 2010 and the exercise price decreased by $1.18 per unit to $17.62 for the April 6, 2011 common unit distribution, and (iii) option to purchase 1,211 common units at an exercise price of $20.03, per common unit, as determined based on the net asset value of the common units as of December 31, 2010 and the exercise price decreased by $1.18 per unit to $18.85 for the April 6, 2011 common unit distribution. Such options are currently exercisable and expire on December 31, 2011.

Effective January 1, 2012, Steel Partners will be granted incentive units which entitle Steel Partners to receive Class B common units of SPH, which Class B common units have the same rights as the common units, 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 common units. The number of incentive units granted is equal to 100% of the sum of the common units outstanding and the number of notional units used to determine the deferred fee accounts in accordance with the Deferred Fee Agreement, each as of January 1, 2012. On the last day of each fiscal year SPH will issue to Steel Partners Class B common units, on a fully diluted basis. Steel Partners shall receive Class B common units, determined as of the last day of each fiscal year of SPH, representing 15% of the increase in equity value during the year. If equity value does not increase Steel Partners shall not receive Class B common units until there is an increase in equity value at the end of a fiscal year. Distributions made by SPH to its limited partners before the end of a fiscal year (and after the date of issuance in the case of the first year in which the incentive units are issued) that do not reduce the number of outstanding common units and any release to the former partners of the Onshore Fund of amounts previously held in reserve to satisfy certain potential contingent liabilities and unknown expenses of the Onshore Fund will be added to the measurement date equity value per common units for such year. SPH shall make any adjustment that it determines is equitably required by reason of the raising of new capital, including, without limitation, adding such new capital to the baseline equity value per common unit to the extent that the issue price of the new common units exceeds the baseline equity value per common unit.

In addition, on or before December 31, 2011, if any issuance of common units, options, convertible securities or any other right to acquire common units by us results in an increase in the number of common units outstanding on a fully diluted basis as compared to the number outstanding as of the date of the most recent issuance (or, in the case of the first issuance, since the initial option grant date), Steel Partners will be issued additional options to purchase a number of common units so that as of the grant date of the additional option, after taking into account the number of outstanding common units on a fully diluted basis and all options granted since the initial option grant date, Steel Partners holds outstanding options (in the aggregate) to acquire 15% of the sum of the common units outstanding and the number of notional units used to determine the deferred fee accounts in accordance with the Deferred Fee Agreement, on a fully diluted basis. Each additional option will be immediately exercisable on the grant date, will have an exercise price per common unit equal to the fair market value of a common unit on the grant date and will otherwise be subject to the same terms as the initial option, unless Steel Partners otherwise agrees.

Similarly, if any issuance of common units, options, convertible securities or any other right to acquire common units by us results in an increase in the number of common units outstanding on a fully diluted basis as compared to the number outstanding as of the date of the most recent issuance (or, in the case of the first issuance, since the initial incentive unit grant date), Steel Partners will be issued additional incentive units so that as of the grant date of the additional incentive units, after taking into account the number of outstanding common units on a fully diluted basis and all incentive units granted since the initial incentive units grant date, Steel Partners holds outstanding incentive units (in the aggregate) equal to 100% of the sum of the common units outstanding and the number of notional units used to determine the deferred fee accounts in accordance with the Deferred Fee Agreement, on a fully diluted basis. Each additional incentive unit shall otherwise be subject to the same terms as the incentive units, unless Steel Partners otherwise agrees.

License Agreement for Use of Trademarks

Pursuant to the terms of a license agreement, dated as of January 1, 2009, by and between the Manager and us, the Manager granted us a royalty-free, non-exclusive non-assignable license during the term of the license agreement to use the trademarks, “Steel Partners” and “SPII.” The term of the license agreement runs concurrently with the term of the Management Agreement and expires automatically upon expiration of the term of the Management Agreement or the termination of the Management Agreement, unless the license agreement is earlier terminated due to our breach of our material obligations thereunder.

Other

Certain employees of the Manager receive compensation in the form of directors’ fees and incentive compensation for services rendered, as directors, or otherwise, to certain of our affiliates.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee are Anthony Bergamo, Joseph L. Mullen and John P. McNiff. None of the members of the Compensation Committee is our current or former officer or employee. None of the members of the Compensation Committee had any relationship requiring disclosure by us under any paragraph of Item 404 of Regulation S-K.

None of our executive officers served as a director (including as a member of the compensation committee) of any entity that had one or more executive officers who served on our Board of Directors (including as a member of the Compensation Committee).

DIRECTOR COMPENSATION

Directors who are also executive officers are not separately compensated for their service as directors. Our non-management directors earned the following aggregate amounts of compensation for the year ended December 31, 2010.

Name	Total Fees Earned[1]
Anthony Bergamo	$134,000
John P. McNiff	$111,167
Joseph L. Mullen	$113,167
General Richard I. Neal	$102,000
Allan R. Tessler	$100,000

(1) For the year ended December 31, 2010 and for the period July 16, 2009 to December 31, 2009, each director had the option to elect to be paid his compensation in cash or have all or a portion paid in that number of common units having a value equal to two times the amount of compensation earned. For the year ended December 31, 2010 and for the period July 16, 2009 to December 31, 2009 each director elected to receive this compensation in common units. Such common units were issued (i) as of July 10, 2010 for compensation for the period July 16, 2009 to December 31, 2009 and for first and second quarter of 2010 at a per unit value of $16.89, which was determined based on the net asset value of SPH common units as of June 30, 2010, and (ii) as of March 21, 2011 for the compensation for the third and fourth quarter of 2010, respectively, 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 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, 2010 and for the period July 16, 2009 to December 31, 2009, our non-management directors received an annual retainer of $50,000. These directors were also paid cash fees of $1,000 for each board committee meeting attended. The chairmen of the Audit Committee, Corporate Governance and Nominating Committee and Compensation Committee were paid an additional cash fee of $15,000, $5,000 and $5,000 annually, respectively.

Item 7. Certain Relationships and Related Transactions, and Director Independence

All dollars used in this discussion are in thousands unless otherwise indicated.

Certain Relationships and Related Transactions

In this “Certain Relationships and Related Transactions” section, all dollar amounts are in thousands, except for per share amounts.

Exchange Transaction

See “Business -- History” for a description of the Exchange Transaction.

Deferred Fee Agreement

We entered into an assignment and assumption agreement, as of July 15, 2009, with SPII Offshore and WGL, pursuant to which we assumed all of SPII Offshore’s liabilities and obligations under the Deferred Fee Agreement, pursuant to which WGL deferred certain fees due to it under its management agreement with SPII Offshore. WGL is an entity controlled by Warren G. Lichtenstein, our Chairman and Chief Executive Officer. In connection with the assignment and assumption agreement, SPII Offshore transferred to us assets, consisting of cash and our common units, equal in the aggregate in value to the assumed liabilities. Pursuant to the Deferred Fee Agreement, WGL has the option, but not the obligation, to elect to be paid in cash or common units, or a combination thereof. The number of our common units to be paid in lieu of the cash would be determined by applying a 15% discount to the market price or to the net asset value per common unit. The common units issued as payment will be subject to a six-month lock-up.

Management Agreement

See “Executive Compensation” for a description of the Management Agreement.

WGL Capital

Under an investor services agreement with WGL, an entity controlled by Warren G. Lichtenstein, our Chairman and Chief Executive Officer, WGL performs certain investor relations services on our behalf and we pay WGL 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 fee payable to WGL under the investor services agreement. In addition, we bears (or reimburse WGL with respect to) all reasonable costs and expenses of ours, and WGL, or their affiliates relating to the investor relations services performed for us, including but not limited to all expenses actually incurred by WGL that are reasonably necessary for the performance by WGL of its duties and functions under the investor services agreement. From July 16, 2009 through December 31, 2009, WGL earned an Investor Services Fee of $23, for the year end December 31, 2010 WGL earned an Investor Services Fee of $50, and for the nine months ended September 30, 2011, WGL earned an Investor Services Fee of $38.

On each of March 26, 2010, January 24, 2011 and March 10, 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 SPCS in the amount of $950 and $1,950 for services performed in 2009 and 2010, respectively, and of $1,740 for services to be performed in 2011. In each of 2009 and 2010 this fee was, and in 2011 this fee will be, paid as consideration for the services of Warren G. Lichtenstein, as Chairman of the Board, Glen M. Kassan, as Chief Executive Officer and Vice Chairman, John J. Quicke, as Vice President and, until December 2010, as director, and Jack L. Howard and John H. McNamara, Jr., both as directors, as well as other assistance from SPCS 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. HNH does not have a written agreement with SPCS relating to the services described above.

HNH Accounting Services

Commencing on July 16, 2009, HNH provides certain accounting services to SPH. HNH billed SPH $91 and $550 for services provided for the period July 16, 2009 to December 31, 2009 and year ended December 31, 2010, respectively. For the nine months ended September 30, 2011, SPH incurred $921 for these accounting services.

SPII Liquidating Trust

The SPII Liquidating Trust, a Delaware statutory trust, was formed and commenced operations on July 15, 2009. The purpose of the SPII Liquidating Trust is to effect the orderly liquidation of certain assets previously held by SPII in connection with the withdrawal of the limited partners of SPII Onshore. SPIIGP is the liquidating trustee, and along with a Delaware trustee, has responsibilities that are generally limited to providing certain services in connection with the administration of the SPII Liquidating Trust. The Manager is the investment manager of the SPII Liquidating Trust.

On July 15, 2009, SPII contributed $243,844 of non-cash assets and $39,235 of cash to the SPII Liquidating Trust and became the initial beneficiary of each series of the SPII Liquidating Trust. In connection with the full withdrawal of the limited partners of SPII Onshore 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 SPII Liquidating Trust for the benefit of the SPII Liquidating Trust as its nominee until such assets could be assigned to the SPII Liquidating Trust. After December 31, 2009, SPII held no assets on behalf of the SPII Liquidating Trust.

We currently hold interests in the SPII Liquidating Trust. Our interest in the SPII Liquidating Trust was $97,923, $62,553 and $46,542, at December 31, 2009, December 31, 2010 and September 30, 2011, respectively. The SPII Liquidating Trust has an investment in (i) SPJSF, (ii) SPCA, and (iii) SP Acquisition Holdings, Inc. (“SPAH”), a blank check company formed for the purpose of acquiring, through a merger, capital stock exchange, asset acquisition or other similar business combination, one or more businesses or assets controlled by an affiliate of the Manager. We, through the SPII Liquidating Trust, had an interest in a co-investment obligation to SPAH should a business combination involving SPAH have taken place by October 10, 2009. The SPII Liquidating Trust held sufficient cash to fund such obligation, but it was terminated because a business combination was not completed, rendering the investment held by the SPII Liquidating Trust in SPAH worthless. The capital commitment has been terminated and capital has been distributed to the investors in the SPAH, including the SPII Liquidating Trust. At December 31, 2009, our interest in the SPII Liquidating Trust related to SPJSF and SPCA was $10,305 and $11,872, respectively. At December 31, 2010, our interest in the SPII Liquidating Trust related to SPJSF and SPCA was $7,826 and $11,579, respectively. At September 30, 2011, SPH’s interest in the SPII Liquidating Trust related to SPJSF and SPCA was $2,755 and $10,576, respectively. We have no obligation to make any capital contributions to the SPII Liquidating Trust.

SPCS Services Agreements

Effective as of July 1, 2007, we entered into a services agreement, or the "Services Agreement", with SPCS, an entity controlled by Warren G. Lichtenstein, our Chairman and Chief Executive Officer. Pursuant to the Services Agreement, SPCS provides us with certain management, consulting and advisory services. The Services Agreement is automatically renewable on an annual basis unless terminated by either party on any anniversary date, upon at least 30 days written notice. In consideration of the services rendered, a fixed annual fee totaling $310 was charged, adjustable annually upon agreement. Effective as of July 15, 2009, the Services Agreement was amended to provide for the provision of accounting, investor relations, compliance and other services related to our operation. The fee to be paid is agreed upon by SPCS and us from time to time. SPCS earned $478 and $1,768 for the years ended December 31, 2009 and December 31, 2010, respectively, under the Services Agreement. SPCS earned $856 for the nine months ended September 30, 2011.

On February 5, 2010, WebBank paid SPCS a fee of $250 for the provision of executive services, including provision of a chairman of the board, for 2009. On March 9, 2010, WebBank and SPCS entered into a servicing agreement under which SPCS 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 the nine months ended September 30, 2011, WebBank paid SPCS fees of $188.

Effective as of July 1, 2007, SPCS entered into services agreements with each of BNS and CoSine. Pursuant to the terms of the services agreements, of which the services agreement with BNS was amended on May 12, 2010, SPCS initially provided each of BNS and CoSine with certain services and each of BNS and CoSine pays SPCS a monthly fee of $42 and $17, respectively, which fees are adjustable annually upon agreement by the parties or at other times upon amendment to the services agreements. In addition, each of BNS and CoSine are obligated to reimburse SPCS for certain expenses, including legal expenses, as well as all reasonable and necessary business expenses, incurred on behalf of each of BNS and CoSine. Services provided under the services agreements include the non-exclusive services of persons to perform accounting, tax, administrative, compliance and investor relations services. BNS incurred $129 for the period from July 15, 2009 through October 31, 2009 (its fiscal year end), which is the period for which BNS is consolidated for the period from July 15, 2009 through December 31, 2009 and $385 for the year ended October 31, 2010 (its fiscal year end), which is the period for which BNS is consolidated for the period from January 1, 2010 through December 31, 2010. Under the terms of an amended and restated services agreement effective as of May 12, 2010, SPCS receives a monthly fee of $42 monthly from BNS. BNS incurred $625 (includes $500 for assistance provided to BNS related to a financing arrangement) and $125 for the third quarter of 2011 and 2010, respectively. BNS incurred $958 for the period from November 1, 2010 to September 30, 2011.

Effective as of September 1, 2009, SPCS entered into a management services agreement with DGT. Pursuant to the terms of the management services agreement, which was amended on October 1, 2011, SPCS provides DGT with certain services and DGT pay SPCS a monthly fee of $48, which fee is adjustable annually upon agreement by the parties or at other times upon amendment to the management services agreement. In addition, DGT is obligated to reimburse SPCS for certain expenses, including legal expenses, as well as all reasonable and necessary business expenses, incurred on behalf of DGT. Services provided under the management services agreement include the non-exclusive services of persons, including a chief executive officer and chief financial officer, to perform certain management and leadership services.

Effective as of September 1, 2011, SPCS entered into a management services agreement with Steel Excel. Pursuant to the terms of the management services agreement, SPCS provides Steel Excel with certain services and Steel Excel pays SPCS a monthly fee of $35, which fee is adjustable annually upon agreement by the parties and such additional amounts as are payable for the provision of certain accounting, finance, human resources, operational and other services upon agreement by the parties. In addition, Steel Excel is obligated to reimburse SPCS for certain expenses, including legal expenses, as well as all reasonable and necessary business expenses, incurred on behalf of Steel Excel. Services provided under the management services agreement include the non-exclusive services of a chief financial officer and a financial reporting manager.

Mutual Securities

Pursuant to the Management Agreement, the Manager is responsible for selecting executing brokers. Securities transactions for us are allocated to brokers on the basis of reliability and 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. Jack L. Howard, our President and Secretary, is a registered principal of Mutual Securities. The commissions paid by us to Mutual Securities were approximately $1,760 and $1,006 for the years ended December 31, 2009 and December 31, 2010, respectively. The commissions paid by us to Mutual Securities were approximately $1,024 for the nine months ended September 30, 2011.

SPL Management Agreement

SPL, an entity of which Warren G. Lichtenstein, our Chairman and Chief Executive Officer, is the Chief Executive Officer and Chairman of the Board, was a party to a management agreement with SLI from January 23, 2002 until the agreement was terminated on May 18, 2010, effective January 31, 2010, for a one-time payment of $150. Pursuant to the terms of the management agreement, SPL provided SLI with certain services and SLI paid SPL an annual fee of $475, payable monthly. In addition, SLI was obligated to reimburse SPL for certain expenses, including legal expenses, as well as all reasonable and necessary business expenses, incurred on behalf of SLI. Services provided to SLI under the management agreement included certain management, advisory and consulting services, including provision of a chairman of the board.

WebBank

In June 2010, a subsidiary of WebBank entered into an agreement with NOVT Corporation, a subsidiary of an affiliate of the Manager, to participate in a factoring facility in the amount of up to $2,000. As of December 31, 2010, the participation amount by NOVT was $2,000.

Review, Approval or Ratification of Transactions with Related Persons

The Partnership Agreement generally provides that affiliated transactions and resolutions of conflicts of interest between Steel Partners or its affiliates, or any director of the Board of Directors, on the one hand, and us, on the other, must be approved by a majority of the disinterested directors of the Board of Directors or a conflicts committee established by the Board of Directors and must be on terms no less favorable to us than those generally provided to or available from unrelated third parties or "fair and reasonable" to us, taking into account the totality of the relationships between the parties involved.

In addition, we have a written Related Person Transaction Policy, which is administered by the Audit Committee. The Related Person Transaction Policy provides that the Audit Committee is to consider all relevant factors when determining whether the terms of a related person transaction are fair and reasonable to us and whether to approve or ratify a related person transaction; provided however that these requirements will be deemed satisfied and not a breach of any duty as to any transaction (i) approved by the Audit Committee; (ii) approved by the vote of the holders of a majority of the voting power of outstanding voting units (excluding voting units owned by us, the General Partner and persons that we and the General Partner control); (iii) the terms of which are no less favorable to us than those generally being provided to or available from unrelated third parties; or (iv) that is fair and reasonable to us, taking into account the totality of the relationships between the parties involved (including other transactions that may be or have been particularly favorable or advantageous to us). Among other relevant factors, the Audit Committee will consider the size of the transaction and the amount payable to a related person, the nature of the interest of the applicable related person, whether the transaction may involve a conflict of interest and whether the transaction involves the provision of goods or services to us that are available from unaffiliated third parties.

Under the Related Person Transaction Policy, a related person means:

(1) any person who was, at any time since the beginning of our last fiscal year, a director, director nominee or executive officer of the General Partner, even if the person was not a director, director nominee or executive officer of the General Partner at the time of the transaction;

(2) any person who was, at any time since the beginning of our last fiscal year, an immediate family member of a director, director nominee or executive officer of the General Partner and any person (other than a tenant or employee) sharing the household of such director, director nominee or executive officer of the General Partner, even if the person was not an immediate family member of such director, director nominee or executive officer of the General Partner at the time of the transaction;

(3) any unitholder that was, at the time the transaction in question occurred or existed, a holder of 5% or more of our voting units;

(4) any person who was, at the time the transaction in question occurred or existed, an immediate family member of a holder of 5% or more of our voting units and any person (other than a tenant or employee) sharing the household of such unitholder;

(5) an entity in which any of the persons identified in (1) through (4) above acts as an officer or general partner of or otherwise controls such entity or in which such person, together with any other persons identified in clauses (1) through (4) above, holds an aggregate ownership interest of at least 10%.

Under the Related Person Transaction Policy, a related person transaction includes any transaction or currently proposed transaction that occurred since the beginning of our most recent fiscal year in which we were or are to be a participant, a related person had or will have a direct or indirect material interest and the amount involved exceeds or reasonably can be expected to exceed $120,000. Under the Related Person Transaction Policy, a transaction includes, but is not limited to, any financial transaction, arrangement or relationship or any series of similar transactions, arrangements or relationships.

Director Independence

Although the common units are not yet listed on any national securities exchange, the Board has determined that Messrs. Bergamo, McNiff, Mullen and Tessler and General Neal are "independent" as defined in the currently applicable listing standards of the New York Stock Exchange ("NYSE"). The NYSE's listing standards require that all listed companies have a majority of independent directors. For a director to be "independent" under the NYSE listing standards, the board of directors of a listed company must affirmatively determine that the director has no material relationship with the company, or its subsidiaries or affiliates, either directly or as a partner, shareholder or officer of an organization that has a relationship with the company or its subsidiaries or affiliates. In accordance with the NYSE listing standards, the Board has affirmatively determined that each of Messrs. Bergamo, McNiff, Mullen and Tessler and General Neal have no material relationships with the Company, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company.

Additionally, each of Messrs. Bergamo, McNiff, Mullen and Tessler and General Neal has been determined to be "independent" under the NYSE listing standards

- the director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer, of the Company;

- the director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than $120,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

- (a) the director is a current partner or employee of a firm that is the Company's internal or external auditor; (b) the director has an immediate family member who is a current partner of such a firm; (c) the director has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or (d) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time;

- the director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee; or

- the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million, or 2% of such other company's consolidated gross revenues.

Item 8. Legal Proceedings

We are currently not involved in any litigation or any pending legal proceedings that we believe could have a material adverse effect on our financial position or results of operations. Except as set forth below, there are presently no pending legal proceedings that we believe could have a material adverse effect on our financial position or results of operations and to which any of our subsidiaries, any executive officer, any owner of record or beneficially of more than five percent of any class of voting securities is a party or as to which any of our property is subject, and no such proceedings are known to us to be threatened or contemplated against us.

HNH

Environmental Matters

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, or the "Sold Parcel", and an adjacent parcel, or the "Adjacent Parcel", that together with the Sold Parcel comprises the site of a former H&H manufacturing facility. On September 11, 2008, the CTDEP advised H&H that it had approved H&H's Soil Action Remediation Action Report, dated December 28, 2007 as amended by an addendum letter dated July 15, 2008, thereby concluding the active remediation of the Sold Parcel. Approximately $29.0 million was expended through December 31, 2009, and the remaining remediation and monitoring costs for the Sold Parcel are expected to approximate $0.3 million. H&H also has been conducting an environmental investigation of the Adjacent Parcel, and is continuing the process of evaluating various options for its 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.

HHEM entered into an administrative consent order, or the "ACO", in 1986 with the New Jersey Department of Environmental Protection, or the "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 and H&H settled a case brought by the local municipality in regard to this site in 1998 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. HHEM anticipates entering into discussions with the NJDEP to address that agency's 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 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 September 30, 2011, over and above the $1.0 million, total investigation and remediation costs of approximately $1.8 million and $0.6 million have been expended by the former owner/operator and HHEM, respectively, in accordance with the settlement agreement. Additionally, HHEM indirectly is currently being reimbursed 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 remediation plan is agreed upon with the NJDEP, and 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.

H&H and Bairnco (and/or one or more of their respective subsidiaries) have been identified as potentially responsible parties ("PRPs"), under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), or similar state statutes at several sites and are parties to administrative consent orders in connection with certain other 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.

H&H received a notice letter from the United States Environmental Protection Agency ("EPA"), in August 2006 formally naming H&H as a PRP at a superfund site in Massachusetts, or the "Superfund site". H&H is part of a group of thirteen (13) other PRPs, or the "PRP Group", to work cooperatively regarding remediation of the Superfund site. H&H executed a participation agreement, consent decree and settlement trust on June 13, 2008 and all of the other PRP's 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, after no comments were received during the thirty-day comment period on January 27, 2009. With the entry and filing of the consent decree, H&H was required to make two payments in 2009: one payment of $182 relating to the "true-up" of monies previously expended for remediation and a payment of $308 for H&H's share of the early action items for the remediation project. In addition, on March 11, 2009, WHX executed a financial guaranty of H&H's obligations in connection with the Superfund site. 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 site, under the direction of the Department of Energy ("DOE"), is expected to be completed and approved by the EPA by April 2012. Additional financial contributions will be required by the PRP Group when it starts its work upon completion of the DOE's radiological remediation work. 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.

Handy & Harman Electronic Materials Corporation ("HHEM"), is continuing to comply with a 1987 consent order from the Massachusetts Department of Environmental Protection, or the "MADEP", to investigate and remediate the soil and groundwater conditions at certain commercial/industrial property in Massachusetts, or the "MA Property", that is the subject of litigation in Bristol Superior Court in Massachusetts. On January 20, 2009, HHEM filed with MADEP a partial Class A-3 Response Action Outcome Statement and an Activity & Use Limitation for the MA Property. By letter dated March 24, 2009, MADEP advised HHEM that the Response Action Outcome Statement did not require a comprehensive audit. By letter dated April 16, 2009, the MADEP advised HHEM that a MADEP Activity & Use Limitation Audit Inspection conducted on March 18, 2009 did not identify any violations of the requirements applicable to the Activity & Use Limitation. Together, the March 24 and April 16 MADEP letters, combined with HHEM's Licensed Site Professional's partial Response Action Outcome Statement opinion constitute confirmation of the adequacy of HHEM's investigation of the MA Property as well as its remediation and post closure monitoring plans. The Massachusetts Attorney General executed a covenant not to sue (CNTS) to cover the MA Property on March 31, 2010. Following the execution of the CNTS, HHEM filed a Remedy Operation Status (ROS) on April 1, 2010. HHEM is now working towards filing a Class A-3 Response Action Outcome Statement to close the site once groundwater monitoring demonstrates that the remediation has controlled the conditions at the site. 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.

Certain subsidiaries of Handy & Harman Group Ltd. ("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. HNH had approximately $6 million accrued related to estimated environmental remediation costs as of September 30, 2011. In addition, HNH 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, including prior capital expenditures, anticipated capital expenditures, and information available on pending judicial and administrative proceedings, the H&H Group subsidiaries do not expect their respective environmental costs, including the incurrence of additional fines and penalties, if any, relating to the operation of their respective facilities to have a material adverse effect on them, but there can be no such assurances that the resolution of these matters will not have a material adverse effect on their financial positions, results of operations and cash flows. HNH anticipates that the H&H Group subsidiaries will pay such amounts out of their respective working capital, although there is no assurance that they will have sufficient funds to pay such amounts. 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.

Other Litigation

There are a number of 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 to reasonably estimate HNH's exposure or share, if any, of the liability at this time 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 HNH's results of operations, financial position and cash flows when they are resolved in future periods.

Item 9. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters

Market Information

As of December 12, 2011, we had 25,183,039 common units issued and outstanding.

Our common units are quoted on the Pink Sheets under the symbol "SPNHU.PK." As of December 12, 2011, the price per share of our common units was 12.75.

As of December 12, 2011, we had outstanding options to purchase 4,973,863 common units.

Former investors of the entities that indirectly invested in SPII, Steel Partners II (Onshore) LP and Steel Partners II (Offshore) Ltd., should be permitted to tack the holding period of the common units of Steel Partners II Master Fund L.P. ("SPII Master"), which began on January 1, 2009, to their respective holding periods of the common units pursuant to Rule 144 as promulgated under the Securities Act of 1933, as amended, or the "Securities Act". Former minority holders of WebFinancial are deemed to have held their SPH common units since the completion of the merger of WebFinancial with and into us on December 31, 2008. Accordingly, following a 90-day period after the effectiveness of this registration statement on Form 10, the common units should be freely transferable in the hands of the unitholders provided that such unitholders otherwise satisfy the conditions of Rule 144 to fall within the safe harbor provided thereunder.

Holders

As of December 12, 2011, there were approximately 411 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.

Item 10. Recent Sales of Unregistered Securities

In the Exchange Transaction, effective January 1, 2009, SPII Master contributed all of its interest in SPII in exchange for 59,186,007 of our common units, subject to a purchase price adjustment based on the audited net asset value of SPII and our audited book value, in each case, as of December 31, 2008, or the "Purchase Price Adjustment". The Purchase Price Adjustment resulted in SPII Master being entitled to receive an additional 6,108,812 of our common units as of January 1, 2009, resulting in a total of 65,294,819 of our common units being issued or to be issued in connection with the Exchange Transaction to SPII Master. In addition, 1,870,564 of our common units were issued to SPII Master on January 1, 2009 in exchange for an equal number of our common units that was held by SPII, which represented SPII Master's interest in us prior to the Exchange Transaction. As a result of the Exchange Transaction, SPII Master as of January 1, 2009 owned approximately 99.5% of our common units then issued and outstanding.

On June 29, 2009, SPII Master transferred all of the common units it held and was entitled to be issued to SPII Onshore and SPII Onshore assumed all of SPII Master's interests under the Exchange Agreement.

The Exchange Transaction was subject to being unwound, in whole or part, until July 15, 2009. Accordingly, 65,294,819 of our common units (issued and entitled to be issued to SPII Onshore) represented a redeemable interest in us until July 15, 2009. On July 15, 2009, in connection with the completion of the Exchange Transaction as part of the SPII Restructuring and the implementation of the partial unwind, (i) 39,533,232 of our common units (issued and entitled to be issued to SPII Onshore) that had been subject to redemption were redeemed for a portion of the net assets held by SPII, and (ii) 25,761,587 common units that had been subject to redemption became non-redeemable in exchange for us retaining the remaining net assets of SPII. As part of implementing the SPII Restructuring, effective as of July 15, 2009, SPII Onshore distributed 27,632,151 of our common units to its limited partners, including SPII Offshore, in full withdrawal of their respective interests in SPII Onshore, resulting in SPII Onshore no longer holding any of our common units. At July 15, 2009, the former minority stockholders of WebFinancial continued to hold the remaining common units of SPH, totaling 312,802 common units, or approximately 1%, of the common units then issued and outstanding.

The total number of our common units issued to SPII Master pursuant to the Exchange Agreement was to be based upon the audited net asset value of SPII and our audited net asset value as of December 31, 2008. More specifically, SPII Master was to receive common units relative to all common units issued and outstanding in the same proportion as the fraction (a) the numerator of which is the net asset value of SPII (less the value of SPII interests in us) and (b) the denominator of which is the sum of (i) the net asset value of SPII (less the value of SPII interests in us) and (ii) our net asset value. Under the Exchange Agreement, SPII Master was issued 59,186,007 common units based on the agreed exchange ratio, as applied to the net asset value of SPII and our net asset value as of November 30, 2008. Pursuant to the Exchange Agreement, the initial number of our common units issued to SPII Master was subject to adjustment (based on the application of the agreed exchange ratio to the audited net asset value of SPII and our net asset value as of December 31, 2008), by the issuance by us of additional common units to SPII Master or the cancellation by us of common units, in accordance with the agreed exchange ratio. In addition, under the Exchange Agreement, 1,870,564 of our common units were issued to SPII Master in exchange for an equal number of our common units that was held by SPII (and as a result became our treasury common units), which represented SPII Master's interest in us prior to the Exchange Transaction. On July 15, 2009, in order to implement the partial unwind, SPII Onshore surrendered, in exchange for a portion of the net assets of SPII, (i) 33,424,420 common units, which were subject to redemption, and (ii) its right to receive 6,108,812 common units to reflect the Purchase Price Adjustment, which would have become subject to redemption once issued. Effective July 15, 2009, in connection with the completion of the Exchange Transaction, we cancelled the 1,870,564 of our common units that were held by SPII.

Effective as of July 15, 2009, we granted to the Manager an option to purchase 4,965,690 common units, which is equal to 15% of the sum of the common units outstanding and the number of units booked to the deferred fee accounts, each as of July 15, 2009, as incentive based compensation for serving as our manager. The option has a per common unit exercise price of $31.81 per common unit. Such exercise price declined to $29.86 because of the April 1, 2010 distribution to unitholders and the exercise price declined to $28.68 because of the April 6, 2011 distribution to unitholders. Effective March 21, 2011, we granted to the Manager (i) an option to purchase 5,671 common units at an exercise price of $16.89, per common unit, as based on the net asset value of the common units as of June 30, 2010 and the exercise price declined to $15.71 because of the April 6, 2011 distribution to unitholders, (ii) an option to purchase 1,291 common units at an exercise price of $18.80, per common unit, as determined based on the net asset value of the common units as of September 30, 2010 and the exercise price declined to $17.62 because of the April 6, 2011 distribution to unitholders, and (iii) an option to purchase 1,211 common units at an exercise price of $20.03, per common unit, as determined based on the net asset value of the common units as of December 31, 2010 and the exercise price declined to $18.85 because of the April 6, 2011 distribution to unitholders. Such options are subject to adjustment for any cash distributions, and any distributions-in-kind, and any release to the former partners of SPH Onshore of amounts previously held in reserve to satisfy certain potential contingent liabilities and unknown expenses of SPII Onshore. Such options are currently exercisable and expire on December 31, 2011.

Effective as of July 10, 2010, SPH issued an aggregate of 32,134 common units to its independent directors at a per unit value of $16.89, which was determined based on the net asset value of SPH common units as of June 30, 2010. 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. Each independent director may elect to be paid his compensation in cash or have all or a portion paid in that number of common units having a value equal to two times the amount of compensation earned. For the period July 16, 2009 to December 31, 2009 and the year ended December 31, 2010 each independent director has elected to receive this compensation in common units.

With respect to the sales of our common stock and the option grant described above, we relied on the exemption provided by Section 4(2) of the Securities Act as transactions by an issuer not involving a public offering.

Item 11. Description of Registrant's Securities to be Registered

Description of Common Units

Common Units

The common units represent limited partner interests in SPH. The holders of common units are entitled to participate in our distributions and exercise the rights or privileges available to unitholders under the Partnership Agreement. For a description of the rights and privileges of limited partners under our Partnership Agreement, including voting rights, see "Material Provisions of Steel Partners Holdings L.P. Partnership Agreement".

Transfer of Partnership Interests

Except as provided below, no transfer of any partnership interests shall be made if such transfer would (i) violate the then applicable U.S. federal or state securities laws or rules and regulations of the SEC, any state securities commission, or any other governmental authority with jurisdiction over such transfer, (ii) terminate the existence or qualification of us under the laws of the jurisdiction of its formation, (iii) cause us to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for U.S. federal income tax purposes (to the extent not already so treated or taxed) or (iv) cause us to be subjected to the provisions of the Investment Company Act.

The Board of Directors may impose restrictions on the transfer of partnership interests if it receives an opinion of counsel that such restrictions are necessary to avoid a significant risk of (i) us becoming taxable as a corporation or otherwise becoming taxable as an entity for U.S. federal income tax purposes or (ii) us being subjected to the provisions of the Investment Company Act. The Board of Directors may impose such restrictions by amending the Partnership Agreement; provided however, that any amendment that would result in the delisting or suspension of trading of any class of limited partner interests on the principal national securities exchange on which such class of limited partner interests is then traded must be approved, prior to such amendment being effected, by the approval by the vote of the holders of a majority of the voting power of outstanding voting units (excluding voting units owned by us, the General Partner and persons we control).

Nothing contained in the Partnership Agreement precludes the settlement of any transactions involving partnership interests entered into through the facilities of any national securities exchange on which such partnership interests are listed for trading.

The 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. If, absent regulatory approval, at any time any person or group, other than (i) the General Partner, Steel Partners and their respective affiliates, and (ii) a person or group that acquires 10% or more of any common units with the prior approval of the Board of Directors, acquires, in the aggregate, beneficial ownership of 10% or more of any class of common units then outstanding, that person or group will lose voting rights with respect to all of its common units in excess of 9.9%, and such common units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes. Limited partnership interests owned by us or our subsidiaries will not be considered to be outstanding.

Transfer Agent and Registrar

American Stock Transfer & Trust Company LLC served as registrar and transfer agent for our common units. You may contact the registrar and transfer agent at the following address: 59 Maiden Lane, Plaza Level, New York, New York 10038, Telephone: (800) 937-5449.

Material Provisions of Steel Partners Holdings L.P. Partnership Agreement

The following is a summary of the material provisions of the Partnership Agreement. We summarize the provisions of the Partnership Agreement regarding the transfer of common units above. See “Description of Common Units—Transfer of Partnership Interests”.

Issuance of Additional Securities

We may, with the approval of the Board of Directors, issue additional securities. Such securities may be issued in one or more classes, or one or more series of any such classes. The issuance of additional securities will be subject to the rules of any exchange upon which our securities may be listed.

Allocations

Each item of our income, gain, loss and deduction is determined on an annual basis and prorated on a monthly basis and is allocated to the General Partner and the unitholders, or together, the “Partners”, as of the opening of the national securities exchange on which the common units are listed or admitted to trading on the first business day of each month; provided, however, that gain or loss on a sale or other disposition of any of our assets or any other extraordinary item of income or loss realized and recognized other than in the ordinary course of business, as determined by the Board of Directors, is allocated to the unitholders as of the opening of the national securities exchange on which the common units are listed or admitted to trading on the first business day of the month in which such income, gain, deduction or loss is recognized for federal income tax purposes. The Board of Directors may revise, alter or otherwise modify such methods of allocation to the extent permitted or required by Section 706 of the Code, and the regulations or rulings promulgated thereunder.

Distributions

The Board of Directors has the right to authorize distributions, in its sole discretion, which may be made in cash or in kind to the Partners pro rata according to their respective percentage interests in us. We currently have no plan to make any distributions in excess of the Target Distribution.

General Partner

The General Partner, through the Board of Directors, manages certain of our operations, activities and assets, and has delegated certain management duties to Steel Partners pursuant to the Management Agreement. The Board of Directors is authorized in general to perform all acts that it determines to be necessary or appropriate to carry out our purposes and to conduct our business.

The Partnership Agreement provides that, whenever the Board of Directors is permitted or required to make a decision in its sole discretion or that it deems necessary or appropriate in managing our operations and activities, except as otherwise provided in the Partnership Agreement, it will make such decisions in its sole discretion and will be entitled to consider only such interests and factors as it desires, will have no duty or obligation to give any consideration to any interest of or factors affecting us or any of our unitholders, and will not be subject to any different standards imposed by the Partnership Agreement, the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity.

The General Partner has a Board of Directors that is elected annually by the unitholders, as provided in the Partnership Agreement and described below. The unitholders have only limited voting rights on matters affecting our business and therefore have limited ability to influence management's decisions regarding our business. The voting rights of the unitholders are limited as set forth in the Partnership Agreement and in the Delaware Limited Partnership Act.

Power of Attorney

Each unitholder, and each person who acquires a limited partner interest in accordance with the Partnership Agreement, granted to the General Partner and, if appointed, a liquidator, a power of attorney to, among other things, execute and file documents required for our qualification, continuance, dissolution or termination. The power of attorney also granted the General Partner the authority to amend, and to make consents and waivers under, the Partnership Agreement and certificate of limited partnership, in each case in accordance with the Partnership Agreement.

Board of Directors

The number of directors that constitutes the whole Board of Directors is seven and the Board of Directors must consist of not less than five and not more than nine directors. The Board of Directors must consist of at least a majority of independent directors and Steel Partners has two representatives serving as directors (Warren G. Lichtenstein and Jack Howard). Subject to these requirements, the number of directors will be fixed from time to time exclusively pursuant to a resolution adopted by the Board of Directors, provided that no decrease in the number of directors constituting the Board of Directors will shorten the term of any incumbent director. The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, each composed solely of independent directors. The Board of Directors may designate such other committees as it deems appropriate or as may be required by any national securities exchange on which the common units are listed for trading, to serve at the pleasure of the Board of Directors.

Each director will hold office for a one-year term and until such director's successor has been duly elected and qualified, or until such director's earlier death, resignation or removal. Any vacancy on the Board of Directors (including, without limitation, any vacancy caused by an increase in the number of directors on the Board of Directors) other than a vacancy created by the removal of a director by the unitholders, as provided below, may be filled only by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director. A director may be removed, at any time, but only for cause, upon the affirmative vote of the unitholders holding a majority of the voting power of the outstanding limited partner interests and any vacancy on the Board of Directors created by such removal is to be filled by a vote of the unitholders at a meeting of the unitholders or by written consent in accordance with the Partnership Agreement.

Except as provided in the Partnership Agreement or otherwise required by the Delaware Limited Partnership Act, each director has the same fiduciary duties and obligations to us and the unitholders as a director of a Delaware corporation has to such corporation and its stockholders, as if such directors were directors of a Delaware corporation.

Meetings; Voting

The Partnership Agreement provides that an annual meeting of the unitholders for the election of directors to the Board of Directors will be held each year at such date and time as determined by the Board of Directors. Notice of the annual meeting must be given not less than 10 days nor more than 60 days prior to the date of such meeting.

The unitholders will vote together as a single class for the election of directors. The unitholders entitled to vote will elect by a plurality of the votes cast at such meeting persons to serve as directors on the Board of Directors who are nominated in accordance with the provisions of the Partnership Agreement. The exercise by a unitholder of the right to elect the directors and any other rights afforded to such unitholder under the Partnership Agreement will be in such unitholder's capacity as a unitholder of SPH and are not intended to cause a unitholder to be deemed to be taking part in the management and control of our business and affairs.

Each record holder of a common unit is entitled to one vote per common unit. However, the 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. If, absent regulatory approval, at any time any person or group, other than (i) the General Partner, Steel Partners and their respective affiliates, and (ii) a person or group that acquires 10% or more of any common units with the prior approval of the Board of Directors, acquires, in the aggregate, beneficial ownership of 10% or more of any class of common units then outstanding, that person or group will lose voting rights with respect to all of its common units in excess of 9.9%, and such common units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes. Limited partnership interests owned by us or our subsidiaries will not be considered to be outstanding.

Any common units held for its own account by a unitholder that is a bank holding company or a financial holding company, as defined in the U.S. Bank Holding Company Act of 1956, as amended, or the "BHCA", or a non-bank subsidiary of such holding company and that received its common units as a distribution by SPII Master or any of its affiliates following the Exchange Transaction, or a "BHC Partner", that is determined at the time of admission of such BHC Partner to be in excess of 4.99% (or such lesser or greater percentage as may be permitted under Section 4(c)(6) of the BHCA or other applicable law) of the total common units, excluding, for purposes of calculating this percentage, portions of any other common units that are deemed to be non-voting interests, shall be non-voting interests (whether or not subsequently transferred in whole or in part to any other person except if such common units are (i) sold to the public in an offering registered under the Securities Act; (ii) in a transaction pursuant to Rule 144 or Rule 144A under the Securities Act in which no person acquires more than 2% of SPH's total common units; or (iii) in a single transaction to a third party who acquires at least a majority of SPH's total common units without regard to the transfer of any non-voting interests. Upon the admission of any additional unitholder to the partnership or any reduction of the total outstanding common units (whether as a result of repurchases common units by us or otherwise), recalculation of the common units held by all BHC Partners shall be made, and only that portion of the total common units held by each BHC Partner (which shall include, solely for the purpose of calculating the total common units of such BHC Partner, any common units other than a non-voting interest previously transferred by such BHC Partner to a person who was a unitholder at the time of transfer) that is determined as of the date of such admission or reduction to be in excess of 4.99% (or such lesser or greater percentage as may be permitted under Section 4(c)(6) of the BHCA or other applicable law) of the total outstanding common units, excluding non-voting interests as of such date, shall be a non-voting interest. Non-voting interests are not entitled to be voted on any matter and are not considered to be outstanding when, among other things, sending notices of a meeting of unitholders to vote on any matter (unless otherwise required by law), calculating required votes, or for determining the presence of a quorum.

The Partnership Agreement provides that any action that may be taken at a meeting of the unitholders may be taken without a meeting if an approval in writing describing the action so taken is signed by holders of the number of units that would be necessary to authorize or take that action at a meeting at which all the unitholders were present and voted. The Board of Directors or unitholders holding 50.1% or more of the outstanding common units will be entitled to call special meetings of the unitholders. Unitholders will be entitled to vote either in person or by proxy at meetings. The unitholders holding a majority of the voting power of the outstanding limited partner interests of the class or classes for which a meeting was called (including outstanding limited partner interests deemed owned by the General Partner), represented in person or by proxy, will constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the voting power of such limited partner interests, in which case the quorum will be the greater percentage.

Nomination of Directors and Proposals of Other Business

The Partnership Agreement provides that nominations of persons for election to the Board of Directors and the proposal of other business to be considered by the unitholders may be made at an annual meeting of the unitholders only (i) pursuant to the Board of Directors' notice of meeting (or any supplement thereto), (ii) by or at the direction of the Board of Directors or any committee thereof or (iii) by any unitholder who (a) was a record holder at the time the notice provided for in the Partnership Agreement is delivered to the Board of Directors, (b) is entitled to vote at the meeting and (iii) complies with the notice procedures set forth in the Partnership Agreement.

For any nominations or other business to be properly brought before an annual meeting by a unitholder, the unitholder must give timely notice thereof in writing to the Board of Directors. The notice must contain certain information as specified in the Partnership Agreement. To be timely, a unitholder's notice will have to be delivered to the Board of Directors not later than the close of business on the 90th day, nor earlier than the close of business on the 120th day, prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, notice by the unitholder must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made by us or the Board of Directors). The public announcement of an adjournment or postponement of an annual meeting will not commence a new time period (or extend any time period) for the giving of a unitholder's notice as described above.

In the event that the number of directors to be elected to the Board of Directors is increased effective at the annual meeting and there is no public announcement by us or the Board of Directors naming the nominees for the additional directorships at least 100 days prior to the first anniversary of the preceding year's annual meeting, a unitholder's notice will also be considered timely, but only with respect to nominees for the additional directorships, if it is delivered to the Board of Directors not later than the close of business on the tenth day following the day on which such public announcement is first made by us or the Board of Directors.

The Partnership Agreement provides that nominations of persons for election to the Board of Directors may also be made at a special meeting of unitholders at which directors are to be elected in accordance with the provisions of the Partnership Agreement.

Only such persons who are nominated in accordance with the procedures set forth in the Partnership Agreement will be eligible to be elected at an annual or special meeting of unitholders to serve as directors. Notwithstanding the foregoing, unless otherwise required by law, if the unitholder (or a qualified representative of the unitholder) does not appear at the annual or special meeting of unitholders to present a nomination, such nomination will be disregarded notwithstanding that proxies in respect of such vote may have been received by the Board of Directors or us.

The Partnership Agreement provides that in addition to the provisions described in the Partnership Agreement, a unitholder must also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder; provided, however, that any references in the Partnership Agreement to the Exchange Act or the rules promulgated thereunder are not intended to and will not limit any requirements applicable to nominations pursuant to the Partnership Agreement, and compliance with the Partnership Agreement will be the exclusive means for a unitholder to make nominations.

Poison Pill and Staggered Board

The Board of Directors may not adopt a "poison pill" or unitholder or other similar rights plan with respect to us or provide for a classified board of directors without both the approval of the majority of independent directors of the Board of Directors and the approval by the vote of the holders of a majority of the voting power of outstanding voting units (excluding voting units owned by us, the General Partner and persons they control).

Limitations on Voting Rights

The 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. If, absent regulatory approval, at any time any person or group, other than (i) the General Partner, Steel Partners and their respective affiliates, and (ii) a person or group that acquires 10% or more of any common units with the prior approval of the Board of Directors, acquires, in the aggregate, beneficial ownership of 10% or more of any class of common units then outstanding, that person or group will lose voting rights with respect to all of its common units in excess of 9.9%, and such common units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes. Limited partnership interests owned by us or our subsidiaries will not be considered to be outstanding.

Amendment of the Partnership Agreement

General

Amendments to the Partnership Agreement may not be proposed except by or with the consent of the Board of Directors. To adopt a proposed amendment (other than an amendment that does not require unitholder approval, as discussed below), the Board of Directors must seek the written approval of unitholders holding a majority of the voting power of the outstanding voting units (including voting units held by the General Partner and its affiliates), unless a greater or different percentage is required under the Partnership Agreement or Delaware law, or call a meeting of the unitholders to consider and vote upon the proposed amendment.

Prohibited Amendments

The Partnership Agreement provides that no amendment may be made that would:

(1) enlarge the obligations of any unitholder without its consent, except an amendment (other than an amendment that is permitted to be adopted solely by the Board of Directors or an amendment involving certain business combinations) that would have a material adverse effect on the rights or preferences of any class of partnership interests in relation to other classes of partnership interests that is approved by the holders of at least a majority of the outstanding partnership interests of the type or class of partnership interests so affected (including partnership interests held by the General Partner and its affiliates);

(2) enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to the General Partner or any of its affiliates without the consent of the Board of Directors, which consent may be given or withheld in its sole discretion; or

(3) result in us, or the General Partner or its directors, officers, trustees or agents having a material risk of being in any manner subjected to the provisions of the Investment Company Act, the U.S. Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), regardless of whether such are substantially similar to plan asset regulations currently applied or proposed by the U.S. Department of Labor.

Except pursuant to an amendment that is permitted to be adopted solely by the Board of Directors, the provision of the Partnership Agreement containing the foregoing prohibitions may be amended only upon the approval of the unitholders holding at least 90% of the voting power of the outstanding voting units (including voting units held by the General Partner and its affiliates).

No Unitholder Approval

The Board of Directors has the right generally to make amendments to the Partnership Agreement or certificate of limited partnership without the approval of any unitholder to reflect:

(1) a change in the name of SPH, the location of our principal place of business, our registered agent or its registered office;

(2) the admission, substitution, withdrawal or removal of Partners in accordance with the Partnership Agreement;

(3) a change that the Board of Directors determines in its sole discretion is necessary or appropriate for us to qualify or to continue our qualification as a limited partnership or a partnership in which the unitholders have limited liability under the laws of any state or other jurisdiction or to ensure that we will not be treated as an association taxable as a corporation or otherwise taxed as an entity for U.S. federal income tax purposes;

(4) a change that the Board of Directors determines in its sole discretion to be necessary or appropriate to address changes in U.S. federal income tax regulations, legislation or interpretation;

(5) an amendment that is necessary, in a written opinion of counsel that is acceptable to a majority of the independent directors of the Board of Directors, to prevent the partnership or the General Partner or its directors, officers, agents or trustees, from having a material risk of being in any manner subjected to the provisions of the Investment Company Act, the U.S. Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed by the U.S. Department of Labor;

(6) an amendment that the Board of Directors determines is necessary for the Board of Directors to elect to treat us as an association or as a publicly traded partnership taxable as a corporation for U.S. federal (and applicable state) income tax purposes, if the Board of Directors determines in its sole discretion that it is no longer in our best interests to continue as a partnership for U.S. federal income tax purposes;

(7) an amendment that the Board of Directors determines in its sole discretion to be necessary or appropriate for the creation, authorization or issuance of any class or series of partnership securities or options, rights, warrants or appreciation rights relating to partnership securities;

(8) an amendment expressly permitted in the Partnership Agreement to be made by the Board of Directors acting alone;

(9) an amendment effected, necessitated or contemplated by an agreement of merger, consolidation or other business combination that has been approved under the terms of the Partnership Agreement;

(10) an amendment that in the sole discretion of the Board of Directors is necessary or appropriate to reflect and account for the formation by SPH of, or its investment in, any corporation, partnership, joint venture, limited liability company or other entity, in connection with the conduct by us of activities permitted by the Partnership Agreement;

(11) a change in our fiscal year or taxable year and related changes;

(12) a merger with or conversion or conveyance to another limited liability entity that is newly formed and has no assets, liabilities or operations at the time of the merger, conversion or conveyance other than those it receives by way of the merger, conversion or conveyance, subject to certain conditions; or

(13) any other amendments substantially similar to any of the matters described in (1) through (12) above or (1) through (5) below.

In addition, the Partnership Agreement provides that the Board of Directors may make amendments to the Partnership Agreement without the approval of any unitholder if those amendments, in the discretion of the Board of Directors:

(1) do not adversely affect the unitholders considered as a whole (including any particular class of partnership interests as compared to other classes of partnership interests) in any material respect;

(2) are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state or non-U.S. agency or judicial authority or contained in any federal or state or non-U.S. statute (including the Delaware Limited Partnership Act);

(3) are necessary or appropriate to facilitate the trading of limited partner interests or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the limited partner interests are or will be listed for trading;

(4) are necessary or appropriate for any action taken by the Board of Directors relating to splits or combinations of units under the provisions of the Partnership Agreement; or

(5) are required to effect the intent of the provisions of the Partnership Agreement or are otherwise contemplated by the Partnership Agreement.

Opinion of Counsel and Unitholder Approval

The Board of Directors will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to the unitholders for amendments described above under “No Unitholder Approval.” No other amendments to the Partnership Agreement (other than an amendment pursuant to a merger, sale or other disposition of assets effected in accordance with the provisions described under “Merger, Sale or Other Disposition of Assets”) will become effective without the approval of the unitholders holding at least 90% of the voting power of the outstanding voting units (including voting units held by the General Partner and its affiliates), unless we obtain an opinion of counsel that is acceptable to a majority of the independent directors of the Board of Directors to the effect that the amendment will not affect the limited liability of any of the unitholders under the Delaware Limited Partnership Act.

In addition to the above restrictions, any amendment (other than an amendment that may be adopted solely by the Board of Directors or an amendment involving certain business combinations) that would have a material adverse effect on the rights or preferences of any class of partnership interests in relation to other classes of partnership interests will also require the approval of the holders of at least a majority of the outstanding partnership interests of the class so affected (including partnership interests held by the General Partner and its affiliates).

In addition, any amendment that reduces the voting percentage required to take any action under the Partnership Agreement will require approval by the affirmative vote of unitholders or holders of outstanding voting units (including voting units held by the General Partner and its affiliates) whose aggregate outstanding voting units constitute not less than the voting percentage sought to be reduced.

Merger, Sale or Other Disposition of Assets

The Partnership Agreement generally prohibits the Board of Directors, without the prior approval by the vote of the holders of a majority of the voting power of outstanding voting units (excluding voting units owned by us, the General Partner and persons they control), from causing us to directly or indirectly (through any other entity or person, by derivative, lease, license, joint venture or otherwise) to, among other things, sell, exchange or otherwise dispose of all or any substantial part of our assets in a single transaction or a series of related transactions, including by way of merger, consolidation or other business combination. However, the Board of Directors may mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets (including for the benefit of persons other than us or our subsidiaries) without that approval. The Board of Directors may also sell all or substantially all of our assets under any forced sale of any or all of our assets pursuant to the foreclosure or other realization upon those encumbrances without that approval.

The Board of Directors may, without unitholder approval, convert or merge SPH or any of our subsidiaries into, or convey all of our assets to, a newly formed limited liability entity that has no assets, liabilities or operations at the time of the merger, conversion or conveyance other than those it receives by way of the merger, conversion or conveyance if (i) the Board of Directors receives an opinion of counsel acceptable to a majority of the independent directors that the merger or conveyance, as the case may be, would not result in the loss of the limited liability of any unitholder, (ii) the sole purpose of the conversion, merger or conveyance is to effect a mere change in our legal form into another limited liability entity, to effect a change in the jurisdiction of organization of us into a new jurisdiction of organization, including any foreign jurisdiction, or to cause us to be taxable as a corporation. The holders of the units will not be entitled to dissenters' rights of appraisal under the Partnership Agreement or the Delaware Limited Partnership Act in the event of a merger or consolidation, a sale of substantially all of our assets or any other transaction or event.

Election to be Treated as a Corporation

If the Board of Directors determines in its sole discretion that it is no longer in our best interests to continue as a partnership for U.S. federal income tax purposes, the Board of Directors will be entitled to elect to treat us as an association or as a publicly traded partnership taxable as a corporation for U.S. federal (and applicable state) income tax purposes or to cause us to transfer our assets, subject to our liabilities, to a corporation in exchange for stock of the corporation and to transition such stock to our Partners pursuant to the liquidation of SPH.

Dissolution

We will dissolve upon:

(1) the election of the Board of Directors to dissolve us, if approved by a majority of the Board of Directors after December 31, 2011 or such earlier date with the consent of Steel Partners;

(2) the election of the Board of Directors to dissolve us, if approved by the unitholders holding at least 66⅔% of the voting power of our outstanding voting units (including voting units held by the General Partner and its affiliates); provided, however that such action will not take effect until after December 31, 2011;

(3) there being no unitholders, unless we are continued without dissolution in accordance with the Delaware Limited Partnership Act;

(4) the entry of a decree of judicial dissolution of SPH pursuant to the Delaware Limited Partnership Act; or

(5) the withdrawal or removal of the General Partner or any other event that results in its ceasing to be the General Partner other than by reason of a transfer of its general partner interests or withdrawal or removal of the General Partner following approval and admission of a successor, in each case in accordance with the Partnership Agreement.

Upon a dissolution under clause (5) above, the holders of a majority of the voting power of our outstanding voting units will have the right to elect, within specific time limitations, to continue our business without dissolution on the same terms and conditions described in the Partnership Agreement by appointing as a successor general partner an individual or entity approved by the unitholders holding a majority of the voting power of the outstanding voting units, subject to our receipt of an opinion of counsel to the effect that:

(1) the action would not result in the loss of limited liability of any unitholder; and

(2) neither us nor any successor limited partnership would be treated as an association taxable as a corporation or otherwise be taxable as an entity for U.S. federal income tax purposes upon the exercise of that right to continue.

Liquidation and Distribution of Proceeds

Upon our dissolution, unless we are continued as a new limited partnership, the liquidator authorized to wind up our affairs will, subject to the Partnership Agreement and the Delaware Limited Partnership Act, liquidate our assets and apply the proceeds of the liquidation first to discharge our liabilities as provided in the Partnership Agreement and by law and thereafter to the Partners pro rata according to the percentages of their respective partnership interests as of a record date selected by the liquidator. The liquidator may defer liquidation or distribution of our assets for a reasonable period of time if it determines that an immediate sale or distribution of all or some of such assets would be impractical or would cause undue loss to the Partners. The liquidator may also distribute assets in kind, in whole or in part, if it determines that a sale would be impractical or would cause undue loss to the Partners.

Special Provisions Regarding Conflicts of Interest and Fiduciary Duties

The Partnership Agreement generally provides that resolutions of conflicts of interest between Steel Partners or any of its affiliates, on the one hand, and us on the other, not approved by the majority of disinterested directors of the Board of Directors or by a conflicts committee established by the Board of Directors or not approved by the vote of the holders of a majority of the voting power of the outstanding voting units (excluding voting units owned by us, the General Partner and persons they control), must be:

- on terms no less favorable to us than those generally provided to or available from unrelated third parties; or

- “fair and reasonable” to us, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to us).

Fiduciary duties owed to us and unitholders by the General Partner are prescribed by Delaware law and the Partnership Agreement. The Delaware Limited Partnership Act provides that Delaware limited partnerships may in their partnership agreements expand, restrict or eliminate the duties (including fiduciary duties) otherwise owed by a general partner to limited partners and the partnership.

The Partnership Agreement contains various provisions modifying, restricting and eliminating the duties (including fiduciary duties) that might otherwise be owed by the General Partner. The Partnership Agreement contains provisions that waive or consent to conduct by the General Partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, the Partnership Agreement provides that when the General Partner, in its capacity as the general partner, is permitted to or required to make a decision in its “sole discretion” or “discretion” or that it deems “necessary or appropriate” or “necessary or advisable” or under a grant of similar authority or latitude, except as otherwise provided in the Partnership Agreement, then the General Partner will be entitled to make such decision in its sole discretion, and to consider only such interests and factors as it desires, and will have no duty or obligation to give any consideration to any interest of or factors affecting us or the Partners, and will not be subject to any other or different standards imposed by us or the Partners, and will not be subject to any other or different standards imposed by the Partnership Agreement, any other agreement, contemplated thereby, under the Delaware Limited Partnership Act, or under any other law, rule or regulation or in equity.

Corporate Opportunities

The approval by the majority of disinterested directors of the Board of Directors or by a conflicts committee established by the Board of Directors is required for any pursuit by any director, the General Partner, Steel Partners or any of their respective affiliates, of any corporate opportunity of SPH.

Withdrawal or Removal of the General Partner

The General Partner's voluntary withdrawal will not constitute a violation of the Partnership Agreement, if (i) the General Partner gives at least 90 days' advance notice to the unitholders of its intention to withdraw and the withdrawal is approved by the vote of the holders of a majority of the voting power of the outstanding voting units (excluding voting units owned by us, the General Partner and persons they control) and furnishes an opinion of counsel acceptable to a majority of the independent directors regarding tax and limited liability matters, or (ii) at any time that the General Partner ceases to be the General Partner due to a transfer of all of its general partner interest, or removal, each in accordance with the Partnership Agreement.

If the General Partner gives notice of voluntary withdrawal, the unitholders holding a majority of the voting power of our outstanding voting units will be entitled to select a successor to that withdrawing General Partner. If, prior to the effective date of the General Partner's voluntary withdrawal, a successor is not elected, or is elected but we do not receive an opinion of counsel regarding limited liability and tax matters, we will be dissolved, wound up and liquidated, unless within 90 days after that withdrawal, the unitholders holding a majority of the voting power of our outstanding voting units elect to continue our business on the same terms and conditions set forth in the Partnership Agreement by appointing a successor general partner; provided that the right of the unitholders holding a majority of the voting power of outstanding voting units to approve a successor general partner and to continue our business does not exist and may not be exercised unless we have received an opinion of counsel regarding limited liability and tax matters. See "Dissolution" above.

The Partnership Agreement provides that the General Partner may be removed if such removal is approved by the vote of the unitholders holding at least 66⅔% of the voting power of the outstanding voting units (including voting units held by the General Partner and its affiliates) and we receive an opinion of counsel regarding limited liability and tax matters; provided, however that such action will not take effect until after December 31, 2011. Any removal of the General Partner will be subject to the approval of a successor general partner by the vote of the unitholders holding a majority of the voting power of our outstanding voting units (including voting units held by the General Partner and its affiliates).

In the event of removal of the General Partner under circumstances where cause exists, or withdrawal of the General Partner where that withdrawal violates the Partnership Agreement, a successor general partner will have the option to purchase the general partner interest of the departing general partner for a cash payment equal to its then fair market value. Under all other circumstances where a general partner withdraws or is removed by the unitholders, the departing general partner will have the option to require the successor general partner to purchase the general partner interest of the departing general partner for a cash payment equal to its then fair market value. In each case, this fair market value will be determined by agreement between the departing general partner and the successor general partner. If no agreement is reached within 30 days of the general partner's departure, an independent investment banking firm or other independent expert selected by the departing general partner and the successor general partner will determine the fair market value. If the departing general partner and the successor general partner cannot agree upon an expert within 45 days of the general partner's departure, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner's general partner interest will automatically convert into common units pursuant to a valuation of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including without limitation all employee-related liabilities, including severance liabilities, incurred for the termination of any employees employed by the departing general partner or its affiliates for our benefit.

Transfer of General Partner Interests

Subject to certain conditions, we may not transfer all or any part of our interests in the General Partner, and the General Partner may not transfer all or any part of its general partner interest to a person (other than us or our subsidiary) unless such transfer (i) has been approved by the prior written consent or vote of unitholders holding at least 66⅔% of the voting power of the outstanding voting units, or (ii) is of all, but not less than all, of its general partner interest to (a) an affiliate of the General Partner (other than an individual) or (b) subject to approval by a majority of the independent directors, another person (other than an individual) in connection with the merger or consolidation of the General Partner with or into another person (other than an individual) or the transfer by the General Partner of all, but not less than all, of its general partner interest to another person (other than an individual), or (iii) is the transfer by SPIIGP of the general partner interest to the General Partner pursuant to the terms of the Exchange Agreement. As a condition of the transfer by the General Partner of all or any part of its general partner interest to another person, the transferee must assume the rights and duties of the General Partner under the Partnership Agreement and agree to be bound by the provisions of the Partnership Agreement, and we must receive an opinion of counsel acceptable to the majority of independent directors regarding limited liability matters.

Redemption of Partnership Interests of Certain Unitholders

If at any time the Board of Directors obtains an opinion of counsel acceptable to the majority of independent directors to the effect that the ownership by a unitholder of a limited partner interest would cause us or the Board of Directors to be in violation of, or to the effect that such unitholder is in violation of, the U.S. Bank Secrecy Act, the U.S. Money Laundering Act of 1986, the U.S. International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, the USA Patriot Act, or any other law or regulation to which we, the Board of Directors, or such unitholder's investment in us may be subject from time to time, or, if at any time the Board of Directors, in its sole discretion, determines that the ownership by a unitholder that is an ERISA unitholder (as such term is defined in the Partnership Agreement) would create a substantial likelihood that our assets would be deemed to be "plan assets" for purposes of ERISA or the Code, or, if at any time the General Partner, in its sole discretion, determines that the ownership by a unitholder would create a substantial likelihood that we would become subjected to the provisions of the Investment Company Act or if at any time a unitholder fails to furnish information requested within the 30-day period of such request, the Board of Directors, in its sole discretion, may cause us to redeem the limited partner interest of such unitholder in accordance with the terms set forth in the Partnership Agreement.

Call Right

If at any time less than 10% of the then issued and outstanding limited partner interests of any class is held by persons other than the General Partner and its affiliates, the General Partner will have the right, which it may assign and transfer in whole or in part to any of its affiliates or to us, exercisable in its sole discretion, to acquire all, but not less than all, of the remaining limited partner interests of the class held by unaffiliated persons as of a record date to be selected by the General Partner, on at least 10 but not more than 60 days notice. The purchase price in the event of this purchase will be the greater of:

(1) the current market price as of the date three days before the date the notice is mailed; and

(2) the highest cash price paid by the General Partner or any of its affiliates for any limited partner interests of the class purchased within the 90 days preceding the date on which the General Partner first mails notice of its election to purchase those limited partner interests.

If the General Partner, any affiliate of the General Partner or we elect to exercise the right to purchase limited partner interests as set forth above, the holders of such limited partner interests will be entitled to appraisal rights.

Status as Unitholder

By transfer of common units in accordance with the Partnership Agreement, each transferee of common units will be admitted as a unitholder with respect to the common units transferred when such transfer and admission is reflected in our books and records.

Indemnification

Under the Partnership Agreement, in most circumstances we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts:

- the General Partner;
- any departing general partner;
- Steel Partners;
- any person who is or was an affiliate of the General Partner, any departing general partner or Steel Partners;
- any person who is or was a member, partner, tax matters partner, officer, director, employee, agent, fiduciary or trustee of SPH or its subsidiaries, the General Partner, any departing general partner or Steel Partners or any affiliate of SPH or its subsidiaries, the General Partner, any departing general partner or Steel Partners;
- any person who is or was serving at the request of the General Partner, any departing general partner or Steel Partners or any affiliate of the General Partner, any departing general partner or Steel Partners, as an officer, director, employee, member, partner, tax matters partner, agent, fiduciary or trustee of another person; or
- any person designated by the General Partner in connection with activities of such person on behalf of us, WebFinancial or our subsidiaries, including but not limited to individuals who served as directors of WebFinancial.

We will provide this indemnification unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that these persons acted in bad faith or engaged in fraud, willful misconduct or gross negligence. We will also provide this indemnification for criminal proceedings. Any indemnification under these provisions will only be made out of our assets. Unless it otherwise agrees, the General Partner will not be personally liable for, or have any obligation to contribute or loan funds or assets to us to enable it to effectuate, indemnification. We will be entitled to purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under the Partnership Agreement.

To the fullest extent permitted by law, expenses (including legal fees and expenses) incurred by an indemnitee in appearing at, participating in or defending any claim, demand, action, suit or proceeding will, from time to time, be advanced by us prior to a final and non-appealable determination that such indemnitee is not entitled to be indemnified upon receipt by us of an undertaking by or on behalf of the indemnitee to repay such amount if it ultimately shall be determined that the indemnitee is not entitled to be indemnified.

Reimbursement of Expenses; Management Fees; Incentive Compensation

The Partnership Agreement requires us to reimburse the General Partner for all direct and indirect expenses of SPH and all direct and indirect expenses of the General Partner, including, without limitation, all director fees and expenses, all accounting and administrative expenses, all insurance costs and all indemnification obligations.

The Partnership Agreement also requires us to pay in a timely manner, all fees payable by it to Steel Partners in accordance with the terms and subject to the conditions of the Management Agreement, and we must reimburse Steel Partners for all costs and expenses provided for in the Management Agreement.

The Manager is entitled to incentive compensation under the Management Agreement.

Books and Reports

The Board of Directors will be required to keep appropriate books and records with respect to our business at our principal offices or any other place designated by the Board of Directors in its sole discretion. The books and records will be maintained for both tax and financial reporting purposes on an accrual basis. For tax and financial reporting purposes, our year will end on December 31 each year.

We will make available to record holders of common units, within 120 days after the close of each fiscal year, an annual report containing audited financial statements and a report on those financial statements by our independent public accountants. Except for our fourth quarter, we will also make available summary financial information within 90 days after the close of each quarter. Under the Partnership Agreement, we will be deemed to have made such annual reports and quarterly financial information available to each record holder of common units if we have either (i) filed the report or information with the SEC via its Electronic Data Gathering, Analysis and Retrieval system and such report or information is publicly available on such system or (ii) made such report or information available on any publicly available website maintained by us.

As soon as reasonably practicable after the end of each fiscal year, we will furnish to each Partner tax information (including IRS Schedule K–1), which describes on a U.S. dollar basis such Partner’s share of our income, gain, loss and deduction for our preceding taxable year.

Right to Inspect Books and Records

The Partnership Agreement provides that a unitholder may, not later than five days following the demand at such unitholder’s expense, have furnished to it:

- promptly after becoming available, a copy of our U.S. federal, state and local income tax returns for each year; and

- copies of the Partnership Agreement, the certificate of limited partnership of SPH, related amendments and executed powers of attorney under which they have been executed.

Notwithstanding the foregoing, no unitholder is entitled to obtain a list of the names or addresses of the unitholders; provided, however, that if a unitholder has made or intends to make or is considering making a proxy solicitation in connection with a meeting of the unitholders or action by written consent, or otherwise desires to communicate with unitholders, then upon the written request by any unitholder or record holder of common units entitled to vote at the meeting or to execute a written consent and the execution of a customary confidentiality agreement and for the limited purpose set forth therein, the Board of Directors is to either (i) provide the requesting unitholder or record holder with a list of the names and addresses of the unitholders or (ii) mail the requesting unitholder’s or record holder’s materials to the unitholders in connection with such meeting of the unitholders or action by written consent.

The Board of Directors will have the right to keep confidential from the unitholders any information that the Board of Directors reasonably believes to be in the nature of trade secrets or other information the disclosure of which the Board of Directors believes is not in our best interests, could damage us or our business, or which we are required by law or by agreements with third parties to keep confidential (other than agreements with affiliates of SPH the primary purpose of which is to circumvent the obligations set forth above).

Item 12. Indemnification of Directors and Officers

Section 17-108 of the Delaware Limited Partnership Act empowers a Delaware limited partnership to indemnify and hold harmless any partner or other person from and against all claims and demands whatsoever. See "Material Provisions of Steel Partners Holdings L.P. Partnership Agreement —Indemnification" for information regarding our agreement to indemnify the General Partner, officers, directors and affiliates of the General Partner and certain other specified persons.

As permitted by Section 145 of the Delaware General Corporation Law, the bylaws of the General Partner provide that the directors, managers, officers, employees or agents of the General Partner or of any direct or indirect member, partner or shareholder of the General Partner, shall not be personally liable for any losses, claims, damages, liabilities expenses, judgments, fines, settlements, and other amounts arising from any claims, demands, actions, suits or proceedings that relate to the operations of the General Partner, if they acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the General Partner and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

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 and hold harmless each such indemnified person from and against any loss or expense suffered by such indemnified person, 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 action or proceeding, other than losses resulting from willful misconduct or gross negligence in the performance of such indemnified person's obligations and duties or by reason of such indemnified person's reckless disregard of its duties and obligations under the Management Agreement.

Item 13. Financial Statements and Supplementary Data

The information required by this item is contained under the section "Financial Statements and Exhibits" of this Form 10 and is incorporated herein by reference. Financial Statements of Handy & Harman Ltd., our consolidated subsidiary, for the years ended December 31, 2010, 2009 and 2008 (audited) and related notes are filed as Exhibit 99.1 to this Form 10 and are incorporated herein by reference. Financial Statements of Steel Excel Inc., our associated company, for the nine months ended September 30, 2011 and December 31, 2010 and for the years ended March 31, 2010 and 2009 and related notes are filed as Exhibit 99.2 to this Form 10 and are incorporated herein by reference. Financial Statements of SL Industries, Inc., our associated company, for the years ended December 31, 2010, 2009 and 2008 (audited) and related notes are filed as Exhibit 99.3 to this Form 10 and are incorporated herein by reference. Financial Statements of Steel Partners II Liquidating Series Trust, for the years ended December 31, 2010, and 2009 (audited) and related notes are filed as Exhibit 99.4 to this Form 10 and are incorporated herein by reference. Financial Statements of SWH, Inc., our consolidated subsidiary, for the nine months ended September 30, 2011 and for the year ended December 31, 2010 (audited) and related notes are filed as Exhibit 99.5 to this Form 10 and are incorporated herein by reference.

Item 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On October 28, 2009, our Board of Directors approved the appointment of Grant Thornton LLP to serve as our independent registered public accounting firm, and on January 22, 2010, Grant Thornton LLP was engaged to audit our 2009, 2008, and 2007 consolidated financial statements that reflect the accounting for the Exchange Transaction. Previously, Hansen, Barnett & Maxwell, P.C., was the independent registered public accounting firm of WebFinancial prior to the Exchange Transaction, and continues to serve as the independent registered public accounting firm of our wholly-owned subsidiary, WebBank.

In connection with the Exchange Transaction, SPII became our wholly-owned subsidiary effective as of January 1, 2009 and is reflected in the consolidated financial statements for all historical periods presented. Grant Thornton LLP has served as the auditor of SPII since 1998.

Hansen, Barnett & Maxwell, P.C.'s reports on WebFinancial's financial statements for the fiscal years ended December 31, 2008 and 2007 did not contain an adverse opinion or disclaimer of opinion, or qualification or modification as to uncertainty, audit scope, or accounting principles. In addition, during the two most recent fiscal years and any subsequent interim period through January 22, 2010, there were no (i) disagreements with Hansen, Barnett & Maxwell, P.C. on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of Hansen, Barnett & Maxwell, P.C., would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report or (ii) reportable events of the type described in Item 304(a)(1)(v) of Regulation S-K.

During our two most recent fiscal years prior to engaging Grant Thornton LLP, we consulted with Grant Thornton LLP with respect to the application of accounting principles to a specified transaction: the accounting treatment to be applied to the Exchange Transaction and the related form of financial statements. We also consulted with Grant Thornton LLP in connection with our submissions to the SEC Staff regarding such matters. Grant Thornton LLP orally indicated that the transaction appeared to be a common control transaction, but given the complexity and uniqueness of the fact pattern and types of entities and different bases of accounting involved, recommended that we submit a pre-filing request to the SEC Staff to discuss our proposed accounting treatment. Hansen, Barnett & Maxwell, P.C. was not consulted regarding the accounting treatment to be applied to the Exchange Transaction and the related form of financial statements, nor our submissions to the SEC Staff.

During our two most recent fiscal years prior to its engagement, we did not consult with Grant Thornton LLP in regards to (i) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K), (ii) a reportable event of the type described in Item 304(a)(1)(v) of Regulation S-K or (iii) the type of audit opinion that might be rendered on our financial statements.

We have provided Hansen, Barnett & Maxwell, P.C. with a copy of the foregoing disclosures and requested that Hansen, Barnett & Maxwell, P.C. furnish a letter addressed to the SEC stating whether it agreed with the above statements made by us. A copy of such letter, dated December 9, 2011, is filed as Exhibit 16.1 to this Registration Statement on Form 10, and is incorporated herein by reference.

Grant Thornton LP informed us that one of Grant Thornton International Ltd's member firms in the United Kingdom provided nominated advisor services to one of Steel Partners Holdings L.P.'s equity method investees during the period from September 1, 2010 through December 24, 2010, which is inconsistent with the auditor independence rules of Regulation S-X. Our Audit Committee and Grant Thornton LLP individually considered the impact that these non-audit services may have had on Grant Thornton LLP's independence with respect to us. Both our Audit Committee and Grant Thornton LLP concluded that these non-audit services would not impair Grant Thornton LLP's ability to exercise objective and impartial judgment on issues encompassed within the audit of our financial statements.

Item 15. Financial Statements and Exhibits

(a) List of Financial Statements and Schedules.

See the index to consolidated financial statements set forth on page F-1.

(b) Exhibits.

The following documents are filed as exhibits hereto:

Exhibit No.	Description
3.1	Certificate of Limited Partnership.
3.2	Amendment to the Certificate of Limited Partnership, dated April 2, 2009.
3.3	Amendment to the Certificate of Limited Partnership, dated January 20, 2010.
3.4	Amendment to the Certificate of Limited Partnership, dated October 15, 2010.
3.5	Third Amended and Restated Limited Partnership Agreement of Steel Partners Holdings L.P., dated as of July 14, 2009.
10.1	Second Amended and Restated Management Agreement by and between Steel Partners Holdings L.P. and Steel Partners LLC, dated July 14, 2009.
10.2	Third Amended and Restated Management Agreement by and between Steel Partners Holdings L.P. and Steel Partners LLC, dated January 1, 2012.**
10.3	License Agreement by and between Steel Partners LLC and Steel Partners Holdings L.P., dated January 1, 2009.
10.4	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.*
10.5	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.*
10.6	Investor Services Agreement by and among Steel Partners Holdings L.P., Steel Partners LLC and WGL Capital Corp., dated July 15, 2009.
10.7	Advance Agreement by and between Steel Partners Holdings L.P. and Steel Partners II Master Fund L.P., dated June 28, 2009.
10.8	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.
10.9	Letter Agreement by and between Steel Partners Holdings L.P. and Steel Partners II GP LLC, dated July 15, 2009.
16.1	Letter, dated December 9, 2011, from Hansen, Barnett & Maxwell, P.C.
21	Subsidiaries of Steel Partners Holdings L.P.
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.
99.5	Financial Statements of SWH, Inc.

* Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedule to the SEC upon request.

** To be filed by amendment.

INDEX TO FINANCIAL STATEMENTS

Grant Thornton

Grant Thornton LLP
666 Third Avenue, 13th Floor
New York, NY 10017-4011

T 212.599.0100
F 212.370.4520
www.GrantThornton.com

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Partners of
Steel Partners Holdings L.P.

We have audited the accompanying consolidated balance sheets of Steel Partners Holdings L.P. and subsidiaries (the "Company") (a Delaware limited partnership) as of December 31, 2010 and 2009 and the related consolidated statements of operations, changes in capital and comprehensive income (loss) and cash flows for the year ended December 31, 2010 and the periods July 16, 2009 through December 31, 2009 and January 1, 2009 through July 15, 2009 and the year ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We did not audit the consolidated financial statements of WebFinancial Holding Corporation and Subsidiaries, which statements reflect total assets of 8.1 percent as of December 31, 2010, and total revenues of 2.6 percent for the year ended December 31, 2010, of the related consolidated totals. We did not audit the consolidated financial statements of WebBank and Subsidiary (a consolidated subsidiary), which statements reflect total assets of 8.9 percent as of December 31, 2009, and total revenues of 20.8 percent, and 4.7 percent and 0.9 percent for the period July 16, 2009 through December 31, 2009, for the period January 1, 2009 through July 15, 2009 and the year ended December 31, 2008, respectively, of the related consolidated totals. Those statements were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for WebFinancial Holding Corporation and Subsidiaries and WebBank and Subsidiary, are 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 consolidated financial statements are free of material misstatement. The Company is not required to have, nor were 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 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, 2010 and 2009, and the results of their operations and their cash flows for the year ended December 31, 2010 and the periods July 16, 2009 through December 31, 2009 and January 1, 2009 through July 15, 2009 and the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective July 16, 2009, the Company entered into a transaction that resulted in the retrospective combination of entities under common control.

Also as discussed in Note 2 to the consolidated financial statements, the Company's previously issued consolidated financial statements have been restated.

Grant Thornton LLP

New York, New York
December 2, 2011

HANSEN, BARNETT & MAXWELL, P.C.
Certified Public Accountants

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 sheet of WebFinancial Holding Corporation and subsidiaries as of December 31, 2010, and the related consolidated statements of operations, equity and cash flows for the year then ended. 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 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 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 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 WebFinancial Holding Corporation 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/ HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
April 27, 2011

an independent member of BAKER TILLY INTERNATIONAL
Registered with the Public Company Accounting Oversight Board
5 Triad Center, Suite 750, Salt Lake City, Utah 84180-1128
TEL 801-532-2200 FAX 801-532-7944 www.hbmcpas.com
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H | B | M
HANSEN, BARNETT & MAXWELL, P.C.
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
WebBank and subsidiary

We have audited the accompanying consolidated balance sheets of WebBank and subsidiary as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of WebBank'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. 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 WebBank as of December 31, 2009 and 2008, 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.

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

Salt Lake City, Utah
June 8, 2010

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Registered with the Public Company Accounting Oversight Board
5 Triad Center, Suite 750, Salt Lake City, Utah 84180-1128
TEL 801-532-2200 FAX 801-532-7944 www.hbmcpas.com
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Steel Partners Holdings L.P.
Consolidated Balance Sheets
(in thousands)

	December 31, 2010 (as Restated)	December 31, 2009 (as Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 180,684	$ 114,247
Restricted cash	143,698	481
Investments at fair value	71,872	200,015
Financial instruments	13,772	-
Trade and other receivables (net of allowance for doubtful accounts of $2,198 in 2010)	67,747	16,286
Receivable from related party	1,463	1,463
Loans receivable, net	16,408	16,963
Inventories	50,822	-
Deferred income taxes	4,700	1,256
Prepaid and other current assets	10,087	8,460
Assets of discontinued operations	33,306	129,133
Total current assets	594,559	488,304
Long-term loans receivable	11,919	16,261
Goodwill	16,212	81
Other intangibles	125,271	-
Other non-current assets ($7,668 and $8,080 measured at fair value in 2010 and 2009)	26,456	8,080
Property, plant and equipment, net	91,625	106
Investments in associated companies ($127,613 and $97,442 measured at fair value in 2010 and 2009)	163,270	121,148
Other investments at fair value - related party	62,553	97,923
Total Assets	$ 1,091,865	$ 731,903

See accompanying Notes to Consolidated Financial Statements

Steel Partners Holdings L.P.
Consolidated Balance Sheets
(in thousands except common units)
(continued)

	December 31,	
	2010 (as Restated)	2009 (as Restated)
LIABILITIES AND CAPITAL		
Current liabilities:		
Accounts payable	$ 37,959	$ 2,883
Accrued liabilities	37,527	-
Current portion of distribution payable	29,869	49,102
Financial instruments	143,917	-
Dividends and interest payable	-	319
Deposits	29,102	14,111
Payable to related parties	6,330	5,908
Current portion of pension liability	14,900	-
Short-term debt	42,890	-
Current portion of long-term debt	4,452	-
Other current liabilities	5,721	3,637
Liabilities of discontinued operations	9,997	100,544
Total current liabilities	362,664	176,504
Long-term deposits	32,690	36,103
Deferred fee liability to related party	64,854	58,586
Long-term portion of distribution payable	-	29,869
Long-term debt (includes $580 to a related party)	91,984	-
Accrued pension liability	98,104	-
Deferred income taxes	3,333	-
Other liabilities	7,924	-
Total Liabilities	661,553	301,062
Commitments and Contingencies	-	-
Capital:		
Partners' capital (common units: 25,251,554 in 2010 and 25,219,420 in 2009 issued and outstanding, after deducting 2,726,030 held in treasury, at cost of $47,107)	397,970	363,571
Accumulated other comprehensive income	7,762	53,342
Total	405,732	416,913
Noncontrolling interests in consolidated entities	24,580	13,928
Total Capital	430,312	430,841
Total Liabilities and Capital	$ 1,091,865	$ 731,903

See accompanying Notes to Consolidated Financial Statements

Steel Partners Holdings L.P.
Consolidated Statements of Operations
(in thousands except units and per unit data)

	2010 (as Restated)	July 16, 2009 to December 31, 2009 (as Restated)	January 1, 2009 to July 15, 2009	2008
Revenue				
Diversified Industrial, Financial Services and Other:				
Diversified industrial net sales	$ 385,805	$ -	$ -	$ -
Financial services revenue	10,803	2,997	2,326	6,533
Investment and other income (loss)	4,007	1,859	(78)	12,891
Net investment gains (losses)	24,050	9,568	(23)	4,021
	424,665	14,424	2,225	23,445
Investment Operations (see Notes 2 and 23):				
Dividends, net of foreign dividend taxes withheld of $185 in 2009 and $3,325 in 2008:				
Non-affiliate investments	-	-	191	5,337
Affiliate investments	-	-	1,329	8,442
Control investments	-	-	2,443	3,807
Interest:				
Non-affiliate investments	-	-	-	384
Affiliate investments	-	-	1,128	400
Control investments	-	-	6,790	21,108
Other	-	-	133	6,618
Other income-Non-affiliate investments:				
Control investments	-	-	-	1,065
Other	-	-	-	(836)
Net realized gains (losses):				
Non-affiliate investments	-	-	40,177	119,838
Affiliate investments	-	-	(117,690)	(139,911)
Control investments	-	-	(8,310)	-
Other	-	-	26,788	7,810
Change in unrealized gains (losses), investments	-	-	35,904	(807,508)
Change in unrealized gains (losses), other	-	-	(40,564)	36,699
	-	-	(51,681)	(736,747)
Total revenue	424,665	14,424	(49,456)	(713,302)
Costs and expenses				
Diversified Industrial, Financial Services and Other:				
Diversified industrial cost of goods sold	289,839	-	-	-
Selling, general and administrative	88,250	7,915	2,661	7,989
Finance interest expense	2,022	1,255	314	1,089
Provision for loan losses (gains)	(420)	3,001	3,644	2,877
Interest expense	12,123	-	-	-
Realized and unrealized loss on derivatives	5,164	-	-	-
Management fees - related party	7,531	3,705	-	-
Increase in deferred fee liability to related party	6,268	6,992	-	-
	410,777	22,868	6,619	11,955
Investment Operations (see Notes 2 and 23):				
Interest	-	-	710	22,726
Dividends	-	-	782	4,942
Other professional fees	-	-	891	3,397
	-	-	2,383	31,065
Total costs and expenses	410,777	22,868	9,002	43,020

See accompanying Notes to Consolidated Financial Statements

Steel Partners Holdings L.P.
Consolidated Statements of Operations
(in thousands except units and per unit data)
(continued)

	2010 (as Restated)	July 16, 2009 to December 31, 2009 (as Restated)	January 1, 2009 to July 15, 2009	2008
Income (loss) from continuing operations before income taxes and equity method income (loss)	$ 13,888	$ (8,444)	$ (58,458)	$ (756,322)
Income tax (provision) benefit	(2,657)	(57)	868	(637)
Income (loss) from equity method investments:				
Income of associated companies, net of taxes	10,305	7,207	63	10
Loss from other investments - related party	(3,220)	(2,960)	-	-
Net income (loss) from continuing operations	18,316	(4,254)	(57,527)	(756,949)
Discontinued operations:				
(Loss) income from discontinued operations, net of taxes	(3,162)	1,177	-	-
Gain on sale of discontinued operations, net of taxes	31,292	-	-	-
Income from discontinued operations	28,130	1,177	-	-
Net income (loss)	46,446	(3,077)	(57,527)	(756,949)
Net income attributable to redeemable partners' capital	-	-	54,064	767,812
Net (income) loss attributable to noncontrolling interests in consolidated entities:				
Continuing operations	(997)	114	-	100
Discontinued operations	(13,702)	(556)	-	-
	(14,699)	(442)		100
Net income (loss) attributable to common unitholders	$ 31,747	$ (3,519)	$ (3,463)	$ 10,963
Net income (loss) per common unit - basic				
Net income (loss) from continuing operations	$ 0.69	$ (0.16)	$ (1.59)	$ 5.02
Net income from discontinued operations	0.57	0.02	-	-
Net income (loss) attributable to common unitholders	$ 1.26	$ (0.14)	$ (1.59)	$ 5.02
Net income (loss) per common unit - diluted				
Net income (loss) from continuing operations	$ 0.63	$ (0.16)	$ (1.59)	$ 5.02
Net income from discontinued operations	0.53	0.02	-	-
Net income (loss) attributable to common unitholders	$ 1.16	$ (0.14)	$ (1.59)	$ 5.02
Weighted average number of common units outstanding - basic	25,234,827	25,219,420	2,183,366	2,183,366
Weighted average number of common units outstanding - diluted	27,482,804	25,219,420	2,183,366	2,183,366

See accompanying Notes to Consolidated Financial Statements

Steel Partners Holdings L.P.
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31, 2010 (as Restated)	July 16, 2009 to December 31, 2009 (as Restated)	January 1, 2009 to July 15, 2009	2008
Cash flows from operating activities:				
Net income (loss)	$ 46,446	$ (3,077)	$ (57,527)	$ (756,949)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Investment (gains) losses and other than temporary impairment losses	(24,050)	(9,568)	23	(4,021)
Provision for loan losses	(420)	3,001	3,644	2,877
Income of associated companies	(10,305)	(7,207)	(63)	(10)
Loss from other investments - related party	3,220	2,960	-	-
Gain on sale of discontinued operations	(31,292)	-	-	-
Long-term interest on related party debt	4,275	-	-	-
Deferred income tax (benefit) provision	(9)	156	(868)	(440)
Non-cash interest and dividend income	(1,876)	-	-	-
Depreciation and amortization	14,029	75	79	128
Loss on extinguishment of debt	1,210	-	-	-
Gain on sale of loans	-	-	(22)	(1,004)
Accretion of loan origination fees, net	-	(64)	(11)	110
Reclassification of net cash settlements on derivative instruments	5,124	-	-	-
Investment operations:				
Change in unrealized gains - investments	-	-	(35,904)	807,508
Gain on sale of investments	-	-	85,823	20,073
Proceeds from sale of investments	-	-	438,080	5,496,385
Purchases of investments	-	-	(379,292)	(5,280,195)
Other	900	-	-	-
Net change in operating assets and liabilities:				
Receivables	27,400	(2,076)	(24,529)	-
Receivable from related party	-	(1,463)	-	-
Inventories	8,577	-	-	-
Dividends and interest receivable	1,379	254	8,011	10,946
Prepaid and other assets	(1,350)	(6,488)	88	1,599
Accounts payable, accrued and other liabilities	(6,779)	5,026	(1,373)	(4,043)
Payable to related parties	606	5,908	(342)	-
Dividends and interest payable	(319)	21	(84)	(6,374)
Increase in deferred fee liability to related party	6,267	6,992	-	-
Unrealized gain on total return swap	-	-	3,553	740
Unrealized gain (loss) on forward contracts	-	-	11,270	(11,270)
Amount due on total return swaps	-	-	(22,519)	22,519
Restricted cash	-	-	106,428	181,701
Receivable from redemption of investments	-	-	-	75,000
Net cash provided by operating activities of discontinued operations	7,127	6,980	-	-
Net cash provided by operating activities	50,160	1,430	134,465	555,280
Cash flows from investing activities:				
Purchases of investments	(359,575)	(239,862)	(3,362)	(1,307)
Proceeds from sale of investments	501,067	333,141	129	17,620
Proceeds from sale of loans	2,054	-	895	15,138
Net decrease (increase) in loans receivable	117	(9,595)	4,575	(31,561)
Purchases of property and equipment	(7,296)	(13)	(4)	(157)
Reclassification of restricted cash	(19,493)	1,774	-	-

See accompanying Notes to Consolidated Financial Statements

Steel Partners Holdings L.P.
Consolidated Statements of Cash Flows
(in thousands)
(continued)

	Year Ended December 31, 2010 (as Restated)	July 16, 2009 to December 31, 2009 (as Restated)	January 1, 2009 to July 15, 2009	2008
Net cash settlements on derivative instruments	(5,124)	-	-	-
Proceeds from sales of assets	457	-	-	-
Acquisitions, net of cash acquired	2,115	-	(3,715)	-
Purchase of subsidiary shares from noncontrolling interests	(14,134)	(111)	-	-
Investments in associated companies	(51,675)	(51,573)	(10,637)	-
Purchase of SPH shares from noncontrolling interests	-	-	-	(1,895)
Proceeds from sale of discontinued operations	64,693	-	-	-
Net cash provided by investing activities of discontinued operations	1,520	440	-	-
Net cash provided by (used in) investing activities	114,726	34,201	(12,119)	(2,162)
Cash flows from financing activities:				
Contributions to redeemable partners' capital	-	-	-	10,288
Redemptions from redeemable partners' capital	-	(204,403)	-	(438,549)
Proceeds related to assumption of deferred fee liability to related party	-	4,487	-	-
Common unit cash distribution	(49,102)	-	-	-
Proceeds from term loans - domestic	46,000	-	-	-
Net revolver borrowings	11,136	-	-	-
Repayments of term loans - foreign	(1,970)	-	-	-
Repayments of term loans - domestic	(86,018)	-	-	-
Repayments of term loans - related party	(5,563)	-	-	-
Deferred finance charges	(3,842)	-	-	-
Net change in overdrafts	2,088	-	-	-
Net increase (decrease) in deposits	11,604	26,033	(7,251)	17,462
Repayment of debt of discontinued operations	(22,772)	-	-	-
Net cash used in financing activities of discontinued operations	-	(8,520)	-	-
Net cash used in financing activities	(98,439)	(182,403)	(7,251)	(410,799)
Net change for the period	66,447	(146,772)	115,095	142,319
Effect of exchange rate changes on cash and cash equivalents	(10)	-	-	-
Cash and cash equivalents at beginning of period/year	114,247	261,019	145,924	3,605
Cash and cash equivalents at end of period/year *	$ 180,684	$ 114,247	$ 261,019	$ 145,924
* Cash and cash equivalents at end of period/year comprised of the following:				
Diversified Industrial, Financial Services and Other	$ 180,684	$ 114,247	$ 261,019	$ 30,072
Investment Operations	-	-	-	115,852
	$ 180,684	$ 114,247	$ 261,019	$ 145,924

See accompanying Notes to Consolidated Financial Statements

Steel Partners Holdings L.P.
Consolidated Statements of Cash Flows
(in thousands)
(continued)

	Year Ended December 31, 2010	July 16, 2009 to December 31, 2009	January 1, 2009 to July 15, 2009	2008
Cash paid during the year for:				
Interest	$ 17,067	$ 334	$ 1,302	$ 28,209
Taxes	$ 4,026	$ -	$ -	$ 1,302
Non-cash investing activities:				
Investments acquired in Exchange Transaction on July 15, 2009	$ -	$ -	$ 404,982	$ -
Reclassification of investment in associated company to cost of an acquisition	$ 26,084	$ -	$ -	$ -
Sale of property for mortgage note receivable	$ 630	$ -	$ -	$ -
Purchase of available-for-sale securities with funds on deposit	$ 5,932	$ -	$ -	$ -
Net increase in restricted cash from foreign currency financial instruments	$ (137,823)	$ -	$ -	$ -
Net transfers between loans and other assets	$ 1,157	$ -	$ 247	$ 946
Reclassification from loans to other non-current assets	$ 2,729	$ -	$ -	$ -
Offset of securities sold, not yet purchased with investments in available-for-sale securities	$ -	$ 33,332	$ -	$ -
Non-cash financing activities:				
Common units issued for directors compensation	$ 543	$ -	$ -	$ -
Acquisition of 2,725,533 treasury units in assumption of deferred fee liability	$ -	$ -	$ (47,107)	$ -
Common unit distribution payable	$ -	$ -	$ (78,971)	$ -
Capital redemptions:				
Distribution of assets	$ -	$ -	$ (521,150)	$ -
Payable to related parties	-	-	(204,403)	-
Reduction of receivable from affiliated entities	-	-	(24,846)	-
Total capital redemption	$ -	$ -	$ (750,399)	$ -

See accompanying Notes to Consolidated Financial Statements

Steel Partners Holdings L.P.
Consolidated Statements of Changes in Capital and Comprehensive Income (Loss)
(in thousands except common units)

	Common Units	Redeemable Common Units	Comprehensive Income (loss)	Accumulated Other Comprehensive Income (loss)	Treasury Units: Units	Treasury Units: Dollars	Partners' Capital	Total	Non-controlling Interest	Total Capital	Redeemable Partners' Capital
Balance at December 31, 2007	2,183,366	-		$ (286)	-	$ -	$ 31,406	$ 31,120	$ -	$ 31,120	$ 2,138,143
Comprehensive income:											
Net income (loss)			$ 10,963				10,963	10,963	-	10,963	(767,812)
Unrealized gain on available-for sale investments			7	7				7	-	7	
Comprehensive income			$ 10,970								
Purchase of SPH shares from noncontrolling interests											(1,895)
Contributions											10,288
Redemptions											(119,999)
Balance at December 31, 2008	2,183,366			(279)		-	42,369	42,090	-	42,090	1,258,725
Units issued to SPHGP on January 1, 2009	497				(497)	-		-		-	
Units issued for net assets in connection with exchange transaction on January 1, 2009	1,870,564	65,294,819									$ 1,258,725
Comprehensive (loss):											
Net loss			$ (3,463)				(3,463)	(3,463)		(3,463)	(54,064)
Unrealized gain on available-for sale investments			247	247				247		247	
Comprehen-sive loss			$ (3,216)								
BNS Holding, Inc. acquisition									13,581	13,581	
Redemptions in connection with exchange transaction on July 15, 2009		(39,533,232)									(750,399)
Acquisition of treasury units for assumption of deferred fee liability to related party					(2,725,533)	(47,107)	(47,107)	(47,107)		(47,107)	
Units cancelled in connection with exchange transaction on July 15, 2009	(1,870,564)										
Net assets acquired in exchange transaction on July 15, 2009	25,761,587	(25,761,587)					454,262	454,262		454,262	(454,262)
Common unit distribution	-	-					(78,971)	(78,971)		(78,971)	
Balance at July 15, 2009	27,945,450	-		(32)	(2,726,030)	(47,107)	367,090	367,058	13,581	380,639	$ -

Steel Partners Holdings L.P.
Consolidated Statements of Changes in Capital and Comprehensive Income (Loss)
(in thousands except common units)
(continued)

	Common Units	Redeemable Common Units	Comprehensive Income (loss)	Accumulated Other Comprehensive Income (loss)	Treasury Units: Units	Treasury Units: Dollars	Partners' Capital	Total	Non-controlling Interest	Total Capital
Comprehensive income:										
Net (loss) income (as restated)			$ (3,519)				(3,519)	(3,519)	442	(3,077)
Unrealized (loss) gain on available-for-sale investments (as restated)			57,989	57,989				57,989		57,989
Currency translation adjustment			1,194	1,194				1,194		1,194
Change in net pension liability			(5,809)	(5,809)				(5,809)		(5,809)
Comprehen-sive income (as restated)			$ 49,855							
Purchase of subsidiary shares from noncontrolling interests									(111)	(111)
Issuance of subsidiary shares from non-controlling interests									16	16
Balance at December 31, 2009 (as restated)	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
Comprehensive income:										
Net income (as restated)			$ 31,747				31,747	31,747	14,699	46,446
Unrealized loss on available-for-sale investments (as restated)			(37,436)	(37,436)				(37,436)	-	(37,436)
Currency translation adjustment			658	658				658	(101)	557
Change in net pension and other benefit obligations			(8,802)	(8,802)				(8,802)	(6,805)	(15,607)
Comprehensive loss (as restated)			$ (13,833)							
Acquisition									26,035	26,035
Sale of discontinued operations									(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 (as restated)	27,977,584			$ 7,762	(2,726,030)	$ (47,107)	$ 397,970	$ 405,732	$ 24,580	$ 430,312

See accompanying Notes to Consolidated Financial Statements

1. NATURE OF THE BUSINESS AND ORGANIZATION

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 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.

The Company operates through consolidated subsidiaries and associated companies, which represent significant equity interests in operating businesses. SPH also owns interests directly and indirectly in other companies.

SPH's diversified industrial operations are conducted through its consolidated subsidiary Handy & Harman Ltd. ("HNH"), a holding company that owns a variety of manufacturing operations encompassing precious metals, 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. SPH also conducted diversified industrial operations through Collins Industries, Inc. ("Collins"), a manufacturer of small school, activity and shuttle buses, ambulances, and terminal trucks/road construction equipment, until it was sold on February 18, 2010 (see Note 6 - "Discontinued Operations"). Collins was 80% owned through SPH's consolidated subsidiary, BNS Holding, Inc. ("BNS"). The operations of Collins are accounted for as discontinued operations; and, as a result, their financial positions, results of operations and cash flows have been segregated from ongoing operations in the accompanying financial statements. BNS, subsequent to the sale of Collins, was in the business of seeking to acquire one or more new business operations until its acquisition of Sun Well Services, Inc. ("Sun Well Services") on February 2, 2011 (see Note 31 - "Subsequent Events"). Operations are also conducted by the following associated companies accounted for using the equity method: API Group PLC ("API"), a leading manufacturer of specialized materials for packaging, DGT Holdings Corp. ("DGT") which develops, manufactures and markets medical and dental imaging systems and power conversion subsystems worldwide , JPS Industries, Inc. ("JPS"), a manufacturer of extruded urethanes, polypropylenes and mechanically formed glass substrates and SL Industries, Inc ("SLI") which designs, manufactures and markets power electronics, motion control, power protection and specialized communication equipment. Other company interests include GenCorp Inc. ("GenCorp"), a manufacturer of aerospace and defense systems that also has a real estate business, the activities of which include the entitlement, sale and leasing of its excess real estate assets.

SPH's financial services are conducted through a consolidated, wholly-owned subsidiary, WebBank, a Utah- chartered industrial bank ("WebBank"), which provides small business commercial and consumer loans and services. WebBank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"), and it is examined and regulated by the FDIC and the State of Utah Department of Financial Institutions ("UDFI"). SPH also has a direct and indirect interest in Barbican Group Holdings Limited ("Barbican"); a Guernsey based privately-held company which underwrites property and casualty insurance and reinsurance through its subsidiaries and its Lloyds of London syndicate.

Other direct and indirect interests include Fox & Hound Restaurant Group ("Fox & Hound"), an owner and operator of a chain of casual dining and entertainment based restaurants in 25 states; and Steel Excel Inc., formerly known as ADPT Corporation ("Steel Excel") and CoSine Communications, Inc. ("CoSine "), which are in the business of seeking to acquire one or more new business operations. Steel Excel and CoSine are associated companies that SPH accounts for under the equity method of accounting with Steel Excel reported at its fair value.

SPH acquired Steel Partners II, L.P. ("SPII"), a Delaware limited partnership, which pursuant to an exchange transaction became a wholly-owned subsidiary of SPH without further condition on July 15, 2009 (the "Exchange Transaction") (see Note 23 - "Exchange Transaction"). The Company presents the operations of SPII, which was an investment partnership and consisted of a portfolio of investments, in its consolidated financial statements as Investment Operations and is reported as a segment through July 15, 2009. From July 16, 2009 forward, upon the completion of the Exchange Transaction, SPH ceased reporting the results of SPII as a separate Investment Operations segment when SPII's net assets were acquired by SPH. See Note 2 - "Basis of Presentation".

Organization

SPH, a Delaware limited partnership, formerly known as WebFinancial L.P., was formed on December 16, 2008 as a wholly-owned subsidiary of WebFinancial Corporation ("WebFinancial"), a Delaware corporation, which was a publicly traded financial holding company. SPH is the successor through a merger on December 31, 2008 with WebFinancial. The purpose of the merger was to convert the legal entity form of the business of WebFinancial from a corporation into a limited partnership. Steel Partners Holdings GP Inc. (f/k/a Steel Partners Holdings GP LLC) ("SPH GP"), a Delaware corporation, is the general partner of SPH and is wholly-owned by SPH. Steel Partners LLC is the manager of SPH (the "Manager"). The unitholders of SPH have limited liability with respect to their interest in the Company.

Other

The Company may in the future determine to file a registration statement with respect to its common units with the Securities and Exchange Commission ("SEC").

2. BASIS OF PRESENTATION

The consolidated financial statements include the consolidated financial results of SPH and WebFinancial (which was merged with and into SPH on December 31, 2008) and their subsidiaries for all periods presented. Acquired companies BNS and HNH are presented from their dates of acquisition.

Basis of Accounting

The Company entered into the Exchange Transaction pursuant to which SPII became a wholly-owned subsidiary of SPH without further condition on July 15, 2009 (see Note 23 - "Exchange Transaction"). The Exchange Transaction was 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, those that existed prior to July 16, 2009 and continued thereafter ("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 (see Note 5 - "Acquisitions") are accounted for and presented on an operating company basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These operations 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" on the basis of the specialized GAAP prescribed in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 without further condition, 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.

The Exchange Transaction which initially occurred on January 1, 2009 was subject to being unwound, in whole or part, until July 15, 2009. Accordingly, the net assets of SPII until July 15, 2009 represented a redeemable interest of SPH, and are therefore presented as "Redeemable Partners' Capital" in the consolidated financial statements for all periods presented until July 15, 2009. Redeemable Partners' Capital accordingly only participated in 100% of the economic results of SPII and did not participate in the economic results of the Pre-Exchange Operations. At July 15, 2009, (i) certain assets of SPII were distributed in redemption of a portion of the Redeemable Partners' Capital of equal value, (ii) the remaining net assets of SPII were then acquired by SPH in the Exchange Transaction as of July 15, 2009, and (iii) the unredeemed portion of the Redeemable Partners' Capital (of equal value to the net assets of SPII then acquired) became nonredeemable and thereafter participates in an undivided interest in SPH and its economic results. (See Note 5 - "Acquisitions" and Note 23 - "Exchange Transaction").

The SPII assets acquired by SPH in the Exchange Transaction as of July 15, 2009 were valued at fair value determined in accordance with ASC 946. The fair values of SPII assets acquired on July 15, 2009 established the initial carrying values from which operating company accounting principles began to be applied to such assets, including those applicable to accounting for investments and business combinations.

The primary difference between the operating company accounting policies of Diversified Industrial, Financial Services and Other operations and the investment company accounting policies of Investment Operations relate to accounting for investments:

- SPH evaluates its Diversified Industrial, Financial Services and Other investments and determines the appropriate classification as a consolidated subsidiary, an equity method investment, an available-for-sale security, or a held-to-maturity security, each with a different financial reporting treatment. For investments that are accounted for under the equity method at fair value unrealized gains and losses are presented the consolidated statement of operations. Unrealized changes in the fair value of available for sale securities are presented in other comprehensive income in the consolidated statement of changes in capital and comprehensive income (loss) and not in the consolidated statement of operations.

- For Investment Operations, investments are accounted for at fair value with changes in fair value of all investments reported in the revenue section of the consolidated statements of operations as “change in unrealized gains (losses), investments” when they occur. Under investment company accounting, Investment Operations does not consolidate investments and it does not apply the equity method of accounting.

- For Investment Operations, proceeds from sale of investments and purchases of investments are included in cash flows from operating activities. For Diversified Industrial, Financial Services and Other, proceeds from sale of investments and purchases of investments are cash flows from investing activities.

Presentation of Financial Statements

With respect to Investment Operations assets that were acquired by the Company as of July 15, 2009 pursuant to the Exchange Transaction, the change in the basis of accounting and financial statement presentation from investment company accounting to operating company accounting has been accounted for prospectively from July 15, 2009, the date the SPII net assets were acquired in the Exchange Transaction and were no longer subject to redemption. Operating company accounting as described above, is in certain important aspects different in substance from investment company accounting. The consolidated financial statements have been presented in a manner to reflect the different basis of accounting for the Diversified Industrial, Financial Services and Other operations for all periods presented and the Investment Operations for the period January 1, 2009 to July 15, 2009 and the year ended December 31, 2008, specifically as follows:

- The consolidated balance sheets only presents Diversified Industrial, Financial Services and Other, as Investment Operations ceased on July 15, 2009 upon the completion of the Exchange Transaction and the net assets of SPII as of that date became part of the Company’s Diversified Industrial, Financial Services and Other operations beginning July 16, 2009.

- From July 16, 2009 forward, the investments acquired as part of the Exchange Transaction (previously carried at fair value under investment company accounting) are included in Diversified Industrial, Financial Services and Other and are accounted for under the equity method and as available-for-sale securities. Operating company accounting was applied to the net assets acquired as part of the Exchange Transaction held by SPII using the fair values of the assets and liabilities on July 15, 2009 as the initial carrying values. See "Exchange Transaction" in Note 5 - "Acquisitions" for the fair values of the assets acquired and liabilities assumed.

- The consolidated statements of operations, cash flows and changes in capital and comprehensive income (loss) for 2009 are presented in two periods, January 1, 2009 to July 15, 2009 and July 16, 2009 to December 31, 2009, reflecting the financial results and the applicable basis of accounting for the period in 2009 before and after the completion of the Exchange Transaction on July 15, 2009, respectively.

- For the periods presented prior to July 16, 2009, revenue and costs and expenses in the consolidated statements of operations are presented in two sections. The Diversified Industrial, Financial Services and Other section represents the Pre-Exchange Operations presented on an operating company basis and the Investment Operations section represents SPII's investment operations presented on an investment company basis.

- For the year ended December 31, 2010, both periods in 2009 (all of 2009), January 1, 2009 to July 15, 2009 and July 16, 2009 to December 31, 2009, and for the year ended December 31, 2008, Diversified Industrial, Financial Services and Other are presented on an operating company basis.

- Investment Operations, representing SPII's operations, for the period from January 1, 2009 to July 15, 2009, and for the year ended December 31, 2008 are presented on an investment company basis.

- From July 16, 2009 forward one basis of accounting, the operating company basis, is used for all operations and is presented as Diversified Industrial, Financial Services and Other.

Restatement of Previously Issued Financial Statements

SPH has restated its consolidated financial statements for the year ended December 31, 2010 for the retroactive accounting of HNH's Euro Kasco unit as a discontinued operation. The effect of reporting Euro Kasco as a discontinued operation was to reduce Diversified Industrial net sales by $8,355 and increase net income from continuing operations by $76. Non-current assets and liabilities of discontinued operations were reclassified to current assets and current liabilities of discontinued operations. In addition, certain immaterial errors were corrected for the year ended December 31, 2010 and for the period July 16, 2009 through December 31, 2009. The effect of the errors on net income (loss) attributable to common unitholders is $340 in 2010 and ($293) for the period from July 16, 2009 through December 31, 2009. The financial statements and footnotes have been restated accordingly and additional disclosure has been added to Note 30 – "Related Party Transactions" to describe the receivable from related party.

(Dollars in Thousands Except Per Unit Data)

The following tables reflect the effect of the restatement:

Consolidated Balance Sheets

	December 31, 2010		December 31, 2009	
	As Previously Reported	As Restated	As Previously Reported	As Restated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 180,684	$ 180,684	$ 114,247	$ 114,247
Restricted cash	143,698	143,698	481	481
Investments at fair value	71,872	71,872	200,015	200,015
Financial instruments	13,772	13,772	-	-
Trade and other receivables (net of allowance for doubtful accounts of $2,198 in 2010)	69,895	67,747	16,526	16,286
Receivable from related party	-	1,463	-	1,463
Loans receivable, net	16,408	16,408	16,963	16,963
Inventories	52,467	50,822	-	-
Deferred income taxes	4,700	4,700	1,256	1,256
Prepaid and other current assets	10,176	10,087	8,460	8,460
Assets of discontinued operations	23,162	33,306	56,026	129,133
Total current assets	586,834	594,559	413,974	488,304
Long-term loans receivable	11,919	11,919	16,261	16,261
Goodwill	16,212	16,212	81	81
Other intangibles	125,271	125,271	-	-
Other non-current assets $(7,668 and $8,080 measured at fair value in 2010 and 2009)	26,168	26,456	8,080	8,080
Plant, property and equipment, net	91,706	91,625	106	106
Investments in associated companies $(127,613 and $97,442 measured at fair value in 2010 and 2009)	163,270	163,270	121,148	121,148
Other investments at fair value - related party	62,553	62,553	97,923	97,923
Noncurrent assets of discontinued operations	5,947	-	73,107	-
Total Assets	$ 1,089,880	$ 1,091,865	$ 730,680	$ 731,903

Notes to Consolidated Financial Statements
(Dollars in Thousands Except Per Unit Data)

	December 31, 2010		December 31, 2009	
	As Previously Reported	As Restated	As Previously Reported	As Restated
LIABILITIES AND CAPITAL				
Current liabilities:				
Accounts payable	$ 39,278	$ 37,959	$ 2,883	$ 2,883
Accrued liabilities	39,090	37,527	-	-
Current portion of distribution payable	29,869	29,869	49,102	49,102
Financial instruments	143,917	143,917	-	-
Dividends and interest payable	-	-	319	319
Accrued interest - related parties	307	-	-	-
Deposits	29,102	29,102	14,111	14,111
Payable to related parties	6,330	6,330	5,492	5,908
Current portion of pension liability	14,900	14,900	-	-
Deferred income taxes	355	-	-	-
Short-term debt	42,890	42,890	-	-
Current portion of long-term debt	4,452	4,452	-	-
Other current liabilities	3,511	5,721	2,356	3,637
Liabilities of discontinued operations	6,435	9,997	33,000	100,544
Total current liabilities	360,436	362,664	107,263	176,504
Long-term deposits	32,690	32,690	36,103	36,103
Deferred fee liability to related party	64,854	64,854	58,248	58,586
Long-term portion of distribution payable	-	-	29,869	29,869
Long-term debt (includes $580 to a related party)	91,998	91,984	-	-
Accrued pension liability	98,445	98,104	-	-
Deferred income taxes	3,333	3,333	-	-
Other liabilities	7,924	7,924	-	-
Long-term liabilities of discontinued operations	301	-	67,544	-
Total Liabilities	659,981	661,553	299,027	301,062
Capital:				
Partners' capital	397,923	397,970	363,864	363,571
Accumulated other comprehensive income	7,762	7,762	53,861	53,342
Total	405,685	405,732	417,725	416,913
Noncontrolling interests in consolidated entities	24,214	24,580	13,928	13,928
Total Capital	429,899	430,312	431,653	430,841
Total Liabilities and Capital	$ 1,089,880	$ 1,091,865	$ 730,680	$ 731,903

Notes to Consolidated Financial Statements
(Dollars in Thousands Except Per Unit Data)

Consolidated Statement of Operations	2010		July 16, 2009 to December 31, 2009	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Revenue				
Diversified industrial net sales	$ 394,160	$ 385,805	$ -	$ -
Financial services revenue	10,803	10,803	2,997	2,997
Investment and other income	4,163	4,007	1,917	1,859
Net investment gains	24,050	24,050	9,568	9,568
	433,176	424,665	14,482	14,424
Costs and expenses:				
Diversified industrial cost of goods sold	295,669	289,839	-	-
Selling, general and administrative	90,513	88,250	7,499	7,915
Finance interest expense	2,022	2,022	1,255	1,255
Provision for loan losses (gains)	(420)	(420)	3,001	3,001
Interest expense	13,504	12,123	-	-
Realized and unrealized loss on derivatives	5,164	5,164	-	-
Management fees - related party	7,531	7,531	3,705	3,705
Increase in deferred fee liability to related party	6,606	6,268	6,654	6,992
Total costs and expenses	420,589	410,777	22,114	22,868
Income (loss) from continuing operations before taxes and equity method	12,587	13,888	(7,632)	(8,444)
Income tax provision	(2,657)	(2,657)	(57)	(57)
Income (loss) from equity method investments:				
Income of associated companies, net of taxes	10,824	10,305	6,688	7,207
Loss from other investments - related party	(3,220)	(3,220)	(2,960)	(2,960)
Net income (loss) from continuing operations	17,534	18,316	(3,961)	(4,254)
Discontinued operations:				
(Loss) income from discontinued operations, net of taxes	(3,086)	(3,162)	1,177	1,177
Gain on sale of discontinued operations, net of taxes	31,292	31,292	-	-
Income from discontinued operations	28,206	28,130	1,177	1,177
Net income (loss)	45,740	46,446	(2,784)	(3,077)
Net (income) loss attributable to noncontrolling interests in consolidated entities:				
Continuing operations	(594)	(997)	114	114
Discontinued operations	(13,739)	(13,702)	(556)	(556)
	(14,333)	(14,699)	(442)	(442)
Net income (loss) attributable to common unitholders	$ 31,407	$ 31,747	$ (3,226)	$ (3,519)

(Dollars in Thousands Except Per Unit Data)

Consolidated Statement of Operations	2010		July 16, 2009 to December 31, 2009	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Net income (loss) per common unit - basic				
Net income (loss) from continuing operations	$ 0.67	$ 0.69	$ (0.15)	$ (0.16)
Net income from discontinued operations	0.57	0.57	0.02	0.02
Net income (loss) attributable to common unitholders	$ 1.24	$ 1.26	$ (0.13)	$ (0.14)
Net income (loss) per common unit - diluted				
Net income (loss) from continuing operations	$ 0.62	$ 0.63	$ (0.15)	$ (0.16)
Net income from discontinued operations	0.52	0.53	0.02	0.02
Net income (loss) attributable to common unitholders	$ 1.14	$ 1.16	$ (0.13)	$ (0.14)
Weighted average number of common units outstanding - basic	25,234,827	25,234,827	25,219,420	25,219,420
Weighted average number of common units outstanding - diluted	27,482,804	27,482,804	25,219,420	25,219,420

Notes to Consolidated Financial Statements
(Dollars in Thousands Except Per Unit Data)

Consolidated Statement of Cash Flows	2010		July 16, 2009 to December 31, 2009	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Cash flows from operating activities:				
Net income (loss)	$ 45,740	$ 46,446	$ (2,784)	$ (3,077)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Investment gains and other than temporary impairment losses	(24,050)	(24,050)	(9,568)	(9,568)
Provision for loan losses	(420)	(420)	3,001	3,001
Income of associated companies	(10,824)	(10,305)	(6,688)	(7,207)
Loss from other investments - related party	3,220	3,220	2,960	2,960
Gain on sale of discontinued operations	(31,292)	(31,292)	-	-
Long-term interest on related party debt	4,275	4,275	-	-
Deferred income tax (benefit) provision	(9)	(9)	156	156
Non-cash interest and dividend income	(1,876)	(1,876)	-	-
Depreciation and amortization	14,054	14,029	75	75
Loss on extinguishment of debt	1,210	1,210	-	-
Gain on sale of loans	-	-	(64)	(64)
Reclassification of net cash settlements on derivative instruments	5,124	5,124	-	-
Other	1,422	900	-	-
Net change in operating assets and liabilities:				
Receivables	27,028	27,400	(2,076)	(2,076)
Receivable from related party	-	-	-	(1,463)
Inventories	8,891	8,577	-	-
Dividends and interest receivable	1,619	1,379	14	254
Prepaid and other assets	(1,255)	(1,350)	(6,488)	(6,488)
Accounts payable, accrued and other liabilities	(6,871)	(6,779)	3,745	5,026
Payable to related parties	1,022	606	5,492	5,908
Dividends and interest payable	(319)	(319)	21	21
Increase in deferred fee liability to related party	6,605	6,267	6,654	6,992
Net cash provided by operating activities of discontinued operations	6,866	7,127	6,980	6,980
Net cash provided by operating activities	50,160	50,160	1,430	1,430
Cash flows from investing activities:				
Purchases of investments	(359,575)	(359,575)	(239,862)	(239,862)
Proceeds from sale of investments	501,067	501,067	333,141	333,141
Proceeds from sale of loans	2,054	2,054	-	-
Net decrease (increase) in loans receivable	117	117	(9,595)	(9,595)
Purchases of property and equipment	(7,296)	(7,296)	(13)	(13)
Reclassification of restricted cash	(19,493)	(19,493)	1,774	1,774
Net cash settlements on derivative instruments	(5,124)	(5,124)	-	-
Proceeds from sales of assets	457	457	-	-
Acquisitions, net of cash acquired	2,115	2,115	-	-
Purchase of subsidiary shares from noncontrolling interests	(14,134)	(14,134)	(111)	(111)
Investments in associated companies	(51,675)	(51,675)	(51,573)	(51,573)
Proceeds from sale of discontinued operations	64,693	64,693	-	-

Notes to Consolidated Financial Statements
(Dollars in Thousands Except Per Unit Data)

Consolidated Statement of Cash Flows	2010		July 16, 2009 to December 31, 2009	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Net cash provided by investing activities of discontinued operations	1,520	1,520	440	440
Net cash provided by investing activities	114,726	114,726	34,201	34,201
Cash flows from financing activities:				
Redemptions from redeemable partners' capital	-	-	(204,403)	(204,403)
Proceeds related to assumption of deferred fee liability to related party	-	-	4,487	4,487
Common unit cash distribution	(49,102)	(49,102)	-	-
Proceeds from term loans - domestic	46,000	46,000	-	-
Net revolver borrowings	11,136	11,136	-	-
Net repayments of term loans - foreign	(1,975)	(1,970)	-	-
Repayments of term loans - domestic	(86,018)	(86,018)	-	-
Repayments of term loans - related party	(5,563)	(5,563)	-	-
Deferred finance charges	(3,842)	(3,842)	-	-
Net change in overdrafts	2,088	2,088	-	-
Net increase in deposits	11,604	11,604	26,033	26,033
Repayment of debt of discontinued operations	(22,767)	(22,772)	(8,520)	(8,520)
Net cash used in financing activities	(98,439)	(98,439)	(182,403)	(182,403)
Net change for the period	66,447	66,447	(146,772)	(146,772)
Effect of exchange rate changes cash and cash equivalents	(10)	(10)	-	-
Cash and cash equivalents at beginning of period/year	114,247	114,247	261,019	261,019
Cash and cash equivalents at end of period/year	$ 180,684	$ 180,684	$ 114,247	$ 114,247

(Dollars in Thousands Except Per Unit Data)

Consolidated Statement of Changes in Capital and Comprehensive Income

	As Previously Reported	As Restated
Accumulated Other Comprehensive Income (Loss):		
Balance at July 15, 2009	$ (32)	$ (32)
Net loss	(3,226)	(3,519)
Unrealized gain on available-for-sale investments	58,508	57,989
Currency translation adjustment	1,194	1,194
Change in net pension liability	(5,809)	(5,809)
Comprehensive income	50,667	49,855
Balance at December 31, 2009	53,861	53,342
Net income	31,407	31,747
Unrealized loss on available-for-sale investments	(37,955)	(37,436)
Currency translation adjustment	658	658
Change in net pension liability	(8,802)	(8,802)
Comprehensive loss	(14,692)	(13,833)
Balance at December 31, 2010	$ 7,762	$ 7,762
Total Partners' Capital:		
Balance at July 15, 2009	$ 367,058	$ 367,058
Net loss	(3,226)	(3,519)
Unrealized gain on available-for-sale investments	58,508	57,989
Currency translation adjustment	1,194	1,194
Change in net pension liability	(5,809)	(5,809)
Balance at December 31, 2009	417,725	416,913
Units issued	543	543
Net income	31,407	31,747
Unrealized loss on available-for-sale investments	(37,955)	(37,436)
Currency translation adjustment	658	658
Change in net pension liability	(8,802)	(8,802)
Interests acquired	1,261	1,261
Other	848	848
Balance at December 31, 2010	$ 405,685	$ 405,732

(Dollars in Thousands Except Per Unit Data)

	As Previously Reported	As Restated
Noncontrolling Interest:		
Balance at July 15, 2009	$ 13,581	$ 13,581
Net income	442	442
Purchase of subsidiary shares from noncontrolling interests	(111)	(111)
Issuance of subsidiary shares from non-controlling interests	16	16
Balance at December 31, 2009	13,928	13,928
Net income	14,333	14,699
Currency translation adjustment	(101)	(101)
Change in net pension liability	(6,805)	(6,805)
Acquisition	26,035	26,035
Sale of discontinued operation	(8,099)	(8,099)
Interests acquired	(15,395)	(15,395)
Other, net	318	318
Balance at December 31, 2010	$ 24,214	$ 24,580
Total Capital:		
Balance at July 15, 2009	$ 380,639	$ 380,639
Net loss	(2,784)	(3,077)
Unrealized gain on available-for-sale investments	58,508	57,989
Currency translation adjustment	1,194	1,194
Change in net pension liability	(5,809)	(5,809)
Purchase of subsidiary shares from noncontrolling interests	(111)	(111)
Issuance of subsidiary shares from non-controlling interests	16	16
Balance at December 31, 2009	431,653	430,841
Units issued	543	543
Net income	45,740	46,446
Unrealized loss on available-for-sale investments	(37,955)	(37,436)
Currency translation adjustment	557	557
Change in net pension liability	(15,607)	(15,607)
Acquisition	26,035	26,035
Sale of discontinued operation	(8,099)	(8,099)
Interests acquired	(14,134)	(14,134)
Other, net	1,166	1,166
Balance at December 31, 2010	$ 429,899	$ 430,312

3. 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, including BNS from its acquisition date on July 14, 2009, in which SPH has a controlling financial interest as of the financial statement date. BNS, a controlled subsidiary, has an October 31 fiscal year end and the SPH consolidated accounts include BNS on a 61 day lag. Significant inter-company accounts and transactions have been eliminated in consolidation. As discussed above and in Note 5 - "Acquisitions", SPH acquired a controlling interest in HNH on May 7, 2010 and began consolidating the accounts of HNH from that date. Prior to May 7, 2010 the investment in HNH was accounted for under the equity method of accounting using the fair value option.

With respect to Investment Operations for periods presented prior to July 15, 2009, the Company applied investment company accounting and did not consolidate its 50% or more owned investments.

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.

Discontinued Operations

The consolidated financial statements include the financial position, results of operations and cash flows of Collins, which was acquired through the July 14, 2009 acquisition of BNS and sold on February 18, 2010, and is classified as a discontinued operation on a retrospective basis from the date of the BNS acquisition.

In 2010, HNH exited the business of manufacturing adhesive films, specialty graphic films and engineered coated products known as Arlon CM. The consolidated financial statements include the financial position, results of operations and cash flows of Arlon CM, which was acquired through the May 7, 2010 acquisition of HNH and is classified as a discontinued operation on a retrospective basis from the date of the HNH acquisition.

Current assets, non-current assets, current liabilities, and non-current liabilities of Collins and Arlon CM are combined into separate captions on the consolidated balance sheet. Income from Collins and Arlon CM operations are combined into one line on the consolidated statement of operations. Cash flows from operating activities and cash flows from financing activities of Collins and Arlon CM are combined into separate captions on the consolidated statement of cash flows.

Use of Estimates in Preparation of Consolidated Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, unrealized gains and losses during the reporting period. In particular, 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, estimates of loan losses, and estimates necessary to determine whether goodwill, investments in associated companies, other intangible assets and long-lived assets have been impaired require considerable judgment by management. 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 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.

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.

Cash and Cash Equivalents

Cash and cash equivalents include cash and deposits in depository institutions, financial institutions and banks. Cash at December 31, 2010 and 2009 also includes $3,797 and $1,804, 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. Substantially all cash is uninsured as of December 31, 2010 and 2009. 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, 2010. Restricted cash consists of collateral held against financial instruments including amounts payable in foreign currencies. Restricted cash is reported separately as a current asset in the consolidated balance sheets at December 31, 2010 and 2009.

Investments

SPH determines the appropriate classifications of Diversified Industrial, Financial Services and Other 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, available-for-sale, or trading. Held-to-maturity investments are carried at amortized cost. Trading investments, which are bought and held principally for the purpose of resale in the near future, are carried at estimated fair value with unrealized gains and losses reflected in results of operations. 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. 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 net investment gains (losses) 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. Dividend and interest income are recognized when earned. Realized gains and losses for investments classified as available-for-sale or held-to-maturity 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. Commission expense on purchases is included in the cost of investments in the consolidated balance sheets. 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.

SPH uses the equity method of accounting with respect to Diversified Industrial, Financial Services and Other 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.

Prior to July 16, 2009, Investment Operations investments were accounted for at estimated fair value. Realized and unrealized gains and losses on securities and on securities sold not yet purchased using the specific identification method are reported as revenue in the consolidated statements of operations. Dividend and interest income are recognized when earned. Commission expense on purchases is included in the cost of investments in the consolidated balance sheets. 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.

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. 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.

Concentration 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.

For the year ended December 31, 2010, two contractual lending programs accounted for 54% of the financial services 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 Metal Risk

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. Future and forward contracts to sell or buy precious metal are the derivatives used for this objective. The forward contracts entered into by HNH are with a counter party rated “A” by Standard & Poor’s, and the future contracts are exchange traded contracts through a third party broker. Accordingly, HNH has determined that there is minimal credit risk of default. HNH estimates the fair value of its derivative contracts through use of market quotes or broker valuations when market information is not available.

As these derivatives are not designated as accounting hedges under 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 the consolidated statement of operations. The unrealized gain or loss (open trade equity) on the derivatives is included in other current assets or other current liabilities, respectively. HNH’s hedging strategy is designed to protect it against normal volatility; therefore abnormal price increases in these commodity markets could negatively impact results of operations.

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 are exchange traded in active markets and SPH estimates the fair value of the options through use of quoted prices obtained on internationally recognized exchanges. These derivative financial instruments are reported at fair value as financial instruments in the consolidated balance sheet and changes in fair value are reported in the consolidated statement of operations.

SPH common unit options issued to the Manager (see Note 19 - “Common Unit Option Liability”) 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.

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 70.0% to 90.0% of each loan and the SBA loans provide guarantees of 75.0% to 85.0% 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 5.0% of each USDA loan sold and 15.0% 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 obtainable market price, or the fair value of the collateral 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, between three and five years. 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. 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).

To estimate the fair value of reporting units, the Company uses an income approach and a market approach. 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. 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 forecasted cash flows are based on current plans and for years beyond that plan, the estimates are based on assumed growth rates. The Company believes the assumptions are consistent with the plans and estimates used to manage the underlying businesses. 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 an analysis of peer companies and considered the industry weighted average return on debt and equity from a market participant perspective. The Company believes the assumptions used to determine the fair value of reporting units are reasonable. If different assumptions were used, particularly with respect to forecasted cash flows or WACCs, different estimates of fair value may result and there could be the potential that an impairment charge could result. Actual operating results and the related cash flows of the reporting units could differ from the estimated operating results and related cash flows. The recoverability of goodwill may be impacted if estimated future operating cash flows are not achieved.

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. The income approach closely parallels investors' consideration of the future benefits derived from ownership of an asset.

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 (see Note 28 — "Fair Value Measurements"). 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.

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.

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.

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.

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 $2,320 for the year ended December 31, 2010.

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.

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 dilutive common units outstanding during the period.

4. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board ("FASB") issued new disclosure requirements related to Fair Value Measurements and Disclosures—ASC 820-10, in order to provide a greater level of disaggregated information and more robust disclosures about valuation techniques and inputs to fair value measurements, as well as additional information about transfers between levels and activity during the reporting period. It also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets (ASC 715-20); so as to refer to ASC 820-10 to determine the appropriate classes to present fair value disclosures about such plan assets. Most of the new disclosures and clarifications of existing disclosures are effective for the Company's interim and annual reporting periods of 2010, and the Company adopted them in the first quarter of 2010. Because the new requirements affect disclosures but do not change the accounting for any assets or liabilities, their adoption did not have an effect on the Company's consolidated financial position and results of operations.

In July 2010, the FASB issued ASU No. 2010-20 which amends the authoritative accounting guidance under topic 310, Receivables. The guidance amends existing disclosures to provide financial statement users with greater transparency about an entity's allowance for loan and lease losses and the credit quality of its loan and lease portfolio. Under the new guidelines, the allowance for loan and lease losses and fair value are to be disclosed by portfolio segment, while credit quality information, impaired loans and leases and non-accrual status are to be presented by class of loans and leases. Disclosure of the nature and extent, the financial impact and segment information of troubled debt restructurings will also be required. The disclosures are to be presented at the level of disaggregation that management uses when assessing and monitoring the loan and lease portfolio's risk and performance. This guidance is effective for interim and annual reporting periods ending on or after December 15, 2010. Adoption of this guidance did not have a material effect on the Company's results of operations or financial condition.

(Dollars in Thousands Except Per Unit Data)

In January 2010, the FASB issued ASU 2010-01, “Accounting for Distributions to Shareholders with Components of Stock and Cash - a consensus of the FASB Emerging Issues Task Force”. This update clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. ASU 2010-01 was effective for interim and annual periods ending on or after December 15, 2009 and should be applied on a retrospective basis. Adoption of ASU 2010-01 did not have a material impact on SPH’s financial position or results of operations.

5. ACQUISITIONS

HNH Acquisition

On May 7, 2010 (the “Acquisition Date”), SPH acquired 57,801 shares of HNH which 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 as described in Note 7 - “Investments in Associated Companies” and were accounted for under the equity method at fair value. The additional shares of HNH purchased on May 7, 2010 brought the total number of shares owned by SPH to 6,123,876, representing 50.3% of the outstanding shares. After May 7, 2010, SPH acquired 201,393 shares for cash in the open market for $772, bringing total shares owned at December 31, 2010 to 6,325,269 (51.9% of outstanding shares).

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. After the controlling shares were acquired on May 7, 2010, SPH’s investment in HNH was reclassified to the purchase price of HNH. 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.

HNH, a Delaware corporation, is a diversified industrial holding company that owns and manages a group of businesses on a decentralized basis whose business encompasses: precious metal, tubing, engineered materials, electronic materials and cutting replacement products and services. SPH acquired HNH in order to further its business as a global diversified holding company.

The following table summarizes the consideration paid for the controlling interest in HNH, the estimated fair values of the assets acquired and liabilities assumed at the Acquisition Date, and the fair value of the noncontrolling interest in HNH on the Acquisition Date. The table is retrospectively adjusted for the discontinued operations of Euro Kasco as described in Note 6.

Total Consideration paid for net assets:	**Number of Shares**	**Average Price per Share**	**Cost**
Shares purchased before May 7, 2010	6,066,075	$ 4.30	$ 26,084
Shares purchased on May 7, 2010	57,801	$ 4.41	255
Total	6,123,876		$ 26,339

(Dollars in Thousands Except Per Unit Data)

Assets (as Restated):	
Cash	$ 8,487
Receivables	80,421
Inventories	58,893
Prepaid expenses and other current assets	8,149
Deferred tax	1,191
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 (as Restated):	
Accounts payables	42,570
Accrued liabilities	28,146
Short-term debt and current portion of long-term debt	44,687
Other current liabilities	20,931
Total 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 valuation of the intangible assets acquired and related amortization periods are as follows:

	Fair Value	Amortization Period (in years)
Patents / technology	$ 19,510	13
Trademarks	20,140	26
Customer relationships	88,790	19
In-process research and development	80	7
Backlog	800	1
Total separately recognized intangible assets	$ 129,320	

The purchase price allocation for the acquisition of HNH resulted in the recognition of $16,131 of goodwill. The goodwill represents the excess of consideration for the acquisition over the fair value of the net identifiable assets acquired less the fair value of the liabilities assumed less the fair value of the noncontrolling interest. The primary factors that comprise the recognized goodwill are the synergies related to becoming part of a larger diversified group of companies under common management. Goodwill is not deductible for tax purposes because SPH is not a taxpaying entity.

The fair value of the noncontrolling interests amounting to $26,035 was based on the number of shares held by noncontrolling shareholders at the acquisition date.

(Dollars in Thousands Except Per Unit Data)

Long-term debt at May 7, 2010 includes a $71,828 loan payable to Steel Partners II Liquidating Series Trust - Series A & E (“SPII Liquidating Trust - A & E”), in which SPH had a 43.75% interest. SPH’s pro-rata interest of $31,425, representing SPH’s indirect intercompany interest, is eliminated in the 2010 consolidated financial statements. SPII Liquidating Trust - A & E held loans from HNH subsidiaries valued at $66,962 at December 31, 2009, in which the Company had a $29,296 indirect interest. On October 15, 2010 (as discussed in Note 18 - “Debt”), 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 SPII Liquidating Trust - A & E. On October 15, 2010, H&H Group refinanced the prior indebtedness of Handy & Harman (“H&H”) and Bairnco Corporation (“Bairnco”) to SPII Liquidating Trust - A & E in accordance with the terms of an exchange Agreement, pursuant to which H&H Group made an approximately $6,000 cash payment in partial satisfaction of prior indebtedness to the SPII Liquidating Trust - A & E and exchanged the remainder of such prior obligations for units consisting of (a) $72,926 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 1,500,806 shares of HNH common stock. 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. As a result, as a beneficiary of the SPII Liquidating Trust - A & E, SPH had an indirect interest in $31,905 of the Subordinated Notes and approximately 656,605 of the Warrants at the date of the refinancing on October 15, 2010. On December 14, 2010, the SPII Liquidating Trust - A & E distributed SPH’s indirect interest in the Subordinated Notes and Warrants to SPH such that the Company directly holds $31,905 of the Subordinated Notes and approximately 656,605 of the Warrants. The $31,905 of Subordinated Notes held by the Company and related intercompany interest is eliminated in consolidation in connection with the HNH acquisition and consolidation.

HNH’s operations are included in the SPH consolidated financial statements beginning May 7, 2010. HNH is included in the Diversified Industrial segment for all periods including the period prior to the acquisition as an associated company. Revenue and net income of the acquiree included in the consolidated statement of operations since the acquisition date are $385,806 and $1,405, respectively. Included in the 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. Receivables are net of an estimated $2,387 that are not expected to be collected.

The following presents certain unaudited pro forma consolidated statement of operations data for the year ended December 31, 2010 as if the HNH acquisition was completed on the same terms at July 15, 2009 and January 1, 2010. As discussed in Note 2 - “Basis of Presentation”, SPH began using operating company accounting for investments it acquired in the Exchange Transaction on July 16, 2009; accordingly, the HNH pro forma statement of operations data is not presented prior to that date.

	Year Ended December 31, 2010 (unaudited) (as Restated)	July 16, 2009 to December 31, 2009 (unaudited) (as Restated)
Revenue	$ 607,072	$ 228,602
Net income (loss) attributable to common unitholders	23,399	(1,804)
Net income (loss) per common unit - basic	0.93	(0.07)
Net income (loss) per common unit - diluted	0.85	(0.07)

BNS Acquisition

On July 14, 2009, SPH acquired 75,503 shares of BNS common stock (50.2% of outstanding shares) for cash from SPII for $5,815, the market price on that date. SPH acquired BNS to further its business as a global diversified holding company. After July 15, 2009, SPH acquired an additional 1,370 BNS shares (0.9% of outstanding shares) for cash in the open market valued at $111 bringing total BNS shares owned to 76,873 (51.1% of outstanding shares) at December 31, 2009. During 2010, SPH acquired 45,725 shares for cash in the open market for $11,084; and, BNS acquired shares for cash in the open market for $2,169. As a result, SPH owns 85.4% of BNS’ outstanding shares at December 31, 2010. The shares reflect a 1 for 1,000 reverse stock split followed by a 50 for 1 forward stock split on August 20, 2010.

(Dollars in Thousands Except Per Unit Data)

BNS's principal operations resulted from its 80% ownership of Collins which manufactures and markets specialty vehicles such as ambulances, school, activity and shuttle buses; and, terminal road construction equipment. BNS's results of operations, reported on a 61 day lag, have been included in the consolidated financial statements from July 15, 2009 through October 31, 2009, and the Collins operations of BNS, which were sold on February 18, 2010, are classified as discontinued operations. Prior to July 14, 2009 BNS was reported by SPII as an investment carried at fair value. The fair value carried (based on the market price) by SPII was the amount SPH paid SPII in cash on July 14, 2009 to acquire the BNS net assets. The final allocation of the purchase price as of July 15, 2009 is summarized below:

Assets:		
Cash and cash equivalents	$	2,100
Restricted cash		243
Accounts receivable		18,623
Inventories		39,991
Prepaid and other current assets		1,285
Property, plant and equipment		26,963
Intangible assets		36,567
Goodwill		9,543
Other assets		2,177
Total assets acquired		137,492
Liabilities:		
Accounts payable and other current liabilities		33,057
Other liabilities		4,057
Long-term debt		80,982
Total liabilities assumed		118,096
Noncontrolling interests		13,581
Net assets acquired	$	5,815

The difference between the Company's purchase price for BNS and the fair value allocated to the assets acquired and liabilities assumed of $9,543 was recorded as goodwill which represents the excess of purchase price over net assets (including identifiable intangible assets acquired). The Company determined as of July 14, 2009 the fair value assigned to the assets and liabilities of BNS which related primarily to Collins. Noncontrolling interests represent the values assigned to Collins and BNS noncontrolling shareholders. Long-term debt at July 15, 2009 includes a $20,991 loan payable to Steel Partners II Liquidating Series Trust - C ("SPII Liquidating Trust - C"), in which SPH had a 43.75% interest. SPH's pro-rata interest of $9,184, representing SPH's indirect intercompany interest, is eliminated in the 2009 consolidated financial statements. As discussed in Note 6 - "Discontinued Operations", the BNS loan and accrued interest were paid in full in connection with the sale of Collins on February 18, 2010. The operations of Collins are accounted for as discontinued operations in the consolidated financial statements. With respect to the sale of Collins, BNS signed a letter of intent with a third party in November 2009. BNS's sale of its interest in Collins, and its statement of operations and balance sheet information are described in Note 6.

CoSine and JPS Acquisitions

In two transactions on July 14, 2009 and July 15, 2009, SPH acquired for cash, in the aggregate, a 26.1% interest in CoSine from SPII for $4,211, at the market price per share on those dates. On July 31, 2009, SPH acquired for cash from HNH an additional 18.8% interest in CoSine, at the market price per share on that date, and on August 11, 2009, an additional 2.5% interest for cash in the open market for a total cost of $3,616, bringing its ownership interest to 47.4% at December 31, 2009. From July 14, 2009 forward, SPH began accounting for CoSine as an associated company under the equity method.

(Dollars in Thousands Except Per Unit Data)

On July 14, 2009, SPH acquired for cash an 18.2% interest in JPS from SPII for $6,427, at the market price per share on that date. As part of the Exchange Transaction, SPH acquired an additional 11.3% interest in JPS valued at $4,722, the market price at July 15, 2009. Through open market cash purchases between July 16, 2009 and December 31, 2009, SPH acquired, in the aggregate, 8.8% of additional interests in JPS for $2,742, bringing its ownership interest in JPS to 38.3% at December 31, 2009. From July 14, 2009 forward, SPH began accounting for JPS as an associated company under the equity method.

Exchange Transaction

In connection with the acquisition of SPII on July 15, 2009 (see Note 23 - "Exchange Transaction"), 25,761,587 common units that had been subject to redemption became non-redeemable in exchange for the net assets of SPII which were recorded at fair value as follows:

Assets:		
Cash and cash equivalents	$	251,547
Investments		404,982
Other assets		2,279
Total assets acquired		658,808
Liabilities:		
Dividends and interest payable		137
Capital redemptions payable		204,403
Accrued expenses and other		6
Total liabilities assumed		204,546
Net assets acquired	$	454,262

On July 15, 2009, SPH recorded the $404,982 fair value of investments acquired from SPII in the Exchange Transaction as their initial carrying values. In the aggregate, the net assets acquired by SPH as a result of the Exchange Transaction of $454,262 consisted of $404,982 of investments, net cash of $47,144 (after considering the remaining cash capital redemptions payable in connection with the Exchange Transaction) and $2,136 of other net assets. From July 16, 2009 forward, SPH began accounting for these investments in accordance with its accounting policies. From that date, HNH, Steel Excel and DGT, acquired in the Exchange Transaction, are accounted for as associated companies under the equity method.

In connection with the Exchange Transaction the Company acquired interests, included in investments above, in each series of the Steel Partners II Liquidating Series Trust ("SPII Liquidating Trust") (see Note 30 - "Related Party Transactions") which are presented as other investments - related party on the consolidated balance sheet and are accounted for under the equity method. An indirect intercompany investment of $9,184 representing the Company's interest through a series of the SPII Liquidating Trust, which held a loan receivable from BNS of $20,991 at July 15, 2009, was eliminated in the consolidated balance sheet. Investments at July 15, 2009 also include $26,584 of the Company's indirect interests, through SPII Liquidating Trust - A and E, in $60,764 of loans receivable from HNH, which are included with other investments - related party in the December 31, 2009 consolidated balance sheet. As discussed above, these indirect interests were refinanced and SPH directly holds Subordinated Notes which are eliminated in consolidation at December 31, 2010.

The remaining investments acquired in the Exchange Transaction are accounted for as available-for-sale securities and other investments measured at fair value. SLI and API while initially classified as available-for-sale securities have been reclassified as associated companies. See Note 7 - "Investments in Associated Companies."

(Dollars in Thousands Except Per Unit Data)

6. DISCONTINUED OPERATIONS

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. BNS used a portion of the proceeds to repay the SPII Liquidating Trust - C Term Loan of $21,785 plus additional accrued interest of $982, of which SPH received $9,960 through an interest it holds in the SPII Liquidating Trust. The SPII Liquidating Trust terminated the series holding the SPII Liquidating Trust - C Term Loan and SPH received $10,332 on May 11, 2010 as a final distribution. The remaining BNS long-term debt was assumed by the acquirer. Collins paid BNS a $1,000 fee in exchange for the cancellation of a management services agreement and BNS paid the Manager $1,000 for investment banking services in connection with the sale transaction. SPH recorded a gain on sale of discontinued operations of $31,254 ($16,238 after noncontrolling interest) in the year ended December 31, 2010.

HNH's Discontinued Operations

In 2010, HNH decided to exit the Arlon CM business of manufacturing adhesive films, specialty graphic films and engineered coated products. In February and March 2011, HNH sold assets in two separate asset sale transactions. These businesses comprised HNH's Arlon Coated Materials ("CM") segment. During the third quarter of 2011, HNH sold Euro Kasco. See Note 31 - "Subsequent Events".

The following assets and liabilities of discontinued operations of BNS and HNH have been segregated in the accompanying consolidated balance sheets as of December 31, 2010 and 2009. The December 31, 2009 balance sheet information represents the Collins discontinued operations. The December 31, 2010 balance sheet information represents HNH's discontinued operations.

	December 31, 2010 (as Restated)	December 31, 2009 (as Restated)
Assets of discontinued operations:		
Cash and cash equivalents	$ -	$ 346
Trade and other receivables	12,351	12,127
Inventories	13,624	42,805
Other current assets	1,069	748
Goodwill	-	9,543
Other intangibles, net	2,650	36,217
Property, plant and equipment, net	3,378	25,952
Other assets	234	1,395
Total assets	$ 33,306	$ 129,133
Liabilities of discontinued operations:		
Trade payables and accrued liabilities	$ 9,341	$ 13,714
Current portion of long-term debt	-	2,654
Other current liabilities	-	16,632
Long-term debt	-	63,486
Other liabilities	656	4,058
Total liabilities	$ 9,997	$ 100,544

(Dollars in Thousands Except Per Unit Data)

The consolidated statement of operations includes the following relating to discontinued operations. The information reflects primarily the BNS discontinued operations from July 31, 2009 and the discontinued operations of HNH, which included Arlon CM and Euro Kasco from May 7, 2010.

	Year Ended December 31,	
	2010 (as Restated)	2009
Sales	$ 59,569	$ 60,163
Net (loss) income	(3,162)	1,464
(Loss) income after taxes and noncontrolling interests	(1,145)	621
Gain on sale of discontinued operations net of tax and noncontrolling interests	15,972	-

7. INVESTMENTS IN ASSOCIATED COMPANIES

The Company's investments in associated companies accounted for under the equity method of accounting are initially recorded at their original cost, subsequently increased or decreased for SPH's share of the investees' earnings or losses and other comprehensive income, reduced for dividends received and impairment charges recorded, if any, and increased for any additional investment. The Company's acquisition purchase price for equity method investments was less than book value at the dates acquired by $24,860 (the "basis difference"). No adjustments to earnings are made for the impact of the basis difference.

The Company elected to account for its investments in HNH, API, ADPT, and SLI under the equity method at fair value beginning on the dates these investments became subject to the equity method of accounting. The Company is permitted to choose, at specified election dates, to measure many financial instruments and certain other items at fair value (the "fair value option") that would not otherwise be required to be measured at fair value. If the fair value option is elected for a particular financial instrument, the Company is required to report unrealized gains and losses on those items in its consolidated statement of operations. The fair value elections for the Company's investments in HNH, Steel Excel, API and SLI were made beginning July 16, 2009. HNH, API, Steel Excel and SLI are Level 1 investments measured and reported at fair value as described in Note 28 - "Fair Value Measurements." Associated companies are included in Diversified Industrial, Financial Services and Other from the dates of their acquisition.

Certain associated companies have a fiscal year end that differs from December 31.

SPH's associated companies accounted for under the equity method are as follows:

HNH

At December 31, 2009, SPH owned 4,707,388 shares of HNH representing 38.6% of outstanding shares with an investment carrying value of $11,298. SPH recorded an unrealized loss in the consolidated statement of operations of $1,161 on its investment in HNH for the period from July 16, 2009 to December 31, 2009. Between January 1 and May 7, 2010 prior to acquiring a controlling interest, SPH acquired an additional 1,358,687 shares for cash in the open market for $6,116, bringing total HNH shares owned to 6,066,075 (49.8% of outstanding shares). SPH accounted for its investment in HNH under the equity method at fair value; and accordingly, SPH recorded an unrealized gain in the consolidated statement of operations of $8,670 on its investment in HNH from January 1, 2010 to May 7, 2010 prior to obtaining a controlling interest. The fair value of SPH's investment in HNH was $26,084 as of May 7, 2010 immediately prior to SPH purchasing a controlling interest. SPH's purchase on May 7, 2010 of 57,801 additional HNH shares for cash in the open market for $255 brought the total investment to $26,339 and total shares owned by SPH to 6,123,876 (50.3% of outstanding shares), and HNH became a majority-owned controlled subsidiary. 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 5 - "Acquisitions".

API

At December 31, 2010, SPH owns 32.4% of the shares of API, a publicly traded company which is a manufacturer of specialized materials for packaging. At December 31, 2009 SPH owned 12,179,325 shares (17.4% of the outstanding shares) of API with an investment carrying value of $1,623. In September 2010, SPH is deemed to have acquired 12,652,878 additional API shares for $1,771 bringing total shares owned as of December 31, 2010 to 24,832,203 (32.4% of the outstanding shares). SPH acquired the additional shares in 2010 as a result of a modification of the SPII Fund Plan (as described in Note 23 - "Exchange Transaction") which enabled SPII Fund investors, who were otherwise entitled to receive API shares from the SPII Fund under the plan, to elect to receive a cash distribution in lieu of each API share in which it had an indirect interest held by SPH. Consequently, the SPII Fund investors making such elections surrendered their right under the SPII Fund Plan to receive API shares by a way of a distribution from the SPII Fund. The investment in API is reported under the equity method at fair value with an investment carrying value of $6,009 as of December 31, 2010. For the year ended December 31, 2010, SPH has recorded an unrealized gain in the consolidated statement of operations of $2,615 on its investment in API. The Company's ownership interest in API exceeded 20% on September 1, 2010; and, accordingly API has been accounted for as an associated company using the fair value election from January 1, 2010. The investment in API of $1,623 reported on the balance sheet at December 31, 2009 has been reclassified from "Investments at fair value" accounted for as an available-for-sale security to "Investments in associated companies".

Steel Excel

At December 31, 2010, SPH owns 33.0% of the shares of Steel Excel, a publicly traded company which is seeking to acquire one or more new businesses. At December 31, 2009 SPH owned 2,346,984 shares (19.5% of the outstanding shares) of Steel Excel with an investment carrying value of $78,624. SPH recorded an unrealized gain in the consolidated statement of operations of $9,395 on its investment in Steel Excel for the period from July 16, 2009 to December 31, 2009. From January 1, 2010 to December 31, 2010 SPH acquired an additional 1,249,827 shares for cash in the open market for $37,202, bringing total Steel Excel shares owned to 3,596,811 (33.0% of total outstanding shares) at December 31, 2010. The investment in Steel Excel is reported under the equity method at fair value with an investment carrying value of $105,387 as of December 31, 2010. For the year ended December 31, 2010, SPH has recorded an unrealized loss in the consolidated statement of operations of $10,439 on its investment in Steel Excel.

CoSine

As of December 31, 2010 and 2009, SPH owns 4,779,721 shares (47.4% of the outstanding shares) of CoSine, a publicly traded company which is seeking to acquire one or more new businesses. The investment carrying value of CoSine at December 31, 2009 was $7,694 and at December 31, 2010 was $7,260. The investment in CoSine was accumulated over several transactions. On July 14, 2009 SPH for cash acquired 1,740,916 shares of CoSine common stock from SPII for $2,785, the market price on that date. On July 15, 2009 SPH for cash acquired 890,468 shares of CoSine common stock from SPII for $1,425, at the market price on that date. Subsequently SPH acquired an additional 1,898,337 shares for cash from HNH at the market price and 250,000 shares for cash in the open market for $3,616 bringing total CoSine shares owned to 4,779,721 (47.4% of total outstanding shares). CoSine was accounted for under the equity method from July 14, 2009. SPH recorded a loss of $127 as its share of CoSine net loss and $5 as its share of other comprehensive loss for the period from July 16, 2009 to December 31, 2009. SPH has recorded a loss of $440 as its share of CoSine net loss and $6 as its share of capital changes for the year ended December 31, 2010. The aggregate market value of the Company's interest in CoSine was $9,081 at December 31, 2010.

DGT

As of December 31, 2010, SPH owns 22,036,965 shares (46.2% of the outstanding shares) of DGT, a publicly traded company that develops, manufactures and markets medical and dental imaging systems and power conversion subsystems; and manufactures a full range of radiographic and portable imaging systems and electronic systems and components. At December 31, 2009 SPH owned 6,290,007 shares (27.7% of the outstanding shares) of DGT with an investment carrying amount of $2,444. SPH recorded a loss of $745 as its share of DGT net loss and $139 as its share of other comprehensive income for period from July 16, 2009 to December 31, 2009. Between January 1 and December 31, 2010, SPH acquired an additional 15,746,958 shares for cash, primarily through participation of a rights offering in December 2010, for $9,600 bringing total DGT shares owned to 22,036,965 (46.2% of outstanding shares) at December 31, 2010. The investment carrying value in DGT reported under the equity method is $12,817 at December 31, 2010. SPH has recorded income of $886 as its share of DGT net income and $(113) as its share of capital changes including other comprehensive income / loss for the year ended December 31, 2010. The aggregate market value of the Company's interest in DGT was $16,307 at December 31, 2010.

JPS

At December 31, 2010, SPH owns 39.3% of JPS, a publicly traded company that manufactures a variety of products for specialty industrial applications. At December 31, 2009 SPH owned 3,878,336 shares (38.3% of the outstanding shares) of JPS with an investment carrying amount of $7,301. SPH recorded a loss of $754 as its share of JPS net loss and $5,836 as its share of comprehensive loss for the period from July 16, 2009 to December 31, 2009. Between January 1 and December 31, 2010, SPH acquired an additional 143,244 shares for cash in the open market for $560, bringing total JPS shares owned to 4,021,580 (39.3% of outstanding shares) at December 31, 2010. For the year ended December 31, 2010, SPH has recorded income of $1,228 as its share of JPS's net income and $(722) as its share of JPS's capital changes including other comprehensive loss. The investment carrying value in JPS reported under the equity method is $8,367 as of December 31, 2010. The aggregate market value of the Company's interest in JPS was $19,665 at December 31, 2010.

SLI

At December 31, 2010, SPH owns 20.7% of the shares of SLI, a publicly traded company that designs, manufactures and markets power electronics, motion control, power protection and specialized communication equipment. At December 31, 2009 SPH owned 703,720 shares (11.5% of the outstanding shares) of SLI with an investment carrying value of $5,897. From January 1, 2010 to December 31, 2010 SPH acquired an additional 223,511 shares for cash in the open market for $2,541, bringing total SLI shares owned to 927,231 (20.7% of total outstanding shares) at December 31, 2010. The investment in SLI is reported under the equity method at fair value with an investment carrying value of $16,217 as of December 31, 2010. For the year ended December 31, 2010, SPH has recorded an unrealized gain in the consolidated statement of operations of $7,779 on its investment in SLI. The Company's ownership interest in SLI exceeded 20% on December 31, 2010; and, accordingly SLI has been accounted for as an associated company using the fair value election from January 1, 2010. The investment in SLI of $5,897 reported on the balance sheet at December 31, 2009 has been reclassified from "Investments at fair value" accounted for as an available-for-sale security to "Investments in associated companies".

(Dollars in Thousands Except Per Unit Data)

The following table provides combined summarized data with respect to the associated companies accounted for on the equity method:

	December 31, 2010	December 31, 2009
Investments in associated companies:		
HNH*	$ -	$ 11,298
API*	6,009	1,623
Steel Excel*	105,387	78,624
CoSine	7,260	7,694
DGT	12,817	2,444
JPS	8,367	7,301
SLI*	16,217	5,897
Other	7,213	6,267
	$ 163,270	$ 121,148
Summary of balance sheet amounts (unaudited):		
Current assets	$ 605,889	$ 672,977
Noncurrent assets	203,194	366,322
Total assets	$ 809,083	$ 1,039,299
Current liabilities	$ 117,436	$ 162,113
Noncurrent liabilities	159,152	357,201
Total liabilities	276,588	519,314
Parent equity	529,244	519,985
Noncontrolling interest	3,251	-
Total liabilities and equity	$ 809,083	$ 1,039,299

* As discussed above, the Company elected to account for this investment at fair value commencing on the date the investment became subject to equity method accounting.

	2010 (as Restated)	July 16, 2009 to December 31, 2009 (as Restated)	January 1, 2009 to July 15, 2009	2008
Summary income statement amounts (unaudited):				
Revenue	$ 787,347	$ 326,521	$ 230	$ 126
Gross profit	192,052	84,311	-	-
(Loss) income from continuing operations	(12,894)	(15,586)	150	12
Net (loss) income after noncontrolling interests	(19,661)	(22,153)	170	13
Amounts recognized in the consolidated financial statements:				
SPH share of net income (loss)	1,680	(1,546)	63	10
Unrealized gain on associated companies accounted for at fair value	8,625	8,753	-	-
SPH's equity in other comprehensive loss	(737)	(4,644)	-	-

(Dollars in Thousands Except Per Unit Data)

The December 31, 2010 summary of balance sheet amounts excludes HNH, which is consolidated beginning on May 7, 2010. The summary income statement amounts include results for HNH through May 6, 2010. See above and Note 5 - "Acquisitions".

8. INVESTMENTS

Investments - Current

As discussed in Note 7 - "Investments in Associated Companies", two investments classified as available-for-sale at December 31, 2009 qualified for equity method accounting during 2010. Accordingly, these investments reported have been reclassified on the balance sheet from "Investments at fair value" to "Investments in associated companies" and the related footnote disclosures have been reclassified.

Investments classified as current assets at December 31, 2010 and 2009 consist of available-for-sale securities as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
December 31, 2010				
Debt securities - corporate	$ 28,124	$ 9,242	$ -	$ 37,366
Equity securities - U.S.	23,207	13,438	(2,139)	34,506
Total investments	$ 51,331	$ 22,680	$ (2,139)	$ 71,872
December 31, 2009				
Debt securities - corporate	$ 8,988	$ 1,685	$ -	$ 10,673
Equity securities - U.S.	88,765	56,921	(1,848)	143,838
Equity securities - International	44,533	971	-	45,504
Total investments	$ 142,286	$ 59,577	$ (1,848)	$ 200,015

Maturities of debt securities - corporate:	
2016	$ 22,033
2024	15,333
	$ 37,366

(Dollars in Thousands Except Per Unit Data)

Available-for-sale securities by industry classification at December 31, 2010 and 2009 are as follows:

	Cost	Unrealized Gains	Unrealized Losses	Fair value
December 31, 2010				
Insurance	$ 14,921	$ 7,112	$ -	$ 22,033
Computer Software and Services	3,362	-	(1,279)	2,083
Aerospace / Defense	23,903	12,398	-	36,301
Manufacturing	1,603	1,633	-	3,236
Restaurants	5,974	1,532	-	7,506
Other	1,568	5	(860)	713
Total	$ 51,331	$ 22,680	$ (2,139)	$ 71,872
December 31, 2009				
Insurance	$ 23,005	$ 15,684	$ (144)	$ 38,545
Consumer Products	44,533	971	-	45,504
Computer Software and Services	21,373	20,573	(1,418)	40,528
Oil and Gas Drilling	34,394	5,113	-	39,507
Aerospace / Defense	9,557	16,038	-	25,595
Manufacturing	1,688	20	-	1,708
Restaurants	5,974	824	-	6,798
Other	1,762	354	(286)	1,830
Total	$ 142,286	$ 59,577	$ (1,848)	$ 200,015

Investment information is summarized below for available-for-sale securities:

	2010	July 16, 2009 to December 31, 2009	January 1, 2009 to July 15, 2009	2008
Proceeds from sales	$ 262,934	$ 318,958	$ 129	$ 17,620
Gross gains from sales	$ 42,066	$ 24,627	$ -	$ 6,403
Gross losses from sales	(3,668)	(15,462)	(23)	(420)
Other than temporary impairment	-	-	-	(1,962)
Net investment gain (loss)	$ 38,398	$ 9,165	$ (23)	$ 4,021
Change in net unrealized holding (losses) gains included in other comprehensive income	$ (37,188)	$ 58,508	$ 247	$ 7

	December 31, 2010
Reclassified out of accumulated other comprehensive income:	
Unrealized gains	$ 41,026
Unrealized losses	(177)
Total	$ 40,849

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 in the table are reported in accumulated other comprehensive income in the condensed consolidated balance sheets.

(Dollars in Thousands Except Per Unit Data)

Other Investments - Related Party

Other Investments - related party, classified as non-current assets at December 31, 2010 and 2009, consist of the Company's investment in each series of the SPII Liquidating Trust (see Note 30 - "Related Party Transactions") accounted for under the equity method. These investments were acquired and initially recorded as described in connection with 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. The Company is permitted to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that would not otherwise be required to be measured at fair value. If the fair value option is elected for a particular financial instrument, the Company is required to report unrealized gains and losses on those items in its condensed consolidated statement of operations.

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, 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. 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 table provides combined summarized data with respect to the other investments - related party accounted for under the equity method, which as discussed above the Company elected to account for at fair value commencing on the date the investment became subject to equity method accounting:

	December 31, 2010	December 31, 2009
Other investments - related party:		
SPII Liquidating Trust - Series A (a)	$ -	$ 5,701
SPII Liquidating Trust - Series B (b)	25,154	29,009
SPII Liquidating Trust - Series C (c)	-	10,169
SPII Liquidating Trust - Series D (d)	17,217	15,005
SPII Liquidating Trust - Series E (a)	-	24,859
SPII Liquidating Trust - Series G (e)	11,579	11,872
SPII Liquidating Trust - Series H (f)	7,826	10,305
SPII Liquidating Trust - Series I (g)	777	773
	62,553	107,693
Elimination of indirect interest in loans (a) (c)	-	(9,770)
Total	$ 62,553	$ 97,923
Summary of balance sheet amounts:		
Total assets	$ 143,037	$ 278,619
Total liabilities	76	32,451
Net Asset Value	$ 142,961	$ 246,168

(Dollars in Thousands Except Per Unit Data)

	Year Ended December 31, 2010	July 16, 2009 to December 31, 2009
Summary income statement amounts:		
Realized loss, investments	$ -	$ (50)
Change in unrealized, loss from investments and others	(8,990)	(11,979)
Net investment income	11,747	7,548
Net increase (decrease) in net assets from operations	2,757	(4,481)
Amounts recognized in the consolidated financial statements:		
Loss from other investments - related party	$ (3,220)	$ (2,960)
Proceeds from sales	13,494	14,183
Gross gains from sales	$ 810	$ 434
Gross losses from sales	-	(31)
Net investment gain	$ 810	$ 403

(a) Represents the Company's interests in the series of the SPII Liquidating Trust that held loans receivable from HNH with a value of $66,962 at December 31, 2009, in which the Company had a $29,296 indirect interest. As discussed in Note 18 - "Debt", the HNH subsidiaries' loans were refinanced on October 15, 2010 and the Subordinated Notes and Warrants that were received by the SPII Liquidating Trust were distributed to its beneficiaries, including the Company, on December 14, 2010. The Subordinated Notes and related interest payable to the Company are eliminated in consolidation.

(b) Represents the Company's interest in the series of the SPII Liquidating Trust that holds preference shares and ordinary shares in Barbican.

(c) Represents the Company's interest in the series of the SPII Liquidating Trust that held the loans receivable from BNS with a value of $22,331 at December 31, 2009, in which the Company has a $9,770 indirect interest, which is eliminated in the consolidated financial statements. As discussed in Note 6 - "Discontinued Operations", the BNS loan and accrued interest were paid in full in connection with the sale of Collins on February 18, 2010 and was distributed by the SPII Liquidating Trust to its beneficiaries, including the Company, on May 11, 2010.

(d) Represents the Company's interest in the series of the SPII Liquidating Trust that holds common shares in F&H Acquisition Corp ("F&H"), which does business as Fox & Hound.

(e) Represents the Company's indirect 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 30 - "Related Party Transactions").

(f) 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 30 - "Related Party Transactions").

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

Investments in Variable Interest Entities

The Company holds variable interests in each series of the SPII Liquidating Trust (see "Other Investments - Related Party - Non-Current" above). The purpose of the SPII Liquidating Trust is to effect the orderly liquidation of certain assets previously held by SPII as part of the implementation of the SPII Fund Plan as discussed in Note 23 - "Exchange Transaction". 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.

(Dollars in Thousands Except Per Unit Data)

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.

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 following table sets forth certain information regarding the series of the SPII Liquidating Trust, in the aggregate, in which the Company holds a variable interest as of December 31, 2010 and 2009 and is not a primary beneficiary. The amounts presented below are included in, and not in addition to, the other investments - related party tables above.

	December 31, 2010	December 31, 2009
Gross Assets	$ 143,037	$ 278,619
Financial Obligations (a)	-	-
SPH Investment (b)	62,553	107,693

(a) The SPII Liquidating Trust did not have any financial obligations as of December 31, 2010 and 2009 and the Company did not have any financial obligation to the SPII Liquidating Trust as of such dates.

(b) Represents the Company's maximum exposure to loss and is before the elimination of indirect interest in loans to BNS of $9,770 at December 31, 2009.

Net Investment Gains (Losses)

Net investment gains (losses) in the consolidated statement of operations consists of the following:

	2010	July 16, 2009 to December 31, 2009	January 1, 2009 to July 15, 2009	2008
Available-for-sale securities	$ 38,398	$ 9,165	$ (23)	$ 4,021
Financial instruments	(15,158)	-	-	-
Other investments - related party	810	403	-	-
Total	$ 24,050	$ 9,568	$ (23)	$ 4,021

The losses from financial instruments are primarily from the foreign currency financial instruments described in Note 14 - "Derivatives".

Investment Operations

Investment Operations investments were accounted for at fair value with changes in fair value reported in the revenue section of the consolidated statements of operations as "change in unrealized gains (losses)" when they occur. Under investment company accounting, Investment Operations did not consolidate investments and it did not apply the equity method of accounting.

Notes to Consolidated Financial Statements
(Dollars in Thousands Except Per Unit Data)

9. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

A summary of receivables is as follows:

	December 31, 2010 (as Restated)	December 31, 2009 (as Restated)
Trade accounts receivable, net of allowance for doubtful accounts of $2,198	$ 66,582	$ -
Receivable from SPII Liquidating Trust (See Note 30 - "Related Party Transactions")	-	14,183
Other receivables	1,165	2,103
Total	$ 67,747	$ 16,286

10. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Major classifications of WebBank's loans receivable at December 31, 2010 and 2009 are as follows:

	Total				Current		Non-current	
	2010	%	2009	%	2010	2009	2010	2009
Real estate loans:								
Construction	$ 989	3%	$ 3,646	10%	$ 201	$ 2,057	$ 788	$ 1,589
Commercial - owner occupied	9,546	32%	10,425	29%	281	577	9,265	9,848
Commercial - other	276	1%	2,273	7%	8	582	268	1,691
Total real estate loans	10,811	36%	16,344	46%	490	3,216	10,321	13,128
Commercial and industrial	6,218	21%	9,340	26%	4,620	6,207	1,598	3,133
Consumer credit cards	-	-	517	2%	-	517	-	-
Loans held for sale	12,903	43%	9,404	26%	12,903	9,404	-	-
Total loans	29,932	100%	35,605	100%	18,013	19,344	11,919	16,261
Less:								
Deferred fees and discounts	(64)		(188)		(64)	(188)	-	-
Allowance for loan losses	(1,541)		(2,193)		(1,541)	(2,193)	-	-
Total loans receivable, net	$ 28,327		$ 33,224		$ 16,408	$ 16,963	$ 11,919	$ 16,261

The ability of the borrowers to repay their obligations is dependent upon economic conditions within their respective regions as well as the financial condition of the borrowers. The changes in the allowance for loan losses were as follows:

	2010	July 16, 2009 to December 31, 2009	January 1, 2009 to July 15, 2009	2008
Balance at beginning of period	$ 2,193	$ 4,716	$ 2,302	$ 300
Provision for loan losses	(420)	3,001	3,644	2,877
Recoveries	1,312	-	20	31
Loan charge offs	(1,544)	(5,524)	(1,250)	(906)
Balance at end of period	$ 1,541	$ 2,193	$ 4,716	$ 2,302

WebBank had $1,614 and $4,773 of loans on which the accrual of interest has been discontinued as of December 31, 2010 and 2009, respectively. If income on those loans had been accrued, such income would have approximated $0 for the year ended December 31, 2010, $84 and $70 for the periods from January 1, 2009 to July 15, 2009, from July 16, 2009 to December 31, 2009, respectively. Loans, 90 days or more past due and still accruing interest, were $0 and $401 at December 31, 2010 and 2009, respectively. The valuation allowance for impaired loans is included in the allowance for loan losses.

(Dollars in Thousands Except Per Unit Data)

A summary of information pertaining to impaired loans is as follows:

	2010	July 16, 2009 to December 31, 2009	January 1, 2009 to July 15, 2009	2008
Impaired loans without a valuation allowance	$ 520	$ 2,825	$ 213	$ 112
Impaired loans with a valuation allowance	2,107	2,581	10,415	5,982
Total impaired loans	$ 2,627	$ 5,406	$ 10,628	$ 6,094
Valuation allowance related to impaired loans	$ 634	$ 961	$ 3,719	$ 1,483

	2010	July 16, 2009 to December 31, 2009	January 1, 2009 to July 15, 2009	2008
Average investment in impaired loans	$ 4,016	$ 9,027	$ 10,816	$ 7,295
Interest income recognized on impaired loans	$ 228	$ 235	$ 176	$ 532

11. INVENTORIES

A summary of inventories is as follows:

	December 31, 2010 (as Restated)
Finished products	$ 18,718
In - process	8,110
Raw materials	16,389
Fine and fabricated precious metal in various stages of completion	12,151
	55,368
LIFO reserve	(4,546)
Total	$ 50,822

The addition of inventories to the SPH consolidated financial statements at December 31, 2010 is related to the acquisition of HNH as described in Note 5 - “Acquisitions”. The allocation of the HNH purchase price, including amounts allocated to inventories at the Acquisition Date. The carrying value of the HNH inventories at the Acquisition Date was increased by $11,685 for the acquired value of manufacturing profit and the fair value of precious metal inventory. Of this purchase price adjustment, $7,825 was charged to diversified industrial cost of goods sold and $1,713 was charged to discontinued operations in the year ended December 31, 2010, as the related inventory was sold.

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 $4,546 as of December 31, 2010.

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, 2010, HNH’s customer metal consisted of 166,637 ounces of silver, 557 ounces of gold, and 1,396 ounces of palladium.

Supplemental inventory information:		**December 31, 2010**
Precious metals stated at LIFO cost (in thousands)	$	7,605
Market value per ounce:		
Silver	$	30.92
Gold	$	1,421.07
Palladium	$	797.00

12. PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	December 31, 2010			
	2010		**2009**	
	(as Restated)			
Land	$	8,117	$	-
Buildings and improvements		25,778		43
Machinery, equipment and other		65,527		298
Construction in progress		1,709		-
		101,131		341
Accumulated depreciation and amortization		(9,506)		(235)
Net property and equipment	$	91,625	$	106

Depreciation expense was $9,581, $26, $25 and $43 for the year ended December 31, 2010, for the periods from January 1, 2009 to July 15, 2009, from July 16, 2009 to December 31, 2009 and for the year ended December 31, 2008, respectively.

13. GOODWILL AND OTHER INTANGIBLES

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business acquisitions. Goodwill is reviewed for impairment in accordance with GAAP. The Company uses judgment in assessing whether assets may have become impaired by 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 of; or results of testing for recoverability of a significant asset group within a reporting unit.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value less cost to sell.

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.

(Dollars in Thousands Except Per Unit Data)

Intangible assets with finite lives are amortized over their estimated useful lives. Trademarks with indefinite lives as of December 31, 2010 were $9,620 and are included in intangible assets. Intangible assets are reviewed for impairment if events or changes in circumstances indicate that the Company may not recover the carrying amount of an asset.

A summary of goodwill and other intangible assets is as follows:

Goodwill:	Balance at December 31, 2009	HNH Acquisition	Balance at December 31, 2010
Diversified industrial	$ -	$ 16,131	$ 16,131
Financial services	81	-	81
Total	$ 81	$ 16,131	$ 16,212

Other intangible assets, net at December 31, 2010:	Cost	Accumulated Amortization	Net	Weighted Average Amortization Life
Product and customer relationships	$ 88,790	$ (2,678)	$ 86,112	19
Trademarks	20,140	(512)	19,628	26
Patents and technology	20,119	(1,017)	19,102	13
Other	880	(451)	429	1
Total	$ 129,929	$ (4,658)	$ 125,271	

The increase in goodwill and other intangible assets for the period ended December 31, 2010 resulted from the acquisition of HNH on May 7, 2010 as described in Note 5 - “Acquisitions”. Goodwill is not tax deductible because SPH is not a taxpaying entity. Amortization expense recognized in the consolidated statement of operations for the year ended December 31, 2010 was $4,658. 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	Total
2011	$ 4,532	$ 754	$ 1,469	$ 365	$ 7,120
2012	4,532	754	1,469	16	6,771
2013	4,532	754	1,469	16	6,771
2014	4,532	754	1,469	16	6,771
2015	4,532	754	1,469	16	6,771
Thereafter	63,452	6,238	11,757	-	81,447
Total	$ 86,112	$ 10,008	$ 19,102	$ 429	$ 115,651

Goodwill includes $81 at both December 31, 2010 and 2009 related to a February 1, 2006 acquisition of a 7% minority interest in WebBank, whereby SPH gained 100% ownership of WebBank.

(Dollars in Thousands Except Per Unit Data)

14. DERIVATIVE INSTRUMENTS

Foreign Currency Exchange Rate Risk

Financial instruments include $137,823 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, 2010 are as follows:

Currency	Carrying Amount	Notional Amount
Japanese Yen	$ 111,484	¥ 9,052,504
Euro	10,715	€ 8,005
Pound Sterling	15,624	£ 10,008
Total	$ 137,823	

Information is summarized below for foreign currency financial liabilities and related restricted cash for the year ended December 31, 2010:

Foreign exchange transactions:	
Sales of foreign currency financial instruments	$ 447,724
Purchases of foreign currency financial instruments	(277,740)
Restricted cash net proceeds from foreign currency transactions	169,984
Decline in restricted cash from foreign exchange transactions:	
Net investment losses	(14,099)
Proceeds from sales of investments	45,087
Receipt of dividends, net of interest expense	1,173
Net decrease in restricted cash and foreign currency liabilities	32,161
December 31, 2010 balance of foreign currency financial instruments liability and related restricted cash	$ 137,823

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, 2010 the HNH had entered into forward and future contracts for gold with a total value of $1,100 and for silver with a total value of $7,400.

As of December 31, 2010, HNH had the following outstanding forward or future contracts with settlement dates ranging from February 2011 to March 2011.

Commodity	Amount
Silver	240,000 ounces
Gold	800 ounces

(Dollars in Thousands Except Per Unit Data)

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 risk management in the common stock of the two companies. As of December 31, 2010, the Company had entered into call option contracts with a total fair value of $13,772 reported on the consolidated balance sheet as financial instruments - current assets and put option contracts with a total value of $6,094 reported on the consolidated balance sheet as financial instruments-current liability. The options expire through January 2011. The option contracts are exchange traded in active markets and the Company estimates the fair value of the options through use of quoted prices obtained on internationally recognized exchanges.

Information is summarized below for the option contracts for the year ended December 31, 2010:

Proceeds from sales	$	23,751
Realized gains (losses):		
Gross gains from sales	$	4,081
Gross losses from sales		(8,354)
Net realized investment loss		(4,273)
Unrealized gains (losses):		
Change in unrealized gains		8,441
Change in unrealized losses		(1,480)
Net unrealized investment gain		6,961
Net investment gain	$	2,688

Securities sold, not yet purchased

There are no amounts outstanding at December 31, 2010 for securities sold, not yet purchased. For risk management purposes during the year ended December 31, 2010, the Company sold securities short (primarily exchange traded index funds) 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 are exchange traded in active markets and the Company estimates fair value of the securities through use of quoted prices obtained on internationally recognized exchanges.

Information is summarized below for securities sold, not yet purchased for the year ended December 31, 2010:

Proceeds from sales	$	200,888
Gross gains from sales	$	1,155
Gross losses from sales		(4,902)
Net investment loss	$	(3,747)

(Dollars in Thousands Except Per Unit Data)

Subordinated Notes

As described in Note 18 - "Debt", HNH's 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, 2010, a mark to market adjustment of $232 was charged to unrealized losses on derivatives, increasing the fair value of the derivative liability to $2,866. 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, 2010	December 31, 2009
Foreign currency financial instruments	Financial instruments - current liabilities	$ 137,823	$ -
Commodity contracts	Other current liabilities	$ 40	$ -
Call options	Financial instruments - current assets	$ 13,772	$ -
Put options	Financial instruments - current liabilities	$ 6,094	$ -
Derivative features of subordinated notes	Long-term debt	$ 2,866	$ -

Effect of derivative instruments on the Consolidated Statements of Operations:

Derivative	Statement of Operations Location	2010 Gain (loss)	July 16, 2009 to December 31, 2009 Gain (loss)
Foreign currency financial instruments	Net investment gain (loss)	$ (14,099)	-
Commodity contracts	Realized and unrealized loss on derivatives	(4,932)	-
Call options	Net investment gain (loss)	(4,974)	-
Put options	Net investment gain (loss)	7,662	-
Securities sold, not yet purchased	Net investment gain (loss)	(3,747)	-
Derivative features of subordinated notes	Realized and unrealized loss on derivatives	(232)	-
Total derivatives not designated as hedging instruments		$ (20,322)	$ -
Total derivatives		$ (20,322)	$ -

(Dollars in Thousands Except Per Unit Data)

15. BANK DEPOSITS

WebBank has $61,792 and $50,214 of deposits at December 31, 2010 and 2009, respectively, of which $58 and $22 are non-interest bearing. A summary of WebBank deposits is as follows:

	December 31, 2010	December 31, 2009
Time deposits year of maturity:		
2010	$ -	$ 7,959
2011	21,910	17,870
2012	20,189	18,233
2013	12,501	-
Total time deposits	54,600	44,062
Money market deposits	7,192	6,152
Total deposits	$ 61,792	$ 50,214
Current	$ 29,102	$ 14,111
Long-term	32,690	36,103
Total deposits	$ 61,792	$ 50,214
Time deposit accounts under $100	$ 52,459	$ 41,921
Time deposit accounts $100 and over	2,141	2,141
Total time deposits	$ 54,600	$ 44,062

16. PENSION BENEFIT PLANS

HNH maintains two qualified pension plans and postretirement benefit plans. The plans are mostly frozen so as a result they cover mostly retirees and various groups of grandfathered employees. HNH's Canadian subsidiary provides retirement benefits for its employees through a defined contribution plan and its European subsidiaries provide retirement benefits for employees consistent with local practices. These foreign plans are not significant.

The funded status of pension plans are based on actuarial valuations of the benefit obligations less the fair value of plan assets. Assumptions used in determining the benefit obligations include a discount rate of 5.20% for the WHX Pension Plan and 6.05% for the Bairnco Bear Pension Plan, as of May 7, 2010. 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. Assumptions used to determine pension expense for the period May 7 to December 31, 2010 for the two qualified pension plans are the discount rates above and an expected return on assets of 8.50%. In determining the expected 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 for the plan. HNH typically 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 pension expense (income) reported in the SPH consolidated statement of operations for the period May 7 to December 31, 2010 was $(3,722), based on the actuarial assumptions at May 7, 2010.

The funded status and accrued qualified pension liability is summarized as follows:

	December 31, 2010	May 7, 2010
Benefit obligation	$ (472,527)	$ (462,975)
Fair value of plan assets	359,543	353,673
Funded status	$ (112,984)	$ (109,302)

The accumulated benefit obligation is the actuarial present value of benefits earned based on service and compensation prior to the valuation date. As of May 7, 2010, the accumulated benefit obligation was $462,975.

Benefit obligation and plan assets are remeasured each December 31st to reflect changes in market conditions (e.g. discount rates, plan assets, actuarial assumptions).

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 the funds are available to meet benefit obligations when due. Pension plan 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 rebalance the portfolio in accordance with asset allocation guidelines established by HNH.

Contributions to the plan assets consist of funds paid from HNH or its subsidiaries 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 the WHX Pension Plan for 2011 of $14,900. Required future contributions are based upon assumptions such as discount rates on future obligations. Pension costs and required funding obligations will be affected by changes in assumptions, as well as other changes such as a plan termination.

Other Benefit Plans

Certain of HNH's subsidiaries also sponsor 401(k) profit sharing plans. Employee contributions to the plans are subject to regulatory limitations and the specific plan provisions. The plans require that the subsidiary match these contributions up to levels specified in the plans and provide for additional discretionary contributions as determined by management. The total expenses related to employer contributions for these plans were $975 for the period from May 7, 2010 to December 31, 2010.

The Company's significant pension and defined contribution plans are discussed further below. HNH's other plans are not significant individually or in the aggregate.

Pension Benefits for Year Ended December 31, 2010

HNH sponsors a defined benefit pension plan, the WHX Pension Plan, covering many of H&H employees and certain employees of H&H's former subsidiary, Wheeling-Pittsburgh Corporation, or ("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 Steelworkers 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"). The assets of the RSP 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.

Bairnco Corporation had several pension plans ("Bairnco 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 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.

(Dollars in Thousands Except Per Unit Data)

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.

WPC Group 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's Canadian subsidiary provides retirement benefits for its employees through a defined contribution plan. In addition, the Company'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 were frozen for most 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 ("PBGC") 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. Aggregate account balances held in trust in individual RSP Plan participants' accounts totaled $23,200 at December 31, 2010. These 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 December 31, 2010.

In 2010, 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, the 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. In 2009, HNH also had a postretirement Executive Life Insurance program that provided for life insurance benefits, as defined, for certain HNH executives upon their retirement. During 2009, this plan was terminated and all policies were either terminated for cash value or transferred to the participants. In 2010, as a result of the discontinuance of these benefits, HNH reduced its postretirement benefits expense by $700.

The components of pension (income) expense for the period May 7, 2010 to December 31, 2010 for the HNH's benefit plans included the following:

Service cost	$ 138
Interest cost	15,455
Expected return on plan assets	(19,315)
Total	$ (3,722)

Actuarial assumptions used to develop the components of the 2010 defined benefit pension (income) expense were as follows:

Discount rates:	
WHX Pension Plan	5.20%
Bear Plan	6.05%
Expected return on assets	8.50%
Rate of compensation increase	N/A

(Dollars in Thousands Except Per Unit Data)

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 2010 qualified defined benefit pension plans:

Change in benefit obligation:	
Benefit obligation at December 31, 2009	$ -0-
May 7, 2010 acquisition of HNH	462,975
Service cost	138
Interest cost	15,455
Actuarial loss	12,080
Benefits paid	(24,862)
Transfers from RSP	6,741
Benefit obligation at December 31, 2010	$ 472,527
Change in plan assets:	
Fair value of plan assets at May 7, 2010	$ 353,673
Actual returns on plan assets	14,668
Benefits paid	(24,862)
HNH contributions	6,276
Transfers from RSP	9,788
Fair value of plan assets at December 31, 2010	$ 359,543
Funded Status at December 31, 2010	$ (112,984)
Accumulated benefit obligation (ABO) for qualified defined benefit pension plans:	
ABO at May 7, 2010	$ 462,975
ABO at December 31, 2010	$ 472,527
Amounts Recognized in the Consolidated Balance Sheet:	
Noncurrent Asset	$ -
Current liability	(14,900)
Noncurrent liability	(98,084)
Total	$ (112,984)

The weighted average assumptions used in the valuations at December 31, 2010 were as follows:

Discount rates:	
WHX Pension Plan	4.95%
Bear Plan	5.50%
Rate of compensation increase	N/A

Amounts included in accumulated other comprehensive loss at December 31, 2010 were as follows:

Prior service cost (credit)	$ -
Net actuarial loss	13,680
Accumulated other comprehensive loss	$ 13,680

(Dollars in Thousands Except Per Unit Data)

There are no pretax amounts of actuarial losses or prior service cost included in Accumulated Other Comprehensive Loss at December 31, 2010 that are expected to be recognized in net periodic benefit cost in 2011.

Benefit obligations were in excess of plan assets for all pension plans at December 31, 2010. The accumulated benefit obligation for all defined benefit pension plans was $472,527 at December 31, 2010. Additional information for plans with accumulated benefit obligations in excess of plan assets is shown below:

Projected benefit obligation	$ 472,527
Accumulated benefit obligation	472,527
Fair value of plan assets	359,543

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 the HNH's forward-looking expectations for the plan. 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. The three to five year objective of the WHX Pension Plan is to achieve a rate of return that exceeds the HNH's expected earnings rate by 150 basis points at prudent levels of risk. Therefore the 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 rebalance the portfolio in accordance with asset allocation guidelines established by HNH.

The fair value of pension investments is defined by reference to one of the three following categories:

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").

Notes to Consolidated Financial Statements
(Dollars in Thousands Except Per Unit Data)

HNH's pension plans' assets at December 31, 2010 and 2009, by asset category, are as follows:

Fair Value Measurements as of December 31, 2010:

	Assets (Liabilities) at Fair Value			
December 31, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Equity securities:				
U.S. large cap	$ 20,475	$ 257	$ -	$ 20,732
U.S. mid-cap growth	37,493	902	-	38,395
U.S. small-cap value	5,657	-	317	5,974
International large cap value	17,602	-	-	17,602
Emerging markets growth	3,831	-	-	3,831
Equity contracts	608	-	-	608
Fixed income securities:				
Corporate bonds	7,831	24,927	595	33,353
Bank debt	-	1,464	-	1,464
Other types of investments:				
Common trust funds (1)	-	97,258	-	97,258
Fund of funds (2)	-	32,416	31,658	64,074
Insurance contracts (3)	-	753	9,268	10,021
	93,497	157,977	41,838	293,312
Futures contracts, net	(62,655)	(158)	-	(62,813)
Total	$ 30,842	$ 157,819	$ 41,838	230,499
Cash & cash equivalents				131,248
Net payables				(2,204)
Total pension assets				$ 359,543

(1) Common Trust Funds - 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. Insurance contracts are classified within Level 3 and the money market component is classified within Level 2 of the valuation hierarchy.

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.

The fair value measurements of the WHX/Bear Pension Plan assets using significant unobservable inputs (Level 3) changed during 2010 due to the following:

(Dollars in Thousands Except Per Unit Data)

	Fixed income securities	Fund of funds	Insurance contracts (c)	U.S. Small Cap Value	Total
Balance at December 31, 2009	$ -	$ -	$ -	$ -	$ -
May 7, 2010 acquisition of HNH	124	27,594	9,361	-	37,079
Transfers into Level 3 (a)	-	-	-	317	317
Transfers out of Level 3 (b)	-	(229)	-	-	(229)
Gains or losses included in changes in net assets	471	4,293	1,115	-	5,879
Purchases, issuances, sales and settlements					
Purchases	-	-	9,008	-	9,008
Settlements	-	-	(10,216)	-	(10,216)
Balance at December 31, 2010	$ 595	$ 31,658	$ 9,268	$ 317	$ 41,838
Net unrealized gains (losses) included in the changes in net assets, attributable to investments still held at the reporting date	$ 471	$ 4,293	$ 1,115	$ -	$ -

(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.
(c) Insurance contracts cannot be redeemed or transferred as these investments secure the insurance contracts that retirees of the WHX Pension Plan are due as part of their benefit payments.

The category, fair value, redemption frequency, and redemption notice period for those assets for which fair value is estimated using the NAV per share (or its equivalent) as of December 31, 2010 were as follows:

Fair Value Estimated using NAV per Share (or its equivalent) at December 31, 2010 is as follows:

Class Name	Description	Fair Value	Redemption frequency	Redemption Notice Period
Fund of funds	Long Short Equity Fund	$ 4,488	Quarterly	45 day notice
Fund of funds	Credit Long short hedge fund	31,087	2 year lock	90 day notice
Fund of funds	Multi-strategy hedge funds	362	Quarterly	45 day notice
Fund of funds	Fund of fund composites - side pocket	571	None	Not determinable
Fund of funds	Fund of fund composites	27,566	Quarterly	45 day notice
Common trust funds	Event driven hedge funds	97,258	Quarterly	45 day notice

HNH's pension plans' asset allocations at December 31, 2010, by asset category, are as follows:

Cash and cash equivalents	35%
Equity securities	7%
Fixed income securities	10%
Insurance contracts	3%
Common trust funds	27%
Fund of funds	18%
Total	100%

(Dollars in Thousands Except Per Unit Data)

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 the WHX Pension Plan for 2011 and 2012 of $14,900 and $15,600, respectively. Required future contributions are based upon assumptions such as discount rates on future obligations, 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:

2011	$ 35,680
2012	35,622
2013	35,462
2014	35,252
2015	34,987
2016-2020	168,804

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

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. In January 2009, the HNH suspended its employer contributions to the 401(k) savings plan for all employees not covered by a collective bargaining agreement. In January 2010, the matching contribution was reinstated, with a match of 50% of the first 6% of the employee's contribution, provided that employees had made an election to participate in the 401(k) savings plan on or before January 31, 2010. The charge to expense for the HNH's matching contribution amounted to $975 in 2010.

17. 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. ("WGL"), 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.

(Dollars in Thousands Except Per Unit Data)

The Deferred Fee Liability is scheduled to be paid on the distribution dates specified in the assignment and assumption agreement at the option of WGL in cash or SPH common units, or a combination thereof. The deferred fee is a fair value liability and a cash settlement is assumed. The number of SPH common units to be issued in lieu of the cash would be determined by applying a 15% discount to the market price if the SPH shares are publicly traded or to the net asset value per common unit. The maximum number of common units that could be issued in lieu of cash would be 3,791,645 at December 31, 2010 and 3,434,696 at December 31, 2009. The common units issued will be subject to a six month lock-up pursuant to which WGL cannot sell such common units for six months. The amount of the Deferred Fee Liability is indexed to the value of SPH. The amount of the deferred fee liability is indexed to the value of SPH. The Deferred Fee Liability is increased or decreased quarterly by the same percentage as the increase or decrease in the index from July 15, 2009 to each distribution date. The increase in the Deferred Fee Liability was $6,268 for the year ended December 31, 2010 and $6,992 for the period from July 16, 2009 to December 31, 2009 based on the change in the index and is reported in the consolidated statements of operations as increase in deferred fee liability to related party. For every $1.00 change in the index at December 31, 2010, the Deferred Fee Liability changes by $3,223. The fair value of the Deferred Fee Liability of $64,854 is reported on the consolidated balance sheet of which $64,551 is the amount that would be paid to WGL under the terms of the agreement as of December 31, 2010. Based on the value of the Deferred Fee Liability at December 31, 2010, the Deferred Fee Liability would be paid as follows: 2012 - $1,216; 2013 - $5,499; 2014 - $12,633; 2015 - $8,007; 2016 through 2018 - $37,196.

18. DEBT

Debt consisted of the following at December 31, 2010:

	December 31, 2010 (as Restated)
Short term debt:	
First Lien Revolver	$ 42,635
Foreign	255
Total short-term debt	42,890
Long-term debt - non related party:	
First Lien Term Loans	20,300
Second Lien Term Loans	25,000
10% Subordinated Notes, net of unamortized discount	40,520
Other debt - domestic	7,286
Foreign loan facilities	2,750
Total debt to non related party	95,856
Less portion due within one year	4,452
Long-term debt to non related party	91,404
Long-term debt - related party:	
10% Subordinated Notes, net of unamortized discount	580
Total long-term debt	91,984
Total debt	$ 139,326

All of the outstanding debt at December 31, 2010 relates to HNH.

Long term debt as of December 31, 2010 (as Restated) matures in each of the next five years as follows:

	Total	2011	2012	2013	2014	2015	Thereafter
Long-term debt - non-related parties	$ 95,856	$ 4,452	$ 41,352	$ 3,002	$ 252	$ 252	$ 46,546
Long term debt - related party	580	-	-	-	-	-	580
Total	$ 96,436	$ 4,452	$ 41,352	$ 3,002	$ 252	$ 252	$ 47,126

HNH Credit Facilities - Post-October 15, 2010

On October 15, 2010, HNH refinanced substantially all of its subsidiaries' indebtedness principally with its existing lenders or their affiliates. The refinancing was effected through a newly formed, wholly-owned subsidiary of the HNH, H&H Group, which is the direct parent of H&H and Bairnco.

Wells Fargo 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 "Wells Fargo Facility") with Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent for the lenders thereunder. The Wells Fargo Facility provides for a $21,000 senior term loan to H&H Group and certain of its Subsidiaries (the "First Lien Term Loan") and established a revolving credit facility 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 (such amount, initially $89,000), dependent on the levels of and collateralized by eligible accounts receivable and inventory (the "First Lien Revolver").

The First Lien Revolver requires a lockbox arrangement, which provides for all receipts to be swept daily to reduce borrowings outstanding under the credit facility. This arrangement, combined with the existence of a subjective acceleration clause in the revolving credit facility, necessitates the revolving credit facility be classified as a current liability on the balance sheet. The acceleration clause allows the HNH's lenders to forgo additional advances should they determine there has been a material adverse change in the HNH's financial position or prospects reasonably likely to result in a material adverse effect on its business, condition, operations, performance, or properties. HNH management believes that no such material adverse change has occurred. In addition, at December 31, 2010, the HNH's lenders had not informed the HNH that any such event had occurred. The revolving credit facility expires on June 30, 2012. As of December 31, 2010, the revolver balance was $42,600.

The amounts outstanding under the Wells Fargo Facility bear interest at LIBOR plus applicable margins of between 2.50% and 3.50% (3.25% for the term loan and 2.75% for the revolver at December 31, 2010), or at the U.S. base rate (the prime rate) plus 0.50% to 1.50% (1.25% for the term loan and 0.75% for the revolver at December 31, 2010). The applicable margins for the First Lien Revolver and the First Lien Term Loan are dependent on H&H Group's Quarterly Average Excess Availability for the prior quarter, as that term is defined in the agreement. As of December 31, 2010, the First Lien Term Loan bore interest at a weighted average interest rate of 3.56% and the First Lien Revolver bore interest at a weighted average interest rate of 3.25%. Principal payments of the First Lien Term Loan are due in equal monthly installments of approximately $350, commencing November 1, 2010. All amounts outstanding under the Wells Fargo Facility are due and payable in full on June 30, 2012.

Obligations under the Wells Fargo Facility are collateralized by first priority security interests in and liens upon all present and future assets of H&H Group and substantially all of its subsidiaries. The assets collateralized include inventories of approximately $50,822 and property, plant and equipment of approximately $91,529.

New Ableco Facility

On October 15, 2010, H&H Group, together with certain of its subsidiaries, also entered into a Loan and Security Agreement with Ableco, L.L.C. ("Ableco"), as administrative agent for the lenders thereunder (the "New Ableco Facility"). The New Ableco Facility provides for a $25,000 subordinated term loan to H&H Group and certain of its subsidiaries (the "Second Lien Term Loan"). The Second Lien Term Loan bears interest on the principal amount thereof at the U.S. base rate (the prime rate) plus 7.50% or LIBOR (or, if greater, 1.75%) plus 9.00%. As of December 31, 2010, the Second Lien Term Loan bore interest at a rate of 10.75% per annum. All amounts outstanding under the New Ableco Facility are due and payable in full on June 30, 2012.

Obligations under the New Ableco Facility are collateralized by second priority security interests in and liens upon all present and future assets of H&H Group and substantially all of its subsidiaries.

Covenants

The Wells Fargo Facility and the New Ableco Facility each has a cross-default provision. If H&H Group is deemed in default of one agreement, then it is in default of the other.

The Wells Fargo Facility and the New Ableco Facility contain covenants requiring minimum Trailing Twelve Months ("TTM") Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") of $40,000 and $45,000, respectively. H&H Group is required to maintain TTM EBITDA of $45,000 until such time as the New Ableco Facility is paid in full. The covenant will then adjust to $40,000.

The Wells Fargo Facility and the New Ableco Facility each contain a minimum TTM Fixed Charge Coverage Ratio of 1:1 which requires that Fixed Charges, as defined in the agreements, are at least equal to TTM EBITDA at the measurement date.

The New Ableco Facility contains a maximum TTM Senior Leverage Ratio covenant which represents the ratio of senior debt to TTM EBITDA. The ratio declines by 5/100ths each quarter: December 2010, 2.95; March 2011, 2.90; June 2011, 2.85; September 2011, 2.80; December 2011, 2.75 and March 2012, 2.70. H&H Group is required to maintain a maximum TTM Senior Leverage Ratio covenant following the New Ableco Facility schedule until such time as the New Ableco Facility is paid in full.

The Wells Fargo Facility and the New Ableco Facility each contain a maximum amount for capital expenditures over the preceding four quarter period. The December 2010 covenant is $21,000; increasing to $22,000 in March 2011 and increasing to $23,000 in June 2011. The covenant remains $23,000 thereafter.

HNH is in compliance with all of the debt covenants at December 31, 2010.

Subordinated Notes and Warrants

On October 15, 2010, H&H Group refinanced the prior indebtedness of H&H and Bairnco to SPII Liquidating Trust - A & E, 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 SPII Liquidating Trust - A & E, H&H Group made an approximately $6,000 cash payment in partial satisfaction of prior indebtedness to SPII Liquidating Trust - A & E and exchanged the remainder of such prior obligations for units consisting of (a) $72,925,500 aggregate principal amount of 10% subordinated secured notes due 2017 (the "Subordinated Notes") issued by H&H Group pursuant to an Indenture, dated as of October 15, 2010 (the "Indenture"), by and among H&H Group, the Guarantors party thereto and Wells Fargo, as trustee, and (b) warrants, exercisable beginning October 14, 2013, to purchase an aggregate of 1,500,806 shares of the HNH's common stock, with an exercise price of $11.00 per share (the "Warrants"). The Subordinated Notes and Warrants may not be transferred separately until October 14, 2013. The Subordinated Notes and Warrants received by SPII Liquidating Trust - A & E were distributed to its beneficiaries, including SPH, on December 14, 2010.

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 New 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. 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, 2010, a mark to market adjustment of $232 was charged to unrealized losses on derivatives, increasing the fair value of the derivative liability to $2,866.

The Subordinated Notes contain customary affirmative and negative covenants, certain of which only apply the event that the Wells Fargo Facility and the New Ableco Facility and any refinancing indebtednesses with respect thereto are repaid in full, and events of default. HNH is in compliance with all of the debt covenants at December 31, 2010.

In connection with the issuance of the Subordinated Notes and Warrants, the HNH and H&H Group also entered into a Registration Rights Agreement dated as of October 15, 2010 (the “Registration Rights Agreement”). Pursuant to the Registration Rights Agreement, HNH agreed to file with the Securities and Exchange Commission (the “SEC”) and use its reasonable best efforts to cause to become effective a registration statement under the Securities Act of 1933, as amended (the "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.

Other

A subsidiary of HNH has a mortgage agreement on its facility which is collateralized by the real property. The mortgage balance was $7,300 as of December 31, 2010. The mortgage bore interest at LIBOR plus a margin of 2.7%, or 2.97% at December 31, 2010. The maturity date is October 8, 2015.

The foreign loans reflect borrowings by two of HNH’s Chinese subsidiaries totaling $3,000 as of December 31, 2010. Such borrowings are collateralized by US dollar denominated letters of credit totaling $2,100, and $1,900 by a mortgage on one facility. Interest rates on amounts borrowed under the foreign loan facilities averaged 4.12% at December 31, 2010.

HNH has approximately $5,900 of irrevocable standby letters of credit outstanding as of December 31, 2010 which are not reflected in the accompanying consolidated financial statements. $2,900 of the letters of credit guarantee various insurance activities, $2,100 serve as collateral for borrowings of two Chinese subsidiaries, and the remaining $900 are for environmental and other matters. These letters of credit mature at various dates and some have automatic renewal provisions subject to prior notice of cancellation.

In 2010 prior to the refinancing of HNH’s subsidiaries’ debt, H&H and Bairnco had the following credit arrangements:

Interest

Cash interest paid in 2010 by HNH on its debt was $5,942. Total interest paid by the Company in 2010 was $17,067, none of which was capitalized.

As of December 31, 2010, the revolving and term loans under the Wells Fargo Facility bore interest at rates ranging from 3.04% to 4.50%; and the New Ableco Facility bore interest at 10.75%. The Subordinated Notes bore interest at 10.00% as of December 31, 2010. Weighted average interest rates for the year ended December 31, 2010 was 11.58%. Average borrowings and the average interest rate on the revolving credit facilities for the year ended December 31, 2010 were $30,393 and 5.12%, respectively.

HNH Credit Facilities - Pre-October 15, 2010

H&H

H&H's financing agreements included its Loan and Security Agreement with Wachovia Bank, National Association ("Wachovia"), as agent (the "Wachovia Facilities"), which provided for revolving credit and term loan facilities, and its Loan and Security Agreement with Steel Partners II Liquidating Series Trust - Series E, (the "SPII Liquidating Trust - E"), as successor-in-interest to SPII (the "Term B Loan").

The Wachovia Facilities provided for maximum borrowings of $115,000, consisting of a revolving credit facility of up to $75,000 of borrowings dependent on the levels of and collateralized by eligible accounts receivable and inventory. In addition, the Wachovia Facilities also included term loans funded by Ableco. The term loans were collateralized by eligible machinery and equipment and real estate. The revolving credit facility and the term and supplemental loans payable under the Wachovia Facilities bore interest at LIBOR, which shall at no time be less than 1.00%, plus applicable margins of between 2.75% and 3.75%, or the U.S. Base rate (Prime rate, which shall at no time be less than 3.00%) plus 1.00% to 2.00%. The applicable margin for the revolving credit facility and the term loans payable under the Wachovia Facilities was dependent on H&H's Quarterly Average Excess Availability for the prior quarter, as that term was defined in the agreement. The term loans payable to Ableco bore interest at LIBOR, which shall at no time be less than 3.25%, plus an applicable margin of 11.75%, or the U.S. Base rate (Prime rate, which shall at no time be less than 5.00%) plus 10.00%. The Wachovia Facilities were scheduled to mature on June 30, 2011.

The Term B Loan also was scheduled to mature on June 30, 2011. H&H was indebted to SPII under the Term B Loan until July 15, 2009, when SPII assigned its interest in the Term B Loan to SPII Liquidating Trust - E. The Term B Loan provided for annual payments based on 40% of excess cash flow as defined in the agreement (no principal payments were currently payable). Interest accrued monthly at the Prime Rate plus 14%, and at no time shall the Prime Rate (as that term is defined in the agreement) be below 4.0%. The Term B Loan had a second priority security interest in and lien on all assets of H&H, subject to the prior lien of the Wachovia Facilities and H&H's $17,000 guaranty and security interest for the benefit of Ableco as agent of the Bairnco indebtedness.

Bairnco

Bairnco's financing agreements included its Credit Agreement with Wells Fargo Foothill, Inc. ("Wells Fargo"), as arranger and administrative agent thereunder (the "Wells Fargo Facility"), which provided for revolving credit and term loan facilities, its Loan and Security Agreement with Ableco (the "Ableco Facility") and its Loan and Security Agreement with Steel Partners II Liquidating Series Trust - Series A, (the "SPII Liquidating Trust - A"), as successor-in-interest to SPII (the "Subordinated Debt Credit Agreement"), both of which were also term loan facilities.

The Wells Fargo Facility provided for a revolving credit facility in an aggregate principal amount not to exceed $30,000 and a term loan facility of $28,000. Borrowings under the Wells Fargo Facility bore interest, (A) in the case of base rate advances at 0.75% above the Wells Fargo Prime rate and base rate term loans at 1.25% above the Wells Fargo Prime rate, and (B) in the case of LIBOR rate loans, at rates of 3.00% for advances or 3.50% for term loans, as applicable, above the LIBOR rate. Obligations under the Wells Fargo Facility were guaranteed by certain of Bairnco's subsidiaries, and secured by a first priority lien on all assets of Bairnco and such subsidiaries. The scheduled maturity date of the indebtedness under the Wells Fargo Facility was July 17, 2012.

The Ableco Facility provided for a term loan facility of $48,000. Borrowings under the Ableco Facility bore interest, in the case of base rate loans, at 6.50% above the rate of interest publicly announced by JPMorgan Chase Bank in New York, New York as its reference rate, base rate or prime rate, and, in the case of LIBOR rate loans, at 9.00 % above the LIBOR rate. Obligations under the Ableco Facility were guaranteed by Bairnco and certain of its subsidiaries, and secured by a second priority lien on all of their assets. The Ableco Facility was also collateralized by a limited guaranty by H&H of up to $17,000, secured by a second lien on all of the assets of H&H pursuant to the terms and conditions of the H&H Security Agreement and the H&H Guaranty. The scheduled maturity date of the Ableco Facility was July 17, 2012.

The Subordinated Debt Credit Agreement provided for a term loan facility. Bairnco was indebted to SPII under the Subordinated Debt Credit Agreement until July 15, 2009, when SPII assigned its interest in the Subordinated Debt Credit Agreement to SPII Liquidating Trust - A. All borrowings under the Subordinated Debt Credit Agreement bore interest at 9.50% above the rate of interest publicly announced by JPMorgan Chase Bank in New York, New York as its reference rate, base rate or prime rate. Principal, interest and all fees payable under the Subordinated Debt Credit Agreement were due and payable on the scheduled maturity date, January 17, 2013. Obligations under the Subordinated Debt Credit Agreement were guaranteed by Bairnco and certain of its subsidiaries, and collateralized by a subordinated priority lien on their assets.

SPH Credit Facilities

At December 31, 2010, SPH had $8,767 available and undrawn under a credit facility with a financial institution which lends based upon and is collateralized by $332,722 of securities, at fair value, held at that financial institution. The amount available under the credit facility is determined by the financial institution daily based on advance rates on the securities it holds as collateral which it determines from time to time in its discretion and the rate of interest payable is determined daily based on the rates it determines are in effect on such day. SPH or the financial institution may cancel the credit facility without notice. At December 31, 2009, SPH had $100,040 available and undrawn under this facility which was collateralized by $307,627 of securities, at fair value.

WebBank Credit Facilities

WebBank has an unsecured line of credit with a correspondent bank of $3,000. The line of credit bears interest at the federal funds rate plus a range of 20 to 30 basis points. In addition, SPH provides a $4,000 line of credit to WebBank, which bears interest at the federal funds rate plus 100 basis points. Interest expense on these lines of credit for the twelve months ended December 31, 2010 and 2009 was $0 for each of the periods.

WebBank has access to the Federal Reserve Bank (“FRB”) Discount Window to provide short-term liquidity if needed. WebBank can borrow from the FRB Discount Window based upon the amount of collateral pledged as security, discounted by the FRB advance rates. The cost to access the Discount Window was 0.75% at December 31, 2010. As of December 31, 2010 and 2009, loans with a carrying value of $5,322 and 11,584, respectively, were pledged as security for borrowings under the Discount Window. As of December 31, 2010, $3,199 was available for borrowing from the FRB based on advance rates for the loans pledged. There were no outstanding balances under the FRB Discount Window facility as of December 31, 2010 and 2009.

19. COMMON UNIT OPTION LIABILITY

The total common units outstanding at December 31, 2010 is 4,971,361. As of July 14, 2009, the Manager was granted an option to purchase 4,965,690 common units which is equal to 15% of the sum of common units outstanding and the number of notional common units attributable to the Deferred Fee Liability. The options are fully vested, currently exercisable and expire on December 31, 2011. The options have a per common unit exercise price of $31.81, which is subject to adjustment for any cash distributions, any distributions-in-kind and the release of any reserves by Steel Partners II (Onshore) LP (“SPII Onshore”) to its former limited partners. As of December 31, 2010, the exercise price declined to $29.86 because of the April 1, 2010 distribution to unitholders as described in Note 21 - “Capital”. Moreover, if any issuance of common units, options, convertible securities or any other right to acquire common units of SPH results in an increase in the number of common units outstanding on a fully diluted basis as compared to the number outstanding as of the date of the most recent issuance (or, in the case of the first issuance, since the initial option grant date), the Manager will be issued additional options to purchase a number of common units so that as of the grant date of the additional option, after taking into account the number of outstanding common units on a fully diluted basis and all options granted since the initial option grant date, the Manager holds outstanding options (in the aggregate) to acquire 15% of the sum of outstanding common units on a fully diluted basis and the number of notional common units attributable to the Deferred Fee Liability. Each additional option will be immediately exercisable on the grant date, will have an exercise price per common unit equal to the fair market value of a common unit on the grant date and will otherwise be subject to the same terms as the initial option, unless the Manager otherwise agrees. Under these anti-dilution provisions, on July 10, 2010 the Company was obligated to issue 5,671 options to purchase common units at an exercise price of $16.89.

Because of the anti-dilution provisions, the options are accounted for as a derivative liability reported in Payable to Related Parties on the consolidated balance sheets at fair value with changes in fair value recognized during the period reported in Selling, General and Administrative expenses in the consolidated statements of operations. The fair value of the options at December 31, 2010 and 2009 was $1,785 and $1,092, respectively. The increases in the derivative liability for the year ended December 31, 2010 and for the period from July 16, 2009 to December 31, 2009 of $693 and $676, respectively, were expensed in the consolidated statement of operations. The fair value was estimated using the Black Scholes option pricing model that used assumptions as of December 31, 2010 and 2009 for volatility of 36.6% and 31.1%, a term of 1 year and 2 years, a risk free interest rate of .29% and 1.14% based on the U.S. Treasury bill yield, and an expected dividend of 0.0%. The intrinsic value of the options is $0 as of December 31, 2010 and 2009. The net asset values used in the fair value estimates were $18.27 and $19.98 at December 31, 2010 and 2009, respectively and are adjusted for a liquidity discount. Because the SPH common units have not significantly traded internally or in a public or non-public market, there is no practical means of estimating expected volatility. The volatility assumption was based on a calculated diversified industrial company peer group average of historical volatility.

20. 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 or through letters of credit. 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. WebBank uses the same credit policy in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2010 and 2009, WebBank's undisbursed loan commitments totaled $57,488 and $29,162, 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 $1,718 and $1,250 at December 31, 2010 and 2009, respectively, and is included with 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 $775, $0, $1,250, and $0 for the year ended December 31, 2010 and for periods January 1, 2009 to July 15, 2009 and July 16, 2009 to December 31, 2009 and for the year ended December 31, 2008, respectively.

21. CAPITAL

Redeemable Partners' Capital

The net assets received by SPH from SPII in the Exchange Transaction described in Note 5 - "Acquisitions" and Note 23 - "Exchange Transaction" were subject to redemption until July 15, 2009. Accordingly, the net assets of SPII received in the Exchange Transaction represented a redeemable interest in SPH and is therefore presented as "Redeemable Partners' Capital" in the consolidated statements of changes in capital and comprehensive income (loss) for all periods presented until July 15, 2009. Redeemable Partners' Capital accordingly only participated in 100% of the economic results of Investment Operations (the net assets of SPII) and did not participate in the economic results of the Pre-Exchange Operations. Net loss attributable to redeemable partners' capital in the consolidated statements of operations for the period from January 1, 2009 to July 15, 2009 and for the year ended December 31, 2008 is presented as a reduction of the net loss in determining the net income or loss attributable to common unitholders.

Redeemable Partners' Capital - Allocation of Net Income (Loss)

For each period presented through July 15, 2009, net income attributable to redeemable partners' capital was allocated among those holding the redeemable interests in proportion to their respective capital accounts.

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. Amounts payable on SPH common units outstanding at December 31, 2009 of $78,971 are reported in the consolidated balance sheet as $49,102 for the current portion and $29,869 for the long-term portion of the distribution payable. At December 31, 2010, $29,869 is payable within one year and is reported as current portion of the distribution payable. With the Target Distribution having been met, the Company may, at its option, make future distributions to unitholders, although it currently has no plan to make any future distributions.

Common Units Issuance

Effective as of July 10, 2010, SPH issued an aggregate of 32,134 common units to its independent directors. Each independent director may elect to be paid his compensation in cash or have all or a portion paid in that number of common units having a value equal to two times the amount of compensation earned. For the year ended December 31, 2009 and the six months ended June 30, 2010 each independent director has elected to receive this compensation in common units. Such common units had a per unit value of $16.89, which was determined based on the net asset value of SPH common units as of June 30, 2010. Total expense for the common units in 2010 is $543.

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.

(Dollars in Thousands Except Per Unit Data)

Accumulated Other Comprehensive (Loss) Income

The accumulated other comprehensive (loss) income balance represents the following:

	December 31, 2010	December 31, 2009 (as Restated)
Unrealized gain on available-for-sale securities	$ 20,521	$ 57,957
Cumulative translation adjustment	1,852	1,194
Change in net pension and other benefit obligations	(14,611)	(5,809)
	$ 7,762	$ 53,342

Accumulated other comprehensive income includes amounts for associated companies accounted for under the equity method at December 31, 2010 and 2009 of $(21) and $(5) for unrealized loss on available-for-sale securities; $1,960 and $1,170 for cumulative translation adjustment; and, $(7,321) and $(5,809) for change in net pension and retiree medical liability.

Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities at December 31, 2010 represents the interests held by the noncontrolling shareholders of BNS and HNH. Noncontrolling interests in consolidated entities at December 31, 2009 represented the interests held by the noncontrolling shareholders of BNS.

22. WEBBANK REGULATORY CAPITAL REQUIREMENTS AND OPERATIONS DATA

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, 2010 WebBank exceeded all the capital adequacy requirements to which it is subject.

As of December 31, 2010, 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 ratios as disclosed in the table below:

(Dollars in Thousands Except Per Unit Data)

	Actual		Amount of capital required: For capital adequacy purposes		Amount of capital required: To be well-capitalized under prompt corrective provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2010						
Total Capital (to risk weighted assets)	$ 19,525	68.59%	$ 2,277	8.00%	$ 2,847	10.00%
Tier 1 Capital (to risk weighted assets)	19,133	67.21%	1,139	4.00%	1,708	6.00%
Tier 1 Capital (to average assets)	19,133	24.08%	3,178	4.00%	3,972	5.00%
December 31, 2009						
Total Capital (to risk weighted assets)	$ 12,078	35.62%	$ 2,713	8.00%	$ 3,391	10.00%
Tier 1 Capital (to risk weighted assets)	11,617	34.26%	1,356	4.00%	2,035	6.00%
Tier 1 Capital (to average assets)	11,617	23.49%	1,978	4.00%	2,472	5.00%

WebBank's statement of operations information is as follows:

	2010	July 16, 2009 to December 31, 2009	January 1, 2009 to July 15, 2009	2008
Interest income	$ 8,055	$ 1,840	$ 1,337	$ 3,453
Interest expense on deposits	(796)	(158)	(314)	(1,083)
Net interest income	7,259	1,682	1,023	2,370
Provision for loan (losses) gains	420	(3,001)	(3,644)	(2,877)
Noninterest income	2,748	1,157	989	3,080
Noninterest expense	(6,047)	(4,218)	(2,177)	(5,145)
Income (loss) before income taxes	$ 4,380	$ (4,380)	$ (3,809)	$ (2,572)

23. EXCHANGE TRANSACTION

Overview

On December 9, 2008, redemptions from the entities through which investors invested in the net assets held by SPII, SPII Onshore and SPII Offshore (together, the "SPII Fund"), were temporarily suspended. On July 15, 2009, SPII Onshore lifted its temporary suspension of withdrawals and implemented a plan (the "SPII Fund Plan") resulting in the full redemption of its limited partners, including SPII Offshore, where SPII Fund investors were entitled to receive in payment of their redemption their pro-rata share of SPII's net cash and a pro-rata share of each other asset held by SPII as of July 15, 2009. Each SPII Fund investor elected whether to receive their redemption proceeds directly or to, in effect, contribute their redemption proceeds to SPH in exchange for SPH common units. On November 23, 2009, SPII Offshore lifted its temporary suspension of redemptions and implemented the SPII Fund Plan with respect to its shareholders, which were all then redeemed in full.

The aspects of the SPII Fund Plan relating to SPH and SPII were implemented through an exchange transaction (the "Exchange Transaction") as described below. As a result of the implementation of the SPII Fund Plan and the Exchange Transaction as of July 15, 2009: (i) all SPII Fund investors from SPII Onshore (including SPII Offshore, a limited partner of SPII Onshore) were fully redeemed, (ii) $750,399 of assets of SPII were distributed to SPII Onshore to satisfy the redemption of the SPII Fund investors, pay expenses, settle inter-company advances and establish reserves for the SPII Fund, (iii) $454,262 of net assets remained in SPII which were no longer subject to redemption, and (iv) 25,761,587 SPH common units held by SPII Onshore were distributed to the redeeming SPII Fund investors reflecting the interest in the SPII net assets as of July 15, 2009 of those investors which elected to, in effect, contribute their SPII Fund redemption proceeds to SPH in exchange for SPH common units. This is reflected in the consolidated statements of changes in capital and comprehensive income (loss). As part of the full redemption, the SPII Fund also distributed pro rata to all of its investors 1,870,564 SPH common units it held that represented its original interest in SPH, which had been held through SPII prior to the Exchange Transaction.

As a result of the Exchange Transaction, as more fully described below, SPII became a subsidiary of SPH effective January 1, 2009, subject initially to being unwound at the sole option of SPII General Partner until June 30, 2009, and then as amended on June 29, 2009 to being unwound in whole or in part at the sole option of SPII General Partner until August 31, 2009. The January 1, 2009 Exchange Transaction is accounted for as a transaction between SPH and SPII as entities under common control. These results in SPII being included on a historical basis in the consolidated results of operations of SPH, as Investment Operations, for all periods presented; and no gain or loss was recognized in connection with the Exchange Transaction. The July 15, 2009 transactions that constituted the partial unwinding of the Exchange Transaction, as part of the implementation of the SPII Fund Plan, were transactions with respect to SPII Onshore as the unitholder of the redeemable partners' capital of SPH, and therefore are treated as a redemption of capital from SPH as of July 15, 2009. After July 15, 2009 the right to unwind or partially unwind the Exchange Transaction terminated and SPII became a subsidiary of SPH without further conditions. The right of SPII Onshore as a SPH unitholder to redeem capital terminated on July 15, 2009. Accordingly, the net asset value of Investment Operations (SPII) for all periods presented prior to July 16, 2009 is reflected in SPH's consolidated balance sheets and consolidated statements of changes in capital and comprehensive income (loss) as "Redeemable Partners Capital".

Details of the Exchange Transaction

The Exchange Transaction consisted of a series of transactions which began as of January 1, 2009 and concluded as of July 15, 2009. In connection with the SPII Fund proposing an initial plan to its investors to enable it to lift its temporary suspension of redemptions, effective January 1, 2009, Steel Partners II Master L.P. ("SPII Master"), SPH, SPII General Partner, and Steel Partners LLC ("SPII Investment Manager") entered into an exchange agreement dated January 1, 2009 (the "Exchange Agreement"). Under the terms of the Exchange Agreement, SPII Master agreed to contribute to SPH its entire ownership interest in SPII in exchange for SPH redeemable common units ("Redeemable Common Units"), resulting in the ownership by SPII Master of approximately 99.5% of the total outstanding Redeemable Common Units and non-redeemable common units of SPH (the "Original Exchange Transaction"). The total number of SPH Redeemable Common Units to be issued to SPII Master pursuant to the Exchange Agreement would be based upon the net asset value of SPII and the book value of SPH as of December 31, 2008. More specifically, SPII Master would receive SPH Redeemable Common Units relative to all SPH Redeemable common units and non-redeemable common units issued and outstanding in the same proportion as the fraction (a) the numerator of which is the net asset value of SPII (less the value of SPII's interest in SPH) and (b) the denominator of which is the sum of (i) the net asset value of SPII (less the value of SPII's interests in SPH) and (ii) the book value of SPH (the "Agreed Exchange Ratio"). Under the Exchange Agreement, SPII Master was issued 59,186,007 SPH Redeemable Common Units based on the Agreed Exchange Ratio as applied to the net asset value of SPII and the book value of SPH as of November 30, 2008. Pursuant to the Exchange Agreement, the initial number of SPH Redeemable Common Units of SPH issued to SPII Master were subject to adjustment based on the application of the Agreed Exchange Ratio to the net asset value of SPII and the book value of SPH as of December 31, 2008, by the issuance by SPH of additional SPH Redeemable Common Units to SPII Master or the cancellation by SPH of some of the SPH Redeemable Common Units in accordance with the Agreed Exchange Ratio (the "Adjustment"). As a result of the Adjustment an additional 6,108,812 SPH Redeemable Common Units were issued bringing the total number of Redeemable Common Units issued in the Exchange Transaction as of January 1, 2009 to 65,294,819. In addition, 1,870,564 SPH common units were issued to SPII Master on January 1, 2009 in exchange for an equal number of SPH common units that was held by SPII, which represented SPII Master's interest in SPH prior to the Exchange Transaction.

Prior to the execution of the Exchange Agreement, SPII owned approximately an 86% equity interest in SPH. Those persons who held the minority interests of SPH prior to January 1, 2009 (the "SPH Minority Holders") continued to hold the balance of the SPH common units, which represent approximately 0.5% of the SPH Redeemable Common Units and non-redeemable common units issued and outstanding as of January 1, 2009. Pursuant to the Exchange Agreement, SPII General Partner, in its capacity as general partner of SPII Master, had the right in its sole discretion at any time before June 30, 2009, to unwind the transactions contemplated by the Exchange Agreement, such that SPH would be obligated to return the interests in SPII contributed to it by SPII Master, and SPII Master would return the interests in SPH it received ("Unwind"). Thereafter, SPII and the SPH Minority Holders would retain identical interests in SPH as were held prior to January 1, 2009, subject to any SPH Minority Holders who had exercised their appraisal rights pursuant to the merger of WebFinancial with and into SPH, which occurred on December 31, 2008.

Pursuant to the terms of the Exchange Agreement, all fees paid to the SPII Investment Manager and any incentive allocation to the SPII General Partner from January 1, 2009, were to be paid as prescribed by the relevant agreements in effect prior to January 1, 2009, which remained in effect and were paid by SPII through the other SPII Fund entities until such time as the Exchange Agreement was unwound or the right to Unwind terminated. No compensation was to be paid to the SPII Investment Manager in its capacity as the manager of SPH with respect to its management agreement with SPH until such time as the Exchange Agreement was unwound or the right to Unwind terminated.

On June 29, 2009 the Exchange Agreement was amended, and was further amended on October 1, 2009 (together, the “Amended Exchange Agreement”), in order for the SPII Fund to implement the SPII Fund Plan. In conjunction with the amending of the Exchange Agreement SPII Master transferred the SPH Redeemable Common Units and non-redeemable common units it held and its rights and obligations pursuant to the Exchange Agreement and Amended Exchange Agreement to SPII Onshore. The effect of the Amended Exchange Agreement was to, in effect, unwind the Original Exchange Transaction and establish, in effect, an exchange transaction to be implemented effective as of the date that the SPII Fund Plan was to be implemented (the “New Exchange Transaction”). The Amended Exchange Agreement provided that SPII General Partner in its capacity as the general partner of SPII Onshore had the right in its sole discretion at any time before August 31, 2009 the right to Unwind or implement a Partial Unwind (as defined below) in order to implement the New Exchange Transaction. More specifically, the Amended Exchange Agreement gave SPII General Partner in its capacity as the general partner of SPII Onshore the ability to notify SPH of the effective date of implementing the New Exchange Transaction and the dollar amount of the related partial unwind and identify (i) the cash portion and (ii) which of the other assets of SPII that were to be distributed to SPII Onshore, and the outstanding loans or advances between SPII to the SPII Master, the SPII Onshore and SPII Offshore to be settled, and the amounts thereof, the value of which shall be determined as of the date of the partial unwind shall occur (the “Partial Unwind”). In connection with the Partial Unwind SPII Onshore would surrender, and SPH would cancel, certain of the SPH Redeemable Common Units held by SPII Onshore. The number of SPH Redeemable Common Units to be surrendered as a result of the Partial Unwind would be the difference between (a) the number of SPH Redeemable Common Units issued pursuant to Original Exchange Transaction and (b) the number of SPH Redeemable Common Units that would have been issued based on the New Exchange Transaction on the date of the Partial Unwind with the net asset value of SPII based on the value on the date of the Partial Unwind following any distributions, redemptions and settlement of any outstanding loans or advances between SPII to the SPII Master, SPII Onshore and SPII Offshore by SPII Onshore as of the date of the Partial Unwind and the book value of SPH based on the value as of as of the close of the last business day of the month immediately preceding the date on which the Partial Unwind would occur. In addition, the Amended Exchange Agreement provided for SPII Onshore to indemnify SPH and SPII with respect to costs and liabilities related to the Exchange Transaction and SPII’s business prior to July 16, 2009.

Effective as of July 15, 2009, the New Exchange Transaction was implemented through a Partial Unwind, the right to a further Partial Unwind or Unwind terminated, and SPII became a wholly-owned subsidiary of SPH without further condition. Pursuant to the Partial Unwind (i) SPH distributed $204,403 of cash (paid on October 6, 2009) and $521,150 of other assets from SPII to SPII Onshore (the “SPII Fund Distribution”) to enable it to implement the SPII Fund Plan, (ii) SPH settled $24,846 of advances outstanding from SPII Onshore to SPII, and (iii) and in exchange for (i) and (ii) SPII Onshore surrendered 39,533,232 SPH Redeemable Common Units to SPH, leaving SPII Onshore with 25,761,587 SPH Redeemable Common Units that on July 15, 2009 became non-redeemable common units, representing the net number of SPH common units issued by SPH in connection with the Exchange Transactions, which were distributed to the SPII Fund investors in conjunction with the implementation of the SPII Fund Plan. After implementation of the Partial Unwind, SPH retained $47,144 of cash (after considering the cash payment to SPII Onshore on October 6, 2009) and $407,261 of investments and other assets, representing the pro-rata share of the net cash and a pro-rata share of each asset held by SPII as of July 15, 2009 that certain SPII Fund investors elected to, in effect, contribute to SPH in exchange for SPH common units pursuant to the SPII Fund Plan. Effective July 15, 2009 in connection with the completion of the Exchange Transaction, SPH cancelled the 1,870,564 of its common units that were held by SPII.

(Dollars in Thousands Except Per Unit Data)

24. INCOME TAXES

	2010 (as Restated)	July 16, 2009 to December 31, 2009 (as Restated)	January 1, 2009 to July 15, 2009	2008
Income (loss) from continuing operations before income taxes and equity method income (loss):				
Domestic	$ 9,022	$ (10,612)	$ (51,333)	$ (591,643)
Foreign	4,866	2,168	(7,125)	(164,679)
Total	$ 13,888	$ (8,444)	$ (58,458)	$ (756,322)
Income taxes:				
Current:				
Federal	$ (225)	$ -	$ -	$ (252)
State	(1,361)	-	-	(742)
Foreign	(1,007)	-	-	-
Total income taxes, current	(2,593)	-	-	(994)
Deferred:				
Federal	(303)	(52)	791	323
State	169	(5)	77	34
Foreign	70	-	-	-
Total income taxes, deferred	(64)	(57)	868	357
Income tax (provision) benefit	$ (2,657)	$ (57)	$ 868	$ (637)

(Dollars in Thousands Except Per Unit Data)

The following is a reconciliation of income tax expense computed at the federal statutory rate to the provision for income taxes:

	2010 (as Restated)	July 16, 2009 to December 31, 2009 (as Restated)	January 1, 2009 to July 15, 2009	2008
Income (loss) from continuing operations before income taxes and equity method income (loss)	$ 13,888	$ (8,444)	$ (58,458)	$ (756,322)
Federal income taxes (provision) benefit at statutory rate	$ (4,732)	$ 2,879	$ 19,876	$ 257,149
Income passed through to common unitholders (a)	862	(1,389)	(18,581)	(261,056)
	(3,870)	1,490	1,295	(3,907)
State income taxes	(775)	144	126	(323)
Change in valuation allowance	1,711	(2,105)	(408)	9,701
Prior year true-ups	-	481	-	(598)
Foreign tax rate differences	767	-	-	-
Dividend income	(370)	-	-	-
Uncertain tax positions	(233)	-	-	-
Intercompany eliminations	-	-	-	(737)
Derecognition of deferred tax assets for conversion to a limited partnership (b)	-	-	-	(4,916)
Permanent differences and other	114	(67)	(145)	143
Income tax (provision) benefit	$ (2,657)	$ (57)	$ 868	$ (637)

(a) Includes income that is not taxable to SPH and certain of its subsidiaries. Such income is directly taxable to SPH's common unitholders.
(b) On December 31, 2008 WebFinancial completed a merger transaction with SPH to convert its legal entity form into a limited partnership. As a result of the conversion, WebFinancial filed a final corporate tax return for the year ended December 31, 2008. SPH filed a partnership tax return for December 31, 2008 and filed such a return for the year end December 31, 2009. WebBank and subsidiaries filed corporate tax returns for the year ended December 31, 2009, and will thereafter, and their tax attributes will continue to carryforward. Therefore, the deferred tax assets of the former WebFinancial, which primarily consisted of tax benefits of net operating loss carryforwards and which were fully offset by valuation allowances, have been derecognized in 2008 with no effect on income.

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.

Notes to Consolidated Financial Statements
(Dollars in Thousands Except Per Unit Data)

	December 31, 2010	December 31, 2009
Deferred tax assets:		
Operating loss carryforwards	$ 78,820	$ 3,084
Capital loss carryforwards	2,148	-
Tax credit carryforwards	3,545	-
Pension liability and employee benefits	43,931	-
Accrued expenses	3,999	-
Impairment of long-lived assets	3,092	-
Inventories	2,957	-
Environmental costs	2,301	-
Allowance for doubtful accounts and loan losses	575	818
Allowance for credit losses on off balance sheet credit exposure	641	467
Other	3,162	-
Total deferred tax assets	145,171	4,369
Valuation allowances	(81,846)	(3,084)
	63,325	1,285
Deferred tax liabilities:		
Intangible assets	(44,243)	-
Property, plant and equipment	(16,798)	(29)
Unremitted foreign earnings	(1,272)	-
Net deferred tax assets	$ 1,012	$ 1,256

The changes in the deferred tax assets and liabilities resulted primarily from the acquisition of HNH on May 7, 2010 as described in Note 5 - "Acquisitions".

At December 31, 2010, HNH has U.S. federal net operating loss carryforwards of $187,000 ($65,400 tax-effected), as well as certain foreign and state net operating loss carryforwards. The U.S. federal net operating loss carryforwards expire between 2017 and 2029. In 2010, $7,877 of net operating loss carryforwards were utilized providing a tax benefit of $2,757. Management performs a periodic evaluation of deferred tax assets and will adjust the valuation allowance as circumstances warrant. Also, included in deferred income tax assets are tax credit carryforwards of $3,000. The net current deferred tax asset is expected to be realizable from the reversal of offsetting temporary differences. GAAP requires that a net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. Due to the HNH's recurring tax losses and only recent history of generating limited amounts of taxable income, a valuation allowance of $70,843 has been established.

Upon its emergence from bankruptcy on July 29, 2005, HNH experienced an ownership change as defined by Section 382 of the Internal Revenue Code, which 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 net operating loss carryforwards 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 net operating loss of $187,000 as of December 31, 2010 includes a reduction of $31,000 ($10,800 tax-effect).

At December 31, 2010, HNH has a deferred income tax liability relating to $3,500 of undistributed earnings of foreign subsidiaries. In addition, there were approximately $10,400 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, 2010, WebBank has $4,286 of net operating loss carryforwards that are scheduled to expire beginning in 2022. In 2010, $4,806 of net operating loss carryforwards were utilized providing a tax benefit of $1,634. In addition, the valuation allowance decreased by $1,488. From its inception, WebBank experienced a history of inconsistent earnings which 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 $1,588 has been established for the net operating loss carryforward at December 31, 2010.

(Dollars in Thousands Except Per Unit Data)

At December 31, 2010, BNS has $24,395 of federal net operating loss carryforwards that are scheduled to expire from 2021 to 2027. In 2010, $18,025 of net operating loss carryforwards were utilized providing a tax benefit of $6,129. A valuation allowance of $9,415 has been established for the net operating loss carryforwards and other deferred tax assets. The valuation allowance has been established because it is no longer more likely than not that BNS will realize the tax benefits of the 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. At December 31, 2010, HNH had $2,266 of unrecognized tax benefits, all of which would affect the Company's effective tax rate if recognized. The change in the amount of unrecognized tax benefits for 2010 for HNH was as follows:

Balance at May 7, 2010	$ 2,111
Additions for tax positions related to current year	233
Additions due to interest accrued	101
Tax positions of prior years:	
Increases in liabilities, net	160
Payments	(72)
Due to lapsed statute of limitations	(267)
Balance at December 31, 2010	$ 2,266

HNH recognizes interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2010, approximately $300 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 $400 during the next twelve months as a result of the lapse of the applicable statutes of limitations in certain taxing jurisdictions.

SPH’s 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 HNH, WebBank and BNS, remain open and subject to examination by the Internal Revenue Service for all tax years after 2006. 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 2005. Certain state income tax returns remain open and subject to examination for tax years after 2002.

Net income taxes payable totaled $2,980 as of December 31, 2010.

Notes to Consolidated Financial Statements
(Dollars in Thousands Except Per Unit Data)

25. NET INCOME (LOSS) PER COMMON UNIT

The following data was used in computing net income (loss) per common unit shown in the consolidated statements of operations :

	2010 (as Restated)	July 16, 2009 to December 31, 2009 (as Restated)	January 1, 2009 to July 15, 2009	2008
Net income (loss)from continuing operations	$ 18,316	$ (4,254)	$ (57,527)	$ (756,949)
Net loss (income) attributable to redeemable partners' capital	-	-	54,064	767,812
Net (income) loss attributable to noncontrolling interests in consolidated entities	(997)	114	-	100
Net income (loss) from continuing operations	17,319	(4,140)	(3,463)	10,963
Income from discontinued operations	28,130	1,177	-	-
Net income attributable to noncontrolling interests	(13,702)	(556)	-	-
	14,428	621	-	-
Net income (loss) attributable to common unitholders	$ 31,747	$ (3,519)	$ (3,463)	$ 10,963
Net income (loss) per common unit - basic				
Net income (loss) from continuing operations	$ 0.69	$ (0.16)	$ (1.59)	$ 5.02
Net income from discontinued operations	0.57	0.02	-	-
Net income (loss) attributable to common unitholders	$ 1.26	$ (0.14)	$ (1.59)	$ 5.02
Net income (loss) per common unit - diluted				
Net income (loss) from continuing operations	$ 0.63	$ (0.16)	$ (1.59)	$ 5.02
Net income from discontinued operations	0.53	0.02	-	-
Net income (loss) attributable to common unitholders	$ 1.16	$ (0.14)	$ (1.59)	$ 5.02
Weighted average common units outstanding - basic	25,234,827	25,219,420	2,183,366	2,183,366
Adjustment for distribution payable (a)	2,247,977	-	-	-
Denominator for net income per common unit - diluted	27,482,804	25,219,420	2,183,366	2,183,366

(a) Includes common units assuming a common unit settlement of the distribution payable. The Target Distribution liability described in Note 21 may be settled in common units.

(Dollars in Thousands Except Per Unit Data)

26. 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 year ended December 31, 2010 was $5,930. Rent expense for HNH is from May 7, 2010. Future minimum operating lease and rental commitments under non-cancelable operating leases for SPH consolidated operations are as follows:

Year	Amount
2011	$ 6,193
2012	4,889
2013	2,133
2014	1,387
2015	1,187
Thereafter	5,437
Total	$ 21,226

BNS Environmental Matters

BNS has been notified by the Rhode Island Department of Environmental Management ("RIDEM") that it is a potentially responsible party ("PRP") with respect to the Cranston Sanitary Landfill site in Cranston, Rhode Island, a disposal site previously used by BNS in its previous manufacturing businesses. BNS and 29 other PRP's have funded a site remediation investigation and feasibility study that has now been completed. The results of that study have been forwarded to the RIDEM. The study indicates a range of viable remedial approaches and conceptual concurrence on the final remediation approach has been reached with the RIDEM. The study indicated that the net present value of the most likely total estimated remediation costs for the site is $7,400 as of the October 31, 2009 fiscal year end of BNS. The PRP group has preliminarily agreed to an allocation that sets BNS Sub's share of the cost of remediation for the site at 2.169 percent. If certain of the PRPs are ultimately not able to fund their allocated shares or additional PRP's that have been identified and join the group, BNS's participation share could change. BNS has accrued $220 as of October 31, 2010 as its best estimate of its obligation with respect to the site. This amount is included in accrued expenses on the consolidated balance sheets. It is reasonably possible that BNS's recorded estimate of its obligation may change in the future.

BNS has been identified by the U.S. Environmental Protection Agency ("EPA") as a PRP as an alleged drum reconditioning customer of New England Container Corp. ("NECC") by a letter dated August 14, 2008. BNS is presently investigating the matter and has joined a group of other alleged NECC customers. BNS has accrued $50 as of October 31, 2010 based on its best estimate of the obligation with respect to this site.

HNH Environmental Matters

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, although 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 required, there will be monitoring of the Sold Parcel site for several years. On September 11, 2008, the CTDEP advised H&H that it had approved H&H's Soil Action Remediation Action Report, dated December 28, 2007 as amended by an addendum letter dated July 15, 2008, thereby concluding the active remediation of the Sold Parcel. Approximately $29,000 was expended through December 31, 2009, and the remaining remediation and monitoring costs for the Sold Parcel are expected to approximate $300. H&H previously received reimbursement of $2,000 from an insurance company under a cost-cap insurance policy and in January 2010, net of attorney's fees, H&H received $1,034 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 is continuing the process of evaluating various options for its remediation of the Adjacent Parcel. Since 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 and cash flow of H&H.

Handy & Harman Electronic Materials Corporation ("HHEM") entered into an administrative consent order (the "ACO") in 1986 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 and H&H settled a case brought by the local municipality in regard to this site in 1998 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 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 $1,000. The $1,000 was paid solely by the former owner/operator. As of December 31, 2010, over and above the $1,000, total investigation and remediation costs of approximately $1,600 and $500 have been expended by the former owner/operator and HHEM, respectively, in accordance with the settlement agreement. Additionally, HHEM indirectly is currently being reimbursed 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 remediation plan is agreed upon with NJDEP, and 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.

H&H and Bairnco (and/or one or more of their respective subsidiaries) have also been identified as potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or similar state statutes at several sites and are parties to administrative consent orders in connection with certain other properties. H&H and Bairnco (and/or one or more of their respective 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, H&H and Bairnco are unable to reasonably estimate the ultimate cost of compliance with such laws.

H&H received a notice letter from the United States Environmental Protection Agency ("EPA") in August 2006 formally naming H&H as a PRP at a superfund site in Massachusetts (the "Superfund site"). H&H is part of a group of thirteen (13) other PRPs (the "PRP Group") to work cooperatively regarding remediation of the Superfund site. H&H executed a participation agreement, consent decree and settlement trust on June 13, 2008 and all of the other PRP's 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, after no comments were received during the thirty-day comment period on January 27, 2009. With the entry and filing of the consent decree, H&H was required to make two payments in 2009: one payment of $200 relating to the "true-up" of monies previously expended for remediation and a payment of $300 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. 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 site, under the direction of the Department of Energy ("DOE"), has begun but is not expected to be completed until the Fall of 2011 at the earliest, and it may be delayed even further due to inadequate funding in the federal program financing the DOE work. Additional financial contributions will be required by the PRP Group when it starts its work upon completion of the DOE's radiological remediation work. 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.

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 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. By letter dated March 24, 2009, MADEP advised HHEM that the RAO-P did not require a comprehensive audit. By letter dated April 16, 2009, the MADEP advised HHEM that a MADEP AUL Audit Inspection conducted on March 18, 2009 did not identify any violations of the requirements applicable to the AUL. Together, the March 24 and April 16 MADEP letters, combined with HHEM's Licensed Site Professional's partial RAO opinion constitute confirmation of the adequacy of HHEM's investigation of the MA Property as well as its remediation and post closure monitoring plans. The Massachusetts Attorney General, executed a covenant not to sue ("CNTS") to cover the MA Property on March 31, 2010. Following the execution of the CNTS, HHEM filed a Remedy Operation Status ("ROS") on April 1, 2010. On June 30, 2010, HHEM filed a Class A-3 RAO to close the site since HHEM's Licensed Site Professional concluded that groundwater monitoring demonstrated that the remediation has stabilized the conditions at the site. 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.

As discussed above, H&H and Bairnco and/or their subsidiaries 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. H&H and Bairnco and/or their 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. H&H had approximately $6,100 accrued related to estimated environmental remediation costs as of December 31, 2010. In addition, H&H 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, including prior capital expenditures, anticipated capital expenditures, and information available on pending judicial and administrative proceedings, H&H and Bairnco and/or their subsidiaries do not expect their respective environmental costs, including the incurrence of additional fines and penalties, if any, relating to the operation of their respective facilities to have a material adverse effect on them, but there can be no such assurances that the resolution of these matters will not have a material adverse effect on the financial positions, results of operations and cash flows of H&H and Bairnco and/or their subsidiaries. HNH anticipates that H&H and Bairnco and/or their subsidiaries will pay such amounts out of their respective working capital, although there is no assurance that H&H and Bairnco and/or their subsidiaries will have sufficient funds to pay such amounts. In the event that H&H and Bairnco and/or their subsidiaries are unable to fund their liabilities, claims could be made against their respective parent companies, including HNH, for payment of such liabilities.

HNH Pension Plan Contingency Arising from the WPC Group Bankruptcy

In July 2003, the HNH entered into a settlement agreement among the Pension Benefit Guaranty Corporation ("PBGC"), certain of its former subsidiaries ("the WPC Group") and several other parties ("Termination Litigation"), in which the PBGC was seeking to terminate the WHX Pension Plan. Under the settlement, HNH agreed among other things that HNH will not contest a future action by the PBGC to terminate the WHX Pension Plan in connection with a future facility shutdown of a facility of HNH's former Wheeling-Pittsburgh Steel Corporation subsidiary, which subsidiary was wholly owned until August 1, 2003. In the event that such a plan termination occurs, the PBGC has agreed to release HNH from any claims relating to any such shutdown. However, there may be PBGC claims related to unfunded liabilities that may exist as a result of any such termination of the WHX Pension Plan.

27. LITIGATION AND REGULATORY MATTERS

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. If the order is granted, the Company would be required to meet these tests (or otherwise not be subject to the Act) within one year following the order date. The SEC has not yet provided public notice that it intends to consider the application and there can be no assurance that the requested relief will be granted. If the Company is not able to obtain relief, 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.

On January 13, 2009, a small shareholder of an SPII Fund entity commenced litigation against various entities related to the SPII Fund including SPH ("Defendants"), in Court of Chancery Delaware for, among other things, rescission of its investment in a SPII Fund entity, the appointment of a receiver, and other injunctive relief regarding the distribution of fund assets.

On March 30, 2009, certain SPII Fund investors ("Investor Plaintiffs") in certain SPII Fund entities commenced a second litigation against the Defendants in Court of Chancery in Delaware.

In both actions, plaintiffs moved for a preliminary injunction blocking the distribution of fund assets so that a receiver could be appointed. On June 19, 2009, the Delaware Chancery Court denied both of these requests for a preliminary injunction. Plaintiffs sought a stay of the distribution from the Delaware Supreme Court, which denied the requested relief. On July 21, 2009, the Investor Plaintiffs voluntarily dismissed their case without prejudice. On March 4, 2010, the small shareholder and Defendants settled the case and plaintiff dismissed all remaining claims.

Reunion Industries, Inc. ("Reunion") filed suit in September 2007 in the United States District Court, Western District of Pennsylvania, against several parties, including WebFinancial and SPII. The suit, as amended in October 2007, alleged fraud in the administration of loans to Reunion, breach of fiduciary duty and breach of the implied duty of good faith and fair dealing. Reunion, after being declared in default on its Senior Notes and its bank revolving credit facility, filed for Chapter 11 Bankruptcy protection on November 26, 2007. On April 18, 2008, Reunion sold substantially all of the assets and liabilities of its pressure vessels division to an affiliate of Everest Kanto Cylinder Ltd., for cash consideration, subject to adjustment, of $66,300 to be paid at closing. Reunion, in connection with the sale of its pressure vessels business, announced its intention to pay off its secured debt on the closing of the sale. WebFinancial held various securities related to Reunion, including Reunion 13% Senior Notes, with a cost basis of approximately $9,458, a junior participation interest in Reunion's Senior Secured Revolving credit line in the amount of $3,050 and 762,500 shares of Reunion common stock valued at $53 at December 31, 2007, collectively the ("Reunion Assets"). In April 2008 WebFinancial received $3,050 in repayment of the junior participation interest loan. In July and August 2008, WebFinancial received cash for the remaining Reunion Assets amounting to a net gain of $18,648 of which $12,665 is recorded as investment and other income and $5,983 is reported as net investment gains in the 2008 consolidated statements of operations. Along with the payment, all lawsuits were settled.

On January 7, 2010, Reunion filed another suit in the Court of Common Pleas in Allegheny County, Pennsylvania concerning a dispute regarding the amount due under certain Senior Notes issued by Reunion in which WebFinancial was a participant. The suit, which was subsequently removed to the U.S. District Court for the Western District of Pennsylvania, alleged breach of fiduciary duty, breach of the implied duty of good faith and fair dealing, fraud in the administration of loans, and civil conspiracy. The parties subsequently settled the action and SPH was paid the amounts it was claimed was due and unpaid under the Senior Notes. The settlement agreement was approved by the Bankruptcy Court on May 7, 2010 and on May 11, 2010, the District Court so ordered Reunion's dismissal of the action with prejudice.

HNH

There are a number of 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 to reasonably estimate HNH's exposure or share, if any, of the liability at this time in any of these matters. On August 20, 2010, HNH's insurance company settled a state court lawsuit arising out of a subsidiary's sale of a used piece of equipment which allegedly caused a fire resulting in property damage and interruption of a third party's business operations after HNH had exhausted its self insured retention for the lawsuit.

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 HNH's results of operations, financial position and cash flows when they are resolved in future periods.

WebBank

On December 29, 2010, a consent order was finalized between WebBank and the FDIC to resolve allegations by the FDIC that WebBank had engaged in unfair or deceptive practices in one of its credit card programs. By entering into the consent order, WebBank did not admit to any wrongdoing. Under the order, the Bank must take steps to improve its compliance, oversight, and internal audit functions, and to correct the practices identified by the FDIC. WebBank also must pay restitution to affected customers with a fund initially set at $150, and has paid a civil money penalty of $300 to the federal government. WebBank expects to be indemnified for the restitution and civil money penalty expenses. WebBank has discontinued all of the allegedly improper practices identified by the FDIC in the consent order, and WebBank no longer issues credit cards in connection with the program at issue in the order.

BNS

BNS is a defendant in a variety of legal claims that arise in the normal course of business.

A subsidiary of BNS ("BNS Sub") has been named as a defendant in 965 known asbestos-related toxic-tort claims (from 1994 through October 31, 2010). In many cases these claims involved more than 100 defendants. Of the claims filed, 642 were dismissed, settled or granted summary judgment and closed and 323 were open and active as of October 31, 2010. BNS Sub has insurance policies covering asbestos-related claims for years from 1974 through 1988 with estimated aggregate coverage limits of $158,000 and $2,660 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 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 of the entry of a dismissal or settlement of a claim or the filing of a new claim. BNS 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 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.

(Dollars in Thousands Except Per Unit Data)

BNS Sub annually receives retroactive billings or credits from its insurance carriers for any increase or decrease in claims reserves as claims are filed, settled or dismissed, or as estimates of the ultimate settlement and defense costs for the then-existing claims are revised. In addition, BNS has recorded a liability of $669 on the consolidated balance sheet relating to the open and active claims against BNS Sub as of October 31, 2010. This liability represents an estimate of the likely costs to defend against or settle these claims by BNS Sub beyond the amounts reserved by the insurance carriers and previously funded, through the retroactive billings, by BNS Sub. However, there can be no assurance that BNS will not need to take additional charges in connection with the defense, settlement or judgment of these existing claims. There can be no assurance 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.

28. FAIR VALUE MEASUREMENTS

Investments and Other Financial Assets and Liabilities

The carrying value of cash and cash equivalents, receivables, prepaid and other current assets, accounts payable, other current liabilities and payables, is considered to be representative of their fair value, due to the short term nature of these instruments. The carrying amount of short-term and long-term debt does not differ materially from fair value because such debt is based on current market interest rates. The carrying value of loans receivable and deposits is considered to be representative of their fair values because the rates of interest on these instruments are not significantly different from market interest rates for instruments with similar maturities. The estimated fair values of the Company's financial instruments as of December 31, 2010 and 2009 are shown in the following table.

	Carrying Value		Fair Value	
	2010 (as Restated)	2009 (as Restated)	2010 (as Restated)	2009 (as Restated)
Assets:				
Investments	$ 71,872	$ 200,015	$ 71,872	$ 200,015
Financial instruments (see Note 14)	13,772	-	13,772	-
Investments in associated companies (a)	127,613	97,442	127,613	97,442
Other investments - related party (b)	62,553	97,923	62,553	97,923
Other investments (c)	7,668	8,080	7,668	8,080
Total	$ 283,478	$ 403,460	$ 283,478	$ 403,460
Liabilities:				
Financial instruments (see Note 14)	$ 143,917	$ -	$ 143,917	$ -
Distribution payable (see Note 21)	29,869	78,971	29,869	78,971
Deferred fee liability to related party (see Note 17)	64,854	58,586	64,854	58,586
Derivative features of subordinated notes (see Note 18)	2,866	-	2,866	-
Common unit option liability (see Note 19)	1,785	1,092	1,785	1,092
Total	$ 243,291	$ 138,649	$ 243,291	$ 138,649

(a) See Note 7 - "Investments in associated companies". The Company elected the fair value option for HNH, API, Steel Excel and SLI.
(b) See Note 8 - "Investments" for description of Company's fair value option election with respect to its other investments.
(c) Represents the Company's direct investment in the ordinary and preference shares of Barbican and is reported in other non-current assets.

ASC 820, “Fair Value Measurements and Disclosures”, requires enhanced 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.

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 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. 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 Company 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.

Fair values recorded for non-financial assets acquired and liabilities assumed in acquisitions and when testing for impairment include values measured using Level 3 inputs including an income approach and/or a market approach to the measurements. 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 reporting units and then discounting the after-tax cash flows to 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 (“WACC”) 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 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. The income approach closely parallels investors’ consideration of the future benefits derived from ownership of an asset.

The financial instruments reported as current assets and current liabilities are valued and reported at fair value. The option contracts reported as financial instruments are traded on nationally recognized exchanges. The financial instruments payable in foreign currencies are entered into with a counterparty and are considered Level 2 measurements.

The derivative instruments that certain subsidiaries of HNH purchase, specifically commodity futures and forwards contracts on precious metal, 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.

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Financial assets and liabilities measured at fair value on a recurring basis in the consolidated financial statements as of December 31, 2010 and 2009 are summarized by type of inputs applicable to the fair value measurements as follows:

December 31, 2010 (as Restated)	Level 1	Level 2	Level 3	Total
Assets:				
Debt securities – corporate	$ 15,333	$ 22,033	$ -	$ 37,366
Equity securities - U.S. (a)	28,979	5,527	-	34,506
Total investments	44,312	27,560	-	71,872
Financial instruments	-	13,772	-	13,772
Investments in associated companies (b)	105,387	22,226	-	127,613
Other investments - related party (c)	-	-	62,553	62,553
Other investments	-	-	7,668	7,668
Total	$ 149,699	$ 63,558	$ 70,221	$ 283,478
Liabilities:				
Current portion of distribution payable	$ -	$ -	$ 29,869	$ 29,869
Financial instruments	-	143,917	-	143,917
Deferred fee liability to related party	-	-	64,854	64,854
Derivative features of subordinated notes	-	-	2,866	2,866
Common unit option liability	-	-	1,785	1,785
Total	$ -	$ 143,917	$ 99,374	$ 243,291

December 31, 2009 (as Restated)	Level 1	Level 2	Level 3	Total
Assets:				
Debt securities - corporate	$ -	$ 10,673	$ -	$ 10,673
Equity securities - U.S. (a)	116,259	27,579	-	143,838
Equity securities - International	45,504	-	-	45,504
Total investments	161,763	38,252	-	200,015
Investments in associated companies (b)	97,442	-	-	97,442
Other investments - related party (c)	-	-	97,923	97,923
Other investments	-	-	8,080	8,080
Loans held for sale	-	-	9,404	9,404
Impaired loans	-	-	5,406	5,406
Real estate foreclosed property and other	1	-	890	891
Total	$ 259,206	$ 38,252	$ 121,703	$ 419,161
Liabilities:				
Distribution payable	$ -	$ -	$ 78,971	$ 78,971
Deferred fee liability to related party	-	-	58,586	58,586
Common unit option liability	-	-	1,092	1,092
Total	$ -	$ -	$ 138,649	$ 138,649

(a) Two securities included in Equity securities - U.S. with a fair value of $2,292 were transferred from Level 1 to Level 2 at December 31, 2010 based on lower trading volumes.

(b) Investments in API and SLI were classified as Level 1 at December 31, 2009. At December 31, 2010, these investments were transferred to Level 2 based on lower trading volumes.

(c) Other investments - related party are entirely comprised of the interests held by the Company in each series of the SPII Liquidating Trust (see Note 8 - “Investments” and Note 30 - “Related Party Transactions”). Each series of the SPII Liquidating Trust 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 as the underlying assets of the SPII Liquidating Trust are liquidated 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 held by the Company have been estimated using the net asset value of such interests as reported by the SPII Liquidating Trust. Changes in the fair values of investments in the SPII Liquidating Trust are reported in the consolidated statement of operations as loss from other investments - related party.

Realized and unrealized gains and realized and unrealized (losses) for the year ended December 31, 2010 on investments for which fair values were determined using reported net asset values were $4,864 and $ (7,274), respectively. Realized and unrealized gains and realized and unrealized (losses) for the period from July 16, 2009 to December 31, 2009 on investments for which fair values were determined using reported net asset values were $5,277 and $(7,834), respectively. Realized and unrealized gains and realized and unrealized (losses) of Investment Operations for the period from January 1, 2009 to July 15, 2009 were $11,233 and $(11,507), respectively, on investments for which fair values were determined using reported net asset values. These realized and unrealized gains and losses are reported in the consolidated statement of operations. Investments for which fair value is determined using net asset values as fair value are classified as Level 3 and are $62,553 and $97,923 at December 31, 2010 and 2009, respectively. The investments are reported in the consolidated balance sheet as other investments - related party. For Investment Operations, the value of investments determined using net asset values is classified as Level 3 and was $130,393 at December 31, 2008.

The Company and the SPII Liquidating Trust use specific valuation metrics appropriate for each specific investment to estimate the fair value of their debt and equity securities measured using Level 3 inputs. The SPII Liquidating Trust estimates the value of its interests in SPCA, a limited partnership that holds an investment in a Chinese company, and SPJSF 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 by the SPII Liquidating Trust in these two investment funds 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. SPCA’s term ends in May 2012 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.

(Dollars in Thousands Except Per Unit Data)

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

Assets	Diversified Industrial, Financial Services and Other: Other Investments - Related Party	Other Investments (as Restated)	Total (as Restated)	Investment Operations Investments
Balance at December 31, 2008	$ -	$ -	$ -	$ 297,950
Transfers in	-	-	-	94(b)
Purchases, sales, issuances and settlements	-	-	-	(36,004)
Unrealized gains	-	-	-	32,740
Unrealized losses	-	-	-	(11,702)
SPII Fund distributions	-	-	-	(159,231)
Transfer from investment operations (a)	123,847	-	123,847	(123,847)
Elimination of indirect interest in BNS loan	(9,184)	-	(9,184)	-
Balance at July 15, 2009	114,663	-	114,663	$ -
Purchases, sales, issuances and settlements	(14,183)	8,334	(5,849)	
Realized gains	434	-	434	
Realized losses	(31)	-	(31)	
Unrealized gains	4,843	-	4,843	
Unrealized losses	(7,803)	(254)	(8,057)	
Balance at December 31, 2009	97,923	8,080	106,003	
Purchases, sales, issuances and settlements	(13,493)	-	(13,493)	
Realized gains	810	-	810	
Unrealized gains	4,054	-	4,054	
Unrealized losses	(7,274)	(412)	(7,686)	
Elimination of indirect interest in BNS and HNH amounts in consolidation	(19,467)	-	(19,467)	
Balance at December 31, 2010	$ 62,553	$ 7,668	$ 70,221	

(a) Represents the Level 3 investments held by Investment Operations that were retained by SPH in connection with the implementation of the Exchange Transaction as of July 15, 2009 and reclassified as Other Investments.

(b) In connection with the Restructuring of the SPII Fund, Level 2 assets valued at $94 were transferred to the SPII Liquidating Trust and became Level 3 assets.

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	Diversified Industrial, Financial Services and Other		
	Other Investments - Related Party	Other Investments (as Restated)	Total (as Restated)
Change in unrealized gains (losses) for investments still held at December 31, 2010 reported in the consolidated statement of operations as follows:			
Gains			
Gains from other investments-related party	$ 2,215	$ -	$ 2,215
Losses			
Losses from other investments-related party	(6,334)	-	(6,334)
Investment and other loss	-	(411)	(411)
	(6,334)	(411)	(6,745)
Total	$ (4,119)	$ (411)	$ (4,530)
Change in unrealized gains (losses) for investments still held at December 31, 2009 reported in the consolidated statement of operations as follows:			
Gains			
Gains from investments - related party	$ 4,843	$ -	$ 4,843
Losses			
Losses from other investments - related party	(7,803)	-	(7,803)
Investment and other loss	-	(254)	(254)
	(7,803)	(254)	(8,057)
Total	$ (2,960)	$ (254)	$ (3,214)

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The realized and unrealized gains and losses in financial assets measured using Level 3 inputs are reported in the consolidated statement of operations as follows:

	Realized Gains	Realized Losses	Unrealized Gains	Unrealized Losses (as Restated)	Total (as Restated)
Diversified Industrial, Financial Services and Other					
Year ended December 31, 2008:					
Selling, general and administrative	$ -	$ (87)	$ -	$ -	$ (87)
Total	$ -	$ (87)	$ -	$ -	$ (87)
Period from July 16, 2009 to December 31, 2009:					
Investment and other loss	$ -	$ -	$ -	$ (254)	$ (254)
Net investment gains (losses)	434	(31)	-	-	465
Income (loss) from other investments - related party	-	-	4,843	(7,803)	(2,960)
Total	$ 434	$ (31)	$ 4,843	$ (8,057)	$ (2,749)
Year ended December 31, 2010:					
Investment and other loss	$ -	$ -	$ -	$ (412)	$ (412)
Net investment gains	810	-	-	-	810
Income (loss) from other investments- related party	-	-	4,054	(7,274)	(3,220)
Total	$ 810	$ -	$ 4,054	$ (7,686)	$ (2,822)
Investment Operations					
Year ended December 31, 2008:					
Net realized losses non-affiliate investments	$ -	$ (1,527)	$ -	$ -	$ (1,527)
Net realized losses affiliate investments	-	(102)	-	-	(102)
Change in unrealized gains (losses), investments	-	-	2,296	(106,505)	(104,209)
Total	$ -	$ (1,629)	$ 2,296	$ (106,505)	$ (105,838)
Period from January 1, 2009 to July 15, 2009:					
Change in unrealized gains (losses), investments	$ -	$ -	$ 32,740	$ (11,702)	$ 21,038
Total	$ -	$ -	$ 32,740	$ (11,702)	$ 21,038

(Dollars in Thousands Except Per Unit Data)

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

	Diversified Industrial, Financial Services and Other				
	Distribution Payable (a)	**Deferred Fee Liability to Related Party (b)**	**Derivative Feature of Subordinated Notes (c)**	**Common Unit Option Liability (d)**	**Total**
		(as Restated)		**(as Restated)**	**(as Restated)**
Balance at July 15, 2009	$ 78,971	$ 51,594	$ -	$ -	$ 130,565
Increase in fair value reported in the consolidated statement of operations	-	6,992	-	1,092	8,084
Balance at December 31, 2009	78,971	58,586	-	1,092	138,649
Cash distribution on April 1, 2010	(49,102)				(49,102)
Embedded call feature of subordinated debt refinanced	-	-	2,634	-	2,634
Increase in fair value reported in the consolidated statement of operations as income	-	6,268	232	693	7,193
Balance at December 31, 2010	$ 29,869	$ 64,854	$ 2,866	$ 1,785	$ 99,374

(a) See Note 21 - “Capital” Common Unit Distributions.
(b) See Note 17 - “Deferred Fee Liability to Related Party.”
(c) See Note 18 - “Debt”
(d) See Note 19 - “Common Unit Option Liability.”

Assets Measured at Fair Value on a Nonrecurring Basis

The Company’s non-financial assets measured at fair value in 2010 and 2009 on a non-recurring basis include the assets acquired and liabilities assumed in the acquisitions described in Note 5 – “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.

WebBank has impaired loans of $2,627 and $5,406 at December 31, 2010 and 2009, respectively which 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 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 (le 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 b charging down the loan to its value determined in accordance with generally accepted accounting principles. Amounts charged against the allowance for loan losses were $1,544, $5,524, $1,250, and $906 for the year ended December 31, 2010, for the periods January 1, 2009 to July 15, 2009 and July 16, 2009 to December 31, 2009, and the year ended December 31, 2008, respectively.

(Dollars in Thousands Except Per Unit Data)

29. SEGMENT INFORMATION

SPH's reportable segments consist of its operating units, Diversified Industrial, Financial Services, Investment Operations and Corporate which are managed separately and offer different products and services. The Diversified Industrial segment consists of HNH, API, DGT, JPS and SLI. HNH is a diversified holding company with strategic businesses encompassing precious metals, tubing, engineered materials, electronic materials, coated materials, and cutting replacement products and services. HNH became a consolidated subsidiary of SPH on May 7, 2010 and its results are consolidated with SPH from that date as described in Note 5 - "Acquisitions". Through February 18, 2010, the Diversified Industrial segment included BNS, which principally operated Collins, a North American manufacturer of specialty vehicles. Collins was sold on February 18, 2010 and is presented in the consolidated financial statements as a discontinued operation. The Financial Services segment consists of WebBank. The Investment Operations segment consisted of the operations of SPII, an entity of the SPII Fund acquired by SPH in the Exchange Transaction described in Note 23 - "Exchange Transaction". As described in Note 2 - "Basis of Presentation", the SPII operations are presented as the Investment Operations segment in the consolidated financial statements on an investment company basis through July 15, 2009. From July 16, 2009, the Investment Operations segment ceased upon the completion of the Exchange Transaction when SPII's net assets were acquired by and became part of SPH's business and such assets were no longer managed as an investment fund. Corporate includes Steel Excel and CoSine, which are currently in the business of seeking to acquire one or more business operations and BNS, which from February 10, 2010 until February 2, 2011, was in the business of seeking to acquire one or more business operations. Corporate assets primarily consist of investments, including the SPII Liquidating Trust, and cash and cash equivalents, and corporate revenues consist of investment and other income and investment gains and losses. Corporate assets and selling, general and administrative expenses are not allocated to the other segments. Interest expense paid to deposit holders by WebBank is included in the Financial Services segment results and interest expense on debt is included in Diversified Industrial segment results.

Segment information for each of the most recent periods is presented below:

	2010 (as Restated)	July 16, 2009 to December 31, 2009 (as Restated)	January 1, 2009 to July 15, 2009	2008
Revenue:				
Diversified industrial	$ 385,805	$ -	$ -	$ -
Financial services	10,803	2,997	2,326	6,533
Investment operations	-	-	(51,681)	(736,747)
Corporate	28,057	11,427	(101)	16,912
Total	$ 424,665	$ 14,424	$ (49,456)	$ (713,302)
Income (loss) from continuing operations before income taxes:				
Diversified industrial	$ 30,523	$ (2,141)	$ -	$ -
Financial services	4,381	(4,380)	(3,809)	(2,572)
Investment operations	-	-	(54,064)	(767,812)
Corporate	(13,931)	2,324	(522)	14,072
Income (loss) from continuing operations before income taxes	20,973	(4,197)	(58,395)	(756,312)
Income tax (provision) benefit	(2,657)	(57)	868	(637)
Net income (loss) from continuing operations	$ 18,316	$ (4,254)	$ (57,527)	$ (756,949)
Income (loss) from equity method investments:				
Diversified industrial	$ 21,178	$ (2,141)	$ -	$ -
Corporate	(14,093)	6,388	63	10
Total	$ 7,085	$ 4,247	$ 63	$ 10

(Dollars in Thousands Except Per Unit Data)

Additional segment information as follows:

	Year ended December 31, 2010			December 31, 2010
	Interest expense (as Restated)	Capital expenditures	Depreciation and amortization (as Restated)	Goodwill
Diversified industrial	$ 12,186	$ 7,252	$ 13,927	$ 16,131
Financial services	796	44	102	81
Corporate	1,163	-	-	-
Total	$ 14,145	$ 7,296	$ 14,029	$ 16,212

	December 31, 2010 (as Restated)	December 31, 2009 (as Restated)
Identifiable Assets Employed:		
Diversified industrial	$ 431,210	$ 21,043
Financial services	84,632	65,340
Corporate	542,717	516,387
Segment totals	1,058,559	602,770
Discontinued operations	33,306	129,133
Total	$ 1,091,865	$ 731,903

The following table presents revenue and long-lived asset information as of and for the year ended December 31, 2010. Long-lived assets in 2010 consist of property, plant and equipment, plus approximately $12,241 and $2,521, respectively, of land and buildings from previously operating businesses, and other non-operating assets that are included in other non-current assets on the consolidated balance sheets. Revenue for all of 2009 and Long-lived assets as of December 31, 2009 were based in the United States.

	Revenue (as Restated)	Long-lived assets (as Restated)
Geographic information:		
United States	$ 380,352	$ 88,127
Foreign	44,313	18,549
Total	$ 424,665	$ 106,676

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.

30. RELATED PARTY TRANSACTIONS

Under a Management Agreement entered into effective January 1, 2009 and amended as of July 14, 2009 (the “Management Agreement”), the Manager receives a monthly management fee at a rate of 1.5% per annum payable monthly (the “Management Fee”). Until such time as the common units are listed on a national securities exchange, the Management Fee will be calculated based on the sum of the net asset value of the common units and the Deferred Fee Liability as of the last day of the prior calendar month. Thereafter, the Management Fee will be based on the sum of the market capitalization of SPH and the Deferred Fee Liability as of the last day of the prior calendar month. The agreement continues until December 31, 2011 and is automatically renewed annually subject to not less than 180 days notice by SPH of termination prior to the end of each term. 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 year ended December 31, 2010, the Manager earned a Management Fee of $7,531, of which $676 remained unpaid and is included in payable to related party at December 31, 2010. From July 16, 2009 through December 31, 2009 the Manager earned a Management Fee of $3,705, which remained unpaid and is included in payable to related party at December 31, 2009. No Management Fee was payable from January 1, 2009 through July 15, 2009. The Manager incurred $2,209 and $452 of reimbursable expenses during the year end December 31, 2010 and the period of July 16, 2009 to December 31, 2009, respectively, in connection with its provision of services under the Management Agreement, which $1,145 and $452 remained unpaid at December 31, 2010 and 2009, respectively, and is included in related party payables.

Effective as of July 15, 2009, SPH entered into an investor services agreement with WGL, an affiliate of the Manager. Pursuant to the investor services agreement, WGL performs certain investor relations services on SPH’s behalf and SPH pays WGL 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 WGL under the investor services agreement. In addition, SPH bears (or reimburses WGL with respect to) all reasonable costs and expenses of SPH, and WGL, or their affiliates relating to the investor relations services performed for SPH, including but not limited to all expenses actually incurred by WGL that are reasonably necessary for the performance by WGL of its duties and functions under the investor services agreement. For the year ended December 31, 2010 WGL earned an Investor Services Fee of $50, of which $4 remained unpaid and is included in payable to related party at December 31, 2010. From July 16, 2009 through December 31, 2009, WGL earned an Investor Services Fee of $23, which remained unpaid and is included as part of the Management Fee payable to related party at December 31, 2009. No Investor Services Fee was payable from January 1, 2009 through July 15, 2009.

Pursuant to a services agreement (the “Services Agreement”) with SP Corporate Services, LLC (“SPCS”), an affiliate of the Manager, effective as of July 1, 2007, SPCS provided SPH with certain management, consulting and advisory services. The Services Agreement is automatically renewable on an annual basis unless terminated by either party on any anniversary date, upon at least 30 days written notice. In consideration of the services rendered, a fixed annual fee totaling $310 was charged, adjustable annually upon agreement. Effective as of July 15, 2009, the Services Agreement was amended to provide for the provision of 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 year ended December 31, 2010 the SPCS earned $1,768, of which $494 remained unpaid and is included in payable to related party at December 31, 2010. SPCS earned $168 and $310 for the period January 1, 2009 to July 15, 2009 and July 16, 2009 to December 31, 2009, respectively, of which $310 remained unpaid and is included in payable to related party at December 31, 2009. In 2008 SPCS earned $310.

For the year ended December 31, 2010 and during the period from July 16, 2009 to December 31, 2009, HNH provided certain accounting services to SPH, and continues to provide certain accounting services on an ongoing basis. For the year ended December 31, 2010 SPH incurred $550 for such accounting services (of which $502 is eliminated in consolidation for the period after May 7, 2010), and $494 remained unpaid at December 31, 2010 and is eliminated in consolidation. SPH expensed $91 for accounting services provided by HNH for the period July 16, 2009 to December 31, 2009, which remained unpaid and is included in payable to related party at December 31, 2009.

On July 15, 2009, in connection with, and prior to, the implementation of the SPII Fund Plan and the SPII Fund Distribution, the SPII Liquidating Trust was established by SPII General Partner acting in its capacity as the liquidating trustee, an unaffiliated party as the Delaware trustee and SPII as the initial beneficiary and grantor. SPII then contributed to the SPII Liquidating Trust assets consisting of (i) $39,235 in cash and (ii) $243,844 in certain restricted or illiquid assets (the "Trust Assets"). Effective July 15, 2009, $159,232 of interests in the SPII Liquidating Trust was distributed to SPII Onshore by SPII as part of the distribution of assets pursuant to the SPII Fund Distribution. The Trust Assets were contributed by SPII to the SPII Liquidating Trust pursuant to an agreement whereby SPH continued to hold the Trust Assets for the benefit of the SPII Liquidating Trust and would act as its nominee until the Trust Assets could be assigned to the SPII Liquidating Trust. As of December 31, 2010 and 2009, SPH held no Trust Assets on behalf of the SPII Liquidating Trust.

Investment Operations (SPII) had an investment in SPJSF, a limited partnership which invests in Japanese companies and is co-managed by certain affiliates of the Manager. SPII's investment in SPJSF was contributed to the SPII Liquidating Trust on July 15, 2009. Investment Operations recognized unrealized losses of $11,507 and $24,978 on the SPJSF investment for the period January 1 through July 15, 2009, and for the year ended December 31, 2008, respectively. Such unrealized gains and losses are included in the change in unrealized gains, investments for the periods in the consolidated statements of operations under Investment Operations. Effective January 1, 2009, SPII elected to exchange its limited partnership interest in SPJSF for a new series of limited partnership interest which provides for cash distributions to be made from time to time as SPII's indirect pro rata share of the December 31, 2008 assets of SPJSF are sold over time. Such distributions would be reduced by SPII's share of any outstanding SPJSF debt, fees or expenses, as applicable. During the period January 1, 2009 through July 15, 2009, SPII received cash distributions of approximately $49,700, and received a distribution-in-kind of securities of approximately $12,300, from SPJSF.

Investment Operations (SPII) had an investment in SPCA, which is co-managed by certain affiliates of the Manager. SPII's investment in SPCA was contributed to the SPII Liquidating Trust on July 15, 2009. Investment Operations recognized an unrealized gain of $11,233 on the SPCA investment for the period January 1 through July 15, 2009, and an unrealized loss of $5,666, for the year ended December 31, 2008. Such unrealized gains and losses are included in the change in unrealized gains, investments for the periods in the consolidated statements of operations under Investment Operations. SPII had committed $100,000 to SPCA, which was terminated on May 24, 2009 as SPCA's investment period ended. SPII invested approximately $18,090 during 2008. During the period January 1, 2009 through July 15, 2009, SPII received approximately $14,800 in cash distributions from SPCA.

Investment Operations (SPII) had an investment in SP Acquisition Holdings, Inc. ("SPAH"), a blank check company formed for the purpose of acquiring, through a merger, capital stock exchange, asset acquisition or other similar business combination, one or more businesses or assets (a "Business Combination") controlled by an affiliate of the Manager. SPII's investment in SPAH was contributed to the SPII Liquidating Trust on July 15, 2009. Pursuant to an agreement dated March 30, 2007, SPII acquired from SP Acq LLC ("SPAcq"), an affiliate of SPII General Partner, founder's units of SPAH consisting of 668,988 common shares and 668,988 warrants, for an aggregate consideration of $2. The founder's units were purchased at the same price and have the same terms as those purchased and retained by SPAcq from SPAH on March 22, 2007, including the same transfer restrictions, an agreement to vote its common shares in the same manner as a majority of the public stockholders of SPAH vote in connection with SPAH shareholder approval of a Business Combination, and to the extent a Business Combination did not occur by October 10, 2009, such common shares would not participate in SPAH's liquidating distribution to its public shareholders which would render such common shares and warrants worthless. Investment Operations recognized aggregate unrealized losses of $44 and $412 for the period January 1 through July 15, 2009, and for the year ended December 31, 2008, respectively. Such unrealized gains and losses are included in the change in unrealized gains, investments for the year in the consolidated statements of operations under Investment Operations. In addition, SPII had entered into an agreement with SPAH, which was assigned to the SPII Liquidating Trust on July 15, 2009, requiring it to purchase 3 million units (each unit consisting of a common share and a warrant) at a price of $10.00 per unit (an aggregate price of $30,000) from SPAH in a private placement that would occur immediately prior to SPAH's consummation of a Business Combination ("Co-Investment Obligation") which was assumed by the SPII Liquidating Trust as described above. These private placement units would be identical to, and would be purchased at the same price of, the units sold to the public in SPAH's initial public offering on October 10, 2007.

As described above, 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 $62,553 and $97,923 at December 31, 2010 and 2009, respectively, which is included in investments on the consolidated balance sheet. The SPII Liquidating Trust has an investment in SPJSF and SPCA. From July 15, 2009 through October 10, 2009, the SPII Liquidating Trust had an investment in SPAH, SPH through the SPII Liquidating Trust had an interest in a co-investment obligation to SPAH should a Business Combination have taken place by October 10, 2009, which the SPII Liquidating Trust held sufficient cash to fund such obligation, that was terminated as a Business Combination was not completed, which rendered the investment held by SPII Liquidating Trust in SPAH worthless. SPAH was liquidated and SPII Liquidating Trust, and hence SPH, did not receive a distribution from SPAH upon liquidation. At December 31, 2010, SPH's interest in the SPII Liquidating Trust related to SPJSF and SPCA was $7,826 and $11,579, respectively. At December 31, 2009, SPH's interest in the SPII Liquidating Trust related to SPJSF, SPCA and SPAH was $10,305, $11,872 and $0, respectively. For the year ending December 31, 2010, SPH recorded an unrealized loss of $2,479 on SPJSF and an unrealized loss of $293 on SPCA. During the period July 16, 2009 to December 31, 2009 SPH recorded an unrealized loss of $268 on SPJSF, an unrealized gain of $2,059 on SPCA, a realized gain of $434 on SPCA and a realized loss of $31 on SPAH. SPH has no obligation to make any capital contributions to the SPII Liquidating Trust. On January 6, 2010, SPH received a cash distribution from the SPII Liquidating Trust related to SPCA and SPAH of $962 and $13,221, respectively, which is included in receivables in the consolidated financial statements as of December 31, 2009. The cash distribution from the SPII Liquidating Trust related to SPAH represented SPH's share of the cash held by the SPII Liquidating Trust to fund its co-investment obligation to SPAH which terminated on October 10, 2009. On March 22, 2011, SPH received a cash distribution from the SPII Liquidating Trust related to SPJSF of $4,156.

In connection with the SPII Fund Distribution, certain assets that were deemed distributed to SPII Onshore continued to be held by SPH on behalf of SPII Onshore as its nominee. One asset was held pending its sale by SPH on behalf of SPII Onshore, which was then sold by SPH and the full net proceeds received by SPH were distributed to SPII Onshore on October 6, 2009. SPH held another asset on behalf of SPII Onshore until September 1, 2010 at which time SPH was no longer subject to any regulatory prohibitions with respect to its distribution to SPII Onshore.

On October 6, 2009, SPH distributed $204,403 of cash held by SPII to SPII Onshore with respect to the SPII Fund Distribution that was payable as of July 15, 2009.

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 $59,134 and $62,584 at December 31, 2010 and 2009, 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. For the year end December 31, 2010 and the period July 16, 2009 to December 31, 2009, SPH was indirectly compensated for providing this arrangement by the payment of a fee. In 2008 and for the period January 1, 2009 to July 15, 2009, SPII 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 $50. 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. Each director may elect to be paid their compensation in cash or have all or a portion paid in SPH common units. Should a director elect to receive his compensation in SPH common units, the director shall receive that number of common units of SPH as shall have a fair market value that is two times the amount of cash compensation to which such director is entitled (or any portion thereof) and has elected to be paid in the form of SPH common units. Each of the non-management directors elected to have their 2010 and 2009 compensation paid in SPH common units. For the year ended December 31, 2010, non-management directors' fees expensed were $560, and $275 was unpaid and included in payable to related parties at December 31, 2010. For the period July 16, 2009 to December 31, 2009, non-management directors' fees were $258, were unpaid and included in payable to related parties at December 31, 2009. During the year ended December 31, 2010, 32,134 common units valued at $543 were issued to non-management directors.

On March 9, 2010, WebBank and SPCS entered into a servicing agreement. SPCS 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 the year ended December 31, 2010, WebBank paid SPCS fees of $250, and $0 was unpaid and included in payable to related parties at December 31, 2010. On February 25, 2010, WebBank paid SPCS a fee of $250 for the provision of executive services for 2009.

Effective July 1, 2007, BNS contracted with SPCS 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, SPCS receives $42 monthly for the provision of officers, financial management and administrative services. BNS incurred $385 for the period November 1, 2009 through October 31, 2010 (its fiscal year), with $0 unpaid as of October 31, 2010 included in payable to related parties at December 31, 2010. BNS incurred $129 for the period from July 15, 2009 through October 31, 2009 (its fiscal year end), which is the period for which BNS is consolidated, with $0 unpaid as of October 31, 2009.

Pursuant to the Management Agreement, the Manager is 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 SPII's trades. The Commissions paid by SPH to Mutual securities were approximately $1,006 and $900 for the year end December 31, 2010 and the period July 16, 2009 to through December 31, 2009, respectively. The commissions paid by SPII to Mutual Securities were approximately $860 and $5,900 for the period January 1 through July 15, 2009, and in 2008, respectively. Such commissions are included in the net realized and unrealized gain (loss) from investment transactions in the consolidated statements of operations under Investment Operations. The portion of the commission paid to Mutual Securities ultimately received by such officer is net of clearing and other charges.

SPCS and SPL 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.

On July 14, 2009, SPH acquired for cash 8,415,362 shares of Selectica, Inc. from SPII for $3,353 at the market price on that date.

In June 2010, a subsidiary of WebBank entered into an agreement with NOVT Corporation, a subsidiary of an affiliate of the Manager, to participate in a factoring facility up to $2,000. As of December 31, 2010, the participation amount by NOVT was $2,000.

For 2008, a bonus of $250 was granted to the Chief Executive Officer / Chief Financial Officer of WebFinancial, who was an employee of the Manager. This bonus was unpaid and included in payable to related party at December 31, 2008. The bonus was paid on April 21, 2009.

For 2008, two outside directors of WebFinancial were granted $6 each for quarterly board fees and $40 each for services provided on a special committee.

SPH has an estimated liability of $1,463 as of December 31, 2010 and 2009 included in other current liabilities which, pursuant to the Amended Exchange Agreement, is indemnified by SPII Onshore. As a result, the Company recorded an amount receivable from SPII Onshore reported as receivable from related party in the consolidated balance sheet.

(Dollars in Thousands Except Per Unit Data)

31. SUBSEQUENT EVENTS

Acquisitions

SWH

On February 2, 2011, BNS acquired all of the capital stock of SWH, Inc. (“SWH”) for an aggregate purchase price of $50,806 in cash. SWH owns all of the capital stock of Sun Well Service, Inc., its sole asset. Sun Well Service, Inc. 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.

The allocation of the purchase price to SWH’s assets acquired and liabilities assumed is summarized below.

Assets:		
Cash	$	2,153
Accounts receivable		5,040
Prepaid expenses		463
Deferred tax asset		410
Property, plant and equipment		18,258
Goodwill		25,179
Identifiable intangible assets		8,991
Other assets - restricted cash		2,572
Total assets acquired		63,066
Liabilities:		
Accounts payable and accrued liabilities		2,560
Capital lease obligations		1,106
Deferred tax liability, non current		8,594
Total liabilities acquired		12,260
Net assets acquired	$	50,806

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

The components of the $8,991 of acquired identifiable intangible assets of SWH listed in the above table are as follows:

		Amount	Amortization Period
Products and customer relationships	$	3,220	10 years
Trademark/Brand name		4,990	Indefinite
Favorable lease		141	2 years
Non-compete agreement		640	5 years
Total identifiable intangible assets	$	8,991	

The estimated amortization of intangibles from the acquisition will average $520 annually for each of the next five years. The goodwill is not amortizable for income tax purposes.

SWH’s operations will be reported in the Diversified Industrial segment and its accounts will be included in the SPH consolidated financial statements beginning February 2, 2011 through the Company’s consolidation of BNS.

(Dollars in Thousands Except Per Unit Data)

Tiger Claw

On March 23, 2011, a subsidiary of HNH acquired for $8,761 in cash, certain assets and assumed certain liabilities of Tiger Claw, Inc. ("Tiger Claw"), a company that among other businesses, develops and manufactures hidden fastening systems for deck construction. HNH believes this acquisition enhances its product offerings of fastening systems for deck construction.

A preliminary allocation of the purchase price to Tiger Claw's assets acquired and liabilities assumed is summarized below. The allocation of the purchase price is based on a preliminary valuation and may change when the final valuation is complete.

	Amount
Assets:	
Accounts receivable	$ 603
Inventories	1,125
Prepaid expenses	19
Equipment	181
Identifiable intangible assets	6,144
Goodwill	1,623
Total assets acquired	9,695
Liabilities:	
Accrued liabilities	934
Net assets acquired	$ 8,761

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

Based on the preliminary evaluation, the components of the $6,144 of acquired identifiable intangible assets listed in the above table are as follows:

	Amount	Amortization Period
Products and customer relationships	$ 3,810	10 years
Trademark/Brand name	713	16 years
Patents and patent applications	1,471	10-15 years
Non-compete agreement	150	5 years
Total identifiable intangible assets	$ 6,144	

The estimated amortization of intangibles from the acquisition will be approximately $450 in 2011 and $600 annually for each of the next five years. The goodwill is expected to be amortizable for income tax purposes.

Tiger Claw's operations will be reported with HNH in the Diversified Industrial segment and its accounts will be included in the SPH consolidated statement of operations beginning March 23, 2011.

There is additional contingent consideration that could be due from HNH under the Asset Purchase Agreement if the net sales of certain identified products exceed the parameters set forth in the Asset Purchase Agreement in 2011 and 2012. The additional consideration would be equal to 10% of the sales in excess of the specified parameters. No amount related to the contingent portion of the purchase price will be recognized at the acquisition date, in accordance with ASC 805 - Business Combinations.

(Dollars in Thousands Except Per Unit Data)

DGT

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 has been changed as of July 5, 2011 from the equity method to a majority-owned controlled subsidiary and is consolidated with SPH from that date. Prior to the July 5, 2011, SPH owned 1,783,718 shares of DGT (46.1% of the outstanding shares) which were acquired primarily between July 15, 2009 and March 2011. As of July 5, 2011 SPH's investment had a carrying value of approximately $13,500. DGT manufactures and markets medical and dental imaging systems and power conversion subsystems and components. The acquisition of the controlling interest in DGT was to further the Company's position as a global diversified holding company.

In connection with its acquisition of the additional 193,305 shares of DGT on July 5, 2011, the Company has agreed to pay additional consideration to the selling shareholders in future periods if Villa Sistemi Medicali S.p.A. ("Villa") or DGT are sold within certain time periods after the date of the transaction, resulting in a tangible book value per share of DGT above certain levels. As disclosed below under "Sale of Villa," Villa was sold on November 3, 2011, which is within the specified time period. Although the final determination of the liability will be measured at a future date, the Company has accrued a provisional amount of additional purchase consideration in connection with the sale of Villa.

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 will recognize an investment gain of $7,921 which will be included in Net investment (loss) gain in the third quarter of 2011 consolidated statement of operations.

The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed, as well as the fair value of the non-controlling interest in DGT as of July 5, 2011:

Assets		
Cash and cash equivalents	$	23,207
Accounts receivable		16,348
Inventory		11,872
Prepaid expenses and other current assets		1,229
Property, plant and equipment		11,112
Identifiable intangible assets		13,420
Other assets		644
Total assets acquired		77,832

(Dollars in Thousands Except Per Unit Data)

Liabilities		
Accounts payable and accrued liabilities		14,187
Current portion of long-term debt		286
Deferred tax liability		3,699
Long-term debt		2,373
Liability for employee termination indemnities		1,930
Total liabilities assumed		22,475
Fair value of net assets acquired		55,357
Fair value of noncontrolling interests		22,670
Fair value of net assets acquired by SPH		32,687
Less: acquisition-date fair value of previously held equity interest		21,389
Less: cost of shares of common stock purchased on July 5, 2011		2,320
Fair value basis upon acquisition of controlling interest in DGT		23,709
Gain on acquisition	$	8,978

Accounts receivable are recorded net of amounts not expected to be collected of approximately $1,056.

The Company's previously held equity interest and the noncontrolling interests were calculated at fair value, which is their proportionate share of the fair value of DGT at the acquisition date, less a discount for lack of control and marketability. The fair value of DGT was estimated using the market and income approaches. These fair value measurements are based on significant inputs that are not observable in the market and, therefore, represents a Level 3 measurement as defined in ASC Topic 820, Fair Value Measurements and Disclosures. Key assumptions include (1) weighted average cost of capital rates of 20% and 14%, with a combined cost of capital of 16%, (2) a terminal value based on long-term sustainable growth rates of 3%, (3) financial multiples of companies deemed to be similar to DGT, and (4) adjustments for lack of control that market participants would consider when estimating the fair value of the noncontrolling interest in DGT.

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. As a result, the Company reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that the valuation procedures and resulting measures were appropriate. Accordingly, the acquisition has been accounted for as a bargain purchase and, as a result, the Company will recognize a gain of $8,978 in the third quarter of 2011 associated with the acquisition. The gain will be included in Other income in the consolidated statements of operations.

Based on the preliminary evaluation, the components of the $13,420 of acquired identifiable intangible assets listed in the above table are as follows:

		Amount	Amortization Period
Backlog	$	920	1 year
Customer Relationships		4,580	10 years
Technology		3,740	10-30 years
Tradename		3,800	Indefinite
Tradename		380	10-15 years
	$	13,420	

The estimated amortization of intangibles from the acquisition will be approximately $549 in 2011 and will average $864 annually for each of the next five years.

DGT's operations will be reported in the Diversified Industrial segment and its accounts will be included in the SPH consolidated statement of operations beginning July 5, 2011.

(Dollars in Thousands Except Per Unit Data)

Unaudited Pro Forma Results of Operations

The following presents certain unaudited pro forma consolidated statement of operations data for the year ended December 31, 2010 as if the acquisitions of SWH, Tiger Claw and DGT were completed on the same terms at January 1, 2010.

	Year Ended December 31, 2010 (as Restated)
Revenue	$ 474,166
Net income attributable to common unitholders	36,786
Net income per common unit - basic	1.46
Net income per common unit - diluted	1.34

HNH Discontinued Operations

During the third quarter of 2011, HNH sold its stock of Biro-France, a part of its Kasco segment, to the former management team for a price of one Euro plus 25% of any pre-tax earnings over the next three years. Biro-France, based on a 5 year supply agreement, will continue to purchase from Kasco its standard products. As a result of the sale, the Company recorded a pre-tax loss of $603, which is included in the loss from sale of discontinued operations reported for the third quarter of 2011. Biro-France has been included as a discontinued operation on a retroactive basis from the acquisition of HNH on May 7, 2010.

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 $7,782 has been recorded in the first quarter of 2011.

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 pre-tax loss of $5,106 was recorded on the sale of these assets in the first quarter of 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 condensed consolidated balance sheet as of September 30, 2011, and are expected to be received by HNH in the second quarter of 2012. The total gain as a result of these sales of $2,179, net of tax, is reported in discontinued operations on the condensed consolidated statement of operations in the third quarter of 2011.

Other Acquisitions of Shares

Subsequent to December 31, 2010, SPH acquired for cash 689,466 additional shares of HNH common stock in the open market for $8,746, bringing total shares owned as of December 1, 2011 to 7,014,736 representing 55.5% of the outstanding shares.

Subsequent to December 31, 2010, SPH acquired for cash 765,187 additional shares of Steel Excel common stock in the market for $21,288, bringing total shares owned as of December 1, 2011 to 4,361,998 representing 40.0% of the outstanding shares.

Subsequent to December 31, 2010, SPH acquired for cash 62,210 additional shares of SLI common stock in the open market for $1,117, bringing total shares owned as of December 1, 2011 to 989,441 representing 21.7% of the outstanding shares.

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 has sold all of the shares of its Italian subsidiary, Villa, its medical and dental imaging systems segment, to VIV.

In consideration for the sale of the shares of Villa to VIV, DGT received $21,800 in cash and an unsecured subordinated promissory note (the “Note”) made by VIV in the amount of €500. 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. The Company also received, as part of the transaction, a dividend of cash held by Villa as of the closing date in the amount of $4,500.

Sun Well Service Bank Loan Agreement

Sun Well Service, Inc., a wholly owned subsidiary of BNS signed 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 Service, Inc. 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%. Both options are subject to leverage ratio adjustments. The term loan is repayable in $1,000 quarterly installments from September 30, 2011 to June 30, 2015. Borrowings under the revolving loan, which are determined based on eligible accounts receivable, mature on June 30, 2015. As of December 1, 2011, $19,000 is outstanding under the term loan.

HNH Loan Facilities

On September 12, 2011, H&H entered into an Amended and Restated Loan and Security Agreement (the “Ableco Refinancing”) with Ableco, L.L.C. (“Ableco”), one of its existing lenders, to increase the size of the total term loan thereunder from $25,000 to up to $75,000 (the “Ableco Facility”) and to amend certain covenants. The Ableco Facility provides for three separate term loans to Handy & Harman Group Ltd. (“H&H Group”), the parent company of H&H and Baimco, and certain of its subsidiaries at a maximum value of $25,000 per term loan. The first and second term loans bear interest on the respective principal amounts thereof at the U.S. base rate (the prime rate) plus 4.50% or LIBOR (or, if greater, 1.50%) plus 6.00%. The third term loan bears interest on the principal amount thereof at the U.S. base rate (the prime rate) plus 7.50% or LIBOR (or, if greater, 1.75%) plus 9.00%. As of September 19, 201.1, $75,000 principal amount of the term loans are currently outstanding. All amounts outstanding under the Ableco Facility are due and payable in full on July 1, 2013. Obligations under the Ableco Facility are collateralized by second priority security interests in and liens upon all present and future assets of H&H Group and most of its subsidiaries.

On September 14, 2011, H&H Group instructed Wells Fargo Bank, National Association (“Wells Fargo”), as trustee and collateral agent, to deliver an irrevocable notice of H&H’s redemption of a portion of its 10% subordinated secured notes due 2017 (the “Subordinated Notes”) to the holders of the Subordinated Notes. Pursuant to the terms of that certain amended and restated indenture, dated as of December 13, 2010, by and among H&H Group, the guarantors named therein and Wells Fargo, as trustee, H&H Group will redeem, on October 14, 2011, $25,000 principal amount of the outstanding Notes 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. The Subordinated Notes will be redeemed on a pro-rata basis among all holders thereof. Approximately $12,500 of the $25,000 will be paid to SPH to redeem its pro-rata share of the Subordinated Notes as described below.

On October 14, 2011, H&H Group redeemed $25,000 principal amount of its outstanding Subordinated Notes and associated Warrants at a redemption price of 102.8% of the principal amount and accrued but unpaid payment-in-kind-interest of the Subordinated Notes, plus accrued and unpaid cash interest thereon. The Subordinated Notes and Warrants were redeemed on a pro-rata basis among all holders thereof. The total redemption amount paid by H&H Group was $26,400. After giving effect to the redemption on October 14, 2011, the principal amount of the outstanding Subordinated Notes was approximately $40,600. Approximately $12,500 of the $25,000 was paid to SPH to redeem its pro-rata share of the Subordinated Notes.

Other

On 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 SPCS in the amount of $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 SPCS 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 year ended December 31, 2010, HNH incurred $1,950 under the management and services fee, which was unpaid at December 31, 2010 and included in payable to related parties. Included in selling, general and administrative expenses in the statement of operations is $1,601 for the period from May 7, 2010 (the date of the HNH acquisition) to December 31, 2010.

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. Each independent director may elect to be paid his compensation in cash or have all or a portion paid in that number of common units having a value equal to two times the amount of compensation earned. Total expense for the common units issued is $275.

As a result of this issuance of common units and the issuance effective as of July 10, 2010 (see Note - 21 “Capital”) and the issuance of common units described above effective March 21, 2011, pursuant to the management agreement, effective March 21, 2011, the Company granted to the Manager (i) an option to purchase 5,671 common units at an exercise price of $16.89, per common unit, as based on the net asset value of the common units as of June 30, 2010 and the exercise price declined to $15.71 because of the April 6, 2011 distribution to unitholders, (ii) an option to purchase 1,291 common units at an exercise price of $18.80, per common unit, as determined based on the net asset value of the common units as of September 30, 2010 and the exercise price declined to $17.62 because of the April 6, 2011 distribution to unitholders, and (iii) an option to purchase 1,211 common units at an exercise price of $20.03, per common unit, as determined based on the net asset value of the common units as of December 31, 2010 and the exercise price declined to $18.85 because of the April 6, 2011 distribution to unitholders. As a result of the April 6, 2010 distribution to unitholders, the exercise price of the July 14, 2009 Options was adjusted to $28.68.

On April 6, 2011 SPH distributed to its unitholders of record on March 25, 2011 $33,097 or $1.18 per common unit, including $3,228 relating to treasury units. The Target Distribution has been met and while the Company may, at its option, make further distributions, it currently has no plan to make any future distributions.

On November 23, 2011, SPH, SPH Group LLC, a wholly owned subsidiary of SPH, and Steel Partners LLC entered into that certain 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.

On November 23, 2011, SPH entered into that certain 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 compensation to be paid to manager pursuant to the Third Amended and Restated Management Agreement.

Grant Thornton LLP
666 Third Avenue, 13th Floor
New York, NY 10017-4011

T 212.599.0100
F 212.370.4520
www.GrantThornton.com

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Partners of
Steel Partners Holdings L.P.

We have reviewed the accompanying condensed consolidated balance sheet of Steel Partners Holdings L.P. (a Delaware limited partnership) and subsidiaries (the "Company") as of September 30, 2011, and the related condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and September 30, 2010, the condensed consolidated statement of changes in capital and comprehensive income (loss) for the nine months ended September 30, 2011, and the condensed consolidated statements of cash flows for the nine months ended September 30, 2011 and September 30, 2010. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion. We did not review the condensed consolidated financial statements of WebFinancial Holding Corporation and Subsidiaries and WF Asset Corp, which statements reflect total assets of 12.2 percent as of September 30, 2011, and total revenues of 1.9 and 2.5 percent for the nine months ended September 30, 2011 and September 30, 2010, respectively and 2.3 and 1.6 percent for the three months ended September 30, 2011 and September 30, 2010, respectively of the related consolidated totals. Those statements were reviewed by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for WebFinancial Holding Corporation and Subsidiaries and WF Asset Corp, is based solely on the reports of the other auditors.

Based on our reviews and the reports of other auditors, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2010, and the related consolidated statements of operations, changes in capital and comprehensive income (loss) and cash flows for the year then ended (not presented herein); and in our report dated December 2, 2011, we expressed an unqualified opinion on those consolidated financial statements, based on our audit and the report of other auditors. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Grant Thornton LLP

New York, New York
December 6, 2011

HANSEN, BARNETT & MAXWELL, P.C.
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders
WebFinancial Holding Corporation

We have reviewed the accompanying consolidated balance sheet of WebFinancial Holding Corporation as of September 30, 2011 and the related consolidated statements of operations, equity and cash flows for the three-month and nine-month periods ended September 30, 2011 and 2010. These financial statements are the responsibility of the company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

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

Salt Lake City, Utah
November 8, 2011

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Registered with the Public Company Accounting Oversight Board

5 Triad Center, Suite 750, Salt Lake City, Utah 84180-1128
TEL 801-532-2200 FAX 801-532-7944 www.hbmcpas.com
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HANSEN, BARNETT & MAXWELL, P.C.
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders
WF Asset Corp

We have reviewed the accompanying balance sheet of WF Asset Corp as of September 30, 2011, and the related statements of operations, equity and cash flows for the three and nine month periods then ended. These financial statements are the responsibility of the company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ HANSEN, BARNETT & MAXWELL, P.C.
Salt Lake City, Utah
November 8, 2011

an independent member of BAKER TILLY INTERNATIONAL
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5 Triad Center, Suite 750, Salt Lake City, Utah 84180-1128
TEL 801-532-2200 FAX 801-532-7944 www.hbmcpas.com
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STEEL PARTNERS HOLDINGS L.P.
Condensed Consolidated Balance Sheets
(in thousands)

ASSETS	September 30, 2011 (unaudited)	December 31, 2010 (derived from the audited financial statements)
Current assets:		
Cash and cash equivalents	$ 132,306	$ 180,684
Restricted cash	17,596	143,698
Investments at fair value	-	71,872
Financial instruments	-	13,772
Trade and other receivables (net of allowance for doubtful accounts of $2,558 in 2011 and $2,198 in 2010)	110,242	67,747
Receivable from related party	116	1,463
Loans receivable, net	22,673	16,408
Inventories	60,999	50,822
Deferred income taxes	4,556	4,700
Prepaid and other current assets	15,598	10,087
Assets of discontinued operations	39,363	33,306
Total current assets	403,449	594,559
Long-term loans receivable	10,298	11,919
Goodwill	43,023	16,212
Other intangibles	137,872	125,271
Other non-current assets ($5,794 and $7,668 measured at fair value in 2011 and 2010)	30,990	26,456
Investments at fair value	67,643	-
Property, plant and equipment, net	123,733	91,625
Investments in associated companies ($142,619 and $127,613 measured at fair value in 2011 and 2010)	165,448	163,270
Other investments at fair value - related party	46,542	62,553
Total Assets	$ 1,028,998	$ 1,091,865

See accompanying Notes to Condensed Consolidated Financial Statements

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

LIABILITIES AND CAPITAL	September 30, 2011 (unaudited)	December 31, 2010 (derived from the audited financial statements)
Current liabilities:		
Accounts payable	$ 51,241	$ 37,959
Accrued liabilities	47,694	37,527
Current portion of distribution payable	-	29,869
Financial instruments	17,596	143,917
Current bank deposits	38,612	29,102
Payable to related parties	3,725	6,330
Current portion of pension liability	18,241	14,900
Short-term debt	2,507	42,890
Current portion of long-term debt	21,034	4,452
Other current liabilities	3,705	5,721
Liabilities of discontinued operations	14,958	9,997
Total current liabilities	219,313	362,664
Long-term bank deposits	55,731	32,690
Deferred fee liability to related party	58,145	64,854
Long-term debt (includes $571 and $580 to a related party in 2011 and 2010)	133,859	91,984
Accrued pension liability	78,989	98,104
Deferred income taxes	15,561	3,333
Other liabilities	9,523	7,924
Total Liabilities	571,121	661,553
Commitments and Contingencies	-	-
Capital:		
Partners' capital (common units: 25,183,039 in 2011 and 25,251,554 in 2010 issued and outstanding, after deducting 2,808,725 and 2,726,030 held in treasury, at cost of $48,099 and $47,107 in 2011 and 2010, respectively)	404,541	397,970
Accumulated other comprehensive (loss) income	(8,114)	7,762
Total	396,427	405,732
Noncontrolling interests in consolidated entities	61,450	24,580
Total Capital	457,877	430,312
Total Liabilities and Capital	$ 1,028,998	$ 1,091,865

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue				
Diversified industrial net sales	$ 189,282	$ 150,877	$ 543,434	$ 251,578
Financial services revenue	3,862	2,704	10,199	7,153
Investment and other (loss) income	(501)	1,800	(1,251)	3,210
Net investment (loss) gain	(19,432)	10,830	(8,455)	27,860
Total revenue	173,211	166,211	543,927	289,801
Costs and expenses				
Diversified industrial cost of goods sold	136,887	110,256	399,390	190,369
Selling, general and administrative	34,789	26,162	104,094	54,489
Finance interest expense	449	477	1,214	1,474
Provision for loan losses (gains)	128	304	192	(325)
Interest expense	3,034	5,155	8,488	8,481
Realized and unrealized loss on derivatives	682	1,799	936	1,580
Management fees - related party	2,139	1,885	6,357	5,507
(Decrease) increase in deferred fee liability to related party	(10,007)	6,134	(6,708)	2,636
Other income	(7,385)	-	(7,375)	-
Total costs and expenses	160,716	152,172	506,588	264,211
Income from continuing operations before income taxes and equity method income (loss)	12,495	14,039	37,339	25,590
Income tax (provision) benefit	(2,192)	(829)	2,091	(1,627)
(Loss) income from equity method investments:				
(Loss) income of associated companies, net of taxes	(14,755)	7,791	86	8,958
(Loss) income from other investments - related party	(2,667)	1,844	(11,855)	(5,007)
Net (loss) income from continuing operations	(7,119)	22,845	27,661	27,914
Discontinued operations:				
Loss from discontinued operations, net of taxes	(316)	(564)	(1,049)	(2,712)
(Loss) gain on sale of discontinued operations, net of taxes	(401)	-	2,179	31,254
(Loss) income from discontinued operations	(717)	(564)	1,130	28,542
Net (loss) income	(7,836)	22,281	28,791	56,456
Net (income) loss attributable to noncontrolling interests in consolidated entities:				
Continuing operations	(4,890)	(3,105)	(15,439)	(2,600)
Discontinued operations	337	130	(655)	(13,774)
	(4,553)	(2,975)	(16,094)	(16,374)
Net (loss) income attributable to common unitholders	$ (12,389)	$ 19,306	$ 12,697	$ 40,082
Net (loss) income per common unit - basic				
Net (loss) income from continuing operations	$ (0.48)	$ 0.78	$ 0.48	$ 1.00
Net (loss) income from discontinued operations	(0.02)	(0.01)	0.02	0.59
Net (loss) income attributable to common unitholders	$ (0.50)	$ 0.77	$ 0.50	$ 1.59
Net (loss) income per common unit - diluted				
Net (loss) income from continuing operations	$ (0.74)	$ 0.73	$ 0.19	$ 0.89
Net (loss) income from discontinued operations	(0.01)	(0.02)	0.02	0.47
Net(loss) income attributable to common unitholders	$ (0.75)	$ 0.71	$ 0.21	$ 1.36
Weighted average number of common units outstanding - basic	25,230,679	25,248,410	25,249,817	25,229,190
Weighted average number of common units outstanding - diluted	29,570,563	26,912,775	29,200,146	31,420,729

See accompanying Notes to Condensed Consolidated Financial Statements

STEEL PARTNERS HOLDINGS L.P.
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands except units and per unit data)

	Nine Months Ended September 30,	
	2011	**2010**
Cash flows from operating activities:		
Net income	$ 28,791	$ 56,456
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Net investment losses (gains)	8,455	(27,860)
Provision for loan losses (gains)	192	(325)
Income of associated companies	(86)	(8,958)
Loss from other investments - related party	11,855	5,007
Unrealized loss on other non-current assets at fair value	2,075	230
Gain on sale of discontinued operations	(2,179)	(31,254)
Depreciation and amortization	18,579	8,335
Non-cash income from derivatives	(429)	-
Reclassification of net cash settlements on derivative instruments	1,366	1,388
Deferred income taxes	3,090	(16)
Income tax benefit from release of deferred tax valuation allowance	(9,915)	-
Bargain purchase gain	(8,978)	-
Other	4,624	3,738
Net change in operating assets and liabilities:		
Receivables	(29,352)	13,181
Inventories	(7,123)	2,120
Prepaid and other assets	301	282
Receivable from related party	1,347	-
Accounts payable, accrued and other liabilities	(17,188)	(2,269)
Payable to related parties	(1,709)	(373)
(Decrease) Increase in deferred fee liability to related party	(6,708)	2,636
Net cash (used in) provided by operating activities of discontinued operations	(4,079)	5,593
Net cash (used in) provided by operating activities	(7,071)	27,911
Cash flows from investing activities:		
Purchases of investments	(298,438)	(343,983)
Proceeds from sale of investments	166,424	592,167
Proceeds from sale of loans	-	2,054
Net increase in loans receivable	(5,406)	(10,693)
Purchases of property and equipment	(14,055)	(3,496)
Reclassification of restricted cash	126,102	(144,519)
Net cash settlements on derivative instruments	(1,366)	(1,388)
Acquisitions, net of cash acquired	(39,533)	8,232
Purchase of subsidiary shares from noncontrolling interests	(8,827)	(11,958)
Investments in associated companies	(14,690)	(48,656)
Proceeds from sale of discontinued operations	26,499	64,693
Other	1,748	342
Net cash (used in) provided by investing activities	(61,542)	102,795

STEEL PARTNERS HOLDINGS L.P.
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands except units and per unit data)

	Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
Cash flows from financing activities:				
Common unit cash distributions		(29,869)		(49,102)
Net revolver repayments		(40,415)		(20,054)
Proceeds from term loans		69,000		-
Repayment of term loans		(12,602)		(5,463)
Net change in overdrafts		3,215		-
Deferred finance charges		-		5,040
Net increase in bank deposits		32,626		6,105
Repayment of debt of discontinued operations		-		(22,767)
Other		(1,714)		(1,761)
Net cash provided by (used in) financing activities		20,241		(88,002)
Net change for the period		(48,372)		42,704
Effect of exchange rate changes on cash and cash equivalents		(6)		15
Cash and cash equivalents at beginning of period		180,684		114,247
Cash and cash equivalents at end of period	$	132,306	$	156,966
Cash paid during the period for:				
Interest	$	10,125	$	15,634
Taxes	$	4,553	$	3,661
Non-cash investing activities:				
Reclassification of investment in associated company to cost of an acquisition	$	34,066	$	26,084
Purchase of available-for-sale securities with funds on deposit	$	-	$	5,932
Decrease (increase) in restricted cash from foreign currency financial instruments	$	120,277	$	(134,876)
Net transfers between loans and other assets	$	570	$	417
Purchase of equipment through capital lease obligations	$	969	$	-
Non-cash financing activities:				
Common units issued for directors compensation	$	275	$	543

See accompanying Notes to Condensed Consolidated Financial Statements

STEEL PARTNERS HOLDINGS L.P.
Condensed Consolidated Statements of
Changes in Capital and Comprehensive Income
(unaudited)
(Dollars in Thousands Except Common Unit Data)

	Common Units	Comprehensive Income	Accumulated Other Comprehensive Income	Treasury Units Units	Treasury Units Dollars	Partners' Capital	Total	Non-controlling Interest	Total Capital
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
Comprehensive income:									
Net income		$ 12,697				12,697	12,697	16,094	28,791
Unrealized loss on available-for-sale investments		(15,975)	(15,975)				(15,975)		(15,975)
Currency translation adjustment		99	99				99	(691)	(592)
Comprehensive income		$ (3,179)							
DGT Acquisition								22,670	22,670
Treasury stock purchases				(82,695)	(992)	(992)	(992)		(992)
Issuance of subsidiary shares								2,420	2,420
Purchase of subsidiary shares from noncontrolling interests						(5,204)	(5,204)	(3,623)	(8,827)
Other, net						(205)	(205)	-	(205)
Balance at September 30, 2011	27,991,764		$ (8,114)	(2,808,725)	$ (48,099)	$ 404,541	$ 396,427	$ 61,450	$ 457,877

See accompanying Notes to Condensed Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of 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 direct and indirect interests. These investments represent significant equity interests in operating businesses.

The Company seeks to work with its 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.

Organization

SPH, a Delaware limited partnership, formerly known as WebFinancial L.P., was formed on December 16, 2008 as a wholly-owned subsidiary of WebFinancial Corporation ("WebFinancial"), a Delaware corporation, which was a publicly traded financial holding company. SPH is the successor through a merger on December 31, 2008 with WebFinancial. The purpose of the merger was to convert the legal entity form of the business of WebFinancial from a corporation into a limited partnership. Steel Partners Holdings GP Inc. (f/k/a Steel Partners Holdings GP LLC) ("SPH GP"), a Delaware corporation, is the general partner of SPH and is wholly-owned by SPH. Steel Partners LLC is the manager of SPH (the "Manager"). The unitholders of SPH have limited liability with respect to their interest in the Company.

Basis of Presentation

The condensed consolidated financial statements include the consolidated financial results of SPH and WebFinancial (which was merged with and into SPH on December 31, 2008), BNS Holding, Inc. ("BNS"), Handy & Harman, Ltd. ("HNH"), DGT Holdings Corp. ("DGT") and their subsidiaries. Acquired companies are presented from their dates of acquisition (see Note 2 - "Acquisitions" and Note 4 - "Investments in Associated Companies"). DGT's fiscal year-end is July 31, 2011 and the Company has recorded their financial statements on a two-month lag. As a result, the statement of operations for the three and nine months ended September 30, 2011 includes DGT's activity for the month of July 2011 only. BNS has changed its fiscal year end from October 31 to December 31. The nine months ended September 30, 2011 includes two additional months for BNS, November and December of 2010. The change did not have a material effect on the condensed consolidated financial statements.

The condensed consolidated balance sheet as of December 31, 2010, which has been derived from audited financial statements, and the unaudited condensed consolidated financial statements included herein have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in the United States have been condensed or omitted in accordance with those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. These financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2010. Certain amounts for the prior year have been reclassified to conform to the current year presentation.

In the opinion of the Company, the interim financial statements reflect all normal and recurring adjustments necessary to present fairly the consolidated financial position and the results of operations and changes in cash flows for the interim periods. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the nine months ended September 30, 2011 and 2010 are not necessarily indicative of the operating results for the full year.

Recently Issued Accounting Pronouncements

Credit Quality of Receivables and the Allowance for Credit Losses - In July 2010, the FASB issued guidance which enhances the disclosure requirements relating to the credit risk of an entity's portfolio of financing receivables and how that risk is analyzed and assessed in arriving at the allowance for credit losses. This guidance was effective for the interim period beginning January 1, 2011. Adoption of this guidance has not had a material effect on the Company's consolidated financial statements.

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. This guidance will be effective for interim and annual reporting periods beginning after December 15, 2011. The Company has not yet determined the effect, if any, the adoption of this guidance will have on its consolidated financial statements.

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 in two separate but consecutive statements. The new guidance will be effective for the Company beginning January 1, 2012 and will have presentation changes only.

Testing Goodwill for Impairment – In September 2011, the FASB issued guidance relating to testing goodwill for impairment, to allow entities to use a qualitative approach to test goodwill for impairment. The new guidance permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and earlier adoption is permitted. The Company is currently evaluating the impact of the pending adoption of the new guidance on its consolidated financial statements.

Other

The Company may in the future determine to file a registration statement with respect to its common units with the Securities and Exchange Commission ("SEC").

2. ACQUISITIONS

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 assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding the fair values recorded as goodwill. If the fair value of the assets acquired and liabilities assumed exceeds the fair value of the consideration given, a bargain purchase has occurred which is recorded as a gain on acquisition. 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. In allocating the purchase price to the fair value of the assets acquired and liabilities assumed, the Company utilized, in part, a third-party appraiser to assist us in assessing the fair values of certain components of the assets acquired and liabilities assumed.

(Dollars in Thousands Except Common Unit Data)

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; or

- 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.

DGT

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 has been changed from the equity method to a majority-owned controlled subsidiary and is consolidated with SPH from that date. Prior to the July 5, 2011, SPH owned 1,783,718 shares of DGT (46.1% of the outstanding shares) which were acquired primarily between July 15, 2009 and March 2011. As of July 5, 2011 SPH's investment had a carrying value of approximately $13,500. DGT manufactures and markets medical and dental imaging systems and power conversion subsystems and components. The acquisition of the controlling interest in DGT was to further the Company's position as a global diversified holding company.

In connection with its acquisition of the additional 193,305 shares of DGT on July 5, 2010, the Company has agreed to pay additional consideration to the selling shareholders in future periods if Villa Sistemi Medicali S.p.A. ("Villa") or DGT are sold within certain time periods after the date of the transaction, resulting in a tangible book value per share of DGT above certain levels. As disclosed in Note 24, "Subsequent Events," Villa was sold on November 3, 2011, which is within the specified time period. Although the final determination of the liability will be measured at a future date, the Company has accrued $387 as a provisional amount of additional purchase consideration in connection with the sale of Villa.

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 $7,921 which is included in Net investment (loss) gain in the consolidated statements of operations.

The following table summarizes the preliminary fair value of the assets acquired and liabilities assumed, as well as the fair value of the non-controlling interest in DGT as of July 5, 2011:

Assets		
Cash and cash equivalents	$	23,207
Accounts receivable		16,348
Inventory		11,872
Prepaid expenses and other current assets		1,229
Property, plant and equipment		11,112
Identifiable intangible assets		13,420
Other assets		644
Total assets acquired		77,832

(Dollars in Thousands Except Common Unit Data)

Liabilities		
Accounts payable and accrued liabilities		14,187
Current portion of long-term debt		286
Deferred tax liability		3,699
Long-term debt		2,373
Liability for employee termination indemnities		1,930
Total liabilities assumed		22,475
Fair value of net assets acquired		55,357
Fair value of noncontrolling interests		22,670
Fair value of net assets acquired by SPH		32,687
Less: acquisition-date fair value of previously held equity interest		21,389
Less: cost of shares of common stock purchased on July 5, 2011		2,320
Fair value basis upon acquisition of controlling interest in DGT		23,709
Gain on acquisition	$	8,978

Accounts receivable are recorded net of amounts not expected to be collected of approximately $1,056.

The Company's previously held equity interest and the noncontrolling interests were calculated at fair value, which is their proportionate share of the fair value of DGT at the acquisition date, less a discount for lack of control and marketability. The fair value of DGT was estimated using the market and income approaches. These fair value measurements are based on significant inputs that are not observable in the market and, therefore, represents a Level 3 measurement as defined in ASC Topic 820, Fair Value Measurements and Disclosures. Key assumptions include (1) weighted average cost of capital rates of 20% and 14%, with a combined cost of capital of 16%, (2) a terminal value based on long-term sustainable growth rates of 3%, (3) financial multiples of companies deemed to be similar to DGT, and (4) adjustments for lack of control that market participants would consider when estimating the fair value of the noncontrolling interest in DGT.

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. As a result, the Company reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that the valuation procedures and resulting measures were appropriate. Accordingly, the acquisition has been accounted for as a bargain purchase and, as a result, the Company recognized a gain of $8,978 associated with the acquisition. The gain is included in Other income in the consolidated statements of operations.

Based on the preliminary evaluation, the components of the $13,420 of acquired identifiable intangible assets listed in the above table are as follows:

		Amount	Amortization Period
Backlog	$	920	1 year
Customer Relationships		4,580	10 years
Technology		3,740	10-30 years
Tradename		3,800	Indefinite
Tradename		380	10-15 years
	$	13,420	

Amortization expense of $137 was recorded for the three and nine months ended September 30, 2011. The estimated amortization of intangibles from the acquisition will be approximately $412 for the remaining three months of 2011, and will average $864 annually for each of the next five years thereafter.

DGT's operations are reported in the Diversified Industrial segment and its accounts are included in the SPH condensed consolidated statement of operations beginning July 5, 2011. Revenue and net income of DGT in the condensed consolidated statement of operations from July 5, 2011 are $1,366 and $33, respectively.

(Dollars in Thousands Except Common Unit Data)

SWH

On February 2, 2011, BNS acquired all of the capital stock of SWH, Inc. ("SWH") for an aggregate purchase price of $50,806 in cash. SWH owns all of the capital stock of Sun Well Service, Inc., its sole asset. Sun Well Service, Inc. 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.

The allocation of the purchase price to SWH's assets acquired and liabilities assumed is summarized below.

Assets:	
Cash	$ 2,153
Accounts receivable	5,040
Prepaid expenses	463
Deferred tax asset	410
Property, plant and equipment	18,258
Goodwill	25,179
Identifiable intangible assets	8,991
Other assets - restricted cash	2,572
Total assets acquired	63,066
Liabilities:	
Accounts payable and accrued liabilities	2,560
Capital lease obligations	1,106
Deferred tax liability, non current	8,594
Total liabilities acquired	12,260
Net assets acquired	$ 50,806

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

The components of the $8,991 of acquired identifiable intangible assets of SWH listed in the above table are as follows:

	Amount	Amortization Period
Products and customer relationships	$ 3,220	10 years
Trademark/Brand name	4,990	Indefinite
Favorable lease	141	2 years
Non-compete agreement	640	5 years
Total identifiable intangible assets	$ 8,991	

Amortization expense of $188 and $405 was recorded for the three and nine months ended September 30, 2011. The estimated amortization of intangibles from the acquisition will be approximately $130 for the remaining three months of 2011, and will average $520 annually for each of the next five years. The goodwill is not amortizable for income tax purposes.

SWH's operations are reported in the Diversified Industrial segment and its accounts are included in the SPH condensed consolidated financial statements beginning February 2, 2011 through the Company's consolidation of BNS. Revenue and net income of SWH included in the condensed consolidated statement of operations for the three and nine months ended September 30, 2011 are $9,928 and $2,765, and $23,298 and $5,676, respectively. (See Note 17 - "Segment Information" for a discussion of SPH's segments).

(Dollars in Thousands Except Common Unit Data)

Tiger Claw

On March 23, 2011, a subsidiary of HNH acquired for $8,761 in cash, certain assets and assumed certain liabilities of Tiger Claw, Inc. ("Tiger Claw"), a company that among other businesses, develops and manufactures hidden fastening systems for deck construction. HNH believes this acquisition enhances its product offerings of fastening systems for deck construction.

A preliminary allocation of the purchase price to Tiger Claw's assets acquired and liabilities assumed is summarized below. The allocation of the purchase price is based on a preliminary valuation and may change when the final valuation is complete.

	Amount
Assets:	
Accounts receivable	$ 603
Inventories	1,125
Prepaid expenses	19
Equipment	181
Identifiable intangible assets	6,144
Goodwill	1,623
Total assets acquired	9,695
Liabilities:	
Accrued liabilities	934
Net assets acquired	$ 8,761

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

Based on the preliminary evaluation, the components of the $6,144 of acquired identifiable intangible assets listed in the above table are as follows:

	Amount	Amortization Period
Products and customer relationships	$ 3,810	10 years
Trademark/Brand name	713	16 years
Patents and patent applications	1,471	10-15 years
Non-compete agreement	150	5 years
Total identifiable intangible assets	$ 6,144	

Amortization expense of $100 and $300 was recorded for the three and nine months ended September 30, 2011. The estimated amortization of intangibles from the acquisition will be approximately $150 for the remaining three months of 2011, and $600 annually for each of the next five years thereafter. The goodwill is expected to be amortizable for income tax purposes.

Tiger Claw's operations are reported with HNH in the Diversified Industrial segment and its accounts are included in the SPH condensed consolidated statement of operations beginning March 23, 2011. Revenue and net income of Tiger Claw in the condensed consolidated statement of operations for the three and nine months ended September 30, 2011 are $1,600 and $300, and $5,300 and $1,100, respectively.

There is additional contingent consideration that could be due from HNH under the Asset Purchase Agreement if the net sales of certain identified products exceed the parameters set forth in the Asset Purchase Agreement in 2011 and 2012. The additional consideration would be equal to 10% of the sales in excess of the specified parameters. No amount related to the contingent portion of the purchase price was recognized at the acquisition date, in accordance with ASC 805 - Business Combinations.

(Dollars in Thousands Except Common Unit Data)

HNH

On May 7, 2010, SPH acquired additional shares of HNH stock to give SPH majority ownership. Accordingly, the accounting for the investment in HNH has been changed from the equity method at fair value to a majority-owned controlled subsidiary and is consolidated with SPH from that date. The additional shares of HNH purchased on May 7, 2010 brought the total number of shares owned by SPH to 6,123,876, representing 50.3% of the outstanding shares. At September 30, 2011, SPH owns 55.5% of HNH's outstanding shares.

HNH is included in the Diversified Industrial segment from the acquisition date. For the period from January 1, 2010 to May 7, 2010 the investment in HNH is accounted for as an associated company. See Note 4 - "Investments in Associated Companies."

Unaudited Pro Forma Results of Operations

The following unaudited pro forma results of operations for the nine months ended September 30, 2011 and 2010 assume the acquisitions of SWH, Tiger Claw, HNH and DGT occurred at the beginning of 2010. 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 2010, nor of the results that may be reported in the future.

	Nine Months Ended September 30,	
	2011	2010
Revenue	$ 553,690	$ 509,248
Net income attributable to common unitholders	11,984	34,264
Net income per common unit – basic	0.47	1.36
Net income per common unit – diluted	0.18	1.26

3. DISCONTINUED OPERATIONS

The following assets and liabilities of discontinued operations have been segregated in the accompanying condensed consolidated balance sheets as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Assets of discontinued operations:		
Trade and other receivables	$ 15,488	$ 12,351
Inventories	9,260	13,624
Other current assets	4,613	1,069
Other intangibles, net	8,823	2,650
Property, plant and equipment, net	579	3,378
Other non-current assets	600	234
Total assets	$ 39,363	$ 33,306
Liabilities of discontinued operations:		
Trade payables and accrued liabilities	$ 12,120	$ 9,341
Other liabilities	2,838	656
Total liabilities	$ 14,958	$ 9,997

(Dollars in Thousands Except Common Unit Data)

The condensed consolidated statement of operations includes the following relating to discontinued operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales	$ 6,325	$ 22,929	$ 22,121	$ 102,467
Net loss	(316)	(564)	(1,049)	(2,712)
Income (loss) after taxes and noncontrolling interests	129	(269)	(584)	(1,499)
(Loss) gain on sale of discontinued operations net of tax and noncontrolling interests	(212)	30	1,056	16,268

BNS Discontinued Operations

On February 18, 2010, BNS sold its interest in Collins Industries, Inc. ("Collins") for net proceeds of $64,693 in cash net of $100 in fees. BNS used a portion of the proceeds to repay the term loan due to the Steel Partners II Liquidating Series Trust ("SPII Liquidating Trust") of $21,785 plus additional accrued interest of $982, of which SPH received $9,960 through an interest it holds in the SPII Liquidating Trust. The SPII Liquidating Trust terminated the series holding the BNS term loan and SPH received $10,332 on May 11, 2010 as a final distribution. The remaining BNS long-term debt was assumed by the acquirer. Collins paid BNS a $1,000 fee in exchange for the cancellation of a management services agreement and BNS paid the Manager $1,000 for investment banking services in connection with the sale transaction. SPH recorded a gain on sale of discontinued operations of $31,254 ($16,238 after noncontrolling interest) in the first quarter of 2010.

HNH Discontinued Operations

During the third quarter of 2011, HNH sold its stock of Biro-France, a part of its Kasco segment, to the former management team for a price of one Euro plus 25% of any pre-tax earnings over the next three years. Biro-France, based on a 5 year supply agreement, will continue to purchase from Kasco its standard products. As a result of the sale, the Company recorded a pre-tax loss of $603, which is included in the loss from sale of discontinued operations reported for the third quarter. Biro-France has been included as a discontinued operation on a retroactive basis for all of the year-to-date periods of 2011, and for the comparable periods of 2010.

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 $7,782 has been recorded.

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 pre-tax loss of $5,106 was recorded on the sale of these assets in the first quarter of 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 condensed consolidated balance sheet as of September 30, 2011, and are expected to be received by HNH in the second quarter of 2012. The total gain as a result of these sales of $2,179, net of tax, is reported in discontinued operations on the condensed consolidated statement of operations for the nine months ended September 30, 2011.

(Dollars in Thousands Except Common Unit Data)

DGT Discontinued Operations

On September 12, 2011, DGT entered into a share purchase agreement (the “Share Purchase Agreement”) with VIV s.r.l., a limited liability company incorporated under Italian law (“VIV”), pursuant to which DGT has agreed to sell all of the shares of its Italian subsidiary, Villa, its medical and dental imaging systems segment, to VIV, subject to the terms and conditions set forth therein (the “Villa Sale”). This transaction was completed on November 3, 2011. See Note 24 - “Subsequent Events”.

4. INVESTMENTS IN ASSOCIATED COMPANIES

The Company’s investments in associated companies accounted for under the equity method of accounting are initially recorded at their original cost, subsequently increased or decreased for SPH’s share of the investees’ earnings or losses and other comprehensive income, reduced for dividends received and impairment charges recorded, if any, and increased for any additional investment. The Company elected to apply the fair value option for its investments in HNH, API Group PLC (“API”), Steel Excel Inc., formerly known as ADPT Corporation (“Steel Excel”), and SL Industries, Inc. (“SLI”) beginning on the dates these investments would otherwise have been subject to the equity method of accounting. The Company is permitted to choose, at specified election dates, to measure many financial instruments and certain other items at fair value (the “fair value option”) that would not otherwise be required to be measured at fair value. If the fair value option is elected for a particular financial instrument, the Company is required to report unrealized gains and losses on those items in its consolidated statement of operations. The fair value elections for the Company’s investments in HNH and Steel Excel were made beginning July 16, 2009; the fair value elections for the Company’s investments in API and SLI were made beginning January 1, 2010. See Note 6 - “Fair Value Measurements.”

The following table provides combined summarized data with respect to the associated companies:

	September 30, 2011	December 31, 2010
Investments in associated companies:		
API*	$ 17,030	$ 6,009
Steel Excel*	109,965	105,387
CoSine	6,944	7,260
DGT**	-	12,817
JPS	8,367	8,367
SLI*	15,624	16,217
Other	7,518	7,213
	$ 165,448	$ 163,270
Summary of balance sheet amounts:		
Current assets	$ 602,096	$ 605,889
Noncurrent assets	233,879	203,194
Total assets	$ 835,975	$ 809,083
Current liabilities	$ 128,977	$ 117,436
Noncurrent liabilities	151,426	159,152
Total liabilities	280,403	276,588
Parent equity	555,572	529,244
Noncontrolling interest	-	3,251
Total liabilities and equity	$ 835,975	$ 809,083

* The Company elected to account for this investment under the fair value option commencing on the date the investment would have otherwise been subject to equity method accounting.

** DGT is consolidated as of September 30, 2011. See Note 2 - “Acquisitions.”

(Dollars in Thousands Except Common Unit Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Summary income statement amounts:				
Revenue	$ -	$ 113,413	$ 230,276	$ 426,798
Gross profit	-	30,430	63,591	105,405
Income (loss) from continuing operations	(182)	5,160	9,857	(18,243)
Net income (loss) after noncontrolling interests	(182)	4,802	21,166	(8,806)
Amounts recognized in the condensed consolidated financial statements:				
SPH share of net (loss) income	(235)	443	(230)	1,484
Unrealized (loss) gain on associated companies accounted for at fair value	(14,520)	7,348	316	7,474
SPH's equity in other comprehensive income (loss)	456	(60)	857	(123)

The September 30, 2011 summary of balance sheet amounts excludes DGT, which is consolidated as of July 5, 2011. The December 31, 2010 summary of balance sheet amounts excludes HNH, which is consolidated beginning on May 7, 2010. The summary income statement amounts include results for DGT and HNH for the period from January 1 through their dates of acquisition in 2011 and 2010, respectively. The last available financial information for JPS was for their fiscal year ending October 31, 2010 and JPS has not yet released any publicly available financial results since then. Because of the lack of available interim financial statements for JPS we considered the possibility of impairment and whether any adjustment was needed based on the current year operating results. As of September 30, 2011, the carrying value of JPS was $8,367 and the aggregate market value of the Company's interest in JPS, based on trades in JPS shares on the OTC (JPST.PK), was $26,140. We concluded that there was no impairment and that any adjustment based on our ownership interest would be immaterial to the Company's financial statements.

SPH's associated companies accounted for under the equity method are as follows:

HNH

At December 31, 2009, SPH owned 4,707,388 shares of HNH representing 38.6% of outstanding shares with an investment carrying value of $11,298. Between January 1 and May 7, 2010 prior to acquiring a controlling interest, SPH acquired an additional 1,358,687 shares for cash in the open market for $6,116, bringing total HNH shares owned to 6,066,075 (49.8% of outstanding shares). The fair value of SPH's investment in HNH was $26,084 as of May 7, 2010 immediately prior to SPH purchasing a controlling interest. SPH's purchase on May 7, 2010 of 57,801 additional HNH shares for cash in the open market for $255 brought the total investment to $26,339 and total shares owned by SPH to 6,123,876 (50.3% of outstanding shares), and HNH became a majority-owned controlled subsidiary. 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. SPH elected to account for its investment in HNH under the fair value option; and accordingly, SPH recorded an unrealized gain in the condensed consolidated statement of operations of $0 and $8,670 on its investment in HNH for the three and nine months ended September 30, 2010 prior to obtaining a controlling interest.

API

At September 30, 2011 and December 31, 2010, SPH owned 24,832,203 shares of API (34.2% and 32.4% respectively, of the outstanding shares) with an investment carrying value of $17,030 and $6,009, respectively. The investment in API is reported at fair value. SPH recorded an unrealized gain in the condensed consolidated statement of operations of $5,574 and $3,329 on its investment in API for the three months ended September 30, 2011 and 2010, respectively. For the nine months ended September 30, 2011 and 2010, SPH recorded an unrealized gain in the condensed consolidated statement of operations of $11,022 and $3,435 respectively, on its investment in API. The Company's ownership interest in API exceeded 20% on September 1, 2010; and, accordingly API has been accounted for as an associated company using the fair value election from January 1, 2010. Income of associated companies, net of taxes in the condensed consolidated statement of operations for the three and nine months ended September 30, 2010 includes unrealized gain of $0 and $146, respectively, reclassified from accumulated other comprehensive income.

Steel Excel

At September 30, 2011 SPH owns 4,103,167 shares (37.7% of the outstanding shares) of Steel Excel with an investment carrying value of $109,965. At December 31, 2010, SPH owned 3,596,811 shares of Steel Excel (33.0% of the outstanding shares) with an investment carrying value of $105,387. From January 1, 2011 to September 30, 2011, SPH acquired an additional 506,356 shares for cash in the open market for $14,634. The investment in Steel Excel is reported at fair value. SPH recorded an unrealized gain (loss) in the condensed consolidated statement of operations of $(13,881) and $2,133 on its investment in Steel Excel for the three months ended September 30, 2011 and 2010, respectively. For the nine months ended September 30, 2011 and 2010, SPH recorded an unrealized gain (loss) in the condensed consolidated statement of operations of $(10,112) and $(9,720) respectively, on its investment in Steel Excel.

CoSine

At September 30, 2011 and December 31, 2010, SPH owned 4,779,721 shares (47.3% and 47.4% of the outstanding shares, respectively) of CoSine Communications, Inc. (“CoSine”) with an investment carrying value of $6,944 and $7,260, respectively. The investment in CoSine is reported on the equity method. SPH recorded a loss of $87 and $385 as its share of CoSine net loss for the three and nine months ended September 30, 2011 respectively, and $1 and $68 as its share of capital changes for the three and nine months ended September 30, 2011, respectively. SPH recorded a loss of $99 and $342, respectively, for the three and nine months ended September 30, 2010 as its share of CoSine net loss. The aggregate market value of the Company’s interest in CoSine was $9,703 at September 30, 2011 and $9,081 at December 31, 2010.

DGT

At December 31, 2010, SPH owned 1,762,956 shares (46.2% of the outstanding shares) of DGT with an investment carrying value of $12,817. From January 1, 2011 to July 5, 2011, prior to acquiring a controlling interest, SPH acquired an additional 20,762 shares for cash in the open market for $207, bringing total DGT shares owned to 1,783,718 (46.1% of the outstanding shares). The fair value of SPH’s investment in DGT was $21,389 as of July 5, 2011 immediately prior to SPH purchasing a controlling interest. SPH’s purchase on July 5, 2011 of 193,305 additional DGT shares for cash on the open market for $1,933 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 has been removed from investments in associated companies as of that date.

Prior to acquiring a controlling interest, SPH recorded a loss of ($149) and income of $213 as its share of DGT net income and $0 and $(261) as its share of capital changes including other comprehensive income/loss for the three and nine months ended September 30, 2011, respectively. SPH has recorded income of $367 and $782 as its share of DGT net income and $11 and $47 as its share of capital changes including other comprehensive income / loss for the three and nine months ended September 30, 2010, respectively.

See Note 2 - “Acquisitions” for additional information on the acquisition of DGT and the related acquisition accounting disclosures.

JPS

At September 30, 2011 and December 31, 2010, SPH owned 4,021,580 shares (39.3% of the outstanding shares) of JPS Industries, Inc. ("JPS") with an investment carrying value of $8,367. The investment in JPS is reported on the equity method. Financial information for JPS for the three and nine months ended September 30, 2011 was not published. Accordingly, no income or loss has been included in the Company's statement of operations in 2011. SPH has recorded income of $176 and $1,035 as its share of JPS net income and $202 and $557 as its share of capital changes including other comprehensive income / loss for the three and nine months ended September 30, 2010, respectively. The aggregate market value of the Company's interest in JPS was $26,140 at September 30, 2011 and $19,665 at December 31, 2010. As noted above, although we have not received interim financial statements from JPS for 2011 we considered the possibility of impairment and concluded that there was no impairment because the aggregate market value of the Company's interest in JPS is significantly higher than the carrying value of $8,367.

SLI

At September 30, 2011 and December 31, 2010, SPH owned 927,231 shares of SLI (20.4% and 20.7% respectively, of the outstanding shares) with an investment carrying value of $15,624 and $16,217, respectively. The investment in SLI is reported at fair value. SPH recorded an unrealized (loss) gain in the condensed consolidated statement of operations of $(6,212) and $1,885 on its investment in SLI for the three months ended September 30, 2011 and 2010, respectively. SPH recorded an unrealized (loss) gain in the condensed consolidated statement of operations of $(594) and $4,570 on its investment in SLI for the nine months ended September 30, 2011 and 2010, respectively. The Company's ownership interest in SLI exceeded 20% on December 31, 2010; and, accordingly SLI has been accounted for as an associated company using the fair value election from January 1, 2010. Income of associated companies, net of taxes in the condensed consolidated statement of operations for the three and nine months ended September 30, 2010 includes unrealized gain of $0 and $373 respectively, reclassified from accumulated other comprehensive income.

(Dollars in Thousands Except Common Unit Data)

5. INVESTMENTS

Investments

Investments at fair value at September 30, 2011 and December 31, 2010 consist of available-for-sale securities as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2011				
Equity securities - U.S.				
Computer Software and Services	$ 35,971	$ -	$ (5,065)	$ 30,906
Aerospace / Defense	10,700	7,510	-	18,210
Manufacturing	1,603	385	-	1,988
Restaurants	5,974	2,490	-	8,464
Other	8,803	21	(749)	8,075
Total investments	$ 63,051	$ 10,406	$ (5,814)	$ 67,643
December 31, 2010				
Debt securities - corporate				
Insurance	$ 14,921	$ 7,112	$ -	$ 22,033
Aerospace / Defense	13,203	2,130	-	15,333
	28,124	9,242	-	37,366
Equity securities - U.S.				
Computer Software and Services	3,362	-	(1,279)	2,083
Aerospace / Defense	10,700	10,268	-	20,968
Manufacturing	1,603	1,633	-	3,236
Restaurants	5,974	1,532	-	7,506
Other	1,568	5	(860)	713
	23,207	13,438	(2,139)	34,506
Total investments	$ 51,331	$ 22,680	$ (2,139)	$ 71,872

Investment information is summarized below for available-for-sale securities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Proceeds from sales	$ 41,634	$ 86,060	$ 122,064	$ 217,437
Gross gains from sales	2,426	3,679	17,025	38,556
Gross losses from sales	(1,932)	(1,815)	(2,439)	(2,606)
Net investment gain	$ 494	$ 1,864	$ 14,586	$ 35,950
Change in net unrealized holding (losses)/gains included in other comprehensive income	$ (12,714)	$ 11,092	$ (15,679)	$ (39,035)

(Dollars in Thousands Except Common Unit Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Reclassified out of Accumulated other comprehensive (loss) income:				
Unrealized gains	$ 2,292	$ 1,360	$ 9,243	$ 40,194
Unrealized losses	(1,523)	(3,453)	-	(202)
Total	$ 769	$ (2,093)	$ 9,243	$ 39,992

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 in the table are reported in accumulated other comprehensive income in the condensed consolidated balance sheets.

Other Investments - Related Party

Other Investments - related party, classified as non-current assets at September 30, 2011 and December 31, 2010, consist of the Company's investment in each series of the SPII Liquidating Trust (see Note 21 - "Related Party Transactions"). These investments were acquired in connection with the exchange transaction the Company completed on July 15, 2009 ("Exchange Transaction"). The Company elected to account for its investment in each series of the SPII Liquidating Trust at fair value beginning July 16, 2009, the date these investments would otherwise have been subject to equity method accounting. The Company is permitted to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that would not otherwise be required to be measured at fair value. If the fair value option is elected for a particular financial instrument, the Company is required to report unrealized gains and losses on those items in its condensed consolidated statement of operations.

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, 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. 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 table provides combined summarized data with respect to the other investments - related party accounted for under the fair value option for equity investees:

	September 30, 2011	December 31, 2010
Other investments - related party:		
SPII Liquidating Trust - Series B (a)	$ 19,095	$ 25,154
SPII Liquidating Trust - Series D (b)	12,530	17,217
SPII Liquidating Trust - Series G (c)	10,576	11,579
SPII Liquidating Trust - Series H (d)	2,755	7,826
SPII Liquidating Trust - Series I (e)	1,586	777
Total	$ 46,542	$ 62,553
Summary of balance sheet amounts:		
Total assets	$ 107,696	$ 143,037
Total liabilities	205	76
Net Asset Value	$ 107,491	$ 142,961

(Dollars in Thousands Except Common Unit Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Summary income statement amounts:				
Net (decrease) increase in net assets from operations	$ (4,972)	$ 6,379	$ (25,971)	$ 8,762
Amounts recognized in the condensed consolidated financial statements:				
(Loss) gain from other investments - related party	(2,667)	1,844	(11,855)	(5,007)
Proceeds from sales	-	-	4,156	10,332
Gross gains from sales	-	-	-	810

(a) Represents the Company's interest in the series of the SPII Liquidating Trust that holds preference shares and ordinary shares in Barbican Group Holdings Limited ("Barbican").

(b) Represents the Company's interest in the series of the SPII Liquidating Trust that holds common shares in F&H Acquisition Corp ("F&H"), which does business as Fox & Hound.

(c) Represents the Company's indirect 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 21 - "Related Party Transactions").

(d) 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 21 - "Related Party Transactions").

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

Investments in Variable Interest Entities

The Company holds variable interests in each series of the SPII Liquidating Trust (see "Other Investments - Related Party" above). The purpose of the SPII Liquidating Trust is to effect the orderly liquidation of certain assets previously held by Steel Partners II, L.P. ("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 de facto agency relationship with any series of the SPII Liquidating Trust.

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.

(Dollars in Thousands Except Common Unit Data)

The following table sets forth certain information regarding the series of the SPII Liquidating Trust, in the aggregate, in which the Company holds a variable interest as of September 30, 2011 and December 31, 2010 and is not a primary beneficiary. The amounts presented below are included in, and not in addition to, the other investments - related party tables above.

	September 30, 2011	December 31, 2010
Gross Assets	$ 107,696	$ 143,037
SPH Investment	$ 46,542	$ 62,553

Net Investment (Losses) Gains

Net investment (losses) gains in the condensed consolidated statement of operations consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Available-for-sale securities	$ 494	$ 1,864	$ 14,586	$ 35,950
Financial instruments	(26,816)	9,174	(29,594)	(4,884)
Securities sold, not yet purchased	(1,030)	(211)	(1,408)	(3,987)
Other investments - related party	-	-	-	810
Investment holding gain on DGT	7,921	-	7,921	-
Other	(1)	3	40	(29)
Total	$ (19,432)	$ 10,830	$ (8,455)	$ 27,860

The losses from financial instruments are primarily from the foreign currency financial instruments described in Note 7 - “Financial Instruments”.

6. FAIR VALUE MEASUREMENTS

Investments and Other Financial Assets and Liabilities

The carrying value of cash and cash equivalents, receivables, prepaid and other current assets, accounts payable, other current liabilities and payables, is considered to be representative of their fair value, due to the short term nature of these instruments. The carrying amount of short-term and long-term debt does not differ materially from fair value because such debt is based on current market interest rates. The estimated fair values of the Company’s investments and other financial assets and liabilities as of September 30, 2011 and December 31, 2010 are shown in the following table.

(Dollars in Thousands Except Common Unit Data)

	Carrying Value		Fair Value	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Assets:				
Investments (see Note 5)	$ 67,643	$ 71,872	$ 67,643	$ 71,872
Financial instruments (see Note 7)	-	13,772	-	13,772
Loans receivable	32,971	28,327	34,333	28,084
Investments in associated companies (a)	142,619	127,613	142,619	127,613
Other investments - related party (b)	46,542	62,553	46,542	62,553
Other investments (c)	5,794	7,668	5,794	7,668
Total	$ 295,569	$ 311,805	$ 296,931	$ 311,562
Liabilities:				
Distribution payable (see Note 18)	$ -	$ 29,869	$ -	$ 29,869
Financial instruments (see Note 7)	17,596	143,917	17,596	143,917
Deposits	94,343	61,792	95,499	61,466
Deferred fee liability to related party (see Note 21)	58,145	64,854	58,145	64,854
Derivative features of subordinated notes (see Note 7)	1,945	2,866	1,945	2,866
Common unit option liability (see Note 16)	21	1,785	21	1,785
Total	$ 172,050	$ 305,083	$ 173,206	$ 304,757

(a) See Note 4 - “Investments in Associated Companies”. The Company elected the fair value option for API, Steel Excel and SLI.
(b) See Note 5 - “Investments” for description of Company’s fair value option election with respect to its other investments.
(c) Represents the Company’s direct investment in the ordinary and preference shares of Barbican ($5,722) and commodity contracts ($72), and are reported in Other non-current assets.

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 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 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.

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. The Company's determination of fair value is based upon the best information available for a given circumstance and may incorporate assumptions that are the Company'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 Company 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.

Fair values recorded for non-financial assets acquired and liabilities assumed in acquisitions and when testing for impairment include values measured using Level 3 inputs including an income approach and/or a market approach to the measurements. 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 reporting units and then discounting the after-tax cash flows to 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 ("WACC") 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 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. The income approach closely parallels investors' consideration of the future benefits derived from ownership of an asset.

The financial instruments reported as current assets and current liabilities are valued and reported at fair value. The option contracts reported as financial instruments are traded on nationally recognized exchanges. The financial instruments payable in foreign currencies are entered into with a counterparty and are considered Level 2 measurements.

The derivative instruments that certain subsidiaries of HNH purchase, specifically commodity futures and forwards contracts on precious metal, 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.

(Dollars in Thousands Except Common Unit Data)

Financial assets and liabilities measured at fair value on a recurring basis in the condensed consolidated financial statements as of September 30, 2011 and December 31, 2010 are summarized by type of inputs applicable to the fair value measurements as follows:

	Level 1	Level 2	Level 3	Total
September 30, 2011				
Assets:				
Equity securities - U.S. (a)	$ 55,111	$ 12,532	$ -	$ 67,643
Investments in associated companies (b)	142,619	-	-	142,619
Other investments - related party (c)	-	-	46,542	46,542
Other investments	-	72	5,722	5,794
Total	$ 197,730	$ 12,604	$ 52,264	$ 262,598
Liabilities:				
Financial instruments	$ -	$ 17,596	$ -	$ 17,596
Deferred fee liability to related party	-	-	58,145	58,145
Derivative features of subordinated notes	-	-	1,945	1,945
Common unit option liability	-	-	21	21
Total	$ -	$ 17,596	$ 60,111	$ 77,707

December 31, 2010	Level 1	Level 2	Level 3	Total
Assets:				
Debt securities - corporate	$ 15,333	$ 22,033	$ -	$ 37,366
Equity securities - U.S.	28,979	5,527	-	34,506
Total investments	44,312	27,560	-	71,872
Financial instruments	-	13,772	-	13,772
Investments in associated companies (b)	105,387	22,226	-	127,613
Other investments - related party (c)	-	-	62,553	62,553
Other investments	-	-	7,797	7,797
Total	$ 149,699	$ 63,558	$ 70,350	$ 283,607
Liabilities:				
Current portion of distribution payable	$ -	$ -	$ 29,869	$ 29,869
Financial instruments	-	143,917	-	143,917
Deferred fee liability to related party	-	-	64,854	64,854
Derivative features of subordinated notes	-	-	2,866	2,866
Common unit option liability	-	-	1,785	1,785
Total	$ -	$ 143,917	$ 99,374	$ 243,291

(a) One security with a fair value of $8,464 was transferred from Level 1 to Level 2 at September 30, 2011 based on lower trading volume.

(b) At December 31, 2010, API and SLI are Level 2; at September 30, 2011, both were transferred to Level 1 based on higher trading volume.

(c) Other investments - related party are entirely comprised of the interests held by the Company in each series of the SPII Liquidating Trust (see Note 5 - “Investments” and Note 21 - “Related Party Transactions”). Each series of the SPII Liquidating Trust 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 as the underlying assets of the SPII Liquidating Trust are liquidated 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 held by the Company have been estimated using the net asset value of such interests as reported by the SPII Liquidating Trust. Changes in the fair values of investments in the SPII Liquidating Trust are reported in the condensed consolidated statement of operations as loss from other investments - related party.

(Dollars in Thousands Except Common Unit Data)

For the nine months ended September 30, 2011 and 2010, realized and unrealized gains and (losses) on investments for which fair values were determined using reported net asset values were $808 and $(12,663) and $1,921 and $(6,928), respectively. These realized and unrealized gains and losses are reported in the condensed consolidated statement of operations. Investments for which fair value is determined using net asset values as fair value are classified as Level 3 and are $46,542 and $62,553 at September 30, 2011 and December 31, 2010, respectively. The investments are reported in the condensed consolidated balance sheet as other investments - related party.

The Company and the SPII Liquidating Trust use specific valuation metrics appropriate for each specific investment to estimate the fair value of their debt and equity securities measured using Level 3 inputs. The SPII Liquidating Trust estimates the value of its interests in SPCA, a limited partnership that holds an investment in a Chinese company, and SPJSF 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 by the SPII Liquidating Trust in these two investment funds 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. SPCA's term ends in May 2012 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.

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

	Other Investments - Related Party	Other Investments	Total
Assets			
Balance at December 31, 2010	$ 62,553	$ 7,668	$ 70,221
Purchases	-	-	-
Sales	(4,156)	-	(4,156)
Unrealized gains	808	-	808
Unrealized losses	(12,663)	(1,874)	(14,537)
Balance at September 30, 2011	$ 46,542	$ 5,794	$ 52,336
Balance at December 31, 2009	$ 97,923	$ 8,080	$ 106,003
Purchases, sales, issuances and settlements	(10,332)	-	(10,332)
Realized gains	810	-	810
Unrealized gains	1,921	-	1,921
Unrealized losses	(6,928)	(231)	(7,159)
Elimination of indirect interest in BNS and HNH	(21,450)	-	(21,450)
Balance at September 30, 2010	$ 61,944	$ 7,849	$ 69,793

(Dollars in Thousands Except Common Unit Data)

The change in unrealized gains (losses) for investments still held at September 30, 2011 and 2010 was reported in the condensed consolidated statement of operations as follows:

	Diversified Industrial, Financial Services and Other		
	Other Investments - Related Party	Other Investments	Total
September 30, 2011			
Gains			
Gains from other investments - related party	$ 808	$ -	$ 808
Losses			
Losses from other investments - related party	(12,663)	-	(12,663)
Investment and other loss	-	(2,075)	(2,075)
	(12,663)	(2,075)	(14,738)
Total	$ (11,855)	$ (2,075)	$ (13,930)
September 30, 2010			
Gains			
Gains from investments - related party	$ 1,921	$ -	$ 1,921
Losses			
Losses from other investments - related party	(6,928)	-	(6,928)
Investment and other loss	-	(231)	(231)
	(6,928)	(231)	(7,159)
Total	$ (5,007)	$ (231)	$ (5,238)

The realized and unrealized gains and losses in financial assets measured using Level 3 inputs are reported in the condensed consolidated statement of operations as follows:

	Realized Gains	Realized Losses	Unrealized Gains	Unrealized Losses	Total
Three Months Ended September 30, 2011:					
Investment and other loss	$ -	$ -	$ -	$ (519)	$ (519)
Gain (loss) from other investments - related party	-	-	207	(2,873)	(2,666)
Total	$ -	$ -	$ 207	$ (3,392)	$ (3,185)
Three Months Ended September 30, 2010:					
Investment and other gain	$ -	$ -	$ 386	$ -	$ 386
Gain (loss) from other investments - related party	-	-	2,003	(159)	1,844
Total	$ -	$ -	$ 2,389	$ (159)	$ 2,230

(Dollars in Thousands Except Common Unit Data)

	Realized Gains	Realized Losses	Unrealized Gains	Unrealized Losses	Total
Nine Months Ended September 30, 2011:					
Investment and other loss	$ -	$ -	$ -	$ (2,075)	$ (2,075)
Gain (loss) from other investments - related party	-	-	808	(12,663)	(11,855)
Total	$ -	$ -	$ 808	$ (14,738)	$ (13,930)
Nine Months Ended September 30, 2010:					
Investment and other loss	$ -	$ -	$ -	$ (231)	$ (231)
Net investment gain	810	-	-	-	810
Gain (loss) from other investments - related party	-	-	1,921	(6,928)	(5,007)
Total	$ 810	$ -	$ 1,921	$ (7,159)	$ (4,428)

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 condensed consolidated statement of operations as income	-	(6,709)	(318)	(1,764)	(8,791)
Cash distribution on April 6, 2011	(29,869)	-	-	-	(29,869)
Settlements	-	-	(603)	-	(603)
Balance at September 30, 2011	$ -	$ 58,145	$ 1,945	$ 21	$ 60,111
Balance at December 31, 2009	$ 78,971	$ 58,586	$ -	$ 1,092	$ 138,649
Increase in fair value reported in the condensed consolidated statement of operations as expense	-	2,637	-	1,260	3,897
Cash distribution on April 6, 2010	(49,102)	-	-	-	(49,102)
Balance at September 30, 2010	$ 29,869	$ 61,223	$ -	$ 2,352	$ 93,444

(a) See Note 18 - “Capital and Comprehensive Income” - Common Unit Distributions.
(b) See Note 21 - “Related Party Transactions.”
(c) See Note 14 - “Debt.”
(d) See Note 16 - “Common Unit Option Liability.”

(Dollars in Thousands Except Common Unit Data)

Assets Measured at Fair Value on a Nonrecurring Basis

The Company's non-financial assets measured at fair value for the six months ended September 30, 2011 and 2010 on a non-recurring basis include the assets acquired and liabilities assumed in the acquisitions described in Note 2 – "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.

WebBank has impaired loans of $3,606 and $2,627 at September 30, 2011 and December 31, 2010, respectively which 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 $498 and $543 for the three months ended September 30, 2011 and 2010, respectively and $851 and $1,122 for the nine months ended September 30, 2011 and 2010, respectively.

7. FINANCIAL INSTRUMENTS

Foreign Currency Exchange Rate Risk

Financial instruments include $17,596 at September 30, 2011 and $137,823 at December 31, 2010 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 condensed consolidated statement of operations included in Net investment (loss) gain. The liabilities are not designated as hedging instruments. The foreign currency financial instrument liabilities are as follows:

	September 30, 2011		December 31, 2010	
Currency	Carrying Amount	Notional Amount	Carrying Amount	Notional Amount
Japanese Yen	$ 1,896	¥ 146,104	$ 111,484	¥ 9,052,504
Euro	-	€ -	10,715	€ 8,005
Pound Sterling	15,700	£ 10,072	15,624	£ 10,008
Total	$ 17,596		$ 137,823	

(Dollars in Thousands Except Common Unit Data)

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

	September 30, 2011	September 30, 2010
Foreign exchange transactions:		
Balance at beginning of year	$ 137,823	$ -
Sales of foreign currency financial instruments	4,020	191,280
Purchases of foreign currency financial instruments	(128,487)	(33,464)
Proceeds from sales of investments	(1,961)	(32,893)
Net investment losses	4,924	11,396
Receipt of dividends, net of interest expense	471	(1,443)
Other	806	-
Balance of foreign currency financial instruments, liability and related restricted cash, end of period	$ 17,596	$ 134,876

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 metal that are subject to market fluctuations in order to economically hedge its precious metal inventory against price fluctuations. As of September 30, 2011, HNH had entered into forward and future contracts for gold with a total value of $2,800 and for silver with a total value of $500.

The forward contracts, in the amount of $6,500, were made with a counter party rated A by Standard & Poor's, and the future contracts are exchange traded contracts through a third party broker. Accordingly, HNH has determined that there is minimal credit risk of default. Fair value of derivative contracts is estimated through use of market quotes or broker valuations when market information is not available.

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. At December 31, 2010, the Company had entered into call option contracts with a total fair value of $13,772 reported on the condensed consolidated balance sheet as financial instruments - current assets and put option contracts with a total value of $6,094 reported on the condensed consolidated balance sheet as financial instruments-current liability. At September 30, 2011, there are no call or put options outstanding. The option contracts are exchange traded in active markets and the Company estimates the fair value of the options through use of quoted prices obtained on internationally recognized exchanges.

(Dollars in Thousands Except Common Unit Data)

Information is summarized below for the option contracts:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Proceeds from sales	$ 2,206	$ 117	$ 18,099	$ 13,185
Realized (losses) gains:				
Gross gains from sales	$ 1,310	$ -	$ 2,630	$ 517
Gross losses from sales	(26,489)	-	(27,080)	(1,919)
Net realized investment loss	(25,179)	-	(24,450)	(1,402)
Unrealized gains (losses):				
Change in unrealized gains	5,367	18,044	1,982	11,009
Change in unrealized losses	(3,285)	(508)	(2,202)	(3,095)
Net unrealized investment gains (loss)	2,082	17,536	(220)	7,914
Net investment (loss) gain	$ (23,097)	$ 17,536	$ (24,670)	$ 6,512

Securities sold, not yet purchased

At September 30, 2011 and December 31, 2010, securities sold, not yet purchased were $0 and $0, respectively. For risk management purposes, the Company sells securities short (primarily exchange traded index funds) 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 condensed consolidated balance sheet. The securities sold, not yet purchased are exchange traded in active markets and the Company estimates fair value of the securities through use of quoted prices obtained on internationally recognized exchanges.

Information is summarized below for securities sold, not yet purchased:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Proceeds from sales	$ 8,186	$ 3,061	$ 20,045	$ 192,826
Realized (losses) gains:				
Gross gains from sales	$ 2	$ -	$ 14	$ 1,146
Gross losses from sales	(1,127)	(102)	(1,422)	(4,609)
Net realized investment loss	(1,125)	(102)	(1,408)	(3,463)
Unrealized gains (losses):				
Change in unrealized gains	(1)	-	-	-
Change in unrealized losses	96	(109)	-	(524)
Net unrealized investment gain (loss)	95	(109)	-	(524)
Net investment loss	$ (1,030)	$ (211)	$ (1,408)	$ (3,987)

(Dollars in Thousands Except Common Unit Data)

Subordinated Notes

HNH's 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 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 condensed 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 Condensed Consolidated Balance Sheets:

Derivative	Balance Sheet Location	September 30, 2011	December 31, 2010
Foreign currency financial instruments	Financial instruments - current liabilities	$ 17,596	$ 137,823
Commodity contracts	Other current assets	$ 72	$ -
Commodity contracts	Other current liabilities	$ -	$ 40
Call options	Financial instruments - current assets	$ -	$ 13,772
Put options	Financial instruments - current liabilities	$ -	$ 6,094
Derivative features of subordinated notes	Long-term debt	$ 1,945	$ 2,866

Effect of derivative instruments on the Condensed Consolidated Statements of Operations:

Derivative	Statement of Operations Location	Three Months Ended September 30, 2011 Gain (Loss)	Three Months Ended September 30, 2010 Gain (Loss)	Nine Months Ended September 30, 2011 Gain (Loss)	Nine Months Ended September 30, 2010 Gain (Loss)
Foreign currency financial instruments	Net investment (loss) gain	$ (3,719)	$ (8,362)	$ (4,924)	$ (11,396)
Commodity contracts	Realized and unrealized gain (loss) on derivatives	164	(1,799)	(1,254)	(1,580)
Call options	Net investment (loss) gain	(5,236)	7,560	(8,539)	2,614
Put options	Net investment (loss) gain	(17,861)	9,976	(16,131)	3,898
Securities sold, not yet purchased	Net investment (loss) gain	(1,030)	(211)	(1,408)	(3,987)
Derivative features of subordinated notes	Realized and unrealized (loss) gain on derivatives	(846)	-	318	-
Total derivatives		$ (28,528)	$ 7,164	$ (31,938)	$ (10,451)

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 or through letters of credit. Those instruments involve to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

(Dollars in Thousands Except Common Unit Data)

At September 30, 2011 and December 31, 2010, WebBank's undisbursed loan commitments totaled $116,967 and $57,488. 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.

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

WebBank estimates an allowance for potential losses on off-balance sheet contingent credit exposures. WebBank determines the allowance for these contingent credit exposures based on historical experience and portfolio analysis. The allowance is included with other liabilities in the condensed consolidated balance sheet, with any related increases or decreases in the reserve included in selling, general and administrative expenses in the condensed consolidated statement of operations. WebBank's allowance for credit losses on off-balance sheet contingent credit exposures was $1,696 and $1,718 for the periods ended September 30, 2011 and December 31, 2010, respectively. The amount included in expenses for credit losses on off balance sheet contingent credit exposures was a $22 benefit and a $110 expense for the three months ended September 30, 2011 and 2010, respectively and a benefit of $22 and an expense of $575 for the nine months ended September 30, 2011 and 2010, respectively.

8. TRADE AND OTHER RECEIVABLES

A summary of receivables is as follows:

	September 30, 2011	December 31, 2010
Trade accounts receivable, net of allowance for doubtful accounts of $2,558 in 2011 and $2,198 in 2010	$ 105,545	$ 66,582
Other receivables	4,697	1,165
Total	$ 110,242	$ 67,747

9. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans Receivable

ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, requires certain additional disclosures under ASC 310, Receivables, which became effective at December 31, 2010. Certain other disclosures were required beginning in the first quarter of 2011 and relate to additional detail for the rollforward of the allowance for credit losses and for impaired loans. The new guidance is incorporated in the following discussion. It relates only to financial statement disclosures and does not affect the Company's financial condition or results of operations.

(Dollars in Thousands Except Common Unit Data)

Additional accounting guidance and disclosures for troubled debt restructurings (“TDRs”) was required for the Company beginning September 30, 2011 in accordance with ASU 2011-02, *A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. ASU 2011-02 was issued April 5, 2011 and supersedes the deferral granted by ASU 2011-01 of the effective date of disclosures about TDRs which were included in ASU 2010-20. In addition to the required new disclosures, ASU 2011-02 provides criteria to evaluate if a TDR exists based on whether (1) the restructuring constitutes a concession by the creditor and (2) the debtor is experiencing financial difficulty. The adoption of this additional accounting guidance did not have a material impact on the Company’s financial statements.

Major classifications of WebBank’s loans receivable at September 30, 2011 and December 31, 2010 are as follows:

	Total				Current		Non-current	
	September 30, 2011	%	December 31, 2010	%	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Real estate loans:								
Construction	$ -	-	$ 989	3%	$ -	$ 201	$ -	$ 788
Commercial - owner occupied	9,318	27%	9,546	32%	393	281	8,925	9,265
Commercial – other	312	1%	276	1%	8	8	304	268
Total real estate loans	9,630	28%	10,811	36%	401	490	9,229	10,321
Commercial and industrial	3,874	12%	6,218	21%	2,805	4,620	1,069	1,598
Loans held for sale	20,503	60%	12,903	43%	20,503	12,903	-	-
Total loans	34,007	100%	29,932	100%	23,709	18,013	10,298	11,919
Less:								
Deferred fees and discounts	(89)		(64)		(89)	(64)	-	-
Allowance for loan losses	(947)		(1,541)		(947)	(1,541)	-	-
Total loans receivable, net	$ 32,971		$ 28,327		$ 22,673	$ 16,408	$ 10,298	$ 11,919

Allowance for Loan Losses

The allowance for loan losses (“ALLL”) represents WebBank’s estimate of probable and estimable losses inherent in the loan and lease portfolio reported in the condensed consolidated balance sheet as loans receivable 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, or when 180 days past due unless the loan is well secured and in the process of collection. WebBank establishes the amount of the ALLL by analyzing the portfolio at least quarterly, and adjusts the provisions for loan losses so the ALLL is at an appropriate level at the balance sheet date.

The methodologies WebBank uses to estimate the ALLL depend upon the impairment status and portfolio segment of the loan. For the commercial and commercial real estate segments, WebBank uses a comprehensive loan grading system 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. WebBank creates groupings of these grades for each loan class and calculates historic loss rates ranging from the previous 36 months.

After applying historic loss experience, as described above, WebBank reviews the quantitatively derived level of ALLL for each segment using qualitative criteria. WebBank tracks various risk factors that influence its judgment regarding the level of the ALLL across the portfolio segments. Primary qualitative factors that may not be reflected in 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

(Dollars in Thousands Except Common Unit Data)

- Existence and effect of any portfolio concentrations
- National economic and business conditions
- Regional and local economic and business conditions
- Data availability and applicability

WebBank reviews changes in these factors 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. WebBank also considers 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					
	Construction	Commercial - Owner Occupied	Commercial - Other	Commercial & Industrial	Unallocated	Total
Balance at December 31, 2010	$ 200	$ 294	$ 8	$ 565	$ 474	$ 1,541
Charge-offs	(440)	(59)	-	(352)	-	(851)
Recoveries	-	9	33	24	-	66
Provision	240	336	7	82	(474)	191
Balance at September 30, 2011	$ -	$ 580	$ 48	$ 319	$ -	$ 947

The ALLL and outstanding loan balances according to the Company's impairment method are summarized as follows at September 30, 2011:

	Real Estate					
	Construction	Commercial - Owner Occupied	Commercial - Other	Commercial & Industrial	Unallocated	Total
Allowance for loan losses:						
Individually evaluated for impairment	$ -	$ 151	$ -	$ 187	$ -	$ 338
Collectively evaluated for impairment	-	429	48	132	-	609
Total	$ -	$ 580	$ 48	$ 319	$ -	$ 947
Outstanding Loan balances:						
Individually evaluated for impairment	$ -	$ 3,038	$ -	$ 567	$ -	$ 3,605
Collectively evaluated for impairment	-	6,280	312	3,307	-	9,899
Total	$ -	$ 9,318	$ 312	$ 3,874	$ -	$ 13,504

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.

(Dollars in Thousands Except Common Unit Data)

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.

Nonaccrual loans are summarized as follows:

	September 30, 2011	December 31, 2010
Real Estate Loans:		
Construction	$ -	$ 988
Commercial - Owner Occupied	188	207
Total Real Estate Loans	188	1,195
Commercial and Industrial	172	419
Total Loans	$ 360	$ 1,614

Past due loans (accruing and nonaccruing) are summarized as follows at September 30, 2011:

	Current	30-89 Days Past Due	90+ Days Past Due	Total Past Due	Total Loans	Recorded Investment in Accruing Loans 90+ Days Past Due	Nonaccrual Loans that are Current (a)
Real Estate Loans:							
Construction	$ -	$ -	$	$	$	$ -	$ -
Commercial - Owner Occupied	6,817	2,486	15	2,501	9,318	-	17
Commercial - Other	312	-	-	-	312	-	-
Total Real Estate Loans	7,129	2,486	15	2,501	9,630	-	17
Commercial and Industrial	3,630	83	161	244	3,874	-	11
Total Loans	$ 10,759	$ 2,569	$ 176	$ 2,745	$ 13,504	$ -	$ 28

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

In addition to the past due and nonaccrual criteria, WebBank also analyzes loans using a loan grading system. WebBank generally assigns internal grades to loans based on financial/statistical models and loan officer judgment. WebBank reviews and grades all loans with unpaid principal balances of $100 once per year. Grades follow WebBank’s 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 higher quality and does not fit any of the other categories described below. The likelihood of loss is considered remote.

(Dollars in Thousands Except Common Unit Data)

- *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 September 30, 2011:

	Pass	Special Mention	Sub-Standard	Doubtful	Total Loans
Real Estate Loans:					
Commercial - Owner Occupied	$ 5,735	$ 544	$ 3,039	$ -	$ 9,318
Commercial - Other	312	-	-	-	312
Total Real Estate Loans	6,047	544	3,039	-	9,630
Commercial and Industrial	3,159	148	567	-	3,874
Total Loans	$ 9,206	$ 692	$ 3,606	$ -	$ 13,504

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, WebBank estimates the amount of the balance that is impaired and assigns a specific reserve 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 WebBank bases the impairment amount on the fair value of the loan's underlying collateral, it generally charges off the portion of the balance that is impaired, 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 September 30, 2011:

		Recorded investment				
	Unpaid Principle Balance	With no Allowance	With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Real Estate Loans:						
Construction	$ -	$ -	$ -	$ -	$ -	$ 635
Commercial - Owner Occupied	3,172	188	2,851	3,039	151	1,353
Total Real Estate Loans	3,172	188	2,851	3,039	151	1,988
Commercial and Industrial	618	191	376	567	187	689
Total Loans	$ 3,790	$ 379	$ 3,227	$ 3,606	$ 338	$ 2,677

(Dollars in Thousands Except Common Unit Data)

10. INVENTORIES

A summary of inventories is as follows:

	September 30, 2011	December 31, 2010
Finished products	$ 20,756	$ 18,718
In - process	9,650	8,110
Raw materials	21,823	16,389
Fine and fabricated precious metal in various stages of completion	14,509	12,151
	66,738	55,368
Inventory reserve	(5,739)	(4,546)
Total inventories	$ 60,999	$ 50,822

In order to produce certain of its products, HNH purchases, maintains and utilizes precious metal inventory. HNH records its precious metal inventory at last-in, first-out ("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 $4,564 and $4,546 as of September 30, 2011 and December 31, 2010, 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. To the extent HNH is able to utilize customer precious metal in its production processes, such customer metal replaces the need for HNH to purchase its own inventory. As of September 30, 2011, HNH's customer metal consisted of 210,239 ounces of silver, 719 ounces of gold, and 1,391 ounces of palladium.

	September 30, 2011	December 31, 2010
Supplemental inventory information:		
Precious metals stated at LIFO cost	$ 9,945	$ 7,605
Market value per ounce:		
Silver	$ 30.07	$ 30.92
Gold	$ 1,620.60	$ 1,421.07
Palladium	$ 613.55	$ 797.00

11. PROPERTY AND EQUIPMENT

A summary of property and equipment is as follows:

	September 30, 2011	December 31, 2010
Land	$ 8,252	$ 8,117
Buildings and improvements	35,104	25,778
Machinery, equipment and other	95,264	65,527
Construction in progress	5,717	1,709
	144,337	101,131
Accumulated depreciation and amortization	(20,604)	(9,506)
Net property and equipment	$ 123,733	$ 91,625

Depreciation expense was $3,835 and $3,630 for the three months ended September 30, 2011 and 2010, respectively and $11,239 and $5,603 for the nine months ended September 30, 2011 and 2010, respectively.

(Dollars in Thousands Except Common Unit Data)

12. GOODWILL AND OTHER INTANGIBLES

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

	September 30, 2011	December 31, 2010
Balance at beginning of year	$ 16,212	$ 81
Acquisition of HNH	-	16,131
Acquisition of SWH	25,179	-
Acquisition of Tiger Claw	1,623	-
Other	9	-
Balance at end of period	$ 43,023	$ 16,212

Intangible assets other than goodwill is summarized as follows:

	September 30, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Product and customer relationships	$ 96,690	$ 7,515	$ 88,790	$ 2,678
Trademarks	26,633	916	20,140	512
Patents and technology	21,850	2,443	20,119	1,017
Other	4,631	1,058	880	451
Total	$ 149,804	$ 11,932	$ 129,929	$ 4,658

Amortization expense was $2,181 and $1,808 for the three months ended September 30, 2011 and 2010, respectively and $7,340 and $2,869 for the nine months ended September 30, 2011 and 2010, respectively. Trademarks with indefinite lives as of September 30, 2011 and December 31, 2010 were $14,610 and $9,620, respectively.

13. BANK DEPOSITS

A summary of WebBank deposits is as follows:

	September 30, 2011	December 31, 2010
Time deposits year of maturity:		
2011	$ 6,080	$ 21,910
2012	28,006	20,189
2013	22,854	12,501
2014	13,291	-
2015	15,204	-
Total time deposits	85,435	54,600
Money market deposits	8,908	7,192
Total deposits	$ 94,343	$ 61,792
Current	$ 38,612	$ 29,102
Long-term	55,731	32,690
Total deposits	$ 94,343	$ 61,792
Time deposit accounts under $100	$ 71,629	$ 52,459
Time deposit accounts $100 and over	13,806	2,141
Total time deposits	$ 85,435	$ 54,600

(Dollars in Thousands Except Common Unit Data)

14. DEBT

Debt outstanding is as follows:

	September 30, 2011	December 31, 2010
Short term debt:		
First Lien Revolver	$ 2,220	$ 42,635
Foreign	287	255
Total short-term debt	2,507	42,890
Long-term debt - non related party:		
First Lien Term Loans	38,587	20,300
Second Lien Term Loans	75,000	25,000
10% Subordinated Notes, net of unamortized discount	31,638	40,520
Other debt – domestic	7,097	7,286
Foreign loan facilities	2,000	2,750
Total debt to non related party	154,322	95,856
Less portion due within one year	21,034	4,452
Long-term debt to non related party	133,288	91,404
Long-term debt - related party:		
10% Subordinated Notes, net of unamortized discount	571	580
Total long-term debt	133,859	91,984
Total debt	$ 157,400	$ 139,326

HNH Debt

On August 5, 2011, HNH amended its debt facilities to among other things, extend the maturity dates of the First Lien Revolver, the First Lien Term Loan and Second Lien Term Loan to June 28, 2013.

On September 12, 2011, H&H entered into an Amended and Restated Loan and Security Agreement (the “Ableco Refinancing”) with Ableco, L.L.C. (“Ableco”), one of its existing lenders, to increase the size of the total term loan thereunder from $25,000 to up to $75,000 (the “Ableco Facility”) and to amend certain covenants. The Ableco Facility provides for three separate term loans to Handy & Harman Group Ltd. (“H&H Group”), the parent company of H&H and Bairnco, and certain of its subsidiaries at a maximum value of $25,000 per term loan. The first and second term loans bear interest on the respective principal amounts thereof at the U.S. base rate (the prime rate) plus 4.50% or LIBOR (or, if greater, 1.50%) plus 6.00%. The third term loan bears interest on the principal amount thereof at the U.S. base rate (the prime rate) plus 7.50% or LIBOR (or, if greater, 1.75%) plus 9.00%. As of September 19, 2011, $75,000 principal amount of the term loans are currently outstanding. All amounts outstanding under the Ableco Facility are due and payable in full on July 1, 2013.

Sun Well Debt

Sun Well Service, Inc., a wholly owned subsidiary of BNS signed 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 Service, Inc. 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%. Both options are subject to leverage ratio adjustments. The term loan is repayable in $1,000 quarterly installments from September 30, 2011 to June 30, 2015. Borrowings under the revolving loan, which are determined based on eligible accounts receivable, mature on June 30, 2015.

(Dollars in Thousands Except Common Unit Data)

The above debt is collateralized by priority liens on all of the assets of the indebted subsidiaries, which approximates $345,833 as of as of September 30, 2011.

15. PENSION BENEFIT PLANS

The following table presents the components of net periodic pension cost for the HNH pension plans for the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Service cost	$ 54	$ 51	$ 164	$ 85
Interest cost	5,605	5,730	16,805	9,546
Expected return on plan assets	(6,483)	(7,161)	(20,328)	(11,930)
Net pension income	$ (824)	$ (1,380)	$ (3,359)	$ (2,299)

SPH acquired HNH on May 7, 2010; accordingly, the Company had no pension expense prior to that date.

In addition to its pension plans which are included in the table above, HNH also maintains several other postretirement benefit plans covering certain of its employees and retirees. The approximate aggregate expense for these plans was $500 and $300 for the three months periods ended September 30, 2011 and 2010, respectively, and $1,600 and $500 for the nine months periods ended September 30, 2011 and 2010, respectively.

16. COMMON UNIT OPTION LIABILITY

The total common unit options outstanding at September 30, 2011 and December 31, 2010 are 4,973,863 and 4,971,361, respectively. As of July 14, 2009, the Manager was granted an option to purchase 4,965,690 common units (the “July 14, 2009 Options”) which is equal to 15% of the sum of common units outstanding and the number of notional common units attributable to the Deferred Fee Liability. The options are fully vested, currently exercisable and expire on December 31, 2011. The July 14, 2009 Options have an initial common unit exercise price of $31.81, which is subject to adjustment for any cash distributions, any distributions-in-kind and the release of any reserves by Steel Partners II (Onshore) LP (“SPII Onshore”) to its former limited partners. As of September 30, 2011 and December 31, 2010, the exercise price of the July 14, 2009 Options declined to $28.68 and $29.86, respectively, because of the April 2011 and April 2010 distributions to unitholders as described in Note 18 - “Capital and Comprehensive Income”. Moreover, if any issuance of common units, options, convertible securities or any other right to acquire common units of SPH results in an increase in the number of common units outstanding on a fully diluted basis as compared to the number outstanding as of the date of the most recent issuance (or, in the case of the first issuance, since the initial option grant date), the Manager will be issued additional options to purchase a number of common units so that as of the grant date of the additional option, after taking into account the number of outstanding common units on a fully diluted basis and all options granted since the initial option grant date, the Manager holds outstanding options (in the aggregate) to acquire 15% of the sum of outstanding common units on a fully diluted basis and the number of notional common units attributable to the Deferred Fee Liability. Each additional option will be immediately exercisable on the grant date, will have an exercise price per common unit equal to the fair market value of a common unit on the grant date and will otherwise be subject to the same terms as the initial option, unless the Manager otherwise agrees. Under these anti-dilution provisions, effective March 21, 2011, pursuant to the management agreement, Company granted to the Manager (i) an option to purchase 5,671 common units at an exercise price of $16.89, per common unit, as based on the net asset value of the common units as of June 30, 2010 and the exercise price declined to $15.71 because of the April 6, 2011 distribution to unitholders, (ii) an option to purchase 1,291 common units at an exercise price of $18.80, per common unit, as determined based on the net asset value of the common units as of September 30, 2010 and the exercise price declined to $17.62 because of the April 6, 2011 distribution to unitholders, and (iii) an option to purchase 1,211 common units at an exercise price of $20.03, per common unit, as determined based on the net asset value of the common units as of December 31, 2010 and the exercise price declined to $18.85 because of the April 6, 2011 distribution to unitholders.

Because of the anti-dilution provisions, the options are accounted for as a derivative liability reported in Payable to Related Parties on the condensed consolidated balance sheets at fair value with changes in fair value recognized during the period reported in Selling, General and Administrative expenses in the condensed consolidated statements of operations. The fair value of the options at September 30, 2011 and December 31, 2010 was $21 and $1,785, respectively. A decrease in the derivative liability for the nine months ended September 30, 2011 of $1,764, reduced Selling, General and Administrative expenses in the consolidated statement of operations. An increase in the derivative liability for the nine months ended September 30, 2010 of $1,260 increased Selling, General and Administrative Expenses. The fair value was estimated using the Black Scholes option pricing model that used assumptions as of September 30, 2011 and December 31, 2010 for volatility of 34.6% and 36.6%, a term of 6 months and 1 year, a risk free interest rate of 0.06% and 0.29% based on the U.S. Treasury bill yield, and an expected dividend of 0.0%. The intrinsic value of the options is $0 as of September 30, 2011 and December 31, 2010. The net asset values used in the fair value estimates were $15.94 and $18.27 at September 30, 2011 and December 31, 2010, respectively and are adjusted for a liquidity discount. Because the SPH common units have not significantly traded internally or in a public or non-public market, there is no practical means of estimating expected volatility. The volatility assumption was based on a calculated diversified industrial company peer group average of historical volatility.

17. SEGMENT INFORMATION

SPH's reportable segments consist of its operating units, Diversified Industrial, Financial Services and Corporate which are managed separately and offer different products and services. The Diversified Industrial segment consists of HNH, BNS, API, DGT, JPS and SLI. HNH is a diversified holding company with strategic businesses encompassing precious metal, tubing, engineered materials, electronic materials, and Kasco blades and route repair services. HNH became a consolidated subsidiary of SPH on May 7, 2010 and its results are consolidated with SPH from that date. Through February 18, 2010, the Diversified Industrial segment included BNS, which principally operated Collins, a North American manufacturer of specialty vehicles. Collins was sold on February 18, 2010 and is presented in the condensed consolidated financial statements as a discontinued operation. On February 2, 2011 BNS acquired SWH, a work-over rig provider to oil and gas exploration companies. BNS has accordingly been included in the Diversified Industrial Segment for the nine months ended September 30, 2011. The Financial Services segment consists of WebBank. Corporate includes Steel Excel and CoSine, which are currently in the business of seeking to acquire one or more business operations. BNS was reported with Corporate through December 31, 2010. Corporate assets primarily consist of investments, including the SPII Liquidating Trust, and cash and cash equivalents, and corporate revenues consist of investment and other income and investment gains and losses. Corporate assets and selling, general and administrative expenses are not allocated to the other segments. Interest expense paid to deposit holders by WebBank is included in the Financial Services segment results and interest expense on debt is included in Diversified Industrial segment results.

(Dollars in Thousands Except Common Unit Data)

Segment information is presented below:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue:				
Diversified industrial	$ 189,282	$ 150,877	$ 543,434	$ 251,578
Financial services	3,862	2,704	10,199	7,153
Corporate	(19,933)	12,630	(9,706)	31,070
Total	$ 173,211	$ 166,211	$ 543,927	$ 289,801
(Loss) income from continuing operations before income taxes:				
Diversified industrial	$ 15,460	$ 14,920	$ 51,251	$ 29,775
Financial services	2,017	814	4,432	2,511
Corporate	(22,404)	7,940	(30,113)	(2,745)
(Loss) income from continuing operations before income taxes	(4,927)	23,674	25,570	29,541
Income tax (provision) benefit	(2,192)	(829)	2,091	(1,627)
Net (loss) income from continuing operations	$ (7,119)	$ 22,845	$ 27,661	$ 27,914
(Loss) income from equity method investments:				
Diversified industrial	$ (788)	$ 5,756	$ 10,641	$ 19,010
Corporate	(16,634)	3,879	(22,410)	(15,059)
Total	$ (17,422)	$ 9,635	$ (11,769)	$ 3,951

	September 30, 2011	December 31, 2010
Identifiable Assets Employed:		
Diversified industrial	$ 560,916	$ 431,210
Financial services	121,799	84,632
Corporate	306,920	542,717
Segment totals	989,635	1,058,559
Discontinued operations	39,363	33,306
Total	$ 1,028,998	$ 1,091,865

18. CAPITAL AND COMPREHENSIVE INCOME

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. At December 31, 2010, the April 6, 2011 distribution is reported as current portion of the distribution payable. With the Target Distribution having been met, the Company may, at its option, make future distributions to unitholders, although it currently has no plan to make any future distributions.

(Dollars in Thousands Except Common Unit Data)

Common Units Issuance

Effective as of March 21, 2011, SPH issued to its independent directors (i) 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 (ii) 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. Each independent director may elect to be paid his compensation in cash or have all or a portion paid in that number of common units having a value equal to two times the amount of compensation earned. Each independent director has elected to receive this compensation in common units. Total expense for the common units issued is $0 for the three months ended September 30, 2011 and 2010, respectively and $0 and $275 for the nine months ended September 30, 2011 and 2010, respectively.

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.

Comprehensive (Loss) Income

Comprehensive (loss) income for the three and nine month periods ended September 30, 2011 and 2010 was:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Net (loss) income	$ (7,836)	$ 22,281	$ 28,791	$ 56,456
Other comprehensive (loss) income:				
Unrealized (loss) gain on available -for-sale securities	(12,714)	11,186	(15,975)	(39,797)
Currency translation adjustment	(646)	336	99	(149)
Comprehensive (loss) income	(21,196)	33,803	12,915	16,510
Comprehensive loss attributable to noncontrolling interests	(4,553)	(2,975)	(16,094)	(16,374)
Comprehensive (loss) income attributable to common unitholders	$ (25,749)	$ 30,828	$ (3,179)	$ 136

Accumulated Other Comprehensive (Loss) Income

The Accumulated other comprehensive (loss) income balance represents the following:

	September 30, 2011	**December 31, 2010**
Unrealized gain on available-for-sale securities	$ 4,546	$ 20,521
Cumulative translation adjustment	1,951	1,852
Change in net pension and other benefit obligations	(14,611)	(14,611)
Accumulated other comprehensive (loss) income	$ (8,114)	$ 7,762

Accumulated other comprehensive (loss) income includes amounts for associated companies accounted for under the equity method at September 30, 2011 and December 31, 2010 of $(22) and $(21) for unrealized loss on available-for-sale securities; $882 and $1,960 for cumulative translation adjustment; and, $0 and $(7,321) for change in net pension and retiree medical liability.

(Dollars in Thousands Except Common Unit Data)

Noncontrolling Interests in Consolidated Entities

Noncontrolling interests in consolidated entities at September 30, 2011 represent the interests held by the noncontrolling shareholders of BNS, HNH and DGT. The balance at December 31, 2010 represents interests held by the noncontrolling shareholders of BNS and HNH.

19. INCOME TAXES

For the three and nine months ended September 30, 2011, a tax (provision) benefit from continuing operations of $(2,192) and $2,091 was recorded, respectively, and for the three and nine months ended September 30, 2010, a tax provision of $(829) and $(1,627) was recorded, respectively. The Company's tax provision represents the income tax expense or benefit of its consolidated subsidiaries. SPH's tax provisions are principally for state and foreign income taxes of its consolidated subsidiaries. The Company has recorded deferred tax valuation allowances to the extent that it believes that it is more likely than not that the benefits of its deferred tax assets, including those relating to its net operating loss carryforwards ("NOLs"), will not be realized in future periods.

Included in the Company's tax benefit for the nine months ended September 30, 2011 is $(9,915) from the release of valuation allowances primarily relating to BNS' acquisition of SWH.

20. NET INCOME PER COMMON UNIT

The following data was used in computing net income (loss) per common unit shown in the condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net (loss) income from continuing operations	$ (7,119)	$ 22,845	$ 27,661	$ 27,914
Net (income) loss attributable to noncontrolling interests in consolidated entities	(4,890)	(3,105)	(15,439)	(2,600)
Net (loss) income from continuing operations	(12,009)	19,740	12,222	25,314
(Loss) Income from discontinued operations	(717)	(564)	1,130	28,542
Net loss (income) attributable to noncontrolling interests	337	130	(655)	(13,774)
	(380)	(434)	475	14,768
Net (loss) income attributable to common unitholders	$ (12,389)	$ 19,306	$ 12,697	$ 40,082
Net (loss) income per common unit - basic				
Net (loss) income from continuing operations	$ (0.48)	$ 0.78	$ 0.48	$ 1.00
Net (loss) income from discontinued operations	(0.02)	(0.01)	0.02	0.59
Net (loss) income attributable to common unitholders	$ (0.50)	$ 0.77	$ 0.50	$ 1.59
Net (loss) income per common unit – diluted				
Net (loss) income from continuing operations	$ (0.74)	$ 0.73	$ 0.19	$ 0.89
Net (loss) income from discontinued operations	(0.01)	(0.02)	0.02	0.47
Net (loss) income attributable to common unitholders	$ (0.75)	$ 0.71	$ 0.21	$ 1.36

(Dollars in Thousands Except Common Unit Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted average common units outstanding - basic	25,230,679	25,248,410	25,249,817	25,229,190
Adjustment for deferred fee liabilities (a)	4,339,884	-	3,950,329	3,691,717
Adjustment for distribution payable (b)	-	1,664,365	-	2,499,822
Denominator for net income per common unit - diluted	29,570,563	26,912,775	29,200,146	31,420,729

(a) Includes common units assuming a common unit settlement of the deferred fee liability as described in Note 21 - “Related Party Transactions.”

(b) Includes common units assuming a common unit settlement of the distribution payable. Although the Target Distribution liability as described in Note 18 – “Capital and Comprehensive Income” was able to be settled in common units, it was settled for cash.

21. 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. (“WGL”), 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 Deferred Fee Liability is scheduled to be paid on the distribution dates specified in the assignment and assumption agreement at the option of WGL in cash or SPH common units, or a combination thereof. The deferred fee is a fair value liability and a cash settlement is assumed. The number of SPH common units to be issued in lieu of cash would be determined by applying a 15% discount to the market price if the SPH shares are publicly traded or to the net asset value per common unit. The maximum number of common units that could be issued in lieu of cash would be 4,027,660 at September 30, 2011 and 3,791,645 at December 31, 2010. The common units issued will be subject to a six month lock-up pursuant to which WGL cannot sell such common units for six months. The amount of the Deferred Fee Liability is indexed to the value of SPH. The Deferred Fee Liability is increased or decreased quarterly by the same percentage as the increase or decrease in the index from July 15, 2009 to each distribution date. The (decrease)/increase in the Deferred Fee Liability was ($6,708) and $2,636 for the nine months ended September 30, 2011 and 2010, respectively based on the change in the index and is reported in the condensed consolidated statements of operations as (decrease)/increase in deferred fee liability to related party. The (decrease)/increase in the Deferred Fee Liability was ($10,007) and $6,134 for the three months ended September 30, 2011 and 2010, respectively. For every $1.00 change in the index at September 30, 2011, the Deferred Fee Liability changes by $3,423. The fair value of the Deferred Fee Liability of $58,145 is reported on the condensed consolidated balance sheet of which $57,832 is the amount that would be paid to WGL under the terms of the agreement as of September 30, 2011. Based on the value of the Deferred Fee Liability at September 30, 2011, the Deferred Fee Liability would be paid as follows: 2012 - $1,090; 2013 - $4,927; 2014 - $11,318; 2015 - $7,173; 2016 through 2018 - $33,324.

Other

Under a Management Agreement entered into effective January 1, 2009 and amended as of July 14, 2009 (the "Management Agreement"), the Manager receives a monthly management fee at a rate of 1.5% per annum payable monthly (the "Management Fee"). Until such time as the common units are listed on a national securities exchange, the Management Fee will be calculated based on the sum of the net asset value of the common units and the Deferred Fee Liability as of the last day of the prior calendar month. Thereafter, the Management Fee will be based on the sum of the market capitalization of SPH and the Deferred Fee Liability as of the last day of the prior calendar month. The agreement continues until December 31, 2011 and is automatically renewed annually subject to not less than 180 days notice by SPH of termination prior to the end of each term. 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 three months ended September 30, 2011 and 2010, the Manager earned a Management Fee of $2,139 and $1,885, respectively, and for the nine months ended September 30, 2011 and 2010, the Manager earned a Management Fee of $6,357 and $5,507, respectively. Unpaid amounts for Management Fees included in payable to related parties were $996 at September 30, 2011 and $681 at December 31, 2010. The Manager incurred $810 and $429 of reimbursable expenses during the three months ended September 30, 2011 and 2010, respectively, and $2,413 and $1,475 of reimbursable expenses during the nine months ended September 30, 2011 and 2010, respectively, in connection with its provision of services under the Management Agreement. Unpaid amounts for reimbursable business expenses included in payable to related parties were $1,122 at September 30, 2011 and $1,145 December 31, 2010.

Effective as of July 15, 2009, SPH entered into an investor services agreement with WGL, an affiliate of the Manager. Pursuant to the investor services agreement, WGL performs certain investor relations services on SPH's behalf and SPH pays WGL 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 WGL under the investor services agreement. In addition, SPH bears (or reimburses WGL with respect to) all reasonable costs and expenses of SPH, and WGL, or their affiliates relating to the investor relations services performed for SPH, including but not limited to all expenses actually incurred by WGL that are reasonably necessary for the performance by WGL of its duties and functions under the investor services agreement. For the three months ended September 30, 2011 and 2010, WGL earned an Investor Services Fee of $13 and $13, respectively. For the nine months ended September 30, 2011 and 2010, WGL earned an Investor Services Fee of $38 and $38, respectively. Unpaid amounts for the Investor Services Fee are included as part of the Management Fee in payable to related parties and were $9 at September 30, 2011 and $4 at December 31, 2010.

Pursuant to a services agreement (the "Services Agreement") with SP Corporate Services, LLC ("SPCS"), an affiliate of the Manager, effective as of July 1, 2007, SPCS provided SPH with certain management, consulting and advisory services. The Services Agreement is automatically renewable on an annual basis unless terminated by either party on any anniversary date, upon at least 30 days written notice. In consideration of the services rendered, a fixed annual fee totaling $310 was charged, adjustable annually upon agreement. Effective as of July 15, 2009, the Services Agreement was amended to provide for the provision of 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 three months ended September 30, 2011 and 2010, SPCS earned $210 and $522, respectively and $856 and $1,274 for the nine months ended September 30, 2011 and 2010, respectively. Unpaid amounts under the Services Agreement included in payable to related parties were $210 at September 30, 2011 and $494 at December 31, 2010.

On 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 SPCS in the amount of $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 SPCS 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. At December 31, 2010, $1,950 under the management and services fee was unpaid and included in payable to related parties. For the three months and nine months ended September 30, 2011, HNH expensed $435 and $1,305 for the management and services fee of which $435 was unpaid and included in Payable to related parties at September 30, 2011.

HNH provides certain accounting services to SPH on an ongoing basis. For the three months ended September 30, 2011 and 2010, SPH incurred $278 and $75, respectively, for these accounting services. For the nine months ended September 30, 2011 and 2010, SPH incurred $921 and $163, respectively, for these accounting services. Unpaid amounts to HNH for accounting services were $99 at September 30, 2011 and $494 at December 31, 2010. Expenses for accounting services for the three and nine months ended September 30, 2011 and 2010, and the unpaid amounts at September 30, 2011 and December 31, 2010 are eliminated in consolidation.

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 $46,542 and $62,553 at September 30, 2011 and December 31, 2010, respectively, which is reported as Other investments at fair value – related party on the condensed consolidated balance sheet. The SPII Liquidating Trust has an investment in SPJSF and SPCA. SPH has no obligation to make any capital contributions to the SPII Liquidating Trust. On January 6, 2010, SPH received a cash distribution from the SPII Liquidating Trust related to SPCA and a series that was terminated in 2009 related to SP Acquisition Holdings, Inc. ("SPAH") of $962 and $13,221. The cash distribution from the SPII Liquidating Trust related to SPAH represented SPH's share of the cash held by the SPII Liquidating Trust to fund its co-investment obligation to SPAH which terminated on October 10, 2009. At September 30, 2011, SPH's interest in the SPII Liquidating Trust related to SPJSF and SPCA was $2,755 and $10,576, respectively. At December 31, 2010, SPH's interest in the SPII Liquidating Trust related to SPJSF and SPCA was $7,826 and $11,579, respectively. For the three months ended September 30, 2011, SPH recorded an unrealized loss of ($281) on SPJSF and ($941) on SPCA. For the nine months ended September 30, 2011, SPH recorded an unrealized loss of ($915) on SPJSF and ($1,004) on SPCA. On March 22, 2011, SPH received a cash distribution from the SPII Liquidating Trust related to SPJSF of $4,156. For the three months ended September 30, 2010, SPH recorded an unrealized gain of $193 and $1,160 on SPJSF and SPCA, respectively. For the nine months ended September 30, 2010, SPH recorded an unrealized loss of ($1,760) and ($69) on SPJSF and SPCA, respectively.

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 $53,392 and $59,134 at September 30, 2011 and December 31, 2010, 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. For the nine months ended September 30, 2011 and 2010, SPH was indirectly compensated for providing this arrangement by the payment of a fee. The fee was not material.

The Company's non-management directors receive an annual retainer of $50. 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. Each director may elect to be paid their compensation in cash or have all or a portion paid in SPH common units. Should a director elect to receive his compensation in SPH common units, the director shall receive that number of common units of SPH as shall have a fair market value that is two times the amount of cash compensation to which such director is entitled (or any portion thereof) and has elected to be paid in the form of SPH common units. Each of the non-management directors elected to have their compensation paid in SPH common units. For the three months ended September 30, 2011 and 2010, non-management directors' fees expensed were $150 and $138, respectively. For the nine months ended September 30, 2011 and 2010, non-management directors' fees were $441 and $423, respectively. Unpaid amounts are included in payable to related parties and were $441 at September 30, 2011 and $275 at December 31, 2010.

On March 9, 2010, WebBank and SPCS entered into a servicing agreement. SPCS 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 the three months ended September 30, 2011 and 2010, WebBank paid SPCS fees of $63. For the nine months ended September 30, 2011 and 2010, WebBank paid SPCS fees of $188 and $438 (includes a fee of $250 paid on February 25, 2010 for the provision of executive services for 2009). There were no amounts payable under this agreement at September 30, 2011 and December 31, 2010.

Effective July 1, 2007, BNS contracted with SPCS 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, SPCS receives $42 monthly for the provision of officers, financial management and administrative services. BNS incurred $625 (includes $500 for assistance provided to BNS related to a financing arrangement) and $125 for the third quarter of 2011 and 2010, respectively. BNS incurred $958 for the period from November 1, 2010 to September 30, 2011 and $297 for the nine months ended September 30, 2010 (as discussed in Note 2, BNS changed its fiscal year to a calendar year and the quarter ended March 31, 2011 includes two additional months of statement of operations activity). The amounts unpaid at September 30, 2011 and December 31, 2010 were $500 and $0, respectively.

Pursuant to the Management Agreement, the Manager is 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. The Commissions paid by SPH to Mutual securities were approximately $622 and $127 for the three months ended September 30, 2011 and 2010, respectively and approximately $1,024 and $764 for the nine months ended September 30, 2011 and 2010, respectively. Such commissions are included in the net investment gains (losses) in the condensed 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.

SPCS and SPL 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.

In June 2010, a subsidiary of WebBank entered into an agreement with NOVT Corporation, a subsidiary of an affiliate of the Manager, to participate in a factoring facility up to $2,000. As of September 30, 2011 and December 31, 2010, the participation amount by NOVT was $0 and $2,000, respectively.

SPH has an estimated liability of $116 and $1,463 as of September 30, 2011 and December 31, 2010, respectively, included in other current liabilities which, pursuant to the Amended Exchange Agreement, is indemnified by SPII Onshore. As a result, the Company recorded an amount receivable from SPII Onshore reported as Receivable from related party in the condensed consolidated balance sheet.

22. 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. If the order is granted, the Company would be required to meet these tests (or otherwise not be subject to the Act) within one year following the order date. The SEC has not yet provided public notice that it intends to consider the application and there can be no assurance that the requested relief will be granted. If the Company is not able to obtain relief, 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 September 30, 2011 and December 31, 2010, WebBank exceeded all the capital adequacy requirements to which it is subject.

As of September 30, 2011 and December 31, 2010, 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.

23. COMMITMENTS AND CONTINGENCIES

BNS Sub Environmental Matters

A subsidiary of BNS ("BNS Sub") had been notified by the Rhode Island Department of Environmental Management ("RIDEM") that it was a potentially responsible party ("PRP") with respect to the Cranston Sanitary Landfill site in Cranston, Rhode Island, a disposal site previously used by BNS Sub in its previous manufacturing businesses. The PRP Group had agreed that members of a defined group may have the option of joining the Settling Non-Performing Defendants Group and the PRP Group entered into a settlement agreement with each of the Settling Performing Defendants and the Settling Non-Performing Defendants in December 2010. A Consent Decree was entered into by the PRP Group and RIDEM defining the Settling Non-Performing Defendants and the Settling Performing Defendants. The Settling Non-Performing Defendants have agreed to pay an agreed upon settlement amount as per each defendants pro-rata allocation of the cost remediation. The Consent Decree was approved and entered by the Court in July 2011. Pursuant to the terms of the Consent Decree BNS Sub has paid its allocated agreed upon settlement value of $192 with respect to the site.

BNS Sub has been identified by the U.S. Environmental Protection Agency ("EPA") as a PRP as an alleged drum reconditioning customer of New England Container Corp. ("NECC") by a letter dated August 14, 2008. BNS Sub is presently investigating the matter and has joined a group of other alleged NECC customers. BNS Sub has accrued $50 as of September 30, 2011 based on its estimate of the defense costs with respect to the site, but it is not possible at this time to estimate the cost of its ultimate liability with respect to the site.

BNS Litigation Matters

BNS Sub has been named as a defendant in 1012 known asbestos-related toxic-tort claims (from 1994 through September 30, 2011). In many cases these claims involved more than 100 defendants. Of the claims filed, 678 were dismissed, settled or granted summary judgment and closed and 334 were open and active as of September 30, 2011. BNS Sub has insurance policies covering asbestos-related claims for years from 1974 through 1988 with estimated aggregate coverage limits of $158 and $2,660 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 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 condensed consolidated financial statements.

BNS Sub annually receives retroactive billings or credits from its insurance carriers for any increase or decrease in claims reserves as claims are filed, settled or dismissed, or as estimates of the ultimate settlement and defense costs for the then-existing claims are revised. In addition, BNS Sub has recorded a liability of $624 on the condensed consolidated balance sheet relating to the open and active claims against BNS Sub as of September 30, 2011. This liability represents an estimate of the likely costs to defend against or settle these claims by BNS Sub beyond the amounts reserved 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. There can be no assurance 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.

HNH Environmental Matters

Handy & Harman ("H&H"), a subsidiary of HNH, 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 required, there will be monitoring of the Sold Parcel site for several years. On September 11, 2008, the CTDEP advised H&H that it had approved H&H's December 28, 2007 Soil Action Remediation Action Report as amended, thereby concluding the active remediation of the Sold Parcel. Approximately $29,000 was expended through December 31, 2009, and the remaining remediation and monitoring costs for the Sold Parcel are expected to approximate $300. H&H previously received reimbursement of $2,000 from an insurance company under a cost-cap insurance policy and in January 2010, H&H received $1,034, 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 is continuing the process of evaluating various options for its remediation of the Adjacent Parcel. Since 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 and cash flow of H&H or HNH.

In 1986, Handy & Harman Electronic Materials 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. 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 $1,000. The $1,000 was paid solely by the former owner/operator. As of September 30, 2011, over and above the $1,000, total investigation and remediation costs of approximately $1,800 and $600 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 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 HNH.

H&H and Bairnco Corporation ("Bairnco"), a subsidiary of HNH, (and/or one or more of their respective subsidiaries) have been identified as potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or similar state statutes 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 ("USEPA") formally naming H&H as a PRP at a superfund site in Massachusetts (the "Superfund site"). H&H is part of a group of thirteen (13) other PRPs (the "PRP Group") to work cooperatively regarding remediation of the Superfund site. On June 13, 2008, H&H executed a participation agreement, consent decree and settlement trust and all of the other PRP's 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 $182 relating to the "true-up" of monies previously expended for remediation and a payment of $308 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. 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 site, under the direction of the Department of Energy ("DOE"), is expected to be completed and approved by the USEPA by April 2012. Additional financial contributions will be required by the PRP Group when it starts its work in the 2nd quarter of 2012 following completion and approval of the DOE's radiological remediation work. 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 HNH.

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 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. By letter dated March 24, 2009, MADEP advised HHEM that the RAO-P did not require a comprehensive audit. By letter dated April 16, 2009, the MADEP advised HHEM that a MADEP AUL Audit Inspection conducted on March 18, 2009 did not identify any violations of the requirements applicable to the AUL. Together, the March 24 and April 16 MADEP letters, combined with HHEM's Licensed Site Professional's partial RAO opinion constitute 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 Class A-3 RAO to close the site since HHEM's Licensed Site Professional concluded that groundwater monitoring demonstrated that the groundwater conditions have stabilized or continued to improve at the site. 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.

As discussed above, H&H and Bairnco and/or their subsidiaries 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. HNH had approximately $5,500 accrued related to estimated environmental remediation costs as of September 30, 2011. In addition, H&H 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, H&H, Bairnco and/or their 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 HNH, but there can be no such assurances. HNH anticipates that H&H, Bairnco and/or their subsidiaries will pay 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 H&H, Bairnco and/or their subsidiaries are unable to fund their liabilities, claims could be made against their respective parent companies, including HNH, for payment of such liabilities.

HNH Litigation Matters

HNH and certain of its subsidiaries are defendants in product liability, exposure, accident, casualty and other claims 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 to reasonably estimate the probability, range or share of any potential liability of HNH 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 HNH's results of operations, financial position and cash flows when they are resolved in future periods.

24. SUBSEQUENT EVENTS

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 has sold all of the shares of its Italian subsidiary, Villa, its medical and dental imaging systems segment, to VIV.

In consideration for the sale of the shares of Villa to VIV, DGT received $21,800 in cash and an unsecured subordinated promissory note (the "Note") made by VIV in the amount of €500. 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. The Company also received, as part of the transaction, a dividend of cash held by Villa as of the closing date in the amount of $4,500.

HNH Loan Facilities

On October 14, 2011, H&H Group redeemed $25,000 principal amount of its outstanding Subordinated Notes and associated Warrants at a redemption price of 102.8% of the principal amount and accrued but unpaid payment-in-kind-interest of the Subordinated Notes, plus accrued and unpaid cash interest thereon. The Subordinated Notes and Warrants were redeemed on a pro-rata basis among all holders thereof. The total redemption amount paid by H&H Group was $26,400. After giving effect to the redemption on October 14, 2011, the principal amount of the outstanding Subordinated Notes was approximately $40,600. Approximately $12,500 of the $25,000 was paid to SPH to redeem its pro-rata share of the Subordinated Notes.

Acquisitions

Subsequent to September 30, 2011, SPH acquired for cash 258,831 additional shares of Steel Excel Inc. common stock in the open market for $6,654, bringing total shares owned as of December 6, 2011 to 4,361,998 representing 40.0% of the outstanding shares.

Subsequent to September 30, 2011, SPH acquired for cash 62,210 additional shares of SL Industries, Inc. common stock in the open market for $1,117, bringing total shares owned as of December 6, 2011 to 989,441 representing 21.7% of the outstanding shares.

Other

On November 23, 2011, SPH, SPH Group LLC, a wholly owned subsidiary of SPH, and Steel Partners LLC entered into that certain 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.

On November 23, 2011, SPH entered into that certain 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 compensation to be paid to manager pursuant to the Third Amended and Restated Management Agreement.

STEEL PARTNERS HOLDINGS L.P.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial information is presented to reflect the pro forma effects of the acquisition by BNS of SWH on February 2, 2011 and the acquisition by the Company of a controlling interest in HNH on May 7, 2010 as if the acquisitions had occurred on January 1, 2010.

The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2011 and the fiscal year ended December 31, 2010 (together with the related notes) have been derived from the financial statements of the Company, SWH and HNH which are included elsewhere in this Registration Statement. The historical consolidated financial statements of the Company have been adjusted to give effect to pro forma events that are (i) directly attributable to the acquisitions; (ii) factually supportable; and (iii) expected to have continuing impact the combined results of the Company and SWH and HNH.

The unaudited pro forma condensed combined financial statements are not necessarily indicative of the results that actually would have occurred if the above transactions had been consummated as of the date indicated above, nor do they purport to represent the financial position and results of operations for future periods. The pro forma adjustments are based upon currently available information and upon certain assumptions that we believe are reasonable. The unaudited pro forma condensed combined financial information should be read in conjunction with the sections entitled “Business,” “Selected Consolidated Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the historical consolidated financial statements of the Company included elsewhere in this Registration Statement and of SWH and HNH included in Exhibits 99.5 and 99.1 to this Registration Statement.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
Nine Months Ended September 30, 2011
(in thousands, except per unit data)

	Historical SPH	Historical SWH(1)	SWH Pro Forma Adjustments		Pro Forma Results
Revenues:					
Diversified industrial net sales	$ 543,434	$ 2,577	$ -		$ 546,011
Financial services revenue	10,199		-		10,199
Investment and other loss	(1,251)		-		(1,251)
Other loss, net	(8,455)		-		(8,455)
	543,927	2,577	0		546,504
Costs and expenses:					
Diversified industrial cost of goods sold	399,390	1,774	(10)	3(a)	401,154
Selling, general and administrative	104,094	1,328	47	3(a)	105,469
Finance interest expense	1,214	-	-		1,214
Provision for loan losses	192	-	-		192
Interest expense	8,488	117	-		8,605
Realized and unrealized loss on derivatives	936	-	-		936
Management fees - related party	6,357	-	-		6,357
Decrease in deferred fee liability to related party	(6,708)	-	-		(6,708)
Other income	(7,375)	(388)	-		(7,763)
	506,588	2,831	37		509,456
Income from continuing operations before income taxes and equity method income (loss)	37,339	(254)	(37)		37,048
Income tax benefit (provision)	2,091	67	(14)	3(b)	2,144
Income (loss) from equity method investments:	-	-	-		
Income of associated companies, net of taxes	86	-	-		86
Loss from other investments - related party	(11,855)	-	-		(11,855)
Net income (loss) from continuing operations	27,661	(187)	(51)		27,423
Net (income) loss from continuing operations attributable to noncontrolling interests in consolidated entities:	(15,439)	-	34	3(g)	(15,405)
Net income (loss) from continuing operations attributable to common unitholders	$ 12,222	$ (187)	$ (17)		$ 12,018
Net income per common unit - basic	$ 0.48				$ 0.48
Net income per common unit - diluted	$ 0.19				$ 0.18

(1) For the period January 1, 2011 through February 2, 2011.

STEEL PARTNERS HOLDINGS L. P.
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
Year Ended December 31, 2010
(in thousands, except per unit data)

	Historical							
	SPH	**SWH**	**HNH (1)**	**SWH Pro Forma Adjustments**		**HNH Pro Forma Adjustments**		**Pro Forma Results**
Revenues:								
Diversified industrial net sales	$ 385,805	$ 26,015	$ 182,407	$ -		$ -		$ 594,227
Financial services revenue	10,803	-	-	-		-		10,803
Investment and other (loss) income	4,007	-	-	-		-		4,007
Other loss, net	24,050	-	-	-		-		24,050
	424,665	26,015	182,407	0		0		633,087
Costs and expenses:								
Diversified industrial cost of goods sold	289,839	14,326	134,971	(119)	3(a)	861	3(a)	439,878
Selling, general and administrative	88,250	3,932	38,158	560	3(a)	1,646	3(a)	129,074
						(3,507)	3(c)	
						35	3(d)	
Finance interest expense	2,022	-	-	-		-		2,022
Provision for loan losses (gains)	(420)	-	-	-		-		(420)
Interest expense	12,123	1,308	9,119	-		(1,992)	3(e)	20,558
Realized and unrealized (gain) loss on derivatives	5,164	-	-	-		-		5,164
Management fees - related party	7,531	-	-	-		-		7,531
Increase in deferred fee liability to related party	6,268	-	-	-		-		6,268
	410,777	19,566	182,248	441		(2,957)		610,075
Income from continuing operations before income taxes and equity method income (loss)	13,888	6,449	159	(441)		2,957		23,012
Income tax (provision) benefit	(2,657)	(2,485)	(884)	1,523	3(b)			(4,503)
(Loss) income from equity method investments:								-
Income (loss) of associated companies, net of taxes	10,305	-	-	-		(8,670)	3(f)	1,635
Loss from other investments – related party	(3,220)	-	-	-		(1,839)	3(e)	(5,059)
Net income (loss) from continuing operations	18,316	3,964	(725)	1,082		(7,552)		15,085
Net income from continuing operations attributable to noncontrolling interests in consolidated entities:	(997)	-	-	(726)	3(g)	(119)	3(g)	(1,842)
Net income (loss) from continuing operations attributable to common unitholders	$ 17,319	$ 3,964	$ (725)	$ 356		$ (7,671)		$ 13,243
Net income per common unit - basic	$ 0.69							$ 0.52
Net income per common unit - diluted	$ 0.63							$ 0.48

(1) For the period January 1, 2010 through May 6, 2010.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

1. Acquisitions of SWH and HNH

SWH

On February 2, 2011 BNS acquired all of the capital stock of SWH, Inc. ("SWH") for an aggregate purchase price of $50.8 million in cash. SWH owns all of the capital stock of Sun Well Service, Inc., its sole asset. Sun Well Service, Inc. 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.

SWH's operations are reported in the Diversified Industrial segment and its accounts are included in the SPH condensed consolidated financial statements beginning February 2, 2011 through the Company's consolidation of BNS.

HNH

On May 7, 2010, SPH acquired additional shares of HNH stock to give SPH majority ownership. Accordingly, the accounting for the investment in HNH has been changed from the equity method at fair value to a majority-owned controlled subsidiary and is consolidated with SPH from that date. The additional shares of HNH purchased on May 7, 2010 brought the total number of shares owned by SPH to 6,123,876, representing 50.3% of the outstanding shares. At September 30, 2011, SPH owns 55.5% of HNH's outstanding shares.

HNH is included in the Diversified Industrial segment from the acquisition date. For the period from January 1, 2010 to May 7, 2010 the investment in HNH is accounted for as an associated company.

2. Basis of Presentation

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 assets acquired and liabilities assumed based on their fair values at the acquisition date, with amounts exceeding the fair values recorded as goodwill. If the fair value of the assets acquired and liabilities assumed exceeds the fair value of the consideration given, a bargain purchase has occurred which is recorded as a gain on acquisition. 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. In allocating the purchase price to the fair value of the assets acquired and liabilities assumed, we utilized, in part, a third-party appraiser to assist us in assessing the fair values of certain components of the assets acquired and liabilities assumed.

For information regarding the Company's allocation of the total purchase price of SWH and HNH to the fair value of assets acquired and liabilities assumed, refer to the footnotes to the Company's financial statements included elsewhere in this Registration Statement.

Pro Forma Financial Statement Presentation

In accordance with the guidelines set forth in Article 11-02 of Regulation S-X, the objective of the pro forma financial information is to provide investors with information about the continuing impact of a particular transaction by illustrating how the acquisitions might have affected the Company's historical financial statements if the acquisitions had occurred at an earlier time. Therefore, The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2011 and the fiscal year ended December 31, 2010 have been prepared to give effect to the unaudited pro forma adjustments necessary as if the as if the acquisitions had occurred on January 1, 2010.

3. Pro Forma Adjustments

3(a) Records adjustments for depreciation expense on property, plant and equipment and amortization expense on other intangible assets recorded at the acquisition date. These adjustments are a result of increases in these assets to their fair value.

3(b) Records the income tax effect of the pro forma adjustments. Also records the tax benefit of the utilization of BNS's net operating loss carry forward against taxable income of SWH. An effective tax rate of 38% was used for computing the tax effect of the pro forma adjustments.

3(c) Records reduction in pension expense primarily due to the elimination of HNH's actuarial loss previously reported in accumulated other comprehensive income and amortized as part of pension expense. As a result of the application of purchase accounting, assets and liabilities were recorded at fair value, with pre-acquisition amounts of retained earnings and other comprehensive income eliminated.

3(d) Increase in operating lease expense for elimination of deferred gain on sale lease-back, which results from the application of purchase accounting whereby assets and liabilities were recorded at fair value.

3(e) Eliminates HNH's portion of interest expense on debt payable to two series of the SPII Liquidating Trust.

3(f) Eliminates SPH's earnings from its investment in HNH prior to the acquisition.

3(g) Records net income of SWH and HNH applicable to noncontrolling interests.

SIGNATURES

Pursuant to the requirements of Section 12 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: December 15, 2011	STEEL PARTNERS HOLDINGS L.P.	
	By:	Steel Partners Holdings GP Inc. Its General Partner
	By:	/s/ Warren G. Lichtenstein Warren G. Lichtenstein Chairman and Chief Executive Officer

CERTIFICATE OF LIMITED PARTNERSHIP

OF

WEBFINANCIAL L.P.

THE UNDERSIGNED, desiring to form a limited partnership pursuant to the Delaware Revised Uniform Limited Partnership Act, 6 Delaware Code, Chapter 17,

DO HERBY CERTIFY:

FIRST: The name of the limited partnership is: WebFinancial L.P.

SECOND: The address of its registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, County of New Castle and the name of the Registered Agent as such address is The Corporation Trust Company.

THIRD: The name and mailing address of each general partner is as follows:

Name	**Address**
Web LLC	590 Madison Avenue 32nd Floor New York, NY 10022

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Limited Partnership as of the 16th day of December, 2008.

WEB LLC
Its General Partner

By: /s/ Louis J. Marasco, Jr.
Name: Louis J. Marasco, Jr.
Title: Authorized Person

Exhibit 3.2

AMENDMENT TO THE

CERTIFICATE OF LIMITED PARTNERSHIP

OF

WEBFINANCIAL L. P.

THE UNDERSIGNED, desiring to amend the Certificate of Limited Partnership pursuant to the provisions of Section 17-202 of the Revised Uniform Limited Partnership Act of the State of Delaware,

DOES HERBY CERTIFY AS FOLLOWS:

FIRST: The name of the Limited Partnership is: WebFinancial L.P.

SECOND: Article "FIRST" and "THIRD" of the Certificate of Limited Partnership shall be amended as follows:

"FIRST": The name of the Limited Partnership is: Steel Partners Holdings L.P."

"THIRD": The name and mailing address of each general partner is as follows:

Name	**Address**
Steel Partners II GP LLC	590 Madison Avenue 32nd Floor New York, NY 10022"

IN WITNESS WHEREOF, the undersigned executed this Amendment to the Certificate of Limited Partnership on this 2nd day of April, 2009.

STEEL PARTNERS II GP, LLC
Its General Partner

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

Exhibit 3.3

AMENDMENT TO THE

CERTIFICATE OF LIMITED PARTNERSHIP

OF

STEEL PARTNERS HOLDINGS L.P.

THE UNDERSIGNED, desiring to amend the Certificate of Limited Partnership pursuant to the provisions of Section 17-202 of the Revised Uniform Limited Partnership Act of the State of Delaware,

DOES HERBY CERTIFY AS FOLLOWS:

FIRST: The name of the Limited Partnership is: Steel Partners Holdings L.P.

SECOND: Article "THIRD" of the Certificate of Limited Partnership shall be amended in its entirety as follows:

"THIRD: The name and mailing address of each general partner is as follows:

Name	Address
Steel Partners Holdings GP LLC	590 Madison Avenue 32nd Floor New York, NY 10022"

IN WITNESS WHEREOF, the undersigned executed this Amendment to the Certificate of Limited Partnership on this 20th day of January, 2010.

STEEL PARTNERS HOLDINGS GP LLC
Its General Partner

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

AMENDMENT TO THE

CERTIFICATE OF LIMITED PARTNERSHIP

OF

STEEL PARTNERS HOLDINGS L.P.

THE UNDERSIGNED, desiring to amend the Certificate of Limited Partnership pursuant to the provisions of Section 17-202 of the Revised Uniform Limited Partnership Act of the State of Delaware,

DOES HEREBY CERTIFY AS FOLLOWS:

FIRST: The name of the Limited Partnership is: Steel Partners Holdings L.P.

SECOND: Article "THIRD" of the Certificate of Limited Partnership shall be amended in its entirety as follows:

"THIRD: The name and mailing address of each general partner is as follows:

Name	**Address**
Steel Partners Holdings GP Inc.	590 Madison Avenue 32nd Floor New York, NY 10022"

IN WITNESS WHEREOF, the undersigned executed this Amendment to the Certificate of Limited Partnership on this 15th day of October, 2010.

STEEL PARTNERS HOLDINGS GP INC.
Its General Partner

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

Exhibit 3.5

THIRD AMENDED AND RESTATED

AGREEMENT OF LIMITED PARTNERSHIP

OF

STEEL PARTNERS HOLDINGS L.P.

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THIRD AMENDED AND RESTATED

AGREEMENT OF LIMITED PARTNERSHIP

OF

STEEL PARTNERS HOLDINGS L.P.

THIS THIRD AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF STEEL PARTNERS HOLDINGS L.P. dated as of July 14, 2009, is entered into by and among Steel Partners Holdings GP Inc., a Delaware corporation, as the General Partner and as the lawful agent and attorney-in-fact for the Limited Partners, together with any other Persons who become Partners in the Partnership or parties hereto as provided herein.

WHEREAS, the General Partner and the other parties thereto entered into that certain Agreement of Limited Partnership of the Partnership dated as of December 31, 2008 and subsequently entered into that certain Amended and Restated Agreement of Limited Partnership of the Partnership and Second Amended and Restated Agreement of Limited Partnership, each dated as of July 14, 2009 (collectively, the "Original Agreement");

WHEREAS, the General Partner desires to amend and restate the Original Agreement in its entirety to reflect various changes to the Original Agreement, including the creation of a new class of Partnership Securities; and

WHEREAS, Section 13.1(e) of the Original Agreement permits the General Partner, without the approval of any Partner, any Unitholder or any other Person, to amend the Original Agreement to reflect any change that the General Partner determines does not adversely affect the Limited Partners considered as a whole (including any particular class of Partnership Interests as compared to other classes of Partnership Interests, treating the Common Units as a separate class for this purpose) in any material respect;

NOW, THEREFORE, the General Partner, pursuant to its authority under Section 13.1(e) and the exercise of its discretion, does hereby amend and restate the Original Agreement to provide, in its entirety, as follows:

ARTICLE I
DEFINITIONS

SECTION 1.1. *Definitions.*

The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

"*Affiliate*" means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries controls, is controlled by or is under common control with, the Person in question. As used herein, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"*Agreement*" means this Amended and Restated Agreement of Limited Partnership of Steel Partners Holdings L.P., as it may be amended, supplemented or restated from time to time.

"*Associate*" means, when used to indicate a relationship with any Person, (a) any corporation or organization of which such Person is a director, officer or partner or is, directly or indirectly, the owner of 20% or more of any class of voting stock or other voting interest; (b) any trust or other estate in which such Person has at least a 20% beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity; and (c) any relative or spouse of such Person, or any relative of such spouse, who has the same principal residence as such Person.

"*Beneficial Owner*" has the meaning assigned to such term in Rules 13d-3 and 13d-5 under the Securities Exchange Act (and "Beneficially Own" shall have a correlative meaning).

"*BHCA*" means the U.S. Bank Holding Company Act of 1956, as amended, supplemented or restated from time to time and any successor to such statute.

"*BHC Partner*" has the meaning assigned to such term in Section 3.5.

"*Board of Directors*" means the Board of Directors of the General Partner.

"*Business Day*" means each day that is not a Saturday, Sunday or other day on which banking institutions in New York, New York are authorized or required by law to close.

"*Capital Account*" has the meaning assigned to such term in Section 6.1.

"*Capital Account Alignment*" has the meaning assigned to such term in Section 5.4(c).

"*Capital Contribution*" means any cash or cash equivalents or the fair market value of any other property that a Partner contributes to the Partnership pursuant to this Agreement.

"*Carrying Value*" means, with respect to any Partnership asset, the asset's adjusted basis for U.S. federal income tax purposes, except that the initial carrying value of assets contributed to the Partnership shall be their respective gross fair market values on the date of contribution as determined by the General Partner, and the Carrying Values of all Partnership assets shall be adjusted to equal their respective fair market values, in accordance with the rules set forth in United States Treasury Regulation Section 1.704-1(b)(2)(iv)(f), except as otherwise provided herein, as of: (a) the date of the acquisition of any additional Partnership Interest by any new or existing Partner in exchange for more than a de minimis Capital Contribution; (b) the date of the distribution of more than a de minimis amount of Partnership assets to a Partner; (c) the date a Partnership Interest is relinquished to the Partnership; (d) the date a Partnership Interest (other than a de minimis interest) is issued as consideration for the provision of services to or for the benefit of the Partnership by an existing Partner acting in a partner capacity, or by a new Partner acting in a partner capacity or in anticipation of being a Partner; or (e) any other date specified in the United States Treasury Regulations; provided however that adjustments pursuant to clauses (a), (b), (c), (d) and (e) above shall be made only if such adjustments are deemed necessary or appropriate by the General Partner to reflect the relative economic interests of the Partners. In the case of any asset that has a Carrying Value that differs from its adjusted tax basis, Carrying Value shall be adjusted by the amount of depreciation calculated for purposes of the definitions of "Net Income" and "Net Loss" rather than the amount of depreciation determined for U.S. federal income tax purposes, and depreciation shall be calculated by reference to Carrying Value rather than tax basis once Carrying Value differs from tax basis.

"*Cause*" means a court of competent jurisdiction has entered a final, non-appealable judgment finding the General Partner liable for gross negligence, fraud or willful misconduct in its capacity as a general partner of the Partnership.

"*Certificate*" means (a) a certificate (i) substantially in the form of Exhibit A to this Agreement, (ii) issued in global form in accordance with the rules and regulations of the Depositary or (iii) in such other form as may be adopted from time to time by the General Partner, issued by the Partnership evidencing ownership of one or more Common Units or (c) a certificate, in such form as may be adopted from time to time by the General Partner, issued by the Partnership evidencing ownership of one or more other Partnership Securities.

"*Certificate of Limited Partnership*" means the Certificate of Limited Partnership of the Partnership filed with the Secretary of State of the State of Delaware, as such Certificate of Limited Partnership may be amended, supplemented or restated from time to time.

"*Class B Common Unit*" means one of that certain class of Common Units with those special rights and obligations specified in this Agreement as being appurtenant to a "Class B Common Unit."

"*Closing Price*" has the meaning assigned to such term in Section 15.1(a).

"*Code*" means the United States Internal Revenue Code of 1986, as amended and in effect from time to time. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of any successor law.

"*Combined Interest*" has the meaning assigned to such term in Section 11.3(a).

"*Commission*" means the U.S. Securities and Exchange Commission or any successor thereto.

"*Common Unit*" means a Partnership Interest representing a fractional part of the Partnership Interests of all Limited Partners having the rights and obligations specified with respect to Common Units in this Agreement. For the avoidance of doubt, the reference herein to "Common Units" includes Class B Common Units and the reference herein to "regular Common Units" includes all Common Units that are not Class B Common Units.

"*Current Market Price*" has the meaning assigned to such term in Section 15.1(a).

"*Delaware Limited Partnership Act*" means the Delaware Revised Uniform Limited Partnership Act, 6 Del. C. § 17-101, et seq., as amended, supplemented or restated from time to time, and any successor to such statute.

"*Departing General Partner*" means a former General Partner from and after the effective date of any withdrawal or removal of such former General Partner pursuant to Sections 11.1 or 11.2.

"*Depositary*" means, with respect to any Units issued in global form, The Depository Trust Company and its successors and permitted assigns.

"*DGCL*" means the General Corporation Law of the State of Delaware, as amended, supplemented or restated from time to time, and any successor to such statute.

"*Director*" means a member of the Board of Directors.

"*Distribution Target*" has the meaning assigned to such term in Section 6.4.

"*ERISA*" means the Employment Retirement Income Security Act of 1974, as amended.

"*ERISA Limited Partner*" shall mean a Limited Partner that is (i) a plan subject to the provisions of Title I of ERISA, (ii) a plan that is not subject to Title I of ERISA but is subject to the prohibited transaction provisions of Section 4975 of the Code (e.g., IRAs and Keogh plans), (iii) a group trust, common or collective trust fund or insurance company separate or general account subject to ERISA or Section 4975 of the Code, and (iv) a passive or private investment fund whose underlying assets include "plan assets" (such as where plans described in (i) or (ii) above own 25% or more of a class of the investment fund's equity interests determined pursuant to Section 3(42) of ERISA and any applicable regulations at 29 C.F.R. § 2510.3-101(f)).

"*Event of Withdrawal*" has the meaning assigned to such term in Section 11.1(a).

"*Exchange*" means the acquisition by the Partnership of SP II in connection with which SP II Master Fund was issued Units and the Partnership acquired a 100% limited partner interest in SP II, pursuant to and in accordance with the Exchange Agreement.

"*Exchange Agreement*" means the Exchange Agreement, dated as of the Exchange Closing Date, between the Partnership and SP II Master Fund, as the same may be amended or modified.

"*Exchange Closing Date*" means the closing date of the Exchange, which occurred on January 1, 2009.

"*Final Distribution Date*" has the meaning assigned to such term in Section 6.4.

"*Fiscal Year*" has the meaning assigned to such term in Section 8.2.

"*General Partner*" means Steel Partners Holdings GP Inc., a Delaware corporation, and its successors and permitted assigns that are admitted to the Partnership as general partner of the Partnership, in its capacity as a general partner of the Partnership (except as the context otherwise requires).

“*General Partner Interest*” means the management interest of the General Partner in the Partnership, which includes any and all benefits to which a General Partner is entitled as provided in this Agreement, together with all obligations of a General Partner to comply with the terms and provisions of this Agreement. The General Partner Interest does not have any rights to ownership or profit, or any rights to receive distributions from operations or the liquidation of the Partnership (other than with respect to any Limited Partner Interest held by it).

“*Group*” means a Person that with or through any of its Affiliates or Associates has any contract, arrangement, understanding or relationship for the purpose of acquiring, holding, voting, exercising investment power with respect to, or disposing of any Partnership Securities with any other Person that Beneficially Owns, or whose Affiliates or Associates Beneficially Own, directly or indirectly, Partnership Interests.

“*Group Member*” means a Person included in the Partnership Group.

“*Indemnitee*” means (a) the General Partner, (b) any Departing General Partner, (c) the Manager, (d) any Person who is or was an Affiliate of the General Partner, any Departing General Partner or the Manager, (e) any Person who is or was a member, partner, Tax Matters Partner (as defined in the Code), officer, director, employee, agent, fiduciary or trustee of any Group Member, the General Partner, any Departing General Partner or the Manager or any Affiliate of any Group Member, the General Partner, any Departing General Partner or the Manager, (f) any Person who is or was serving at the request of the General Partner, any Departing General Partner or the Manager or any Affiliate of the General Partner, any Departing General Partner or the Manager as an officer, director, employee, member, partner, Tax Matters Partner (as defined in the Code), agent, fiduciary or trustee of another Person; provided that a Person shall not be an Indemnitee by reason of providing, on a fee-for-services basis, trustee, fiduciary or custodial services and (g) any Person the General Partner in its sole discretion designates as an “Indemnitee” for purposes of this Agreement in connection with activities of such Person on behalf of the Partnership, its predecessor or the Partnership Group, including but not limited to individuals who served as directors of WebFinancial.

“*Independent Director*” means a Director who meets the independence standards required to serve on an audit committee of a board of directors, as established by the Securities Exchange Act and the rules and regulations of the Commission thereunder and by any National Securities Exchange on which the Common Units are listed for trading.

“*Initial Limited Partner*” means the Organizational Limited Partner or its designee, in each case upon being admitted to the Partnership in accordance with Section 10.1.

“*Limited Partner*” means, unless the context otherwise requires, the Initial Limited Partner, each additional Person that becomes a Limited Partner pursuant to the terms of this Agreement and any Departing General Partner upon the change of its status from General Partner to Limited Partner pursuant to Section 11.3, in each case, in such Person’s capacity as a limited partner of the Partnership. For purposes of the Delaware Limited Partnership Act, the Limited Partners shall constitute a single class or group of limited partners; provided, however, that when the term “Limited Partner” is used herein in the context of any vote or other approval, including without limitation Articles XIII and XIV, such term shall not, solely for such purpose, include any Non-Voting Interest except as may otherwise be required by law.

"*Limited Partner Interest*" means the ownership interest of a Limited Partner in the Partnership, which may be evidenced by Common Units, Non-Voting Interests or other Partnership Securities or a combination thereof or interest therein, and includes any and all benefits to which such Limited Partner is entitled as provided in this Agreement, including voting rights, together with all obligations of such Limited Partner to comply with the terms and provisions of this Agreement; provided, however, that when the term "Limited Partner Interest" is used herein in the context of any vote or other approval, including without limitation Articles XIII and XIV, such term shall not, solely for such purpose, include any Non-Voting Interest except as may otherwise be required by law.

"*Liquidation Date*" means (a) in the case of an event giving rise to the dissolution of the Partnership of the type described in clauses (a) and (b) of the first sentence of Section 12.2, the date on which the applicable time period during which the holders of Outstanding Units have the right to elect to continue the business of the Partnership has expired without such an election being made, and (b) in the case of any other event giving rise to the dissolution of the Partnership, the date on which such event occurs.

"*Liquidator*" means one or more Persons selected by the General Partner to perform the functions described in Section 12.3 as liquidating trustee of the Partnership within the meaning of the Delaware Limited Partnership Act.

"*Manager*" means Steel Partners LLC, a Delaware limited liability company.

"*Management Agreement*" means the Management Agreement among the Partnership, the General Partner and the Manager.

"*Merger*" means the merger of WebFinancial with and into the Partnership pursuant to the Agreement of Merger, dated as of the Merger Closing Date, between WebFinancial and the Partnership, as the same may be amended or modified.

"*Merger Closing Date*" means the closing date of the Merger, which occurred on December 31, 2008.

"*Merger Agreement*" has the meaning assigned to such term in Section 14.1.

"*National Securities Exchange*" means an exchange registered with the Commission under Section 6(a) of the Securities Exchange Act, any successor thereto and any other securities exchange (whether or not registered with the Commission under Section 6(a) of the Securities Exchange Act) or a Designated Offshore Securities Market (as such term is defined pursuant to Rule 902(b) as promulgated under the Securities Act) that the General Partner in its sole discretion shall designate as a National Securities Exchange for purposes of this Agreement.

"*Net Income" and "Net Loss*" for any taxable period means the taxable income or loss of the Partnership for such period as determined in accordance with the accounting method used by the Partnership for U.S. federal income tax purposes with the following adjustments (without duplication): (i) any income of the Partnership that is exempt from U.S. federal income taxation and not otherwise taken into account in computing Net Income or Net Loss shall be added to such taxable income or loss; (ii) if the Carrying Value of any asset differs from its adjusted tax basis for U.S. federal income tax purposes, any depreciation, amortization or gain or loss resulting from a disposition of such asset shall be calculated with reference to such Carrying Value; (iii) upon an adjustment to the Carrying Value of any asset, pursuant to the definition of Carrying Value, the amount of the adjustment shall be included as gain or loss in computing such taxable income or loss; (iv) any expenditures of the Partnership not deductible in computing taxable income or loss, not properly capitalizable and not otherwise taken into account in computing Net Income or Net Loss pursuant to this definition shall be treated as deductible items; and (v) any item of income, gain, loss or deduction that is specially allocated for Section 704(b) book purposes pursuant to Section 5.4(e) or Section 6.2(b) shall not be taken into account in computing Net Income or Net Loss.

"*Non-Voting Interest*" has the meaning assigned to such term in Section 3.5(a).

"*Notice of Election to Purchase*" has the meaning assigned to such term in Section 15.1(b).

"*Opinion of Counsel*" means a written opinion of counsel (who may be regular counsel to the Partnership or the General Partner or any of its Affiliates) with Special Director Approval.

"*Organizational Limited Partner*" means WebFinancial.

"*Original Agreement*" has the meaning set forth in the recitals.

"*Outstanding*" means, with respect to Limited Partner Interests, all Limited Partner Interests that are issued by the Partnership and reflected as outstanding on the Partnership's books and records as of the date of determination; provided however that if at any time any Person or Group (other than the General Partner, the Manager or their respective Affiliates) Beneficially Owns 10% or more of any class of Outstanding Common Units, all Common Units owned by such Person or Group in excess of 9.9% shall not be entitled to be voted on any matter and shall not be considered to be Outstanding when sending notices of a meeting of Limited Partners to vote on any matter (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes under this Agreement (such Common Units shall not, however, be treated as a separate class of Partnership Securities for purposes of this Agreement); provided further that the foregoing limitation shall not apply to any Person or Group that acquired 10% or more of any Common Units issued by the Partnership with the prior approval of the Board of Directors. Notwithstanding anything herein to the contrary, Limited Partnership Interests owned by the Partnership or its Subsidiaries will not be considered to be Outstanding.

"*Partners*" means the General Partner and the Limited Partners.

"*Partnership*" means Steel Partners Holdings L.P., a Delaware limited partnership.

"*Partnership Group*" means the Partnership and its Subsidiaries treated as a single consolidated entity.

"*Partnership Interest*" means an interest in the Partnership, which shall include the General Partner Interest and Limited Partner Interests.

"*Partnership Security*" means any equity interest in the Partnership (but excluding any options, rights, warrants and appreciation rights relating to an equity interest in the Partnership), including without limitation, Common Units and Non-Voting Interests.

"*Percentage Interest*" means, as of any date of determination, (i) as to any holder of Common Units or Non-Voting Interests in its capacity as such, the product obtained by multiplying (a) 100% less the percentage applicable to the Units referred to in clause (ii) by (b) the quotient obtained by dividing (x) the number of Common Units or Non-Voting Interests held by such holder by (y) the total number of all Outstanding Common Units and Non-Voting Interests, and (ii) as to any holder of other Units in its capacity as such with respect to such Units, the percentage established for such Units by the General Partner as a part of the issuance of such Units.

"*Person*" means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization, association (including any group, organization, co-tenancy, plan, board, council or committee), government (including a country, state, county, or any other governmental or political subdivision, agency or instrumentality thereof) or other entity (or series thereof).

"*Pro Rata*" means (a) when modifying Units or any class thereof, apportioned equally among all designated Units and (b) when modifying Partners or Record Holders, apportioned among all Partners or Record Holders, as the case may be, in accordance with their relative Percentage Interests.

"*Purchase Date*" means the date determined by the General Partner as the date for purchase of all Outstanding Units of a certain class (other than Units owned by the General Partner and its Affiliates) pursuant to Article XV.

"*Quarter*" means, unless the context requires otherwise, a fiscal quarter of the Partnership, or with respect to the first fiscal quarter of the Partnership after the Merger Closing Date or the final fiscal quarter prior to the termination of the Partnership, the portion of such fiscal quarter after the Merger Closing Date or prior to the date of termination, as applicable.

"*Record Date*" means the date established by the General Partner in its sole discretion for determining (a) the identity of the Record Holders entitled to notice of, or to vote at, any meeting of Limited Partners or entitled to vote by ballot or give approval of Partnership action in writing without a meeting or entitled to exercise rights in respect of any lawful action of Limited Partners or (b) the identity of Record Holders entitled to receive any report or distribution or to participate in any offer.

"*Record Holder*" means the Person in whose name a Common Unit is registered on the books of the Transfer Agent as of the opening of business on a particular Business Day, or with respect to other Partnership Interests, the Person in whose name any such other Partnership Interest is registered on the books which the General Partner has caused to be kept as of the opening of business on such Business Day.

"*Redeemable Interests*" means any Partnership Interests for which a redemption notice has been given, and has not been withdrawn, pursuant to Section 4.8.

"*Securities Act*" means the U.S. Securities Act of 1933, as amended, supplemented or restated from time to time and any successor to such statute.

"*Securities Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended, supplemented or restated from time to time and any successor to such statute.

"*Special Director Approval*" means approval by a majority of the Independent Directors.

"*Special LP Approval*" means approval by the vote of the holders of a majority of the voting power of Outstanding Voting Units (excluding Voting Units owned by the Partnership, the General Partner and Persons they control).

"*SP II*" means Steel Partners II, L.P., a Delaware limited partnership.

"*SP II Master Fund*" means Steel Partners II Master Fund L.P., a Cayman Islands limited partnership.

"*Subsidiary*" means, with respect to any Person, (a) a corporation of which more than 50% of the voting power of shares entitled (without regard to the occurrence of any contingency) to vote in the election of directors or other governing body of such corporation is owned, directly or indirectly, at the date of determination, by such Person, by one or more Subsidiaries of such Person or a combination thereof, (b) a partnership (whether general or limited) in which such Person or a Subsidiary of such Person is, at the date of determination, a general or limited partner of such partnership, but only if more than 50% of the partnership interests of such partnership (or interests entitling the holder to receive more than 50% of the profits and losses of such partnership) (considering all of the partnership interests of the partnership as a single class) is owned, directly or indirectly, at the date of determination, by such Person, by one or more Subsidiaries of such Person, or a combination thereof, (c) any other Person (other than a corporation or a partnership) in which such Person, one or more Subsidiaries of such Person, or a combination thereof, directly or indirectly, at the date of determination, has (i) at least a majority ownership interest or (ii) the power to elect or direct the election of a majority of the directors or other governing body of such Person or (d) any other Person the financial information of which is consolidated by such Person for financial reporting purposes under U.S. GAAP.

"*Surviving Business Entity*" has the meaning assigned to such term in Section 14.2(b).

"*Trading Day*" has the meaning assigned to such term in Section 15.1(a).

"*transfer*" has the meaning assigned to such term in Section 4.4(a).

"*Transfer Agent*" means such bank, trust company or other Person (including the General Partner or one of its Affiliates) as shall be appointed from time to time by the Partnership to act as registrar and transfer agent for the Common Units or any other Partnership Securities that may hereinafter be issued; provided that if no Transfer Agent is specifically appointed for any other Partnership Securities, the General Partner shall act in such capacity.

"*Unit*" means a Partnership Security that is designated as a "Unit" and shall include Common Units but shall not include (i) a General Partner Interest or (ii) Non-Voting Interests.

"*Unitholders*" means the holders of Units.

"*U.S. GAAP*" means U.S. generally accepted accounting principles consistently applied or any successor accounting principles that shall be generally applicable to the Partnership or its Subsidiaries.

"*Voting Unit*" means a Common Unit and any other Partnership Interest that is designated as a "Voting Unit" from time to time.

"*WebFinancial*" means WebFinancial Corporation, a Delaware corporation.

"*WebFinancial Investor*" means a Person who was a shareholder of WebFinancial immediately prior to the Merger (other than any Person with respect to whose shares of WebFinancial common stock appraisal rights have been (i) properly perfected (and not withdrawn) pursuant to Section 262 of the DGCL or (ii) otherwise granted by the Partnership).

"*Withdrawal Opinion of Counsel*" has the meaning assigned to such term in Section 11.1(b).

SECTION 1.2. *Construction.*

Unless the context requires otherwise: (a) any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa; (b) references to Articles and Sections refer to Articles and Sections of this Agreement; (c) the terms "include," "includes," "including" or words of like import shall be deemed to be followed by the words "without limitation"; and (d) the terms "hereof," "herein" or "hereunder" refer to this Agreement as a whole and not to any particular provision of this Agreement. The table of contents and headings contained in this Agreement are for reference purposes only, and shall not affect in any way the meaning or interpretation of this Agreement.

ARTICLE II

ORGANIZATION

SECTION 2.1. *Formation.*

The General Partner and the Organizational Limited Partner have previously formed the Partnership as a limited partnership pursuant to the provisions of the Delaware Limited Partnership Act. Except as expressly provided to the contrary in this Agreement, the rights, duties (including fiduciary duties), liabilities and obligations of the Partners and the administration, dissolution and termination of the Partnership shall be governed by the Delaware Limited Partnership Act. All Partnership Interests shall constitute personal property of the owner thereof for all purposes and a Partner has no interest in specific Partnership property.

SECTION 2.2. *Name.*

The name of the Partnership shall be "Steel Partners Holdings L.P." The Partnership's business may be conducted under any other name or names as determined by the General Partner in its sole discretion, including the name of the General Partner. The words "Limited Partnership," "LP," "L.P.," "Ltd." or similar words or letters shall be included in the Partnership's name where necessary for the purpose of complying with the laws of any jurisdiction that so requires. The General Partner may change the name of the Partnership at any time and from time to time by filing an amendment to the Certificate of Limited Partnership (and upon any such filing this Agreement shall be deemed automatically amended to change the name of the Partnership) and shall notify the Limited Partners of such change in the regular communication to the Limited Partners next following such filing.

SECTION 2.3. *Registered Office; Registered Agent; Principal Office; Other Offices.*

Unless and until changed by the General Partner by filing an amendment to the Certificate of Limited Partnership (and upon any such filing this Agreement shall be deemed automatically amended to change the registered office and the registered agent of the Partnership), the registered office of the Partnership in the State of Delaware is located at 1209 Orange Street, Wilmington, Delaware 19801, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office is The Corporation Trust Company. The principal office of the Partnership is located at 590 Madison Avenue, 32nd Floor, New York, NY 10022 or such other place as the General Partner in its sole discretion may from time to time designate by notice to the Limited Partners. The Partnership may maintain offices at such other place or places within or outside the State of Delaware as the General Partner deems necessary or appropriate. The address of the General Partner is 590 Madison Avenue, 32nd Floor, New York, NY 10022 or such other place as the General Partner may from time to time designate by notice to the Limited Partners.

SECTION 2.4. *Purpose and Business.*

The purpose and nature of the business to be conducted by the Partnership shall be to (a) act as a diversified holding company and engage directly in, or enter into or form any corporation, partnership, joint venture, limited liability company or other arrangement to engage indirectly in, any business activity that is approved by the General Partner in its sole discretion and that lawfully may be conducted by a limited partnership organized pursuant to the Delaware Limited Partnership Act and, in connection therewith, to exercise all of the rights and powers conferred upon the Partnership pursuant to the agreements relating to such business activity; and (b) do anything necessary or appropriate to the foregoing, including the making of capital contributions or loans to a Group Member. To the fullest extent permitted by law, the General Partner shall have no duty or obligation to the Partnership or any Limited Partner or Record Holder to propose or approve, and in its discretion may decline to propose or approve, the conduct by the Partnership of any business.

SECTION 2.5. *Powers.*

The Partnership shall be empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described in Section 2.4 and for the protection and benefit of the Partnership.

SECTION 2.6. *Power of Attorney.*

(a) Each Limited Partner and Record Holder hereby constitutes and appoints the General Partner and, if a Liquidator (other than the General Partner) shall have been selected pursuant to Section 12.3, the Liquidator, severally (and any successor to the Liquidator by merger, transfer, assignment, election or otherwise) and each of their authorized managers and officers and attorneys-in-fact, as the case may be, with full power of substitution, as his true and lawful agent and attorney-in-fact, with full power and authority in his name, place and stead, to:

(i) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (A) all certificates, documents and other instruments (including this Agreement and the Certificate of Limited Partnership and all amendments or restatements hereof or thereof) that the General Partner or the Liquidator determines to be necessary or appropriate to form, qualify or continue the existence or qualification of the Partnership as a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware and in all other jurisdictions in which the Partnership may conduct business or own property; (B) all certificates, documents and other instruments that the General Partner or the Liquidator determines to be necessary or appropriate to reflect, in accordance with its terms, any amendment, change, modification or restatement of this Agreement authorized in accordance with the terms of this Agreement; (C) all certificates, documents and other instruments (including conveyances and a certificate of cancellation) that the General Partner or the Liquidator determines to be necessary or appropriate to reflect the dissolution and termination of the Partnership pursuant to the terms of this Agreement; (D) all certificates, documents and other instruments (including this Agreement and the Certificate of Limited Partnership and all amendments or restatements hereof or thereof) relating to the admission, withdrawal, removal or substitution of any Partner pursuant to, or other events described in, this Agreement; (E) all certificates, documents and other instruments relating to the determination of the rights, preferences and privileges of any class or series of Partnership Securities issued pursuant to Section 5.5; and (F) all certificates, documents and other instruments (including agreements and a certificate of merger or consolidation or similar certificate) relating to a merger, consolidation, combination or conversion of the Partnership pursuant to Article XIV; and

(ii) execute, swear to, acknowledge, deliver, file and record all ballots, consents, approvals, waivers, certificates, documents and other instruments that the General Partner or the Liquidator determines to be necessary or appropriate to (A) make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action that is made or given by the Partners hereunder or is consistent with the terms of this Agreement or (B) to effectuate the terms or intent of this Agreement; provided that when required by Section 13.3 or any other provision of this Agreement that establishes a certain percentage of the Limited Partners or of the Limited Partners of any class or series required to take any action, the General Partner and the Liquidator may exercise the power of attorney made in this Section 2.6(a)(ii) only after the necessary vote, consent or approval of such percentage of the Limited Partners or of the Limited Partners of such class or series, as applicable.

Nothing contained in this Section 2.6(a) shall be construed as authorizing the General Partner to amend this Agreement except in accordance with Article XIII or as may be otherwise expressly provided for in this Agreement.

(b) The foregoing power of attorney is hereby declared to be irrevocable and a power coupled with an interest, and it shall survive and, to the maximum extent permitted by law, shall not be affected by the subsequent death, incompetency, disability, incapacity, dissolution, bankruptcy or termination of any Limited Partner or Record Holder and the transfer of all or any portion of such Limited Partner's or Record Holder's Partnership Interest and shall extend to such Limited Partner's or Record Holder's heirs, successors, assigns, transferees and personal representatives. Each such Limited Partner or Record Holder hereby agrees to be bound by any representation made by the General Partner or the Liquidator acting in good faith pursuant to such power of attorney; and each such Limited Partner or Record Holder, to the maximum extent permitted by law, hereby waives any and all defenses that may be available to contest, negate or disaffirm the action of the General Partner or the Liquidator taken in good faith under such power of attorney. Each Limited Partner and Record Holder shall execute and deliver to the General Partner or the Liquidator, within 15 days after receipt of the request therefor, such further designation, powers of attorney and other instruments as the General Partner or the Liquidator may request in order to effectuate this Agreement and the purposes of the Partnership.

SECTION 2.7. *Term.*

The term of the Partnership commenced upon the filing of the Certificate of Limited Partnership in accordance with the Delaware Limited Partnership Act and shall continue until the dissolution of the Partnership in accordance with the provisions of Article XII. The existence of the Partnership as a separate legal entity shall continue until the cancellation of the Certificate of Limited Partnership as provided in the Delaware Limited Partnership Act.

SECTION 2.8. *Title to Partnership Assets.*

Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner, one or more of its Affiliates, or with Special Director Approval, one or more nominees, as the General Partner may determine. The General Partner hereby declares and warrants that any Partnership assets for which record title is held in the name of the General Partner or one or more of its Affiliates or one or more nominees shall be held by the General Partner or such Affiliate or nominee for the sole and exclusive use and benefit of the Partnership in accordance with the provisions of this Agreement; provided however, that the General Partner shall use reasonable efforts to cause record title to such assets (other than those assets in respect of which the General Partner in its sole discretion determines that the expense and difficulty of conveyancing makes transfer of record title to the Partnership impracticable) to be vested in the Partnership as soon as reasonably practicable; provided further that prior to the withdrawal or removal of the General Partner or as soon thereafter as practicable, the General Partner shall use reasonable efforts to effect the transfer of record title to the Partnership and, prior to any such transfer, will provide for the use of such assets in a manner satisfactory to the General Partner. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which record title to such Partnership assets is held.

SECTION 2.9. *Certain Undertakings Relating to the Separateness of the Partnership.*

(a) *Separateness Generally*. The Partnership shall conduct its business and operations separate and apart from those of any other Person (other than the General Partner) in accordance with this Section 2.9.

(b) *Separate Records*. The Partnership shall maintain (i) its books and records, (ii) its accounts, and (iii) its financial statements separate from those of any other Person except its consolidated Subsidiaries.

(c) *No Effect*. Failure by the General Partner or the Partnership to comply with any of the obligations set forth above shall not affect the status of the Partnership as a separate legal entity, with its separate assets and separate liabilities.

ARTICLE III

RIGHTS OF LIMITED PARTNERS

SECTION 3.1. *Limitation of Liability.*

The Limited Partners shall have no liability under this Agreement except as expressly provided in this Agreement or the Delaware Limited Partnership Act.

SECTION 3.2. *Management of Business.*

No Limited Partner, in its capacity as such, shall by virtue of its rights, powers or authority under this Agreement, be deemed to participate in the operation, management or control (within the meaning of the Delaware Limited Partnership Act) of the Partnership's business, transact any business in the Partnership's name or have the power to sign documents for or otherwise bind the Partnership. Any action taken by any Affiliate of the General Partner or any Limited Partner or any officer, director, employee, manager, member, general partner, agent or trustee of the General Partner, any Limited Partner or any of their respective Affiliates, or any officer, director, employee, manager, member, general partner, agent or trustee of a Group Member, in its capacity as such, shall not be deemed to be participation in the control of the business of the Partnership by a limited partner of the Partnership (within the meaning of Section 17-303(a) of the Delaware Limited Partnership Act) and shall not affect, impair or eliminate the limitations on the liability of the Limited Partners under this Agreement.

SECTION 3.3. *Outside Activities of the Limited Partners.*

Any Limited Partner, directly or indirectly, through Affiliates or otherwise, shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership Group. Neither the Partnership nor any of the other Partners shall have any rights by virtue of this Agreement or otherwise in any business ventures, direct or indirect, of any kind or character, of any Limited Partner, its Affiliates or otherwise.

SECTION 3.4. *Rights of Limited Partners.*

(a) In addition to other rights provided by this Agreement or by applicable law, and except as limited by Sections 3.4(b) and (c), each Limited Partner shall have the right, upon written demand, and for not later than five days following such demand, at such Limited Partner's expense:

(i) promptly after its becoming available, to obtain a copy of the Partnership's U.S. federal, state and local income tax returns for each year; and

(ii) to obtain a copy of this Agreement and the Certificate of Limited Partnership and all amendments thereto, together with a copy of the executed copies of all powers of attorney pursuant to which this Agreement, the Certificate of Limited Partnership and all amendments thereto have been executed.

(b) Notwithstanding the foregoing, no Limited Partner shall be entitled to obtain a list of the names or addresses of the Limited Partners; provided, however, that if a Limited Partner has made or intends to make or is considering making a proxy solicitation in connection with a meeting of the Limited Partners or action by written consent, or otherwise desires to communicate with Limited Partners, then upon the written request by any Limited Partner or Record Holder of Units entitled to vote at the meeting or to execute a written consent, and upon the execution of a customary confidentiality agreement, and for the limited purpose set forth therein, the General Partner shall either (i) provide the requesting Limited Partner or Record Holder with a list of the names and addresses of the Limited Partners or (ii) mail the requesting Limited Partner's or Record Holder's materials to the Limited Partners in connection with such meeting of the Limited Partners or action by written consent.

(c) The General Partner may keep confidential from the Limited Partners, for such period of time as the General Partner determines in its sole discretion, (i) any information that the General Partner reasonably believes to be in the nature of trade secrets or (ii) other information the disclosure of which the General Partner believes (A) is not in the best interests of the Partnership Group, (B) could damage the Partnership Group or its business or (C) that any Group Member is required by law or by agreement with any third party to keep confidential (other than agreements with Affiliates of the Partnership the primary purpose of which is to circumvent the obligations set forth in this Section 3.4).

SECTION 3.5. *Non-Voting Interests of BHC Partners.*

(a) Any Limited Partner Interest held for its own account by a BHC Partner that is determined at the time of admission of such BHC Partner to be in excess of 4.99% (or such lesser or greater percentage as may be permitted under Section 4(c)(6) of the BHCA or other applicable law) of the total Limited Partner Interests, excluding, for purposes of calculating this percentage, portions of any other Limited Partner Interests that are non-voting interests pursuant to this Section 3.5 (collectively, the "*Non-Voting Interests*"), shall be a Non-Voting Interest (whether or not subsequently transferred in whole or in part to any other Person except as provided in Section 3.5(d)). Upon the admission of any additional Limited Partner to the Partnership or any reduction of the total Limited Partner Interests (whether as a result of repurchases of Limited Partner Interests by the Partnership or otherwise), recalculation of the Limited Partner Interests held by all BHC Partners shall be made, and only that portion of the total Limited Partner Interests held by each BHC Partner (which shall include, solely for the purpose of calculating the total Limited Partner Interest of such BHC Partner, any Limited Partner Interest other than a Non-Voting Interest previously transferred by such BHC Partner to a Person who was a Limited Partner at the time of transfer) that is determined as of the date of such admission or reduction to be in excess of 4.99% (or such lesser or greater percentage as may be permitted under Section 4(c)(6) of the BHCA or other applicable law) of the total Limited Partner Interests, excluding Non-Voting Interests as of such date, shall be a Non-Voting Interest. Non-Voting Interests shall not be entitled to be voted on any matter and shall not be considered to be Outstanding when sending notices of a meeting of Limited Partners to vote on any matter (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes under this Agreement.

(b) For purposes of this Agreement, the term "*BHC Partner*" shall mean any Limited Partner that is a bank holding company or a financial holding company, as defined in the BHCA or a non-bank subsidiary of such holding company and that receives its Limited Partner Interest as a distribution by SP II Master Fund or any of its Affiliates following the Exchange. For the avoidance of doubt, the term "BHC Partner" shall not include any Limited Partner that does not receive its Limited Partner Interest as a distribution by SP II Master Fund or any of its Affiliates following the Exchange, regardless of whether it is a bank holding company or a financial holding company under the BHCA.

(c) Upon the request of any BHC Partner owning any Non-Voting Interests, the Partnership shall issue to such BHC Partner one or more certificates evidencing such Non-Voting Interests with such restrictive legends, including legends regarding the voting restrictions of the Non-Voting Interests, as the General Partner shall determine in its sole discretion.

(d) A Non-Voting Interest shall cease to be a Non-Voting Interest and shall be entitled to the full voting and approval rights of Common Units in the event that such Non-Voting Interest is transferred: (i) to the public in an offering registered under the Securities Act; (ii) in a transaction pursuant to Rule 144 or Rule 144A under the Securities Act in which no person acquires more than 2% of the Partnership's total Limited Partner Interests; or (iii) in a single transaction to a third party who acquires at least a majority of the Partnership's total Limited Partner Interests without regard to the transfer of any Non-Voting Interests.

(e) Except as provided in this Section 3.5 and elsewhere in this Agreement, a Limited Partner Interest evidenced by a Non-Voting Interest shall be identical in all regards to a Limited Partner Interest evidenced by Common Units.

ARTICLE IV

CERTIFICATES; RECORD HOLDERS; TRANSFER OF PARTNERSHIP INTERESTS

SECTION 4.1. *Certificates.*

Upon the Partnership's issuance of Common Units to any Person, the Partnership shall issue, upon the request of such Person, one or more Certificates in the name of such Person evidencing the number of such Common Units being so issued. In addition, (a) upon the General Partner's request, the Partnership shall issue to it one or more Certificates in the name of the General Partner evidencing its General Partner Interest and (b) upon the request of any Person owning any Partnership Securities other than Common Units, the Partnership shall issue to such Person one or more certificates evidencing such Partnership Securities other than Common Units. Certificates shall be executed on behalf of the Partnership by the General Partner (and by any appropriate officer of the General Partner on behalf of the General Partner).

No Certificate evidencing Common Units shall be valid for any purpose until it has been countersigned by the Transfer Agent, which the Partnership shall cause to occur as promptly as possible; provided however that if the General Partner elects to issue Common Units in global form, the Certificates evidencing Common Units shall be valid upon receipt of a certificate from the Transfer Agent certifying that the Certificates evidencing Common Units have been duly registered in accordance with the directions of the Partnership.

SECTION 4.2. *Mutilated, Destroyed, Lost or Stolen Certificates.*

(a) If any mutilated Certificate evidencing Common Units is surrendered to the Transfer Agent or any mutilated Certificate evidencing other Partnership Securities is surrendered to the General Partner, the appropriate officers of the General Partner on behalf of the General Partner on behalf of the Partnership shall execute, and, if applicable, the Transfer Agent shall countersign and deliver in exchange therefor, a new Certificate evidencing the same number and type of Partnership Securities as the Certificate so surrendered.

(b) The appropriate officers of the General Partner on behalf of the General Partner on behalf of the Partnership shall execute and deliver, and, if applicable, the Transfer Agent shall countersign a new Certificate in place of any Certificate previously issued if the Record Holder of the Certificate:

(i) makes proof by affidavit, in form and substance satisfactory to the General Partner, that a previously issued Certificate has been lost, destroyed or stolen;

(ii) requests the issuance of a new Certificate before the General Partner has notice that the Certificate has been acquired by a purchaser for value in good faith and without notice of an adverse claim;

(iii) if requested by the General Partner, delivers to the General Partner a bond, in form and substance satisfactory to the General Partner, with surety or sureties and with fixed or open penalty as the General Partner, in its sole discretion, may direct to indemnify the Partnership, the Partners, the General Partner and, if applicable, the Transfer Agent against any claim that may be made on account of the alleged loss, destruction or theft of the Certificate; and

(iv) satisfies any other reasonable requirements imposed by the General Partner.

If a Record Holder fails to notify the General Partner within a reasonable period of time after he has notice of the loss, destruction or theft of a Certificate, and a transfer of the Limited Partner Interests represented by the Certificate is registered before the Partnership, the General Partner or the Transfer Agent receives such notification, the Record Holder shall be precluded from making any claim against the Partnership, the General Partner or the Transfer Agent for such transfer or for a new Certificate.

(c) As a condition to the issuance of any new Certificate under this Section 4.2, the General Partner may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Transfer Agent or counsel to the Partnership, if applicable) reasonably connected therewith.

SECTION 4.3. *Record Holders.*

The Partnership shall be entitled to recognize the Record Holder as the owner with respect to any Partnership Interest and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Partnership Interest on the part of any other Person, regardless of whether the Partnership shall have actual or other notice thereof, except as otherwise provided by law or any applicable rule, regulation, guideline or requirement of any National Securities Exchange on which such Partnership Interests are listed for trading. Without limiting the foregoing, when a Person (such as a broker, dealer, bank, trust company or clearing corporation or an agent of any of the foregoing) is acting as nominee, agent or in some other representative capacity for another Person in acquiring and/or holding Partnership Interests, as between the Partnership on the one hand, and such other Persons on the other, such representative Person shall be the Record Holder of such Partnership Interest.

SECTION 4.4. *Transfer Generally.*

(a) The term “transfer,” when used in this Agreement with respect to a Partnership Interest, shall be deemed to refer to a transaction (i) by which the General Partner assigns its General Partner Interest to another Person who becomes the General Partner, and includes a sale, assignment, gift, pledge, encumbrance, hypothecation, mortgage, exchange, or any other disposition by law or otherwise or (ii) by which the holder of a Limited Partner Interest assigns such Limited Partner Interest to another Person, and includes a sale, assignment, gift, exchange or any other disposition by law or otherwise, including any transfer upon foreclosure of any pledge, encumbrance, hypothecation or mortgage (but does not include any indirect transfers, such as due to a transfer of any interest in a Limited Partner).

(b) No Partnership Interest shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article IV and, if applicable, Section 5.4(d). Any transfer or purported transfer of a Partnership Interest not made in accordance with this Article IV and, if applicable, Section 5.4(d) shall be null and void.

(c) Nothing contained in this Agreement shall be construed to prevent a disposition by any member of the General Partner of any or all of the issued and outstanding limited liability company or other interests in the General Partner.

SECTION 4.5. *Registration and Transfer of Limited Partner Interests.*

(a) The General Partner shall keep or cause to be kept on behalf of the Partnership a register in which, subject to such reasonable regulations as it may prescribe and subject to the provisions of Section 4.5(b), the Partnership will provide for the registration and transfer of Limited Partner Interests. The Transfer Agent is hereby appointed registrar and transfer agent for the purpose of registering Common Units and transfers of such Common Units as herein provided. The Partnership shall not recognize transfers of Certificates evidencing Limited Partner Interests unless such transfers are effected in the manner described in this Section 4.5. Upon surrender of a Certificate for registration of transfer of any Limited Partner Interests evidenced by a Certificate, and subject to the provisions of Section 4.5(b), the appropriate officers of the General Partner on behalf of the General Partner on behalf of the Partnership shall execute and deliver, and in the case of Common Units, the Transfer Agent shall countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder’s instructions, one or more new Certificates evidencing the same aggregate number and type of Limited Partner Interests as was evidenced by the Certificate so surrendered.

(b) The Partnership shall not recognize any transfer of Limited Partner Interests evidenced by Certificates until the Certificates evidencing such Limited Partner Interests are surrendered for registration of transfer. No charge shall be imposed by the General Partner for such transfer; provided that as a condition to the issuance of any new Certificate under this Section 4.5, the General Partner may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed with respect thereto.

(c) Subject to (i) the foregoing provisions of this Section 4.5, (ii) Section 4.3, (iii) Section 4.7, (iv) with respect to any series of Limited Partner Interests, the provisions of any statement of designations or amendment to this Agreement establishing such series, (v) any contractual provisions binding on any Limited Partner and (vi) provisions of applicable law including the Securities Act, Limited Partnership Interests shall be freely transferable. Partnership Interests may also be subject to any transfer restrictions contained in any employee related policies or equity benefit plans, programs or practices adopted on behalf of the Partnership pursuant to Section 7.4(e) and under which such interests were issued.

SECTION 4.6. *Transfer of the General Partner's General Partner Interest.*

(a) Subject to Section 4.6(c) below, the Partnership shall not transfer all or any part of its interests in the General Partner, and the General Partner shall not transfer all or any part of its General Partner Interest to a Person (other than the Partnership or a Subsidiary of the Partnership) unless such transfer (i) has been approved by the prior written consent or vote of Limited Partners holding at least 66⅔% of the voting power of the Outstanding Voting Units (including Voting Units held by the General Partner or its Affiliates), (ii) is of all, but not less than all, of its General Partner Interest to (A) an Affiliate of the General Partner (other than an individual) or (B) subject to Special Director Approval, another Person (other than an individual) in connection with the merger or consolidation of the General Partner with or into another Person (other than an individual) or the transfer by the General Partner of all, but not less than all, of its General Partner Interest to another Person (other than an individual) or (iii) the transfer by Steel Partners II GP LLC of the General Partnership Interest to Steel Partners Holdings GP LLC, a Delaware limited partnership and wholly-owned subsidiary of the Partnership pursuant to the terms of the Exchange Agreement. Notwithstanding anything herein to the contrary, the Limited Partnership Interests issued to the General Partner pursuant to Section 5.1(d), shall be freely transferable by Steel Partners II GP Inc. to any successor General Partner.

(b) Subject to Section 4.6(c) below, in the event the Management Agreement is terminated, the General Partner may transfer all or any part of its General Partner Interest without Unitholder approval.

(c) Notwithstanding anything herein to the contrary, no transfer by the General Partner of all or any part of its General Partner Interest to another Person shall be permitted unless (i) the transferee agrees to assume the rights and duties of the General Partner under this Agreement and to be bound by the provisions of this Agreement and (ii) the Partnership receives an Opinion of Counsel that such transfer would not result in the loss of limited liability of any Limited Partner. In the case of a transfer pursuant to and in compliance with this Section 4.6, the transferee or successor (as the case may be) shall, subject to compliance with the terms of Section 10.3, be admitted to the Partnership as the General Partner effective immediately prior to the transfer of such General Partner Interest, and the business of the Partnership shall continue without dissolution.

SECTION 4.7. *Restrictions on Transfers.*

(a) Except as provided in Section 4.7(c) below, but notwithstanding the other provisions of this Article IV, no transfer of any Partnership Interests shall be made if such transfer would (i) violate the then applicable U.S. federal or state securities laws or rules and regulations of the Commission, any state securities commission or any other governmental authority with jurisdiction over such transfer, (ii) terminate the existence or qualification of the Partnership under the laws of the jurisdiction of its formation, (iii) cause the Partnership to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for U.S. federal income tax purposes (to the extent not already so treated or taxed), or (iv) cause the Partnership to be subjected to the provisions of the U.S. Investment Company Act of 1940, as amended.

(b) The General Partner may impose restrictions on the transfer of Partnership Interests if it receives an Opinion of Counsel that such restrictions are necessary to avoid a significant risk of (i) the Partnership becoming taxable as a corporation or otherwise becoming taxable as an entity for U.S. federal income tax purposes or (ii) the Partnership being subjected to the provisions of the U.S. Investment Company Act of 1940, as amended. The General Partner may impose such restrictions by amending this Agreement; provided however, that any amendment that would result in the delisting or suspension of trading of any class of Limited Partner Interests on the principal National Securities Exchange on which such class of Limited Partner Interests is then traded must have, prior to such amendment being effected, Special LP Approval.

(c) Nothing contained in this Article IV, or elsewhere in this Agreement, shall preclude the settlement of any transactions involving Partnership Interests entered into through the facilities of any National Securities Exchange on which such Partnership Interests are listed for trading.

(d) Each Certificate evidencing Partnership Interests shall bear a conspicuous legend in substantially the following form or such other form as the General Partner shall determine in its sole discretion:

> THE HOLDER OF THIS SECURITY ACKNOWLEDGES FOR THE BENEFIT OF STEEL PARTNERS HOLDINGS L.P. THAT THIS SECURITY MAY NOT BE SOLD, OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IF SUCH TRANSFER WOULD (A) VIOLATE THE THEN APPLICABLE FEDERAL OR STATE SECURITIES LAWS OR RULES AND REGULATIONS OF THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER GOVERNMENTAL AUTHORITY WITH JURISDICTION OVER SUCH TRANSFER, (B) TERMINATE THE EXISTENCE OR QUALIFICATION OF STEEL PARTNERS HOLDINGS L.P. UNDER THE LAWS OF THE STATE OF DELAWARE, C) CAUSE STEEL PARTNERS HOLDINGS L.P. TO BE TREATED AS AN ASSOCIATION TAXABLE AS A CORPORATION OR OTHERWISE TO BE TAXED AS AN ENTITY FOR FEDERAL INCOME TAX PURPOSES (TO THE EXTENT NOT ALREADY SO TREATED OR TAXED), OR (D) CAUSE STEEL PARTNERS HOLDINGS L.P. TO BE SUBJECTED TO THE PROVISIONS OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED. STEEL PARTNERS HOLDINGS GP INC., THE GENERAL PARTNER OF STEEL PARTNERS HOLDINGS L.P., MAY IMPOSE ADDITIONAL RESTRICTIONS ON THE TRANSFER OF THIS SECURITY IF IT RECEIVES AN OPINION OF COUNSEL THAT SUCH RESTRICTIONS ARE NECESSARY TO AVOID A SIGNIFICANT RISK OF STEEL PARTNERS HOLDINGS L.P. BECOMING TAXABLE AS A CORPORATION OR OTHERWISE BECOMING TAXABLE AS AN ENTITY FOR FEDERAL INCOME TAX PURPOSES OR CAUSING STEEL PARTNERS HOLDINGS L.P. TO BE SUBJECTED TO THE PROVISIONS OF THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED. THE RESTRICTIONS SET FORTH ABOVE SHALL NOT PRECLUDE THE SETTLEMENT OF ANY TRANSACTIONS INVOLVING THIS SECURITY ENTERED INTO THROUGH THE FACILITIES OF ANY NATIONAL SECURITIES EXCHANGE ON WHICH THIS SECURITY IS TRADED.

SECTION 4.8. *Redemption of Partnership Interests of Certain Limited Partners.*

(a) If at any time the General Partner shall obtain an Opinion of Counsel to the effect that the ownership by a Limited Partner of a Limited Partner Interest would cause the Partnership or the General Partner to be in violation of, or to the effect that such Limited Partner is in violation of, the U.S. Bank Secrecy Act, the U.S. Money Laundering Act of 1986, the U.S. International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, the USA Patriot Act, or any other law or regulation to which the Partnership, the General Partner, or such Limited Partner's investment in the Partnership may be subject from time to time, or, if at any time the General Partner, in its sole discretion, determines that the ownership by a Limited Partner that is an ERISA Limited Partner would create a substantial likelihood that the assets of the Partnership would be deemed to be "plan assets" for purposes of ERISA or the Code, or, if at any time the General Partner, in its sole discretion, determines that the ownership by a Limited Partner would create a substantial likelihood that the Partnership would become subjected to the provisions of the U.S. Investment Company Act of 1940, as amended, or if at any time a Limited Partner fails to furnish information requested within the 30-day period specified in Section 4.8(b), the General Partner, in its sole discretion, may cause the Partnership to redeem the Limited Partner Interest of such Limited Partner as follows:

(i) The General Partner shall, not later than the 30th day before the date fixed for redemption, give notice of redemption to the Limited Partner, at its last address designated on the records of the Partnership or the Transfer Agent, by registered or certified mail, postage prepaid. The notice shall be deemed to have been given when so mailed. The notice shall specify the Redeemable Interests, the date fixed for redemption, the place of payment, that payment of the redemption price will be made upon the redemption of the Redeemable Interests (or, if later in the case of Redeemable Interests evidenced by Certificates, upon surrender of the Certificates evidencing such Redeemable Interests) and that on and after the date fixed for redemption no further allocations or distributions to which the Limited Partner would otherwise be entitled in respect of the Redeemable Interests will accrue or be made.

(ii) The aggregate redemption price for Redeemable Interests shall be an amount equal to the Current Market Price (the date of determination of which shall be the date fixed for redemption) of Limited Partner Interests of the class to be so redeemed multiplied by the number of Limited Partner Interests of each such class included among the Redeemable Interests. The redemption price shall be paid as determined by the General Partner in its sole discretion, in cash or by delivery of a promissory note of the Partnership in the principal amount of the redemption price, bearing interest annually at the midterm applicable federal rate for the month of the redemption as defined in Section 1274(d) of the Code and payable in five equal annual installments of principal together with accrued interest, commencing one year after the redemption date.

(iii) The Limited Partner or its duly authorized representative shall be entitled to receive the payment for Redeemable Interests at the place of payment specified in the notice of redemption on the redemption date (or, if later in the case of Redeemable Interests evidenced by Certificates, upon surrender by or on behalf of the Limited Partner, at the place specified in the notice of redemption, of the Certificates, evidencing the Redeemable Interests, duly endorsed in blank or accompanied by an assignment duly executed in blank).

(iv) After the redemption date, Redeemable Interests shall no longer constitute issued and Outstanding Limited Partner Interests.

(b) Each Limited Partner shall, upon written request from the General Partner, promptly furnish to the General Partner such information as the General Partner may reasonably request from time to time in order to make a determination pursuant to this Section 4.8, but in no event later than 30 days after such request.

(c) The provisions of this Section 4.8 shall also be applicable to Limited Partner Interests held by a Limited Partner as nominee of a Person.

ARTICLE V

CAPITAL CONTRIBUTIONS AND ISSUANCE OF PARTNERSHIP INTERESTS

SECTION 5.1. *Organizational Contributions and Issuances of Common Units.*

(a) In connection with the formation of the Partnership under the Delaware Limited Partnership Act, the Organizational Limited Partner made an initial Capital Contribution to the Partnership in the amount of $100.00 for a 100% Limited Partner Interest in the Partnership and has been admitted as a Limited Partner of the Partnership. On the Merger Closing Date, the Capital Contribution of the Organizational Limited Partner was returned, without interest, the Organizational Limited Partner withdrew from the Partnership, and the Organizational Limited Partner, as such, ceased to have any further rights, claims or interests as a Partner in and to the Partnership.

(b) On the Merger Closing Date, in connection with the closing of the Merger, each WebFinancial Investor was issued one (1) regular Common Unit for each share of common stock of WebFinancial owned by such WebFinancial Investor. The aggregate number of regular Common Units issued to WebFinancial Investors in connection with the closing of the Merger was 2,183,366.

(c) On the Exchange Closing Date, in connection with the closing of the Exchange, SP II Master Fund contributed to the Partnership its 100% limited partnership interest in SP II and in exchange, SP II Master Fund initially received 61,056,571 regular Common Units, of which 59,186,007 regular Common Units are subject to adjustments pursuant to the Exchange Agreement.

(d) On the Exchange Closing Date, the General Partner made a Capital Contribution to the Partnership in the amount of $10,000.00 and was issued 497 regular Common Units in its capacity as a Limited Partner in consideration for such Capital Contribution.

(e) No Limited Partner shall be obligated to make any additional Capital Contributions to the Partnership.

SECTION 5.2. *Contributions by the General Partner and its Affiliates.*

The General Partner shall not be obligated to make any additional Capital Contributions to the Partnership.

SECTION 5.3. *Interest and Withdrawal.*

No interest on Capital Contributions shall be paid by the Partnership. No Partner shall be entitled to the withdrawal or return of its Capital Contribution, except to the extent, if any, that distributions made pursuant to this Agreement or upon dissolution of the Partnership may be considered as such by law and then only to the extent provided for in this Agreement. Except to the extent expressly provided in this Agreement, no Partner shall have priority over any other Partner either as to the return of Capital Contributions or as to profits, losses or distributions. Any such return shall be a compromise to which all Partners agree within the meaning of Section 17-502(b) of the Delaware Limited Partnership Act.

SECTION 5.4. *Establishment of Class B Common Units*

(a) Pursuant to Section 5.5, the General Partner hereby designates and creates a class of Units to be designated as “Class B Common Units” and fixes the designations, preferences and relative, participating, optional or other special rights, powers and duties of holders of the Class B Common Units as set forth in this Section 5.4 and elsewhere in this Agreement. The General Partner shall be authorized to issue one or more series of Class B Common Units and the terms of this Section 5.4 shall govern each series of Class B Common Units. The reference in this Agreement to Class B Common Units shall include each series of Class B Common Units.

(b) Except as otherwise provided in this Agreement, each Class B Common Unit shall be identical to a regular Common Unit, and the holder of a Class B Common Unit shall have the rights of a holder of a regular Common Unit with respect to, without limitation, Partnership distributions and allocations of income, gain, loss or deductions.

(c) Each series of Class B Common Units held by a holder shall automatically convert into regular Common Units (with no further action required by such holder) when the Capital Account allocable to such series of Class B Common Units held by such holder as a percentage of the aggregate Capital Accounts of all holders of Common Units and Non-Voting Interests equals the Percentage Interest represented by such series of Class B Common Units held by such holder (“Capital Account Alignment”). The General Partner shall promptly notify each holder of Class B Common Units at such time that Capital Account Alignment has been achieved by such holder for such Class B Common Units.

(d) Prior to their conversion into regular Common Units, Class B Common Units may only be transferred in private transactions that allow the Partnership to track the transfer of such Class B Common Units. The holder of Class B Common Units shall notify the General Partner prior to any transfer of Class B Common Units.

(e) Without limiting the application of Section 6.2(b), the Partnership shall promote Capital Account Alignment through the special allocation of unrealized gains existing at the time of certain “mark-to-market events” to the holders of Class B Common Units. If Class B Common Units have not converted into Common Units prior to the liquidation of the Partnership, the Partnership shall also allocate specially items of gross taxable income and gain derived in connection with such liquidation to the holders of Class B Common Units until Capital Account Alignment has been achieved. For the avoidance of doubt, no unrealized loss or Net Loss shall be allocated with respect to a Class B Common Unit prior to the conversion of such Class B Common Unit into a regular Common Unit.

(f) If Capital Account Alignment is not reached at such time the Partnership makes liquidating distributions to its Partners, notwithstanding Section 12.4(c), a holders of Class B Common Units shall not be entitled to receive liquidating distributions in excess of its Capital Account.

SECTION 5.5. *Issuances of Additional Partnership Securities.*

(a) The Partnership may, with the approval of the Board of Directors, issue additional Partnership Securities and options, rights, warrants and appreciation rights relating to Partnership Securities for any Partnership purpose at any time and from time to time to such Persons for such consideration and on such terms and conditions as the General Partner shall determine in its sole discretion, all without the approval of any Limited Partners, including pursuant to Section 7.4(e); provided, however, that any issuance of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities to the General Partner, the Manager or any of their respective Affiliates (other than issuances to the Independent Directors pursuant to an incentive plan or program provided for in the Management Agreement) shall be subject to Section 7.9.

(b) Each additional Partnership Interest authorized to be issued by the Partnership pursuant to Section 5.5(a) or Section 7.4(e) may be issued in one or more classes, or one or more series of any such classes, with such designations, preferences, rights, powers and duties (which may be senior to existing classes and series of Partnership Securities), as shall be fixed by the Board of Directors, including (i) the right to share in the Partnership’s Net Income and Net Loss or items thereof; (ii) the right to share in Partnership distributions; (iii) the rights upon dissolution and liquidation of the Partnership; (iv) whether, and the terms and conditions upon which, the Partnership may or shall be required to redeem the Partnership Security (including sinking fund provisions); (v) whether such Partnership Interest is issued with the privilege of conversion or exchange and, if so, the terms and conditions of such conversion or exchange; (vi) the terms and conditions upon which each Partnership Interest will be issued, evidenced by certificates and assigned or transferred; (vii) the method for determining the Percentage Interest as to such Partnership Security; and (viii) the right, if any, of the holder of each such Partnership Interest to vote on Partnership matters, including matters relating to the relative designations, preferences, rights, powers and duties of such Partnership Interest.

(c) The General Partner is hereby authorized to take all actions that it determines to be necessary or appropriate in connection with (i) each issuance of Partnership Securities and options, rights, warrants and appreciation rights relating to Partnership Securities pursuant to this Section 5.5 or Section 7.4(e), including the admission of additional Limited Partners in connection therewith and any related amendment of this Agreement, (ii) each issuance of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities pursuant to any incentive plan or program (iii) all additional issuances of Partnership Securities and options, rights, warrants and appreciation rights relating to Partnership Securities. The General Partner shall determine, in its sole discretion, the relative rights, powers and duties of the holders of the Units or other Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities being so issued; provided, however, that the terms of any Partnership Interest to be issued to the General Partner, the Manager or any of their respective Affiliates (other than Partnership Interests to be issued to Independent Directors and Partnership Interests to be issued pursuant to an incentive plan or program provided for in the Management Agreement) shall be subject to Special Director Approval. The General Partner is authorized to do all things that it determines to be necessary or appropriate in connection with any future issuance of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities, including compliance with any statute, rule, regulation or guideline of any governmental agency or any National Securities Exchange on which the Units or other Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities are listed for trading.

SECTION 5.6. *Preemptive Rights.*

No Person shall have any preemptive, preferential or other similar right with respect to the issuance of any Partnership Security, whether unissued, held in the treasury or hereafter created.

SECTION 5.7. *Splits and Combinations.*

(a) Subject to Section 5.7(d), the General Partner may cause the Partnership to make a Pro Rata distribution of Partnership Securities to all Record Holders or may effect a subdivision or combination of Partnership Securities so long as, after any such event, each Partner shall have the same Percentage Interest in the Partnership as before such event, and any amounts calculated on a per Unit basis or stated as a number of Units are proportionately adjusted retroactive to the beginning of the Partnership.

(b) Whenever such a distribution, subdivision or combination of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities is declared, the General Partner shall select a Record Date as of which the distribution, subdivision or combination shall be effective and shall send notice thereof at least 20 days prior to such Record Date to each Record Holder as of a date not less than 10 days prior to the date of such notice. The General Partner also may cause a firm of independent public accountants selected by it to calculate the number of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities to be held by each Record Holder after giving effect to such distribution, subdivision or combination. The General Partner shall be entitled to rely on any certificate provided by such firm as conclusive evidence of the accuracy of such calculation.

(c) Promptly following any such distribution, subdivision or combination, the Partnership may issue Certificates to the Record Holders of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities as of the applicable Record Date representing the new number of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities held by such Record Holders, or the General Partner may adopt such other procedures that it determines to be necessary or appropriate to reflect such changes. If any such combination results in a smaller total number of Partnership Securities Outstanding or outstanding options, rights, warrants or appreciation rights relating to Partnership Securities, the Partnership shall require, as a condition to the delivery to a Record Holder of any such new Certificate, the surrender of any Certificate held by such Record Holder immediately prior to such Record Date.

(d) The Partnership shall not be required to issue fractional Units upon any distribution, subdivision or combination of Units. If a distribution, subdivision or combination of Units would result in the issuance of fractional Units but for the provisions of this Section 5.7(d), the General Partner in its sole discretion may determine that each fractional Unit shall be rounded to the nearest whole Unit (and a 0.5 Unit shall be rounded to the next higher Unit).

SECTION 5.8. *Fully Paid and Non-Assessable Nature of Limited Partner Interests.*

All Limited Partner Interests issued pursuant to, and in accordance with the requirements of, this Article V shall be fully paid and non-assessable Limited Partner Interests in the Partnership, except as such non-assessability may be affected by Sections 17-607 or 17-804 of the Delaware Limited Partnership Act or this Agreement.

ARTICLE VI

ALLOCATIONS AND DISTRIBUTIONS

SECTION 6.1. *Maintenance of Capital Accounts.*

There shall be established for each Partner on the books of the Partnership as of the date such Partner becomes a Partner a capital account (each being a "Capital Account"). Each Capital Contribution by any Partner, if any, shall be credited to the Capital Account of such Partner on the date such Capital Contribution is made to the Partnership. In addition, each Partner's Capital Account shall be (a) credited with (i) such Partner's allocable share of Net Income of the Partnership and any item of income or gain (including unrealized gain to the extent allowable) that is specially allocated for Section 704(b) book purposes to such Partner pursuant to Section 6.2(b), and (ii) the amount of any Partnership liabilities that are assumed by the Partner or secured by any Partnership property distributed to the Partner, (b) debited with (i) the amount of distributions (and deemed distributions) to such Partner of cash or the fair market value of other property so distributed, (ii) such Partner's allocable share of Net Loss of the Partnership and any item of deduction or loss (including unrealized loss to the extent allowable) that is specially allocated for Section 704(b) book purposes to such Partner pursuant to Section 6.2(b), and (iii) the amount of any liabilities of the Partner assumed by the Partnership or which are secured by any property contributed by the Partner to the Partnership and (c) otherwise maintained in accordance with the provisions of the Code and the United States Treasury Regulations promulgated thereunder. Any other item which is required to be reflected in a Partner's Capital Account under Section 704(b) of the Code and the United States Treasury Regulations promulgated thereunder or otherwise under this Agreement shall be so reflected. The General Partner shall make such adjustments to Capital Accounts as it determines in its sole discretion to be appropriate to ensure allocations are made in accordance with a Partner's interest in the Partnership. Interest shall not be payable on Capital Account balances. Notwithstanding anything to the contrary contained in this Agreement, the General Partner shall maintain the Capital Accounts of the Partners in accordance with the principles and requirements set forth in Section 704(b) of the Code and the United States Treasury Regulations promulgated thereunder, provided, however, for purposes of this Agreement, each holder of a series of Class B Common Units that is also a holder of regular Common Units and/or another series of Class B Common Units shall be deemed to have a separate Capital Account for each series of Class B Common Units and for such Common Units held by such holder.

SECTION 6.2. *Allocations.*

(a) Except as otherwise provided in Section 5.4(e) or Section 6.2(b), Net Income, Net Loss and all items of income, gain, loss and deduction taken into account in computing Net Income or Net Loss shall be determined on an annual basis and prorated on a monthly basis and shall be allocated to the Limited Partners as of the opening of the National Securities Exchange on which the regular Common Units are listed or admitted to trading on the first Business Day of each month, which allocations shall be made Pro Rata in accordance with the Partners' respective Percentage Interests; provided, however, that gain or loss on a sale or other disposition of any assets of the Partnership or any other extraordinary item of income or loss realized and recognized other than in the ordinary course of business, as determined by the General Partner, shall be allocated to the Limited Partners as of the opening of the National Securities Exchange on which the regular Common Units are listed or admitted to trading on the first Business Day of the month in which such income, gain, deduction or loss is recognized for federal income tax purposes, which allocations shall be made Pro Rata in accordance with the Partners' respective Percentage Interests. The General Partner may revise, alter or otherwise modify such methods of allocation to the extent permitted or required by Section 706 of the Code and the regulations or rulings promulgated thereunder. Until the regular Common Units are traded on a National Securities Exchange, this section shall be applied on the basis of the Limited Partners identified in the Partnership's register as of the first Business Day of each month.

(b) All items of income, gain, loss, deduction and credit of the Partnership shall be allocated among the Partners for U.S. federal, state and local income tax purposes consistent with the manner in which the corresponding constituent items of Net Income or Net Loss were allocated among the Partners pursuant to this Agreement, except as may otherwise be provided herein or by the Code. Notwithstanding the foregoing, the General Partner in its sole discretion shall make such allocations for tax purposes as may be needed to ensure that allocations are in accordance with the interests of the Partners in the Partnership, within the meaning of the Code and United States Treasury Regulations. The General Partner shall determine all matters concerning allocations for tax purposes not expressly provided for herein in its sole discretion. For the proper administration of the Partnership and for the preservation of uniformity of Partnership Interests (or any portion or class or classes thereof), the General Partner may (i) make special allocations of income, gain, loss or deduction, and, to the extent allowable, unrealized gain or unrealized loss, (ii) amend the provisions of this Agreement as appropriate (x) to reflect the proposal or promulgation of United States Treasury Regulations under Section 704(b) or Section 704(c) of the Code or (y) otherwise to preserve or achieve uniformity of Partnership Interests (or any portion or class or classes thereof), and (iii) adopt and employ or modify such conventions and methods as the General Partner determines in its sole discretion to be appropriate for (A) the determination for tax purposes of items of income, gain, loss, deduction and credit and the allocation of such items among Partners and between transferors and transferees under this Agreement and pursuant to the Code and the United States Treasury Regulations promulgated thereunder, (B) the determination of the identities and tax classification of Partners, (C) the valuation of Partnership assets and the determination of tax basis, (D) the allocation of asset values and tax basis, (E) the adoption and maintenance of accounting methods and (F) taking into account differences between the Carrying Values of Partnership assets and such assets' adjusted tax basis pursuant to Section 704(c) of the Code and the United States Treasury Regulations promulgated thereunder.

(c) In the event that a Partner partially or completely withdraws from the Partnership, the General Partner may, in its sole discretion, specially allocate items of Partnership gain or loss as applicable to the Partner's Capital Account for tax purposes to reduce the amount, if any, by which the amount distributable upon the withdrawal differs from that Partner's tax basis for its withdrawn interest in the Partnership.

(d) Allocations that would otherwise be made to a Partner under the provisions of this Article VI shall instead be made to the Beneficial Owner of Partnership Interests held by a nominee in any case in which the nominee has furnished the identity of such Beneficial Owner to the Partnership in accordance with Section 6031(c) of the Code or any other method determined by the General Partner in its sole discretion.

SECTION 6.3. *Requirement and Characterization of Distributions; Distributions to Record Holders.*

(a) The General Partner, in its sole discretion, may authorize distributions in cash or in kind by the Partnership to the Partners, which distributions shall be made Pro Rata in accordance with the Partners' respective Percentage Interests.

(b) The General Partner may treat taxes paid by the Partnership on behalf of, or amounts withheld with respect to, all or less than all of the Partners, as a distribution of cash to such Partners.

(c) Notwithstanding Section 6.3(a), in the event of the dissolution of the Partnership, all receipts received during or after the Quarter in which the Liquidation Date occurs shall be applied and distributed solely in accordance with, and subject to the terms and conditions of, Section 12.4.

(d) Each distribution in respect of a Partnership Interest shall be paid by the Partnership, directly or through the Transfer Agent or through any other Person or agent, only to the Record Holder of such Partnership Interest as of the Record Date set for such distribution. Such payment shall constitute full payment and satisfaction of the Partnership's liability in respect of such payment, regardless of any claim of any Person who may have an interest in such payment by reason of an assignment or otherwise.

(e) Notwithstanding any provision to the contrary contained in this Agreement, the Partnership, and the General Partner on behalf of the Partnership, shall not be required to make a distribution to a Partner or a Record Holder if such distribution would violate the Delaware Limited Partnership Act or other applicable law.

SECTION 6.4. *Cash Distributions.*

On a quarterly basis until the quarter ending April 30, 2011 (the "*Final Distribution Date*"), the Partnership will distribute among the Unitholders as of each record date for such cash distribution cash equal to a minimum of fifty percent (50%) of the net proceeds from the sale or other disposition of portfolio securities, provided that such distributions shall not be made for any quarter in which such cumulative distributions would be less than $25 million. The target for such cumulative cash distributions through the Final Distribution Date shall be based upon a target of $200 million reduced proportionally based upon the percentage of the holdings of SP II's net assets that are distributed to the former limited partners of Steel Partners II (Onshore) LP and the former shareholders of Steel Partners II (Offshore) Ltd. who choose not to become Limited Partners; provided, however that such target shall be reduced for any distributions-in-kind (the "*Distribution Target*"). Any unused cash reserves distributed by the Partnership to the Limited Partners shall be applied towards the Distribution Target. Each Unitholder who is entitled to receive cash distributions as part of any subsequent cash distribution made through the Final Distribution Date, shall be permitted to elect (upon prior notice to the General Partner) to receive additional regular Common Units in lieu of the cash otherwise distributable to such Limited Partner. Distributions in regular Common Units will be based on the market price of the regular Common Units, except that cash distributions made prior to the listing of the regular Common Units on an exchange will be based on the net asset value of the regular Common Units.

ARTICLE VII

MANAGEMENT AND OPERATION OF BUSINESS

SECTION 7.1. *Management.*

(a) The General Partner shall conduct and direct all activities of the Partnership and shall manage the affairs of the Partnership for the benefit of all Partners. Except as otherwise expressly provided in this Agreement, all management powers over the business and affairs of the Partnership shall be exclusively vested in the General Partner, and no Limited Partner shall have any management power over the business and affairs of the Partnership. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or that are granted to the General Partner under any other provision of this Agreement, the General Partner, subject to Section 7.3 and the other express terms of this Agreement and of applicable law, shall have full power and authority to do all things and on such terms as it determines, in its sole discretion, to be necessary or appropriate to conduct the business of the Partnership, to exercise all powers set forth in Section 2.5 and to effectuate the purposes set forth in Section 2.4, including without limitation the following subject, however, to any prior approval that may be required by the terms of this Agreement:

(i) the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness, including indebtedness that is convertible or exchangeable into Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities, and the incurring of any other obligations;

(ii) the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over the business or assets of the Partnership;

(iii) the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of the assets of the Partnership or the merger or other combination of the Partnership with or into another Person;

(iv) the use of the assets of the Partnership (including cash on hand) for any purpose consistent with the terms of this Agreement, including the financing of the conduct of the operations of the Partnership Group; subject to Section 7.6(a), the lending of funds to other Persons; the repayment or guarantee of obligations of any Group Member and the making of capital contributions to any Group Member;

(v) the delegation of any of its duties hereunder to manage the operations and assets of the Partnership to the Manager pursuant to the Management Agreement, or any other Person, whether or not an Affiliate of the General Partner or the Partnership, and in furtherance of such delegation, to appoint, employ or contract with any such Person as the General Partner may, in its sole discretion, deem necessary or desirable and to fix such Person's compensation, provided, however, that except as specifically provided in the Management Agreement, all of the Partnership's major policy, management and investment decisions shall be made by the General Partner, and if any such delegation is made to an Affiliate (including the Manager), such delegation shall be made on an arm's length basis;

(vi) the negotiation, execution and performance of any contracts, conveyances or other instruments (including instruments that limit the liability of the Partnership under contractual arrangements to all or particular assets of the Partnership, with the other party to the contract to have no recourse against the General Partner or its assets other than its interest in the Partnership, even if same results in the terms of the transaction being less favorable to the Partnership than would otherwise be the case);

(vii) the distribution of Partnership cash;

(viii) the selection and dismissal of employees (including employees having titles such as “president,” “vice president,” “secretary,” “treasurer” or any other titles the General Partner in its sole discretion may determine) and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring;

(ix) the maintenance of insurance for the benefit of the Partnership Group, the Partners and Indemnitees;

(x) the formation of, or acquisition of an interest in, and the contribution of property and the making of loans to, any further limited or general partnerships, joint ventures, limited liability companies, corporations or other relationships (including the acquisition of interests in, and the contributions of property to, the Partnership’s Subsidiaries from time to time) subject to the restrictions set forth in Section 2.4;

(xi) the control of any matters affecting the rights and obligations of the Partnership, including the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation, arbitration or mediation and the incurring of legal expense and the settlement of claims and litigation;

(xii) the indemnification of any Person against liabilities and contingencies to the extent permitted by law;

(xiii) the entering into of listing agreements with any National Securities Exchange and the delisting of some or all of the Limited Partner Interests from, or requesting that trading be suspended on, any such exchange (subject to any prior approval that may be required under Section 4.7);

(xiv) the purchase, sale or other acquisition or disposition of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities, including, but not limited to, buybacks of Partnership Securities through private transactions, open market purchases or tender offers in accordance with the Exchange Act or otherwise;

(xv) the undertaking of any action in connection with the Partnership’s participation in the management of the Partnership Group through its directors, officers or employees or the Partnership’s direct or indirect ownership of the Group Members; and

(xvi) the causing to be registered for resale under the Securities Act and applicable state or non-U.S. securities laws, any securities of, or any securities convertible or exchangeable into securities of, the Partnership held by any Person, including the General Partner or any Affiliate of the General Partner.

(b) In exercising its authority under this Agreement, the General Partner may, but shall be under no obligation to, take into account the tax consequences to any Partner (including the General Partner) of any action taken (or not taken) by it. The General Partner and the Partnership shall not have any liability to a Limited Partner for monetary damages or otherwise for losses sustained, liabilities incurred or benefits not derived by such Limited Partner in connection with such decisions so long as the General Partner has acted pursuant to its authority under this Agreement.

(c) Notwithstanding any other provision of this Agreement, the Delaware Limited Partnership Act or any applicable law, rule or regulation, each of the Partners and each other Person who may acquire an interest in Partnership Securities hereby (i) approves, ratifies and confirms the execution, delivery and performance by the parties thereto of this Agreement, the Management Agreement, the Exchange Agreement and all agreements, notices, consent forms and other documents or instruments in connection with, or contemplated by, the Merger and the Exchange; (ii) agrees that the General Partner (on its own or through any officer of the Partnership) is authorized to execute, deliver and perform the agreements referred to in clause (i) of this sentence on behalf of the Partnership without any further act, approval or vote of the Partners or the other Persons who may acquire an interest in Partnership Securities; and (iii) agrees that the execution, delivery or performance by the General Partner, any Group Member or any Affiliate of any of them, of this Agreement or any agreement authorized or permitted under this Agreement (including the exercise by the General Partner or any Affiliate of the General Partner of the rights accorded pursuant to Article XV), shall not constitute a breach by the General Partner of any duty that the General Partner may owe the Partnership or the Limited Partners or any other Persons under this Agreement (or any other agreements) or of any duty existing at law, in equity or otherwise.

SECTION 7.2. *Certificate of Limited Partnership.*

The General Partner has caused the Certificate of Limited Partnership to be filed with the Secretary of State of the State of Delaware as required by the Delaware Limited Partnership Act and the General Partner has caused an Amendment to the Certificate of Limited Partnership to be filed with the Secretary of State of the State of Delaware as required by the Delaware Limited Partnership Act for purposes of stating the name and address of the General Partner. The General Partner shall use all reasonable efforts to cause to be filed such other certificates or documents that the General Partner determines to be necessary or appropriate for the formation, continuation, qualification and operation of a limited partnership (or a partnership in which the limited partners have limited liability) in the State of Delaware or any other state in which the Partnership may elect to do business or own property. To the extent the General Partner determines such action to be necessary or appropriate, the General Partner shall file amendments to and restatements of the Certificate of Limited Partnership and do all things to maintain the Partnership as a limited partnership (or a partnership or other entity in which the limited partners have limited liability) under the laws of the State of Delaware or of any other state in which the Partnership may elect to do business or own property. Subject to the terms of Section 3.4(a), the General Partner shall not be required, before or after filing, to deliver or mail a copy of the Certificate of Limited Partnership, any qualification document or any amendment thereto to any Limited Partner.

In the event that the General Partner determines the Partnership should seek relief pursuant to Section 7704(e) of the Code to preserve the status of the Partnership as a partnership for U.S. federal (and applicable state) income tax purposes, the Partnership and each Partner shall agree to adjustments required by the tax authorities, and the Partnership shall pay such amounts as required by the tax authorities, to preserve the status of the Partnership as a partnership.

SECTION 7.3. *Restrictions on General Partner's Authority.*

Except as provided in Articles XII and XIV, the General Partner may not, directly or indirectly (through any other entity or person, by derivative, lease license, joint venture or otherwise), sell, exchange or otherwise dispose of all or any substantial part of the Partnership Group's assets, taken as a whole, in a single transaction or a series of related transactions without Special LP Approval; provided however that this provision shall not preclude or limit the General Partner's ability to mortgage, pledge, hypothecate or grant a security interest in all or substantially all of the assets of the Partnership Group (including for the benefit of Persons other than members of the Partnership Group, including Affiliates of the General Partner) and shall not apply to any forced sale of any or all of the assets of the Partnership Group pursuant to the foreclosure of, or other realization upon, any such encumbrance. Without Special LP Approval, the General Partner shall not, on behalf of the Partnership, except as permitted under Sections 4.6, 11.1 and 11.2, elect or cause the Partnership to elect a successor general partner of the Partnership.

SECTION 7.4. *Expenses; Reimbursement of the General Partner; Management Fees and Expenses.*

(a) Except as provided in this Section 7.4 and elsewhere in this Agreement, the General Partner shall not be compensated for its services as general partner or managing member of any Group Member.

(b) The Partnership shall bear all of its costs and expenses and all costs and expenses of the General Partner incurred in connection with acting in its capacity as General Partner and the performance of its duties as the General Partner, including all director fees and expenses, all accounting and administrative expenses, all insurance costs and all indemnification obligations.

(c) The General Partner shall be reimbursed on a monthly basis, or such other reasonable basis as the General Partner may determine, in its sole discretion, for all direct and indirect expenses it incurs or payments it makes for itself in connection with acting in its capacity as General Partner and the performance of its duties as the General Partner, and all direct and indirect expenses it incurs or payments it makes on behalf of the Partnership Group. Reimbursements pursuant to this Section 7.4 shall be in addition to any reimbursement to the General Partner as a result of indemnification pursuant to Section 7.7.

(d) The Partnership shall be responsible for, and shall pay in a timely manner, all fees payable by it to the Manager in accordance with the terms and subject to the conditions of the Management Agreement, and the Partnership shall reimburse the Manager for all costs and expenses provided for in the Management Agreement.

(e) The General Partner may, without the approval of the Limited Partners (who shall have no right to vote in respect thereof), propose and adopt on behalf of the Partnership Group equity benefit plans, programs and practices (including plans, programs and practices involving the issuance of or reservation of issuance of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities), or cause the Partnership to issue or to reserve for issuance Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities in connection with, or pursuant to, any such equity benefit plan, program or practice or any equity benefit plan, program or practice maintained or sponsored by the General Partner or any of its Affiliates in respect of services performed directly or indirectly for the benefit of the Partnership Group; provided, however, that the adoption of any equity benefit plans, programs and practices for the benefit of the General Partner, the Manager or any of their respective Affiliates and any issuance of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities to the General Partner, the Manager or any of their respective Affiliates (other than the adoption of an incentive plan or program solely for the benefit of Independent Directors or the adoption of an incentive plan or program provided for in the Management Agreement and any issuances of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities pursuant thereto) shall be subject to Section 7.9. The Partnership agrees to issue and sell to the General Partner or any of its Affiliates any Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities that the General Partner or such Affiliates are obligated to provide pursuant to any equity benefit plans, programs or practices maintained or sponsored by them in accordance with the preceding sentence. Expenses incurred by the General Partner in connection with any such plans, programs and practices (including the net cost to the General Partner or such Affiliates of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities purchased by the General Partner or such Affiliates from the Partnership to fulfill options or awards under such plans, programs and practices) shall be reimbursed in accordance with Sections 7.4(b) and (c). Any and all obligations of the General Partner under any equity benefit plans, programs or practices adopted by the General Partner as permitted by this Section 7.4(e) shall constitute obligations of the General Partner hereunder and shall be assumed by any successor General Partner approved pursuant to Section 11.1 or 11.2 or the transferee of or successor to all of the General Partner's General Partner Interest pursuant to Section 4.6.

SECTION 7.5. *Outside Activities.*

(a) The General Partner, for so long as it is a General Partner of the Partnership (i) agrees that its sole business will be to act as a general partner or managing member of the Partnership and any other partnership or limited liability company of which the Partnership is, directly or indirectly, a partner or member and to undertake activities that are ancillary or related thereto (including being a limited partner in the Partnership) and (ii) shall not engage in any business or activity or incur any debts or liabilities except in connection with or incidental to (A) its performance as general partner or managing member of one or more Group Members or (B) the acquiring, owning or disposing of debt or equity securities in any Group Member; provided, however, that the General Partner shall be permitted to continue to undertake any existing activities as of the date hereof.

(b) Except as specifically restricted by Section 7.5(a), each Indemnitee (other than the General Partner) shall have the right to engage in businesses of every type and description and other activities for profit and to engage in and possess an interest in other business ventures of any and every type or description, whether in businesses engaged in or anticipated to be engaged in by any Group Member, independently or with others, including business interests and activities in direct competition with the business and activities of any Group Member, and none of the same shall constitute a breach of this Agreement or any duty otherwise existing at law, in equity or otherwise to any Group Member or any Partner or Record Holder. None of any Group Member, any Limited Partner or any other Person shall have any rights by virtue of this Agreement or the partnership relationship established hereby in any business ventures of any Indemnitee.

(c) Subject to the terms of Section 7.5(a) and Section 7.5(b), but otherwise notwithstanding anything to the contrary in this Agreement, (i) the engaging in competitive activities by any Indemnitees (other than the General Partner) in accordance with the provisions of this Section 7.5 is hereby approved by the Partnership and all Partners, (ii) it shall be deemed not to be a breach of the General Partner's or any other Indemnitee's duties or any other obligation of any type whatsoever of the General Partner or any other Indemnitee for the Indemnitee (other than the General Partner) to engage in such business interests and activities in preference to or to the exclusion of any Group Member, (iii) the Indemnitees (other than the General Partner) shall have no obligation to present business opportunities to any Group Member.

(d) The General Partner and any of its Affiliates may acquire Units or other Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities and, except as otherwise expressly provided in this Agreement, shall be entitled to exercise all rights of a General Partner or Limited Partner, as applicable, relating to such Units or Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities.

SECTION 7.6. *Loans from the General Partner; Loans or Contributions from the Partnership; Contracts with Affiliates; Certain Restrictions on the General Partner.*

(a) The General Partner or any of its Affiliates may, but shall be under no obligation to, lend to any Group Member, and any Group Member may borrow from the General Partner or any of its Affiliates, funds needed or desired by the Group Member for such periods of time and in such amounts as the General Partner may determine, in each case on terms that are fair and reasonable to the Partnership; provided however that the requirements of this Section 7.6(a) conclusively shall be deemed satisfied and not a breach of any duty hereunder or existing at law, in equity or otherwise as to any transaction (i) approved by Special Director Approval, (ii) the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) that is fair and reasonable to the Partnership, taking into account the totality of the relationships between the parties involved (including other transactions that may be or have been particularly favorable or advantageous to the Partnership).

(b) Any Group Member (including the Partnership) may lend or contribute to any other Group Member, and any Group Member may borrow from any other Group Member (including the Partnership), funds on terms and conditions determined by the General Partner. The foregoing authority shall be exercised by the General Partner in its sole discretion and shall not create any right or benefit in favor of any Group Member or any other Person.

(c) The General Partner may itself, or may enter into an agreement with any of its Affiliates to, render services to a Group Member or to the General Partner in the discharge of its duties as general partner of the Partnership. Any services rendered to a Group Member by the General Partner or any of its Affiliates shall be on terms that are fair and reasonable to the Partnership; provided however that the requirements of this Section 7.6(c) conclusively shall be deemed satisfied and not a breach of any duty hereunder or existing at law, in equity or otherwise as to any transaction (i) approved by Special Director Approval, (ii) the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iii) that is fair and reasonable to the Partnership, taking into account the totality of the relationships between the parties involved (including other transactions that may be or have been particularly favorable or advantageous to the Partnership). The provisions of Section 7.4 shall apply to the rendering of services described in this Section 7.6(c).

(d) The Partnership may transfer assets to joint ventures, other partnerships, corporations, limited liability companies or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions as are consistent with this Agreement and applicable law.

(e) The General Partner or any of its Affiliates may sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, pursuant to transactions that are fair and reasonable to the Partnership; provided however that the requirements of this Section 7.6(e) conclusively shall be deemed to be satisfied and not a breach of any duty hereunder or existing at law, in equity or otherwise as to (i) the transactions effected pursuant to Section 5.1, (ii) any transaction approved by Special Director Approval, (iii) any transaction, the terms of which are no less favorable to the Partnership than those generally being provided to or available from unrelated third parties, or (iv) any transaction that is fair and reasonable to the Partnership, taking into account the totality of the relationships between the parties involved (including other transactions that may be or have been particularly favorable or advantageous to the Partnership). With respect to any contribution of assets to the Partnership in exchange for Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities, the Board of Directors, in determining whether the appropriate number of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities are being issued, may take into account, among other things, the fair market value of the assets, the liquidated and contingent liabilities assumed, the tax basis in the assets, the extent to which tax-only allocations to the transferor will protect the existing partners of the Partnership against a low tax basis, and such other factors as the Board of Directors deems relevant under the circumstances.

(f) The General Partner and its Affiliates will have no obligation to permit any Group Member to use any facilities or assets of the General Partner and its Affiliates, except as may be provided in contracts entered into from time to time specifically dealing with such use, nor shall there be any obligation on the part of the General Partner or its Affiliates to enter into such contracts.

SECTION 7.7. *Indemnification.*

(a) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, all Indemnitees shall be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all threatened, pending or completed claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, and whether formal or informal and including appeals, in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as an Indemnitee whether arising from acts or omissions to act occurring before or after the date of this Agreement; provided that the Indemnitee shall not be indemnified and held harmless if there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter for which the Indemnitee is seeking indemnification pursuant to this Section 7.7, the Indemnitee acted in bad faith or engaged in fraud, willful misconduct or gross negligence.

(b) To the fullest extent permitted by law, expenses (including legal fees and expenses) incurred by an Indemnitee who is indemnified pursuant to Section 7.7(a) in appearing at, participating in or defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the Partnership prior to a final and non-appealable determination that the Indemnitee is not entitled to be indemnified upon receipt by the Partnership of an undertaking by or on behalf of the Indemnitee to repay such amount if it ultimately shall be determined that the Indemnitee is not entitled to be indemnified as authorized in this Section 7.7.

(c) The indemnification provided by this Section 7.7 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement, pursuant to any vote of the holders of Outstanding Voting Units entitled to vote on such matter, as a matter of law, in equity or otherwise, both as to actions in the Indemnitee's capacity as an Indemnitee and as to actions in any other capacity, and shall continue as to an Indemnitee who has ceased to serve in such capacity.

(d) The Partnership may purchase and maintain (or reimburse the General Partner or its Affiliates for the cost of) insurance, on behalf of the Partnership and its Subsidiaries, the General Partner, its Affiliates, the Indemnitees and such other Persons as the General Partner shall determine in its sole discretion, against any liability that may be asserted against, or expense that may be incurred by, such Person in connection with the Partnership's activities or such Person's activities on behalf of the Partnership, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 7.7, (i) the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; (ii) excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute "fines" within the meaning of Section 7.7(a); and (iii) any action taken or omitted by an Indemnitee with respect to any employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the best interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose that is in the best interests of the Partnership.

(f) Any indemnification pursuant to this Section 7.7 shall be made only out of the assets of the Partnership, it being agreed that the General Partner shall not be personally liable for such indemnification and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate such indemnification. In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 7.7 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) The provisions of this Section 7.7 are for the benefit of the Indemnitees and their heirs, successors, assigns, executors and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(i) No amendment, modification or repeal of this Section 7.7 or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitee to be indemnified by the Partnership, nor the obligations of the Partnership to indemnify any such Indemnitee under and in accordance with the provisions of this Section 7.7 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or-in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

(j) If a claim for indemnification (following the final disposition of the action, suit or proceeding for which indemnification is being sought) or advancement of expenses under this Section 7.7 is not paid in full within thirty (30) days after a written claim therefor by any Indemnitee has been received by the Partnership, such Indemnitee may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expenses of prosecuting such claim, including reasonable attorneys' fees. In any such action the Partnership shall have the burden of proving that such Indemnitee is not entitled to the requested indemnification or advancement of expenses under applicable law.

(k) This Section 7.7 shall not limit the right of the Partnership, to the extent and in the manner permitted by law, to indemnify and to advance expenses to, and purchase and maintain insurance on behalf of, Persons other than Indemnitees.

SECTION 7.8. *Liability of Indemnitees.*

(a) Notwithstanding anything to the contrary set forth in this Agreement, no Indemnitee shall be liable to the Partnership, the Limited Partners or any other Persons who have acquired interests in the Partnership Securities, for any losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising as a result of any act or omission of an Indemnitee, or for any breach of contract (including breach of this Agreement) or any breach of duties (including breach of fiduciary duties) whether arising hereunder, at law, in equity or otherwise, unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter in question, the Indemnitee acted in bad faith or engaged in fraud, willful misconduct or gross negligence.

(b) The General Partner may exercise any of the powers granted to it by this Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents, and the General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by the General Partner in good faith.

(c) To the extent that, at law or in equity, an Indemnitee has duties (including fiduciary duties) and liabilities relating thereto to the Partnership or to the Partners, the General Partner and any other Indemnitee acting in connection with the Partnership's business or affairs shall not be liable to the Partnership or to any Partner for its good faith reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they restrict or otherwise modify the duties and liabilities of an Indemnitee otherwise existing at law or in equity, are agreed by the Partners to replace such other duties and liabilities of such Indemnitee.

(d) Any amendment, modification or repeal of this Section 7.8 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability of the Indemnitees under this Section 7.8 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted, and provided such Person became an Indemnitee hereunder prior to such amendment, modification or repeal.

SECTION 7.9. *Resolution of Conflicts of Interest; Standards of Conduct and Modification of Duties.*

(a) Unless otherwise expressly provided in this Agreement, whenever a potential conflict of interest exists or arises between the Manager or any of its Affiliates, on the one hand, and the Partnership, on the other, any resolution or course of action by the General Partner or its Affiliates in respect of such conflict of interest shall be permitted and deemed approved by all Partners, and shall not constitute a breach of this Agreement, or any agreement contemplated herein or therein, or of any duty hereunder or existing at law, in equity or otherwise, if the resolution or course of action in respect of such conflict of interest is (i) approved by the majority of disinterested directors of the Board of Directors or by a conflicts committee established by the Board of Directors, (ii) has Special LP Approval, (iii) on terms no less favorable to the Partnership than those generally being provided to or available from unrelated third parties or (iv) fair and reasonable to the Partnership, taking into account the totality of the relationships between the parties involved (including other transactions that may be or have been particularly favorable or advantageous to the Partnership). The General Partner shall be authorized but not required in connection with its resolution of such conflict of interest to seek Special Director Approval or Special LP Approval of such resolution, and the General Partner may also adopt a resolution or course of action that has not received Special Director Approval or Special LP Approval. Failure to seek Special Director Approval or Special LP Approval shall not be deemed to indicate that a conflict of interest exists or that Special Director Approval or Special LP Approval could not have been obtained. If Special Director Approval or Special LP Approval is not sought and the Board of Directors determines that the resolution or course of action taken with respect to a conflict of interest satisfies either of the standards set forth in clauses (iii) or (iv) above, then it shall be presumed that, in making its decision, the Board of Directors acted in good faith, and in any proceeding brought by or on behalf of any Limited Partner, the Partnership or any other Person bound by this Agreement challenging such approval, the Person bringing or prosecuting such proceeding shall have the burden of overcoming such presumption. Notwithstanding anything to the contrary in this Agreement or any duty otherwise existing at law or equity, and without limitation of Section 7.6, the existence of the conflicts of interest described in or contemplated by this Agreement, the Management Agreement, the Exchange Agreement and all agreements, documents and instruments related to the Merger or the Exchange are hereby approved, and all such conflicts of interest are waived, by all Partners and shall not constitute a breach of this Agreement.

(b) Notwithstanding anything to the contrary in Section 7.9(a) or any other provision of this Agreement, approval by the majority of disinterested directors of the Board of Directors or by a conflicts committee established by the Board of Directors shall be required for any pursuit by any Director, the General Partner, the Manager or any of their respective Affiliates, of any corporate opportunity of the Partnership.

(c) Whenever in this Agreement or any other agreement contemplated hereby or otherwise the General Partner, in its capacity as the general partner of the Partnership, is permitted to or required to make a decision in its "sole discretion" or "discretion" or that it deems "necessary or appropriate" or "necessary or advisable" or under a grant of similar authority or latitude, except as otherwise provided herein, the General Partner, or such Affiliates causing it to do so, may make such decision in its sole discretion (regardless of whether there is a reference to "sole discretion" or "discretion") unless another express standard is provided for, and shall be entitled to consider only such interests and factors as it desires and shall have no duty or obligation to give any consideration to any interest of or factors affecting the Partnership or the Partners, and shall not be subject to any other or different standards imposed by this Agreement, any other agreement contemplated hereby, under the Delaware Limited Partnership Act or under any other law, rule or regulation or in equity. Whenever in this Agreement or any other agreement contemplated hereby or otherwise the General Partner is permitted to or required to make a decision in its "good faith" then for purposes of this Agreement, the General Partner, or any of its Affiliates that cause it to make any such decision, shall be conclusively presumed to be acting in good faith if such Person or Persons subjectively believe(s) that the decision made or not made is in the best interests of the Partnership.

(d) Whenever the General Partner makes a determination or takes or declines to take any other action, or any of its Affiliates causes it to do so, in its individual capacity as opposed to in its capacity as a general partner of the Partnership, whether under this Agreement or any other agreement contemplated hereby or otherwise, then the General Partner, or such Affiliates causing it to do so, are entitled, to the fullest extent permitted by law, to make such determination or to take or decline to take such other action free of any duty (including any fiduciary duty) or obligation, whatsoever to the Partnership, any Limited Partner, any Record Holder or any other Person bound by this Agreement, and the General Partner, or such Affiliates causing it to do so, shall not, to the fullest extent permitted by law, be required to act pursuant to any other standard imposed by this Agreement, any other agreement contemplated hereby or under the Delaware Limited Partnership Act or any other law, rule or regulation or at equity.

(e) Notwithstanding anything to the contrary in this Agreement, the General Partner and its Affiliates shall have no duty or obligation, express or implied, to (i) sell or otherwise dispose of any asset of the Partnership Group other than in the ordinary course of business or (ii) permit any Group Member to use any facilities or assets of the General Partner and its Affiliates, except as may be provided in contracts entered into from time to time specifically dealing with such use. Any determination by the General Partner or any of its Affiliates to enter into such contracts shall be in its sole discretion.

(f) The Limited Partners, hereby authorize the General Partner, on behalf of the Partnership as a partner or member of a Group Member, to approve of actions by the general partner or managing member of such Group Member similar to those actions permitted to be taken by the General Partner pursuant to this Section 7.9.

SECTION 7.10. *Other Matters Concerning the General Partner.*

(a) The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) The General Partner may consult with legal counsel, accountants, appraisers, management consultants, investment bankers and other consultants and advisers selected by it, and any act taken or omitted to be taken in reliance upon the advice or opinion (including an Opinion of Counsel) of such Persons as to matters that the General Partner reasonably believes to be within such Person's professional or expert competence shall be conclusively presumed to have been done or omitted in good faith and in accordance with such advice or opinion.

(c) The General Partner shall have the right, in respect of any of its powers or obligations hereunder, to act through any of its duly authorized officers or any duly appointed attorney or attorneys-in-fact. Each such attorney shall, to the extent provided by the General Partner in the power of attorney, have full power and authority to do and perform each and every act and duty that is permitted or required to be done by the General Partner hereunder.

SECTION 7.11. *Purchase or Sale of Partnership Securities.*

The General Partner may cause the Partnership or any other Group Member to purchase or otherwise acquire Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities. The General Partner or any of its Affiliates may also purchase or otherwise acquire and sell or otherwise dispose of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities for their own account, subject to the provisions of Articles IV and X.

SECTION 7.12. *Reliance by Third Parties.*

Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the General Partner and any officer of the General Partner authorized by the General Partner to act on behalf of and in the name of the Partnership has full power and authority to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any authorized contracts on behalf of the Partnership, and such Person shall be entitled to deal with the General Partner or any such officer as if it were the Partnership's sole party in interest, both legally and beneficially. Each Limited Partner hereby waives any and all defenses or other remedies that may be available against such Person to contest, negate or disaffirm any action of the General Partner or any such officer in connection with any such dealing. In no event shall any Person dealing with the General Partner or any such officer or its representatives be obligated to ascertain that the terms of this Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the General Partner or any such officer or its representatives. Each and every certificate, document or other instrument executed on behalf of the Partnership by the General Partner or its representatives shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (a) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (b) the Person executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Partnership and (c) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

ARTICLE VIII

BOOKS, RECORDS, ACCOUNTING AND REPORTS

SECTION 8.1. *Records and Accounting.*

The General Partner shall keep or cause to be kept at the principal office of the Partnership or any other place designated by the General Partner in its sole discretion appropriate books and records with respect to the Partnership's business, including all books and records necessary to provide to the Limited Partners any information required to be provided pursuant to Section 3.4(a). Any books and records maintained by or on behalf of the Partnership in the regular course of its business, including the record of the Record Holders of Units or other Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities, books of account and records of Partnership proceedings, may be kept on, or be in the form of, computer disks, hard drives, magnetic tape, photographs, micrographics or any other information storage device; provided that the books and records so maintained are convertible into clearly legible written form within a reasonable period of time. The books of the Partnership shall be maintained, for financial reporting purposes, on an accrual basis in accordance with U.S. GAAP.

SECTION 8.2. *Fiscal Year.*

The fiscal year of the Partnership (each, a "*Fiscal Year*") shall be a year ending December 31. The General Partner in its sole discretion may change the Fiscal Year of the Partnership at any time and from time to time in each case as may be required or permitted under the Code or applicable United States Treasury Regulations and shall notify the Limited Partners of such change in the regular communication to the Limited Partners next following such change.

SECTION 8.3. *Reports.*

(a) As soon as practicable, but in no event later than 120 days after the close of each Fiscal Year, the General Partner shall cause to be made available to each Record Holder of a Unit as of a date selected by the General Partner in its sole discretion, an annual report containing financial statements of the Partnership for such Fiscal Year, presented in accordance with U.S. GAAP, including a balance sheet and statements of operations, Partnership equity and cash flows, such statements to be audited by a firm of independent public accountants selected by the General Partner in its sole discretion.

(b) As soon as practicable, but in no event later than 90 days after the close of each Quarter except the last Quarter of each Fiscal Year, the General Partner shall cause to be made available to each Record Holder of a Unit, as of a date selected by the General Partner in its sole discretion, a report containing unaudited financial statements of the Partnership and such other information as may be required by applicable law, regulation or rule of any National Securities Exchange on which the Units are listed for trading, or as the General Partner determines to be necessary or appropriate.

(c) The General Partner shall be deemed to have made a report available to each Record Holder as required by this Section 8.3 if it has either (i) filed such report with the Commission via its Electronic Data Gathering, Analysis and Retrieval system and such report is publicly available on such system or (ii) made such report available on any publicly available website maintained by the Partnership.

ARTICLE IX

TAX MATTERS

SECTION 9.1. *Tax Returns and Information.*

As soon as reasonably practicable after the end of each Fiscal Year, the Partnership shall send to each Partner a copy of United States Internal Revenue Service Schedule K-1, and any comparable statements required by applicable U.S. state or local income tax law, with respect to such Fiscal Year. The Partnership also shall provide the Partners with such other information as may be reasonably requested for purposes of allowing the Partners to prepare and file their own U.S. federal, state and local tax returns. Each Partner shall be required to report for all tax purposes consistently with such information provided by the Partnership. The classification, realization and recognition of income, gain, losses and deductions and other items shall be on the accrual method of accounting for U.S. federal income tax purposes.

SECTION 9.2. *Tax Elections.*

The General Partner shall determine whether to make or refrain from making the election provided for in Section 754 of the Code, and any and all other elections permitted by the tax laws of the United States, the several states and other relevant jurisdictions, in its sole discretion.

SECTION 9.3. *Tax Controversies.*

Subject to the provisions hereof, the General Partner shall designate from time to time a Partner to serve as the Tax Matters Partner (as defined in the Code) to represent, at the General Partner's direction, the Partnership (at the Partnership's expense) in connection with all examinations of the Partnership's affairs by tax authorities, including resulting administrative and judicial proceedings, and to expend Partnership funds for professional services and costs associated therewith. Each Partner agrees to cooperate with the Tax Matters Partner and to do or refrain from doing any or all things reasonably required by the General Partner and the Tax Matters Partner to conduct such proceedings.

SECTION 9.4. *Withholding.*

The General Partner may treat taxes paid by the Partnership on behalf of all or less than all of the Partners either as a distribution of cash to such Partners or as a general expense of the Partnership, as determined appropriate under the circumstances by the General Partner. Notwithstanding any other provision of this Agreement, the General Partner is authorized to take any action that may be required to cause the Partnership or any other Group Member to comply with any withholding requirements established under the Code or any other U.S. federal, state, local or non-U.S. law including, without limitation, pursuant to Sections 1441, 1442, 1445 and 1446 of the Code. To the extent that the Partnership is required or elects to withhold and pay over to any taxing authority any amount resulting from the allocation of income or from a distribution to any Partner (including, without limitation, by reason of Section 1446 of the Code), the General Partner may treat the amount withheld as a distribution of cash pursuant to Section 6.3 in the amount of such withholding from such Partner.

SECTION 9.5. *Election to be Treated as a Corporation.*

Notwithstanding anything to the contrary contained herein, if the General Partner determines in its sole discretion that it is no longer in the best interests of the Partnership to continue as a partnership for U.S. federal income tax purposes, the General Partner may elect to treat the Partnership as an association or as a publicly traded partnership taxable as a corporation for U.S. federal (and applicable state) income tax purposes or to cause the Partnership to transfer its assets, subject to its liabilities, to a corporation in exchange for stock of the corporation and to transfer such stock to its Partners pursuant to the liquidation of the Partnership.

ARTICLE X

ADMISSION OF PARTNERS

SECTION 10.1. *Admission of Initial Limited Partner.*

Upon the issuance by the Partnership of regular Common Units to the Organizational Limited Partner as described in Section 5.1, the General Partner admitted such Person to the Partnership as the Initial Limited Partner in respect of the regular Common Units issued to it.

SECTION 10.2. *Admission of Additional Limited Partners.*

(a) By acceptance of the transfer of any Limited Partner Interests in accordance with this Section 10.2 or the issuance of any Limited Partner Interests in accordance with Section 5.1 in connection with the Merger or the Exchange or in accordance with any other provision hereof (including in a merger, consolidation or other business combination pursuant to Article XIV), each transferee or other recipient of a Limited Partner Interest (including any nominee holder or an agent or representative acquiring such Limited Partner Interests for the account of another Person) (i) shall be admitted to the Partnership as a Limited Partner with respect to the Limited Partner Interests so transferred or issued to such Person when any such transfer or issuance is reflected in the books and records of the Partnership, with or without execution of this Agreement (which the Partnership shall cause to occur not later than five days following submission of such transfer to the Transfer Agent), (ii) shall become bound by the terms of, and shall be deemed to have agreed to be bound by, this Agreement, (iii) shall become the Record Holder of the Limited Partner Interests so transferred or issued, (iv) represents that the transferee or other recipient has the capacity, power and authority to enter into this Agreement, (v) grants the powers of attorney set forth in this Agreement and (vi) makes the consents, acknowledgments and waivers contained in this Agreement. The transfer of any Limited Partner Interests and/or the admission of any new Limited Partner shall not constitute an amendment to this Agreement. A Person may become a Record Holder without the consent or approval of any of the Partners. A Person may not become a Limited Partner without acquiring a Limited Partner Interest.

(b) The name and mailing address of each Limited Partner shall be listed on the books and records of the Partnership maintained for such purpose by the Partnership or the Transfer Agent. The General Partner shall update the books and records of the Partnership from time to time as necessary to reflect accurately the information therein (or shall cause the Transfer Agent to do so, as applicable). A Limited Partner Interest may be represented by a Certificate, as provided in Section 4.1.

(c) Any transfer of a Limited Partner Interest shall not entitle the transferee to share in the profits and losses, to receive distributions, to receive allocations of income, gain, loss, deduction or credit or any similar item or to any other rights to which the transferor was entitled until the transferee becomes a Limited Partner pursuant to Section 10.2(a).

SECTION 10.3. *Admission of Successor General Partner.*

A successor General Partner approved pursuant to Section 11.1 or 11.2 or the transferee of or successor to all of the General Partner Interest pursuant to Section 4.6 who is proposed to be admitted as a successor General Partner shall be admitted to the Partnership as the General Partner effective immediately prior to the withdrawal or removal of the predecessor or transferring General Partner pursuant to Sections 11.1 or 11.2 or the transfer of such General Partner's General Partner Interest pursuant to Section 4.6; provided however, that no such successor shall be admitted to the Partnership until compliance with the terms of Section 4.6 has occurred and such successor has executed and delivered such other documents or instruments as may be required to effect such admission. Any such successor is hereby authorized to and shall, subject to the terms hereof, carry on the business of the Partnership without dissolution.

SECTION 10.4. *Amendment of Agreement and Certificate of Limited Partnership to Reflect the Admission of Partners.*

To effect the admission to the Partnership of any Partner, the General Partner shall take all steps necessary under the Delaware Limited Partnership Act to amend the records of the Partnership to reflect such admission and, if necessary, to prepare as soon as practicable an amendment to this Agreement and, if required by law, the General Partner shall prepare and file an amendment to the Certificate of Limited Partnership, and the General Partner may for this purpose, among others, exercise the power of attorney granted pursuant to Section 2.6.

ARTICLE XI

WITHDRAWAL OR REMOVAL OF PARTNERS

SECTION 11.1. *Withdrawal of the General Partner.*

(a) The General Partner shall be deemed to have withdrawn from the Partnership upon the occurrence of any one of the following events (each such event herein referred to as an "*Event of Withdrawal*"):

(i) The General Partner voluntarily withdraws from the Partnership by giving written notice to the other Partners;

(ii) The General Partner transfers all of its General Partner Interest pursuant to Section 4.6;

(iii) The General Partner is removed pursuant to Section 11.2;

(iv) The General Partner (A) makes a general assignment for the benefit of creditors; (B) files a voluntary bankruptcy petition for relief under Chapter 7 of the United States Bankruptcy Code, or any successor statute; (C) files a petition or answer seeking for itself a liquidation, dissolution or similar relief (but not a reorganization) under any law; (D) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against the General Partner in a proceeding of the type described in clauses (A)-(C) of this Section 11.1(a)(iv); or (E) seeks, consents to or acquiesces in the appointment of a trustee (but not a debtor-in-possession), receiver or liquidator of the General Partner or of all or any substantial part of its properties;

(v) A final and non-appealable order of relief under Chapter 7 of the United States Bankruptcy Code, or any successor statute, is entered by a court with appropriate jurisdiction pursuant to a voluntary or involuntary petition by or against the General Partner; or

(vi) (A) in the event the General Partner is a corporation, a certificate of dissolution or its equivalent is filed for the General Partner, or 90 days expire after the date of notice to the General Partner of revocation of its charter without a reinstatement of its charter, under the laws of its state of incorporation; (B) in the event the General Partner is a partnership or a limited liability company, the dissolution and commencement of winding up of the General Partner; (C) in the event the General Partner is acting in such capacity by virtue of being a trustee of a trust, the termination of the trust; (D) in the event the General Partner is a natural person, his death or adjudication of incompetency; and (E) otherwise in the event of the termination of the General Partner.

If an Event of Withdrawal specified in Section 11.1(a)(iv), (v) or (vi)(A), (B), (C) or (E) occurs, the withdrawing General Partner shall give notice to the Limited Partners within 30 days after such occurrence. The Partners hereby agree that only the Events of Withdrawal described in this Section 11.1 shall result in the withdrawal of the General Partner from the Partnership.

(b) Withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall not constitute a breach of this Agreement under the following circumstances: (i) the General Partner voluntarily withdraws by giving at least 90 days' advance notice of its intention to withdraw to the Limited Partners; provided that prior to the effective date of such withdrawal, the withdrawal has Special LP Approval and the General Partner delivers to the Partnership an Opinion of Counsel ("*Withdrawal Opinion of Counsel*") that such withdrawal (following the selection of the successor General Partner) would not result in the loss of the limited liability of any Limited Partner or cause the Partnership or any Group Member to be treated as an association taxable as a corporation or otherwise to be taxed as an entity for U.S. federal income tax purposes (to the extent not previously treated as such); or (ii) at any time that the General Partner ceases to be the General Partner pursuant to Section 11.1(a)(ii) or is removed pursuant to Section 11.2. The withdrawal of the General Partner from the Partnership upon the occurrence of an Event of Withdrawal shall also constitute the withdrawal of the General Partner as general partner or managing member, to the extent applicable, of the other Group Members. If the General Partner gives a notice of withdrawal pursuant to Section 11.1(a)(i), the Limited Partners holding a majority of the voting power of Outstanding Voting Units, may, prior to the effective date of such withdrawal, elect a successor General Partner. The Person so elected as successor General Partner shall automatically become the successor general partner or managing member, to the extent applicable, of the other Group Members of which the General Partner is a general partner or a managing member, and is hereby authorized to, and shall, continue the business of the Partnership and, to the extent applicable, the other Group Members without dissolution. If, prior to the effective date of the General Partner's withdrawal pursuant to Section 11.1(a)(i), a successor is not selected by the Unitholders as provided herein or the Partnership does not receive a Withdrawal Opinion of Counsel, the Partnership shall be dissolved in accordance with and subject to Section 12.1. Any successor General Partner elected in accordance with the terms of this Section 11.1 shall be subject to the provisions of Section 10.3.

SECTION 11.2. *Removal of the General Partner.*

The General Partner may be removed if such removal is approved by the Unitholders holding at least 66⅔% of the voting power of the Outstanding Voting Units (including Voting Units held by the General Partner and its Affiliates); provided, however that such action shall not be voted upon prior to June 1, 2011 and shall not take effect until after December 31, 2011. Any such action by such Unitholders for removal of the General Partner must also provide for the election of a successor General Partner by the Unitholders holding a majority of the voting power of Outstanding Voting Units (including Voting Units held by the General Partner and its Affiliates). Such removal shall be effective immediately following the admission of a successor General Partner pursuant to Section 10.3. The removal of the General Partner shall also automatically constitute the removal of the General Partner as general partner or managing member, to the extent applicable, of the other Group Members of which the General Partner is a general partner or a managing member. If a Person is elected as a successor General Partner in accordance with the terms of this Section 11.2, such Person shall, upon admission pursuant to Section 10.3, automatically become a successor general partner or managing member, to the extent applicable, of the other Group Members of which the General Partner is a general partner or a managing member, and is hereby authorized to, and shall, continue the business of the Partnership and the other Group Members without dissolution. The right of the Unitholders to remove the General Partner shall not exist or be exercised unless the Partnership has received an opinion opining as to the matters covered by a Withdrawal Opinion of Counsel. Any successor General Partner elected in accordance with the terms of this Section 11.2 shall be subject to the provisions of Section 10.3.

SECTION 11.3. *Interest of Departing General Partner and Successor General Partner.*

(a) In the event of (i) the withdrawal of a General Partner under circumstances where such withdrawal does not violate this Agreement or (ii) the removal of the General Partner by the Unitholders under circumstances where Cause does not exist, if a successor General Partner is elected in accordance with the terms of Sections 11.1 or 11.2, the Departing General Partner shall have the option exercisable prior to the effective date of the withdrawal or removal of such Departing General Partner to require its successor to purchase (x) its General Partner Interest and (y) its general partner interest (or equivalent interest), if any, in the other Group Members ((x) and (y) collectively, the "*Combined Interest*") in exchange for an amount in cash equal to the fair market value of such Combined Interest, such amount to be determined and payable as of the effective date of its withdrawal or removal. If the General Partner is removed by the Unitholders under circumstances where Cause exists or if the General Partner withdraws under circumstances where such withdrawal violates this Agreement, and if a successor General Partner is elected in accordance with the terms of Section 11.1 or 11.2 (or if the business of the Partnership is continued pursuant to Section 12.2 and the successor General Partner is not the former General Partner), such successor shall have the option, exercisable prior to the effective date of the withdrawal or removal of such Departing General Partner, to purchase the Combined Interest of the Departing General Partner for such fair market value of such Combined Interest of the Departing General Partner. In either event, the Departing General Partner shall be entitled to receive all reimbursements due such Departing General Partner pursuant to Section 7.4, including any employee-related liabilities (including severance liabilities), incurred in connection with the termination of any employees employed by the Departing General Partner or its Affiliates (excluding any Group Member) for the benefit of the Partnership or the other Group Members.

For purposes of this Section 11.3(a), the fair market value of a Departing General Partner's Combined Interest shall be determined by agreement between the Departing General Partner and its successor or, failing agreement within 30 days after the effective date of such Departing General Partner's departure, by an independent investment banking firm or other independent expert selected by the Departing General Partner and its successor, which, in turn, may rely on other experts, and the determination of which shall be conclusive as to such matter, the cost of such independent expert shall be the responsibility of the Partnership. If such parties cannot agree upon one independent investment banking firm or other independent expert within 45 days after the effective date of such departure, then the Departing General Partner shall designate an independent investment banking firm or other independent expert, the Departing General Partner's successor shall designate an independent investment banking firm or other independent expert, and such firms or experts shall mutually select a third independent investment banking firm or independent expert, which third independent investment banking firm or other independent expert shall determine the fair market value of the Combined Interest of the Departing General Partner. In making its determination, such third independent investment banking firm or other independent expert may consider the then current trading price of Units on any National Securities Exchange on which Common Units are then listed, the value of the Partnership's assets, the rights and obligations of the Departing General Partner and other factors it may deem relevant.

(b) If the Combined Interest of the Departing General Partner is not purchased in the manner set forth in Section 11.3(a), the Departing General Partner (or its transferee) shall become a Limited Partner and its Combined Interest shall be converted into regular Common Units pursuant to a valuation made by an investment banking firm or other independent expert selected pursuant to Section 11.3(a), the cost of such independent expert shall be the responsibility of the Partnership.

Any successor General Partner shall indemnify the Departing General Partner (or its transferee) as to all debts and liabilities of the Partnership arising on or after the date on which the Departing General Partner (or its transferee) becomes a Limited Partner. For purposes of this Agreement, conversion of the Combined Interest of the Departing General Partner to regular Common Units will be characterized as if the Departing General Partner (or its transferee) contributed its Combined Interest to the Partnership in exchange for the newly-issued regular Common Units.

SECTION 11.4. *Withdrawal of Limited Partners.*

No Limited Partner shall have any right to withdraw from the Partnership; provided however that when a transferee of a Limited Partner's Limited Partner Interest becomes a Record Holder of the Limited Partner Interest so transferred, such transferring Limited Partner shall cease to be a Limited Partner with respect to the Limited Partner Interest so transferred.

ARTICLE XII

DISSOLUTION AND LIQUIDATION

SECTION 12.1. *Dissolution.*

The Partnership shall not be dissolved by the admission of additional Limited Partners or by the admission of a successor General Partner in accordance with the terms of this Agreement. Upon the removal or withdrawal of the General Partner, if a successor General Partner is elected pursuant to Sections 10.3, 11.1, 11.2 or 12.2, the Partnership shall not be dissolved and such successor General Partner is hereby authorized to, and shall, continue the business of the Partnership. Subject to Section 12.2, the Partnership shall dissolve, and its affairs shall be wound up:

(a) upon an Event of Withdrawal of the General Partner as provided in Section 11.1(a) (other than Section 11.1(a)(ii)), unless a successor is elected and such successor is admitted to the Partnership pursuant to this Agreement;

(b) upon an election to dissolve the Partnership by the Board of Directors that is approved by a majority of the Directors after December 31, 2011 or such earlier date with the consent of the Manager;

(c) upon an election to dissolve the Partnership by the General Partner that is approved by the Unitholders holding 66⅔% of the voting power of Outstanding Voting Units (including Voting Units held by the General Partner and its Affiliates); provided, however that such action shall not be voted upon prior to June 1, 2011 and shall not take effect until after December 31, 2011;

(d) if the Distribution Target has not been met prior to the Final Distribution Date, the Board of Directors will include the dissolution of the Partnership as a matter to be voted upon by the Unitholders on the proxy for the June 2011 annual meeting and if such an election to dissolve the Partnership is approved by the Unitholders holding 66⅔% of the voting power of Outstanding Voting Units (including Voting Units held by the General Partner and its Affiliates), it shall take immediate effect;

(e) if the Common Units are not listed on a National Securities Exchange by the Final Distribution Date, the Board of Directors will include the dissolution of the Partnership as a matter to be voted upon by the Unitholders on the proxy for the June 2011 annual meeting and if such an election to dissolve the Partnership is approved by the Unitholders holding 66⅔% of the voting power of Outstanding Voting Units (including Voting Units held by the General Partner and its Affiliates), it shall take immediate effect;

(f) upon the entry of a decree of judicial dissolution of the Partnership pursuant to the provisions of the Delaware Limited Partnership Act; or

(g) at any time there are no Limited Partners, unless the Partnership is continued without dissolution in accordance with the Delaware Limited Partnership Act.

SECTION 12.2. *Continuation of the Business of the Partnership After Event of Withdrawal.*

Upon an Event of Withdrawal caused by (a) the withdrawal or removal of the General Partner as provided in Sections 11.1(a)(i) or (iii) and the failure of the Partners to select a successor to such Departing General Partner pursuant to Sections 11.1 or 11.2, then within 90 days thereafter, or (b) an event constituting an Event of Withdrawal as defined in Sections 11.1(a)(iv), (v) or (vi), then, to the maximum extent permitted by law, within 180 days thereafter, the Unitholders holding a majority of the voting power of Outstanding Voting Units may elect to continue the business of the Partnership on the same terms and conditions set forth in this Agreement by appointing as the successor General Partner a Person approved by the Unitholders holding a majority of the voting power of Outstanding Voting Units. Unless such an election is made within the applicable time period as set forth above, the Partnership shall dissolve and conduct only activities necessary to wind up its affairs. If such an election is so made, then:

(i) the Partnership shall continue without dissolution unless earlier dissolved in accordance with this Article XII;

(ii) if the successor General Partner is not the former General Partner, then the interest of the former General Partner shall be treated in the manner provided in Section 11.3; and

(iii) the successor General Partner shall be admitted to the Partnership as General Partner, effective as of the Event of Withdrawal, by agreeing in writing to be bound by this Agreement;

provided that the right of the Unitholders holding a majority of the voting power of Outstanding Voting Units to approve a successor General Partner and to continue the business of the Partnership shall not exist and may not be exercised unless the Partnership has received an Opinion of Counsel (x) that the exercise of the right would not result in the loss of limited liability of any Limited Partner and (y) neither the Partnership nor any successor limited partnership would be treated as an association taxable as a corporation or otherwise be taxable as an entity for U.S. federal income tax purposes upon the exercise of such right to continue (to the extent not so treated or taxed).

SECTION 12.3. *Liquidator.*

Upon dissolution of the Partnership, unless the Partnership is continued pursuant to Section 12.2, the General Partner shall select in its sole discretion one or more Persons (which may be the General Partner or any of its Affiliates) to act as Liquidator. If other than the General Partner, the Liquidator (1) shall be entitled to receive such compensation for its services as may be approved by Unitholders holding at least a majority of the voting power of the Outstanding Voting Units voting as a single class (including Voting Units held by the General Partner and its Affiliates), (2) shall agree not to resign at any time without 15 days' prior notice and (3) may be removed at any time, with or without cause, by notice of removal approved by Unitholders holding at least a majority of the voting power of the Outstanding Voting Units voting as a single class (including Voting Units held by the General Partner and its Affiliates). Upon dissolution, removal or resignation of the Liquidator, a successor and substitute Liquidator (who shall have and succeed to all rights, powers and duties of the original Liquidator) shall within 30 days thereafter be approved by holders of at least a majority of the voting power of the Outstanding Voting Units voting as a single class (including Voting Units held by the General Partner and its Affiliates). The right to approve a successor or substitute Liquidator in the manner provided herein shall be deemed to refer also to any such successor or substitute Liquidator approved in the manner herein provided. Except as expressly provided in this Article XII, the Liquidator approved in the manner provided herein shall have and may exercise, without further authorization or consent of any of the parties hereto, all of the powers conferred upon the General Partner under the terms of this Agreement (but subject to all of the applicable limitations, contractual and otherwise, upon the exercise of such powers, other than the limitation on sale set forth in Section 7.3) necessary or appropriate to carry out the duties and functions of the Liquidator hereunder for and during the period of time required to complete the winding up and liquidation of the Partnership as provided for herein.

SECTION 12.4. *Liquidation.*

The Liquidator shall proceed to dispose of the assets of the Partnership, discharge its liabilities, and otherwise wind up its affairs in such manner and over such period as the Liquidator determines to be in the best interest of the Partners, subject to Section 17-804 of the Delaware Limited Partnership Act and the following:

(a) *Disposition of Assets*. The assets may be disposed of by public or private sale or by distribution in kind to one or more Partners on such terms as the Liquidator and such Partner or Partners may agree. If any property is distributed in kind, the Partner receiving the property shall be deemed for purposes of Section 12.4(c) to have received cash equal to its fair market value; and contemporaneously therewith, appropriate cash distributions must be made to the other Partners. The Liquidator may defer liquidation or distribution of the Partnership's assets for a reasonable time if it determines that an immediate sale or distribution of all or some of the Partnership's assets would be impractical or would cause undue loss to the Partners. The Liquidator may distribute the Partnership's assets, in whole or in part, in kind if it determines that a sale would be impractical or would cause undue loss to the Partners.

(b) *Discharge of Liabilities*. Liabilities of the Partnership include amounts owed to the Liquidator as compensation for serving in such capacity (subject to the terms of Section 12.3) and amounts to Partners otherwise than in respect of their distribution rights under Article VI. With respect to any liability that is contingent, conditional or unmatured or is otherwise not yet due and payable, the Liquidator shall either settle such claim for such amount as it thinks appropriate or establish a reserve of cash or other assets to provide for its payment.

(c) Liquidation Distributions. All property (valued at fair market value, as determined by the General Partner) and all cash in excess of that amount required to discharge liabilities as provided in section 12.4(b) shall be distributed to the Partners in accordance with their respective Percentage Interests as of a Record Date selected by the Liquidator, except as provide in Section 5.4(f).

SECTION 12.5. *Cancellation of Certificate of Limited Partnership.*

Upon the completion of the distribution of Partnership cash and property as provided in Section 12.4 in connection with the liquidation of the Partnership, the Certificate of Limited Partnership and all qualifications of the Partnership as a foreign limited partnership in jurisdictions other than the State of Delaware shall be canceled and such other actions as may be necessary to terminate the Partnership shall be taken.

SECTION 12.6. *Return of Contributions.*

The General Partner shall not be personally liable for, and shall have no obligation to contribute or loan any monies or property to the Partnership to enable it to effectuate, the return of the Capital Contributions of the Limited Partners or Unitholders, or any portion thereof, it being expressly understood that any such return shall be made solely from Partnership assets.

SECTION 12.7. *Waiver of Partition.*

To the maximum extent permitted by law, each Partner hereby waives any right to partition of the Partnership property.

SECTION 12.8. *Capital Account Restoration.*

No Partner shall have any obligation to restore any negative balance in its Capital Account upon liquidation of the Partnership.

ARTICLE XIII

AMENDMENT OF PARTNERSHIP AGREEMENT; MEETINGS; RECORD DATE

SECTION 13.1. *Amendments to be Adopted Solely by the General Partner.*

Each Partner agrees that the General Partner, without the approval of any Partner, any Unitholder or any other Person, may amend any provision of this Agreement and execute, swear to, acknowledge, deliver, file and record whatever documents may be required in connection therewith, to reflect:

(a) a change in the name of the Partnership, the location of the principal place of business of the Partnership, the registered agent of the Partnership or the registered office of the Partnership;

(b) the admission, substitution, withdrawal or removal of Partners in accordance with this Agreement;

(c) a change that the General Partner determines in its sole discretion to be necessary or appropriate to qualify or continue the qualification of the Partnership as a limited partnership or a partnership in which the Limited Partners have limited liability under the laws of any state or other jurisdiction or to ensure that the Group Members will not be treated as associations taxable as corporations or otherwise taxed as entities for U.S. federal income tax purposes;

(d) a change that the General Partner determines in its sole discretion to be necessary or appropriate to address changes in U.S. federal income tax regulations, legislation or interpretation;

(e) a change that the General Partner determines (i) does not adversely affect the Limited Partners considered as a whole (including any particular class of Partnership Interests as compared to other classes of Partnership Interests, treating the Common Units as a separate class for this purpose) in any material respect, (ii) to be necessary or appropriate to (A) satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any U.S. federal or state or non-U.S. agency or judicial authority or contained in any U.S. federal or state or non-U.S. statute (including the Delaware Limited Partnership Act) or (B) facilitate the trading of the Limited Partner Interests (including the division of any class or classes of Outstanding Limited Partner Interests into different classes to facilitate uniformity of tax consequences within such classes of Limited Partner Interests) or comply with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Limited Partner Interests are or will be listed, (iii) to be necessary or appropriate in connection with action taken by the General Partner pursuant to Section 5.7 or (iv) is required to effect the intent of the provisions of this Agreement or is otherwise contemplated by this Agreement;

(f) a change in the Fiscal Year or taxable year of the Partnership and any other changes that the General Partner determines to be necessary or appropriate as a result of a change in the Fiscal Year or taxable year of the Partnership including, if the General Partner shall so determine in its sole discretion, a change in the definition of "*Quarter*" and the dates on which distributions are to be made by the Partnership;

(g) an amendment that is necessary, in the Opinion of Counsel, to prevent the Partnership, or the General Partner or its directors, officers, trustees or agents from having a material risk of being in any manner subjected to the provisions of the U.S. Investment Company Act of 1940, as amended, the U.S. Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the U.S. Employee Retirement Income Security Act of 1974, as amended, regardless of whether such are substantially similar to plan asset regulations currently applied or proposed by the United States Department of Labor;

(h) an amendment that the General Partner determines is necessary for the General Partner to elect to treat the Partnership as an association or as a publicly traded partnership taxable as a corporation for U.S. federal (and applicable state) income tax purposes, if the General Partner determines in its sole discretion that it is no longer in the best interests of the Partnership to continue as a partnership for U.S. federal income tax purposes;

(i) an amendment that the General Partner determines in its sole discretion to be necessary or appropriate in connection with the creation, authorization or issuance of any class or series of Partnership Securities or options, rights, warrants or appreciation rights relating to Partnership Securities pursuant to Section 5.5;

(j) any amendment expressly permitted in this Agreement to be made by the General Partner acting alone;

(k) an amendment that the General Partner determines in its sole discretion to be necessary or appropriate in order to consummate any of the transactions contemplated by the Exchange Agreement;

(l) an amendment effected, necessitated or contemplated by a Merger Agreement approved in accordance with Section 14.3;

(m) an amendment that the General Partner determines in its sole discretion to be necessary or appropriate to reflect and account for the formation by the Partnership of, or investment by the Partnership in, any corporation, partnership, joint venture, limited liability company or other entity, in connection with the conduct by the Partnership of activities permitted by the terms of Sections 2.4 or 7.1(a);

(n) a merger, conversion or conveyance pursuant to Section 14.3(d), including any amendment permitted pursuant to Section 14.5; or

(o) any other amendments substantially similar to the foregoing.

SECTION 13.2. *Amendment Procedures.*

Except as provided in Sections 5.4, 13.1, 13.3 and 14.5, all amendments to this Agreement shall be made in accordance with the following requirements. Amendments to this Agreement may be proposed only by or with the consent of the General Partner which consent may be given or withheld in its sole discretion. A proposed amendment shall be effective upon its approval by the Unitholders holding a majority of the voting power of the Outstanding Voting Units (including Voting Units held by the General Partner and its Affiliates), unless a greater or different percentage is required under this Agreement or by Delaware law. Each proposed amendment that requires the approval of the holders of a specified percentage of the voting power of Outstanding Voting Units shall be set forth in a writing that contains the text of the proposed amendment. If such an amendment is proposed, the General Partner shall seek the written approval of the requisite percentage of the voting power of Outstanding Voting Units or call a meeting of the Unitholders to consider and vote on such proposed amendment, in each case in accordance with the other provisions of this Article XIII. The General Partner shall notify all Record Holders upon final adoption of any such proposed amendments.

SECTION 13.3. *Amendment Requirements.*

(a) Notwithstanding the provisions of Sections 13.1 and 13.2, no provision of this Agreement that requires the vote or consent of Unitholders holding, or holders of, a percentage of the voting power of Outstanding Voting Units (including Voting Units deemed owned by the General Partner and its Affiliates) required to take any action shall be amended, altered, changed, repealed or rescinded in any respect that would have the effect of reducing such voting percentage unless such amendment is approved by the written consent or the affirmative vote of Unitholders or holders of Outstanding Voting Units (including Voting Units held by the General Partner and its Affiliates) whose aggregate Outstanding Voting Units constitute not less than the voting or consent requirement sought to be reduced.

(b) Notwithstanding the provisions of Sections 13.1 and 13.2, no amendment to this Agreement may (i) enlarge the obligations of any Limited Partner without its consent, unless such shall be deemed to have occurred as a result of an amendment approved pursuant to Section 13.3(c), (ii) enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable to the General Partner or any of its Affiliates without the General Partner's consent, which consent may be given or withheld in its sole discretion, or (iii) result in the Partnership, or the General Partner or its directors, officers, trustees or agents having a material risk of being in any manner subjected to the provisions of the U.S. Investment Company Act of 1940, as amended, the U.S. Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the U.S. Employee Retirement Income Security Act of 1974, as amended, regardless of whether such are substantially similar to plan asset regulations currently applied or proposed by the United States Department of Labor.

(c) Except as provided in Sections 13.1 and 14.3, any amendment that would have a material adverse effect on the rights or preferences of any class of Partnership Interests in relation to other classes of Partnership Interests (treating the Common Units as a separate class for this purpose) must be approved by the holders of not less than a majority of the Outstanding Partnership Interests of the class affected (including Partnership Interests held by the General Partner and its Affiliates).

(d) Notwithstanding any other provision of this Agreement, except for amendments pursuant to Section 13.1 and except as otherwise provided by Section 14.3(b), no amendments shall become effective without the approval of Unitholders holding at least 90% of the voting power of the Outstanding Voting Units (including Voting Units held by the General Partner and its Affiliates) unless the Partnership obtains an Opinion of Counsel to the effect that such amendment will not affect the limited liability of any Limited Partner under the Delaware Limited Partnership Act.

(e) Except as provided in Section 13.1, this Section 13.3 shall only be amended with the approval of the Unitholders holding of at least 90% of the voting power of the Outstanding Voting Units (including Voting Units held by the General Partner and its Affiliates).

SECTION 13.4. *Meetings.*

(a) All acts of Limited Partners to be taken pursuant to this Agreement shall be taken in the manner provided in this Article XIII.

(b) Special meetings of the Limited Partners may be called by the General Partner, in its sole discretion, or by Limited Partners holding 50.1% or more of the Common Units. The General Partner shall send a notice of the meeting to the Limited Partners either directly or indirectly through the Transfer Agent. A meeting shall be held at a time and place determined by the General Partner in its sole discretion on a date not less than 10 days nor more than 60 days after the mailing of notice of the meeting. Limited Partners shall not vote on matters that would cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners' limited liability under the Delaware Limited Partnership Act or the law of any other state in which the Partnership is qualified to do business.

(c) (i) An annual meeting of the Limited Partners holding Units for the election of Directors to the Board of Directors and such other matters as the General Partner shall submit to a vote of the Limited Partners holding Units shall be held in June of each year beginning in 2010 at such other date and time as may be fixed from time to time by the General Partner at such place within or without the State of Delaware as may be fixed from time to time by the General Partner and all as stated in the notice of the meeting. Notice of the annual meeting shall be given in accordance with Section 13.5 not less than 10 days nor more than 60 days prior to the date of such meeting.

(ii) The Limited Partners holding Units shall vote together as a single class for the election of Directors to the Board of Directors. The Limited Partners entitled to vote shall elect by a plurality of the votes cast at such meeting persons to serve on the Board of Directors who are nominated in accordance with the provisions of this Section 13.4(c). The exercise by a Limited Partner of the right to elect the Directors and any other rights afforded to such Limited Partner under this Section 13.4(c) shall be in such Limited Partner's capacity as a limited partner of the Partnership and shall not cause a Limited Partner to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize such Limited Partner's limited liability under the Delaware Limited Partnership Act or the law of any other state in which the Partnership is qualified to do business.

(iii) The initial number of Directors that shall constitute the whole Board of Directors shall be seven (7) and the Board of Directors shall consist of not less than five (5) and not more than nine (9) Directors. The Board of Directors shall consist of at least a majority of Independent Directors and the Manager shall have two (2) representatives serving as directors. Subject to this Section 13.4(c)(iii), the number of Directors shall be fixed from time to time exclusively pursuant to a resolution adopted by the Board of Directors, provided that no decrease in the number of Directors constituting the Board of Directors shall shorten the term of any incumbent Director. The Board of Directors shall appoint from among its members an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, each to be composed solely of Independent Directors, and such other committees as the Board of Directors may deem appropriate or as may be required by any National Securities Exchange on which the Common Units are listed for trading, to serve at the pleasure of the Board of Directors.

(iv) Each Director shall hold office for a one-year term and until such Director's successor shall have been duly elected and qualified, or until such Director's earlier death, resignation or removal. Any vacancy on the Board of Directors (including, without limitation, any vacancy caused by an increase in the number of Directors on the Board of Directors) other than a vacancy created by the removal of a Director by the Limited Partners pursuant to the succeeding sentence, may only be filled by a majority of the Directors then in office, even if less than a quorum, or by a sole remaining Director. A Director may be removed, at any time, but only for cause, upon the affirmative vote of the Limited Partners holding of a majority of the voting power of the Outstanding Limited Partner Interests and any vacancy on the Board of Directors created by such removal shall be filled by a vote of the Limited Partners at a meeting of the Limited Partners or by written consent in accordance with Section 13.11.

(v) (A) (1) Nominations of persons for election to the Board of Directors and the proposal of other business to be considered by the Limited Partners may be made at an annual meeting of the Limited Partners only (a) pursuant to the General Partner's notice of meeting (or any supplement thereto), (b) by or at the direction of the Board of Directors or any committee thereof or (c) by any Limited Partner who was a Record Holder at the time the notice provided for in this Section 13.4(c)(v) is delivered to the General Partner, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Section 13.4(c)(v).

(2) For any nominations or other business to be properly brought before an annual meeting by a Limited Partner pursuant to clause (c) of paragraph (A)(1) of this Section 13.4(c)(v), the Limited Partner must have given timely notice thereof in writing to the General Partner. To be timely, a Limited Partner's notice shall be delivered to the General Partner not later than the close of business on the ninetieth (90th) day, nor earlier than the close of business on the one hundred twentieth (120th) day, prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that the date of the annual meeting is more than thirty (30) days before or more than seventy (70) days after such anniversary date, notice by the Limited Partner must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made by the Partnership or the General Partner). For purposes of the 2010 annual meeting, the first anniversary of the preceding year's annual meeting shall be deemed to be June 30, 2009. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a Limited Partner's notice as described above. Such Limited Partner's notice shall set forth: (a) as to each person whom the Limited Partner proposes to nominate for election as a Director (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person and a brief description of the person's business experience during the past five years, including any other public company directorships, (iii) the class or series and number of any Partnership Securities which are beneficially owned by such person, (iv) a brief description of any arrangement or understanding with any other Person (including the identity of such other Person) by which such person was selected for nomination as a Director and (v) such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected; (b) as to any other business that the Limited Partner proposes to bring before the meeting, a description of such business, the reasons for proposing such business at the meeting and any material interest in such business of such Limited Partner and any of its Affiliates or Associates, individually or in the aggregate, including any anticipated benefit to the Limited Partner and any of its Affiliates or Associates therefrom; and (c) as to the Limited Partner giving the notice and the Beneficial Owner, if any, on whose behalf the nomination is made (i) the name and address of such Limited Partner, as they appear on the Partnership's books and records, and of such Beneficial Owner, (ii) the class or series and number of Units which are owned beneficially and of record by such Limited Partner and such Beneficial Owner, and (iii) a description of any agreement, arrangement or understanding with respect to the nomination between or among such Limited Partner and such Beneficial Owner, any of their respective Affiliates or Associates, and any others acting in concert with any of the foregoing. The Board of Directors or any committee thereof may require any proposed nominee to furnish such other information as the Board of Directors or such committee may reasonably require to determine the eligibility of such proposed nominee to serve as a Director of the General Partner.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Section 13.4(c)(v) to the contrary, in the event that the number of Directors to be elected to the Board of Directors is increased effective at the annual meeting and there is no public announcement by the Partnership or the General Partner naming the nominees for the additional directorships at least one hundred (100) days prior to the first anniversary of the preceding year’s annual meeting, a Limited Partner’s notice required by this Section 13.4(c)(v) shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the General Partner not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Partnership or the General Partner.

(B) Nominations of persons for election to the Board of Directors may be made at a special meeting of Limited Partners at which Directors are to be elected pursuant to the General Partner’s notice of meeting (1) by or at the direction of the Board of Directors or any committee thereof or (2) provided that the Board of Directors or the Limited Partners pursuant to Section 13.4(a) has determined that Directors shall be elected at such meeting, by any Limited Partner who is a Record Holder at the time the notice provided for in this Section 13.4(c)(v) is delivered to the General Partner, who is entitled to vote at the meeting and upon such election and who complies with the notice procedures set forth in this Section 13.4(c)(v). In the event the General Partner calls a special meeting of Limited Partners for the purpose of electing one or more Directors to the Board of Directors, any such Limited Partner entitled to vote in such election of Directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the General Partner’s notice of meeting, if the Limited Partner’s notice required by paragraph (A)(2) of this Section 13.4(c)(v) shall be delivered to the General Partner not earlier than the close of business on the one hundred twentieth (120th) day prior to such special meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a Limited Partner’s notice as described above.

(C) (1) Only such persons who are nominated in accordance with the procedures set forth in this Section 13.4(c)(v) shall be eligible to be elected at an annual or special meeting of Limited Partners to serve as Directors. Except as otherwise provided by law, the chairman designated by the General Partner pursuant to Section 13.10 shall have the power and duty (a) to determine whether a nomination was made in accordance with the procedures set forth in this Section 13.4(c)(v) (including whether the Limited Partner or Beneficial Owner, if any, on whose behalf the nomination is made solicited (or is part of a group which solicited) or did not so solicit, as the case may be, proxies in support of such Limited Partner's nominee in compliance with such Limited Partner's representation as required by clause (A)(2)(b)(vi) of this Section 13.4(c)(v)) and (b) if any proposed nomination was not made in compliance with this Section 13.4(c)(v), to declare that such nomination shall be disregarded. Notwithstanding the foregoing provisions of this Section 13.4(c)(v), unless otherwise required by law, if the Limited Partner (or a qualified representative of the Limited Partner) does not appear at the annual or special meeting of Limited Partners to present a nomination, such nomination shall be disregarded notwithstanding that proxies in respect of such vote may have been received by the General Partner or the Partnership. For purposes of this Section 13.4(c)(v), to be considered a qualified representative of the Limited Partner, a person must be a duly authorized officer, manager or partner of such Limited Partner or must be authorized by a writing executed by such Limited Partner or an electronic transmission delivered by such Limited Partner to act for such Limited Partner as proxy at the meeting of Limited Partners and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of Limited Partners.

(2) For purposes of this Section 13.4(c)(v), "public announcement" shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press or other national news service or in a document publicly filed by the Partnership or the General Partner with the Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act.

(3) Notwithstanding the foregoing provisions of this Section 13.4(c)(v), a Limited Partner shall also comply with all applicable requirements of the Securities Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 13.4(c)(v); provided however, that any references in this Agreement to the Securities Exchange Act or the rules promulgated thereunder are not intended to and shall not limit any requirements applicable to nominations pursuant to this Section 13.4(c)(v) (including paragraphs A(1)(c) and B hereof), and compliance with paragraphs A(1)(c) and B of this Section 13.4(c)(v) shall be the exclusive means for a Limited Partner to make nominations.

(vi) Notwithstanding anything to the contrary in this Section 13.4(c) or elsewhere in this Agreement, the Board of Directors may not adopt a "poison pill" or unitholder or other similar rights plan with respect to the Partnership without Special Director Approval and Special LP Approval.

(vii) Notwithstanding anything to the contrary in this Section 13.4(c) or elsewhere in this Agreement, the General Partner may not amend this Section 13.4(c) or any other provision of this Agreement to provide for a classified Board of Directors without Special Director Approval and Special LP Approval.

(viii) The Partnership and the General Partner shall use their commercially reasonable best efforts to take such action as shall be necessary or appropriate to give effect to and implement the provisions of this Section 13.4(c), including, without limitation, amending the organizational documents of the General Partner such that at all times the organizational documents of the General Partner shall provide (i) that the Directors shall be elected in accordance with the terms of this Agreement, and (ii) terms consistent with this Section 13.4(c)

(ix) Except as provided in this Agreement or otherwise required by the Delaware Limited Partnership Act, each Director shall have the same fiduciary duties and obligations to the Partnership and the Limited Partners as a director of a corporation incorporated under the DGCL has to such corporation and its stockholders, as if such Directors of the Company were directors of a corporation incorporated under the DGCL.

SECTION 13.5. *Notice of a Meeting.*

Notice of a meeting called pursuant to Section 13.4 shall be given to the Record Holders of the class or classes of Limited Partner Interests for which a meeting is proposed in writing by mail or other means of written communication in accordance with Section 16.1. The notice shall be deemed to have been given at the time when deposited in the mail or sent by other means of written communication.

SECTION 13.6. *Record Date.*

For purposes of determining the Limited Partners entitled to notice of or to vote at a meeting of the Limited Partners or to give approvals without a meeting as provided in Section 13.11 the General Partner may set a Record Date, which shall not be less than 10 nor more than 60 days before (a) the date of the meeting (unless such requirement conflicts with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Limited Partner Interests are listed for trading, in which case the rule, regulation, guideline or requirement of such National Securities Exchange shall govern) or (b) in the event that approvals are sought without a meeting, the date by which Limited Partners are requested in writing by the General Partner to give such approvals. If the General Partner does not set a Record Date, then (a) the Record Date for determining the Limited Partners entitled to notice of or to vote at a meeting of the Limited Partners shall be the close of business on the day immediately preceding the day on which notice is given, and (b) the Record Date for determining the Limited Partners entitled to give approvals without a meeting shall be the date the first written approval is deposited with the Partnership in care of the General Partner in accordance with Section 13.11.

SECTION 13.7. *Adjournment.*

When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting and a new Record Date need not be fixed, if the time and place thereof are announced at the meeting at which the adjournment is taken, unless such adjournment shall be for more than 45 days. At the adjourned meeting, the Partnership may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 45 days or if a new Record Date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in accordance with this Article XIII.

SECTION 13.8. *Waiver of Notice; Approval of Meeting; Approval of Minutes.*

The transactions of any meeting of Limited Partners, however called and noticed, and whenever held, shall be as valid as if it had occurred at a meeting duly held after regular call and notice if a quorum is present either in person or by proxy. Attendance of a Limited Partner at a meeting shall constitute a waiver of notice of the meeting, except (i) when the Limited Partner attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business at such meeting because the meeting is not lawfully called or convened, and (ii) that attendance at a meeting is not a waiver of any right to disapprove the consideration of matters required to be included in the notice of the meeting, but not so included, if the disapproval is expressly made at the meeting.

SECTION 13.9. *Quorum.*

Subject to Section 13.4 (b), the Limited Partners holding a majority of the voting power of the Outstanding Limited Partner Interests of the class or classes for which a meeting has been called (including Limited Partner Interests deemed owned by the General Partner) represented in person or by proxy shall constitute a quorum at a meeting of Limited Partners of such class or classes unless any such action by the Limited Partners requires approval by Limited Partners holding a greater percentage of the voting power of such Limited Partner Interests, in which case the quorum shall be such greater percentage. At any meeting of the Limited Partners duly called and held in accordance with this Agreement at which a quorum is present, the act of Limited Partners holding Outstanding Limited Partner Interests that in the aggregate represent a majority of the voting power of the Outstanding Limited Partner Interests entitled to vote and be present in person or by proxy at such meeting shall be deemed to constitute the act of all Limited Partners, unless a greater or different percentage is required with respect to such action under this Agreement, in which case the act of the Limited Partners holding Outstanding Limited Partner Interests that in the aggregate represent at least such greater or different percentage of the voting power shall be required. The Limited Partners present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough Limited Partners to leave less than a quorum, if any action taken (other than adjournment) is approved by the required percentage of the voting power of Outstanding Limited Partner Interests specified in this Agreement (including Outstanding Limited Partner Interests deemed owned by the General Partner). In the absence of a quorum any meeting of Limited Partners may be adjourned from time to time by the affirmative vote of Limited Partners holding at least a majority of the voting power of the Outstanding Limited Partner Interests entitled to vote at such meeting (including Outstanding Limited Partner Interests deemed owned by the General Partner) represented either in person or by proxy, but no other business may be transacted, except as provided in Section 13.7.

SECTION 13.10. *Conduct of a Meeting.*

The General Partner shall have full power and authority concerning the manner of conducting any meeting of the Limited Partners or solicitation of approvals in writing, including the determination of Persons entitled to vote, the existence of a quorum, the satisfaction of the requirements of Section 13.4, the conduct of voting, the validity and effect of any proxies and the determination of any controversies, votes or challenges arising in connection with or during the meeting or voting. The General Partner shall designate a Person to serve as chairman of any meeting and shall further designate a Person to take the minutes of any meeting. All minutes shall be kept with the records of the Partnership maintained by the General Partner. The General Partner may make such other regulations consistent with applicable law and this Agreement as it may deem necessary or advisable concerning the conduct of any meeting of the Limited Partners or solicitation of approvals in writing, including regulations in regard to the appointment of proxies, the appointment and duties of inspectors of votes and approvals, the submission and examination of proxies and other evidence of the right to vote, and the revocation of approvals, proxies and votes in writing.

SECTION 13.11. *Action Without a Meeting.*

Any action that may be taken at a meeting of the Limited Partners may be taken without a meeting, without a vote and without prior notice, if an approval in writing setting forth the action so taken is signed by Limited Partners owning not less than the minimum percentage of the voting power of the Outstanding Limited Partner Interests (including Limited Partner Interests deemed owned by the General Partner) that would be necessary to authorize or take such action at a meeting at which all the Limited Partners were present and voted (unless such provision conflicts with any rule, regulation, guideline or requirement of any National Securities Exchange on which the Limited Partner Interests or a class thereof are listed for trading, in which case the rule, regulation, guideline or requirement of such exchange shall govern). Prompt notice of the taking of action without a meeting shall be given to the Limited Partners who have not approved in writing. The General Partner may specify that any written ballot, if any, submitted to Limited Partners for the purpose of taking any action without a meeting shall be returned to the Partnership within the time period, which shall be not less than 20 days, specified by the General Partner in its sole discretion. If a ballot returned to the Partnership does not vote all of the Limited Partner Interests held by the Limited Partners, the Partnership shall be deemed to have failed to receive a ballot for the Limited Partner Interests that were not voted. If approval of the taking of any action by the Limited Partners is solicited by any Person other than by or on behalf of the General Partner, the written approvals shall have no force and effect unless and until (a) they are deposited with the Partnership in care of the General Partner, (b) approvals sufficient to take the action proposed are dated as of a date not more than 90 days prior to the date sufficient approvals are deposited with the Partnership and (c) an Opinion of Counsel is delivered to the General Partner to the effect that the exercise of such right and the action proposed to be taken with respect to any particular matter (i) will not cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to jeopardize the Limited Partners’ limited liability, and (ii) is otherwise permissible under the state statutes then governing the rights, duties and liabilities of the Partnership and the Partners. Nothing contained in this Section 13.11 shall be deemed to require the General Partner to solicit all Limited Partners in connection with a matter approved by the requisite percentage of the voting power of Limited Partners or other holders of Outstanding Voting Units acting by written consent without a meeting.

SECTION 13.12. *Voting and Other Rights.*

(a) Only those Record Holders of Outstanding Limited Partner Interests on the Record Date set pursuant to Section 13.6 (and also subject to the limitations contained in the definition of "*Outstanding*" and the limitations set forth in Section 3.5) shall be entitled to notice of, and to vote at, a meeting of Limited Partners or to act with respect to matters as to which the holders of the Outstanding Limited Partner Interests have the right to vote or to act. All references in this Agreement to votes of, or other acts that may be taken by, the Outstanding Limited Partner Interests shall be deemed to be references to the votes or acts of the Record Holders of such Outstanding Limited Partner Interests. Each Common Unit shall entitle the holder thereof to one vote for each Common Unit held of record by such holder as of the relevant Record Date.

(b) With respect to Limited Partner Interests that are held for a Person's account by another Person (such as a broker, dealer, bank, trust company or clearing corporation, or an agent of any of the foregoing), in whose name such Limited Partner Interests are registered, such other Person shall, in exercising the voting rights in respect of such Limited Partner Interests on any matter, and unless the arrangement between such Persons provides otherwise, vote such Limited Partner Interests in favor of, and at the direction of, the Person who is the Beneficial Owner, and the Partnership shall be entitled to assume it is so acting without further inquiry. The provisions of this Section 13.12(b) (as well as all other provisions of this Agreement) are subject to the provisions of Section 4.3.

ARTICLE XIV

MERGER

SECTION 14.1. *Authority.*

The Partnership may merge or consolidate or otherwise combine with or into one or more corporations, limited liability companies, statutory trusts or associations, real estate investment trusts, common law trusts or unincorporated businesses, including a partnership (whether general or limited (including a limited liability partnership or a limited liability limited partnership)), formed under the laws of the State of Delaware or any other domestic or foreign jurisdiction, pursuant to a written agreement of merger, consolidation or other business combination ("*Merger Agreement*") in accordance with this Article XIV.

SECTION 14.2. *Procedure for Merger, Consolidation or Other Business Combination.*

Merger, consolidation or other business combination of the Partnership pursuant to this Article XIV requires the prior approval of the General Partner. If the General Partner shall determine, in the exercise of its discretion, to consent to the merger, consolidation or other business combination, the General Partner shall approve the Merger Agreement, which shall set forth:

(a) The names and jurisdictions of formation or organization of each of the business entities proposing to merge, consolidate or combine;

(b) The name and jurisdiction of formation or organization of the business entity that is to survive the proposed merger, consolidation or other business combination (the "*Surviving Business Entity*");

(c) The terms and conditions of the proposed merger, consolidation or other business combination;

(d) The manner and basis of converting or exchanging the equity securities of each constituent business entity for, or into, cash, property or interests, rights, securities or obligations of the Surviving Business Entity; and (i) if any general or limited partner interests, securities or rights of any constituent business entity are not to be converted or exchanged solely for, or into, cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity, the cash, property or interests, rights, securities or obligations of any general or limited partnership, corporation, trust, limited liability company, unincorporated business or other entity (other than the Surviving Business Entity) which the holders of such general or limited partner interests, securities or rights are to receive upon conversion of, or in exchange for, their interests, securities or rights, and (ii) in the case of securities represented by certificates, upon the surrender of such certificates, which cash, property or general or limited partner interests, rights, securities or obligations of the Surviving Business Entity or any general or limited partnership, corporation, trust, limited liability company, unincorporated business or other entity (other than the Surviving Business Entity), or evidences thereof, are to be delivered;

(e) A statement of any changes in the constituent documents or the adoption of new constituent documents (the articles or certificate of incorporation, articles of trust, declaration of trust, certificate or agreement of limited partnership, operating agreement or other similar charter or governing document) of the Surviving Business Entity to be effected by such merger, consolidation or other business combination;

(f) The effective time of the merger, consolidation or other business combination which may be the date of the filing of the certificate of merger or consolidation or similar certificate pursuant to Section 14.4 or a later date specified in or determinable in accordance with the Merger Agreement (provided that if the effective time of such transaction is to be later than the date of the filing of such certificate, the effective time shall be fixed at a date or time certain at or prior to the time of the filing of such certificate and stated therein); and

(g) Such other provisions with respect to the proposed merger, consolidation or other business combination that the General Partner determines in its sole discretion to be necessary or appropriate.

SECTION 14.3. *Approval by Limited Partners of Merger, Consolidation or Other Business Combination.*

(a) Except as provided in Section 14.3(d), the General Partner, upon its approval of the Merger Agreement, shall direct that the Merger Agreement and the merger, consolidation or other business combination contemplated thereby be submitted to a vote of Limited Partners, whether at a special meeting or by written consent, in either case in accordance with the requirements of Article XIII. A copy or a summary of the Merger Agreement shall be included in or enclosed with the notice of a special meeting or the written consent.

(b) Except as provided in Section 14.3(d), the Merger Agreement and the merger, consolidation or other business combination contemplated thereby shall be approved upon receiving the affirmative vote or consent of the holders of a majority of the voting power of Outstanding Voting Units (including Voting Units held by the General Partner and its Affiliates).

(c) Except as provided in Section 14.3(d), after such approval by vote or consent of the Limited Partners, and at any time prior to the filing of the certificate of merger or consolidation or similar certificate pursuant to Section 14.4, the merger, consolidation or other business combination may be abandoned pursuant to provisions therefor, if any, set forth in the Merger Agreement.

(d) Notwithstanding anything else contained in this Article XIV or in this Agreement, the General Partner is permitted, without Limited Partner approval, to (i) effect the Merger, the Exchange and all transactions contemplated by the Exchange Agreement and (ii) convert the Partnership or any Group Member into a new limited liability entity, including a corporation, to merge the Partnership or any Group Member into, or convey all of the Partnership's assets to, another limited liability entity, including a corporation and including a limited liability entity in a foreign jurisdiction, which shall be newly formed and shall have no assets, liabilities or operations at the time of such conversion, merger or conveyance other than those it receives from the Partnership or other Group Member; provided that, with respect to any conversion, merger or conveyance pursuant to clause (ii) above, (A) the General Partner has received an Opinion of Counsel that the merger or conveyance, as the case may be, would not result in the loss of the limited liability of any Limited Partner, (B) the sole purpose of such conversion, merger or conveyance is to effect a mere change in the legal form of the Partnership into another limited liability entity or the jurisdiction of organization of the Partnership into a new jurisdiction of organization, including any foreign jurisdiction or to cause the Partnership to be taxable as a corporation and (C) the governing instruments of the new entity provide the Limited Partners and the General Partner with substantially the same rights and obligations as are herein contained.

SECTION 14.4. *Certificate of Merger or Consolidation.*

Upon the required approval by the General Partner and the Unitholders of a Merger Agreement and the merger, consolidation or business combination contemplated thereby, a certificate of merger or consolidation or similar certificate shall be executed and filed with the Secretary of State of the State of Delaware in conformity with the requirements of the Delaware Limited Partnership Act.

SECTION 14.5. *Amendment of Partnership Agreement.*

Pursuant to Section 17-211(g) of the Delaware Limited Partnership Act, an agreement of merger, consolidation or other business combination approved in accordance with this Article XIV may (a) effect any amendment to this Agreement or (b) effect the adoption of a new partnership agreement for a limited partnership if it is the Surviving Business Entity. Any such amendment or adoption made pursuant to this Section 14.5 shall be effective at the effective time or date of the merger, consolidation or other business combination.

SECTION 14.6. *Effect of Merger.*

(a) At the effective time of the certificate of merger or consolidation or similar certificate:

(i) all of the rights, privileges and powers of each of the business entities that has merged, consolidated or otherwise combined, and all property, real, personal and mixed, and all debts due to any of those business entities and all other things and causes of action belonging to each of those business entities, shall be vested in the Surviving Business Entity and after the merger, consolidation or other business combination shall be the property of the Surviving Business Entity to the extent they were of each constituent business entity;

(ii) the title to any real property vested by deed or otherwise in any of those constituent business entities shall not revert and is not in any way impaired because of the merger, consolidation or other business combination;

(iii) all rights of creditors and all liens on or security interests in property of any of those constituent business entities shall be preserved unimpaired; and

(iv) all debts, liabilities and duties of those constituent business entities shall attach to the Surviving Business Entity and may be enforced against it to the same extent as if the debts, liabilities and duties had been incurred or contracted by it.

(b) A merger, consolidation or other business combination effected pursuant to this Article shall not be deemed to result in a transfer or assignment of assets or liabilities from one entity to another.

(c) Limited Partners shall not be entitled to dissenters’ rights of appraisal as a result of a merger, consolidation or other business combination effected pursuant to this Article.

ARTICLE XV

RIGHT TO ACQUIRE LIMITED PARTNER INTERESTS

SECTION 15.1. *Right to Acquire Limited Partner Interests.*

(a) Notwithstanding any other provision of this Agreement, if at any time less than 10% of the total Limited Partner Interests of any class then Outstanding is held by Persons other than the General Partner and its Affiliates, the General Partner shall then have the right, which right it may assign and transfer in whole or in part to the Partnership or any Affiliate of the General Partner, exercisable in its sole discretion, to purchase all, but not less than all, of such Limited Partner Interests of such class then Outstanding held by Persons other than the General Partner and its Affiliates, at the greater of (x) the Current Market Price as of the date three days prior to the date that the notice described in Section 15.1(b) is mailed and (y) the highest price paid by the General Partner or any of its Affiliates for any such Limited Partner Interest of such class purchased during the 90-day period preceding the date that the notice described in Section 15.1(b) is mailed. As used in this Agreement, (i) “*Current Market Price*” as of any date of any class of Limited Partner Interests means the average of the daily Closing Prices per Limited Partner Interest of such class for the 20 consecutive Trading Days immediately prior to such date; (ii) “Closing Price” for any day means the last sale price on such day, regular way, or in case no such sale takes place on such day, the average of the closing bid and asked prices on such day, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted for trading on the principal National Securities Exchange on which such Limited Partner Interests of such class are listed or admitted to trading or, if such Limited Partner Interests of such class are not listed or admitted to trading on any National Securities Exchange, the last quoted price on such day or, if not so quoted, the average of the high bid and low asked prices on such day in the over-the-counter market, as reported by the primary reporting system then in use in relation to such Limited Partner Interest of such class, or, if on any such day such Limited Partner Interests of such class are not quoted by any such organization, the average of the closing bid and asked prices on such day as furnished by a professional market maker making a market in such Limited Partner Interests of such class selected by the General Partner in its sole discretion, or if on any such day no market maker is making a market in such Limited Partner Interests of such class, the fair value of such Limited Partner Interests on such day as determined by the General Partner in its sole discretion; and (iii) “Trading Day” means a day on which the principal National Securities Exchange on which such Limited Partner Interests of any class are listed or admitted to trading is open for the transaction of business or, if Limited Partner Interests of a class are not listed or admitted to trading on any National Securities Exchange, a Business Day.

(b) If the General Partner, any Affiliate of the General Partner or the Partnership elects to exercise the right to purchase Limited Partner Interests granted pursuant to Section 15.1(a), the General Partner shall deliver to the Transfer Agent notice of such election to purchase (the "*Notice of Election to Purchase*") and shall cause the Transfer Agent to mail a copy of such Notice of Election to Purchase to the Record Holders of Limited Partner Interests of such class (as of a Record Date selected by the General Partner) at least 10, but not more than 60, days prior to the Purchase Date. Such Notice of Election to Purchase shall also be published for a period of at least three consecutive days in at least two daily newspapers of general circulation printed in the English language and circulated in the Borough of Manhattan, New York. The Notice of Election to Purchase shall specify the Purchase Date and the price (determined in accordance with Section 15.1(a)) at which Limited Partner Interests will be purchased and state that the General Partner, its Affiliate or the Partnership, as the case may be, elects to purchase such Limited Partner Interests (in the case of Limited Partner Interests evidenced by Certificates, upon surrender of Certificates representing such Limited Partner Interests) in exchange for payment at such office or offices of the Transfer Agent as the Transfer Agent may specify or as may be required by any National Securities Exchange on which such Limited Partner Interests are listed or admitted to trading. Any such Notice of Election to Purchase mailed to a Record Holder of Limited Partner Interests at his address as reflected in the records of the Transfer Agent shall be conclusively presumed to have been given regardless of whether the owner receives such notice. On or prior to the Purchase Date, the General Partner, its Affiliate or the Partnership, as the case may be, shall deposit with the Transfer Agent cash in an amount sufficient to pay the aggregate purchase price of all of such Limited Partner Interests to be purchased in accordance with this Section 15.1. If the Notice of Election to Purchase shall have been duly given as aforesaid at least 10 days prior to the Purchase Date, and if on or prior to the Purchase Date the deposit described in the preceding sentence has been made for the benefit of the holders of Limited Partner Interests subject to purchase as provided herein, then from and after the Purchase Date, notwithstanding that any Certificate shall not have been surrendered for purchase, all rights of the holders of such Limited Partner Interests (including any rights pursuant to Articles IV, V, VI, and XII) shall thereupon cease, except the right to receive the purchase price (determined in accordance with Section 15.1(a)) for Limited Partner Interests therefor, without interest (in the case of Limited Partner Interests evidenced by Certificates, upon surrender to the Transfer Agent of the Certificates representing such Limited Partner Interests) and such Limited Partner Interests shall thereupon be deemed to be transferred to the General Partner, its Affiliate or the Partnership, as the case may be, on the record books of the Transfer Agent and the Partnership, and the General Partner or any Affiliate of the General Partner, or the Partnership, as the case may be, shall be deemed to be the owner of all such Limited Partner Interests from and after the Purchase Date and shall have all rights as the owner of such Limited Partner Interests (including all rights as owner of such Limited Partner Interests pursuant to Articles IV, V, VI and XII).

(c) If the General Partner, any Affiliate of the General Partner or the Partnership elects to exercise the right to purchase Limited Partner Interests granted pursuant to Section 15.1(a), the holders of such Limited Partner Interests shall be entitled to appraisal rights.

ARTICLE XVI

GENERAL PROVISIONS

SECTION 16.1. *Addresses and Notices.*

Any notice, demand, request, report or proxy materials required or permitted to be given or made to a Partner under this Agreement shall be in writing and shall be deemed given or made when delivered in person or when sent by first class United States mail or by other means of written communication to the Partner at the address described below.

Any notice, payment or report to be given or made to a Partner hereunder shall be deemed conclusively to have been given or made, and the obligation to give such notice or report or to make such payment shall be deemed conclusively to have been fully satisfied, upon sending of such notice, payment or report to the Record Holder of such Partnership Securities at his address as shown on the records of the Transfer Agent or as otherwise shown on the records of the Partnership, regardless of any claim of any Person who may have an interest in such Partnership Securities by reason of any assignment or otherwise.

Notwithstanding the foregoing, if (i) a Partner shall consent to receiving notices, demands, requests, reports or proxy materials via electronic mail or by the Internet or (ii) the rules of the Commission shall permit any report or proxy materials to be delivered electronically or made available via the Internet, any such notice, demand, request, report or proxy materials shall be deemed given or made when delivered or made available via such mode of delivery.

An affidavit or certificate of making of any notice, payment or report in accordance with the provisions of this Section 16.1 executed by the General Partner, the Transfer Agent or the mailing organization shall be prima facie evidence of the giving or making of such notice, payment or report. If any notice, payment or report given or made in accordance with the provisions of this Section 16.1 is returned marked to indicate that such notice, payment or report was unable to be delivered, such notice, payment or report and, in the case of notices, payments or reports returned by the United States Postal Service (or other physical mail delivery mail service outside the United States of America), any subsequent notices, payments and reports shall be deemed to have been duly given or made without further mailing (until such time as such Record Holder or another Person notifies the Transfer Agent or the Partnership of a change in his address) or other delivery if they are available for the Partner at the principal office of the Partnership for a period of one year from the date of the giving or making of such notice, payment or report to the other Partners. Any notice to the Partnership shall be deemed given if received by the General Partner at the principal office of the Partnership designated pursuant to Section 2.3. The General Partner may rely and shall be protected in relying on any notice or other document from a Partner or other Person if believed by it to be genuine.

SECTION 16.2. *Further Action.*

The parties shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement.

SECTION 16.3. *Binding Effect.*

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns. The Indemnitees and their heirs, executors, administrators and successors shall be entitled to receive the benefits of this Agreement.

SECTION 16.4. *Integration.*

This Agreement constitutes the entire agreement among the parties hereto pertaining to the subject matter hereof and supersedes all prior agreements and understandings pertaining thereto.

SECTION 16.5. *Creditors.*

None of the provisions of this Agreement shall be for the benefit of, or shall be enforceable by, any creditor of the Partnership.

SECTION 16.6. *Waiver.*

No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach of any other covenant, duty, agreement or condition.

SECTION 16.7. *Counterparts.*

This Agreement may be executed in counterparts, all of which together shall constitute an agreement binding on all the parties hereto, notwithstanding that all such parties are not signatories to the original or the same counterpart. Each party shall become bound by this Agreement immediately upon affixing its signature hereto or, in the case of a Person acquiring a Limited Partner Interest pursuant to Section 10.2(a), without execution hereof.

SECTION 16.8. *Applicable Law.*

This Agreement shall be governed by, and construed in accordance with the laws of the State of Delaware.

SECTION 16.9. *Invalidity of Provisions.*

If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

SECTION 16.10. *Consent of Partners.*

Each Partner hereby expressly consents and agrees that, whenever in this Agreement it is specified that an action may be taken upon the affirmative vote or consent of less than all of the Partners, such action may be so taken upon the concurrence of less than all of the Partners and each Partner shall be bound by the results of such action.

SECTION 16.11. *Facsimile Signatures.*

The use of facsimile signatures affixed in the name and on behalf of the transfer agent and registrar of the Partnership on certificates representing Common Units is expressly permitted by this Agreement.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above:

GENERAL PARTNER:

STEEL PARTNERS HOLDINGS GP INC.

By: /s/ James F. McCabe, Jr.
Name: James F. McCabe, Jr.
Title: Chief Financial Officer

LIMITED PARTNERS:

All Limited Partners now and hereafter admitted as Limited Partners of the Partnership, pursuant to powers of attorney now and hereafter executed in favor of, and granted and delivered to the General Partner or without execution hereof pursuant to Section 10.2(a).

STEEL PARTNERS HOLDINGS GP INC.

By: /s/ James F. McCabe, Jr.
Name: James F. McCabe, Jr.
Title: Chief Financial Officer

EXHIBIT A
to the Agreement of Limited Partnership of
Steel Partners Holdings L.P.

Certificate Evidencing Common Units
Representing Limited Partner Interests in
Steel Partners Holdings L.P.

No.	Common Units

In accordance with Section 4.1 of the Agreement of Limited Partnership of Steel Partners Holdings L.P., as amended, supplemented or restated from time to time (the "*Partnership Agreement*"), Steel Partners Holdings L.P., a Delaware limited partnership (the "*Partnership*"), hereby certifies that ____________________________ (the "*Holder*") is the registered owner of _______________ Common Units representing limited partner interests in the Partnership (the "*Common Units*") transferable on the books of the Partnership, in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed by a duly executed assignment in the form set forth on the reverse hereof. The rights, preferences and limitations of the Common Units are set forth in, and this Certificate and the Common Units represented hereby are issued and shall in all respects be subject to the terms and provisions of, the Partnership Agreement. Copies of the Partnership Agreement are on file at, and will be furnished without charge on delivery of written request to the Partnership at, the principal office of the Partnership located at 590 Madison Avenue, 32nd Floor, New York, NY 10022. Capitalized terms used herein but not defined shall have the meanings given them in the Partnership Agreement.

The Holder, by accepting this Certificate, is deemed to have (i) requested admission as, and agreed to become, a Limited Partner and to have agreed to comply with and be bound by and to have executed the Partnership Agreement, (ii) represented and warranted that the Holder has all right, power and authority and, if an individual, the capacity necessary to enter into the Partnership Agreement, (iii) granted the powers of attorney provided for in the Partnership Agreement and (iv) made the waivers and given the consents and approvals contained in the Partnership Agreement.

THE HOLDER OF THIS SECURITY ACKNOWLEDGES FOR THE BENEFIT OF STEEL PARTNERS HOLDINGS L.P. THAT THIS SECURITY MAY NOT BE SOLD, OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IF SUCH TRANSFER WOULD (A) VIOLATE THE THEN APPLICABLE FEDERAL OR STATE SECURITIES LAWS OR RULES AND REGULATIONS OF THE SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION OR ANY OTHER GOVERNMENTAL AUTHORITY WITH JURISDICTION OVER SUCH TRANSFER, (B) TERMINATE THE EXISTENCE OR QUALIFICATION OF STEEL PARTNERS HOLDINGS L.P. UNDER THE LAWS OF THE STATE OF DELAWARE, OR (C) CAUSE STEEL PARTNERS HOLDINGS L.P. TO BE TREATED AS AN ASSOCIATION TAXABLE AS A CORPORATION OR OTHERWISE TO BE TAXED AS AN ENTITY FOR FEDERAL INCOME TAX PURPOSES (TO THE EXTENT NOT ALREADY SO TREATED OR TAXED). STEEL PARTNERS HOLDINGS GP INC., THE GENERAL PARTNER OF STEEL PARTNERS HOLDINGS L.P., MAY IMPOSE ADDITIONAL RESTRICTIONS ON THE TRANSFER OF THIS SECURITY IF IT RECEIVES AN OPINION OF COUNSEL THAT SUCH RESTRICTIONS ARE NECESSARY TO AVOID A SIGNIFICANT RISK OF STEEL PARTNERS HOLDINGS L.P. BECOMING TAXABLE AS A CORPORATION OR OTHERWISE BECOMING TAXABLE AS AN ENTITY FOR FEDERAL INCOME TAX PURPOSES. THE RESTRICTIONS SET FORTH ABOVE SHALL NOT PRECLUDE THE SETTLEMENT OF ANY TRANSACTIONS INVOLVING THIS SECURITY ENTERED INTO THROUGH THE FACILITIES OF ANY NATIONAL SECURITIES EXCHANGE ON WHICH THIS SECURITY IS TRADED.

This Certificate shall not be valid for any purpose unless it has been countersigned and registered by the Transfer Agent and Registrar.

Dated: ______________________	Steel Partners Holdings L.P.
Countersigned and Registered by:	By: Steel Partners Holdings GP Inc., its General Partner
______________________	By: ______________________
as Transfer Agent and Registrar	Name: ______________________
By: ______________________ Authorized Signature	By: ______________________ Secretary

[Reverse of Certificate]

ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as follows according to applicable laws or regulations:

TEN COM -	as tenants in common	UNIF GIFT MIN ACT
TEN ENT -	as tenants by the entireties	Custodian
		(Cust) (Minor)
JT TEN -	as joint tenants with right of survivorship and not as tenants in common	under Uniform Gifts to Minors Act (State)

Additional abbreviations, though not in the above list, may also be used.

ASSIGNMENT OF COMMON UNITS
IN
STEEL PARTNERS HOLDINGS L.P.

FOR VALUE RECEIVED,

hereby assigns, conveys, sells and transfers unto

(Please print or typewrite name and address of Assignee)

(Please insert Social Security or other identifying number of Assignee)

Common Units representing limited partner interests evidenced by this Certificate, subject to the Partnership Agreement, and does hereby irrevocably constitute and appoint as its attorney-in-fact with full power of substitution to transfer the same on the books of Steel Partners Holdings L.P.

Date: ____________________

NOTE The signature to any endorsement hereon must correspond with the name as written upon the face of this Certificate in every particular, without alteration, enlargement or change.

THE SIGNATURE(S) MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17A(d)-15

(Signature)

(Signature)

No transfer of the Common Units evidenced hereby will be registered on the books of the Partnership, unless the Certificate evidencing the Common Units to be transferred is surrendered for registration and is properly endorsed by a duly executed assignment in the form set forth above.

SECOND AMENDED AND RESTATED MANAGEMENT AGREEMENT

THIS SECOND AMENDED AND RESTATED MANAGEMENT AGREEMENT is entered into effective as of July 14, 2009, by and between Steel Partners Holdings L.P. (formerly WebFinancial L.P.) a Delaware limited partnership (the "Partnership"), and Steel Partners LLC, a Delaware limited liability company (together with its permitted assignees, the "Manager").

WHEREAS, the Partnership and the Manager previously entered into an Amended and Restated Management Agreement effective as of July 14, 2009 (the "Original Agreement") pursuant to which the Manager agreed to perform various services on behalf of and for the benefit of the Managed Entities (defined below); and

WHEREAS, the Partnership and the Manager wish to amend and restate the Original Agreement to reflect certain new terms that are mutually agreed to by the Partnership and Manager in connection with the various management services to be performed by the Manager on behalf of and for the benefit of the Managed Entities.

NOW, THEREFORE, in consideration of the premises and mutual agreements hereinafter set forth, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. DEFINITIONS. The following terms have the following meanings assigned to them:

(a) "Additional Option" shall have the meaning set forth in SECTION 9(b).

(b) "Adjustment" shall have the meaning set forth in SECTION 9(a).

(c) "Affiliate" shall mean with respect to any Person any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Person, or any director, officer or employee or partner of such Person.

(d) "Aggregate Exercise Price" shall have the meaning set forth in SECTION 9(a).

(e) "Agreement" means this Management Agreement, as amended from time to time.

(f) "Business" means the business of the Managed Entities.

(g) "Change of Control" means the occurrence of any of the following:

(i) the sale, lease or transfer, in one or a series of related transactions, of all or substantially all of the assets of the Manager, taken as a whole, to any Person other than one of the Manager's Affiliates or any Person, including trusts, which operates for the benefit of any of the current owners of the Manager; or

(ii) the acquisition by any Person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, or any successor provision), including any group acting for the purpose of acquiring, holding or disposing of securities (within the meaning of Rule 13d-5(b)(1) under the Exchange Act), other than its Affiliates, in a single transaction or in a series of related transactions, by way of merger, consolidation or other business combination or purchase of beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act, or any successor provision) of 20% or more of the total voting power of the voting capital interests of the Manager.

(h) "Code" means the Internal Revenue Code of 1986, as amended.

(i) "Common Units" shall have the meaning set forth in SECTION 9(a).

(j) "Excess Funds" shall have the meaning set forth in SECTION 2(h).

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Exercise Price" shall have the meaning set forth in SECTION 9(a).

(m) "General Partner" means the general partner of the Partnership.

(n) "Governing Instruments" means, with regard to any entity, the articles of incorporation and bylaws in the case of a corporation, certificate of limited partnership (if applicable) and the partnership agreement in the case of a general or limited partnership, the articles of formation and the operating agreement in the case of a limited liability company, the trust instrument in the case of a trust, or similar governing documents, in each case as amended from time to time.

(o) "Grant Date" shall have the meaning set forth in SECTION 9(a).

(p) "Independent Directors" means those directors of the General Partner who are not Affiliates of the Manager or any of its Affiliates.

(q) "Investment Company Act" means the Investment Company Act of 1940, as amended.

(r) "Investments" means the investments of the Managed Entities.

(s) "Issuance" shall have the meaning set forth in SECTION 9(b).

(t) "Limited Partners" means the limited partners of the Partnership.

(u) "Management Fee" shall have the meaning set forth in SECTION 8(a).

(v) "Managed Entities" means the Partnership, Steel Partners II, L.P., and each Subsidiary that the Manager designates as a "Managed Entity" from time to time.

(w) "Offshore Fund" means Steel Partners II (Offshore) Ltd.

(x) "Onshore Fund" means Steel Partners II (Onshore) LP.

(y) "Options" shall have the meaning set forth in SECTION 9(a).

(z) "Partnership Account" shall have the meaning set forth in SECTION 5.

(aa) "Person" means any individual, corporation, partnership, joint venture, limited liability company, estate, trust, unincorporated association, any federal, state, county or municipal government or any bureau, department or agency thereof and any fiduciary acting in such capacity on behalf of any of the foregoing.

(bb) "Relevant Market Cap" shall have the meaning set forth in SECTION 8(a).

(cc) "Relevant NAV" shall have the meaning set forth in SECTION 8(a).

(dd) "Restricted Jurisdiction" means any foreign country with respect to which investments or other transactions are in any way restricted by the U.S. Office of Foreign Assets Control, the Transaction Control Regulations, the Cuban Assets Control Regulations, the Foreign Funds Control Regulations, the Iranian Assets Control Regulations, the South African Transactions Regulations or the Libyan Sanctions Regulations of the United States Treasury Department or any similar regulations of such Department relating to any other country (31 C.F.R., Subtitle B, Chapter V, as amended), or any subdivision, agency or instrumentality of or in any such country or any territory or other place subject to the jurisdiction thereof.

(ee) "Securities" means publicly issued and privately placed: corporate and municipal bonds, notes, debentures and other debt obligations; United States and foreign government bonds, bills, notes and other debt obligations and United States and foreign government agency bonds, notes and other debt obligations issued by or on behalf of United States or other foreign government agencies (excluding any Restricted Jurisdiction); money market instruments; other interest-bearing securities; depository receipts; bankers' acceptances; foreign exchange; trust receipts; common and preferred stock; debentures; warrants; installment receipts; preorganization certificates and subscriptions; limited partnership interests; general partnership interests; other interests or property of whatever kind or nature of any Person, government or entity whatsoever commonly regarded as securities; financial instruments commonly known as "floors", "swaps" and "caps"; financial, securities- or currency-linked derivative instruments; currency interests; options, including puts and calls and any combinations thereof (written by a Managed Entity or others); and rights and derivative instruments convertible into or related to the aforementioned securities, including without limitation short positions in any such securities.

(ff) "Subsidiary" means any subsidiary of the Partnership (any entity in which the Partnership owns in excess of 50% of the voting and economic interest); any partnership, the general partner of which is the Partnership or any subsidiary of the Partnership; and any limited liability company, the managing member of which is the Partnership or any subsidiary of the Partnership.

(gg) "Transaction Fees" shall mean any transaction, commitment, "break-up" or other fees received directly as a result of an agreement to commit capital to a transaction or in the event that a proposed transaction is not consummated.

SECTION 2. APPOINTMENT AND DUTIES OF THE MANAGER.

(a) The Partnership hereby appoints the Manager to manage the Managed Entities subject to the further terms and conditions set forth in this Agreement, and the Manager hereby agrees to perform each of the duties set forth herein. The appointment of the Manager shall be exclusive to the Manager except to the extent that the Manager otherwise agrees, in its sole and absolute discretion, and except to the extent that the Manager elects, pursuant to the terms of this Agreement, to cause the duties of the Manager hereunder to be delegated to or provided by third parties, whether or not affiliated with the Manager (provided that no such delegation by the Manager shall relieve the Manager of responsibility therefor), and the Partnership, at the direction of the Manager, will enter into agreements directly with such third parties to whom such duties may be delegated, as the Manager deems appropriate.

(b) The Manager, in its capacity as manager of the Managed Entities, at all times will be subject to the supervision of the General Partner and will have only such functions and authority as the General Partner may delegate to it including, without limitation, the functions and authority identified herein and delegated to the Manager hereby. The Manager will be responsible for the day-to-day operations of the Managed Entities and will perform (or cause to be performed) such services and activities relating to the operations of the Managed Entities as may be appropriate, including, without limitation:

(i) serving as the Partnership's consultant with respect to the periodic review of the Business and operations of the Managed Entities and any modifications to its purpose as directed by the General Partner and consented to by the Manager (such policy guidelines as initially approved as Appendix A to this Agreement, as the same may be modified with such approval, the "Guidelines") and other policies established by the General Partner and approved by the Manager;

(ii) investigation, analysis, selection and implementation of business opportunities for the Managed Entities;

(iii) with respect to prospective business opportunities and investments by the Managed Entities and dispositions of assets of the Managed Entities, conducting negotiations with sellers and purchasers and their respective agents, representatives and investment bankers, and having discretion to determine if and when to proceed with any such business opportunities, investments or dispositions including entering into, on behalf of the Managed Entities, any agreements with other Persons with respect to any such business opportunities, investments or dispositions;

(iv) entering into any agreements on behalf of the Managed Entities in connection with the performance of its obligations under this Agreement;

(v) engaging and supervising, on behalf of the Managed Entities and at the Managed Entities' expense, independent contractors which provide legal, accounting, investment banking, banking, securities brokerage, custodial, administration and other services and such other services as may be required relating to the Business and/or Investments;

(vi) negotiating on behalf of the Managed Entities for the sale, exchange or other disposition of any assets;

(vii) coordinating and managing the operations of any joint venture or co-investment interests held by the Managed Entities and conducting all matters with the joint venture or co-investment partners;

(viii) providing executive and administrative personnel, office space and office services required in rendering services to the Managed Entities;

(ix) administering the day-to-day operations of the Managed Entities and performing and supervising the performance of such other administrative functions necessary in the management of the Managed Entities as may be agreed upon by the General Partner and the Manager, including, without limitation, the collection of revenues and the payment of the Managed Entities' debts and obligations and maintenance of appropriate computer services to perform such administrative functions;

(x) communicating on behalf of the Managed Entities with Persons holding equity interests or the holders of any debt securities of the Managed Entities as required to satisfy the reporting and other requirements of any governmental bodies or agencies or trading markets and to maintain effective relations with such holders;

(xi) counseling the Managed Entities in connection with policy decisions to be made by the General Partner or the relevant management team of a Managed Entity;

(xii) evaluating and implementing hedging strategies and engaging in hedging activities on behalf of the Partnership or a Managed Entity, consistent with such strategies, as so modified from time to time;

(xiii) counseling the Managed Entities regarding the maintenance of their exemption from the registration requirements of the Investment Company Act and monitoring compliance with the requirements for maintaining an exemption from that Act;

(xiv) assisting the Managed Entities in developing criteria for asset purchase and Business commitments that are specifically tailored to the Managed Entities' Business and in line with the Guidelines;

(xv) monitoring the operating performance of the Managed Entities and providing periodic reports with respect thereto to the General Partner or the relevant management team of a Managed Entity, including comparative information with respect to such operating performance and budgeted or projected operating results;

(xvi) investing and re-investing any moneys and securities of the Managed Entities (including making short-term investments pending further investment in the operations of the Managed Entities, payment of fees, costs and expenses, or payments of dividends or distributions to limited partners) and advising each Managed Entity as to its capital structure and capital raising alternatives;

(xvii) causing each Managed Entity to retain qualified accountants and legal counsel, as applicable, to assist in developing appropriate accounting procedures, compliance procedures and testing systems with respect to financial reporting obligations and compliance with the provisions of the Code applicable to partnerships and to conduct quarterly compliance reviews with respect thereto;

(xviii) causing each Managed Entity to qualify to do business in all applicable jurisdictions and to obtain and maintain all appropriate licenses;

(xix) assisting each Managed Entity in complying with all regulatory requirements applicable to the such Managed Entity in respect of its business activities, including preparing or causing to be prepared all financial statements required under applicable regulations and contractual undertakings and all reports and documents, if any, required under the Exchange Act;

(xx) taking all necessary actions to enable the Managed Entities to make required tax filings and reports, including soliciting holders for required information to the extent provided by the provisions of the Code applicable to partnerships;

(xxi) handling and resolving all claims, disputes or controversies (including all litigation, arbitration, settlement or other proceedings or negotiations) in which the Managed Entities may be involved or to which the Managed Entities may be subject arising out of the day-to-day operations of the Managed Entities;

(xxii) using commercially reasonable efforts to cause expenses incurred by or on behalf of the Managed Entities to be commercially reasonable or commercially customary;

(xxiii) performing such other services as may be required from time to time for management and other activities relating to the Managed Entities as the General Partner or the relevant management team of a Managed Entity shall reasonably request or the Manager shall deem appropriate under the particular circumstances; and

(xxiv) using commercially reasonable efforts to cause the Managed Entities to comply with all applicable laws.

(c) The Manager may enter into agreements with other parties, including its Affiliates, or direct the Managed Entities to enter into such agreements directly, for the purpose of engaging one or more parties for and on behalf of the Managed Entities to provide management and/or other services to the Managed Entities pursuant to agreement(s) with terms which are then customary for agreements regarding the provision of services to companies that have businesses similar in type to the Managed Entities; *provided* that with respect to any agreements entered into with Affiliates of the Manager pursuant to which such Affiliates shall perform any obligations of the Manager under this Agreement and in respect of which the Manager receives the Management Fee, the Manager shall provide prompt notice of the terms of such agreement or arrangement to the Independent Directors, and further provided that any arrangement entered into directly by the Managed Entities with such other party to perform any obligations of the Manager under this Agreement shall result in a reduction of the Management Fee payable under this Agreement in the amount of the fees charged under such direct arrangement.

(d) As provided in SECTION 2(b)(v), the Manager may retain, for and on behalf, and at the sole cost and expense, of the Partnership or the Managed Entities, such services of accountants, legal counsel, appraisers, insurers, brokers, transfer agents, registrars, developers, investment banks, financial advisors, banks and other lenders and others as the Manager deems necessary or advisable in connection with the management and operations of the Managed Entities and the Business. Notwithstanding anything contained herein to the contrary, the Manager shall have the right to cause any such services to be rendered by its employees or Affiliates. The Partnership or the Managed Entities shall pay or reimburse the Manager or its Affiliates performing such services for the cost and expenses thereof; *provided* that such costs and reimbursements as to Affiliates of the Manager are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis.

(e) As frequently as the Manager may deem necessary or advisable, or at the direction of the General Partner, the Manager shall, at the sole cost and expense of the Partnership or the Managed Entities, prepare, or cause to be prepared, any reports and other information with respect to the Business as may be reasonably requested by the General Partner.

(f) The Manager shall prepare, or cause to be prepared, at the sole cost and expense of the Partnership or the Managed Entities, all reports, financial or otherwise, with respect to the Managed Entities reasonably required by the General Partner in order for the Managed Entities to comply with their Governing Instruments or any other materials required to be filed with any governmental body or agency, and shall prepare, or cause to be prepared, all materials and data necessary to complete such reports and other materials including, without limitation, an annual audit of the Managed Entities' books of account by a nationally recognized independent accounting firm.

(g) The Manager shall prepare regular reports for the General Partner to enable the General Partner to review the Business and compliance with the Guidelines and policies approved by the General Partner.

(h) Notwithstanding anything contained in this Agreement to the contrary, the Manager shall not be required to expend money ("Excess Funds") in connection with any expenses that are required to be paid for or reimbursed by the Managed Entities in excess of that contained in any applicable Partnership Account or otherwise made available by the Managed Entities to be expended by the Manager hereunder or any other party with respect to the Managed Entities. Failure of the Manager to expend Excess Funds out-of-pocket shall not give rise or be a contributing factor to the right of the Partnership under SECTION 16(a) to terminate this Agreement due to the Manager's unsatisfactory performance.

(i) Managers, members, partners, officers, employees or agents may serve as directors, officers, employees, agents, nominees or signatories for the Managed Entities, to the extent permitted by their Governing Instruments or by any resolutions duly adopted by the General Partner pursuant to the Partnership's Governing Instruments. When executing documents or otherwise acting in such capacities for a Managed Entity, such persons shall use their respective titles in the Partnership or such other Managed Entity, to the extent that they are an officer of the Partnership or such other Managed Entity or shall use their respective titles in the Manager.

(j) The General Partner shall pass any and all necessary resolutions to provide for the delegation of its duties to the Manager under this Agreement (and to facilitate the delegation of duties to the Manager in respect of the other Managed Entities), and to permit such delegation to be approved or evidenced by acts of the Board of Directors, or by any certificate duly signed by any officer of the General Partner (or, as applicable, the officers or authorized persons of the other Managed Entities), to verify or confirm the authority of the Manager or any of its members, partners, officers, employees or agents authority to enter into agreements on behalf of and bind the Partnership (and each Managed Entity).

(k) In performing its duties under this SECTION 2, the Manager shall be entitled to rely reasonably on qualified experts and professionals (including, without limitation, accountants, legal counsel and other professional service providers) hired by the Manager at the Managed Entities' sole cost and expense.

SECTION 3. DEVOTION OF TIME; ADDITIONAL ACTIVITIES.

(a) The Manager will provide the Managed Entities with appropriate support personnel required to enable the Manager to provide the management services contemplated hereunder, and such personnel shall devote such time to the management of the Managed Entities as the Manager reasonably deems necessary and appropriate, commensurate with the level of activity of the Managed Entities from time to time.

(b) It is understood that the Manager and its members, officers, employees, agents, or Affiliates may provide management services to any Person, including to Limited Partners and Persons whose business or investments may be similar to those of the Partnership, and may engage in any other business activity. The Manager and its Affiliates shall be permitted to give advice to the Managed Entities that differs from that provided to its clients (and, where applicable, is different from the advice it has given in conjunction with its other business activities), even though the objectives of such other clients may be substantially the same or similar as those of the Managed Entities. The Manager shall discharge its duties under this Agreement with the same degree of skill, care, and diligence as it uses in the administration of its other clients, but shall not be obligated to treat the Managed Entities more favorably than or preferentially to its other clients, or where applicable any of its other businesses, except to the extent otherwise required by applicable law.

(c) Subject to SECTION 7(c), and applicable law, nothing contained herein shall limit or otherwise restrict the Manager or any of its members, officers, employees, agents, or Affiliates from buying, selling, or trading for its or their own account.

(d) Nothing contained herein shall prevent the Manager, or any Person affiliated or associated in any way with the Manager, from contracting or entering into any financial, banking, brokerage, or other transactions with the Managed Entities, nor shall it prevent any Limited Partner, or any Person the securities of which are held by or for the account of the Managed Entities, from being interested in any such transaction, except to the extent prohibited by applicable law.

SECTION 4. <u>MANAGER AS INDEPENDENT CONTRACTOR</u>

(a) The Manager shall, for all purposes of this Agreement, be deemed to be an independent contractor and not an agent or employee of the Managed Entities and, except as otherwise expressly provided herein, shall have no authority to act for or to represent the Managed Entities or otherwise to be deemed an agent of the Managed Entities.

(b) Except as the General Partner may be required to retain such powers as are required by a counterparty, during the term of this Agreement, the Manager shall have sole power to acquire, dispose of, and to vote (and take any action and all other actions deemed appropriate by the Manager relating to) the Investments and other assets of the Managed Entities, in each case in accordance with the terms of this Agreement.

SECTION 5. <u>BANK ACCOUNTS</u>. The Manager may establish and maintain one or more bank accounts, brokerage accounts, custody accounts or other similar types of accounts in the name of the Partnership or any Subsidiary (any such account, a "<u>Partnership Account</u>"), and may collect and deposit funds into any such Partnership Account or Partnership Accounts, and disburse funds from any such Partnership Account or Partnership Accounts; and the Manager shall from time to time render appropriate accountings of such collections and payments to the General Partner and, upon request, to the auditors of the Managed Entities.

SECTION 6. <u>RECORDS; CONFIDENTIALITY</u>. The Manager shall maintain appropriate books of account and records relating to services performed under this Agreement, and such books of account and records shall be accessible for inspection by representatives of the Managed Entities at any time during normal business hours upon one (1) business day's advance written notice. The Manager shall keep confidential any and all information obtained in connection with the services rendered under this Agreement and shall not disclose any such information to nonaffiliated Persons (or use the same except in furtherance of its duties under this Agreement) except (i) with the prior written consent of the General Partner, (ii) to legal counsel, accountants and other professional advisors; (iii) to appraisers, financing sources and others in the ordinary course of the Business; (iv) to governmental officials having jurisdiction over the Partnership or the Managed Entities; (v) in connection with any governmental or regulatory filings of any of the Managed Entities or disclosure or presentations to any of the Managed Entities' investors; or (vi) as required by law or legal process to which the Manager or any Person to whom disclosure is permitted hereunder is a party. The foregoing shall not apply to information which has previously become publicly available through the actions of a Person other than the Manager or any other Person to which the Manager makes disclosure in accordance with the terms of this SECTION 6. The provisions of this SECTION 6 shall survive the expiration or earlier termination of this Agreement for a period of one year.

SECTION 7. <u>OBLIGATIONS OF MANAGER; RESTRICTIONS</u>.

(a) The Manager shall require each Person entering into any agreement with the Managed Entities to make such representations and warranties, if any, as may, in the judgment of the Manager, be necessary and appropriate. In addition, the Manager shall take such other action necessary or appropriate with regard to the protection of the Managed Entities and the Business.

(b) The Manager shall refrain from any action that, in its sole judgment made in good faith, (i) is not in compliance in all material respects with the Partnership's Agreement of Limited Partnership and the Guidelines as then in effect, (ii) would, to the knowledge of the Manager, violate any law, rule or regulation of any governmental body or agency having jurisdiction over any of the Managed Entities or any Subsidiary or that would otherwise not be permitted by the relevant Governing Instruments. If the Manager is ordered to take any such action by any of the Managed Entities, the Manager shall promptly notify the General Partner of the Manager's judgment that such action would adversely affect such status or violate any such law, rule or regulation or the Governing Instruments. Notwithstanding the foregoing, neither the Manager, nor its Affiliates, members, managers, directors, officers, stockholders or employees shall be liable to the Managed Entities, the General Partner, or the Managed Entities' limited partners, interest holders or shareholders, for any act or omission by the Manager, its Affiliates, members, managers, directors, officers, stockholders or employees except as provided in SECTION 14.

(c) Notwithstanding any other provision contained herein, the Manager shall not (i) consummate any transaction which would involve the acquisition by any of the Managed Entities of an asset in which the Manager or any of its Affiliates has a direct or indirect ownership interest or the sale by any of the Managed Entities of an asset to the Manager or any of its Affiliates or to any Person in which the Manager or any of its Affiliates has a direct or indirect ownership interest, or (ii) under circumstances where the Manager is subject to an actual or potential material conflict of interest because it manages both the Managed Entities and another Person (not an Affiliate of the Managed Entities) with which any of the Managed Entities has a contractual relationship, or otherwise, take any action constituting the granting to such Person of a waiver, forbearance or other relief, or the enforcement against such Person of remedies, under or with respect to the applicable contract, unless such transaction or action, as the case may be and in each case, is approved by the Independent Directors. As applicable now or in the future, to the extent that any such transaction is approved by the Independent Directors such consent shall constitute client consent to principal trades pursuant to the provisions of the Investment Advisers Act of 1940.

SECTION 8. COMPENSATION. The Manager, as full compensation for services rendered pursuant to this Agreement, shall be paid by the Partnership as follows:

(a) The Manager shall receive a monthly management fee (the "Management Fee") with respect to the Partnership in an amount equal to 1/12 of (i) (x) the sum of the net asset value of the Common Units of the Partnership and the Deferred Fee Accounts (as defined in the Deferred Fee Agreement), each as of the last day of the prior month (the "Relevant NAV"), until such time as the Common Units are listed on a nationally recognized exchange, or (y) the sum of the market capitalization of the Partnership (as determined and evidenced by the Manager) and the Deferred Fee Accounts, each as of the last day of the prior month (the "Relevant Market Cap"), once the Common Units have been listed on a nationally recognized exchange, multiplied by (ii) one and one-half percent (1.5%). For purposes of this Section 8(a), the last day of the prior month shall be a "Computation Date" (as defined in the Deferred Fee Agreement).

(b) The Manager shall compute each installment of the Management Fee within fifteen (15) business days after the last day of the immediately preceding month with respect to which the Relevant NAV or Relevant Market Cap was determined. A copy of the computations made by the Manager to calculate such installment shall promptly be delivered to the General Partner for informational purposes only. At the request of the Manager the Partnership shall, from time to time, advance to the Manager or its designees the amount of any Management Fee for any month based on the Manager's good faith estimate of the Management Fee for such month pending the final determination of the Management Fee for such month. Upon delivery of the final computation of the Management Fee for such month, after taking into account any advances to the Manager or its designees, the amount due (i) to the Manager or its designees by the Partnership or (ii) to the Partnership by the Manager or its designees shall be paid no later than the first day of the next calendar month following the calendar month in which the final Management Fee computation was delivered to the Partnership.

(c) For the avoidance of doubt, any services provided by an Affiliate of the Manager or any officers or employees thereof (other than services specifically required to be provided by the Manager pursuant to this Agreement), to other than the Managed Entities, shall be provided under a separate arrangement and any compensation related thereto shall be in addition to any compensation payable to the Manager related to its services to the Managed Entities, provided that such amounts are no greater than those which would be payable to outside professionals, consultants or the Subsidiary's officers, directors or employees engaged to perform such services pursuant to agreements negotiated on an arm's-length basis. Except as otherwise provided herein, any services provided by the Manager to an entity other than the Managed Entities (other than services specifically required to be provided by the Manager pursuant to this Agreement), can be charged a separate fee from the Management Fee.

SECTION 9. INCENTIVE OPTIONS.

(a) The Partnership hereby grants to the Manager options (the "Options") to purchase Common Units of the Partnership, as defined in the Partnership's Limited Partnership Agreement ("Common Units"), subject to the following terms and conditions as set forth in this SECTION 9 (references in this SECTION 9 to the "Manager" shall include any Affiliate or Persons designated by the Manager to be a recipient of Options):

(i) The aggregate number of Common Units subject to the Options shall be 4,965,690, which is equal to fifteen percent (15%) of the sum of the Common Units of the Partnership outstanding and the number of notional units used to determine the Deferred Fee Accounts in accordance with that certain Second Amended and Restated Deferred Fee Agreement, effective as of July 15, 2009, between the Partnership and WGL Capital Corp. (the "Deferred Fee Agreement"), each as of July 15, 2009 (the "Grant Date"), on a fully diluted basis;

(ii) The per Common Unit exercise price of the Options shall be $31.81. In addition, subject to SECTION 9(a)(viii) herein, the Exercise Price shall be adjusted for any cash distributions, any distributions-in-kind and any release to the former partners of the Onshore Fund of amounts previously held in reserve to satisfy certain potential contingent liabilities and unknown expenses of the Onshore Fund;

(iii) The Options shall vest immediately upon issuance;

(iv) The Options shall expire on December 31, 2011;

(v) Subject to limitations, if any, under Section 409A of the Code, all or a portion of the Options shall be transferable to any Affiliate of the Manager or any officer or employee of the Manager or its Affiliates;

(vi) The Options may be exercised in whole or in part during their term, and the Exercise Price shall be payable (a) in cash or by check, bank draft or money order payable to the order of the Partnership, (b) through a "cashless exercise" procedure whereby the Option holder delivers irrevocable instructions to a broker to deliver promptly to the Partnership an amount equal to the aggregate Exercise Price of the Options being exercised (the "Aggregate Exercise Price"), (c) by the Option holder's delivery to the Partnership of Common Units owned by the Option holder having a fair market value on the payment date equal to the Aggregate Exercise Price, (d) by a "net exercise" procedure through which the Option holder directs the Partnership to withhold the number of Common Units subject to the Options having a fair market value equal to the Aggregate Exercise Price, (e) on such other terms and conditions as may be agreed to by the Partnership and the Manager, or (f) pursuant to any combination of the foregoing;

(vii) If there shall occur any change in the capital structure of the Partnership by reason of any Common Unit split, Common Unit reverse split, Common Unit dividend or other dividend of equity, subdivision, combination or reclassification of the Common Units, any recapitalization, merger, consolidation, spin off, reorganization or partial or complete liquidation, sale or transfer of all or part of the assets of the Partnership or its Affiliates or other transaction or event having an effect similar to any of the foregoing, then, subject to SECTION 9(a)(viii) herein, there shall be an appropriate adjustment of (i) the aggregate number and/or kind of Common Units or other property (including cash) to be issued upon the exercise of Options and (ii) the Exercise Price thereof; and

(viii) Notwithstanding anything contained in this Agreement to the contrary, no adjustment to the terms of the Options (i.e., any "modification", "extension", "substitution" or "assumption" of the Options, in each case, as defined in Treas. Reg. § 1.409A-1(b)(5)(v) (or any successor regulation)) ("Adjustment") shall occur pursuant to this Agreement or otherwise without the written consent of the Manager if such Adjustment would result in the Options providing for a deferral of compensation subject to Section 409A of the Code; and

(ix) The Options shall be subject to such other customary terms as are reasonably acceptable to the Manager and a committee of the board of directors of the General Partners composed entirely of one or more Independent Directors.

(b) In addition, if any issuance (an "Issuance") of Common Units, options, convertible securities or any other right to acquire Common Units by the Partnership following the Grant Date (other than upon the issuance or exercise of Options) results in an increase in the number of outstanding Common Units on a fully diluted basis as compared to the number of outstanding Common Units as of the date of the most recent Issuance (or, in the case of the first Issuance, since the Grant Date), the Manager shall promptly be issued an additional option (each, an "Additional Option") to purchase a number of Common Units so that as of the date of grant of the Additional Option, after taking into account the number of outstanding Common Units on a fully diluted basis and all Options granted since the Grant Date, the Manager shall hold outstanding Options (in the aggregate) to acquire fifteen percent (15%) of the sum of the Common Units of the Partnership outstanding and the number of notional units used to determine the Deferred Fee Accounts in accordance with the Deferred Fee Agreement, on a fully diluted basis (provided, that, for this purpose only, Options and Additional Options previously issued and Common Units issued upon exercise of such Options by the Manager shall be considered to be outstanding as of the date of such determination). Each Additional Option shall (i) be vested and exercisable to the same extent that the Options are vested and exercisable on the date of grant of such Additional Option, (ii) have an Exercise Price per Common Unit equal to the fair market value of a Common Unit on the date of grant of such Additional Option, as determined in accordance with Section 409A of the Code, and (iii) otherwise be subject to the same terms as the Options, unless otherwise agreed to by the Manager.

(c) Notwithstanding anything else herein, the parties acknowledge that the Manager may voluntarily forfeit or surrender all or a portion of the Options granted to it to allow the underlying Common Units to be available for the Partnership to make equity grants to other Persons as directed by the Manager.

(d) The Manager may request the Partnership to implement a unit appreciation rights or other form of incentive compensation plan in lieu of or in combination with the Options which will provide comparable incentive compensation to the Manager as provided herein, the Partnership will also take any other reasonable actions requested by the Manager in connection with the implementation of the incentive compensation arrangements contemplated herein, subject to the approval of the Independent Directors, which approval shall not be unreasonably withheld.

SECTION 10. EXPENSES OF THE PARTNERSHIP. The Partnership or the Managed Entities will bear (or reimburse the Manager or its designees with respect to) all reasonable costs and expenses of the Managed Entities, and the Manager and the General Partner or their Affiliates relating to the operation of the Managed Entities as provided in the Limited Partnership Agreement and elsewhere in this Agreement, including, but not limited to:

(a) Costs of legal, tax, accounting, consulting, auditing, administrative, compliance, marketing, investor relations and other similar services rendered for the Managed Entities or the General Partner, including such services rendered by providers retained by the Manager, an Affiliate of the Manager or the Partnership, or any officers or employees thereof, in amounts in the case of Affiliates which are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis.

(b) Costs associated with any computer software or hardware, electronic equipment or purchased information technology services from third party vendors.

(c) Costs of maintaining or determining compliance with all federal, state and local rules and regulations or any other regulatory agency.

(d) Director and officer liability insurance premiums and the cost of any "errors and omissions" or similar insurance that any Managed Entity requires the Manager or its Affiliates to maintain for benefit of a Managed Entity in connection with the services rendered under this Agreement.

(e) Other fees payable to third party administrators and service providers.

(f) Expenses connected with communications to holders of securities of the Managed Entities and other bookkeeping and clerical work necessary in maintaining relations with holders of such securities and in complying with the continuous reporting and other requirements of governmental bodies or agencies, including, without limitation, all costs of preparing and filing required reports with the Securities and Exchange Commission, the costs payable by the Partnership to any transfer agent and registrar in connection with the listing and/or trading of the Partnership's units on any exchange, the fees payable by the Partnership to any such exchange in connection with its listing, costs of preparing, printing and mailing the Partnership's annual report to the holders of its limited partnership interests and proxy materials with respect to any meeting of the interest holders of the Partnership, including such services as rendered by providers retained by the Manager, an Affiliate of the Manager or a company affiliated with the Partnership, or any officers or employees thereof, in amounts which as to Affiliates are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis.

(g) Litigation expenses, including professional and consulting fees incurred in connection with managing the business of the Managed Entities and General Partner.

(h) Expenses incurred by managers, officers, employees and agents of the Manager or its Affiliates for travel on behalf of the Managed Entities and other out-of-pocket expenses incurred by managers, officers, employees and agents of the Manager or its Affiliates.

(i) All other expenses actually incurred by the Manager and the General Partner which are reasonably necessary for the performance by the Manager of its duties and functions under this Agreement.

The provisions of this SECTION 10 shall survive the expiration or earlier termination of this Agreement to the extent such expenses have previously been incurred or are incurred in connection with such expiration or termination. For the avoidance of doubt, the expenses payable by the Managed Entities as described in this SECTION 10 are exclusive of, and in addition to, the Management Fee.

SECTION 11. CALCULATION OF EXPENSES. The Manager shall prepare from time to time a statement documenting the expenses of the Managed Entities and the expenses incurred by the Manager on behalf of the Managed Entities and shall deliver such statement to the Managed Entities. Expenses incurred by the Manager and payable to the Manager pursuant to SECTION 10 shall be reimbursed by the Managed Entities to the Manager within 30 days following the date of delivery of such statement; *provided*, however, that such reimbursements may be offset by the Manager against amounts due to the Managed Entities. At the election of the Partnership, the Manager will allocate the expenses between the Partnership and certain Subsidiaries, based on an allocation formula determined in good faith by the Manager, the Partnership and any Subsidiary, and shall provide directly to the Partnership and each Subsidiary the computation of the expenses so allocated. If that separate computation is provided, the Partnership and each of its Subsidiaries will be liable for payment of its allocable share of any amounts payable under this SECTION 11 and shall pay such amount directly to the Manager. The provisions of this SECTION 11 shall survive the expiration or earlier termination of this Agreement.

SECTION 12. BROKERAGE SERVICES.

(a) The Manager is responsible for selecting executing brokers. Securities transactions for the Managed Entities are allocated to brokers on the basis of reliability and the Manager's duty to seek best price and execution. The Manager has selected Mutual Securities, Inc. ("Mutual Securities") as an introducing broker and may, from time to time, direct up to a substantial portion of the Managed Entities' trades to such firm among others. Jack Howard, an officer of the General Partner and the Manager, is affiliated with Mutual Securities and therefore benefits from the commissions paid by the Managed Entities. The Manager will only use Mutual Securities when such use would not compromise the Manager's obligation to seek best price and execution, provided, however, that the Managed Entities may pay commissions to Mutual Securities which are higher than those that can be obtained elsewhere to the extent that the Manager determines that the rates paid are consistent with the quality of research and brokerage services provided.

(b) The Manager may enter into "soft dollar" or directed brokerage arrangements with one or more brokerage firms with which each Managed Entity does business. Under the terms of such arrangements, the cost of certain services used in the investment decision-making process may be paid by the brokerage firm on each Managed Entity's behalf or such services may be provided to each Managed Entity at a reduced cost, or at no cost. If the Manager elects to utilize soft dollars, these arrangements will be within the parameters of the safe harbor available in Section 28(e) of the Exchange Act, which permits "soft dollar" credits to be used to pay for the cost of research, trade execution and other expenses directly related to the investment decision-making process.

SECTION 13. TRANSACTION FEES. Any Transaction Fee or other similar fee payable in connection with the Business, including any Investment made by a Managed Entity, except as may be otherwise provided by the Partnership Agreement, will be paid directly to the Manager or an Affiliate of the Manager and credited against the Management Fee or the Managed Entities' expenses to be reimbursed to the Manager or its Affiliates.

SECTION 14. LIMITS OF MANAGER RESPONSIBILITY; INDEMNIFICATION.

(a) The Manager, its members, officers, employees, Affiliates, agents, and legal representatives and the members, officers, employees, Affiliates, agents, and legal representatives of any of their respective Affiliates (each, an "Indemnified Person") shall not be liable for and the Managed Entities shall indemnify and hold harmless each Indemnified Person from and against any loss or expense suffered or sustained by such Indemnified Person including, without limitation, any judgment, settlement, reasonable attorneys' fees, and other costs and expenses incurred in connection with the defense of any actual or threatened action or proceeding (collectively, "Losses"), provided that such Losses did not result from willful misconduct or gross negligence in the performance of such Indemnified Person's obligations and duties or by reason of such Indemnified Person's reckless disregard of its obligations and duties, if any, under this Agreement (in which case the Manager shall indemnify and hold harmless the Partnership and the Managed Entities from and against all Losses incurred in connection therewith). The Managed Entities shall jointly and severally advance to any Indemnified Person reasonable attorneys' fees and other costs and expenses incurred in connection with the defense of any action or proceeding that arises out of such conduct. In the event that such an advance is made by the Managed Entities, the Indemnified Person shall agree jointly and severally to reimburse the Managed Entities for such fees, costs, and expenses to the extent that it shall be determined that he, she, or it was not entitled to indemnification.

(b) Notwithstanding any of the foregoing to the contrary, the provisions of this SECTION 14 shall not be construed so as to provide for the exculpation or indemnification of any Indemnified Person for any liability (including, without limitation, liability under U.S. securities laws that, under certain circumstances, impose liability even on persons who act in good faith), to the extent, but only to the extent, that such exculpation or indemnification would be in violation of applicable law, but shall be construed so as to effectuate the provisions of this SECTION 14 to the fullest extent permitted by law.

SECTION 15. <u>NO JOINT VENTURE</u>. Nothing in this Agreement shall be construed to make the Partner and the Manager partners or joint venturers or impose any liability as such on either of them.

SECTION 16. <u>TERM</u>. (a) This Agreement shall be effective as of the date first set forth above (the "<u>Effective Date</u>"), and, subject to SECTION 18, shall continue until December 31, 2011 (the "<u>Initial Term</u>") and shall be automatically renewed for successive one-year terms thereafter (each, a "<u>Renewal Term</u>") unless determined otherwise by a majority of the Independent Directors. If the Partnership elects not to renew this Agreement at the expiration of the Initial Term or any Renewal Term as set forth above, the Partnership shall deliver to the Manager prior written notice (the "<u>Termination Notice</u>") of the Partnership's intention not to renew this Agreement not less than 180 days prior to the expiration of the Initial Term or applicable Renewal Term.

(b) If this Agreement is terminated pursuant to this SECTION 16, such termination shall be without any further liability or obligation of either party to the other, except as provided in SECTION 6, SECTION 8, SECTION 10, SECTION 14, and SECTION 20.

SECTION 17. <u>DELEGATION; ASSIGNMENT</u>.

(a) Unless as otherwise provided in the limited partnership agreement of the Partnership, no assignment of this Agreement shall be made by the Manager unless the Independent Directors approve such an assignment (including a deemed assignment occurring as a result of a Change of Control), and this Agreement shall terminate automatically in the event that it is assigned absent such approval; provided, however, that no such consent shall be required in the case of an assignment by the Manager to an Affiliate and the Manager shall give notice to the Partnership of such an assignment. The Manager shall notify the Partnership in writing sufficiently in advance of any proposed Change of Control of the Manager, in order to enable the Partnership to consider whether an assignment shall occur and to determine whether to consent to the assignment or to enter into a new management agreement with the Manager. Any such permitted assignment shall bind the assignee under this Agreement in the same manner as the Manager is bound. In addition, the assignee shall execute and deliver to the Partnership a counterpart of this Agreement naming such assignee as Manager.

(b) It is understood that nothing contained in this SECTION 17 shall operate to prevent the Manager from delegating the whole or any part or parts of its functions, powers, discretions, duties, or obligations hereunder or any of them to any Person that is an Affiliate of the Manager or the Partnership or any other Person approved by the Partnership (which approval shall not be unreasonably withheld), and any such delegation may be on such terms and conditions as the Manager shall determine; provided that the Manager shall evaluate and coordinate the services offered by others. In addition, provided that the Manager provides prior written notice to the Company for informational purposes only, nothing contained in this Agreement shall preclude any pledge, hypothecation or other transfer of any amounts payable to the Manager under this Agreement.

(c) This Agreement shall not be assigned by the Partnership without the prior written consent of the Manager, except in the case of assignment by the Partnership to another organization which is a successor (by merger, consolidation or purchase of assets) to the Partnership, in which case such successor organization shall be bound under this Agreement in the same manner as the Partnership.

SECTION 18. TERMINATION UNDER CERTAIN EVENTS.

(a) The Partnership may terminate this Agreement effective upon thirty (30) days' prior written notice of termination from the Partnership to the Manager if (i) the Manager materially breaches any provision of this Agreement and such breach shall continue for a period of more than 30 days after written notice thereof specifying such breach and requesting that the same be remedied in such 30-day period, (ii) the Manager engages in any act of fraud, misappropriation of funds, or embezzlement against any Managed Entity, (iii) there is an event of gross negligence or willful misconduct on the part of the Manager in the performance of its duties under this Agreement, (iv) there is a commencement of any proceeding relating to the Manager's bankruptcy or insolvency, or (v) there is a dissolution of the Manager or (vi) there is a Change of Control of the Manager, not consented to by the Partnership pursuant to SECTION 17(a).

(b) In the event Mr. Warren Lichtenstein is no longer substantially involved with the Manager (a "Key Man Event"), the Manager for a period of 180 days from the date of the Key Man Event shall take no material actions with respect to the Managed Entities without the prior approval of the Independent Directors, but shall continue to manage the day-to-day affairs of the Managed Entities (the "Suspension Period"). The Manager will promptly notify the General Partner of the occurrence of a Key Man Event. During the Suspension Period the General Partner shall consult with the Manager concerning the Manager continuing to manage the Managed Entities without the involvement of Mr. Lichtenstein. The Independent Directors shall determine no later than the end of the Suspension Period whether to (i) terminate this Agreement, or (ii) end the Suspension Agreement by reaffirming this Agreement and thereupon deleting this SECTION 18(b) or amending this Agreement as may be agreed between the Partnership and the Manager.

(c) The Manager may terminate this Agreement effective upon 60 days' prior written notice of termination to the Partnership in the event that the Managed Entities shall default in the performance or observance of any material term, condition or covenant contained in this Agreement and such default shall continue for a period of 30 days after written notice thereof specifying such default and requesting that the same be remedied in such 30-day period.

(d) The Manager may terminate this Agreement, in the event any of the Managed Entities becomes regulated as an "investment company" under the Investment Company Act, with such termination deemed to have occurred immediately prior to such event.

(e) The Manager may terminate this Agreement at any time immediately effective upon written notice of termination to the Partnership in the event that the election of the majority of the members of the board of directors of the General Partner that were originally elected and approved by the Manager no longer constitute a majority of the members of the board of directors, unless their replacements or successors were approved by the Manager.

SECTION 19. ACTION UPON EXPIRATION OR TERMINATION. In the event of termination pursuant to Sections 18(a), (b) or (d), from and after the effective date of the expiration or termination of this Agreement, the Manager shall not be entitled to compensation for further services under this Agreement, but shall be paid all compensation accruing to the date of expiration or termination. In the event of termination pursuant to Sections 18 (c) or (e), from and after the effective date of the expiration or termination of this Agreement the Manager shall be paid all compensation accruing to the date of expiration or termination plus a termination fee equal to the Management Fee that would otherwise be payable to the Manager for the Initial Term or Renewal Term, as applicable, based upon the aggregate Management Fee earned by the Manager or its Affiliates during the 12-month period immediately preceding the date of such termination, calculated as of the end of the most recently completed fiscal quarter prior to the date of termination plus the Termination Fee. Upon such expiration or termination, the Manager shall forthwith:

(i) after deducting any accrued compensation and reimbursement for its expenses to which it is then entitled, pay over to the Partnership or a Subsidiary all money collected and held for the account of the Partnership or a Subsidiary pursuant to this Agreement;

(ii) deliver to the General Partner a full accounting, including a statement showing all payments collected by it and a statement of all money held by it, covering the period following the date of the last accounting furnished to the General Partner with respect to the Partnership or a Subsidiary; and

(iii) deliver to the General Partner all property and documents of the Partnership or any Subsidiary then in the custody of the Manager.

SECTION 20. RELEASE OF MONEY OR OTHER PROPERTY UPON WRITTEN REQUEST. Any money or other property of the Managed Entities held by the Manager under this Agreement shall be held by the Manager as custodian for the Partnership or other Managed Entity, and the Manager's records shall be appropriately marked clearly to reflect the ownership of such money or other property by the Partnership or such Managed Entity. Upon the receipt by the Manager of a written request signed by a duly authorized officer of the Partnership requesting the Manager to release to the Partnership or any Managed Entity any money or other property then held by the Manager for the account of the Partnership or any Subsidiary under this Agreement, the Manager shall release such money or other property to the Partnership or any Managed Entity, but in no event later than 10 business days following such request. The Manager shall not be liable to the Partnership, any Managed Entity, the General Partner, or the Partnership's or a Managed Entity's shareholders, interest holders or partners for any acts performed or omissions to act by the Partnership or any Managed Entity in connection with the money or other property released to the Partnership or any Managed Entity in accordance with the second sentence of this SECTION 20. The Partnership and any Managed Entity shall indemnify the Manager and its members, managers, officers and employees against any and all expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever, which arise in connection with the Manager's release of such money or other property to the Partnership or any Managed Entity in accordance with the terms of this SECTION 20. Indemnification pursuant to this provision shall be in addition to any right of the Manager to indemnification under SECTION 14 of this Agreement.

SECTION 21. NOTICES. Unless expressly provided otherwise in this Agreement, all notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made and received when delivered against receipt or upon actual receipt of (i) personal delivery, (ii) delivery by reputable overnight courier, (iii) delivery by facsimile transmission with telephonic confirmation or (iv) delivery by registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

(a) If to the Partnership:

Steel Partners Holdings L.P.
c/o Steel Partners Holdings GP LLC
590 Madison Avenue, 32nd Floor
New York, New York 10022
United States
Attention: General Partner

(b) If to the Manager:

Steel Partners LLC
590 Madison Avenue, 32nd Floor
New York, New York 10022
United States
Attention: Warren Lichtenstein

Either party may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this SECTION 21 for the giving of notice.

SECTION 22. BINDING NATURE OF AGREEMENT; SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns as provided in this Agreement.

SECTION 23. ENTIRE AGREEMENT. This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter of this Agreement, and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter of this Agreement. The express terms of this Agreement control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms of this Agreement. This Agreement may not be modified or amended other than by an agreement in writing signed by the parties hereto.

SECTION 24. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

SECTION 25. NO WAIVER; CUMULATIVE REMEDIES. No failure to exercise and no delay in exercising, on the part of any party hereto, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law. No waiver of any provision hereto shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

SECTION 26. HEADINGS. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed part of this Agreement.

SECTION 27. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts of this Agreement, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

SECTION 28. SEVERABILITY. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction

SECTION 29. GENDER. Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

STEEL PARTNERS LLC

By: /s/ Warren Lichtenstein
Name: Warren Lichtenstein
Title: Chairman and Chief Executive Officer

STEEL PARTNERS HOLDINGS L.P.
By: Steel Partners Holdings GP LLC
its general partner,

By: /s/ Warren Lichtenstein
Name: Warren Lichtenstein
Title: Chairman and Chief Executive Officer

LICENSE AGREEMENT

THIS AGREEMENT is entered into as of the 1st day of January, 2009, by and between Steel Partners LLC, a Delaware limited liability company, having an address at 590 Madison Avenue, 32nd Floor, New York, NY 10022 ("Licensor") and Steel Partners Holdings L.P., a Delaware limited partnership, having an address at 590 Madison Avenue, 32nd Floor, New York, NY 10022 ("Licensee").

Whereas, Licensor's Trademarks (as defined below) are famous and valuable, and are associated with substantial goodwill in connection with management and other services; and

Whereas, Licensee recognizes the fame, value of, and goodwill associated with the Trademarks and that all rights to the Trademarks, and the goodwill associated therewith, belong exclusively to Licensor; and

Whereas, Licensee desires to obtain a license to use the Trademarks as service marks in connection with the provision of the Services throughout the world (the "Territory"); and

Whereas, Licensor is prepared to grant such a license to Licensee subject to the terms and conditions set forth below.

NOW, THEREFORE, in consideration of these premises and the mutual covenants herein expressed, and for other good consideration, which the parties hereby acknowledge, the parties hereby agree as follows.

ARTICLE 1. DEFINITIONS

1.1 **Management Agreement** means that certain Management Agreement dated as of January 1, 2009 between Licensor, as Manager, and Licensee (defined therein as the "Partnership") as the same may be amended or restated.

1.2 **Materials** means any advertising, marketing and/or promotional materials or any other forms of identification affixed to or used in connection with Licensee's business (the "Services") that bear any of the Trademarks.

1.3 **Term** means the duration of this Agreement, as set forth in Paragraph 3.1.

1.4 **Trademarks** means the trademarks set forth in **Exhibit A** attached hereto together with any derivatives thereof as may be agreed upon from time to time by the parties.

ARTICLE 2. GRANT

2.1 **License**. Subject to all of the obligations and conditions contained in this Agreement, Licensor hereby grants to Licensee a royalty-free, non-exclusive non-assignable license during the Term to use the Trademarks in connection with (i) Licensee's partnership and subsidiaries' names and (ii) the provision of Services anywhere in the Territory. Such use may include the use of any of the Trademarks on Materials and/or as domain names or part of domain names used by Licensee in connection with the Services.

ARTICLE 3. TERM OF THE AGREEMENT

3.1 **Term**. The term of this Agreement (the “Term”) shall commence effective as of the date hereof and, unless sooner terminated in accordance with the provisions of this Agreement, shall run concurrently with the term of the Management Agreement (and shall expire automatically upon the expiration of the term of the Management Agreement or the termination of the Management Agreement, as the case may be).

ARTICLE 4. APPROVALS

4.1 **Approvals**. All submissions for approval by Licensee hereunder shall be deemed approved unless Licensor delivers a notice of disapproval within twenty (20) days after receipt of such request from Licensee. Licensor will endeavor to provide an explanation for its disapprovals, but its failure to do so will not affect the finality of its determination.

ARTICLE 5. QUALITY CONTROL

5.1 **Overall Commitment to Quality**. Licensee shall maintain the distinctiveness of the Trademarks and all use of the Trademark in connection with the Services shall be consistent with the image and high quality of the Trademarks (“Quality”).

5.2 **Samples of Materials**. Upon Licensor’s request, Licensee shall submit samples of Materials bearing any of the Trademarks to Licensor for Licensor’s review. All Materials shall be at least equal in Quality to any samples reviewed by Licensor hereunder.

5.3 **Non-Conforming Materials**. If any Materials or any other use of any of the Trademarks by Licensee is, in the reasonable discretion of Licensor, not in accordance with the previously approved Quality, or is otherwise not acceptable to Licensor in its reasonable discretion, Licensor may so notify Licensee, and Licensee shall promptly change such materials to conform with Licensor’s instructions.

5.4 **Withdrawal of Approval**. If at any time any Materials or any other use of any of the Trademarks by Licensee ceases to be acceptable to Licensor, Licensor shall have the right in the exercise of its reasonable discretion to withdraw its approval of such materials and/or use of such Trademark by Licensee upon reasonable notice to Licensee. Upon withdrawal of approval, Licensee shall promptly cease such use.

5.5 **Compliance with Applicable Laws – Generally**. All use of the Trademarks by Licensee hereunder shall be in accordance with all applicable laws, rules and regulations in the Territory, and in such a manner as will not tend to mislead or deceive the public or damage the reputation of the Trademarks.

ARTICLE 6. PUBLIC ANNOUNCEMENTS

6.1 **Public Announcements**. Licensee’s press releases and other public announcements related to Licensee’s use of the Trademarks hereunder are subject to approval by Licensor. In this regard, Licensee shall, upon Licensor’s request, submit such press releases and public announcements to Licensor for Licensor’s reasonable approval. Licensee shall cease the dissemination of any press releases or other public announcements that have been disapproved by Licensor.

ARTICLE 7. TRADEMARKS

7.1 **Rights to the Trademark**. Licensee acknowledges the great value of the goodwill associated with the Trademarks, and acknowledges that the Trademarks and all the rights therein, and goodwill attached thereto, belong exclusively to Licensor.

7.2 **Protecting the Trademarks**. Licensee shall cooperate fully and in good faith with Licensor for the purpose of securing, preserving and protecting Licensor's rights in and to the Trademarks.

7.3 **Compliance with Notice and Other Requirements**. Licensee shall use the Trademarks strictly in compliance with all applicable legal requirements. Whenever the Trademarks are used by Licensee in any Materials or otherwise in written materials associated with the Services, they shall be followed, in the case of a registered trademark by the registration symbol, i.e., ® and in the case of all other trademarks by the symbol ™ or ^{SM}, or other appropriate symbols of similar import acceptable to Licensor or required by applicable law.

7.4 **Use of Trademarks on Invoices, etc.** Upon Licensor's request, Licensee shall submit to Licensor for prior approval, the proposed use of the Trademarks on invoices, business cards, order forms, stationery and related materials and in advertising in telephone and other directory listings.

ARTICLE 8. INSOLVENCY

8.1 **Effect of Proceeding in Bankruptcy, etc.** If either party institutes for its protection or is made a defendant in any proceeding under bankruptcy, insolvency, reorganization or receivership law, or if either party is placed in receivership or makes an assignment for benefit of creditors or is unable to meet its debts in the regular course of business, the other party may elect to terminate this Agreement immediately by written notice to the other party without prejudice to any right or remedy the terminating party may have, including, but not limited to, damages for breach.

8.2 **Rights Personal**. The license and rights granted hereunder are personal to Licensee. No assignee for the benefit of creditors, receiver, trustee in bankruptcy, sheriff or any other officer or court charged with taking over custody of Licensee's assets or business, shall have any right to continue performance of this Agreement or to exploit or in any way use the Trademarks if this Agreement is terminated pursuant to Paragraph 9.1, except as may be required by law.

ARTICLE 9. EXPIRATION AND TERMINATION

9.1 **Termination**. If Licensee breaches any of its material obligations under this Agreement, Licensor shall have the right to terminate this Agreement by giving Licensee a notice of intention to terminate. Termination shall become effective automatically and without further notice unless Licensee completely cures such breach within sixty (60) days after receipt of such notice.

9.2 **Effect of Expiration or Termination**. Upon expiration of the Term or termination of this Agreement for any reason whatsoever:

a. Reversion of Rights. All of the rights of Licensee under this Agreement shall terminate and immediately revert to Licensor. Licensee, except as specified below, shall immediately discontinue use of the Trademarks, whether in connection with the Services or otherwise, and shall not resume the use thereof or adopt any colorable imitation of any of the Trademarks or any of their components or designs incorporated therein or material parts thereof.

b. Materials. At Licensor's option, Licensee shall (i) promptly destroy, or (ii) convey to Licensor (at a price equal to Licensee's book value thereof) and free of all liens and encumbrances, all Materials and any plates, engravings, computer tapes, computer disks, hard drives and all other computer files used exclusively by Licensee to make or reproduce the Trademarks in Licensee's possession or control, and all items affixed with likenesses or reproductions of the Trademarks in Licensee's possession or control.

ARTICLE 10. NOTICES

10.1 **Manner of Notice**. Any notice, request for approval, communication or legal service of process required or arising out of or under this Agreement will be effective only when personally delivered in writing, or on the date when the notice, request, service or communication is transmitted confirmed by electronic facsimile (with a second confirmation copy to be sent by mail) or the day after the notice, service or communication is sent by overnight air courier service (e.g., FedEx Courier); or five (5) days after the date of mailing by first class registered mail. All notices will be sent to the parties at the addresses listed below or to such other persons and addresses as may be designated in writing by the parties to each other. The date a notice will be deemed to be transmitted, sent by overnight air courier or mailed will be the date at the notifying party's place of business at the time of transmission, sending or mailing.

To Licensor:	Steel Partners LLC 590 Madison Avenue, 32nd Floor New York, NY 10022 Attention: Warren Lichtenstein Telephone: 212-520-2300 Facsimile: 212-520-2331
To Licensee:	Steel Partners Holdings L.P. 590 Madison Avenue, 32nd Floor New York, NY 10022 Attention: Warren Lichtenstein Telephone: 212-520-2300 Facsimile: 212-520-2331

ARTICLE 11. MISCELLANEOUS

11.1 **Benefit**. This Agreement will inure to the benefit of and be binding upon the parties hereto, and to their permitted successors and assigns.

11.2 **Entire Agreement; Amendment**. This Agreement constitutes the entire agreement of the parties hereto with respect to the subject matter hereof, and this Agreement may not be amended or modified, except in a writing signed by both parties hereto.

11.3 **Non-Waiver**. The failure of either party to enforce at any time any term, provision or condition of this Agreement, or to exercise any right or option herein, will in no way operate as a waiver thereof, nor will any single or partial exercise preclude any other right or option herein; and no waiver whatsoever will be valid unless in writing, signed by the waiving party, and only to the extent set forth in such writing.

11.4 **No Assignment Without Consent**. The license and rights granted to Licensee hereunder are personal in nature, and Licensee may not sell, transfer, lease, sublicense or assign this Agreement or its rights or interest hereunder, or any part hereof, by operation of law or otherwise, without the prior written consent of Licensor, which consent shall not be unreasonably withheld, except that Licensee shall have the right, upon written notice to Licensor, to assign this Agreement to a corporation, subsidiary or affiliate under the same direction and control as Licensee; provided, however, that in such event Licensee unconditionally guarantees the performance and obligations of such corporation, subsidiary or affiliate under this Agreement.

11.5 **Severability**. If any provision or any portion of any provision of this Agreement is construed to be illegal, invalid, or unenforceable, such shall be deemed stricken and deleted from this Agreement to the same extent and effect as if never incorporated herein, but all other provisions of this Agreement and any remaining portion of any provision which is not deemed illegal, invalid or unenforceable in part shall continue in full force and effect.

11.6 **Governing Law**. This Agreement has been negotiated, prepared, executed and delivered in several jurisdictions, including the State of New York, United States of America. Accordingly, in order to establish with certainty that this Agreement will be governed by one body of well-developed commercial law, the parties hereto have expressly agreed that this Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, applicable to contracts executed and fully to be performed therein, to the exclusion of any other applicable body of governing law.

11.7 **Jurisdiction**. The parties hereby consent to the exclusive jurisdiction of the United States District Court for the Southern District of New York and any of the courts of the State of New York in any dispute arising under this Agreement and agree further that service of process or notice in any such action, suit or proceeding will be effective if in writing and issued as provided in Paragraph 11.1 hereof.

11.8 **Headings**. The headings of the Articles and Paragraphs of this Agreement are for convenience only and in no way limit or affect the terms or conditions of this Agreement.

11.9 **Counterparts**. This Agreement may be executed in two (2) or more counterparts, each of which will be deemed an original, but all of which shall constitute one and the same instrument.

STEEL PARTNERS LLC

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

STEEL PARTNERS HOLDINGS L.P.

By: Steel Partners II GP LLC, General Partner

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT (this "Agreement"), made as of the 15th day of July 2009 (the "Effective Date"), by and between Steel Partners II (Offshore) Ltd., formerly named Steel Partners Offshore Fund, Ltd., a corporation organized under the laws of the Cayman Islands (the "Company"), WGL Capital Corp., a corporation organized under the laws of the State of Colorado (successor by merger to WGL Capital Corp., formerly named Steel Partners Services, Ltd., a corporation organized under the laws of the State of New York, which in turn is a successor by merger with WGL Capital Corp., a corporation organized under the laws of the State of New York) (the "Investor Servicer"), and Steel Partners Holdings L.P., a Delaware limited partnership (formerly named WebFinancial L.P.) ("Steel Partners Holdings").

WITNESSETH:

WHEREAS, the Investor Servicer and the Company are currently parties to the Amended and Restated Deferred Fee Agreement, first made as of October 31, 2002 and amended and restated as of January 1, 2005 (except for certain provisions with other effective dates specified therein), whereby the Investor Servicer has deferred certain fees due to it under its management agreement with the Company (the "Deferred Fee Agreement") (capitalized terms used but not otherwise defined herein shall have the same meanings as set forth in the Deferred Fee Agreement);

WHEREAS, Steel Partners Holdings has agreed to assume all of the Company's liabilities and obligations under the Deferred Fee Agreement (the "Assumption"); and

WHEREAS, in connection with the Assumption, the Company has agreed to transfer to Steel Partners Holdings the assets (equal in the aggregate in value to the assumed liabilities) listed on Exhibit A hereto and as described in Section 1(c) below.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, subject to Section 3 herein, the parties hereto agree as follows:

1. Assumption of Obligations under Deferred Fee Agreement. (a) Effective as of the Effective Date, (i) Steel Partners Holdings has assumed all of the Company's liabilities and obligations under the Deferred Fee Agreement, including but not limited to, the Company's obligation to make payments to the Investor Servicer thereunder, and (ii) in exchange therefor, the Company shall transfer to Steel Partners Holdings the assets listed on Exhibit A hereto.

(b) In connection with the Assumption, the parties hereby agree that, effective as of the Effective Date: (i) Steel Partners Holdings (A) is a "Successor" to the Company within the meaning of Section 7.02(a) of the Deferred Fee Agreement, (B) shall be considered the "Company" for all purposes of the Deferred Fee Agreement in accordance with the terms of the Deferred Fee Agreement, (C) shall establish for bookkeeping purposes only, an account on the books of Steel Partners Holdings (i.e., the Deferred Fee Account) in accordance with Section 6.01 of the Deferred Fee Agreement, and (D) shall make payments to the Investor Servicer of the Deferred Fees on the applicable Distribution Dates as set forth on Exhibit B hereto and/or upon any Terminating Event, in each case, in accordance with the terms of the Deferred Fee Agreement; and (ii) the shareholder services agreement, entered into by and between Steel Partners Holdings and the Investor Servicer, effective as of the Effective Date, constitutes a "Management Agreement" for purposes of Section 7.02(a) of the Deferred Fee Agreement; and, accordingly, for purposes of Section 7 of the Deferred Fee Agreement, a "Terminating Event" has not occurred under the terms of the Deferred Fee Agreement in connection with the Assumption.

(c) The parties acknowledge and agree to the following: (i) the Effective Date shall constitute a "Computation Date" under the Deferred Fee Agreement and, accordingly, the value of the Deferred Fee Account will be computed as of the Effective Date in accordance with the Deferred Fee Agreement; (ii) certain assets of the Company will not be distributed to shareholders of the Company on the closing of the restructuring of the Company and are to be held in a reserve (the "Reserve") to satisfy certain potential contingent liabilities and known and unknown expenses of the Company (the "Contingent Liabilities"); (iii) amounts held in the Reserve shall only be released (other than to satisfy the Contingent Liabilities) upon a determination made by the Company that such amounts are no longer necessary to satisfy the Contingent Liabilities; (iv) the assets held in the Reserve were not taken into account for purposes of valuing the Company's assets as of the Effective Date, and accordingly, the assets held in the Reserve were not taken into account for purposes of valuing the Deferred Fee Account under the Deferred Fee Agreement as of the Effective Date; and (v) if any amounts in the Reserve are to be released to shareholders or former shareholders of the Company on or after the Effective Date (the "Additional Amounts"), on the date any Additional Amounts are transferred to such shareholders or former shareholders a pro rata portion of such Additional Amounts (as determined by the Company) shall be allocated and credited to the Deferred Fee Account by Steel Partners Holdings (the "Additional Allocation") and the Company shall transfer assets to Steel Partners Holdings equal in value (as determined by the Company) to the Additional Allocation.

(d) In accordance with Section 4 of the Deferred Fee Agreement, the parties acknowledge and agree that, for purposes of the Deferred Fee Agreement, (i) the Deferred Fee Account may be indexed to the increase or decrease in "Net Asset Value" (as defined below), in addition to Book Value and, subject to the provisions of Section 4.01(x) and (y) of the Deferred Fee Agreement, Closing Trading Price, or any combination thereof, and (ii) the Deferred Fee Account shall be indexed to the increase or decrease in Net Asset Value from the Effective Date (which shall constitute a "Computation Date" under the Deferred Fee Agreement) through the effective date of the next subsequent Index Election made by the Investor Servicer under the Deferred Fee Agreement. For purposes of this Agreement, "Net Asset Value" shall mean the value of the net assets of Steel Partners Holdings determined by valuing the assets held by Steel Partners Holdings on a fair value basis (in accordance with the pricing policies of Steel Partners Holdings).

2. Deferred Fee Agreement. Following the Assumption, the Deferred Fee Agreement shall continue in full force and effect.

3. Governing Law. This Agreement shall be construed in accordance with and governed by, the laws of the State of New York.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed on November 23, 2009.

COMPANY:

STEEL PARTNERS II (OFFSHORE) LTD.

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Authorized Signatory

INVESTOR SERVICER:

WGL CAPITAL CORP.

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Authorized Signatory

STEEL PARTNERS HOLDINGS:

STEEL PARTNERS HOLDINGS L.P.

By: Steel Partners II GP LLC, its General Partner

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

SECOND AMENDED AND RESTATED
DEFERRED FEE AGREEMENT

THIS AMENDED AND RESTATED DEFERRED FEE AGREEMENT (this "Agreement"), first made as of the 31st day of October, 2002, amended and restated effective as of January 1, 2005 and as further amended and restated effective as of July 15, 2009 (the "Effective Date") (except for certain provisions with other effective dates as specifically stated herein) by and between Steel Partners Holdings L.P., a Delaware limited partnership (formerly named WebFinancial L.P.) ("Steel Partners Holdings") and WGL Capital Corp., a corporation organized under the laws of the State of Colorado ("WGL") (successor by merger to WGL Capital Corp., formerly named Steel Partners Services, Ltd., a corporation organized under the laws of the State of New York, which in turn is a successor by merger with WGL Capital Corp., a corporation organized under the laws of the State of New York) (WGL and such predecessor entities are collectively referred to herein as, the "Investor Servicer").

WITNESSETH:

WHEREAS, WGL assumed all the responsibilities and obligations with respect to the Investment Advisory Agreement, originally entered into on July 31, 1996, by and between Steel Partners II (Offshore) Ltd., formerly named Steel Partners Offshore Fund, Ltd., a corporation organized under the laws of the Cayman Islands ("SPII Offshore"), and Steel Partners Services, Ltd., as amended on December 28, 2007, as if WGL were an original party thereto;

WHEREAS, the Investor Servicer elected to defer prior to January 1, 2009 all or a portion of the Management Fees and Incentive Fees (collectively, the "Total Compensation") due to it under the Management Agreement before any such fees were earned;

WHEREAS, Steel Partners Holdings assumed all of SPII Offshore's liabilities and obligations under this Agreement (the "Assumption") pursuant to the Assignment and Assumption Agreement, dated as of July 15, 2009 (the "Assumption Agreement");

WHEREAS, in connection with the Assumption, effective as of the Effective Date, SPII Offshore transferred to Steel Partners Holdings the assets (equal in the aggregate in value to the assumed liabilities) listed on Exhibit A hereto; and

WHEREAS, Steel Partners Holdings and WGL now desire to amend and restate the terms of this Agreement, effective *as* of the Effective Date, to consolidate the agreements of the parties, including those set forth in the Assumption Agreement.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. <u>Definitions.</u>

1.01 Capitalized terms not otherwise defined herein shall have the same meanings as set forth in the Management Agreement.

1.02 **"**Book Value" shall mean, as of the time of the determination of the value of the equity interests of Steel Partners Holdings, the book value of the equity interests of Steel Partners Holdings, as determined by Steel Partners Holdings.

1.03 "Closing Trading Price" shall mean, as of the time of the determination of the value of the equity interests of Steel Partners Holdings, the last closing price for the equity interests of Steel Partners Holdings (i) as reported on the principal national securities exchange on which such equity interests are traded or the Nasdaq Stock Market, Inc., or (ii) if not traded on any such national securities exchange or the Nasdaq Stock Market, Inc., as quoted on an automated quotation system sponsored by the National Association of Securities Dealers, Inc.

1.04 "Computation Date" shall mean:

(a) the last day of each Fiscal Year;

(b) each Termination Date;

(c) each Distribution Date;

(d) each date on which the deemed investment index (as described in subsection 4.01) is changed pursuant **to** subsection 4.01;

(e) each Credit Date;

(f) the Effective Date;

(g) the last day of any month; and

(h) any other day contemplated by Exhibit B.

1.05 "Credit Date" shall mean, with respect to Management Fees or any annual Incentive Fees, the date or dates on which the deferred portion of such Management Fees or Incentive Fees, as the case may be, has been credited to the Deferred Fee Account, and, following the Effective Date, is credited to the Deferred Fee Accounts under subsection 3.01 hereof.

1.06 "Deferred Fee Account" shall mean an account established in the name of the Investor Servicer under subsection 6.01 hereof for each Fiscal Year for which an election was made pursuant to subsection 2.02 hereof and shall constitute a bookkeeping account, the records of which will reflect the amount of the deferred Total Compensation and the amount of the deemed earnings or losses, if any, that relate to such amounts.

1.07 "Distribution Date" shall mean the date or dates on which amounts in a Deferred Fee Account are distributed to the Investor Servicer, as elected pursuant to subsections 2.02 and 2.03 hereof and as set forth in the books and records of Steel Partners Holdings; provided, that no Distribution Date shall be (i) in the case of Management Fees, more than 10 years and 90 days after the last day of the month with respect to which the Management Fee was credited to the Deferred Fee Account; and (ii) in the case of Incentive Fees, more than 10 years and 90 days after the last day of the Fiscal Year with respect to which the Incentive Fee was credited to the Deferred Fee Account.

1.08 "Election Date" for any Fiscal Year shall mean the last day of the immediately preceding Fiscal Year.

1.09 "Fiscal Year" shall mean the calendar year.

1.10 "Incentive Fee" shall have the same meaning *as in* the Management Agreement.

1.11 "Management Agreement" means the Investment Advisory Agreement, originally entered into on July 31, 1996, by and between SPII Offshore and Steel Partners Services, Ltd., as amended on December 28, 2007; provided that, following the assumption by a Successor of the liabilities of SPII Offshore hereunder, the term "Management Agreement" shall include any agreement by and between the Investor Servicer and such Successor pursuant to which the Investor Servicer shall provide any type of services to such Successor, including, effective as of the Effective Date, for purposes of subsection 7.02(a) of this Agreement, the Shareholder Services Agreement, entered into by and between Steel Partners Holdings and WGL, effective as of the Effective Date.

1.12 “Management Fee” shall have the same meaning *as in* the Management Agreement.

1.13 “Net Asset Value” shall mean the value of the net assets of Steel Partners Holdings determined by valuing the assets held by Steel Partners Holdings on a fair value basis (in accordance with the pricing policies of Steel Partners Holdings).

1.14 “Notice of Election” shall mean the notice delivered pursuant to subsection 2.02 hereof.

1.15 “Section 409A” shall mean Section 409A of the Internal Revenue Code of 1986, as amended, and all rulings, regulations or other guidance issued thereunder.

1.16 “Successor” shall have the meaning as in subsection 7.02(a) hereof.

1.17 “Terminating Event” shall mean an event described in Section 7 hereof.

1.18 “Termination Date” shall mean the date on which amounts in any Deferred Fee Account are distributed to the Investor Servicer as the result of a Terminating Event.

2. <u>Election.</u>

2.01 Prior to January 1, 2009, the Investor Servicer elected, pursuant to the provisions of this Agreement, to defer the payment of all or a portion of the Management Fees and the Incentive Fees, if any, earned with respect to a particular Fiscal Year. The portion of the Total Compensation in any Fiscal Year that was deferred (the “Deferred Fee”) shall be payable only as provided herein. Separate elections were made with respect to each Fiscal Year.

2.02 An election to defer the payment of all or a portion of the Management Fees or Incentive Fees, if any, with respect to a particular Fiscal Year was made on or before the Election Date applicable to such Fiscal Year by a written notice (the “Notice of Election”) sent by the Investor Servicer to SPII Offshore; provided that, effective as of December 31, 2008, the Investor Servicer was no longer permitted to elect to defer the payment of all or a portion of the Management Fees or the Incentive Fees earned with respect to any Fiscal Year beginning on or after January 1, 2009.

2.03 Each Notice of Election with respect to the Total Compensation for a particular Fiscal Year stated:

(a) the dollar amount or percentage of the Management Fees or Incentive Fees paid and the dollar amount or percentage of the Management Fees or Incentive Fees deferred;

(b) the Distribution Date(s) of the Deferred Fee Account established for such Fiscal Year; and

(c) the dollar amount or percentage of the Deferred Fee Account which shall be distributed to the Investor Servicer on each Distribution Date selected for the Deferred Fee Account.

2.04 Each Notice of Election was irrevocable with respect to the Total Compensation payable in respect of the Fiscal Year for which the election was made. With respect to the Deferred Fee, the Investor Servicer shall have no right to the distribution of any amount in any Deferred Fee Account otherwise than pursuant to subsection 5.01 hereof.

3. <u>Credit to Deferred Fee Accounts.</u>

3.01 Pursuant to the Assumption Agreement, (i) certain assets of SPII Offshore were not distributed to shareholders of SPII Offshore on the closing of the restructuring of SPII Offshore and were to be held in a reserve (the "Reserve") to satisfy certain potential contingent liabilities and known and unknown expenses of SPII Offshore (the "Contingent Liabilities"); (ii) amounts held in the Reserve shall only be released (other than to satisfy the Contingent Liabilities) upon a determination made by SPII Offshore that such amounts are no longer necessary to satisfy the Contingent Liabilities; (iii) the assets held in the Reserve were not taken into account for purposes of valuing SPII Offshore's assets as of the Effective Date, and accordingly, the assets held in the Reserve were not taken into account for purposes of valuing the Deferred Fee Accounts under this Agreement as of the Effective Date; and (iv) if any amounts in the Reserve are to be released to shareholders or former shareholders of SPII Offshore on or after the Effective Date (the "Additional Amounts"), on the date any Additional Amounts are transferred to such shareholders or former shareholders a pro rata portion of such Additional Amounts (as determined by SPII Offshore) shall be allocated and credited to the Deferred Fee Accounts by Steel Partners Holdings (the "Additional Allocation") and SPII Offshore shall transfer assets to Steel Partners Holdings equal in value (as determined by SPII Offshore) to the Additional Allocation.

3.02 Prior to January 1, 2009, SPII Offshore credited to the Deferred Fee Account the Deferred Fee, as set forth in the Notice of Election, as of (i) in the case of the Management Fees, the close of business on the last day of the month with respect to which the corresponding Management Fee was earned; and (ii) in the case of any annual Incentive Fee, the close of business on the last day of the Fiscal Year with respect to which the corresponding Incentive Fee was earned; provided that if any portion of any annual Incentive Fee would otherwise have been paid to the Investor Servicer prior to the end of the Fiscal Year if such fee were not deferred, such portion of the Incentive Fee was credited as of the close of business on the last day of the month with respect to which such portion of the Incentive Fee would otherwise have been paid.

3.03 The Investor Servicer shall be fully vested in all amounts in the Deferred Fee Accounts.

4. Investment of the Deferred Fee.

4.01 Any portion of the Deferred Fee which the Investor Servicer has elected to defer in the Notice of Election shall be deemed to be invested on and after the relevant Credit Date after the Effective Date in the same manner as Steel Partners Holdings' other assets, or may, upon the agreement of Steel Partners Holdings and the Investor Servicer, be indexed to a different earnings factor or factors; provided, however, effective as of the Effective Date, the Deferred Fee Accounts shall be indexed to the increase or decrease in Net Asset Value from the Effective Date through the effective date of the next subsequent "Index Election" (as defined below) made by WGL under this subsection 4.01. At any time following the Effective Date, as elected by WGL upon written notice to Steel Partners Holdings (an "Index Election"), the Deferred Fee Accounts shall be indexed as of the first day of the next following calendar quarter beginning on or after the fifteenth (15th) day after the provision of such Index Election (or as of any other date on which WGL and Steel Partners Holdings agree) to: (v) Book Value; (w) Closing Trading Price if the equity interests of Steel Partners Holdings are traded on a national securities exchange, the Nasdaq Stock Market, Inc., or through an automated quotation system sponsored by the National Association of Securities Dealers, Inc. ("Publicly Traded"); (x) the increase or decrease in Net Asset Value; (y) any combination of (v), (w) and (x) if the equity interests of Steel Partners Holdings are Publicly Traded; or (z) any other index elected by WGL and as agreed to by Steel Partners Holdings. Any election made by WGL pursuant to an Index Election shall continue in effect until a new Index Election is submitted by WGL and takes effect in accordance with this subsection 4.01. Effective as of the Effective Date, the existing and future Net Asset Value and Closing Trading Price Index Elections made by WGL pursuant to this Agreement have been and shall be implemented in accordance with the terms and conditions set forth in Exhibit B hereto. Such terms and conditions shall also apply to the application of the Book Value Index or any similar index agreed to by the parties.

4.02 The value of each Deferred Fee Account shall be computed as of each Computation Date and shall be credited or debited accordingly. If a Deferred Fee Account shall be deemed to be invested on the relevant Credit Date in the same manner *as* Steel Partners Holdings' other assets, for valuation purposes only, amounts in such Deferred Fee Account shall be valued in the same manner as the other assets of Steel Partners Holdings. A *pro rata* share of the administrative expenses of Steel Partners Holdings, if any, incurred in connection with the establishment and maintenance of a Deferred Fee Account shall be deducted from the Deferred Fee Account on each Computation Date.

5. <u>Distribution of Amounts in the Deferred Fee Accounts.</u>

5.01 All amounts in a Deferred Fee Account shall be distributed to the Investor Servicer only on a Termination Date or Distribution Date. The amount to be distributed shall be, in the case of a Termination Date, the entire amount in all Deferred Fee Accounts, and in the case of a Distribution Date, the amount in the applicable Deferred Fee Account. Amounts in the Deferred Fee Accounts shall be valued and adjusted as provided in subsection 4.02 hereof.

5.02 Deferred amounts will be paid wholly in cash, wholly in vested common units of Steel Partners Holdings, or partly in cash and partly in vested common units, at the election of WGL communicated by WGL to Steel Partners Holdings in writing prior to the due date of the next payment. For purposes of determining the number of vested common units to be transferred to WGL (in lieu of a cash payment), (A) the parties agree to apply a fifteen percent (15%) discount to (i) the Closing Trading Price of the vested common units of Steel Partners Holdings as of the date of payment, or (ii) if such vested common units are not Publicly Traded (within the meaning of subsection 4.01) as of the date of payment, the Net Asset Value of such vested common units as of the last day of the month prior to payment and (B) WGL agrees not to sell any such vested common units during the six (6) month period following receipt unless there is a change in control of Steel Partners Holdings.

6. Establishment of Deferred Fee Accounts.

6.01 There shall be established, for bookkeeping purposes only, an account on the books of Steel Partners Holdings, known as a Deferred Fee Account, for each Fiscal Year for which a Notice of Election has been delivered.

7. Terminating Events.

7.01 Amounts in all of the Deferred Fee Accounts shall be immediately due and payable to the Investor Servicer in accordance with subsection 7.02(a) hereof upon the occurrence of a Terminating Event, as described in subsection 7.02(a) hereof. Amounts in all of the Deferred Fee Accounts shall be due and payable to the Investor Servicer in accordance with subsection 7.02(b) hereof on the date required by Section 409A following the occurrence of the Terminating Event (as determined by Steel Partners Holdings) described in subsection 7.02(b).

7.02 The following events shall each constitute Terminating Events:

(a) The cessation of WGL's provision of services to Steel Partners Holdings or a Successor (as defined herein) following termination or expiration of the Management Agreement with no expectation to renew or replace the Management Agreement; provided, however, if (i) Steel Partners Holdings is merged into a corporation or other entity, including, without limitation, a merger immediately following the distribution of equity interests held by Steel Partners Holdings to its holders of equity interests in redemption of their interests in Steel Partners Holdings, (ii) all or substantially all of the assets of Steel Partners Holdings are acquired by a corporation or other entity, including, without limitation, all or substantially all of the remaining assets of Steel Partners Holdings immediately following the distribution of equity interests held by Steel Partners Holdings to its holders of equity interests in redemption of their interests in Steel Partners Holdings or (iii) Steel Partners Holdings engages in a transaction with a corporation or other entity substantially similar to the transaction described in clause (i) or (ii) (each such successor corporation or other entity described in clause (i), (ii) and (iii) of this subsection 7.02(a), a "Successor"), and if the Successor in each case shall have entered into a Management Agreement with WGL, then the cessation of WGL's provision of services to Steel Partners Holdings shall not constitute a Terminating Event and the terms of this Agreement shall continue to apply to all amounts in the Deferred Fee Accounts; or

(b) a termination and liquidation of the deferral arrangement set forth herein by Steel Partners Holdings in accordance with Treasury Regulation Section 1.409A-3(j)(4)(ix)(A), (B) or (C).

8. Title to Deferred Fee Accounts: Agreement with Respect to Assets and Liabilities of Steel Partners Holdings.

8.01 This Agreement constitutes a mere promise by Steel Partners Holdings to make payments in the future with respect to the amounts in the Deferred Fee Accounts. Title to and beneficial ownership of any assets, whether cash or investments, in respect of each Deferred Fee Account shall at all times remain in Steel Partners Holdings, and WGL shall have no property interest whatsoever in any of such assets. Any investments actually made by Steel Partners Holdings pursuant to this Agreement will be deemed solely for the purpose of aiding such entity in measuring and meeting its obligations under this Agreement. Steel Partners Holdings is not limited to the investments described herein, but merely obligated to provide payments pursuant to the terms of this Agreement that reflect the investment returns offered by the deemed investments made available under this Agreement. Nothing contained in this Agreement and no action taken pursuant to the provisions of this Agreement shall create or be construed to create a trust of any kind, or a fiduciary relationship between Steel Partners Holdings and WGL. Any amounts actually invested as described in this Agreement shall continue for all purposes to be a part of the general assets of Steel Partners Holdings and subject to the claims of its general creditors, and no person other than Steel Partners Holdings shall by virtue of the provisions of this Agreement have any interest in such amount. To the extent that any person acquires a right to receive all or a portion of any amounts in the Deferred Fee Accounts under this Agreement, such right shall be no greater than the right of any unsecured general creditor of Steel Partners Holdings.

8.02 Amounts in each Deferred Fee Account, valued and adjusted as provided in Section 4 hereof, shall constitute a liability of Steel Partners Holdings to WGL. Notwithstanding any provision to the contrary herein, no provision in this Agreement shall create or be construed to create any claim, right or cause of action against Steel Partners Holdings arising from any diminution in value of any of the Deferred Fee Accounts in connection with the deemed investment of such Deferred Fee Accounts in accordance with subsection 4.01 hereof. The liability of Steel Partners Holdings under this Agreement shall be limited to the value of each of the Deferred Fee Accounts as computed in accordance with subsection 4.02 hereof.

8.03 It is intended that the Agreement be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended.

9. <u>Prohibition of Transfer and Assignment.</u>

9.01 The right of the Investor Servicer to receive a benefit under this Agreement shall not be subject in any manner or form to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors of the Investor Servicer.

10. <u>General Provisions.</u>

10.01 This Agreement shall be binding upon and inure to the benefit of Steel Partners Holdings, its successors and assigns and WGL and its successors and assigns. If WGL is merged into a successor corporation or other entity, or a successor corporation or other entity acquires all or substantially all of the assets of WGL, and if there has not been a separation of service of WGL in accordance with Section 409A, the deferred assets shall be rolled over into a successor plan (i.e., the fee deferral arrangement described herein shall continue in accordance with the terms of this Agreement). Any action taken pursuant to this subsection 10.01 shall be based upon an opinion of counsel to WGL to the effect that such restructuring will not result in the amounts in the Deferred Fee Accounts becoming currently taxable to WGL and its holders of equity interests for U.S. federal income tax purposes.

10.02 This Agreement is entered into with the intention that income deferred pursuant to its terms will not be treated as income to WGL under the Internal Revenue Code of 1986, as amended, until and as WGL actually receives payment of any deferred amounts. It is the intent of the parties that the terms of this Agreement and the deferral and payment of compensation hereunder comply with Section 409A. To the extent that any provision of this Agreement violates Section 409A, such provision shall be deemed to be amended to the extent necessary to avoid such violation.

10.03 This Agreement does not create an employment relationship between Steel Partners Holdings and WGL and does not create any other rights in WGL or Steel Partners Holdings or obligations on the part of WGL or Steel Partners Holdings, except those set forth in this Agreement.

10.04 This Agreement may not be modified, except by a written instrument approved by Steel Partners Holdings and signed by Steel Partners Holdings and WGL. Breach of any of the provisions of this Agreement shall not release the party responsible therefor from compliance with any other provision of this Agreement.

10.05 Illegality of any provision hereunder shall not affect the enforceability of any other provision hereunder.

10.06 This Agreement shall be construed in accordance with and governed by, the laws of the State of New York.

10.07 Any notice or other communication required or which may be given hereunder shall be in writing and shall be delivered personally, telegraphed or telexed, or sent by certified, registered or express mail, postage prepaid, and shall be deemed given when so delivered personally, telegraphed or telexed, or if mailed, three business days (or upon receipt, if earlier) after the date of mailing, as follows or to such other location as any party notifies any other party:

If to WGL:

WGL Capital Corp.
777 Spruce Street
Aspen, CO 81611

If to Steel Partners Holdings:

Steel Partners Holdings L.P.
590 Madison Avenue
32^{nd} Floor
New York, NY 10022

[Last page before Signature Page]

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be entered into as of July 15, 2009.

STEEL PARTNERS HOLDINGS:

STEEL PARTNERS HOLDINGS L.P.
By: Steel Partners Holdings GP LLC

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: COO

WGL:

WGL CAPITAL CORP.

By: /s/ Warren Lichtenstein
Name: Warren Lichtenstein
Title: President

INVESTOR SERVICES AGREEMENT

THIS INVESTOR SERVICES AGREEMENT is entered into effective as of July 15, 2009, by and among Steel Partners Holdings L.P., a Delaware limited partnership (the "Partnership"), Steel Partners LLC, a Delaware limited liability company (together with its permitted assignees, the "Manager") and WGL Capital Corp. (the "Investor Servicer"), a corporation organized under the laws of the State of Colorado.

WHEREAS, the Partnership desires to have the Investor Servicer perform various investor relations services for the Partnership; and

WHEREAS, the Investor Servicer is willing to perform such services under the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and mutual agreements hereinafter set forth, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

SECTION 1. DEFINITIONS. The following terms have the following meanings assigned to them:

(a) "Affiliate" shall mean with respect to any Person any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Person, or any director, officer or employee or partner of such Person.

(b) "Agreement" means this Investor Services Agreement, as amended from time to time.

(c) "Deferred Fee Agreement" shall mean the Amended and Restated Deferred Fee Agreement between the Investor Servicer and Steel Partners II (Offshore) Ltd., formerly named Steel Partners Offshore Fund, Ltd., a corporation organized under the laws of the Cayman Islands, first made as of October 31, 2002 and amended and restated as of January 1, 2005 (except for certain provisions with other effective dates specified therein).

(d) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(e) "General Partner" means the general partner of the Partnership.

(f) "Governing Instruments" means, with regard to any entity, the articles of incorporation and bylaws in the case of a corporation, certificate of limited partnership (if applicable) and the partnership agreement in the case of a general or limited partnership, the articles of formation and the operating agreement in the case of a limited liability company, the trust instrument in the case of a trust, or similar governing documents, in each case as amended from time to time.

(g) "Independent Directors" mean those directors of the General Partner who are not Affiliates of the Investor Servicer or any of its Affiliates.

(h) "Management Agreement" shall mean the Amended and Restated Management Agreement by and between the Partnership and the Manager, as the same may be amended from time to time.

(i) "Management Fee" shall have the meaning set forth in the Management Agreement.

(j) "Person" means any individual, corporation, partnership, joint venture, limited liability company, estate, trust, unincorporated association, any federal, state, county or municipal government or any bureau, department or agency thereof and any fiduciary acting in such capacity on behalf of any of the foregoing.

SECTION 2. APPOINTMENT AND DUTIES OF THE INVESTOR SERVICER.

(a) The Partnership hereby appoints the Investor Servicer to perform various investor relations services subject to the further terms and conditions set forth in this Agreement, and the Investor Servicer hereby agrees to perform each of the duties set forth herein.

(b) The Investor Servicer will be subject to the supervision of the General Partner and will have only such functions and authority as the General Partner may delegate to it including, without limitation, the functions and authority identified herein and delegated to the Investor Servicer hereby. The Investor Servicer will be responsible for day-to-day investor relations and will perform (or cause to be performed) such services and activities relating to investor relations services as may be appropriate.

(c) The Investor Servicer may retain, for and on behalf, and at the sole cost and expense, of the Partnership, such services of other service providers as the Investor Servicer deems necessary or advisable in connection with the provision of investment relations services. Notwithstanding anything contained herein to the contrary, the Investor Servicer shall have the right to cause any such services to be rendered by its employees or Affiliates. The Partnership shall pay or reimburse the Investor Servicer or its Affiliates performing such services for the cost and expenses thereof; *provided* that such costs and reimbursements as to Affiliates of the Investor Servicer are no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm's-length basis.

(d) The General Partner shall pass any and all necessary resolutions to provide for the delegation of its duties to the Investor Servicer under this Agreement, and to permit such delegation to be approved or evidenced by any certificate duly signed by any officer or other authorized person of the General Partner, to verify or confirm the authority of the Investor Servicer or any of its members, partners, officers, employees or agents authority to enter into agreements on behalf of and bind the Partnership as necessary to allow the Investor Servicer to perform its obligations hereunder.

SECTION 3. DEVOTION OF TIME; ADDITIONAL ACTIVITIES. The Investor Servicer will provide the Partnership with appropriate support personnel required to enable the Investor Servicer to provide the investor relations services contemplated hereunder, and such personnel shall devote such time to the management of the Partnership as the Investor Servicer reasonably deems necessary and appropriate, commensurate with the level of activity of the Partnership from time to time.

SECTION 4. INVESTOR SERVICER AS INDEPENDENT CONTRACTOR. The Investor Servicer shall, for all purposes of this Agreement, be deemed to be an independent contractor and not an agent or employee of the Partnership and, except as otherwise expressly provided herein, shall have no authority to act for or to represent the Partnership or otherwise to be deemed an agent of the Partnership.

SECTION 5. OBLIGATIONS OF INVESTOR SERVICER; RESTRICTIONS. The Investor Servicer shall refrain from any action that, in its sole judgment made in good faith, (i) is not in compliance in all material respects with the Partnership's Agreement of Limited Partnership as then in effect, (ii) would, to the knowledge of the Investor Servicer, violate any law, rule or regulation of any governmental body or agency having jurisdiction over the Partnership or that would otherwise not be permitted by the relevant Governing Instruments. Notwithstanding the foregoing, neither the Investor Servicer, nor its Affiliates, members, managers, directors, officers, stockholders or employees shall be liable to the Partnership or the General Partner, for any act or omission by the Investor Servicer, its Affiliates, members, managers, directors, officers, stockholders or employees except as provided in SECTION 8.

SECTION 6. COMPENSATION. The Investor Servicer, as full compensation for services rendered pursuant to this Agreement, shall be paid by the Partnership a fee (the "Servicing Fee") in an amount equal to $50,000 per annum, paid monthly in arrears promptly following the end of each month. The parties hereby acknowledge and agree that the Management Fee payable by the Partnership to the Manager pursuant to the Management Agreement shall be offset and reduced on each payment date thereof by the amount of the Servicing Fee payable to the Investor Servicer hereunder.

SECTION 7. EXPENSES OF THE PARTNERSHIP. The Partnership will bear (or reimburse the Investor Servicer or its designees with respect to) all reasonable costs and expenses of the Partnership, and the Investor Servicer and the General Partner or their Affiliates relating to the investor relations services performed for the Partnership as provided in this Agreement, including, but not limited to all expenses actually incurred by the Investor Servicer and the General Partner which are reasonably necessary for the performance by the Investor Servicer of its duties and functions under this Agreement.

The provisions of this SECTION 7 shall survive the expiration or earlier termination of this Agreement to the extent such expenses have previously been incurred or are incurred in connection with such expiration or termination. For the avoidance of doubt, the expenses payable by the Partnership as described in this SECTION 7 are exclusive of, and in addition to, the Servicing Fee.

SECTION 8. LIMITS OF INVESTOR SERVICER RESPONSIBILITY; INDEMNIFICATION.

(a) The Investor Servicer, its members, officers, employees, stockholders, Affiliates, agents, and legal representatives and the members, officers, employees, stockholders, Affiliates, agents, and legal representatives of any of their respective Affiliates (each, an "Indemnified Person") shall not be liable for and the Partnership shall indemnify and hold harmless each Indemnified Person from and against any loss or expense suffered or sustained by such Indemnified Person including, without limitation, any judgment, settlement, reasonable attorneys' fees, and other costs and expenses incurred in connection with the defense of any actual or threatened action or proceeding (collectively, "Losses"), provided that such Losses did not result from willful misconduct or gross negligence in the performance of such Indemnified Person's obligations and duties or by reason of such Indemnified Person's reckless disregard of its obligations and duties, if any, under this Agreement (in which case the Investor Servicer shall indemnify and hold harmless the Partnership from and against all Losses incurred in connection therewith). The Partnership shall advance to any Indemnified Person reasonable attorneys' fees and other costs and expenses incurred in connection with the defense of any action or proceeding that arises out of such conduct. In the event that such an advance is made by the Partnership, the Indemnified Person shall agree jointly and severally to reimburse the Partnership for such fees, costs, and expenses to the extent that it shall be determined that he, she, or it was not entitled to indemnification.

(b) Notwithstanding any of the foregoing to the contrary, the provisions of this SECTION 8 shall not be construed so as to provide for the exculpation or indemnification of any Indemnified Person for any liability (including, without limitation, liability under U.S. securities laws that, under certain circumstances, impose liability even on persons who act in good faith), to the extent, but only to the extent, that such exculpation or indemnification would be in violation of applicable law, but shall be construed so as to effectuate the provisions of this SECTION 8 to the fullest extent permitted by law.

SECTION 9. TERM.

(a) This Agreement shall be effective as of the date first set forth above and shall be automatically terminated upon the termination of the Management Agreement with no expectation to renew or replace the Management Agreement, or at any time prior thereto upon the mutual agreement of the Partnership and the Investor Servicer.

(b) If this Agreement is terminated pursuant to this SECTION 9, such termination shall be without any further liability or obligation of any party to any other party, except as provided in SECTION 6, SECTION 7 and SECTION 8.

SECTION 10. <u>DELEGATION; ASSIGNMENT.</u>

(a) No assignment of this Agreement shall be made by the Investor Servicer other than an assignment by the Investor Servicer to an Affiliate and the Investor Servicer shall give prompt notice to the Partnership of such an assignment. Any such permitted assignment shall bind the assignee under this Agreement in the same manner as the Investor Servicer is bound. In addition, the assignee shall execute and deliver to the Partnership a counterpart of this Agreement naming such assignee as Investment Servicer.

(b) It is understood that nothing contained in this SECTION 10 shall operate to prevent the Investor Servicer from delegating the whole or any part or parts of its functions, powers, discretions, duties, or obligations hereunder or any of them to any Person that is an Affiliate of the Investor Servicer or the Partnership or any other Person approved by the Partnership (which approval shall not be unreasonably withheld), and any such delegation may be on such terms and conditions as the Investor Servicer shall determine; provided that the Investor Servicer shall monitor, evaluate and coordinate the services offered by others. In addition, provided that the Investor Servicer provides prior written notice to the Company for informational purposes only, nothing contained in this Agreement shall preclude any pledge, hypothecation or other transfer of any amounts payable to the Investor Servicer under this Agreement.

(c) This Agreement shall not be assigned by the Partnership without the prior written consent of the Investor Servicer, except in the case of assignment by the Partnership to another organization which is a successor (by merger, consolidation or purchase of assets) to the Partnership that assumes the Partnership's liabilities and obligations under the Deferred Fee Agreement, in which case such successor organization shall be bound under this Agreement in the same manner as the Partnership.

SECTION 11. <u>NOTICES</u>. Unless expressly provided otherwise in this Agreement, all notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given, made and received when delivered against receipt or upon actual receipt of (i) personal delivery, (ii) delivery by reputable overnight courier, (iii) delivery by facsimile transmission with telephonic confirmation or (iv) delivery by registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

(a) If to the Partnership:

Steel Partners Holdings L.P.
c/o Steel Partners II GP LLC
590 Madison Avenue, 32nd Floor
New York, New York 10022
United States
Attention: General Partner

(b) If to the Investor Servicer:

WGL Capital Corp.
777 Spruce Street
Aspen, CO 81611
United States
Attention: Warren Lichtenstein

Either party above may alter the address to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this SECTION 11 for the giving of notice.

SECTION 12. BINDING NATURE OF AGREEMENT; SUCCESSORS AND ASSIGNS. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and permitted assigns as provided in this Agreement.

SECTION 13. ENTIRE AGREEMENT. This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter of this Agreement, and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter of this Agreement. The express terms of this Agreement control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms of this Agreement. This Agreement may not be modified or amended other than by an agreement in writing signed by the parties hereto.

SECTION 14. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

SECTION 15. NO WAIVER; CUMULATIVE REMEDIES. No failure to exercise and no delay in exercising, on the part of any party hereto, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law. No waiver of any provision hereto shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

SECTION 16. HEADINGS. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed part of this Agreement.

SECTION 17. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts of this Agreement, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

SECTION 18. SEVERABILITY. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction

SECTION 19. GENDER. Words used herein regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

STEEL PARTNERS HOLDINGS L.P.
By: Steel Partners II GP LLC,
its general partner,

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

WGL CAPITAL CORP.

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Authorized Signatory

Solely as to its acknowledgment and agreement set forth in Section 6:

STEEL PARTNERS LLC

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

ADVANCE AGREEMENT

This Advance Agreement (this "Agreement") is made as of June 28, 2009, by and among Steel Partners Holding L.P., a Delaware limited partnership ("SPH") and Steel Partners II Master Fund L.P., a Delaware limited partnership (the "Master Fund") and.

RECITALS:

WHEREAS the Master Fund is a limited partner of SPH;

WHEREAS, in connection with its operations the Master Fund incurs certain costs and expenses;

NOW, THEREFORE, in consideration of the premises and mutual agreements hereinafter set forth, and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. SPH and the Master Fund each acknowledge that SPH: (i) has advanced certain cash payments to the Master Fund; and (ii) may in future advance further cash payments to the Master Fund, to enable the Master Fund to cover its ongoing costs and expenses (the "Cash Advances").

2. SPH acknowledges and agrees that the Cash Advances are and will be recorded in its books of account as debits owed to it by the Master Fund.

3. The Master Fund acknowledges that the Cash Advances are and will be recorded in its books of accounts as liabilities owed to SPH.

4. The parties agree that any distributions due to the Master Fund in accordance with the limited partnership agreement of SPH or any other agreement between the parties, shall first be used to reduce the liability of the Master Fund to SPH hereunder and shall therefore reduce the amounts recorded on the books and records of each of SPH and the Master Fund as debits and liabilities (as applicable).

5. Steel Partners II GP LLC as general partner to SPH hereby consents to the transactions contemplated under this agreement and to any other actions required to give effect thereto.

6. Each party to this Agreement hereby agrees to execute such further instruments and to take all such further actions as may be required in order to effectuate the provisions of this Agreement.

7. The rights and obligations of this Agreement shall bind and inure to the benefit of the parties hereto and their respective successors and assigns.

8. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall constitute one and the same instrument. A telecopy signature of any party shall be considered to have the same legal binding effect as an original signature.

9. This Agreement shall be effective for all purposes as of June 28, 2009, notwithstanding the date on which it is executed.

10. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first above written.

STEEL PARTNERS HOLDING L.P.

By: Steel Partners II GP LLC, General Partner

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

STEEL PARTNERS II MASTER FUND L.P.
By: Steel Partners II GP LLC, General Partner

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

AMENDED AND RESTATED SERVICES AGREEMENT

AMENDED AND RESTATED AGREEMENT ("Agreement"), effective as of July 15, 2009, by and between SP Corporate Services, LLC ("SP Corporate"), a Delaware limited liability company, having an office at 590 Madison Avenue, 32nd Floor, New York, New York 10022, and Steel Partners Holdings L.P., as successor in interest to WebFinancial Corporation, (the "Company") having an office at 590 Madison Avenue, 32nd Floor, New York, New York 10022.

WITNESSETH:

WHEREAS, SP Corporate and WebFinancial Corporation previously entered into that certain Services Agreement, effective as of June 1, 2007; and

WHEREAS, WebFinancial Corporation merged with and into the Company on December 31, 2008; and

WHEREAS, the Company desires to have SP Corporate furnish certain services to the Company as set forth on Exhibit A attached hereto, as it may be amended from time to time pursuant to the terms hereof (the "Services"), and SP Corporate has agreed to furnish the Services, pursuant to the terms and conditions hereinafter set forth; and

WHEREAS, this Agreement has been approved by the audit committee of the general partner of the Company.

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

Section 1. Engagement of SP Corporate.

1.01. During the term of this Agreement, SP Corporate shall provide to the Company such Services, as more fully described and defined on Exhibit A, as may be necessary or desirable or as may be reasonably requested or required by the Company, in connection with the business, operations and affairs, both ordinary and extraordinary, of the Company and its subsidiaries and affiliates.

In performing Services, SP Corporate shall be subject to the supervision and control of the board of directors of the general partner of the Company.

1.02. While the amount of time and personnel required for performance by SP Corporate hereunder will necessarily vary depending upon the nature and type of Services, SP Corporate shall devote such time and effort and make available such personnel as may from time to time reasonably be required for the performance of Services hereunder.

1.03. Exhibit A may be amended from time to time to provide for additional Services, the elimination of certain Services, increases or decreases to the compensation paid hereunder, or other changes, upon the mutual agreement of the parties hereto.

Section 2. Term.

This Agreement shall commence effective as of July 15, 2009 and shall continue through July 14, 2010, and shall automatically renew for successive one (1) year periods unless and until terminated by either party, on any anniversary date, upon not less than thirty (30) days prior written notice to the other. If an involuntary or voluntary case or proceeding is commenced against or by the Company under the United States Bankruptcy Code, as amended, or any similar federal or state statute, either party hereto may terminate this Agreement upon 30 days prior written notice to the other.

Section 3. Payments to SP Corporate.

3.01. In consideration of Services furnished by SP Corporate hereunder, the Company shall pay to SP Corporate on a monthly basis as set forth in Section 3.02, which shall be adjustable annually upon agreement by the parties or at other times upon the amendment of Exhibit A pursuant to Section 1.03. In addition, the Company shall reimburse SP Corporate for certain expenses, including legal expenses, as well as all reasonable and necessary business expenses, incurred on behalf of the Company in performance of Services upon demand by SP Corporate.

3.02. The Company shall pay SP Corporate on a monthly basis from July 15, 2009, based on a fee schedule to be agreed upon by the parties from time to time, within 10 days of the presentation of an invoice from SP Corporate for the Services rendered for the preceding month.

Section 4. Limitation on Liability.

To the fullest extent permitted by law and as consistent with the Company's Amended and Restated Limited Partnership Agreement and Certificate of Limited Partnership, each as may be amended from time to time (the "Company's Charter Documents"), SP Corporate shall not be liable to the Company, any affiliate thereof or any third party for any losses, claims, damages, liabilities, penalties, obligations or expenses, including reasonable legal fees and expenses, of any kind or nature whatsoever due to any act or omission in connection with the rendering of Services hereunder, unless that act or omission constitutes gross negligence, willful misconduct or fraud. Further, SP Corporate shall reasonably rely on information provided to it about the Company, if any, that is provided by the Company or the Company's affiliates, employees or agents. In no event shall SP Corporate be liable for any error or inaccuracy of any report, computation or other information or document produced in accordance with this Agreement, for whose accuracy the Company assumes all responsibility, unless resulting from the gross negligence or willful misconduct of SP Corporate or SP Corporate's officers, directors, employees or agents.

Section 5. Indemnity.

To the fullest extent permitted by law and as consistent with the Company's Charter Documents, the Company shall defend, indemnify, save and hold harmless SP Corporate from and against any claims, liabilities, damages, losses, costs or expenses, including amounts paid in satisfaction of judgments, in compromises and settlements, as fines and penalties and legal or other costs and reasonable expenses of investigating or defending against any claim or alleged claim of any nature whatsoever resulting from SP's activities or services under the terms of this Agreement (a "Claim"),, except to the extent occasioned by the gross negligence or willful misconduct of SP's officers, directors or employees. At the written request of SP Corporate, the Company will advance to it the legal or other costs and reasonable expenses of investigating or defending against any Claim in advance of the final disposition of such Claim. To the fullest extent permitted by law and as consistent with the Company's Charter Documents, the Company's obligation to indemnify SP Corporate hereunder shall extend to and inure to the benefit of SP's officers, directors, members, employees, affiliates and consultants. If SP Corporate should determine its interests are or may be adverse to the interests of the Company, SP Corporate may retain its own counsel in connection with such claim or alleged claim or action, in which case the Company shall be liable, to the extent permitted under this Section 5, to SP Corporate for any reasonable and documented legal, accounting or other directly related fees and expenses incurred by SP Corporate in connection with its investigating or defending such claim or alleged claim or action.

Section 6. Confidential Information.

SP Corporate shall not at any time during or following the termination or expiration for any reason of this Agreement, directly or indirectly, disclose, publish or divulge to any person (except where necessary in connection with the furnishing of Services under this Agreement), appropriate or use, or cause or permit any other person to appropriate or use, any of the Company's inventions, discoveries, improvements, trade secrets, copyrights or other proprietary, secret or confidential information not then publicly available.

Section 7. Non-Exclusive Arrangement.

The Company acknowledges that SP Corporate may from time to time enter into agreements similar to this Agreement with other companies pursuant to which SP Corporate may agree to provide services similar in nature to the Services being provided hereunder. The Company understands that the person or persons providing the Services hereunder may also provide similar or additional services to other companies. In addition, to the extent business opportunities arise, the Company acknowledges that SP Corporate will be under no obligation to present such opportunity to the Company, and SP Corporate may, in its sole discretion, present any such opportunity to whatever company it so chooses, or to none at all.

Section 8. General.

8.01. This Agreement constitutes the entire agreement between the parties hereto pertaining to the subject matter hereof and supersedes all prior representations and agreements, whether oral or written, and cannot be modified, changed, waived or terminated except by a writing signed by both of the parties hereto. No course of conduct or trade custom or usage shall in any way be used to explain, modify, amend or otherwise construe this Agreement.

8.02. All notices, requests, demands and other communications required or permitted under this Agreement shall be in writing and shall be deemed to have been duly given if delivered by hand, mailed by registered or certified mail (return receipt requested), sent by facsimile or electronic mail or sent by Federal Express or other recognized overnight courier to the parties at the addresses specified in the first paragraph hereof (or at such other address for a party as shall be specified by like notice). All notices, requests, demands and other communications required or permitted under this Agreement shall be deemed received on the date of delivery, if hand delivered, on the date of receipt, if transmitted by facsimile or electronic mail, three business days after the date of mailing, if mailed by registered or certified mail (return receipt requested), and one business day after the date of sending, if sent by Federal Express or other recognized overnight courier.

8.03. This Agreement shall be construed under the laws of the State of New York and the parties hereby submit to the personal jurisdiction of any federal or state court located therein, and agree that jurisdiction shall rest exclusively therein, without giving effect to the principles of conflict of laws.

8.04. This Agreement may not be assigned by any party without the prior written consent of the other party to this Agreement; provided, however, SP Corporate may assign this Agreement to an affiliate.

8.05. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

8.06. Sections 4, 5 and 6 shall survive any expiration or termination of this Agreement.

[signatures on next page]

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

SP CORPORATE SERVICES LLC

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

STEEL PARTNERS HOLDINGS L.P.
By: Steel Partners Holdings GP LLC, its general partner

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

Exhibit 10.9

Steel Partners II GP LLC
590 Madison Avenue, 32nd Floor
New York, NY 10022

July 15, 2009

Steel Partners Holdings L.P.
590 Madison Avenue, 32nd Floor
New York, NY 10022

Effective as of June 29, 2009, Steel Partners II (Onshore) LP, a Delaware limited partnership, Steel Partners Holdings L.P., a Delaware limited partnership ("SPH"), Steel Partners LLC, a Delaware limited liability company ("Steel Partners"), solely with respect to Article V therein, and Steel Partners II GP LLC, a Delaware limited liability company ("SPIIGP"), solely with respect to Article V and Section 6.2 therein, entered into an Amended and Restated Exchange Agreement (the "Exchange Agreement"). Pursuant to Section 5.3(b) of the Exchange Agreement, SPIIGP agreed that, in the event that there is a decision made to not implement a complete Unwind (as defined therein), SPIIGP will transfer its general partnership interest in SPH to Steel Partners Holdings GP LLC, a wholly owned subsidiary of SPH ("SPHGP"), and SPHGP will also become the general partner of Steel Partners II, L.P., a Delaware limited partnership ("SPII"). Effective as of July 14, 2009, SPH and Steel Partners entered into that certain Amended and Restated Management Agreement (the "Management Agreement"), a copy of which is attached hereto. Pursuant to the Management Agreement, Steel Partners provides certain management services on behalf of and for the benefit of certain managed entities, including SPH and SPII.

A complete Unwind (as defined in the Exchange Agreement) has not occurred. SPIIGP currently still serves as the general partner of SPII and hereby acknowledges its obligation, pursuant to Section 5.3(b) of the Exchange Agreement, to transfer its general partnership interest in SPH to SPHGP. So long as it continues to serve as the general partner of SPII, SPIIGP hereby agrees that it shall manage SPII in accordance and consistent with the terms of the Management Agreement.

Sincerely,

STEEL PARTNERS II GP LLC

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

Acknowledged and Agreed:
STEEL PARTNERS HOLDINGS L.P.

By: Steel Partners Holdings GP LLC
General Partner

By: /s/ Sanford Antignas
Name: Sanford Antignas
Title: Chief Operating Officer

Enclosure

Exhibit 16.1

H | B | M
HANSEN, BARNETT & MAXWELL, P.C.
Certified Public Accountants

December 9, 2011

Securities & Exchange Commission
Washington D.C. 20549

We have read the statements included under Item 14 in the attached Form 10 of Steel Partners Holdings L.P. (formerly WebFinancial Holding Corporation) to be filed with the Securities and Exchange Commission and are in agreement with the statements therein insofar as they relate to our firm. We are not in a position to agree or disagree with the statements regarding the engagement of Grant Thornton LLP.

Sincerely,

HANSEN, BARNETT & MAXWELL, P.C.

/s/ Mark V. Anderson, CPA

Mark V. Anderson, CPA

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
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 New York corporation
HANDY & HARMAN LTD., a Delaware corporation
STEEL EXCEL INC., a Delaware corporation
WF ASSET CORP., a Delaware corporation
BNS HOLDINGS, INC., a Delaware corporation
BNS CO., a Delaware corporation
WEBFINANCIAL HOLDING CORPORATION, a Delaware corporation
WEBBANK, a Utah chartered industrial bank
WORKING CAPITAL SOLUTIONS, INC., a Delaware corporation
SWH, INC., a Delaware corporation
SUN WELL SERVICES, INC., a Delaware corporation

DGT HOLDINGS CORP. SUBSIDIARIES

DM IMAGING CORP., a Delaware corporation
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
HANDY & HARMAN, a New York corporation
BAIRNCO CORPORATION, a Delaware corporation
ALLOY RING SERVICE, INC., a Delaware corporation

CANFIELD METAL COATING CORPORATION, a Delaware corporation
CONTINENTAL INDUSTRIES, INC., an Oklahoma corporation
DANIEL RADIATOR CORPORATION, a Texas corporation
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
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
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
LUCAS-MILHAUPT RIBERAC S.A., a corporation organized under the laws of France
MARYLAND SPECIALTY WIRE, INC., a Delaware corporation
MICRO-TUBE FABRICATORS, INC., a Delaware corporation
OCMUS, INC., an Indiana corporation

OMG, INC., a Delaware corporation
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
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
ARLON, LLC, a Delaware limited liability company
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

STEEL SPORTS INC., a Delaware corporation
BASEBALL HEAVEN INC., a Delaware corporation

THE SHOW, LLC, a Delaware limited liability company
ARISTOS LOGIC CORPORATION. a Delaware corporation
ADAPTEC FAR EAST, INC., a California corporation
PLATYS COMMUNICATIONS, INC., a Delaware corporation
EUROLOGIC SYSTEMS, INC., a Delaware corporation
ROGUE PRESSURE SERVICES LTD., a Delaware corporation
ADPT (S) PTE. LTD., a corporation organized under the laws of Singapore
ADAPTEC HONG KONG LTD., a corporation organized under the laws of Hong Kong
ADAPTEC (INDIA) PVT LTD., a corporation organized under the laws of India
ARISTOS LOGIC TECHNOLOGY INDIA PVT LTD., a corporation organized under the laws of India
ADPT CI LTD., a corporation organized under the laws of the Cayman Islands
ADPT TECH HOLDING LTD., a corporation organized under the laws of the Cayman Islands
ADPT CAYMAN LICENSING LTD., a corporation organized under the laws of the Cayman Islands
ADPT STORAGE IRELAND LTD., a corporation organized under the laws of Ireland
ADAPTEC LUXEMBOURG SARL, a corporation organized under the laws of Luxembourg
ADAPTEC GMBH, a corporation organized under the laws of Germany
ICP VORTEX COMPUTERSYSTEME GMBH, a corporation organized under the laws of Germany
ADPTUK, LTD., a corporation organized under the laws of United Kingdom
EUROLOGIC SYSTEMS GROUP, LTD., a corporation organized under the laws of Ireland
EUROLOGIC SYSTEMS LTD., a corporation organized under the laws of Ireland
RICHMONT COMPUTERS LTD., a corporation organized under the laws of Ireland

FINANCIAL STATEMENTS OF HANDY & HARMAN LTD.

Consolidated Financial Statements and Supplementary Data as of and for the two years ended December 31, 2010

Consolidated Financial Statements and Supplementary Data as of and for the two years ended December 31, 2009

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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. (formerly known as WHX Corporation prior to January 3, 2011) (a Delaware corporation) and Subsidiaries (the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of operations, cash flows and changes in stockholders' deficit and comprehensive income (loss) for each of the two years in the period ended December 31, 2010. 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. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Handy & Harman Ltd. (formerly known as WHX Corporation prior to January 3, 2011) and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP
Edison, New Jersey
March 11, 2011 (except for Note 21, as to which the date is November 15, 2011)

HANDY & HARMAN Ltd.
Consolidated Balance Sheets

(Dollars and shares in thousands except per share data)	**December 31, 2010**	**December 31, 2009**
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 8,762	$ 8,796
Trade and other receivables-net of allowance for doubtful accounts of $2,198 and $2,172 in 2010 and 2009, respectively	68,197	60,294
Inventories	48,675	45,007
Deferred income taxes	1,238	1,023
Other current assets	9,064	8,032
Current assets of discontinued operations	27,044	29,512
Total current assets	162,980	152,664
Property, plant and equipment at cost, less accumulated depreciation and amortization	78,142	83,110
Goodwill	63,917	63,946
Other intangibles, net	31,538	33,931
Other non-current assets	14,712	11,571
Non-current assets of discontinued operations	2,259	8,618
	$ 353,548	$ 353,840
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Trade payables	$ 36,954	$ 30,212
Accrued liabilities	32,245	20,219
Accrued environmental liability	6,113	6,692
Accrued interest - related party	411	1,600
Short-term debt	42,890	18,949
Current portion of long-term debt	4,452	5,944
Deferred income taxes	355	300
Current portion of pension liability	14,900	9,700
Current liabilities of discontinued operations	9,341	9,686
Total current liabilities	147,661	103,302
Long-term debt	91,403	95,082
Long-term debt - related party	32,547	54,098
Long-term interest accrual - related party	-	11,797
Accrued pension liability	98,084	92,309
Other employee benefit liabilities	4,429	4,840
Deferred income taxes	3,988	4,258
Other liabilities	4,942	5,255
Long term liabilities of discontinued operations	655	696
	383,709	371,637
Commitments and Contingencies		
Stockholders' Deficit:		
Preferred stock- $.01 par value; authorized 5,000 shares; issued and outstanding -0- shares	-	-
Common stock - $.01 par value; authorized 180,000 shares; issued and outstanding 12,179 shares	122	122
Accumulated other comprehensive loss	(135,865)	(118,402)
Additional paid-in capital	552,844	552,834
Accumulated deficit	(447,262)	(452,351)
Total stockholders' deficit	(30,161)	(17,797)
	$ 353,548	$ 353,840

The accompanying notes are an integral part of these consolidated financial statements.

HANDY & HARMAN Ltd.
Consolidated Statements of Operations

	Year ended December 31,	
	2010	2009
	(in thousands except per share data)	
Net sales	$ 568,212	$ 460,702
Cost of goods sold	416,705	345,668
Gross profit	151,507	115,034
Selling, general and administrative expenses	106,006	89,915
Pension expense	4,349	14,097
Asset impairment charges	1,643	3,016
Goodwill impairment charge	-	1,140
Income from proceeds of insurance claims, net	(1,292)	(4,035)
Restructuring charges	507	1,082
Other operating expenses	44	132
Income from continuing operations	40,250	9,687
Other:		
Interest expense	26,310	25,741
Realized and unrealized loss on derivatives	5,983	777
Other expense (income)	180	(110)
Income (loss) from continuing operations before tax	7,777	(16,721)
Tax provision (benefit)	3,276	(497)
Income (loss) from continuing operations, net of tax	4,501	(16,224)
Discontinued Operations:		
Income (loss) from discontinued operations, net of tax	499	(6,849)
Gain on disposal of assets, net of tax	90	1,832
Net income (loss) from discontinued operations	589	(5,017)
Net income (loss)	$ 5,090	$ (21,241)
Basic and diluted per share of common stock		
Income (loss) from continuing operations, net of tax	$ 0.37	$ (1.33)
Discontinued operations, net of tax	0.05	(0.41)
Net income (loss)	$ 0.42	$ (1.74)
Weighted average number of common shares outstanding	12,179	12,179

The accompanying notes are an integral part of these consolidated financial statements.

HANDY & HARMAN Ltd.
Consolidated Statements of Cash Flows

(in thousands)	Year Ended December 31, 2010	2009
Cash flows from operating activities:		
Net income (loss)	$ 5,090	$ (21,241)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	16,379	17,080
Non-cash stock based compensation	221	186
Amortization of debt related costs	1,606	1,429
Loss on extinguishment of debt	1,210	-
Long-term interest on related party debt	11,045	9,560
Deferred income taxes	(392)	(955)
Loss on asset dispositions	44	132
Asset impairment charges	1,643	3,017
Goodwill impairment charge	-	1,140
Unrealized loss (gain) on derivatives	(14)	409
Reclassification of net cash settlements on derivative instruments	5,585	368
Net cash provided by operating activities of discontinued operations	4,042	10,284
Decrease (increase) in operating assets and liabilities:		
Trade and other receivables	(8,139)	3,410
Inventories	(3,753)	9,153
Other current assets	(1,390)	2,141
Other current liabilities	11,207	830
Other items-net	414	2,565
Net cash provided by operating activities	44,798	39,508
Cash flows from investing activities:		
Plant additions and improvements	(10,605)	(7,204)
Net cash settlements on derivative instruments	(5,585)	(368)
Proceeds from sales of assets	384	110
Proceeds from sale of investment	-	3,113
Net cash provided by investing activities of discontinued operations	1,410	2,405
Net cash used in investing activities	(14,396)	(1,944)
Cash flows from financing activities:		
Proceeds of term loans	46,000	9,577
Net revolver borrowing (repayments)	24,002	(14,164)
Repayments of term loans - domestic	(89,690)	(26,623)
Repayments of term loans - foreign	(2,049)	-
Repayments of term loans - related party	(6,000)	-
Deferred finance charges	(3,842)	(1,191)
Net change in overdrafts	1,494	(231)
Net cash used to repay debt of discontinued operations	(135)	(4,704)
Other	(92)	(274)
Net cash used in financing activities	(30,312)	(37,610)
Net change for the period	90	(46)
Effect of exchange rate changes on net cash	(124)	186
Cash and cash equivalents at beginning of period	8,796	8,656
Cash and cash equivalents at end of period	$ 8,762	$ 8,796
Non-cash investing activities:		
Sale of property for mortgage note receivable	$ 630	$ -

The accompanying notes are an integral part of these consolidated financial statements.

HANDY & HARMAN Ltd.
Consolidated Statements of Changes in Stockholders' Deficit and Comprehensive Income (Loss)

(Dollars and shares in thousands)

	Common Stock		Accumulated Other Comprehensive	Accumulated	Capital in Excess of	Total Stockholders'
	Shares	Amount	Income (Loss)	Deficit	Par Value	Deficit
Balance, January 1, 2009	12,179	$ 122	$ (163,502)	$ (431,110)	$ 552,583	$ (41,907)
Current period change	-	-	45,100	-	-	45,100
Net loss	-	-	-	(21,241)	-	(21,241)
Total comprehensive income						23,859
Amortization of stock options	-	-	-	-	251	251
Balance, December 31, 2009	12,179	$ 122	$ (118,402)	$ (452,351)	$ 552,834	$ (17,797)
Current period change	-	-	(17,463)	-	-	(17,463)
Net income	-	-	-	5,090	-	5,090
Total comprehensive loss						(12,373)
Amortization of stock options	-	-	-	-	10	10
Balance, December 31, 2010	12,179	$ 122	$ (135,865)	$ (447,261)	$ 552,844	$ (30,160)

	Year Ended December 31,	
Comprehensive Income (Loss)	**2010**	**2009**
Net income (loss)	$ 5,090	$ (21,241)
Changes in pension plan assets and other benefit obligations:		
Curtailment/settlement gain/(loss)	(64)	169
Current year actuarial gain/(loss)	(25,556)	29,940
Amortization of actuarial loss	8,908	13,215
Amortization prior service (credit)/cost	63	63
Foreign currency translation adjustment	(814)	1,549
Valuation of marketable equity securities	-	164
Comprehensive income (loss)	$ (12,373)	$ 23,859

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of the Business

Organization

Handy & Harman Ltd. (formerly named WHX Corporation prior to January 3, 2011) ("HNH"), the parent company, manages a group of businesses on a decentralized basis. HNH owns Handy & Harman Group Ltd. ("H&H Group") which owns Handy & Harman ("H&H") and Bairnco Corporation ("Bairnco"). HNH is a diversified holding company whose strategic business units encompass the following segments: Precious Metal, Tubing, Engineered Materials, Arlon Electronic Materials ("Arlon EM"), Arlon Coated Materials ("Arlon CM"), and Kasco Blades and Route Repair Services ("Kasco"). The business units of HNH principally operate in North America. All references herein to "we," "our" or the "Company" shall refer to HNH, together with all of its subsidiaries.

Note 1a – Management's Plans and Liquidity

Liquidity

The Company recorded net income of $5.1 million in 2010, and generated $44.8 million of positive cash flow from operating activities. This compares with a net loss of $21.2 million and $39.5 million provided by cash flows from operating activities in 2009. As of December 31, 2010, the Company had an accumulated deficit of $447.3 million.

On March 7, 2005, the Company filed a voluntary petition to reorganize under Chapter 11 of the Bankruptcy Code. The Company continued to operate its business and own and manage its assets as a debtor in possession until it emerged from protection under Chapter 11 of the Bankruptcy Code on July 29, 2005.

As of December 31, 2010, the Company's current assets totaled $163.0 million and its current liabilities totaled $147.7 million, resulting in working capital of $15.3 million, as compared to working capital of $49.4 million as of December 31, 2009.

<u>HNH the parent company</u>

On October 15, 2010, the Company refinanced substantially all of its indebtedness principally with its existing lenders or their affiliates. The refinancing was effected through a newly formed, wholly-owned subsidiary of the Company, H&H Group, which is the direct parent of H&H and Bairnco.

HNH, the parent company's, sources of cash flow consist of its cash on-hand, distributions from its principal subsidiary, H&H Group, and other discrete transactions. H&H Group's credit facilities effectively do not permit it to transfer any cash or other assets to HNH with the exception of (i) an unsecured loan for required payments to the WHX Pension Plan, and (ii) an unsecured loan for other uses in the aggregate principal amount not to exceed $3.5 million in any fiscal year. H&H Group's credit facilities are collateralized by priority liens on all of the assets of its subsidiaries.

HNH's ongoing operating cash flow requirements consist of arranging for the funding of the minimum requirements of the defined benefit pension plan sponsored by the Company (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 $112.1 million as of December 31, 2010 and $101.1 million as of December 31, 2009. The Company expects to have required minimum contributions to the WHX Pension Plan for 2011 and 2012 of $14.9 million and $15.6 million, 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.

As of December 31, 2010, HNH and its subsidiaries that are not restricted by loan agreements or otherwise from transferring funds to HNH had cash of approximately $3.0 million and current liabilities of approximately $18.0 million. Such current liabilities include $14.9 million of estimated required contributions to the WHX Pension Plan, which HNH is permitted to borrow from H&H Group pursuant to its credit agreements, in addition to an unsecured loan of up to $3.5 million in any fiscal year for other purposes.

Management expects that HNH will be able to fund its operations in the ordinary course of business over at least the next twelve months.

The ability of H&H Group to draw on its revolving line of credit is limited by its borrowing base of accounts receivable and inventory. As of December 31, 2010, H&H Group's availability under its U.S. revolving credit facilities was $24.2 million, and as of January 31, 2011, availability was $18.3 million.

There can be no assurances that H&H Group will continue to have access to its lines of credit if financial performance of its subsidiaries do not satisfy the relevant borrowing base criteria and financial covenants set forth in the applicable financing agreements. 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.

The Company believes that recent amendments to its financing arrangements, continuing improvements in its core operations, and stabilization of the global economy as it effects the markets that the Company serves, will permit the Company to generate sufficient working capital to meet its obligations for at least the next twelve months. However, if the Company's cash needs are greater than anticipated or the Company does not materially satisfy its business plan, the Company may be required to seek additional or alternative financing sources. There can be no assurance that such financing will be available or available on terms acceptable to the Company.

The Company has taken the following actions, which it believes has and in certain instances, will continue to improve liquidity over time and help provide for adequate liquidity to fund the Company's capital needs:

- On October 15, 2010, the Company refinanced its debt, and expects that its effective interest rate will be reduced on a prospective basis. (See Note 13-"Debt" for additional information).

- The Company continues to apply the HNH Business System at all of its business units which utilizes lean tools and philosophies to reduce and eliminate waste, coupled with the Six Sigma tools targeted at variation reduction.

- The Company is supporting profitable sales growth both internally and potentially through acquisitions. 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.

- In 2010 and 2009, the Company engaged in various restructuring activities that management believes will result in a more efficient infrastructure that can be leveraged in the future. These activities included consolidation of the Bairnco corporate office into the HNH corporate office, the closure of facilities in Atlanta in 2010 and New Hampshire and Dallas in 2009 and relocation of the functions to other existing facilities. In connection with these activities, restructuring charges totaled $0.5 million in 2010 and $1.6 million in 2009.

- The Company decided to exit various businesses, including that of the Arlon CM segment in 2010. In 2008 and 2009, the Company exited the welded specialty tubing market in Europe by closing its Indiana Tube Denmark ("ITD") subsidiary and the precious metal electroplating business of its Sumco Inc. ("Sumco") subsidiary.

- The Company filed a shelf registration statement on Form S-3 with the SEC which was declared effective on June 29, 2009. Pursuant to this statement, the Company may, from time to time, issue up to $25 million of its common stock, preferred stock, debt securities, warrants to purchase common stock, preferred stock, or debt securities, or any combination of the above, separately or as units. The terms of any offerings under the shelf registration statement would be determined at the time of the offering. The Company does not presently have any definitive plans or current commitments to sell securities that may be registered under the shelf registration statement. However, management believes that the shelf registration statement provides the Company with the flexibility to quickly raise capital in the market as conditions permit with a minimum of administrative preparation and expense. The net proceeds of any such issuances under the shelf registration statement could be used for general corporate purposes, which may include working capital and/or capital expenditures.

In view of the matters described in the preceding paragraphs, management believes that the Company has the ability to meet its cash requirements on a continuing basis for at least the next twelve months. However, if the Company's planned cash flow projections are not met and/or credit is not available in sufficient amounts, management could consider the additional reduction of certain discretionary expenses and sale of certain assets. In the event that these plans are not sufficient and/or the Company's credit facilities are not adequate, the Company's ability to operate could be materially adversely affected and could raise substantial doubt that the Company will be able to continue to operate.

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 ("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 values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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, 2010 and 2009, the Company had cash held in foreign banks of $4.8 million and $4.9 million, respectively. The Company's credit risk arising from cash deposits held in U.S. banks in excess of insured amounts is not significant given that as a condition of its revolving credit agreements (See Note-13 "Debt"), cash balances in U.S. banks are generally swept on a nightly basis to pay down the Company's revolving credit loans. At December 31, 2010, HNH, the parent company, held cash and cash equivalents which exceeded federally-insured limits by approximately $2.9 million, all of which was invested in a money market account that invests solely in US government securities.

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 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 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.

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 statements of operations.

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 accounts receivable 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 2010 or 2009. In both 2010 and 2009, the 15 largest customers accounted for approximately 28% of consolidated net sales.

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 (determined by the first-in, first-out “FIFO” method or average cost method) 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 Metal Risk

H&H 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. Future and forward contracts to sell or buy precious metal are the derivatives used for this objective.

As of December 31, 2010 and 2009, the Company had contracted for $10.5 million and $7.2 million, respectively, of forward contracts with a counter party rated A by Standard & Poors, and the future contracts 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 use of market quotes or broker valuations when market information is not available.

As these derivatives are not designated as accounting hedges under 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 (loss). The unrealized gain or loss (open trade equity) on the derivatives is included in other current assets or other current 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 & equipment 3 –15 years and buildings and improvements 10 – 30 years. 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 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 business combinations. 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.   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. 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).

To estimate the fair value of our reporting units, we considered an income approach and a market approach. 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. 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 forecasted cash flows are based on current plans and for years beyond that plan, the estimates are based on assumed growth rates. We believe the assumptions are consistent with the plans and estimates used to manage the underlying businesses. 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. The Company believes the assumptions used to determine the fair value of our respective reporting units are reasonable. If different assumptions were used, particularly with respect to forecasted cash flows or WACCs, different estimates of fair value may result and there could be the potential that an impairment charge could result. Actual operating results and the related cash flows of the reporting units could differ from the estimated operating results and related cash flows. The recoverability of goodwill may be impacted if estimated future operating cash flows are not achieved.

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. If comparable companies are not available, the market approach is not used.

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 (e.g. income and market approaches) is considered preferable to a single method. In our case, full weight was 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 were not available to be used under the market approach. The income approach closely parallels investors' consideration of the future benefits derived from ownership of an asset.

Intangible assets with finite lives are amortized over their estimated useful lives. We also estimate the depreciable lives of property, plant and equipment. Property, plant and equipment, as well as 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.

Equity 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, are considered in determining whether the equity method of accounting is appropriate. The Company accounted for its investment in CoSine Communications, Inc. ("CoSine") using the equity method of accounting. The CoSine investment was sold in 2009.

Stock Based Compensation

The Company accounts for stock options granted to employees 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.

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.

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 sheets. 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 (GAAP) 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 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 are 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.

Fair Value Measurements

The Company adopted Accounting Standards Codification (“ASC”) No. 820, “Fair Value Measurements” effective January 1, 2009. Under this standard, 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.

In determining fair value, the Company uses various valuation approaches. The hierarchy of those valuation approaches is 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 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 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.

The fair value of the Company’s financial instruments, such as cash and cash equivalents, accounts receivable, and accounts payable approximate carrying value due to the short-term maturities of these assets and liabilities. Carrying cost fair value approximates for long-term debt which has variable interest rates.

The Company's non-financial assets 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, the Company uses techniques including discounted expected future cash flows, a market approach, and/or appraisals (Level 3 inputs).

The derivative instruments that the Company purchases, specifically commodity futures and forwards contracts on precious metal, are valued at fair value on a recurring basis. 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 are valued at fair value on a recurring abasis and are considered Level 3 measurements.

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.

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 $2.6 million in 2010 and $2.4 million in 2009.

Reclassification

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 4) have been reclassified into separate lines on the financial statements to segregate them from continuing operations.

Note 3 – Recently Issued Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued new disclosure requirements related to Fair Value Measurements and Disclosures—ASC 820-10, in order to provide a greater level of disaggregated information and more robust disclosures about valuation techniques and inputs to fair value measurements, as well as additional information about transfers between levels and activity during the reporting period. It also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets (ASC 715-20); so as to refer to ASC 820-10 to determine the appropriate classes to present fair value disclosures about such plan assets. Most of the new disclosures and clarifications of existing disclosures are effective for the Company's interim and annual reporting periods of 2010, and the Company adopted them in the first quarter of 2010. Because the new requirements affect disclosures but do not change the accounting for any assets or liabilities, their adoption did not have an effect on the Company's consolidated financial position and results of operations.

Note 4 – Discontinued Operations

Arlon CM

In 2010, the Company decided to exit the business of manufacturing adhesive films, specialty graphic films and engineered coated products, and in February 2011, the Company entered into two separate asset sale transactions (see Note 21-"Subsequent Events"). These businesses comprised the Arlon CM segment. The Company recorded an asset impairment charge of $1.3 million in 2010 in connection with certain of these assets.

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 pre-tax earnings over the next three years. Additionally, Kasco-France signed a five year supply agreement to purchase certain products from Kasco. Kasco-France has been included as a discontinued operation on a retroactive basis for the twelve months ending December 31, 2010 and 2009 (see Note 21-"Subsequent Events").

Indiana Tube Denmark

In 2008, the Company decided to exit the welded specialty tubing market in Europe and close H&H's Indiana Tube Denmark subsidiary ("ITD"), sell its assets, pay off its debt, and repatriate the remaining cash. The decision to exit this market was made after evaluating economic conditions and ITD's capabilities, served markets, and competitors. ITD had been part of the Company's Tubing segment. During 2009, ITD ceased operations and sold or disposed of its inventory and most of its equipment. A gain on the sale of equipment of $1.7 million was recognized. ITD repaid all of its $4.6 million of long-term debt during 2009. ITD's principal remaining asset is the ITD facility, which has been offered for sale. The facility is included in "Other non-current assets" on the consolidated balance sheet as of December 31, 2010.

Sumco, Inc.

The Company also evaluated its Sumco subsidiary in light of ongoing operating losses and future prospects. Sumco provided electroplating services primarily to the automotive market, and relied on the automotive market for over 90% of its sales. Sumco had been part of the Precious Metal segment. The Company decided to exit this business. In 2009, Sumco entered into a lease of its former manufacturing facility in Indianapolis, Indiana and granted the tenant an option to purchase the facility. On October 13, 2010, Sumco completed the sale of the facility and in addition, sold the rights to the Sumco name. The net proceeds of $1.7 million approximated the carrying value of the Sumco long-term assets and accordingly, no significant gain or loss was recorded on the sale.

The following assets and liabilities of the discontinued operations, ITD, Sumco, Kasco-France, and Arlon CM, have been segregated in the accompanying consolidated balance sheets as of December 31, 2010 and 2009.

(in thousands)	**December 31, 2010**	**December 31, 2009**
Current Assets:		
Trade accounts receivable	$ 12,351	$ 12,943
Inventory	13,624	15,233
Other current assets	1,069	1,336
	$ 27,044	$ 29,512
Long-term Assets:		
Property, plant & equipment, net	$ 1,946	$ 8,284
Intangibles, net	79	$ 104
Other non-current assets	234	230
	$ 2,259	$ 8,618
Current Liabilities:		
Other current liabilities	$ 9,341	$ 9,686
	$ 9,341	$ 9,686
Non-current Liabilities:		
Deferred income taxes	$ 229	$ 171
Pension liability	341	346
Other non-current liabilities	85	179
	$ 655	$ 696

The income (loss) from Discontinued Operations consists of the following:

(in thousands)	Years ended December 31, 2010	2009
Net sales	$ 88,163	$ 93,503
Asset impairment charges	(1,347)	(1,149)
Restructuring charges	-	(1,270)
Operating income (loss)	629	(6,251)
Interest/other income (expense)	9	(702)
Income tax benefit (expense)	(139)	104
Income (loss) from discontinued operations, net	499	(6,849)

Note 5 –Restructuring Charges

In 2010 and 2009, the Company engaged in various cost improvement initiatives in order to positively impact productivity and profitability, including certain activities that management believes will result in a more efficient infrastructure that can be leveraged in the future.

During 2010, the Company commenced a restructuring plan to move Kasco's Atlanta, Georgia operation to an existing facility in Mexico. In connection with this restructuring project, costs of $0.5 million were incurred in the twelve months ended December 31, 2010, principally for employee compensation and moving costs. This restructuring project was completed in the fourth quarter of 2010.

For the twelve months ended December 31, 2009, restructuring charges totaled $1.1 million. Restructuring costs of $0.6 million were recorded in 2009 relating to the consolidation of the former Bairnco Corporate office into the HNH Corporate office. In addition, in April 2009, the Company announced the closure of a facility in New Hampshire which was part of the Precious Metal segment and the relocation of the functions to its facility in Milwaukee. Restructuring costs of approximately $0.4 million were recorded in connection with this relocation, including an estimate of future net lease costs for the facility.

As of December 31, 2010, approximately $0.1 million of future lease costs for the New Hampshire facility of the Precious Metal segment was accrued and included in accrued liabilities on the balance sheet. This lease terminates in 2014.

The restructuring costs and activity in the restructuring reserve for the year ended December 31, 2010 consisted of:

(in thousands)	December 31, 2009	Expense	Payments	December 31, 2010
Termination benefits	$ 92	$ 201	$ (256)	$ 37
Rent expense	166	-	(25)	141
Other facility closure costs	-	306	(306)	-
	$ 258	$ 507	$ (587)	$ 178

Note 6 –Asset Impairment Charges

A non-cash asset impairment charge of $1.6 million was recorded in 2010 as part of income from continuing operations. 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. The impairment charge represents 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 Company owns certain real property that is not currently used in operations and is not being depreciated, principally former manufacturing plants. Such real property is included in Other Non-Current Assets on the consolidated balance sheets. In accordance with GAAP, the Company reviews such properties for impairment and in 2009, determined that certain properties should be written down to fair value. In the fourth quarter of 2009, the Company recorded non-cash asset impairment charges of $1.0 million related to these properties.

In addition, in the second quarter of 2009, the Company recorded a $0.9 million non-cash impairment charge related to certain manufacturing equipment located at one of its Tubing facilities. The equipment had been utilized exclusively in connection with a discontinued product line, had no other viable use to the Company, and limited scrap value.

In 2009, the Company also recorded a $1.1 million impairment charge related to an investment accounted for under the equity method. The equity investment was sold by the Company during the third quarter of 2009 for cash proceeds of $3.1 million, and the amount of the impairment represented the difference between the carrying value of the investment and the selling price.

Note 7 – Pensions and Other Postretirement Benefits

The Company maintains several qualified and non-qualified pension plans and other postretirement benefit plans. The Company's significant pension, health care benefit and defined contribution plans are discussed below. The Company's other defined contribution 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 employees and certain employees of H&H's former subsidiary, Wheeling-Pittsburgh Corporation, or ("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.

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 ("Bairnco 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, the Company'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 were frozen for most 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 ("PBGC") 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. Aggregate account balances held in trust in individual RSP Plan participants' accounts totaled $23.0 million at December 31, 2010. These 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 December 31, 2010.

In 2010, 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, the Company'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. In 2009, the Company also had a postretirement Executive Life Insurance program that provided for life insurance benefits, as defined, for certain Company executives upon their retirement. During 2009, this plan was terminated and all policies were either terminated for cash value or transferred to the participants. In 2010 and 2009, as a result of the discontinuance of these benefits, the Company reduced its postretirement benefits expense by $0.7 million and $1.1 million, respectively.

The components of pension expense and components of other postretirement benefit expense (income) for the Company's benefit plans included the following:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
	(in thousands)			
Service cost	$ 190	$ 379	$ -	$ 41
Interest cost	24,117	25,709	191	248
Expected return on plan assets	(28,877)	(25,196)	-	-
Amortization of prior service cost	63	63	-	-
Actuarial loss amortization	8,878	13,215	42	-
Curtailment/Settlement	-	-	(712)	(1,114)
Total	$ 4,371	$ 14,170	$ (479)	$ (825)

Actuarial assumptions used to develop the components of defined benefit pension expense and other postretirement benefit expense were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Discount rates:				
WHX Pension Plan	5.55%	6.00%	N/A	N/A
Other postretirement benefit plans	N/A	N/A	5.55%	6.00%
Bear Plan	6.05%	6.15%	N/A	N/A
Expected return on assets	8.50%	8.50%	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A	N/A
Health care cost trend rate - initial	N/A	N/A	8.00%	8.00%
Health care cost trend rate - ultimate	N/A	N/A	5.00%	5.00%
Year ultimate reached	N/A	N/A	2016	2015

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 postretirement benefit plans:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
	(in thousands)			
Change in benefit obligation:				
Benefit obligation at January 1	$ 454,469	$ 447,271	$ 3,714	$ 4,233
Service cost	190	379	-	41
Interest cost	24,116	25,709	191	248
Settlement	-	-	(648)	(1,282)
Actuarial loss	24,754	15,388	380	769
Participant Contributions	-	-	17	52
Benefits paid	(37,744)	(35,505)	(200)	(347)
Transfers from RSP	6,741	1,227	-	-
Benefit obligation at December 31	$ 472,526	$ 454,469	$ 3,454	$ 3,714
Change in plan assets:				
Fair value of plan assets at January 1	$ 352,460	$ 313,522	$ -	$ -
Business Combinations	-	-	-	-
Actual returns on plan assets	25,406	71,265	-	-
Participant Contributions	-	-	17	52
Benefits paid	(37,744)	(35,505)	(200)	(347)
Company contributions	9,633	1,951	183	295
Transfers from RSP	9,788	1,227	-	-
Fair value of plan assets at December 31	$ 359,543	$ 352,460	$ -	$ -
Funded status	$ (112,983)	$ (102,009)	$ (3,454)	$ (3,714)
Accumulated benefit obligation (ABO) for qualified defined benefit pension plans :				
ABO at January 1	$ 454,469	$ 447,271	$ 3,714	$ 4,233
ABO at December 31	472,526	454,469	$ 3,454	$ 3,714
Amounts Recognized in the Statement of Financial Position				
Noncurrent Asset	$ -	$ -	$ -	$ -
Current liability	(14,900)	(9,700)	(215)	(215)
Noncurrent liability	(98,083)	(92,309)	(3,239)	(3,499)
Total	$ (112,983)	$ (102,009)	$ (3,454)	$ (3,714)

The weighted average assumptions used in the valuations at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
Discount rates:				
WHX Pension Plan	4.95%	5.55%	N/A	N/A
Bear Plan	5.50%	6.05%	N/A	N/A
Other postretirement benefit plans	N/A	N/A	5.10%	5.55%
Rate of compensation increase	N/A	N/A	N/A	N/A
Health care cost trend rate - initial	N/A	N/A	7.50%	8.00%
Health care cost trend rate - ultimate	N/A	N/A	5.00%	5.00%
Year ultimate reached	N/A	N/A	2016	2016

Pretax amounts included in “Accumulated other comprehensive loss” at December 31, 2010 and 2009 were as follows:

	Pension Benefits		Other Postretirement Benefits	
(in thousands)	2010	2009	2010	2009
Prior service cost	$ 138	$ 200	$ -	$ -
Net actuarial loss	143,060	126,763	1,180	777
Accumulated other comprehensive loss	$ 143,198	$ 126,963	$ 1,180	$ 777

The pretax amount of actuarial losses and prior service cost included in “Accumulated other comprehensive loss” at December 31, 2010 that is expected to be recognized in net periodic benefit cost in 2011 is $9.5 million and -0-, respectively, for defined benefit pension plans and -0- and -0-, respectively, for other postretirement benefit plans.

Other changes in plan assets and benefit obligations recognized in “Comprehensive income” are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
	(in thousands)			
Curtailment/Settlement gain (loss)	$ -	$ 169	$ (64)	$ -
Current year actuarial gain (loss)	(25,176)	30,539	(380)	(599)
Amortization of actuarial loss	8,866	13,215	42	-
Amortization of prior service cost	63	63	-	-
Total recognized in comprehensive income	$ (16,247)	$ 43,986	$ (402)	$ (599)

Benefit obligations were in excess of plan assets for all pension plans and other postretirement benefit plans at both December 31, 2010 and 2009. The accumulated benefit obligation for all defined benefit pension plans was $472.5 million and $454.5 million at December 31, 2010 and 2009, respectively. Additional information for plans with accumulated benefit obligations in excess of plan assets:

	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
	(in thousands)			
Projected benefit obligation	$ 472,526	$ 454,469	$ 3,454	$ 3,714
Accumulated benefit obligation	472,526	454,469	3,454	3,714
Fair value of plan assets	359,543	352,460	-	-

In determining the expected long-term rate of return on 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 for the plan. The Company 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.

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. The three to five year objective of the WHX Pension Plan is to achieve a rate of return that exceeds the Company's expected earnings rate by 150 basis points at prudent levels of risk. Therefore the 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 the three following categories: 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 WHX/Bear Pension Plan's assets at December 31, 2010 and 2009, by asset category, are as follows:

WHX/Bear Pension Assets
(in thousands)

Fair Value Measurements as of December 31, 2010:

Asset Class	Assets (Liabilities) at Fair Value as of December 31, 2010			
	Level 1	Level 2	Level 3	Total
Equity securities:				
U.S. large cap	$ 20,475	$ 257	$ -	$ 20,732
U.S. mid-cap growth	37,493	902	-	38,395
U.S. small-cap value	5,657	-	317	5,974
International large cap value	17,602	-	-	17,602
Emerging markets growth	3,831	-	-	3,831
Equity contracts	608	-	-	608
Fixed income securities:				
Corporate bonds	7,831	24,927	595	33,353
Bank debt	-	1,464	-	1,464
Other types of investments:				
Common trust funds (1)	-	97,258	-	97,258
Fund of funds (2)	-	32,416	31,658	64,074
Insurance contracts (3)	-	753	9,268	10,021
	93,497	157,977	41,838	293,312
Futures contracts, net	(62,655)	(158)	-	(62,813)
Total	$ 30,842	$ 157,819	$ 41,838	$ 230,499
Cash & cash equivalents				131,248
Net payables				(2,204)
Total pension assets				$ 359,543

Fair Value Measurements as of December 31, 2009:

Asset Class	Assets (Liabilities) at Fair Value as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Equities	$ 27,607	$ 950	$ -	$ 28,557
Fixed income securities	8,664	26,320	124	35,108
Common trust funds (1)	-	106,616	-	106,616
Fund of funds (2)	-	32,953	27,594	60,547
Insurance contracts (3)		723	9,361	10,084
	36,271	167,562	37,079	240,912
Derivative contracts, net	(836)	(199)	-	(1,035)
Total	$ 35,435	$ 167,363	$ 37,079	$ 239,877
Cash & cash equivalents				115,508
Net payables				(2,925)
Total pension assets				$ 352,460

(1) Common Trust Funds- 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. Insurance contracts are classified within level 3 and the money market component is classified within level 2 of the valuation hierarchy. In 2009, insurance contracts had been classified wholly within level 2 assets, but have been presented above in a manner consistent with 2010 for comparability purposes.

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.

The fair value measurements of the WHX/Bear Pension Plan assets using significant unobservable inputs (Level 3) changed during 2010 due to the following:

2010 Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Fixed income securities	Fund of funds	Insurance contracts (c)	U.S. Small Cap Value
Beginning balance as of January 1, 2010	$ 124	$ 27,594	$ 9,361	$ -
Transfers into Level 3 (a)	-	-	-	317
Transfers out of Level 3 (b)	-	(229)	-	-
Gains or losses included in changes in net assets	471	4,293	1,115	-
Purchases, issuances, sales and settlements				
Purchases	-	-	9,008	-
Issuances	-	-	-	-
Sales	-	-	-	-
Settlements	-	-	(10,216)	-
Ending balance as of December 31, 2010	$ 595	$ 31,658	$ 9,268	$ 317
Net unrealized gains (losses) included in the changes in net assets, attributable to investments still held at the reporting date	$ 471	$ 4,293	$ 1,115	$ -

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.

c) Insurance contracts cannot be redeemed or transferred as these investments secure the insurance contracts that retirees of the WHX Pension Plan are due as part of their benefit payments.

2009 Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Fixed income securities	Fund of funds
Beginning balance as of January 1, 2009	$ -	$ 1,383
Transfers into Level 3	-	-
Transfers out of Level 3	-	(333)
Gains or losses included in changes in net assets	(306)	8,185
Purchases, issuances, sales and settlements	430	18,359
Ending balance as of December 31, 2009	$ 124	$ 27,594

In accordance with the guidance for fair value measurements in certain entities that calculate NAV per share (or its equivalents), the WHX Pension Plan expanded its disclosures to include 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, 2010.

2010 Fair Value Estimated using NAV per Share (or its equivalent)

Class Name	Description	Fair Value (in thousands)	Redemption frequency	Redemption Notice Period
Fund of funds	Long Short Equity Fund	$ 4,488	Quarterly	45 day notice
Fund of funds	Credit Long short hedge fund	31,087	2 year lock	90 day notice
Fund of funds	Multi-strategy hedge funds	362	Quarterly	45 day notice
Fund of funds	Fund of fund composites-side pocket	571	None	Not determinable
Fund of funds	Fund of fund composites	27,566	Quarterly	45 day notice
Common trust funds	Event driven hedge funds	97,258	Quarterly	45 day notice

The Company’s Pension Plans’ asset allocations at December 31, 2010 and 2009, by asset category, are as follows:

	WHX/Bear Plans	
	2010	**2009**
Asset Category		
Cash and cash equivalents	35%	32%
Equity securities	7%	8%
Fixed income securities	10%	10%
Insurance contracts	3%	3%
Common trust funds	27%	30%
Fund of funds	18%	17%
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 the WHX Pension Plan for 2011 and 2012 of $14.9 million and $15.6 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 Postretirement Benefits
2011	$ 35,680	$ 198
2012	35,622	211
2013	35,462	218
2014	35,252	228
2015	34,987	242
2016-2020	168,804	1,217

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.

The components of pension (income) expense for the Company's non-qualified pension plans included the following:

	2010	2009
	(in thousands)	
Interest cost	$ 11	$ 11
Settlement credit	(13)	-
Total	$ (2)	$ 11

Assumptions used to determine net periodic benefit expense (income) for the period are as follows:

	2010	2009
Discount rate	5.55%	6.00%
Rate of compensation increase	N/A	N/A

The measurement date for plan obligations is December 31. The discount rate is the rate at which the plan's 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 non-qualified pension plan:

	2010	2009
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at January 1	$ 220	$ 242
Service cost	-	-
Interest cost	11	11
Actuarial gain	-	(27)
Benefits paid	(231)	(6)
Benefit obligation at December 31	$ -	$ 220
Plan assets	$ -	$ -
Funded status	$ -	$ (220)
The pre tax amounts recognized in accumulated other comprehensive income:		
Net actuarial gain	$ -	$ (13)
Accumulated benefit obligation for defined benefit pension plans :		
Accumulated benefit obligation at January 1	$ 220	$ 242
Accumulated benefit obligation at December 31	-	220

Assumptions used to determine benefit obligations at December 31 are as follows:

	2010	2009
Discount rate	N/A	5.55%
Rate of compensation increase	N/A	N/A

Contributions

The non-qualified plan is not funded. Employer contributions are equal to annual benefit payments.

Benefit Payments

The Company does not expect that there will be any future benefit payments for the H&H non-qualified plan.

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. In January 2009, the Company suspended its employer contributions to the 401(k) savings plan for all employees not covered by a collective bargaining agreement. In January 2010, the matching contribution was reinstated, with a match of 50% of the first 6% of the employee's contribution, provided that employees had made an election to participate in the 401(k) savings plan on or before January 31, 2010. The charge to expense for the Company's matching contribution amounted to $1.3 million in 2010 and $-0- in 2009.

Note 8 – Income Taxes

	2010	2009
	(in thousands)	
Income (loss) before income taxes:		
Domestic	$ 890	$ (19,157)
Foreign	6,884	2,436
Total income (loss) before income taxes	$ 7,774	$ (16,721)

The provision for (benefit from) income taxes for the two years ended December 31 is as follows:

	2010	2009
	(in thousands)	
Income Taxes		
Current		
Domestic	$ 2,271	$ 190
Foreign	1,379	31
Total income taxes, current	$ 3,650	$ 221
Deferred		
Domestic	$ (279)	$ (744)
Foreign	(95)	26
Total income taxes, deferred	$ (374)	$ (718)
Income tax provision (benefit)	$ 3,276	$ (497)

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.

Deferred Income Tax Sources	2010	2009
	(in thousands)	
Current Deferred Tax Items:		
Inventory	$ 3,805	$ 1,954
Environmental Costs	2,301	2,509
Accrued Expenses	3,605	2,306
Miscellaneous Other	868	828
Current deferred income tax asset before valuation allowance	10,579	7,597
Valuation allowance	(9,341)	(6,574)
Current deferred tax asset	$ 1,238	$ 1,023
Foreign	$ (355)	$ (300)
Current deferred tax liability	$ (355)	$ (300)
Non-Current Deferred Tax Items:		
Postretirement and postemployment employee benefits	$ 999	$ 1,243
Net operating loss carryforwards	69,890	77,530
Capital loss carryforward	2,148	-
Additional minimum pension liability	42,903	39,394
Impairment of long-lived assets	3,092	4,029
California tax credits	344	411
Foreign tax credits	443	443
Minimum tax credit carryforwards	2,163	1,950
Miscellaneous other	327	161
Non current deferred tax asset before valuation allowance	122,309	125,161
Valuation allowance	(107,348)	(106,719)
Non current deferred tax asset	14,961	18,442
Property plant and equipment	(10,318)	(12,177)
Intangible assets	(6,203)	(7,908)
Undistributed foreign earnings	(1,272)	(1,489)
Other-net	(1,156)	(1,126)
Non current deferred tax liability	(18,949)	(22,700)
Net non current deferred tax liability	$ (3,988)	$ (4,258)

GAAP requires that a net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. Due to the Company's recurring tax losses and only recent history of generating limited amounts of taxable income, a valuation allowance of $116.7 million has been established. Included in deferred tax assets at December 31, 2010 are U.S. federal NOLs of $187.0 million ($65.4 million tax-effected), as well as certain foreign and state NOLs. The U.S. federal NOLs expire between 2017 and 2029. Management performs a periodic evaluation of deferred tax assets and will adjust the valuation allowance as circumstances warrant. Also, included in deferred income tax assets are tax credit carryforwards of $3.0 million. The net current deferred tax asset is expected to be realizable from the reversal of offsetting temporary differences.

Net income taxes payable totaled $3.0 million and $1.4 million as of December 31, 2010 and 2009, respectively.

Upon its emergence from bankruptcy on July 29, 2005, the Company experienced an ownership change as defined by Section 382 of the Internal Revenue Code, which 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 $187.0 million as of December 31, 2010 include a reduction of $31.0 million ($10.8 million tax-effect).

As of December 31, 2010, the Company has a deferred income tax liability relating to $3.5 million of undistributed earnings of foreign subsidiaries. In addition, there were approximately $10.4 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 2010 and 2009 were $2.7 million and $2.5 million, respectively.

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 (loss) as follows:

	Years Ended December 31, 2010	2009
(in thousands)		
Income (loss) from continuing operations before income tax	$ 7,774	$ (16,721)
Tax provision (benefit) at statutory rate	$ 2,664	$ (5,852)
Increase (decrease) in tax due to:		
Foreign dividend income	381	454
Incentive stock options granted	2	74
State income tax, net of federal effect	1,185	192
Increase (decrease) in valuation allowance	(234)	4,410
Increase in liability for uncertain tax positions	233	409
Change in estimated deferred state tax rate	-	(455)
Expiration of net operating loss carryforward	-	1,110
Net effect of foreign tax rate and tax holidays	(794)	(2,591)
Other, net	(161)	1,752
Tax provision (benefit)	$ 3,276	$ (497)

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 December 31, 2010 and 2009, the Company had $2.3 million and $2.1 million of unrecognized tax benefits, respectively, all of which would affect the Company's effective tax rate if recognized. The change in the amount of unrecognized tax benefits in 2010 and 2009 was as follows:

(in thousands)	Years Ended December 31, 2010	2009
Beginning balance	$ 2,111	$ 2,127
Additions for tax positions related to current year	233	263
Additions due to interest accrued	101	91
Tax positions of prior years:		
Increase in liabilities, net	160	539
Payments	(72)	(425)
Due to lapsed statutes of limitations	(267)	(484)
Ending balance	$ 2,266	$ 2,111

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of both December 31, 2010 and 2009, approximately $0.3 million 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 $0.4 million 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 2007 through 2010. 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.

Note 9 – Inventories

	December 31, 2010	December 31, 2009
	(in thousands)	
Finished products	$ 18,718	$ 18,669
In - process	8,110	7,002
Raw materials	16,389	14,486
Fine and fabricated precious metal in various stages of completion	12,151	6,482
	55,368	46,639
LIFO reserve	(6,693)	(1,632)
	$ 48,675	$ 45,007

Fine and Fabricated Precious Metal Inventory

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 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 $6.7 million and $1.6 million as of December 31, 2010 and December 31, 2009, respectively. The Company recorded a favorable non-cash LIFO liquidation gain of $0.2 million in the twelve months ended December 31, 2010 compared to a gain of $0.6 during the same period of 2009.

Certain customers and suppliers of H&H choose to do business on a “toll” basis, and furnish precious metal to H&H 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, 2010, H&H’s customer metal consisted of 166,637 ounces of silver, 557 ounces of gold, and 1,396 ounces of palladium.

Supplemental inventory information:	December 31, 2010	December 31, 2009
(in thousands)		
Precious metals stated at LIFO cost	$ 5,458	$ 4,850
Market value per ounce:		
Silver	$ 30.92	$ 16.83
Gold	$ 1,421.07	$ 1,095.78
Palladium	$ 797.00	$ 402.00

Note 10 – Derivative Instruments

H&H enters into commodity futures and forwards contracts on precious metal that are subject to market fluctuations in order to economically hedge its precious metal inventory against price fluctuations. As of December 31, 2010 the Company had entered into forward and future contracts for gold with a total value of $1.1 million and for silver with a total value of $7.4 million.

The Company also economically hedges its exposure on variable interest rate debt denominated in foreign currencies at certain of its foreign subsidiaries.

As these 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. Such gains and losses are recorded on a separate line of the statement of operations in the case of the precious metal contracts and in interest expense with respect to the interest rate derivative. The Company’s hedging strategy is designed to protect it against normal volatility. However, abnormal price increases in these commodity or foreign exchange markets could negatively impact H&H’s costs. The twelve month periods ended December 2010 and December 2009 include a net loss of $5.6 million and $0.8 million, respectively, on precious metal contracts.

As of December 31, 2010, the Company had the following outstanding forward or future contracts with settlement dates ranging from February 2011 to March 2011.

Commodity	Amount
Silver	240,000 ounces
Gold	800 ounces

In addition, as described in Note 13-“Debt”, the Company’s 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 $4.7 million. 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, 2010, a mark to market adjustment of $0.4 million was charged to unrealized losses on derivatives, increasing the fair value of the derivative liability to $5.1 million.

GAAP requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet.

Effect of Derivative Instruments on the Consolidated Statements of Operations

(in thousands)

Derivative	Statement of Operations Line	Years Ended December 31, 2010 Gain (Loss)	Years Ended December 31, 2009 Gain (Loss)
Commodity contracts	Realized and Unrealized Loss on Derivatives	$ (5,571)	$ (777)
Derivative features of Subordinated Notes	Realized and Unrealized Loss on Derivatives	$ (412)	$ -
Interest rate swap	Interest expense	-	(317)
Total derivatives not designated as hedging instruments		$ (5,983)	$ (1,094)
Total derivatives		$ (5,983)	$ (1,094)

Fair Value of Derivative Instruments in the Consolidated Balance Sheets

(in thousands)

Derivative	Balance Sheet Location	December 31, 2010	December 31, 2009
Commodity contracts	Other current liabilities	$ (40)	$ (54)
Derivative features of Subordinated Notes	Long-term debt & Long term debt-related party	$ (5,096)	-
Total derivatives not designated as hedging instruments		(5,136)	(54)
Total derivatives		$ (5,136)	$ (54)

Note 11 – Property, Plant & Equipment

	December 31, 2010	December 31, 2009
	(in thousands)	
Land	$ 8,053	$ 8,949
Buildings, machinery and equipment	159,738	156,608
Construction in progress	3,419	1,721
	171,210	167,278
Accumulated depreciation and amortization	93,068	84,168
	$ 78,142	$ 83,110

Depreciation expense for the years 2010 and 2009 was $13.5 million and $14.1 million, respectively.

Note 12 – Goodwill and Other Intangibles

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2009 and 2010 were as follows:

(in thousands)

Segment	Balance at January 1, 2009	Acquisitions/Adjustments	Impairment	Balance at December 31, 2009	Accumulated Impairment Losses
Precious Metal	$ 1,506	$ 15	$ -	$ 1,521	$ -
Tubing	1,895	-	-	1,895	-
Engineered Materials	51,232	-	-	51,232	-
Arlon Electronic Materials	10,438	-	(1,140)	9,298	(1,140)
Total	$ 65,071	$ 15	$ (1,140)	$ 63,946	$ (1,140)

Segment	Balance at January 1, 2010	Acquisitions/Adjustments	Impairment	Balance at December 31, 2010	Accumulated Impairment Losses
Precious Metal	$ 1,521	$ (29)	$ -	$ 1,492	$ -
Tubing	1,895	-	-	1,895	-
Engineered Materials	51,232	-	-	51,232	-
Arlon Electronic Materials	9,298	-	-	9,298	(1,140)
Total	$ 63,946	$ (29)	$ -	$ 63,917	$ (1,140)

The Company conducted the required annual goodwill impairment reviews in 2010 and 2009, and computed updated valuations for each reporting unit using a discounted cash flow approach, as described in Note 2 “Summary of Accounting Policies”. As of June 30, 2009, the Company had conducted an interim goodwill impairment review of its Silicone Technology Division (“STD”) reporting unit principally because of continuing adverse business conditions for STD, which resulted in a decline in the estimated future cash flows of STD. Based on the results of these reviews, the Company recorded a goodwill impairment charge of $1.1, million in the third quarter of 2009. The Silicone Technology Division is part of the Arlon EM segment.

Other intangible assets as of December 31, 2010 and 2009 consisted of:

(in thousands)

	December 31, 2010			December 31, 2009			Weighted Average Amortization Life
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	(in years)
Products and customer relationships	$ 34,035	$ (8,204)	$ 25,831	$ 34,035	$ (6,032)	$ 28,003	16.3
Trademark/Brand name	3,928	(1,043)	2,885	3,928	(755)	3,173	16.5
Patents and patent applications	3,153	(893)	2,260	2,387	(674)	1,713	14.9
Non-compete agreements	756	(656)	100	756	(361)	395	4.4
Other	1,409	(947)	462	1,542	(895)	647	8.0
Total	$ 43,281	$ (11,743)	$ 31,538	$ 42,648	$ (8,717)	$ 33,931	

Amortization expense in both 2010 and 2009 totaled $3.0 million. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

(in thousands)	Products and Customer Relationships	Trademarks	Patents and Patent Applications	Non-Compete Agreements	Other	Total
2011	$ 2,168	$ 288	$ 205	$ 100	$ 187	$ 2,948
2012	2,168	288	216	-	73	2,745
2013	2,168	288	205	-	47	2,708
2014	2,168	288	205	-	48	2,709
2015	2,168	288	222	-	48	2,726
Thereafter	14,991	1,445	1,207	-	59	17,702
	$ 25,831	$ 2,885	$ 2,260	$ 100	$ 462	$ 31,538

As of December 31, 2010, approximately $2.8 million of goodwill related to prior acquisitions made by Bairnco is expected to be amortizable for income tax purposes.

Note 13 – Debt

Debt at December 31, 2010 and 2009 was as follows:

(in thousands)	Years Ended December 31, 2010	Years Ended December 31, 2009
Short term debt		
First Lien Revolver	$ 42,635	$ 18,654
Foreign	255	295
Total short-term debt	42,890	18,949
Long-term debt - non related party:		
First Lien Term Loans	20,300	13,875
Second Lien Term Loans	25,000	74,965
10% Subordinated Notes, net of unamortized discount	40,519	-
Other H&H debt-domestic	7,286	7,436
Foreign loan facilities	2,750	4,750
Total debt to non related party	95,855	101,026
Less portion due within one year	4,452	5,944
Long-term debt to non related party	91,403	95,082
Long-term debt - related party:		
10% Subordinated Notes, net of unamortized discount	32,547	-
H&H Term B Loan	-	44,098
Bairnco Subordinated Debt Credit Agreement	-	10,000
Long-term debt - related party	32,547	54,098
Total long-term debt	123,950	149,180
Paid in kind interest transferred to 10% subordinated notes in 2010	-	13,397
Total long-term debt including paid in kind ("PIK") interest	123,950	162,577
Total debt and PIK interest	$ 171,292	$ 187,470

Long term debt as of December 31, 2010 matures in each of the next five years as follows:

Long-term Debt Maturity

(in thousands)	Total	2011	2012	2013	2014	2015	Thereafter
Long-term debt - non-related parties	$ 95,855	$ 4,452	$ 41,352	$ 3,002	$ 252	$ 252	$ 46,545
Long term debt - related party	32,547	-	-	-	-	-	32,547
	$ 128,402	$ 4,452	$ 41,352	$ 3,002	$ 252	$ 252	$ 79,092

Credit Facilities

On October 15, 2010, HNH refinanced substantially all of its indebtedness principally with its existing lenders or their affiliates. The refinancing was effected through a newly formed, wholly-owned subsidiary of the Company, H&H Group, which is the direct parent of H&H and Bairnco.

Wells Fargo 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 "Wells Fargo Facility") with Wells Fargo Bank, National Association ("Wells Fargo"), as administrative agent for the lenders thereunder. The Wells Fargo Facility provides for a $21 million senior term loan to H&H Group and certain of its Subsidiaries (the "First Lien Term Loan") and established a revolving credit facility 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 (such amount, initially $89 million), dependent on the levels of and collateralized by eligible accounts receivable and inventory (the "First Lien Revolver").

The First Lien Revolver requires a lockbox arrangement, which provides for all receipts to be swept daily to reduce borrowings outstanding under the credit facility. This arrangement, combined with the existence of a subjective acceleration clause in the revolving credit facility, necessitates the revolving credit facility be classified as a current liability on the balance sheet. The acceleration clause allows the Company's lenders to forgo additional advances should they determine there has been a material adverse change in the Company's financial position or prospects reasonably likely to result in a material adverse effect on its business, condition, operations, performance, or properties. Management believes that no such material adverse change has occurred. In addition, at December 31, 2010, the Company's lenders had not informed the Company that any such event had occurred. The revolving credit facility expires on June 30, 2012. As of December 31, 2010, the revolver balance was $42.6 million.

The amounts outstanding under the Wells Fargo Facility bear interest at LIBOR plus applicable margins of between 2.50% and 3.50% (3.25% for the term loan and 2.75% for the revolver at December 31, 2010), or at the U.S. base rate (the prime rate) plus 0.50% to 1.50% (1.25% for the term loan and 0.75% for the revolver at December 31, 2010). The applicable margins for the First Lien Revolver and the First Lien Term Loan are dependent on H&H Group's Quarterly Average Excess Availability for the prior quarter, as that term is defined in the agreement. As of December 31, 2010, the First Lien Term Loan bore interest at a weighted average interest rate of 3.56% and the First Lien Revolver bore interest at a weighted average interest rate of 3.25%. Principal payments of the First Lien Term Loan are due in equal monthly installments of approximately $0.35 million, commencing November 1, 2010. All amounts outstanding under the Wells Fargo Facility are due and payable in full on June 30, 2012.

Obligations under the Wells Fargo Facility are collateralized of first priority security interests in and liens upon all present and future assets of H&H Group and substantially all of its subsidiaries.

New Ableco Facility

On October 15, 2010, H&H Group, together with certain its subsidiaries, also entered into a Loan and Security Agreement with Ableco, L.L.C. ("Ableco"), as administrative agent for the lenders thereunder (the "New Ableco Facility"). The New Ableco Facility provides for a $25 million subordinated term loan to H&H Group and certain of its subsidiaries (the "Second Lien Term Loan"). The Second Lien Term Loan bears interest on the principal amount thereof at the U.S. base rate (the prime rate) plus 7.50% or LIBOR (or, if greater, 1.75%) plus 9.00%. As of December 31, 2010, the Second Lien Term Loan bore interest at a rate of 10.75% per annum. All amounts outstanding under the New Ableco Facility are due and payable in full on June 30, 2012.

Obligations under the New Ableco Facility are collateralized by second priority security interests in and liens upon all present and future assets of H&H Group and substantially all of its subsidiaries.

Covenants

The Wells Fargo Facility and the New Ableco Facility each has a cross-default provision. If H&H Group is deemed in default of one agreement, then it is in default of the other.

The Wells Fargo Facility and the New Ableco Facility contain covenants requiring minimum Trailing Twelve Months ("TTM") Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") of $40 million and $45 million, respectively. H&H Group is required to maintain TTM EBITDA of $45 million until such time as the New Ableco Facility is paid in full. The covenant will then adjust to $40 million.

The Wells Fargo Facility and the New Ableco Facility each contain a minimum TTM Fixed Charge Coverage Ratio of 1:1 which requires that Fixed Charges, as defined in the agreements, are at least equal to TTM EBITDA at the measurement date.

The New Ableco Facility contains a maximum TTM Senior Leverage Ratio covenant which represents the ratio of senior debt to TTM EBITDA. The ratio declines by 5/100ths each quarter: December 2010, 2.95; March 2011, 2.90; June 2011, 2.85; September 2011, 2.80; December 2011, 2.75 and March 2012, 2.70. H&H Group is required to maintain a maximum TTM Senior Leverage Ratio covenant following the New Ableco Facility schedule until such time as the New Ableco Facility is paid in full.

The Wells Fargo Facility and the New Ableco Facility each contain a maximum amount for capital expenditures over the preceding four quarter period. The December 2010 covenant is $21 million; increasing to $22 million in March 2011 and increasing to $23 million in June 2011. The covenant remains $23 million thereafter.

The Company is in compliance with all of the debt covenants at December 31, 2010.

Subordinated Notes and Warrants

In addition, 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) (the “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 (the “Exchange Agreement”), 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) $72,925,500 aggregate principal amount of 10% subordinated secured notes due 2017 (the “Subordinated Notes”) issued by H&H Group pursuant to an Indenture, dated as of October 15, 2010 (the “Indenture”), by and among H&H Group, the Guarantors party thereto and Wells Fargo, as trustee, and (b) warrants, exercisable beginning October 14, 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 (the “Warrants”). The Subordinated Notes and Warrants may not be transferred separately until October 14, 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 are contractually subordinated in right of payment to the Wells Fargo Facility and the New 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. 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 liability is marked to market at each balance sheet date. As of December 31, 2010, a mark to market adjustment of $0.4 million was charged to unrealized losses on derivatives, increasing the fair value of the derivative liability to $5.1 million.

The Subordinated Notes contain customary affirmative and negative covenants, certain of which only apply the event that the Wells Fargo Facility and the New Ableco Facility and any refinancing indebtednesses with respect thereto are repaid in full, and events of default. The Company is in compliance with all of the debt covenants at December 31, 2010.

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 (the “Registration Rights Agreement”) with the Steel Trusts. Pursuant to the Registration Rights Agreement, the Company agreed to file with the Securities and Exchange Commission (the “SEC”) and use its reasonable best efforts to cause to become effective a registration statement under the Securities Act of 1933, as amended (the "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.

A loss on debt extinguishment of $1.2 million was recognized in the fourth quarter of 2010 in connection with the October 15, 2010 refinancing of the Company’s credit agreements. The loss on debt extinguishment consists of financing fees paid by the Company in connection with amendments to the extinguished debt.

A subsidiary of H&H has a mortgage agreement on its facility which is collateralized by the real property. The mortgage balance was $7.3 million as of December 31, 2010. The mortgage bore interest at LIBOR plus a margin of 2.7%, or 2.97% at December 31, 2010. The maturity date is October 8, 2015.

The foreign loans reflect borrowings by two of the Company’s Chinese subsidiaries totaling $3.0 million as of December 31, 2010. Such borrowings are collateralized by US dollar denominated letters of credit totaling $2.1 million, and $1.9 million by a mortgage on one facility. Interest rates on amounts borrowed under the foreign loan facilities averaged 4.12% at December 31, 2010.

The Company has approximately $5.9 million of irrevocable standby letters of credit outstanding as of December 31, 2010 which are not reflected in the accompanying consolidated financial statements. $2.9 million of the letters of credit guarantee various insurance activities, $2.1 million serve as collateral for borrowings of two Chinese subsidiaries, and the remaining $0.9 million are for environmental and other matters. These letters of credit mature at various dates and some have automatic renewal provisions subject to prior notice of cancellation.

In 2009 and in 2010 prior to the refinancing of the Company’s debt, H&H and Bairnco had the following credit arrangements:

Handy & Harman

H&H’s financing agreements included its Loan and Security Agreement with Wachovia Bank, National Association (“Wachovia”), as agent (the “Wachovia Facilities”), which provided for revolving credit and term loan facilities, and its Loan and Security Agreement with SPII Liquidating Series Trust (Series E), (the “SP II Series E Trust”), as successor-in-interest to SP II (the “Term B Loan”).

The Wachovia Facilities provided for maximum borrowings of $115 million, consisting of a revolving credit facility of up to $75 million of borrowings dependent on the levels of and collateralized by eligible accounts receivable and inventory. In addition, the Wachovia Facilities also included term loans funded by Ableco. The term loans were collateralized by eligible machinery and equipment and real estate. The revolving credit facility and the term and supplemental loans payable under the Wachovia Facilities bore interest at LIBOR, which shall at no time be less than 1.00%, plus applicable margins of between 2.75% and 3.75%, or the U.S. Base rate (Prime rate, which shall at no time be less than 3.00%) plus 1.00% to 2.00%. The applicable margin for the revolving credit facility and the term loans payable under the Wachovia Facilities was dependent on H&H’s Quarterly Average Excess Availability for the prior quarter, as that term was defined in the agreement. The term loans payable to Ableco bore interest at LIBOR, which shall at no time be less than 3.25%, plus an applicable margin of 11.75%, or the U.S. Base rate (Prime rate, which shall at no time be less than 5.00%) plus 10.00%. The Wachovia Facilities were scheduled to mature on June 30, 2011.

The Term B Loan also was scheduled to mature on June 30, 2011. H&H was indebted to SP II under the Term B Loan until July 15, 2009, when SP II assigned its interest in the Term B Loan to SP II Series E Trust. The Term B Loan provided for annual payments based on 40% of excess cash flow as defined in the agreement (no principal payments were currently payable). Interest accrued monthly at the Prime Rate plus 14%, and at no time shall the Prime Rate (as that term is defined in the agreement) be below 4.0%. The Term B Loan had a second priority security interest in and lien on all assets of H&H, subject to the prior lien of the Wachovia Facilities and H&H’s $17 million guaranty and security interest for the benefit of Ableco as agent of the Bairnco indebtedness.

Bairnco

Bairnco’s financing agreements included its Credit Agreement with Wells Fargo Foothill, Inc. (“Wells Fargo”), as arranger and administrative agent thereunder (the “Wells Fargo Facility”), which provided for revolving credit and term loan facilities, its Loan and Security Agreement with Ableco (the “Ableco Facility”) and its Loan and Security Agreement with SPII Liquidating Series Trust (Series A), (the “SP II Series A Trust”), as successor-in-interest to SP II (the “Subordinated Debt Credit Agreement”), both of which were also term loan facilities.

The Wells Fargo Facility provided for a revolving credit facility in an aggregate principal amount not to exceed $30.0 million and a term loan facility of $28.0 million. Borrowings under the Wells Fargo Facility bore interest, (A) in the case of base rate advances at 0.75% above the Wells Fargo Prime rate and base rate term loans at 1.25% above the Wells Fargo Prime rate, and (B) in the case of LIBOR rate loans, at rates of 3.00% for advances or 3.50% for term loans, as applicable, above the LIBOR rate. Obligations under the Wells Fargo Facility were guaranteed by certain of Bairnco’s subsidiaries, and secured by a first priority lien on all assets of Bairnco and such subsidiaries. The scheduled maturity date of the indebtedness under the Wells Fargo Facility was July 17, 2012.

The Ableco Facility provided for a term loan facility of $48.0 million. Borrowings under the Ableco Facility bore interest, in the case of base rate loans, at 6.50% above the rate of interest publicly announced by JPMorgan Chase Bank in New York, New York as its reference rate, base rate or prime rate, and, in the case of LIBOR rate loans, at 9.00 % above the LIBOR rate. Obligations under the Ableco Facility were guaranteed by Bairnco and certain of its subsidiaries, and secured by a second priority lien on all of their assets. The Ableco Facility was also collateralized by a limited guaranty by H&H of up to $17 million, secured by a second lien on all of the assets of H&H pursuant to the terms and conditions of the H&H Security Agreement and the H&H Guaranty. The scheduled maturity date of the Ableco Facility was July 17, 2012.

The Subordinated Debt Credit Agreement provided for a term loan facility. Bairnco was indebted to SP II under the Subordinated Debt Credit Agreement until July 15, 2009, when SP II assigned its interest in the Subordinated Debt Credit Agreement to SP II Series A Trust. All borrowings under the Subordinated Debt Credit Agreement bore interest at 9.50% above the rate of interest publicly announced by JPMorgan Chase Bank in New York, New York as its reference rate, base rate or prime rate. Principal, interest and all fees payable under the Subordinated Debt Credit Agreement were due and payable on the scheduled maturity date, January 17, 2013. Obligations under the Subordinated Debt Credit Agreement were guaranteed by Bairnco and certain of its subsidiaries, and collateralized by a subordinated priority lien on their assets.

Interest

Cash interest paid in 2010 was $10.1 million. Cash interest paid in 2009 was $12.6. The Company has not capitalized any interest costs in 2010 or 2009.

As of December 31, 2010, the revolving and term loans under the Wells Fargo Facility bore interest at rates ranging from 3.04% to 4.50%; and the New Ableco Facility bore interest at 10.75%. The Subordinated Notes bore interest at 10.00% as of December 31, 2010. Weighted average interest rates for the years ended December 31, 2010 and 2009 were 11.58% and 10.85%, respectively.

Note 14 – Earnings per Share

The computation of basic earnings or loss per common share is based upon the weighted average number of shares of Common Stock outstanding. Diluted earnings per share gives effect to dilutive potential common shares outstanding during the period. The Company has potentially dilutive common share equivalents including stock options and other stock-based incentive compensation arrangements (See Note 16-"Stock-Based Compensation").

No common share equivalents were dilutive in 2010 since the exercise price of the Company's stock options and other stock-based incentive compensation arrangements was in excess of the average market price of the Company's common stock. No common share equivalents were dilutive in 2009 because the Company reported a net loss and therefore, any outstanding stock options would have had an anti-dilutive effect. As of December 31, 2010, stock options for an aggregate of 57,500 shares of common stock are excluded from the calculation of net income per share.

A reconciliation of the income and shares used in the earnings (loss) per share computations follows:

	Years Ended December 31, 2010	2009
	(in thousands, except per share)	
Basic and Diluted calculations:		
Income (loss) from continuing operations, net of tax	$ 4,501	$ (16,224)
Weighted average number of common shares outstanding	12,179	12,179
Income (loss) from continuing operations, net of tax, per common share	$ 0.37	$ (1.33)
Discontinued operations	$ 589	$ (5,017)
Weighted average number of comon shares outstanding	12,179	12,179
Discontinued operations per common share	$ 0.05	$ (0.41)
Net income (loss)	$ 5,090	$ (21,241)
Weighted average number of common shares outstanding	12,179	12,179
Net income (loss) per common share	$ 0.42	$ (1.74)

Note 15 – Stockholders' (Deficit) Equity

Authorized and Outstanding Shares

On January 31, 2008, HNH's stockholders approved a proposal to set the Company's authorized capital stock at a total of 100,000,000 shares, consisting of 95,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock. On September 16, 2008, HNH's stockholders approved a proposal to further increase the Company's authorized capital stock to 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, and 12,178,565 shares of Common Stock were issued and outstanding as of December 31, 2010 and 2009, 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 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 the Preferred Stockholders, are entitled to receive all the remaining assets of the corporation.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) balances, net of tax, as of December 31, 2010 and 2009 were as follows:

	2010	2009
	(in thousands)	
Net actuarial losses and prior service costs and credits	$ (139,114)	$ (122,465)
Foreign currency translation adjustment	3,249	4,063
	$ (135,865)	$ (118,402)

Note 16 – Stock-Based Compensation

The Company measures stock-based compensation cost at the grant date, based on the fair value of the award, and recognizes the expense on a straight-line basis over the employee's requisite service (vesting) period.

At the Company's Annual Meeting of Shareholders on December 9, 2010, the Company's shareholders approved an amendment to the Company's 2007 Incentive Stock Plan (the "2007 Plan") to increase the number of shares of common stock reserved from 80,000 shares to 1,200,000 shares of common stock 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 GAAP using a Black-Scholes option-pricing model. The expected average risk-free rate is based on U.S. treasury yield curve. The expected average life represents the period of time that options granted are expected to be outstanding. Expected volatility is based on historical volatilities of HNH's post-bankruptcy common stock. The expected dividend yield is based on historical information and management's plan.

The Company has recorded respectively $-0- and $0.3 million of non-cash stock-based compensation expense related to its stock-based incentive arrangements in 2010 and 2009, respectively.

Activity related to the Company's 2007 Plan was as follows:

Options	Shares (000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (000's)
Outstanding options at December 31, 2009	60	$ 90.00	6.30	-
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	(2)	90.00	-	-
Outstanding at December 31, 2010	58	$ 90.00	5.34	-
Exercisable at December 31, 2010	58	$ 90.00	5.34	-

Nonvested Options	Shares (000's)
Nonvested options at December 31, 2009	6
Granted	-
Vested	(4)
Forfeited	(2)
Nonvested options at December 31, 2010	-

As of December 31, 2010 there was no unrecognized compensation cost related to non-vested share based compensation arrangements granted under the 2007 Plan. The total fair value of options vested in 2010 and 2009 was $-0- and $0.5 million, respectively.

On July 6, 2007, the Compensation Committee of the Board of Directors of the Company 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 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 bonus is payable immediately upon the sending of a notice by either board member, respectively. The incentive arrangements terminate July 6, 2015, to the extent not previously received. Under 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 $.2 million of non-cash expense in 2010 and $.1 million of non-cash income in 2009 related to these incentive arrangements.

Note 17 – Commitments and Contingencies

Operating Lease Commitments:

The Company leases certain facilities under non-cancelable operating lease arrangements. Rent expense for the Company in 2010 and 2009 was $7.9 million and $8.0 million, respectively. Future minimum operating lease and rental commitments under non-cancelable operating leases are as follows (in thousands):

Year		Amount
2011	$	6,144
2012		4,838
2013		2,098
2014		1,388
2015		1,187
2016 and thereafter		5,437
	$	21,092

On June 30, 2008, Arlon Inc., a wholly owned subsidiary of Bairnco and part of its Arlon Electronic Materials 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 $570,000, 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 $1.5 million and $1.6 million of such deferred gain was included in Other Long-term Liabilities on the consolidated balance sheets as of December 31, 2010 and 2009, respectively.

Legal Matters:

Paul E. Dixon & Dennis C. Kelly v. Handy & Harman

Paul Dixon and Dennis Kelly, two former officers of H&H (the “Claimants”) filed a Statement of Claim with the American Arbitration Association (the “Arbitration”) on or about January 3, 2006. The Claimants were employees of H&H until September 2005 when their employment was terminated by H&H. Their arbitration claims included seeking payments allegedly due under employment contracts and allegedly arising from their terminations, and seeking recovery of benefits under what they allege was the H&H Supplemental Executive Retirement Plan (“H&H SERP”). In the Arbitration, Claimants sought an award in excess of $4.0 million each, among other things. On March 10, 2006, all of the parties filed a stipulation with the court, discontinuing the court proceeding and agreeing therein, among other things, that all claims asserted by the Claimants in the Arbitration (which was also discontinued at that time) would be asserted in Supreme Court, Westchester County.

In January 2008, Mr. Kelly filed a lawsuit against WHX, H&H and various benefit plans (the “Defendants”) in the United States District Court for the Southern District of New York. Mr. Dixon did not join in this lawsuit, and his counsel has not indicated whether Mr. Dixon intends to file his own lawsuit. Mr. Kelly’s claims in this lawsuit are essentially the same claims that he asserted in the above-described arbitration and request for benefits. Mr. Kelly’s complaint sought approximately $4.0 million in money damages plus unspecified punitive damages. In April 2009, the Defendants filed a motion for summary judgment seeking dismissal of the case. In an Opinion filed in February 2010, the district court granted Defendants’ motion for summary judgment, dismissed with prejudice Mr. Kelly’s claims under the H&H SERP and dismissed without prejudice Mr. Kelly’s state law breach of contract claim. The district court also denied Mr. Kelly’s cross motion for summary judgment. Mr. Kelly subsequently appealed to the United States Circuit Court of Appeals for the Second Circuit (the “Second Circuit”) the dismissal of his claims related to the H&H SERP. By Summary Order & Judgment filed on January 19. 2011, the Second Circuit affirmed the decision dismissing Mr. Kelly’s claims related to the H&H SERP. Mr. Kelly retains the right to file a claim in state court on his breach of contract claim. There can be no assurance that the Defendants will not have any liability on account of Mr. Kelly’s breach of contract claim. Such liability, if any, 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 the Company.

Arista Development LLC V. Handy & Harman Electronic Materials Corporation (“HHEM”)

In 2004, HHEM, a subsidiary of H&H, entered into an agreement to sell a commercial/industrial property in Massachusetts (the “MA Property”). Disputes between the parties resulted in the purchaser (plaintiff) initiating litigation in Bristol Superior Court in Massachusetts. The plaintiff alleges that HHEM is 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 has been vigorously defending the case. The court entered a preliminary injunction enjoining HHEM from conveying the property to anyone other than the plaintiff during the pendency of the case. Discovery on liability and damages has been stayed while the parties are actively engaged in settlement discussions. Since discovery is not completed, it cannot be known at this time whether it is foreseeable or probable that plaintiff would prevail in the litigation or whether HHEM would have any liability to the plaintiff. 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.

Electroplating Technologies, Ltd. v. Sumco, Inc.

Electroplating Technologies, Ltd. ("ETL") filed a lawsuit against Sumco, a subsidiary of H&H, in Lehigh, Pennsylvania County Court of Common Pleas. ETL contended that Sumco misappropriated trade secrets and breached contractual obligations with respect to certain allegedly proprietary and confidential ETL information. ETL sought damages in excess of $4.55 million. In its pretrial filings, ETL also asserted a claim for $9.0 million in punitive damages. In May 2009, after a ten day trial, the jury found that Sumco had not misappropriated ETL's trade secrets. However, the jury found that Sumco had breached a contractual obligation owed to ETL and as compensation for that breach of contract, awarded ETL the sum of $0.3 million. Following the jury verdict, the court denied ETL's equitable requests for an injunction and for an accounting. In May 2009, Sumco filed a motion with the court for judgment notwithstanding the verdict to set aside the damage award. Also in May 2009, ETL filed a motion with the court seeking (i) a new trial and (ii) a modified verdict in the amount of $2.3 million. In an order docketed in September 2009, the court denied ETL's motion for a new trial and to increase the jury's verdict. The court then granted Sumco's motion for a judgment notwithstanding the verdict and overturned the jury's May 2009 award of $0.3 million against Sumco for breach of contract. ETL appealed to the Pennsylvania Superior Court. In an opinion filed in September 2010, the Pennsylvania Superior Court reinstated the jury verdict against Sumco and denied plaintiff's request for a new trial and additional damages. On October 7, 2010, pursuant to a Settlement Agreement and Release entered into between Sumco and ETL, the parties agreed to forego any further appeal and bring the lawsuit to final resolution, with no admission of liability by either party. The financial terms and conditions of the settlement agreement, did not have a material impact on the Company's financial position, results of operations and cash flow.

World Properties, Inc. et. al. v. Arlon, Inc.

In December 2008, World Properties, Inc. and Rogers Corporation (collectively, "Rogers") filed a lawsuit against Arlon, Inc. ("Arlon"), a subsidiary of Bairnco, in the United States District Court for the District of Connecticut. The lawsuit alleged that Rogers is the exclusive licensee under U.S. Patent No. 5,552,210 and that Arlon's TC600 circuit board infringed that patent. In the complaint, Rogers demanded that Arlon cease the manufacture, sale and distribution of its TC600 circuit board and that the district court award unspecified damages to compensate Rogers for the alleged infringement. In June 2009, plaintiffs filed a motion to amend its complaint in order to assert that a second Arlon product (AD 1000) infringed a second Rogers patent, U.S. Patent No. 5,384,181. Also in June 2009, Arlon filed a motion for summary judgment seeking to dismiss all of plaintiffs' patent infringement claims based upon the parties' January 30, 1996 Asset Purchase Agreement (the "APA"). In an order issued in October 2009, the district court granted Arlon's motion for summary judgment and dismissed all of Rogers' affirmative patent infringement claims. In granting Arlon's motion for summary judgment, the district court agreed with Arlon that Rogers' claims of patent infringement were barred by a covenant not to sue contained in the APA. Left to be resolved following the district court's opinion were various counterclaims brought by Arlon against Rogers. Pursuant to a Settlement Agreement and Release entered into between Arlon and Rogers on April 30, 2010, the parties agreed to resolve the remaining counterclaims, forego any appeal, and bring the lawsuit to final resolution, with no admission of liability by either party. The financial terms and conditions of the settlement agreement did not have a material impact on the Company's financial position, results of operations and cash flow.

Severstal Wheeling, Inc. Retirement Committee et. al. v. WPN Corporation et. al.

On November 15, 2010, the Severstal Wheeling, Inc. Retirement Committee ("Severstal") filed a second amended complaint that added WHX Corporation as a defendant to litigation that Severstal had commenced in February 2010 in the United States District Court for the Southern District of New York. Severstal's second amended complaint alleges that WHX breached fiduciary duties under ERISA in connection with (i) the transfer in November 2008 of the pension plan assets of Severstal Wheeling, Inc ("SWI") from the WHX Pension Plan Trust to SWI's pension trust and (ii) the subsequent management of SWI's pension plan assets after their transfer. In its second amended complaint, Severstal sought damages in an amount to be proved at trial as well as declaratory relief. The Company believes that Severstal's allegations are without merit and intends to defend itself vigorously. The Company filed a Motion to Dismiss on January 14, 2011, which was fully submitted to the District Court on February 14, 2011 and is now awaiting resolution by the District Court. The Company's liability, if any, 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 the Company.

Environmental Matters

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, although 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 required, there will be monitoring of the Sold Parcel site for several years. On September 11, 2008, the CTDEP advised H&H that it had approved H&H's Soil Action Remediation Action Report, dated December 28, 2007 as amended by an addendum letter dated July 15, 2008, thereby concluding the active remediation of the Sold Parcel. Approximately $29.0 million was expended through December 31, 2009, and the remaining remediation and monitoring costs for the Sold Parcel are expected to approximate $0.3 million. H&H previously received reimbursement of $2.0 million from an insurance company under a cost-cap insurance policy and in January 2010, net of attorney's fees, H&H received $1.034 million 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 is continuing the process of evaluating various options for its remediation of the Adjacent Parcel. Since 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 and cash flow of H&H.

HHEM entered into an administrative consent order (the "ACO") in 1986 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 and H&H settled a case brought by the local municipality in regard to this site in 1998 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 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, 2010, over and above the $1.0 million, total investigation and remediation costs of approximately $1.6 million and $0.5 million have been expended by the former owner/operator and HHEM, respectively, in accordance with the settlement agreement. Additionally, HHEM indirectly is currently being reimbursed 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 remediation plan is agreed upon with NJDEP, and 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.

H&H and Bairnco (and/or one or more of their respective subsidiaries) have also been identified as potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or similar state statutes at several sites and are parties to administrative consent orders in connection with certain other properties. H&H and Bairnco (and/or one or more of their respective 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, H&H and Bairnco are unable to reasonably estimate the ultimate cost of compliance with such laws.

H&H received a notice letter from the United States Environmental Protection Agency ("EPA") in August 2006 formally naming H&H as a PRP at a superfund site in Massachusetts (the "Superfund site"). H&H is part of a group of thirteen (13) other PRPs (the "PRP Group") to work cooperatively regarding remediation of the Superfund site. H&H executed a participation agreement, consent decree and settlement trust on June 13, 2008 and all of the other PRP's 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, after no comments were received during the thirty-day comment period on January 27, 2009. 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, WHX executed a financial guaranty of H&H's obligations in connection with the Superfund site. 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 site, under the direction of the Department of Energy ("DOE"), has begun but is not expected to be completed until the Fall of 2011 at the earliest, and it may be delayed even further due to inadequate funding in the federal program financing the DOE work. Additional financial contributions will be required by the PRP Group when it starts its work upon completion of the DOE's radiological remediation work. 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.

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 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. By letter dated March 24, 2009, MADEP advised HHEM that the RAO-P did not require a comprehensive audit. By letter dated April 16, 2009, the MADEP advised HHEM that a MADEP AUL Audit Inspection conducted on March 18, 2009 did not identify any violations of the requirements applicable to the AUL. Together, the March 24 and April 16 MADEP letters, combined with HHEM's Licensed Site Professional's partial RAO opinion constitute confirmation of the adequacy of HHEM's investigation of the MA Property as well as its remediation and post closure monitoring plans. The Massachusetts Attorney General, executed a covenant not to sue ("CNTS") to cover the MA Property on March 31, 2010. Following the execution of the CNTS, HHEM filed a Remedy Operation Status ("ROS") on April 1, 2010. On June 30, 2010, HHEM filed a Class A-3 RAO to close the site since HHEM's Licensed Site Professional concluded that groundwater monitoring demonstrated that the remediation has stabilized the conditions at the site. 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.

As discussed above, H&H and Bairnco and/or their subsidiaries 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. H&H and Bairnco and/or their 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 $6.1 million accrued related to estimated environmental remediation costs as of December 31, 2010. 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, including prior capital expenditures, anticipated capital expenditures, and information available on pending judicial and administrative proceedings, H&H and Bairnco and/or their subsidiaries do not expect their respective environmental costs, including the incurrence of additional fines and penalties, if any, relating to the operation of their respective facilities to have a material adverse effect on them, but there can be no such assurances that the resolution of these matters will not have a material adverse effect on the financial positions, results of operations and cash flows of H&H and Bairnco and/or their subsidiaries. The Company anticipates that H&H and Bairnco and/or their subsidiaries will pay such amounts out of their respective working capital, although there is no assurance that H&H and Bairnco and/or their subsidiaries will have sufficient funds to pay such amounts. In the event that H&H and Bairnco and/or their subsidiaries are unable to fund their liabilities, claims could be made against their respective parent companies, including HNH, for payment of such liabilities.

Other Litigation

Certain of the Company's 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 to reasonably estimate the Company's exposure or share, if any, of the liability at this time in any of these matters. On August 20, 2010, the company's insurance company settled a previously disclosed state court lawsuit arising out of H&H's sale of a used piece of equipment which allegedly caused a fire resulting in property damage and interruption of a third party's business operations after the company had exhausted its self insured retention for the lawsuit.

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.

Pension Plan Contingency

In July 2003, the Company entered into a settlement agreement among the PBGC, HNH and several other parties ("Termination Litigation"), in which the PBGC was seeking to terminate the WHX Pension Plan. Under the settlement, HNH agreed among other things that HNH will not contest a future action by the PBGC to terminate the WHX Pension Plan in connection with a future facility shutdown of a facility of HNH's former Wheeling-Pittsburgh Steel Corporation subsidiary, which subsidiary was wholly owned until August 1, 2003. In the event that such a plan termination occurs, the PBGC has agreed to release HNH from any claims relating to any such shutdown. However, there may be PBGC claims related to unfunded liabilities that may exist as a result of any such termination of the WHX Pension Plan.

Note 18 – Related Party Transactions

Steel Partners Holdings L.P. ("SPH") is the sole limited partner of SP II, which is the direct owner of 6,325,269 shares of the Company's common stock, representing approximately 51.94% of the outstanding shares. Steel Partners Holdings GP Inc. (the "General Partner") is SPH's General Partner. SPH is the sole stockholder of the General Partner. Steel Partners LLC ("Steel Partners") is the manager of SPH and SP II. Warren G. Lichtenstein, our Chairman of the Board of Directors, is also the manager of Steel Partners and Chairman of the board of directors of the General Partner.

As more fully described in Note 13-"Debt", on October 15, 2010, H&H Group refinanced the prior indebtedness of H&H and Bairnco to the 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, 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) $72,925,500 aggregate principal amount of 10% subordinated secured notes due 2017 (the "Subordinated Notes") issued by H&H Group and (b) warrants, exercisable beginning October 14, 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 (the "Warrants"). Subordinated Notes approximating 55% of the total face amount issued by H&H Group were transferred to non-related parties by the Steel Trusts and approximately 45% of the total face amount issued are held by SPII. As of December 31, 2010, $0.4 million of accrued interest and $32.5 million of Subordinated Notes were owed to SPII.

On January 24, 2011, a special committee of the Board of Directors of the Company, composed entirely of independent directors, approved a management and services fee to be paid to SP Corporate Services, LLC ("SP") in the amount of $1,950,000 for services performed in 2010. This fee was the only consideration paid for the services of Mr. Lichtenstein, as Chairman of the Board of Directors, Glen M. Kassan, as Vice Chairman and Chief Executive Officer of the Company, John J. Quicke, as Vice President and as a director through December 2010, and Jack L. Howard and John H. McNamara, Jr., as directors, as well as other assistance from SP 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 the Company. The Company does not have a written agreement with SP relating to the services described above. In 2009, the Company incurred a management and service fee of $950,000 which was paid to SP.

In 2010 and 2009, the Company provided certain accounting services to SPH, and continues to provide certain accounting services on an ongoing basis. The Company billed SPH $550,000 and $91,000 on account of services provided in 2010 and 2009, respectively.

A subsidiary of HNH, WHX CS Corp. ("CS") held an investment in CoSine which was accounted for under the equity method and was included in other non-current assets on the consolidated balance sheet. Although CS owned 18.8% of the outstanding common stock of CoSine, the Company accounted for CoSine under the equity method because a related party (SP II) owned an additional percentage of the outstanding common stock and as a result of the combined ownership percentage, indirectly had the ability to exercise control. In the second quarter of 2009, the Company recorded a $1.2 million non-cash impairment charge in connection with its equity investment in CoSine. The amount of the impairment represented the difference between the carrying value of the investment and its fair value. On July 31, 2009, CS sold its equity investment in CoSine to SP II for cash proceeds of $3.1 million.

On July 6, 2007, the Compensation Committee of the Board of Directors of the Company adopted incentive arrangements for Mr. Kassan and Mr. Lichtenstein. These arrangements provide, among other things, for each 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. The bonus is payable immediately upon the sending of a notice by either Mr. Kassan or Mr. Lichtenstein, respectively The incentive arrangements terminate July 6, 2015, to the extent not previously received. Under 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 $.2 million of non-cash expense in 2010 and $.1 million of non-cash income in 2009 related to these incentive arrangements.

Note 19 – Other Income (Expense)

	Years Ended December 31, 2010	2009
	(in thousands)	
Equity loss from affiliated company	$ -	$ (46)
Foreign currency transaction gain (loss)	(201)	142
Other, net	21	14
	$ (180)	$ 110

Note 20 –Segments

HNH, the parent company, manages a group of businesses on a decentralized basis. HNH owns H&H Group which owns H&H and Bairnco. HNH is a diversified holding company whose strategic business units encompass the following segments: Precious Metal, Tubing, Engineered Materials, Arlon Electronic Materials, and Kasco Blades and Route Repair Services. The Arlon Coated Materials segment is classified as a discontinued operation (see Note 4) and is not included in the segment information below. The business units principally operate in North America.

(1) Precious Metal segment activities include the fabrication of precious metal and their alloys into brazing alloys. H&H's brazing alloys are used to join similar and dissimilar metals as well as specialty metals and some ceramics with strong, hermetic joints. H&H 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. H&H's 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. In accordance with general practice, prices to customers are principally a composite of two factors: (1) the value of the precious metal content of the product and (2) the "fabrication value," which includes the cost of base metals, labor, overhead, financing and profit.

(2) Tubing segment manufactures a wide variety of steel tubing products. The Stainless Steel Tubing Group manufactures small-diameter precision-drawn seamless tubing both in straight lengths and coils. The Stainless Steel Tubing Group's capabilities in long continuous drawing of seamless stainless steel coils allow this Group to serve the petrochemical infrastructure and shipbuilding markets. The Stainless Steel Tubing Group also manufactures products for use in the medical, semiconductor fabrication, aerospace and instrumentation industries. The Specialty Tubing Group manufactures welded carbon steel tubing in coiled and straight lengths with a primary focus on products for the refrigeration, automotive, and heating, ventilation and air conditioning (HVAC) industries. In addition to producing bulk tubing, the Specialty Tubing Group also produces value added products and assemblies for these industries.

(3) Engineered Materials segment manufactures and supplies products to the construction and building industries. Engineered Materials segment also manufactures fasteners and fastening systems for the U.S. commercial flat roofing industry. Products are sold to building and roofing material wholesalers and are also private labeled to roofing system manufacturers. A line of specialty fasteners is produced for the building products industry for fastening applications in the construction and remodeling of homes, decking and landscaping. Engineered Materials segment also manufactures plastic and steel fittings and connectors for natural gas and water distribution service lines along with exothermic welding products for electrical grounding, cathodic protection, and lightning protection. In addition, Engineered Materials segment manufactures electro-galvanized and painted cold rolled sheet steel products primarily for the construction, entry door, container and appliance industries.

(4) Arlon Electronic Materials ("Arlon EM") segment designs, manufactures, markets and sells high performance laminate materials and silicone rubber products utilized in the military/aerospace, wireless communications, transportation, energy generation, oil drilling, general industrial, and semiconductor markets. Among the products included in the Arlon EM segment are high technology laminates and bonding materials used in the manufacture of printed circuit boards and silicone rubber products such as electrically insulating tapes and thermally conductive materials.

(5) Kasco segment is a provider of meat-room blade products, repair services, and resale products for the meat and deli departments of supermarkets; for restaurants; for meat and fish processing plants; and for distributors of electrical saws and cutting equipment throughout North America, Europe, Asia and South America. Kasco is also a provider of wood cutting blade products for the pallet manufacturing, pallet recycler, and portable saw mill industries in North America. These products and services include band saw blades for cutting meat and fish, band saw blades for cutting wood and metal, grinder plates and knives for grinding and cutting meat, repair and maintenance services for food equipment in retail grocery and restaurant operations, electrical saws and cutting machines, seasoning products, and other related butcher supply products.

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 sales, gross profit and operating income to evaluate segment performance. Operating income for the segments includes the costs of shared corporate headquarters functions such as finance, auditing, treasury, legal, benefits administration and certain executive functions, but 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 table presents information about segments for the years ended December 31, 2010 and 2009.

Statement of operations data:	**Twelve Months Ended December 31,**	
	2010	**2009**
	(in thousands)	
Net Sales:		
Precious Metal	$ 128,360	$ 85,972
Tubing	94,558	75,198
Engineered Materials	221,075	191,709
Arlon Electronic Materials	75,398	60,145
Kasco	48,821	47,678
Total net sales	$ 568,212	$ 460,702
Segment operating income:		
Precious Metal (a)	14,455	5,490
Tubing (b)	13,361	4,746
Engineered Materials	20,911	16,903
Arlon Electronic Materials (c)	8,808	4,338
Kasco (d)	1,349	3,661
Total	$ 58,884	$ 35,138
Unallocated corporate expenses & non operating units	(14,241)	(13,547)
Income from proceeds of insurance claims, net	-	4,035
Unallocated pension expense	(4,349)	(14,013)
Corporate restructuring costs	-	(636)
Asset impairment charge	-	(1,158)
Loss on disposal of assets	(44)	(132)
Income from continuing operations	$ 40,250	$ 9,687
Interest expense	(26,310)	(25,741)
Realized and unrealized loss on derivatives	(5,983)	(777)
Other income (expense)	(180)	110
Income (loss) from continuing operations before income taxes	$ 7,777	$ (16,721)

(a) Segment operating income for the Precious Metal segment for 2009 includes restructuring charges of $0.4 million relating to the closure of a facility in New Hampshire. The results for the Precious Metal segment for 2010 and 2009 include gains of $0.2 million and $0.6 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. 2009 includes a non-cash asset impairment charge of $0.9 million to write-down to fair value certain equipment formerly used in the manufacture of a discontinued product line.
(c) Segment operating results for the Arlon EM segment for 2009 includes a $1.1 million goodwill impairment charge recorded to adjust the carrying value of one of the Arlon EM segment's reporting units to its estimated fair value.
(d) Segment operating income for the Kasco segment for both 2010 and 2009 includes $1.6 million and $0.2 million, respectively, of asset impairment charges associated with certain real property located in Atlanta, Georgia. Also, $0.5 million of costs related to restructuring activities was recorded in 2010.

Capital Expenditures	2010	2009
	(in thousands)	
Precious Metal	$ 687	$ 629
Tubing	3,686	2,525
Engineered Materials	2,215	2,083
Arlon Electronic Materials	2,552	819
Kasco	1,336	937
Corporate and other	129	211
	$ 10,605	$ 7,204

Depreciation and amortization expense	2010	2009
	(in thousands)	
Precious Metal	$ 1,472	$ 1,635
Tubing	2,977	3,056
Engineered Materials	4,808	4,858
Arlon Electronic Materials	4,150	3,971
Kasco	2,588	2,690
Corporate and other	384	870
	$ 16,379	$ 17,080

	December 31,	
Total Assets	2010	2009
	(in thousands)	
Precious Metal	$ 44,459	$ 40,582
Tubing	39,141	36,291
Engineered Materials	126,926	127,105
Arlon Electronic Materials	67,622	65,583
Kasco	24,457	26,484
Corporate and other	21,640	19,666
Discontinued operations	29,303	38,129
	$ 353,548	$ 353,840

The following table presents revenue and long lived asset information by geographic area as of and for the years ended December 31. Long-lived assets in 2010 and 2009 consist of property, plant and equipment, plus approximately $10.4 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 in other non-current assets on the consolidated balance sheets.

Geographic Information

	Revenue		Long-Lived Assets	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
United States	$ 514,992	$ 424,047	$ 76,483	$ 81,107
Foreign	53,220	36,655	16,372	13,574
	$ 568,212	$ 460,702	$ 92,855	$ 94,681

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.

There were no customers which accounted for more than 5% of consolidated net sales in 2010 and 2009. In both 2010 and 2009, the 15 largest customers accounted for approximately 28% of consolidated net sales.

Note 21 –Subsequent Events

The Company has updated its historical consolidated financial statements to reflect certain businesses that were sold since the issuance of the original financial statements, and these businesses are presented in the accompanying financial statements as discontinued operations.

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 $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. A gain on the sale of these assets of $11.5 million was recorded in the first quarter of 2011.

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's Engineered Coated Products Division and SignTech subsidiary for an aggregate sale 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 Company recorded a loss of $5.0 million on the sale of these assets in the first quarter of 2011. The net proceeds from these asset sales were used to repay indebtedness under the Company's revolving credit facility.

During the third quarter of 2011, the Company sold the stock of Kasco-France, a part of its Kasco segment, to Kasco-France's former management team for one Euro plus 25% of any pre-tax earnings over the next three years. Additionally, Kasco-France signed a five year supply agreement to purchase certain products from Kasco. As a result of the sale, the Company recorded a loss, net of tax, of $0.6 million in the third quarter of 2011.

Arlon CM and Kasco-France have been included in the accompanying financial statements as discontinued operations on a retroactive basis for the twelve months ending December 31, 2010 and 2009.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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. (formerly known as WHX Corporation prior to January 3, 2011) (a Delaware corporation) and Subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, cash flows and changes in stockholders' deficit and comprehensive income (loss) for each of the two years in the period ended December 31, 2009. 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. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position Handy & Harman Ltd. (formerly known as WHX Corporation prior to January 3, 2011) and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP
Edison, New Jersey
March 11, 2011 (except for Note 21, as to which the date is November 15, 2011)

HANDY & HARMAN LTD.
Consolidated Balance Sheets

(Dollars and shares in thousands)	December 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 8,796	$ 8,656
Trade and other receivables-net of allowance for doubtful accounts of $2,172 and $2,593, respectively	60,294	64,326
Inventories	45,007	54,762
Deferred income taxes	1,023	1,164
Other current assets	8,032	9,335
Current assets of discontinued operations	29,512	40,738
Total current assets	152,664	178,981
Property, plant and equipment at cost, less accumulated depreciation and amortization	83,110	90,768
Goodwill	63,946	65,071
Other intangibles, net	33,931	36,989
Other non-current assets	11,571	18,510
Non-current assets of discontinued operations	8,618	11,922
	$ 353,840	$ 402,241
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Trade payables	$ 30,212	$ 29,201
Accrued liabilities	20,219	33,955
Accrued environmental liability	6,692	8,478
Accrued interest - related party	1,600	263
Short-term debt	18,949	32,699
Current portion of long-term debt	5,944	8,295
Deferred income taxes	300	151
Current portion of pension liability	9,700	1,800
Current liabilities of discontinued operations	9,686	15,863
Total current liabilities	103,302	130,705
Long-term debt	95,082	110,144
Long-term debt - related party	54,098	54,098
Long-term interest accrual - related party	11,797	2,237
Accrued pension liability	92,309	131,876
Other employee benefit liabilities	4,840	4,233
Deferred income taxes	4,258	5,274
Other liabilities	5,255	4,942
Long-term liabilities of discontinued operations	696	639
	371,637	444,148
Commitments and Contingencies		
Stockholders' Deficit:		
Preferred stock- $.01 par value; authorized 5,000 shares; issued and outstanding -0- shares	-	-
Common stock - $.01 par value; authorized 180,000 shares; issued and outstanding 12,179 shares	122	122
Accumulated other comprehensive loss	(118,402)	(163,502)
Additional paid-in capital	552,834	552,583
Accumulated deficit	(452,351)	(431,110)
Total stockholders' deficit	(17,797)	(41,907)
	$ 353,840	$ 402,241

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HANDY & HARMAN LTD.
Consolidated Statements of Operations

	Year ended December 31, 2009	2008
	(in thousands except per share)	
Net sales	$ 460,702	$ 591,859
Cost of goods sold	345,668	440,869
Gross profit	115,034	150,990
Selling, general and administrative expenses	89,915	113,325
Pension expense (credit)	14,097	(8,335)
Asset impairment charges	3,016	-
Goodwill impairment charge	1,140	-
Income from proceeds of insurance claims, net	(4,035)	(3,399)
Income from benefit plan curtailment	-	(3,875)
Restructuring charges	1,082	-
Other operating expenses	132	99
Income from continuing operations	9,687	53,175
Other:		
Interest expense	25,741	36,212
Realized and unrealized loss on derivatives	777	1,355
Other expense (income)	(110)	1,060
Income (loss) from continuing operations before tax	(16,721)	14,548
Tax provision (benefit)	(497)	1,255
Income (loss) from continuing operations, net of tax	(16,224)	13,293
Discontinued Operations:		
Loss from discontinued operations, net of tax	(6,849)	(10,170)
Gain (loss) on disposal of assets, net of tax	1,832	(112)
Net loss from discontinued operations	(5,017)	(10,282)
Net income (loss)	$ (21,241)	$ 3,011
Basic and diluted per share of common stock		
Income (loss) from continuing operations, net of tax	$ (1.33)	$ 3.32
Discontinued operations, net of tax	(0.41)	(2.57)
Net income (loss)	$ (1.74)	$ 0.75
Weighted average number of common shares outstanding	12,179	4,001

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HANDY & HARMAN LTD.
Consolidated Statements of Cash Flows

(in thousands)	Year Ended December 31, 2009	2008
Cash flows from operating activities:		
Net income (loss)	$ (21,241)	$ 3,011
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,080	18,078
Non-cash stock based compensation	186	553
Amortization of debt related costs	1,429	1,806
Long-term interest on related party debt	9,560	5,285
Income from curtailment of employee benefit obligations	-	(3,875)
Deferred income taxes	(955)	(643)
Loss on asset dispositions	132	100
Asset impairment charges	3,017	-
Goodwill impairment charge	1,140	-
Unrealized loss (gain) on derivatives	409	(384)
Reclassification of net cash settlements on derivative instruments	368	1,739
Net cash provided by operating activities of discontinued operations	10,284	15,398
Decrease (increase) in operating assets and liabilities:		
Trade and other receivables	3,410	5,470
Inventories	9,153	4,634
Other current assets	2,141	1,453
Accrued interest expense-related party	1,338	(17,643)
Other current liabilities	(508)	(20,410)
Other items-net	2,565	(4,493)
Net cash provided by operating activities	39,508	10,079
Cash flows from investing activities:		
Plant additions and improvements	(7,204)	(10,395)
Net cash settlements on derivative instruments	(368)	(1,739)
Proceeds from sales of assets	110	8,253
Proceeds from sale of investment	3,113	-
Net cash provided by (used in) investing activities of discontinued operations	2,405	(1,919)
Net cash used in investing activities	(1,944)	(5,800)
Cash flows from financing activities:		
Proceeds of stock-rights offering	-	155,561
Proceeds of term loans	9,577	4,000
Net revolver repayments	(14,164)	(17,084)
Repayments of term loans - domestic	(26,623)	(30,049)
Repayments of term loans - related party	-	(111,188)
Deferred finance charges	(1,191)	(1,562)
Net change in overdrafts	(231)	(1,107)
Net cash used to repay debt of discontinued operations	(4,704)	(835)
Other	(274)	618
Net cash used in financing activities	(37,610)	(1,646)
Net change for the period	(46)	2,633
Effect of exchange rate changes on net cash	186	(67)
Cash and cash equivalents at beginning of period	8,656	6,090
Cash and cash equivalents at end of period	$ 8,796	$ 8,656

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

HANDY & HARMAN LTD.
Consolidated Statements of Changes in Stockholders' Deficit and Comprehensive Income (Loss)

(Dollars and shares in thousands)

	Common Stock				Accumulated Other Comprehensive Income				
	Shares		Amount	Warrants	(Loss)	Accumulated Deficit	Capital in Excess of Par Value	Total Stockholders' Deficit
Balance, January 1, 2008	1,000	$	10	$ 1,287	$ (32,559)	$ (434,121)	$ 395,838	$ (69,545)
Current period change	-		-		(130,943)	-		(130,943)
Net income	-		-	-	-	3,011	-	3,011
Total comprehensive loss								(127,932)
Expiration of warrants				(1,287)			1,287	-
Stock rights offering	11,179		112	-	-	-	154,846	154,958
Amortization of stock options	-		-	-	-	-	612	612
Balance, December 31, 2008	12,179		122	-	(163,502)	(431,110)	552,583	(41,907)
Current period change	-		-		45,100	-		45,100
Net loss	-		-	-	-	(21,241)	-	(21,241)
Total comprehensive income								23,859
Amortization of stock options	-		-	-	-	-	251	251
Balance, December 31, 2009	12,179	$	122	$ -	$ (118,402)	$ (452,351)	$ 552,834	$ (17,797)

	Year Ended December 31,	
Comprehensive Income (Loss)	2009	2008
Net income (loss)	$ (21,241)	$ 3,011
Changes in pension plan assets and other benefit obligations:		
Curtailment/settlement gain/(loss)	169	(517)
Current year actuarial gain/(loss)	29,940	(127,252)
Amortization of actuarial loss	13,215	497
Amortization prior service (credit)/cost	63	(202)
Foreign currency translation adjustment	1,549	(3,305)
Valuation of marketable equity securities	164	(164)
Comprehensive income (loss)	$ 23,859	$ (127,932)

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Nature of the Business

Organization

HNH, the parent company, manages a group of businesses on a decentralized basis. HNH owns Handy & Harman (“H&H”), a diversified holding company whose strategic business units encompass three reportable segments: Precious Metal, Tubing, and Engineered Materials. HNH also owns Bairnco Corporation (“Bairnco”), another diversified holding company that manages business units in two reportable segments: Arlon Electronic Materials (“EM”) segment and Kasco Replacement Products and Services (“Kasco”). See Note 20 for a description of the business and products of each of the Company’s segments. The business units of H&H and Bairnco principally operate in North America. All references herein to “we,” “our” or the “Company” shall refer to HNH, together with all of its subsidiaries.

Note 1a – Management’s Plans and Liquidity

Liquidity

The Company recorded a net loss of $21.2 million in 2009, but generated $39.5 million of positive cash flow from operating activities. This compares with net income of $3.0 million and $10.1 million provided by cash flows from operating activities in 2008.

Prior to 2008, the Company incurred significant losses and negative cash flows from operations, and as of December 31, 2009 had an accumulated deficit of $452.4 million. On March 7, 2005, HNH filed a voluntary petition to reorganize under Chapter 11 of the Bankruptcy Code. HNH continued to operate its business and own and manage its assets as a debtor in possession until it emerged from protection under Chapter 11 of the Bankruptcy Code on July 29, 2005.

As of December 31, 2009, the Company’s current assets totaled $152.7 million and its current liabilities totaled $103.3 million, resulting in working capital of $49.4 million, as compared to working capital of $48.3 million as of December 31, 2008. The Company has reduced its level of debt in 2009 from $205.5 million as of December 31, 2008 to $174.2 million as of December 31, 2009 in connection with its continuing operations, and also repaid $4.7 million of debt from its discontinued operations.

See the discussions below regarding the separate liquidity of HNH the parent company, H&H and Bairnco.

<u>Handy & Harman Ltd., the parent company</u>

HNH, the parent company’s, sources of cash flow consist of its cash on-hand, distributions from its principal subsidiaries, H&H and Bairnco, and other discrete transactions. H&H’s credit facilities effectively do not permit it to transfer any cash or other assets to HNH with the exception of (i) an unsecured loan for required payments to the WHX pension Plan, and (ii) an unsecured loan for other uses in the aggregate principal amount not to exceed $12.0 million, $9.5 million of which has been distributed. The remaining $2.5 million is not permitted to be loaned to HNH before March 31, 2010. H&H’s credit facilities are collateralized by a first priority lien on all of the assets of H&H and its subsidiaries. Similarly, Bairnco’s credit facilities and term loan do not permit it to make any distribution, pay any dividend or transfer any cash or other assets to HNH other than common stock of Bairnco and up to $0.6 million annually for services performed by HNH on behalf of Bairnco, under certain circumstances. Bairnco’s credit facilities are collateralized by a first priority lien on all of the assets of Bairnco and of its U.S. subsidiaries.

HNH’s ongoing operating cash flow requirements consist of funding the minimum requirements of the WHX pension Plan and paying HNH’s administrative costs. The significant decline of stock prices starting in 2008 across a cross-section of financial markets contributed to an unfunded pension liability of the WHX pension Plan which totaled $101.1 million as of December 31, 2009 and $132.8 million as of December 31, 2008. The Company expects to have required minimum contributions for 2010 and 2011 of $9.6 million and $21.0 million, 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 a plan termination.

As of December 31, 2009, HNH and its subsidiaries that are not restricted by loan agreements or otherwise from transferring funds to HNH had cash of approximately $3.3 million and current liabilities of approximately $11.0 million. Such current liabilities include $9.6 million of estimated required contributions to the WHX pension Plan, which HNH is permitted to borrow from H&H pursuant to H&H's credit agreements.

On July 31, 2009, HNH CS Corp., one of these unrestricted subsidiaries of HNH, sold its equity investment in CoSine to SP II for $3.1 million. A subordinated secured loan of $3.0 million was made by HNH to Bairnco in connection with Bairnco's partial repayment of their Credit Agreement with Ableco Finance LLC ("Ableco"), as administrative agent thereunder (the "Ableco Facility"). Management expects that HNH will be able to fund its operations in the ordinary course over at least the next twelve months.

Handy & Harman and Bairnco

The ability of both H&H and Bairnco to draw on their respective revolving lines of credit is limited by their respective borrowing base of accounts receivable and inventory. As of December 31, 2009, H&H's availability under its credit facilities was $22.7 million, and Bairnco's availability under its U.S. credit facilities was $10.5 million. As of March 24, 2010, H&H's availability under its credit facilities was approximately $18.5 million, and Bairnco's availability under its U.S. credit facilities was approximately $9.2 million. However, there can be no assurances that H&H and Bairnco will continue to have access to all or any of their lines of credit if their respective operating and financial performance does not satisfy the relevant borrowing base criteria and financial covenants set forth in the applicable financing agreements. If either H&H or Bairnco do not meet certain of their respective financial covenants or satisfy the relevant borrowing base criteria, and if they are unable to secure necessary waivers or other amendments from the respective lenders on terms acceptable to management, their ability to access available lines of credit could be limited, their debt obligations could be accelerated by their respective lenders, and their liquidity could be adversely affected.

The Company

We do not anticipate that the Company will have any additional sources of cash flow other than (i) as described above, (ii) from operations, (iii) from the sale of assets and/or businesses, and (iv) from other discrete transactions.

Management is utilizing the following strategies to continue to enhance liquidity: (1) continuing to implement improvements throughout all of the Company's operations to increase operating efficiencies, (2) supporting profitable sales growth both internally and potentially through acquisitions, (3) evaluating strategic alternatives with respect to all lines of business and/or assets and (4) seeking financing alternatives that may lower its cost of capital and/or enhance current cash flow. The Company also plans to continue, as appropriate, cost containment measures that it implemented during 2009.

The ability of the Company to meet its cash requirements for at least the next twelve months is dependent, in part, on the Company's continuing ability to meet its business plans. 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. If the Company's planned cash flow projections are not met, management could consider the additional reduction of certain discretionary expenses and the sale of certain assets and/or businesses.

Furthermore, if the Company's cash needs are significantly greater than anticipated or the Company does not materially meet its business plan, the Company may be required to seek additional or alternative financing sources. There can be no assurance that such financing will be available or available on terms acceptable to the Company. There can be no assurance that the funds available from operations and under the Company's credit facilities will be sufficient to fund its debt service costs, working capital demands, pension plan contributions, and environmental remediation costs. The Company's inability to generate sufficient cash flows from its operations or through financing could impair its liquidity, and would likely have a material adverse effect on its businesses, financial condition and results of operations, and could raise substantial doubt that the Company will be able to continue to operate.

The Company believes that recent amendments to its financing arrangements, continuing improvements in its core operations, and stabilization of the global economy as it effects the markets that the Company serves, will permit the Company to generate sufficient working capital to meet its obligations as they mature. Management believes that existing capital resources and sources of credit, including the H&H credit facilities and the Bairnco credit facilities, will be adequate to meet its current and anticipated cash requirements. However, if the Company's cash needs are greater than anticipated or the Company does not materially satisfy its business plan, the Company may be required to seek additional or alternative financing sources. There can be no assurance that such financing will be available or available on terms acceptable to the Company.

The Company has taken the following actions, which it believes has and in certain instances, will continue to improve liquidity over time and help provide for adequate liquidity to fund the Company's capital needs:

- On various dates in 2008 and 2009, Company management has worked with the principal lenders of H&H and Bairnco to amend their respective credit facilities. Amendments affecting liquidity have been made in order to (i) extend the maturity date of the H&H debt to June 30, 2011, (ii) reset the levels of certain financial covenants, (iii) permit certain additional loans from SPII and Ableco, (iv) permit loans or advances from H&H to HNH, subject to certain conditions, (v) allow for the acquisition of a business, a sale-leaseback of an operating facility, and the closure of non-performing businesses, (vi) allow prepayments of the various loans on different occasions, (vii) provide a limited cross-guaranty between H&H and Bairnco, and (viii) amend applicable interest rates. (See Note 13 for additional information about these credit facilities and amendments).

- On September 25, 2008, HNH completed a rights offering by issuing common stock for proceeds of approximately $156.5 million (the "Rights Offering"), and repaid debt and accrued interest of approximately $155.7 million.

- The Company continues to apply the HNH Business System at all of its business units, which utilizes lean tools and philosophies to reduce and eliminate waste coupled with the Six Sigma tools targeted at variation reduction.

- On January 4, 2009, the Company implemented a 5% salary reduction to annual salaries over $40,000 for all salaried employees, including all of the Company's executive officers, in furtherance of the Company's ongoing efforts to lower its operating costs. The Company also suspended its employer contributions to 401(k) savings plans for all employees not covered by a collective bargaining agreement. Additionally, during 2009, the Company's bonus program for senior management of its operations was significantly curtailed. The Company also took other steps to further reduce fixed and variable expenses at its various locations. In January 2010, the Company reinstated the 5% salary reduction and its matching contribution to the 401(k) savings plan. The Company also fully reinstated in 2010 its bonus plan for senior management, subject to the terms and conditions of the bonus plan.

- In 2009 and 2008, the Company engaged in various restructuring activities that management believes will result in a more efficient infrastructure that can be leveraged in the future. These activities included consolidation of the Bairnco corporate office into the HNH corporate office, the closure of facilities in New Hampshire and Dallas in 2009, and San Antonio in 2008, and relocation of the functions to other existing facilities. In connection with these activities, restructuring charges totaled $1.9 million in 2009 and $1.6 million in 2008.

- In 2008, the Company decided to exit the welded specialty tubing market in Europe and close its Indiana Tube Denmark ("ITD") subsidiary, sell ITD's assets, pay off ITD's related debt and repatriate cash remaining post-closing. The decision to exit this market was made after evaluating current economic conditions and competition from lower cost manufacturers. The withdrawal from this market has been largely accomplished although the ITD building has been offered for sale, but has not yet sold. In 2008, the Company also evaluated its Sumco, Inc. ("Sumco") subsidiary in light of ongoing operating losses and future prospects. Sumco provided electroplating services primarily to the automotive market. Sumco had declining cash flows in 2008 and projected negative 2009 cash flows principally caused by the decline in U.S. economic activity and by Sumco's reliance on the automotive market for over 90% of its sales. The Company decided to exit this business, which has been completed as of December 31, 2009.

- The Company filed a shelf registration statement on Form S-3 with the SEC which was declared effective on June 29, 2009. Pursuant to this statement, the Company may, from time to time, issue up to $25 million of its common stock, preferred stock, debt securities, warrants to purchase common stock, preferred stock, or debt securities, or any combination of the above, separately or as units. The terms of any offerings under the shelf registration statement would be determined at the time of the offering. The Company does not presently have any definitive plans or current commitments to sell securities that may be registered under the shelf registration statement. However, management believes that the shelf registration statement provides the Company with the flexibility to quickly raise capital in the market as conditions permit with a minimum of administrative preparation and expense. The net proceeds of any such issuances under the shelf registration statement could be used for general corporate purposes, which may include working capital and/or capital expenditures.

In view of the matters described in the preceding paragraphs, management believes that the Company has the ability to meet its cash requirements on a continuing basis for at least the next twelve months. However, if the Company's planned cash flow projections are not met and/or credit is not available in sufficient amounts, management could consider the additional reduction of certain discretionary expenses and sale of certain assets. In the event that these plans are not sufficient and/or the Company's credit facilities are not adequate, the Company's ability to operate could be materially adversely affected.

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.

On November 24, 2008, the Company consummated a 1-for-10 Reverse Stock Split of its outstanding common stock. Pursuant to the Reverse Stock Split, every ten (10) shares of common stock issued and outstanding at the time the split was effected were changed and reclassified into one (1) share of common stock immediately following the Reverse Stock Split. The Reverse Stock Split affected all shares of common stock, stock options and rights of the Company outstanding at the effective time of the Reverse Stock Split. The Reverse Stock Split did not change the proportionate equity interests of the Company's stockholders, nor were the respective voting rights and other rights of stockholders altered, except due to immaterial differences because fractional shares were not issued and the number of shares of a holder was rounded up. To enhance comparability, unless otherwise noted, all references to the Company's common stock and per share amounts have been adjusted on a retroactive basis as if the Reverse Stock Split had occurred on January 1, 2008.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("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 values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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, 2009 and 2008, the Company had cash held in foreign banks of $4.9 million and $2.7 million, respectively. The Company's credit risk arising from cash deposits held in U.S. banks in excess of insured amounts is not significant given that as a condition of its revolving credit agreements (See Note 13), cash balances in U.S. banks are generally swept on a nightly basis to pay down the Company's revolving credit loans.

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 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 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.

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 statements of operations.

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 accounts receivable 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 2009 or 2008. In 2009 and 2008, the 15 largest customers accounted for approximately 25% and 22% 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. Non precious metal inventories are stated at the lower of cost (principally 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 Metal Risk

H&H 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. Future and forward contracts to sell or buy precious metal are the derivatives used for this objective.

As of December 31, 2009 and 2008, the Company had contracted for $7.2 million and $4.6 million, respectively, of forward contracts with a counter party rated A by Standard & Poors, and the future contracts 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 use of market quotes or broker valuations when market information is not available.

As these derivatives are not designated as accounting hedges under 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 (loss). The unrealized gain or loss (open trade equity) on the derivatives is included in other current assets or other current 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

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 –15 years and buildings and improvements 10 – 30 years. 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 operating income.

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. 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. 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).

To estimate the fair value of our reporting units, we use an income approach and a market approach. 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. 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 forecasted cash flows are based on current plans and for years beyond that plan, the estimates are based on assumed growth rates. We believe the assumptions are consistent with the plans and estimates used to manage the underlying businesses. 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. The Company believes the assumptions used to determine the fair value of our respective reporting units are reasonable. If different assumptions were used, particularly with respect to forecasted cash flows or WACCs, different estimates of fair value may result and there could be the potential that an impairment charge could result. Actual operating results and the related cash flows of the reporting units could differ from the estimated operating results and related cash flows. The recoverability of goodwill may be impacted if estimated future operating cash flows are not achieved.

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 (in our case, income and market approaches) is considered preferable to a single method. In our case, 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. The income approach closely parallels investors' consideration of the future benefits derived from ownership of an asset.

Intangible assets with finite lives are amortized over their estimated useful lives. We also estimate the depreciable lives of property, plant and equipment. Both property, plant and equipment, as well as 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.

Equity 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, are considered in determining whether the equity method of accounting is appropriate. The Company accounted for its investment in CoSine using the equity method of accounting. The CoSine investment was sold in 2009.

Stock Based Compensation

The Company accounts for stock options granted to employees 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.

At the Company's Annual Meeting of Shareholders on June 21, 2007, the Company's shareholders approved a proposal to adopt Handy & Harman Ltd.'s 2007 Incentive Stock Plan (the "2007 Plan"), and reserved 80,000 shares of common stock under the 2007 Plan, as adjusted pursuant to the terms of the 2007 Plan to reflect the Reverse Stock Split. On July 6, 2007, stock options for an aggregate of 62,000 shares of common stock, as adjusted pursuant to the terms of the 2007 Plan to reflect the Reverse Stock Split, were granted under the 2007 Plan to employees and to two outside directors of the Company, and additional options have periodically been granted under the 2007 Plan to other key employees hired by the Company since that time.

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.

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 sheets. Deferred income taxes reflect the tax effect of 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 (GAAP) 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 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 are 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.

Fair Value Measurements

The Company adopted Accounting Standards Codification No. 820, "Fair Value Measurements" effective January 1, 2009. Under this standard, 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.

In determining fair value, the Company uses various valuation approaches. The hierarchy of those valuation approaches is 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 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 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.

The fair value of the Company's financial instruments, such as cash and cash equivalents, accounts receivable, and accounts payable approximate carrying value due to the short-term maturities of these assets and liabilities. Fair value of the Company's long term debt approximates its carrying cost due to variable interest rates.

The Company's non-financial assets 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, the Company uses techniques including discounted expected future cash flows, a market approach, and/or appraisals (Level 3 inputs).

The derivative instruments that the Company purchases, specifically commodity futures and forwards contracts on precious metal, 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.

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.

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 $2.4 million in 2009 and $2.7 million in 2008.

Reclassification

Certain amounts for prior years have been reclassified to conform to the current year presentation. In particular, the assets, liabilities and losses of discontinued operations (see Note 4) have been reclassified into separate lines on the financial statements to segregate them from continuing operations. On the consolidated statement of operations, certain significant items, such as pension credit and restructuring costs have been shown separately. On the consolidated balance sheet, the current portion of pension and other benefit plan liabilities has been reclassified from long-term liabilities, and interest payable to related party has been shown on a separate line.

Note 3 – Recently Issued Accounting Pronouncements

In July 2009, the Financial Accounting Standards Board ("FASB") issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" ("the Codification" or "ASC"). The Codification was effective for the Company's third-quarter 2009 financial statements. The Codification is the official single source of authoritative GAAP and all existing accounting standards have been superseded. All other accounting guidance not included in the Codification are considered non-authoritative. The Codification also includes all relevant SEC guidance organized using the same topical structure in separate sections within the Codification. The Codification did not change GAAP and all references to authoritative accounting literature included herein have now been referenced in accordance with the Codification.

In May 2009, the FASB issued ASC No. 855 "Subsequent Events" ("ASC 855"). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. This statement sets forth the period after the balance sheet date that management should evaluate events for transactions that may occur for potential recognition or disclosure in the financial statements. ASC 855 also sets forth the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 was applicable to interim or annual financial periods ending after June 15, 2009. The Company adopted ASC 855 in the second quarter of 2009, and its adoption did not have a significant effect on the Company's consolidated financial position and results of operations.

In April 2009, the FASB issued ASC No. 825, "Interim Disclosures about Fair Value of Financial Instruments" ("ASC 825"), which increases the frequency of fair value disclosures from an annual to a quarterly basis. ASC 825 was effective for interim and annual periods ending after June 15, 2009, and the Company adopted its provisions in the second quarter of 2009. The adoption of ASC 825 did not impact the Company's financial position or results of operations.

In April 2009, the FASB issued ASC No. 820-10, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("ASC 820-10"). It provides guidance for estimating fair values when there is no active market or where the price inputs being used represent distressed sales and identifying circumstances that indicate a transaction is not orderly. ASC 820-10 was effective for interim and annual reporting periods ending after June 15, 2009, and the Company adopted it in the second quarter of 2009. Adoption of ASC 820-10 did not have any effect on the Company's financial position or results of operations.

In December 2008, the FASB issued ASC No. 715-20, "Employer's Disclosures about Postretirement Benefit Plan Assets" ("ASC 715-20"), to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. ASC 715-20 will become effective for financial statements issued for fiscal years and interim periods ending after December 15, 2009. ASC 715-20 changes the disclosure requirements for benefit plan assets, but does not change the accounting for such assets or plans, and therefore, the Company believes that its adoption will not have an effect on its consolidated financial position and results of operations.

In March 2008, the FASB issued ASC No. 815-10, "Disclosures about Derivative Instruments and Hedging Activities" ("ASC 815-10"), which changed the disclosure requirements for derivative instruments and hedging activities, but did not change the accounting for such instruments. Therefore, the adoption of ASC 815-10 did not have an effect on the Company's consolidated financial position and results of operations. ASC 815-10 became effective in the first quarter of 2009. See Note 10 "Derivative Instruments".

In September 2006, the FASB issued ASC No. 820, "Fair Value Measurements" ("ASC 820") which defined fair value, established a framework for measuring fair value in accordance with GAAP, and expanded disclosures about fair value measurements. ASC 820 did not require any new fair value measurements; rather, it applies under other accounting pronouncements that require or permit fair value measurements. On January 1, 2009, the Company adopted ASC 820 for all non-financial assets and liabilities measured at fair value on a non-recurring basis. The application of ASC 820 did not have an impact on the Company's financial position or results of operations. The Company's non-financial assets measured at fair value on a non-recurring basis include goodwill and intangible assets. In a business combination, the non-financial assets and liabilities of the acquired company would be measured at fair value in accordance with ASC 820. The requirements of ASC 820 include using an exit price based on an orderly transaction between market participants at the measurement date assuming the highest and best use of the asset by market participants.

In December 2007, the FASB issued ASC No. 810, "Non-controlling Interests in Consolidated Financial Statements" ("ASC 810"), which established accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. ASC 810 became effective for fiscal years beginning after December 15, 2008. The Company adopted ASC 810 on January 1, 2009, and its adoption did not have a significant effect on the Company's consolidated financial position and results of operations.

In December 2007, the FASB also issued ASC No. 805, "Business Combinations" ("ASC 805"), which requires an entity to recognize assets acquired, liabilities assumed, contractual contingencies and contingent consideration at their fair value on the acquisition date. ASC 805 also requires that (1) acquisition-related costs be expensed as incurred; (2) restructuring costs generally be recognized as a post-acquisition expense; and (3) changes in deferred tax asset valuation allowances and income tax uncertainties after the measurement period impact income tax expense. The Company adopted ASC 805 on January 1, 2009, and its adoption did not have a significant effect on the Company's consolidated financial position and results of operations.

Note 4 – Discontinued Operations

Arlon CM

In 2010, the Company decided to exit the business of manufacturing adhesive films, specialty graphic films and engineered coated products, and in February 2011, the Company entered into two separate asset sale transactions. (see Note 21-"Subsequent Events"). These businesses comprised the Arlon CM segment. The Company recorded an asset impairment charge of $1.3 million in 2010 in connection with certain of these assets.

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 pre-tax earnings over the next three years. Additionally, Kasco-France signed a five year supply agreement to purchase certain products from Kasco. Kasco-France has been included as a discontinued operation on a retroactive basis for the twelve months ending December 31, 2010 and 2009 (see Note 21-"Subsequent Events").

Indiana Tube Denmark

In 2008, the Company decided to exit the welded specialty tubing market in Europe and close its Indiana Tube Denmark subsidiary ("ITD"), sell ITD's assets, pay off ITD's debt with cash generated by ITD, and repatriate the remaining cash. ITD had been part of the Company's Tubing segment. The decision to exit this market was made after evaluating current economic conditions and ITD's capabilities, served markets, and competitors. In conjunction with the decision to close ITD, the Company reviewed the recoverability of ITD's long-lived assets in accordance with ASC No 360, "Accounting for Impairment or Disposal of Long-Lived Assets." A review of future cash flows, based on the expected closing date, indicated that cash flows would be insufficient to support the carrying value of certain machinery and equipment at ITD. As a result of the Company's review, a non-cash impairment charge of $0.5 million was recognized in 2008 to write down the individual components of long-lived assets to estimated fair value.

During 2009, ITD ceased operations and sold or disposed of its inventory and most of its equipment. A gain on the sale of equipment of $1.7 million was recognized. ITD has collected its receivables, and its only remaining asset is the ITD facility, which has been offered for sale. ITD repaid $4.6 million of its long-term debt during 2009.

Sumco, Inc.

In 2008, the Company also evaluated its Sumco subsidiary in light of ongoing operating losses and future prospects. A non-cash asset impairment charge of $7.8 million was recognized in 2008 to write down the individual components of long-lived assets to estimated fair value. Sumco provided electroplating services primarily to the automotive market, and had been part of the Precious Metal segment. Sumco had declining cash flows in 2008 and projected negative 2009 cash flows principally caused by the decline in U.S. economic activity and Sumco's reliance on the automotive market for over 90% of its sales. The Company decided to exit this business. In June 2009, Sumco entered into an agreement with the collective bargaining agent representing its unionized workers which specified the conditions of termination of employment for its unionized employees. Sumco also entered into an agreement with a company owned by two former employees (the "Management Company") whereby the Management Company agreed to fulfill various remaining customer contracts of Sumco until the contracts' expiration on December 31, 2009. In return, Sumco paid the Management Company a management service fee and leased space to the Management Company for a nominal rent. As part of the transactions, Sumco incurred severance costs of approximately $0.5 million.

On December 31, 2009, Sumco entered into a two-year lease of its manufacturing facility in Indianapolis, Indiana with the principals of the former Management Company (the "Tenant"). As part of the lease, Sumco granted the Tenant an option to purchase Sumco's manufacturing facility beginning on January 1, 2011, as well as granted the Tenant a right of first refusal to purchase the manufacturing facility by matching a *bona fide* offer of a third party. In addition, Sumco sold various machinery, equipment, and inventory to the Tenant and has licensed the "Sumco" name to the Tenant during the lease term.

The following assets and liabilities of the discontinued operations, Arlon CM, Kasco-France, ITD and Sumco, have been segregated in the accompanying consolidated balance sheets as of December 31, 2009 and 2008.

(in thousands)

	December 31, 2009		December 31, 2008	
Current Assets:				
Trade accounts receivable	$	12,943	$	19,040
Inventory		15,233		20,508
Other current assets		1,336		1,190
	$	29,512	$	40,738
Long-term Assets:				
Property, plant & equipment, net	$	8,284	$	11,740
Intangibles, net		104		-
Other non-current assets		230		183
	$	8,618	$	11,923
Current Liabilities:				
Note payable to bank	$	-	$	4,661
Current liabilities		9,686		11,202
	$	9,686	$	15,863
Non-current Liablities				
Deferred income taxes	$	171	$	139
Pension liability		346		314
Other non-current liabilities		179		186
	$	696	$	639

The income (loss) from Discontinued Operations consists of the following:

(in thousands)	Years ended December 31, 2009	2008
Net sales	$ 93,503	$ 133,926
Asset impairment charges	(1,149)	(8,291)
Operating loss	(6,251)	(9,187)
Interest/other expense	(702)	(868)
Income tax benefit (expense)	104	(115)
Loss from discontinued operations, net	(6,849)	(10,170)
Gain (loss) on sale of assets, net of tax	1,832	(112)

Note 5 -Restructuring

In 2009, the Company engaged in various cost improvement initiatives in order to positively impact productivity and profitability, including certain activities that management believes will result in a more efficient infrastructure that can be leveraged in the future. In connection with these activities, restructuring charges totaled $1.1 million in 2009.

Restructuring costs of $0.6 million were recorded in 2009 relating to the consolidation of the former Bairnco Corporate office into the HNH Corporate office. The Bairnco corporate office consolidation has been completed.

In April 2009, the Company announced the closure of a facility in New Hampshire which was part of the Precious Metal segment and the relocation of the functions to its facility in Milwaukee, Wisconsin. Such relocation has been completed and the Company has offered the facility for sublease. Restructuring costs of approximately $0.4 million were recorded in connection with this relocation, including an estimate of future net lease costs for the facility. The lease expires in December 2014.

The restructuring costs and activity in the restructuring reserve for the year ended December 31, 2009 consisted of:

(in thousands)	Reserve Balance December 31, 2008	Expense	Payments	Reserve Balance December 31, 2009
Termination benefits	$ -	$ 725	$ (633)	$ 92
Rent expense	-	317	(151)	166
Other facility closure costs	-	40	(40)	-
	$ -	$ 1,082	$ (824)	$ 258

Note 6 –Asset Impairment Charges

The Company recorded $3.0 million of asset impairment charges in 2009, as follows:

The Company owns certain real property that is not currently used in operations and is not being depreciated, principally former manufacturing plants. Such real property is included in Other Non-Current Assets on the consolidated balance sheets. In accordance with GAAP, the Company reviewed such properties for impairment and determined that certain properties should be written down to fair value. In the fourth quarter of 2009, the Company recorded non-cash asset impairment charges of $1.0 million related to these properties.

In addition, in the second quarter of 2009, the Company recorded a $0.9 million non-cash impairment charge related to certain manufacturing equipment located at one of its Tubing facilities. The equipment had been utilized exclusively in connection with a discontinued product line, has no other viable use to the Company, and limited scrap value.

The Company also recorded a $1.1 million impairment charge related to an investment accounted for under the equity method. The equity investment was sold by the Company during the third quarter of 2009 for cash proceeds of $3.1 million, and the amount of the impairment represents the difference between the carrying value of the investment and the selling price.

Note 7 – Pensions, Other Postretirement and Post-Employment Benefits

The Company maintains several qualified and non-qualified pension plans and other postretirement benefit plans covering substantially all of its employees. The Company's pension, health care benefit and significant defined contribution plans are discussed below. The Company's other defined contribution plans are not significant individually or in the aggregate.

Qualified Pension Plans

Handy & Harman Ltd. sponsors a defined benefit pension plan, the WHX pension Plan, covering many of HNH and H&H employees and certain employees of HNH's former subsidiary, Wheeling-Pittsburgh Corporation, or 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"). The assets of the RSP 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.

WPC Group 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 ("Bairnco 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 "Bairnco Bear Plan"), and the pension benefits under the Bairnco Bear Plan were frozen during 2009.

Bairnco's Canadian subsidiary provides retirement benefits for its employees through a defined contribution plan. In addition, the Company'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.

Other Comprehensive Income for 2009 and 2008 includes:

(in thousands)	Defined Benefit Plans 2009	Defined Benefit Plans 2008	Other Post-Retirement Benefit Plans 2009	Other Post-Retirement Benefit Plans 2008
Amortization of actuarial losses	$ (13,215)	$ (351)	$ -	$ (146)
Amortization of prior service credits (costs)	(63)	(63)	-	265
Net actuarial (gains) losses	(30,708)	127,081	768	171
One-time adjustment-charge (credit)	-	-	(169)	517

The pretax amount of actuarial losses and prior service cost (credits) included in Accumulated Other Comprehensive Income (Loss) at December 31, 2009 that is expected to be recognized in net periodic benefit cost in 2010 is $8.6 million and $0.1 million, respectively, for defined benefit pension plans and $41,000 and -0-, respectively, for other post retirement benefit plans.

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 were frozen for most 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. Aggregate account balances held in trust in individual RSP Plan participants' accounts totaled $28.7 million at December 31, 2009. These assets cannot be used to fund any of the net benefit that is the basis for determining the defined benefit plan's benefit obligation at December 31, 2009.

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 information regarding the significant qualified defined benefit pension plans of Handy & Harman Ltd. and Bairnco is as follows:

WHX Pension Plan

(in thousands)	2009	2008
Components of net periodic benefit cost (credit):		
Service cost	$ 295	$ 308
Interest cost	25,569	23,657
Expected return on plan assets	(25,089)	(31,885)
Amortization of prior service cost	63	63
Actuarial loss amortization	13,175	351
Total	$ 14,013	$ (7,506)

Bairnco Plans	**Bairnco Bear Plan**		**Other Bairnco Plans (a)**
(in thousands)	**2009**	**2008**	**2008**
Components of net periodic benefit cost (credit):			
Service cost	$ 84	$ 81	$ -
Interest cost	140	128	2,635
Expected return on plan assets	(107)	(146)	(3,527)
Amortization of prior service cost	-	-	-
Recognized actuarial loss	40	-	-
Total	$ 157	$ 63	$ (892)

(a) Two Bairnco plans were merged into the WHX Pension Plan effective June 2, 2008.

	2009			2008			
	WHX Plan	Bairnco Bear Plan	Total	WHX Plan	Bairnco Bear Plan	Other Bairnco Plans (a)	Total
				(in thousands)			
Change in benefit obligation:							
Benefit obligation at January 1	$ 445,088	$ 2,183	$ 447,271	$ 405,865	$ 1,982	$ 43,537	$ 451,384
Service cost	295	84	379	308	82	-	390
Interest cost	25,569	140	25,709	23,657	128	2,635	26,420
Actuarial loss	15,317	71	15,388	5,890	33	-	5,923
Benefits paid	(35,463)	(42)	(35,505)	(36,027)	(41)	(998)	(37,066)
Business Combinations	-	-	-	45,174	-	(45,174)	-
Transfers from RSP	1,227	-	1,227	221	-	-	221
Benefit obligation at December 31	$ 452,033	$ 2,436	$ 454,469	$ 445,088	$ 2,184	$ -	$ 447,272
Change in plan assets:							
Fair value of plan assets at January 1	$ 312,253	$ 1,269	$ 313,522	$ 391,470	$ 1,738	$ 42,723	$ 435,931
Business Combinations	-	-	-	41,725	-	(41,725)	-
Actual returns on plan assets	71,086	179	71,265	(85,135)	(428)	-	(85,563)
Benefits paid	(35,463)	(42)	(35,505)	(36,028)	(41)	(998)	(37,067)
Company contributions	1,808	143	1,951	-	-	-	-
Transfers from RSP	1,227	-	1,227	221	-	-	221
Fair value of plan assets at December 31	$ 350,911	$ 1,549	$ 352,460	$ 312,253	$ 1,269	$ -	$ 313,522
Funded status	$ (101,122)	$ (887)	$ (102,009)	$ (132,835)	$ (915)	$ -	$ (133,750)
The pre tax amounts recognized in accumulated other comprehensive income:							
Net actuarial loss	$ 126,207	$ 556	$ 126,763	$ 170,062	$ 597	$ -	$ 170,659
Prior service cost	200	-	200	263	-	-	263
	$ 126,407	$ 556	$ 126,963	$ 170,325	$ 597	$ -	$ 170,922
Accumulated benefit obligation (ABO) for qualified defined benefit pension plans :							
ABO at January 1	$ 445,088	$ 2,183	$ 447,271	$ 405,865	$ 1,982	$ 43,535	$ 451,382
ABO at December 31	452,033	2,436	454,469	445,088	2,183	-	447,271

(a) Two Bairnco plans were merged into the WHX Pension Plan effective June 2, 2008.

The weighted average assumptions used in the valuations of pension benefits were as follows:

	WHX Plan		Bairnco Bear Plan	
	2009	2008	2009	2008
Assumptions used to determine benefit obligations at December 31:				
Discount rate	5.55%	6.00%	6.05%	6.15%
Rate of compensation increase	N/A	N/A	N/A	N/A
Assumptions used to determine net periodic benefit cost for the period ending December 31:				
Discount rate	6.00%	6.05%	6.15%	6.35%
Expected return on assets	8.50%	8.50%	8.50%	8.50%
Rate of compensation increase	N/A	N/A	N/A	N/A

In determining the expected long-term rate of return on 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 for the plan. The Company 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.

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. The three to five year objective of the Plan is to achieve a rate of return that exceeds the Company's expected earnings rate by 150 basis points at prudent levels of risk. Therefore the 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 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 the three following categories: 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 WHX pension Plan's assets at December 31, 2009, by asset category, are as follows:

WHX Pension Plan Assets (in thousands)	**Assets (Liabilities) at Fair Value as of December 31, 2009**			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Defined benefit pension plan investment assets:				
Equities	$ 27,482	$ 946	$ -	$ 28,428
Fixed income securities	8,625	26,201	123	34,949
Insurance contracts	-	10,084	-	10,084
Common trust funds (a)		106,134	-	106,134
Fund of funds (b)	-	32,804	27,469	60,273
	36,107	176,169	27,592	239,868
Futures contracts, net	(832)	(198)	-	(1,030)
Total	$ 35,275	$ 175,971	$ 27,592	$ 238,838
Cash and cash equivalents				114,985
Net payables				(2,912)
Total pension assets				$ 350,911

(a) Common Trust Funds- 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.

(b) 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.

The fair value measurements of the WHX pension Plan assets using significant unobservable inputs (Level 3) changed during 2009 due to the following:

2009 Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(in thousands)	Balance beginning of Year	Purchases, Sales & Settlements	Transfers In/(Out)	Gains/ (losses)	Balance end of Year
Fixed income securities	$ -	$ 428	$ -	$ (305)	$ 123
Fund of funds	$ 1,377	$ 18,276	$ (332)	$ 8,148	$ 27,469

The Bairnco Bear Pension Plan's assets at December 31, 2009, by asset category, are as follows:

Bairnco Bear Pension Plan Assets (in thousands)	**Assets (Liabilities) at Fair Value as of December 31, 2009**			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Defined benefit pension plan investment assets:				
Equities	$ 125	$ 4	$ -	$ 129
Fixed income securities	39	119	1	159
Insurance contracts	-	-	-	-
Common trust funds	-	482	-	482
Fund of funds	-	149	125	274
	164	754	126	1,044
Futures contracts, net	(4)	(1)	-	(5)
Total	$ 160	$ 753	$ 126	$ 1,039
Cash and cash equivalents				523
Net payables				(13)
Total pension assets				$ 1,549

The fair value measurements of the Bairnco Bear Pension Plan assets using significant unobservable inputs (Level 3) changed during 2009 due to the following:

2009 Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(in thousands)	Balance beginning of Year	Purchases, Sales & Settlements	Transfers In/(Out)	Gains/ (losses)	Balance end of Year
Fixed income securities	-	2	-	(1)	$ 1
Fund of funds	$ 6	$ 83	$ (2)	$ 38	$ 125

Total qualified pension plan assets at December 31, 2009, by asset category, are as follows:

Total Pension Plan Assets (in thousands)	**Assets (Liabilities) at Fair Value as of December 31, 2009**			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Defined benefit pension plan investment assets:				
Equities	$ 27,607	$ 950	$ -	$ 28,557
Fixed income securities	8,664	26,320	124	35,108
Insurance contracts	-	10,084	-	10,084
Common trust funds	-	106,616	-	106,616
Fund of funds	-	32,953	27,594	60,547
	36,271	176,923	27,718	240,912
Futures contracts, net	(835)	(200)	-	(1,035)
Total	$ 35,436	$ 176,723	$ 27,718	$ 239,877
Cash and cash equivalents				115,508
Net payables				(2,925)
Total pension assets				$ 352,460

The fair value measurements of total qualified plan assets using significant unobservable inputs (Level 3) changed during 2009 due to the following:

2009 Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

(in thousands)	Balance beginning of Year	Purchases, Sales & Settlements	Transfers In/(Out)	Gains/ (losses)	Balance end of Year
Fixed income securities	$ -	$ 430	$ -	$ (306)	$ 124
Fund of funds	$ 1,383	$ 18,359	$ (333)	$ 8,185	$ 27,594

The Company's Pension Plans' asset allocations at December 31, 2009 and 2008, by asset category, are as follows:

	WHX/Bairnco Bear Plans	
	2009	**2008**
Asset Category		
Cash and cash equivalents	32%	23%
Equity securities	8%	22%
Fixed income securities	10%	8%
Insurance contracts	3%	-
Common trust funds	30%	26%
Fund of funds	17%	21%
Total	100%	100%

The Common Trust Funds and the Funds of Funds (collectively, the "Funds") or the investment funds they are invested in, own marketable and non-marketable securities and other investment instruments. Such investments are valued by the Funds, underlying investment managers or the investment funds, at fair value, as described in their respective financial statements and offering memorandums. The Company utilizes these values in quantifying the value of the assets of its pension plans, which is then used in the determination of the unfunded pension liability on the balance sheet. Because of the inherent uncertainty of valuation of some of the WHX pension Plan's investments in the Funds and some of the underlying investments held by the investment funds, the recorded value may differ from the value that would have been used had a ready market existed for some of these investments for which market quotations are not readily available and are valued at their fair value as determined in good faith by the respective Funds, underlying investment managers, or the investment funds.

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 the WHX pension Plan for 2010 and 2011 of $9.6 million and $21.0 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 a plan termination.

Benefit Payments

Estimated future benefit payments for the qualified defined benefit plans over the next ten years are as follows (in thousands):

Years	WHX Plan	Bairnco Bear Plan	Total
2010	$ 35,656	$ 54	$ 35,710
2011	35,375	60	35,435
2012	35,214	67	35,281
2013	34,996	75	35,071
2014	34,706	77	34,783
2015 - 2019	167,831	536	168,367

Non-Qualified Pension Plans

In addition to the aforementioned benefit plans, H&H has 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, HNH decided to cashout any remaining participants in the plan in 2010.

The measurement date for plan obligations is December 31.

Summarized information regarding the non qualified defined benefit pension plan of H&H is as follows:

	2009	2008
Components of net periodic benefit cost:	(in thousands)	
Service cost	$ -	$ -
Interest cost	11	12
Amortization of prior service cost	-	-
Amortization of actuarial gain (loss)	-	-
Total	$ 11	$ 12

	2009	2008
	(in thousands)	
Change in benefit obligation:		
Benefit obligation at January 1	$ 242	$ 201
Service cost	-	-
Interest cost	11	12
Actuarial (gain) loss	(27)	35
Benefits paid	(6)	(6)
Benefit obligation at December 31	$ 220	$ 242
Plan assets	$ -	$ -
Funded status	$ (220)	$ (242)
The pre tax amounts recognized in accumulated other comprehensive income:		
Net actuarial (gain) loss	$ (13)	$ 14
Accumulated benefit obligation for defined benefit pension plans :		
Accumulated benefit obligation at January 1	$ 242	$ 201
Accumulated benefit obligation at December 31	220	242

The weighted average assumptions used in the valuations of these pension benefits were as follows:

	2009	2008
Assumptions used to determine benefit obligations at December 31:		
Discount rate	5.55%	6.00%
Rate of compensation increase	N/A	N/A
Assumptions used to determine net periodic benefit cost (credit) for the period ending December 31:		
Discount rate	6.00%	6.05%
Rate of compensation increase	N/A	N/A

Contributions

The non-qualified plan is not funded. Employer contributions are equal to annual benefit payments.

Benefit Payments

The Company estimates that its future benefit payments for the H&H non-qualified plan will be $0.2 million in 2010.

401(k) Plans

Certain H&H employees participate in an H&H 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. In 2008, H&H matched 50% of the first 3% of the employee's contribution. The charge to expense for the Company's matching contribution amounted to $0.8 million in 2008. In addition, in 2008, the Company accrued an additional contribution to the 401(k) Plan of $0.5 million due to the freezing of benefits under the pension plan.

Certain Bairnco employees participated in a Bairnco sponsored savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. In 2008, Bairnco contributed 1% of pay to each participant's account (total amount of $0.3 million), plus Bairnco matched 50% of the first 4% of the employee's contribution. Employer matching contributions to this 401(k) plan were $0.6 million for 2008.

In January 2009, the Company suspended its employer contributions to 401(k) savings plans for all employees not covered by a collective bargaining agreement. In January 2010, the matching contribution was reinstated, with a match of 50% of the first 6% of the employee's contribution for both H&H and Bairnco employees, provided that employees had made an election to participate in the 401(k) savings plans on or before January 31, 2010.

Other Postretirement Benefits

Certain current and retired employees of H&H are covered by postretirement medical benefit plans. The benefits provided are 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.

At year-end 2008, benefits were discontinued under two of the Company's post-retirement benefit plans. The accounting impact of these events was recognized at year-end. The accumulated postretirement benefit obligation decreased by $3.2 million and there was a one-time curtailment gain of $3.7 million.

Summarized information regarding the postretirement medical benefit plans of H&H is as follows:

	2009	2008
Components of net periodic benefit cost:	(in thousands)	
Service cost	$ -	$ 13
Interest cost	179	366
Amortization of prior service cost (credit)	-	(265)
Amortization of actuarial loss	-	146
Charge due to plan redesign	-	(3,710)
Total	$ 179	$ (3,450)

	2009	2008
Change in benefit obligation:	(in thousands)	
Benefit obligation at January 1	$ 3,121	$ 6,411
Service cost	-	13
Interest cost	179	366
Actuarial loss	600	178
Participant contributions	52	97
Benefits paid	(238)	(769)
Curtailment/Settlement	-	(3,175)
Benefit obligation at December 31	$ 3,714	$ 3,121
Plan assets	$ -	$ -
Funded status	$ (3,714)	$ (3,121)
The pre tax amounts recognized in accumulated other comprehensive income:		
Net actuarial loss	$ 777	$ 178
Prior service cost (credit)	-	-
Total	$ 777	$ 178

The weighted average assumptions used in the valuations of these other postretirement benefits were as follows:

	2009	2008
Assumptions used to determine benefit obligations at December 31:		
Discount rate	5.55%	6.00%
Health care cost trend rate - initial	8.00%	8.00%
Health care cost trend rate - ultimate	5.00%	5.00%
Year ultimate is reached	2016	2015
Assumptions used to determine net periodic benefit cost for the period		
Discount rate	6.00%	6.05%
Health care cost trend rate - initial	8.00%	8.00%
Health care cost trend rate - ultimate	5.00%	5.00%
Year ultimate is reached	2015	2014

At December 31, 2009, the health care cost trend rate was 8% decreasing to an ultimate rate of 5% by the year 2016. A one percentage point increase in healthcare cost trend rates in each year would increase the accumulated postretirement benefit obligation as of December 31, 2009 by $0.3 million and the aggregate of the service cost and interest cost components of 2009 annual expense by $0. A one percentage point decrease in healthcare cost trend rates in each year would decrease the accumulated postretirement benefit obligation as of December 31, 2009 by $0.3 million and the aggregate of the service cost and interest cost components of 2009 annual expense by $0.

Contributions

Employer contributions are expected to be $0.2 million for the 2010 plan year.

Benefit Payments

Expected benefit payments over the next ten years are as follows:

Year	Amount
(in thousands)	
2010	$ 249
2011	265
2012	269
2013	272
2014	271
2015 - 2019	1,345

The Company has an Executive Post-Retirement Life Insurance Program that provides for life insurance benefits equal to three and one half times payroll, as defined for certain Company executives upon their retirement. Under GAAP, the Company is required to recognize in its financial statements an annual cost and benefit obligation related to estimated future benefit payments to be made to its current and retired executives. Funding for these obligations is made by the Company.

During 2009, the plan was terminated and all policies were either redeemed for cash value or transferred to participants. This resulted in a reduction of the accumulated post-retirement benefit obligation of $1.3 million and a one-time settlement gain of $1.1 million.

Summarized information regarding the Executive Post-Retirement Life Insurance Program is as follows:

	2009	2008
Components of net periodic benefit cost:	(in thousands)	
Service cost	$ 41	$ 64
Interest cost	69	75
Amortization of actuarial loss	-	-
Gains from settlements	(1,114)	(165)
Total	$ (1,004)	$ (26)

	2009	2008
Change in benefit obligation:	(in thousands)	
Benefit obligation at January 1	$ 1,112	$ 1,184
Service cost	41	64
Interest cost	69	75
Settlement	(1,282)	-
Curtailment	-	(183)
Actuarial loss (gain)	169	(7)
Benefit payments	(109)	(21)
Benefit obligation at December 31	$ -	$ 1,112
Plan assets	$ -	$ -
Funded status	$ -	$ (1,112)
The pre tax amounts recognized in accumulated other comprehensive income:		
Net actuarial (gain) loss	$ -	$ -

The weighted average assumptions used in the valuations of Executive Post-Retirement Life Insurance Program were as follows:

	2009	2008
Assumptions used to determine benefit obligations at December 31:		
Discount rate	5.55%	6.00%
Assumptions used to determine net periodic benefit cost for the period ending December 31:		
Discount rate	6.00%	6.05%
Rate of compensation increase	N/A	N/A

Contributions and Benefit Payments

Since the Executive Post-Retirement Life Insurance Program was terminated, there are no employer contributions or benefit payments expected to be made in the future.

Note 8 – Income Taxes

	2009	2008
	(in thousands)	
Income (loss) before income taxes:		
Domestic	$ (19,157)	$ 12,286
Foreign	2,436	2,262
Total income (loss) before income taxes	$ (16,721)	$ 14,548

The provision for (benefit from) income taxes for the two years ended December 31 is as follows:

	2009	2008
	(in thousands)	
Income Taxes		
Domestic	$ 190	$ 1,188
Foreign	31	1,029
Total income taxes, current	$ 221	$ 2,217
Domestic	$ (744)	$ (867)
Foreign	26	(95)
Total income taxes, deferred	$ (718)	$ (962)
Income tax provision (benefit)	$ (497)	$ 1,255

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.

Deferred Income Tax Sources

	2009	2008
	(in thousands)	
Current Deferred Tax Items:		
Inventory	$ 1,954	$ 3,019
Environmental Costs	2,509	2,467
Accrued Expenses	2,306	2,199
Miscellaneous Other	828	1,121
Current deferred income tax asset before valuation allowance	7,597	8,806
Valuation allowance	(6,574)	(7,642)
Current deferred tax asset	$ 1,023	$ 1,164
Foreign	$ (300)	$ (151)
Current deferred tax liability	$ (300)	$ (151)
Non-Current Deferred Tax Items:		
Postretirement and postemployment employee benefits	$ 1,243	$ 1,625
Net operating loss carryforwards	77,530	70,757
Capital loss carryforward	-	829
Additional minimum pension liability	39,394	53,981
Impairment of long-lived assets	4,029	3,146
California tax credits	411	186
Foreign tax credits	443	443
Minimum tax credit carryforwards	1,950	1,996
Miscellaneous other	161	476
Non current deferred tax asset before valuation allowance	125,161	133,439
Valuation allowance	(106,719)	(114,250)
Non current deferred tax asset	18,442	19,189
Property plant and equipment	(12,177)	(12,028)
Intangible assets	(7,908)	(10,265)
Undistributed foreign earnings	(1,489)	(1,617)
Other-net	(1,126)	(553)
Non current deferred tax liability	(22,700)	(24,463)
Net non current deferred tax liability	$ (4,258)	$ (5,274)

GAAP requires that a net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. Due to the Company’s recurring tax losses and only recent history of generating limited amounts of taxable income, a valuation allowance of $113.8 million has been established. Included in deferred tax assets at December 31, 2009 are U.S. federal NOLs of $207.3 million ($72.6 million tax-effected), as well as certain foreign and state NOLs. The U.S. federal NOLs expire between 2010 and 2027. In 2009, NOLs of $3.2 million expired. Management performs a periodic evaluation of deferred tax assets and will adjust the valuation allowance as circumstances warrant. Also, included in deferred income tax assets are tax credit carryforwards of $2.8 million. The net current deferred tax asset is expected to be realizable from the reversal of offsetting temporary differences.

Net income taxes payable totaled $1.4 million and $1.7 million as of December 31, 2009 and 2008, respectively.

Upon its emergence from bankruptcy on July 29, 2005, the Company experienced an ownership change as defined by Section 382 of the Internal Revenue Code, which 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 $207.3 million as of December 31, 2009 include a reduction of $31.0 million ($10.8 million tax-effect).

As of December 31, 2009, the Company has a deferred income tax liability relating to $3.9 million of undistributed earnings of foreign subsidiaries. In addition, there were approximately $9.5 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 2009 and 2008 were $2.5 million and $4.2 million, respectively.

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 (loss) as follows:

	Years Ended December 31, 2009	2008
	(in thousands)	
Income (loss) from continuing operations before income tax	$ (16,721)	$ 14,548
Tax provision (benefit) at statutory rate	$ (5,852)	$ 5,154
Increase (decrease) in tax due to:		
Foreign dividend income	454	2,485
Incentive stock options granted	74	174
State income tax, net of federal effect	192	792
Increase (decrease) in valuation allowance	4,410	(7,828)
Increase (decrease) in liability for uncertain tax positions	409	(830)
Change in estimated deferred state tax rate	(455)	-
Expiration of net operating loss carryforward	1,110	1,026
Net effect of foreign tax rate and tax holidays	(2,591)	82
Other, net	1,752	200
Tax provision (benefit)	$ (497)	$ 1,255

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, 2009 and 2008, the Company had $2.1 million of unrecognized tax benefits, respectively, all of which would affect the Company's effective tax rate if recognized. The change in the amount of unrecognized tax benefits in 2009 and 2008 was as follows:

(in thousands)	Years Ended December 31, 2009	2008
Beginning balance	$ 2,127	$ 3,082
Additions for tax positions related to current year	263	510
Additions due to interest accrued	91	119
Tax positions of prior years:		
Increase in liabilities, net	539	-
Payments	(425)	-
Due to settlement of audit examinations	-	(986)
Due to lapsed statutes of limitations	(484)	(598)
Ending balance	$ 2,111	$ 2,127

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of both December 31, 2009 and 2008, approximately $0.4 million 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 $0.2 million 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 2006 through 2009. 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.

Note 9 – Inventories

	December 31, 2009	2008
Finished products	$ 18,669	$ 26,928
In-process	7,002	8,671
Raw materials	14,486	18,039
Precious metal inventory in various stages of completion	6,482	2,247
	46,639	55,885
LIFO reserve	(1,632)	(1,123)
	$ 45,007	$ 54,762

Precious Metal Inventory

In order to produce certain of its products, the Company purchases, maintains and utilizes precious metal inventory. H&H enters into commodity futures and forwards contracts on precious metal that are subject to market fluctuations in order to economically hedge its precious metal inventory against price fluctuations. As these derivatives are not designated as accounting hedges under GAAP, they are accounted for as derivatives with no hedge designation. Accordingly, the Company recognizes realized and unrealized gains and losses on the derivative instruments related to precious metal. Such realized and unrealized gains and losses are recorded in current period earnings as other income or expense in the Company's consolidated statement of operations. Realized and unrealized losses related to derivatives in 2009 and 2008 were $0.8 million and $1.4 million, respectively. In addition, the Company 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 value cost by $1.7 million and $1.1 million at December 31, 2009 and December 31, 2008, respectively.

Certain customers and suppliers of H&H choose to do business on a "toll" basis, and furnish precious metal to H&H 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. In 2007, a subsidiary of H&H received 500,000 troy ounces of silver from a single customer under an unallocated pool account agreement, which was in excess of orders placed by the customer. This agreement was cancelable by the customer upon six months notice. Because H&H had excess customer metal to use in its production processes, this replaced the need to purchase its own inventory. During 2008, the Company's precious metal inventory continued to decline, primarily from higher utilization of customer metal in its production processes, as well as a companywide emphasis on Lean Manufacturing and inventory management. Accordingly, the Company experienced a liquidation of its precious metal inventory that is accounted for under the LIFO method. Operating income for 2008 included a $3.9 million credit to cost of goods sold from the liquidation of precious metal inventories valued at LIFO. In 2009, the customer who had transferred 500,000 ounces of silver to H&H in 2007 requested its inventory be returned and the Company incurred a non-recurring cash expenditure of $7.4 million to replace such silver inventory. There was a reduction in the quantity of H&H's inventory of gold, resulting in a credit to cost of goods sold of $0.6 million from the liquidation of the gold inventory valued at LIFO. As of December 31, 2009, H&H held customer metal in the following quantities: 271,805 ounces of silver, 1,430 ounces of gold, and 1,391 ounces of palladium.

Supplemental inventory information:	December 31, 2009	December 31, 2008
	(in thousands, except per ounce)	
Precious metals stated at LIFO cost	$ 4,890	$ 1,124
Market value per ounce:		
Silver	$ 16.83	$ 11.30
Gold	$ 1,095.78	$ 883.00
Palladium	$ 402.00	$ 185.00

Note 10 – Derivative Instruments

H&H enters into commodity futures and forwards contracts on precious metal that are subject to market fluctuations in order to economically hedge its precious metal inventory against price fluctuations. As of December 31, 2009, the Company had entered into forward and future contracts for gold with a total value of $1.2 million and for silver with a total value of $4.8 million.

The forward contracts, in the amount of $7.2 million, were made with a counter party rated A by Standard & Poors, and the future contracts 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 use of market quotes or broker valuations when market information is not available.

In 2008 and during part of 2009, the Company also economically hedged its exposure on variable interest rate debt denominated in foreign currencies at one of its foreign subsidiaries. There is no credit risk on this derivative instrument as of December 31, 2009, as it was settled earlier in 2009.

As these derivatives are not designated as accounting hedges under 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 statement of operations. The Company's hedging strategy is designed to protect it against normal volatility. However, abnormal price increases in these commodity or foreign exchange markets could negatively impact H&H's costs. The twelve month periods ended December 31, 2009 and 2008 include net losses of $0.8 million and $1.4 million, respectively, on derivative instruments.

As of December 31, 2009, the Company had the following outstanding forward or future contracts with settlement dates ranging from January 2010 to March 2010.

Commodity	Amount	
Silver	285,000	ounces
Gold	1,100	ounces

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)

Derivative	**Balance Sheet Location**	**December 31, 2009**	**December 31, 2008**
Commodity contracts	Other current assets/(liabilities)	$ (54)	$ 355
Interest rate swap	Accrued liabilities	-	(199)
Total derivatives not designated as hedging instruments		(54)	156
Total derivatives		$ (54)	$ 156

Effect of Derivative Instruments on the Consolidated Statements of Operations

(in thousands)

		Years Ended December 31,	
		2009	**2008**
Derivative	**Statement of Operations Line**	**Gain (Loss)**	
Commodity contracts	Realized and Unrealized Loss on Derivatives	$ (777)	$ (1,355)
Interest rate swap	Interest expense	(317)	(240)
Total derivatives not designated as hedging instruments		$ (1,094)	$ (1,595)
Total derivatives		$ (1,094)	$ (1,595)

Note 11 – Property, Plant & Equipment

	December 31, 2009	December 31, 2008
	(in thousands)	
Land	$ 8,949	$ 9,222
Buildings, machinery and equipment	156,608	151,075
Construction in progress	1,721	1,126
	167,278	161,423
Accumulated depreciation and amortization	84,168	70,655
	$ 83,110	$ 90,768

Depreciation expense for the years 2009 and 2008 was $14.9 million and $16.3 million, respectively.

Note 12 – Goodwill and Other Intangibles

The changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2008 and 2009 were as follows:

(in thousands)

Segment	Balance at January 1, 2008	Acquisitions/ Other	Impairment	Balance at December 31, 2008	Accumulated Impairment Losses
Precious Metal	$ 1,005	$ 501	$ -	$ 1,506	$ -
Tubing	1,895	-	-	1,895	-
Engineered Materials	51,232	-	-	51,232	-
Arlon Electronic Materials	10,185	253	-	10,438	-
Total	$ 64,317	$ 754	$ -	$ 65,071	$ -

Segment	Balance at December 31, 2008	Acquisitions/ Adjustments	Impairment	Balance at December 31, 2009	Accumulated Impairment Losses
Precious Metal	$ 1,506	$ 15	$ -	$ 1,521	$ -
Tubing	1,895	-	-	1,895	-
Engineered Materials	51,232	-	-	51,232	-
Arlon Electronic Materials	10,438	-	(1,140)	9,298	(1,140)
Total	$ 65,071	$ 15	$ (1,140)	$ 63,946	$ (1,140)

The Company conducted the required annual goodwill impairment reviews in 2009 and 2008, and computed updated valuations for each reporting unit using a discounted cash flow approach and market approach, as described in Note 2 “Summary of Accounting Policies”. As of June 30, 2009, the Company had conducted an interim goodwill impairment review of its Silicone Technology Division (“STD”) reporting unit principally because of continuing adverse business conditions for STD, which resulted in a decline in the estimated future cash flows of STD. Based on the results of these reviews, the Company recorded a goodwill impairment charge of $1.1 million in the third quarter of 2009. The Silicone Technology Division is part of the Arlon Electronic Materials segment. There was no goodwill impairment in 2008.

Other intangible assets as of December 31, 2009 and 2008 consisted of:

(in thousands)

	December 31, 2009			December 31, 2008			Weighted Average Amortization Life
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	(in years)
Products and customer relationships	$ 34,082	$ (6,040)	$ 28,042	$ 34,082	$ (3,931)	$ 30,151	16.3
Trademark/Brand name	3,958	(763)	3,195	3,958	(359)	3,599	16.4
Patents and patent applications	2,474	(721)	1,753	2,361	(571)	1,790	14.1
Non-compete agreements	756	(361)	395	756	(248)	508	4.4
Other	1,548	(898)	650	1,548	(631)	917	8
Total	$ 42,818	$ (8,783)	$ 34,035	$ 42,705	$ (5,740)	$ 36,965	

Amortization expense in both 2009 and 2008 totaled $3.0 million. The estimated amortization expense for each of the five succeeding years and thereafter is as follows:

(in thousands)	Products and Customer Relationships	Trademarks	Patents and Patent Applications	Non-Compete Agreements	Other	Total
2010	$ 2,168	$ 292	$ 214	$ 174	$ 190	$ 3,038
2011	2,168	292	214	174	190	3,038
2012	2,168	292	214	47	190	2,911
2013	2,168	292	214		80	2,754
2014	2,168	292	214			2,674
Thereafter	17,202	1,735	683			19,620
	$ 28,042	$ 3,195	$ 1,753	$ 395	$ 650	$ 34,035

As of December 31, 2009, approximately $3.2 million of goodwill related to prior acquisitions made by Bairnco is expected to be amortizable for income tax purposes.

Note 13 – Debt

Long-term debt at December 31, 2009 and 2008 was as follows:

(in thousands)	Years Ended December 31, 2009	2008
Long-term Debt to Non Related Party:		
H&H Wachovia Facility term loans	$ 43,216	$ 54,670
Other H&H debt-domestic	7,436	7,580
Bairnco Wells Fargo Facility term loan	3,624	6,466
Bairnco Ableco Facility term loan	42,000	45,000
Bairnco foreign loan facilities	4,750	4,721
Total debt to non related party	101,026	118,437
Less portion due within one year	5,944	8,295
Long-term debt to non related party	95,082	110,142
Long-term Debt to Related Party:		
H&H Term B Loan	44,098	44,098
Bairnco Subordinated Debt Credit Agreement	10,000	10,000
Long-term debt to related party	54,098	54,098
Total long-term debt	$ 149,180	$ 164,240

Long term debt as of December 31, 2009 matures in each of the next five years as follows:

Long-term Debt Maturity

(in thousands)	Total	2010	2011	2012	2013	Thereafter
Long-term debt to non-related party	$ 101,026	$ 5,944	$ 48,332	$ 46,750	$ -	$ -
Long term debt to related party	54,098	-	44,098	-	10,000	-
Total Debt	$ 155,124	$ 5,944	$ 92,430	$ 46,750	$ 10,000	$ -

Credit Facilities

The following are the terms and conditions of the Company's various credit facilities as of December 31, 2009, and therefore reflect all amendments to such agreements made prior to that date.

Handy & Harman

H&H's financing agreements include its Loan and Security Agreement with Wachovia Bank, National Association ("Wachovia"), as agent (the "Wachovia Facilities"), which provide for revolving credit and term loan facilities, and its Loan and Security Agreement with Steel Partners II Liquidating Series Trust (Series E), (the "SP II Series E Trust"), as successor-in-interest to SP II (the "Term B Loan").

The Wachovia Facilities provide for maximum borrowings of $115 million, consisting of a revolving credit facility of up to $75 million of borrowings dependent on the levels of and collateralized by eligible accounts receivable and inventory, and reduced by the amount of certain term and supplemental term loans outstanding to Wachovia. In addition, the Wachovia Facilities also include term loans funded by Ableco ($33.0 million as of December 31, 2009). The term loans are collateralized by eligible machinery and equipment and real estate. The revolving credit facility and the term and supplemental loans payable under the Wachovia Facilities bear interest at LIBOR, which shall at no time be less than 1.00%, plus applicable margins of between 2.75% and 3.75%, or the U.S. Base rate (Prime rate, which shall at no time be less than 3.00%) plus 1.00% to 2.00%. The applicable margin for the revolving credit facility and the term loans payable under the Wachovia Facilities is dependent on H&H's Quarterly Average Excess Availability for the prior quarter, as that term is defined in the agreement. The term loans payable to Ableco bear interest at LIBOR, which shall at no time be less than 3.25%, plus an applicable margin of 11.75%, or the U.S. Base rate (Prime rate, which shall at no time be less than 5.00%) plus 10.00%. Borrowings under the Wachovia Facilities are collateralized by first priority security interests in and liens upon all present and future stock and assets of H&H and its subsidiaries, including all contract rights, deposit accounts, investment property, inventory, equipment, real property, and all products and proceeds thereof. Principal payments for the term loans under the Wachovia Facilities are due in monthly installments of $0.3 million. The Wachovia Facilities contain affirmative, negative, and financial covenants (including minimum EBITDA, maximum Senior Leverage Ratio, and limited Capital Expenditures, as such terms are defined therein), and cash distributions that can be made to HNH are restricted. The Company was in compliance with the applicable covenants at December 31, 2009. The Wachovia Facilities mature on June 30, 2011.

The Term B Loan also matures on June 30, 2011. H&H was indebted to SP II under the Term B Loan until July 15, 2009, when SP II assigned its interest in the Term B Loan to SP II Series E Trust. The Term B Loan provides for annual payments based on 40% of excess cash flow as defined in the agreement (no principal payments are currently payable). Interest accrues monthly at the Prime Rate plus 14%, and at no time shall the Prime Rate (as that term is defined in the agreement) be below 4.0%. Pursuant to the terms of a subordination agreement between Steel and the participants in the Wachovia Facilities, H&H's interest payable to Steel is accrued but not paid. The Term B Loan has a second priority security interest in and lien on all assets of H&H, subject to the prior lien of the Wachovia Facilities and H&H's $17 million guaranty and security interest for the benefit of Ableco as agent of the Bairnco indebtedness. In addition, H&H has pledged a portion of all outstanding stock of Indiana Tube Danmark A/S, a Danish corporation, and Protechno, S.A., a French corporation, both of which are indirect wholly-owned subsidiaries of H&H. The Term B Loan contains affirmative, negative, and financial covenants (including minimum EBITDA, maximum Senior Leverage Ratio, and limited Capital Expenditures, as such terms are defined therein), and cash distributions that can be made to HNH are restricted. The Company was in compliance with the applicable covenants at December 31, 2009. The Term B Loan also contains cross-default provisions with the Wachovia Facilities.

On March 12, 2009, H&H and almost all of its subsidiaries amended each of the Wachovia Facilities and the Term B Loan to, among other things, (i) extend the term of the loans for two years until June 30, 2011, (ii) increase certain interest rates, (iii) reset the levels of certain financial covenants, (iv) permit the disposition and/or cessation of operations of certain of H&H's direct and indirect subsidiaries (v) provide for an increase in the aggregate amount of unsecured loans, distributions or other advances from H&H to HNH for general business purposes from up to $7.0 million to up to $12.0 million, subject to certain limitations, and (vi) provide for an increase in the existing limited guaranty by H&H from up to $7.0 million to up to $12.0 million. In addition, the Wachovia Facilities were also amended to, among other things, reduce the amount of the credit facility from $125.3 million to $115.0 million including decreasing the revolving credit facility from $83.0 million to $75.0 million.

On May 8, 2009, H&H and its subsidiaries further amended the Wachovia Facilities to provide for, among other things, additional term loans to the borrowers thereunder in the aggregate principal amount of approximately $5.3 million, which were consolidated with the existing term loans under the Wachovia Facilities for a combined aggregate principal amount of $15.0 million, and additional guaranties by certain subsidiary trusts. Pursuant to this amendment: (i) a portion of the obligations under the tranche B term loan under the Wachovia Facilities was prepaid in an amount equal to $5.0 million; and (ii) the remaining available proceeds of the term loans are to be used for operating and working capital purposes. The Term B Loan was also amended on May 8, 2009 to provide for additional guaranties by certain subsidiary trusts.

Effective July 31, 2009, H&H and its subsidiaries amended each of the Wachovia Facilities and the Term B Loan to, among other things, (i) reset certain financial covenants, (ii) increase the existing limited H&H Guaranty of Bairnco's obligations under the Ableco Facility from up to $12 million to up to $17 million, and (iii) provide for the repayment of a portion of the term loan under the Wachovia Facilities in the amount of $3.0 million.

Other Handy & Harman Debt

On January 24, 2006, H&H's wholly-owned subsidiary, OMG, Inc., entered into an $8.0 million five-year loan and security agreement with Sovereign Bank. The loan is collateralized by a mortgage on OMG, Inc.'s real property. Principal is payable monthly in installments of $12,000. The loan bears interest at a variable rate equal to Libor plus 1.55% (2.55% as of December 31, 2009).

Bairnco

Bairnco's financing agreements include its Credit Agreement with Wells Fargo Foothill, Inc. ("Wells Fargo"), as arranger and administrative agent thereunder (the "Wells Fargo Facility"), which provides for revolving credit and term loan facilities, the Ableco Facility and its Loan and Security Agreement with Steel Partners II Liquidating Series Trust (Series A), (the "SP II Series A Trust"), as successor-in-interest to SP II (the "Subordinated Debt Credit Agreement"), both of which are also term loan facilities.

The Wells Fargo Facility provides for a revolving credit facility in an aggregate principal amount not to exceed $30.0 million and a term loan facility of $28.0 million. Borrowings under the Wells Fargo Facility bear interest, (A) in the case of base rate advances at 0.75% above the Wells Fargo Prime rate and base rate term loans at 1.25% above the Wells Fargo Prime rate, and (B) in the case of LIBOR rate loans, at rates of 3.00% for advances or 3.50% for term loans, as applicable, above the LIBOR rate. Obligations under the Wells Fargo Facility are guaranteed by certain of Bairnco's subsidiaries, and secured by a first priority lien on all assets of Bairnco and such subsidiaries. Principal payments for the term loans under the Wells Fargo Facility are due in monthly installments of $0.2 million. The scheduled maturity date of the indebtedness under the Wells Fargo Facility is July 17, 2012.

The Ableco Facility provides for a term loan facility of $48.0 million. Borrowings under the Ableco Facility bear interest, in the case of base rate loans, at 6.50% above the rate of interest publicly announced by JPMorgan Chase Bank in New York, New York as its reference rate, base rate or prime rate, and, in the case of LIBOR rate loans, at 9.00 % above the LIBOR rate. Obligations under the Ableco Facility are guaranteed by Bairnco and certain of its subsidiaries, and secured by a second priority lien on all of their assets. The Ableco Facility is also collateralized by a limited guaranty by H&H of up to $17 million, secured by a second lien on all of the assets of H&H pursuant to the terms and conditions of the H&H Security Agreement and the H&H Guaranty. Principal payments for the term loans under the Ableco Facility are due on the maturity date, which is July 17, 2012.

The Wells Fargo Facility and the Ableco Facility contain affirmative, negative, and financial covenants (including minimum EBITDA, maximum Leverage Ratio, minimum Fixed Charge Coverage Ratio, and limited Capital Expenditures, as such terms are defined therein). The Company was in compliance with the applicable covenants at December 31, 2009.

The Subordinated Debt Credit Agreement provides for a term loan facility. Bairnco was indebted to SP II under the Subordinated Debt Credit Agreement until July 15, 2009, when SP II assigned its interest in the Subordinated Debt Credit Agreement to SP II Series A Trust. The original principal of approximately $31.8 million was reduced to $10.0 million with proceeds from HNH's Rights Offering. All borrowings under the Subordinated Debt Credit Agreement bear interest at 9.50% above the rate of interest publicly announced by JPMorgan Chase Bank in New York, New York as its reference rate, base rate or prime rate. Principal, interest and all fees payable under the Subordinated Debt Credit Agreement are due and payable on the scheduled maturity date, January 17, 2013. Obligations under the Subordinated Debt Credit Agreement are guaranteed by Bairnco and certain of its subsidiaries, and collateralized by a subordinated priority lien on their assets. The Subordinated Debt Credit Agreement contains customary representations, warranties, affirmative and negative covenants, events of default and indemnification provisions.

On March 12, 2009, Bairnco and certain of its subsidiaries amended the Wells Fargo Facility and the Ableco Facility to, among other things, (i) increase the interest rates and (ii) reset the levels of certain financial covenants. The Ableco Facility was also amended to provide for, among other things, an increase in the existing limited guaranty by H&H from up to $7 million to up to $12 million, secured by a second lien on all of the assets of H&H pursuant to the terms and conditions of the H&H Security Agreement and the H&H Guaranty. The Subordinated Debt Credit Agreement was also amended to, among other things, increase the interest rates.

Effective August 18, 2009, Bairnco and certain of its subsidiaries also amended the Ableco Facility to, among other things, (i) reset certain financial covenants, (ii) increase the existing limited H&H Guaranty of Bairnco's obligations under the Ableco Facility from up to $12 million to up to $17 million and (iii) provide for the repayment of a portion of the Ableco Facility in the amount of $3.0 million. The Wells Fargo Facility and the Subordinated Debt Credit Agreement were also amended effective August 18, 2009, to, among other things, (i) reset certain financial covenants to levels consistent with the Ableco Facility, as amended, and (ii) permit the repayment of a portion of the Ableco Facility in the amount of $3.0 million.

Approximately $4.5 million of irrevocable standby letters of credit were outstanding under the Wells Fargo Facility as of December 31, 2009, which are not reflected in the accompanying consolidated financial statements. $1.5 million of the letters of credit guarantee various insurance activities and $3.0 million represents letters of credit securing borrowings for one of the China foreign loan facility. These letters of credit mature at various dates and have automatic renewal provisions subject to prior notice of cancellation.

The China foreign loan facility reflects borrowing by Bairnco's Chinese facilities through two banks. Approximately $2.8 million of such borrowings are secured by US dollar denominated letters of credit, and $2.0 million by a mortgage on one of Bairnco's Chinese facilities. Interest rates on amounts borrowed under the China foreign loan facilities averaged 2.9% at December 31, 2009.

Interest Cost

Cash interest paid in 2009 was $12.6 million. Cash interest paid in 2008 was $54.6 million, including $9.3 million of "pay in kind" interest and $28.1 million of interest that had accrued to SP II through the date of the Rights Offering and was paid with proceeds from the Rights Offering. The Company has not capitalized any interest costs in 2009 or 2008.

As of December 31, 2009, the revolving and term loans under the Wachovia Facilities bore interest at rates ranging from 3.75% to 15.0%; and the Term B Loan bore interest at 18.0%. The Wells Fargo Facility bore interest at rates ranging from 2.61% to 4.5% as of December 31, 2009, and the Ableco Facility bore interest at 9.29%. The Subordinated Debt Credit Agreement bore interest at 12.75% as of December 31, 2009. Weighted average interest rates for the years ended December 31, 2009 and 2008 were 10.85% and 9.88%, respectively.

Note 14 – Earnings Per Share

The computation of basic earnings or loss per common share is based upon the weighted average number of shares of Common Stock outstanding. Diluted earnings per share gives effect to dilutive potential common shares outstanding during the period. The Company has potentially dilutive common share equivalents including stock options and other stock-based incentive compensation arrangements (See Note 16-Stock-Based Compensation).

On November 24, 2008, the Company effected a reverse split of its outstanding common stock by a ratio of 1-for-10. The earnings per share calculations below and on the Consolidated Statements of Operations reflect the reduction in the number of shares outstanding on a retroactive basis as if the Reverse Stock Split had occurred on January 1, 2008.

No common share equivalents were dilutive in 2009 because the Company reported a net loss and therefore, any outstanding stock options would have had an anti-dilutive effect. No common share equivalents were dilutive in 2008 since the exercise price of the Company's warrants (prior to expiration) and its stock options and other stock-based incentive compensation arrangements was in excess of the average market price of the Company's common stock. As of December 31, 2009, stock options for an aggregate of 60,500 shares of common stock are excluded from the calculation of net loss per share.

A reconciliation of the income and shares used in the earnings (loss) per share computations follows:

	Years Ended December 31, 2009	2008
	(in thousands, except per share)	
Basic and Diluted calculations:		
Income (loss) from continuing operations, net of tax	$ (16,224)	$ 13,263
Weighted average number of common shares outstanding	12,179	4,001
Income (loss) from continuing operations, net of tax per common share	$ (1.33)	$ 3.31
Discontinued operations	$ (5,017)	$ (10,252)
Weighted average number of common shares outstanding	12,179	4,001
Discontinued operations per common share	$ (0.41)	$ (2.56)
Net income (loss)	$ (21,241)	$ 3,011
Weighted average number of common shares outstanding	12,179	4,001
Net income (loss) per common share	$ (1.74)	$ 0.75

Note 15 – Stockholders' (Deficit) Equity

Rights Offering

On September 25, 2008, the Company completed the Rights Offering to its existing stockholders. The Company sold 11,178,459 shares of common stock to existing stockholders through the exercise of rights at a subscription price of $14.00 per share, for an aggregate purchase price of approximately $156.5 million. SP II, the Company's largest stockholder at that time, subscribed for 8,630,910 shares of the Company's common stock, for an aggregate purchase price of approximately $120.8 million, pursuant to its basic and applicable oversubscription privileges. The Company used the proceeds of the Rights Offering to (i) redeem preferred stock issued by a wholly-owned subsidiary of the Company, which was held by SP II, plus accumulated dividends, together totaling $6.0 million, (ii) repay Company indebtedness to SP II of $18.9 million, and (iii) repay $117.6 million of indebtedness and accrued interest of certain wholly-owned subsidiaries of the Company to SP II. After such payments, $14.0 million remained with the Company as cash, of which $13.2 million was used to repay additional debt of the Company on October 29, 2008.

Authorized and Outstanding Shares

On January 31, 2008, HNH's stockholders approved a proposal to set the Company's authorized capital stock at a total of 100,000,000 shares, consisting of 95,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock. On September 16, 2008, HNH's stockholders approved a proposal to further increase the Company's authorized capital stock to a total of 185,000,000 shares, consisting of 180,000,000 shares of common stock and 5,000,000 shares of Preferred Stock. On November 24, 2008, the Company effected the Reverse Stock Split, by a ratio of 1-for-10. To enhance comparability, unless otherwise noted, all references to the Company's common stock and per share amounts have been adjusted on a retroactive basis as if the Reverse Stock Split had occurred on January 1, 2008.

Of the authorized shares, no shares of Preferred Stock have been issued, and 12,178,565 shares of Common Stock were issued and outstanding as of December 31, 2009 and 2008, 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 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 the Preferred Stockholders, are entitled to receive all the remaining assets of the corporation.

Warrants

As part of the Plan of Reorganization of HNH upon emergence from bankruptcy on July 29, 2005, in exchange for the extinguishment and cancellation of their stock, the Series A preferred stockholders and Series B preferred stockholders (at that time) received their pro rata share of 800,000 shares of the new common stock of the reorganized HNH and their pro rata share of 752,688 warrants to purchase common stock of the reorganized company, exercisable at $11.20 per share. The warrants were valued at $1.3 million using the Black-Scholes valuation method at $1.71 per warrant. The warrants expired February 28, 2008.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) balances as of December 31, 2009 and 2008 were comprised as follows:

	2009	2008
	(in thousands)	
Net actuarial losses and prior service costs and credits (net of tax)	$ (122,465)	$ (165,851)
Foreign currency translation adjustment	4,063	2,513
Valuation of marketable equity securities	-	(164)
	$ (118,402)	$ (163,502)

Note 16 – Stock-Based Compensation

The Company measures stock-based compensation cost at the grant date, based on the fair value of the award, and recognizes the expense on a straight-line basis over the employee's requisite service (vesting) period. All of the share amounts and stock option prices in this note reflect the Reverse Stock Split as if it had been effective on January 1, 2008.

At the Company's Annual Meeting of Shareholders on June 21, 2007, the Company's shareholders approved a proposal to adopt Handy & Harman Ltd.'s 2007 Plan, and reserved 80,000 shares of common stock under the 2007 Plan. The 2007 Plan permits options to be granted up to a maximum contractual term of 10 years. On July 6, 2007, stock options for an aggregate of 62,000 shares of common stock were granted under the 2007 Plan to employees and to two outside directors of the Company, at an exercise price of $90.00 per share. The options are exercisable in installments as follows: half of the options granted were exercisable immediately, one-quarter of the options granted became exercisable on July 6, 2008 and the balance of the options became exercisable on July 6, 2009. The options will expire on July 6, 2015. In 2008, the Company granted options for an aggregate of 18,000 shares to four employees at an exercise price of $90.00 per share. The weighted average fair value of the options granted in 2008 was $10.79 per share. The options are exercisable in installments as follows: one-third of the options granted were exercisable immediately, one-quarter of the options granted became exercisable one year from the date of grant, and the balance of the options become exercisable two years from the date of grant. The options will expire in 2016. 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 GAAP using a Black-Scholes option-pricing model. The expected average risk-free rate is based on U.S. treasury yield curve. The expected average life represents the period of time that options granted are expected to be outstanding. Expected volatility is based on historical volatilities of HNH's post-bankruptcy common stock. The expected dividend yield is based on historical information and management's plan.

Assumptions	2008
Risk-free interest rate	2.62%-3.22%
Expected dividend yield	0.00%
Expected life (in years)	4.5 years
Volatility	68.4% - 80.9%
Forfeiture rate	3.0%

The Company has recorded $0.3 million and $0.6 million of non-cash stock-based compensation expense related to its stock options in 2009 and 2008, respectively.

Activity related to the Company's 2007 Plan was as follows:

Options	Shares (000's)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (000)
Outstanding at December 31, 2008	64	$ 90.00	6.90	-
Granted	-	$ -	-	-
Exercised	-	$ -	-	-
Forfeited or expired	(4)	$ 90.00	-	-
Outstanding at December 31, 2009	60	$ 90.00	6.30	-
Of the outstanding options at December 31, 2009:				
Exercisable at December 31, 2009	54	$ 90.00	6.09	-
Exercisable and expected to vest in the future	60	$ 90.00	6.30	-

Nonvested Options	Shares (000's)	Fair Value
Nonvested at December 31, 2008	23	$ 37.80
Granted	-	$ -
Vested	(13)	$ 35.71
Forfeited	(4)	$ 37.80
Nonvested at December 31, 2009	6	$ 10.79

As of December 31, 2009 there was approximately $10,000 of unrecognized compensation cost related to non-vested share based compensation arrangements granted under the 2007 Plan. That cost is expected to be recognized over a weighted-average period of 0.1 years. The total fair value of shares vested in 2009 and 2008 was $0.5 million and $0.6 million, respectively.

On July 6, 2007, the Compensation Committee of the Board of Directors of the Company 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 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 bonus is payable immediately upon the sending of a notice by either board member, respectively. The incentive arrangements terminate July 6, 2015, to the extent not previously received. Under 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 $0.1 million of non-cash income related to these incentive arrangements in both 2009 and 2008.

Note 17 – Commitments and Contingencies

Operating Lease Commitments:

The Company leases certain facilities under non-cancelable operating lease arrangements. Rent expense for the Company in 2009 and 2008 was $8.0 million and $8.2 million, respectively. Future minimum operating lease and rental commitments under non-cancelable operating leases are as follows (in thousands):

Year	Amount	
2010	$	6,019
2011		5,472
2012		4,281
2013		2,302
2014		1,229
Thereafter		6,359
	$	25,662

On June 30, 2008, Arlon Inc., a wholly owned subsidiary of Bairnco and part of its Arlon Electronic Materials 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 $570,000, 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 $1.6 million and $1.7 million of such deferred gain was included in Other Long-term Liabilities on the consolidated balance sheets as of December 31, 2009 and 2008, respectively.

Legal Matters:

Paul E. Dixon & Dennis C. Kelly v. Handy & Harman

Paul Dixon and Dennis Kelly, two former officers of H&H (the “Claimants”) filed a Statement of Claim with the American Arbitration Association (the “Arbitration”) on or about January 3, 2006. The Claimants were employees of H&H until September 2005 when their employment was terminated by H&H. Their arbitration claims included seeking payments allegedly due under employment contracts and allegedly arising from their terminations, and seeking recovery of benefits under what they allege was the H&H Supplemental Executive Retirement Plan (“H&H SERP”).

In the Arbitration, Claimants sought an award in excess of $4.0 million each, plus interest, costs and attorneys’ fees. The Claimants also sought indemnification for certain matters and an injunction against H&H with regard to life insurance policies. On February 15, 2006, H&H brought a special proceeding in the Supreme Court of the State of New York, County of Westchester (“Supreme Court, Westchester County”), for a judgment staying the arbitration of three of the four claims. On March 10, 2006, all of the parties filed a stipulation with the court, discontinuing the court proceeding and agreeing therein, among other things, that all claims asserted by the Claimants in the Arbitration (which was also discontinued at that time) would be asserted in Supreme Court, Westchester County.

In April 2006, the Claimants served a request for benefits, severance and other amounts, similar to those described above, on H&H and various plan administrators and fiduciaries thereof. The request was reviewed in accordance with the procedures of the benefit plans at issue and by letter dated September 27, 2006, claimants were notified that their request was largely denied.

In January 2008, Mr. Kelly filed a lawsuit against HNH, H&H and various benefit plans (the "Defendants") in the United States District Court for the Southern District of New York. Mr. Dixon did not join in this lawsuit, and his counsel has not indicated whether Mr. Dixon intends to file his own lawsuit. Mr. Kelly's claims in this lawsuit are essentially the same claims that he asserted in the above-described arbitration and request for benefits. Mr. Kelly's complaint seeks approximately $4.0 million in money damages plus unspecified punitive damages. On April 22, 2009, the Defendants filed a motion for summary judgment seeking dismissal of the case. In an Opinion filed February 11, 2010, the district court granted Defendants' motion for summary judgment, dismissed with prejudice plaintiff's claims under the H&H SERP and dismissed without prejudice plaintiff's state law breach of contract claim. The district court also denied plaintiff's cross motion for summary judgment. On February 25, 2010, plaintiff filed a notice of appeal with the United States Circuit Court of Appeals for the Second Circuit to appeal the dismissal of the plaintiff's claims related to the H&H SERP. Plaintiff also retains the right to file a breach of contract case in state court for damages allegedly arising out of his termination. The Defendants intend to vigorously litigate the appeal and any state court lawsuit should Mr. Kelly elect to file a new lawsuit. There can be no assurance that the Defendants will be successful in defending against Mr. Kelly's state court claims should they be filed, or that the Defendants will not have any liability on account of Mr. Kelly's claims. Such liability, if any, 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 the Company.

Arista Development LLC V. Handy & Harman Electronic Materials Corporation ("HHEM")

In 2004, HHEM, a subsidiary of H&H, entered into an agreement to sell a commercial/industrial property in Massachusetts (the "MA Property"). Disputes between the parties resulted in the purchaser (plaintiff) initiating litigation in Bristol Superior Court in Massachusetts. The plaintiff alleges that HHEM is 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 has been vigorously defending the case. The court entered a preliminary injunction enjoining HHEM from conveying the property to anyone other than the plaintiff during the pendency of the case. Discovery on liability and damages has been stayed while the parties are actively engaged in settlement discussions. Since discovery is not completed, it cannot be known at this time whether it is foreseeable or probable that plaintiff would prevail in the litigation or whether HHEM would have any liability to the plaintiff.

Electroplating Technologies, Ltd. v. Sumco, Inc.

Electroplating Technologies, Ltd. ("ETL") filed a lawsuit against Sumco, a subsidiary of H&H, in Lehigh, Pennsylvania County Court of Common Pleas. ETL contended that Sumco misappropriated trade secrets and breached contractual obligations with respect to certain allegedly proprietary and confidential ETL information. ETL sought damages in excess of $4.55 million. In its pretrial filings, ETL also asserted a claim for $9.0 million in punitive damages. On May 8, 2009, after a ten day trial, the jury found that Sumco had not misappropriated ETL's trade secrets. However, the jury found that Sumco had breached a contractual obligation owed to ETL and as compensation for that breach of contract, awarded ETL the sum of $250,000. Following the jury verdict, the court denied ETL's equitable requests for an injunction and for an accounting. On May 18, 2009, Sumco filed a motion with the court for judgment notwithstanding the verdict to set aside the damage award. On May 28, 2009, ETL filed a motion with the court seeking (i) a new trial and (ii) a modified verdict in the amount of $2,250,000. In an order docketed September 25, 2009, the court denied ETL's motion for a new trial and to increase the jury's verdict. The court then granted Sumco's motion for a judgment notwithstanding the verdict and overturned the jury's May 2009 award of $250,000 against Sumco for breach of contract. ETL filed a notice of appeal of the court's decision on October 16, 2009. Each of ETL and Sumco have filed briefs with the appellate court. The Company expects the appellate court to hear oral argument on the appeal during the summer of 2010 and to render its decision by the end of 2010. 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 the Company.

World Properties, Inc. et. al. v. Arlon, Inc.

In December 2008, World Properties, Inc. and Rogers Corporation (collectively, "Rogers") filed a lawsuit against Arlon, Inc. ("Arlon"), a subsidiary of Bairnco, in the United States District Court for the District of Connecticut. The lawsuit alleged that Rogers is the exclusive licensee under U.S. Patent No. 5,552,210 (the "210 Patent") and that Arlon's TC600 circuit board infringed that patent. In the complaint, Rogers demanded that Arlon cease the manufacture, sale and distribution of its TC600 circuit board and that the district court award unspecified damages to compensate Rogers for the alleged infringement. On January 14, 2009, Arlon moved to dismiss the lawsuit, based upon a covenant not to sue contained in an asset purchase agreement between Rogers and Arlon, dated January 30, 1996 (the "APA"), that Arlon contends covers the TC600 and the 210 Patent. Arlon also requested that the district court stay discovery on Rogers' patent infringement claim pending resolution of the motion to dismiss. On February 13, 2009, the district court: (i) agreed to a stay of discovery on the patent infringement claim; (ii) directed the parties to conduct expedited discovery on the issue of the applicability of the covenant not to sue in the APA to the TC600 and the 210 Patent; and (iii) denied the motion to dismiss without prejudice. On June 24, 2009, plaintiffs filed a motion to amend its complaint in order to assert that a second Arlon product (AD 1000) infringed a second Rogers patent, U.S. Patent No. 5,384,181 (the "181 Patent"). Arlon subsequently filed its opposition to plaintiffs' motion to amend its complaint. On June 30, 2009, Arlon filed a motion for summary judgment seeking to dismiss the lawsuit based upon the APA. In an order issued October 9, 2009, the district court granted Arlon's motion for summary judgment and dismissed all of Rogers' affirmative patent infringement claims. The parties are currently in settlement discussions regarding the remaining claim in the case, which is Arlon's affirmative claim for contractual indemnification for Rogers' breach of a covenant not to sue Arlon.

Environmental Matters

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, although 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 required, there will be monitoring of the Sold Parcel site for several years. On September 11, 2008, the CTDEP advised H&H that it had approved H&H's Soil Action Remediation Action Report, dated December 28, 2007 as amended by an addendum letter dated July 15, 2008, thereby concluding the active remediation of the Sold Parcel. Approximately $29.0 million was expended through December 31, 2009, and the remaining remediation and monitoring costs for the Sold Parcel are expected to approximate $0.3 million. H&H previously received reimbursement of $2.0 million from an insurance company under a cost-cap insurance policy and in January 2010, net of attorney's fees, H&H received $1.034 million as the final settlement of H&H's claim for additional insurance coverage relating to the Sold Parcel. The $1.034 million settlement is included in the "Income from Proceeds of Insurance Claims" line on the 2009 Consolidated Statement of Operations, and is included in the "Trade and Other Receivables" line on the Consolidated Balance Sheet as of December 31, 2009. H&H also has been conducting an environmental investigation of the Adjacent Parcel, and is continuing the process of evaluating various options for its remediation of the Adjacent Parcel. Since 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 and cash flow of H&H.

HHEM entered into an administrative consent order (the "ACO") in 1986 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 and H&H settled a case brought by the local municipality in regard to this site in 1998 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 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, 2009, over and above the $1.0 million, total investigation and remediation costs of $1,353,970 and $451,658 have been expended by the former owner/operator and HHEM, respectively, in accordance with the settlement agreement. Additionally, HHEM indirectly is currently being reimbursed 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 remediation plan is agreed upon with NJDEP, and 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.

H&H and Bairnco (and/or one or more of their respective subsidiaries) have also been identified as potentially responsible parties ("PRPs") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") or similar state statutes at several sites and are parties to administrative consent orders in connection with certain other properties. H&H and Bairnco (and/or one or more of their respective 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, H&H and Bairnco are unable to reasonably estimate the ultimate cost of compliance with such laws.

H&H received a notice letter from the United States Environmental Protection Agency ("EPA") in August 2006 formally naming H&H as a PRP at a superfund site in Massachusetts (the "Superfund site"). H&H is part of a group of thirteen (13) other PRPs (the "PRP Group") to work cooperatively regarding remediation of the Superfund site. H&H executed a participation agreement, consent decree and settlement trust on June 13, 2008 and all of the other PRP's have signed as well. On December 9, 2008, the EPA lodged the consent decree with the United States District Court for the District of Massachusetts and the consent decree was entered, after no comments were received during the thirty-day comment period on January 27, 2009. With the entry and filing of the consent decree, H&H was required to make two payments in 2009: one payment of $182,053 relating to the "true-up" of monies previously expended for remediation and a payment of $308,380 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. 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 site, under the direction of the Department of Energy ("DOE"), has begun but is not expected to be completed until the Fall of 2011 at the earliest, and it may be delayed even further due to inadequate funding in the federal program financing the DOE work. Additional financial contributions will be required by the PRP Group when it starts its work upon completion of the DOE's radiological remediation work.   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.

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 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. By letter dated March 24, 2009, MADEP advised HHEM that the RAO-P did not require a comprehensive audit. By letter dated April 16, 2009, the MADEP advised HHEM that a MADEP AUL Audit Inspection conducted on March 18, 2009 did not identify any violations of the requirements applicable to the AUL. Together, the March 24 and April 16 MADEP letters, combined with HHEM's Licensed Site Professional's partial RAO opinion constitute confirmation of the adequacy of HHEM's investigation of the MA Property as well as its remediation and post closure monitoring plans. HHEM is negotiating with MADEP and the Massachusetts Attorney General a covenant not to sue (CNTS) to cover the MA Property. Once the CNTS is executed, HHEM will file a Remedy Operation Status and will then work towards filing a Class A-3 RAO to close the site once groundwater monitoring demonstrates that the remediation has controlled the conditions at the site. 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.

As discussed above, H&H and Bairnco and/or their subsidiaries 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. H&H and Bairnco and/or their 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. In addition, the Company has insurance coverage available for several of these matters and believes that excess insurance coverage may be available as well. The Company had approximately $6.7 million accrued related to estimated environmental remediation costs as of December 31, 2009.   Based upon information currently available, including prior capital expenditures, anticipated capital expenditures, and information available on pending judicial and administrative proceedings, H&H and Bairnco and/or their subsidiaries do not expect their respective environmental compliance costs, including the incurrence of additional fines and penalties, if any, relating to the operation of their respective facilities to have a material adverse effect on them, but there can be no such assurances that the resolution of these matters will not have a material adverse effect on the financial positions, results of operations and cash flows of H&H and Bairnco and/or their subsidiaries. The Company anticipates that H&H and Bairnco and/or their subsidiaries will pay such amounts out of their respective working capital, although there is no assurance that H&H and Bairnco and/or their subsidiaries will have sufficient funds to pay such amounts. In the event that H&H and Bairnco and/or their subsidiaries are unable to fund their liabilities, claims could be made against their respective parent companies, including HNH, for payment of such liabilities.

On July 31, 2009, H&H reached a settlement agreement with an insurer for reimbursement of remediation and legal expense for five sites where H&H and/or its subsidiaries had incurred environmental remediation expenses. The insurer agreed to pay H&H $3,000,000 for past indemnity expense and $150,000 for past defense costs. Such insurance proceeds were received on August 10, 2009, and $3,000,000 was included in the “Income from proceeds of insurance claims” line on the consolidated statement of operations in the third quarter.

Other Litigation

Certain of the Company’s 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. There is also one filed and served case in state court arising out of H&H’s sale of a used piece of equipment which allegedly caused a fire resulting in property damage and interruption of a third party’s business operations. It is not possible to reasonably estimate the Company’s exposure or share, if any, of the liability at this time 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.

Pension Plan Contingency Arising from the WPC Group Bankruptcy

In July 2003, the Company entered into an agreement among the Pension Benefit Guaranty Corporation ("PBGC"), certain of its former subsidiaries ("WPC" and "WPSC"), and the United Steelworkers of America, AFL-CIO-CLC ("USWA"), in settlement of matters relating to the Termination Litigation, in which the PBGC was seeking to terminate the WHX pension Plan. Under the settlement, HNH agreed, among other things, (i) to certain administrative facts and legal conclusions about the WHX pension Plan, as well as certain ongoing agreements, as set forth in the settlement agreement, and (ii) that HNH will not contest a future action by the PBGC to terminate the WHX pension Plan in connection with a future WPC Group facility shutdown. The WPC Group was a wholly-owned subsidiary of HNH until August 1, 2003. In the event that such a plan termination occurs, the PBGC has agreed to release HNH from any claims relating to the shutdown. However, there may be PBGC claims related to unfunded liabilities that may exist as a result of a termination of the WHX pension Plan.

Note 18 – Related Party Transactions

SP II is the direct owner of 4,774,591 shares of the Company's common stock, representing approximately 39.2% of the outstanding shares. Steel Partners Holdings L.P. ("SPH"), formerly known as WebFinancial L.P., is the sole limited partner of SP II. Steel Partners Holdings GP LLC (the "General Partner") is SPH's General Partner. SPH is the sole member of the General Partner. Steel Partners LLC ("Steel Partners") is the manager of SPH and SP II. Warren G. Lichtenstein, the manager of Steel Partners and Chairman of the board of directors of the General Partner, is the Chairman of the Board of the Company.

On September 8, 2005, H&H completed the assignment of its approximately $70.6 million Term B Loan from Canpartners, to SP II, as agent and lender. Substantially all of the terms and conditions of the Term B Loan continued without amendment. H&H was indebted to SP II under the Term B Loan until July 15, 2009, when SP II assigned its interest in the Term B Loan to the SP II Series E Trust. As of December 31, 2009, $44.1 million of loan principal and $11.8 million of accrued interest was owed to the SP II Series E Trust. Interest is not expected to be paid in cash pursuant to the terms of a Subordination Agreement between Steel and Wachovia.

During 2007, in connection with the Bairnco Acquisition, SP II entered into the Subordinated Loan Agreement with HNH and the Subordinated Debt Credit Agreement with Bairnco. (See Note 13). On September 29, 2008, HNH repaid all indebtedness and accrued interest under the Subordinated Loan Agreement, using proceeds from the Rights Offering. On July 15, 2009, SP II assigned its interest in the Subordinated Debt Credit Agreement to the SP II Series A Trust. As of December 31, 2009, $10.0 million of loan principal and $1.6 million of accrued interest was owed to the SP II Series A Trust.

Mr. Glen Kassan, a Managing Director and operating partner of Steel Partners, was appointed Chief Executive Officer of HNH on October 7, 2005. In 2006, the Compensation Committee approved a salary of $600,000 per annum for Mr. Kassan. In 2008, in addition to his salary, the Compensation Committee of the Board of Directors approved the grant of a cash bonus to Mr. Kassan in the amount of $100,000.

Effective March 26, 2010, a special committee of the Board of Directors, composed entirely of independent directors, approved a management and services fee to be paid to SP Corporate Services, LLC ("SP") in the amount of $950,000 for services performed in 2009. SP is an affiliate of Steel Partners and is controlled by the Chairman of the Board of the Company, Warren G. Lichtenstein. This fee was the only consideration paid for the services of the Chairman of the Board, Warren G. Lichtenstein, the Vice Chairman and Chief Executive Officer, Glen M. Kassan, the director and Vice President, John J. Quicke, and the directors Jack L. Howard and John H. McNamara, Jr., as well as other assistance from Steel Partners. The $600,000 salary of Glen Kassan, the Company's Chief Executive Officer, which had been deferred from 2009 (net of the 5% company-wide salary reduction) will not be separately paid. 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 the Company. The Company is in discussions with SP regarding a management and services agreement for 2010.

During 2009, the Company provided certain accounting services to SPH, and continues to provide certain accounting services on an ongoing basis. The Company billed SPH $91,000 on account of services provided in 2009.

On October 26, 2005, HNH CS Corp. (“CS”), a wholly-owned subsidiary of the Company, entered into a Stock Purchase Agreement with SP II. Pursuant to that agreement, CS sold 1,000 shares of Series A Preferred Stock, par value $0.01 per share (the “HNH CS Preferred”) to SP II. SP II paid a purchase price of $5,100 per share or an aggregate purchase price of $5.1 million. The proceeds of the sale were used by CS to purchase 1,898,337 shares of CoSine. The HNH CS Preferred accrued dividends at 6.0% ($306,000) per annum. The HNH CS Preferred were redeemed, together with accrued dividends, on September 29, 2008 from the proceeds of the Rights Offering.

CS’s investment in CoSine was accounted for under the equity method and was included in other non-current assets on the consolidated balance sheet. Although CS owned 18.8% of the outstanding common stock of CoSine, the Company accounted for CoSine under the equity method because a related party (SP II) owned an additional percentage of the outstanding common stock and as a result of the combined ownership percentage, indirectly had the ability to exercise control. In the second quarter of 2009, the Company recorded a $1.2 million non-cash impairment charge in connection with its equity investment in CoSine. The amount of the impairment represented the difference between the carrying value of the investment and its fair value. On July 31, 2009, CS sold its equity investment in CoSine to SP II for cash proceeds of $3.1 million.

On July 6, 2007, the Compensation Committee of the Board of Directors of the Company adopted incentive arrangements for Mr. Kassan and Mr. Lichtenstein. These arrangements provide, among other things, for each 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, as adjusted pursuant to the terms of the 2007 Incentive Stock Plan to reflect the Reverse Stock Split. The bonus is payable immediately upon the sending of a notice by either Mr. Kassan or Mr. Lichtenstein, respectively The incentive arrangements terminate July 6, 2015, to the extent not previously received. Under 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 $0.1 million of non-cash income related to these incentive arrangements in both 2009 and 2008.

On September 25, 2008, HNH completed the Rights Offering. The Company sold 11,178,459 shares of common stock to existing stockholders through the exercise of rights at a subscription price of $14.00 per share, for an aggregate purchase price of approximately $156.5 million. SP II subscribed for 8,630,910 shares of the Company’s common stock, for an aggregate purchase price of approximately $120.8 million, pursuant to its basic and applicable oversubscription privileges. After giving effect to the Rights Offering, SP II owned 75% of the outstanding shares of common stock of the Company, but has since reduced its owned shares. The Company used the proceeds of the Rights Offering to (i) redeem preferred stock issued by a wholly-owned subsidiary of the Company, which was held by SP II, plus accumulated dividends, together totaling $6.0 million, (ii) repay Company indebtedness to SP II of $18.9 million, and (iii) repay $117.6 million of indebtedness and accrued interest of certain wholly-owned subsidiaries of the Company to SP II.   After such payments, $14.0 million remained with the Company as cash, of which $13.2 million was used to repay additional debt of the Company on October 29, 2008.

Note 19 – Other Income (Expense)

	Years Ended December 31, 2009	2008
	(in thousands)	
Equity income (loss) from affiliated companies	$ (46)	$ 28
Foreign currency transaction gain (loss)	142	(1,095)
Other, net	14	7
	$ 110	$ (1,060)

Note 20 – Reportable Segments

Handy & Harman Ltd., the parent company, manages a group of businesses on a decentralized basis. HNH owns H&H, a diversified holding company whose strategic business units encompass three reportable segments: Precious Metal, Tubing, and Engineered Materials. HNH also owns Bairnco, another diversified holding company that manages business units in three reportable segments: Arlon EM segment, Arlon CM segment, and Kasco Replacement Products and Services. The business units of H&H and Bairnco principally operate in North America. The Company's six reportable segments are as follows:

(1) Precious Metal segment activities include the fabrication of precious metal and their alloys into brazing alloys. H&H's brazing alloys are used to join similar and dissimilar metals as well as specialty metals and some ceramics with strong, hermetic joints. H&H 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. H&H's 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. In accordance with general practice, prices to customers are principally a composite of two factors: (1) the value of the precious metal content of the product and (2) the "fabrication value," which includes the cost of base metals, labor, overhead, financing and profit.

(2) Tubing segment manufactures a wide variety of steel tubing products. The Stainless Steel Tubing Group manufactures small-diameter precision-drawn seamless tubing both in straight lengths and coils. The Stainless Steel Tubing Group's capabilities in long continuous drawing of seamless stainless steel coils allow this Group to serve the petrochemical infrastructure and shipbuilding markets. The Stainless Steel Tubing Group also manufactures products for use in the medical, semiconductor fabrication, aerospace and instrumentation industries. The Specialty Tubing Group manufactures welded carbon steel tubing in coiled and straight lengths with a primary focus on products for the refrigeration, automotive, and HVAC industries. In addition to producing bulk tubing, the Specialty Tubing Group also produces value added products and assemblies for these industries.

(3) Engineered Materials segment manufactures and supplies products to the construction and building industries. H&H manufactures fasteners and fastening systems for the U.S. commercial flat roofing industry. Products are sold to building and roofing material wholesalers. The products are also private labeled to roofing system manufacturers. A line of specialty fasteners is produced for the building products industry for fastening applications in the construction and remodeling of homes, decking and landscaping. H&H also manufactures plastic and steel fittings and connectors for natural gas and water distribution service lines along with exothermic welding products for electrical grounding, cathodic protection, and lightning protection.   In addition, H&H manufactures electro-galvanized and painted cold rolled sheet steel products primarily for the construction, entry door, container and appliance industries.

(4) Arlon EM segment designs, manufactures, markets and sells high performance laminate materials and silicone rubber products utilized in the military/aerospace, wireless communications, transportation, energy generation, oil drilling, general industrial, and semiconductor markets. Among the products included in the Arlon EM segment are high technology laminates and bonding materials used in the manufacture of printed circuit boards and silicone rubber products such as electrically insulating tapes and thermally conductive materials.

(5) Kasco Replacement Products and Services segment is a leading provider of meat-room products (principally replacement band saw blades) and on-site maintenance services principally to retail food stores, meat and deli operations, and meat, poultry and fish processing plants throughout the United States, Canada and Europe. In Canada, in addition to providing its replacement products, Kasco also sells equipment to the supermarket and food processing industries.

Management has determined that certain operating companies should be aggregated and presented within a single reporting segment on the basis that such operating segments have similar economic characteristics and share other qualitative characteristics. Management reviews sales, gross profit and operating income to evaluate segment performance. Operating income for the reportable segments includes the costs of shared corporate headquarters functions such as finance, auditing, treasury, legal, benefits administration and certain executive functions, but 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 table presents information about reportable segments for the years ended December 31, 2009 and 2008.

Statement of operations data: **(in thousands)**	**Twelve Months Ended December 31,** **2009**	**2008**
Net Sales:		
Precious Metal	$ 85,972	$ 129,431
Tubing	75,198	100,961
Engineered Materials	191,709	246,815
Arlon Electronic Materials	60,145	64,207
Kasco	47,678	50,445
Total net sales	$ 460,702	$ 591,859
Segment operating income:		
Precious Metal	5,490	17,335
Tubing	4,746	9,581
Engineered Materials	16,903	22,553
Arlon Electronic Materials	4,338	6,243
Kasco	3,661	3,978
Total	$ 35,138	$ 59,690
Unallocated corporate expenses & non operating units	(13,547)	(22,013)
Income from proceeds of insurance claims, net	4,035	3,399
Unallocated pension credit (expense)	(14,013)	8,335
Corporate restructuring costs	(636)	-
Income from benefit plan curtailment	-	3,875
Asset impairment charge	(1,158)	-
Loss on disposal of assets	(132)	(111)
Income from continuing operations	$ 9,687	$ 53,175
Interest expense	(25,741)	(36,212)
Realized and unrealized loss on derivatives	(777)	(1,355)
Other income (expense)	110	(1,060)
Income (loss) from continuing operations before income taxes	$ (16,721)	$ 14,548

(a) Segment operating income for the Precious Metal segment for 2009 includes restructuring charges of $0.4 million relating to the closure of a facility in New Hampshire. The results for the Precious Metal segment for 2009 and 2008 also include gains of $0.6 million and $3.9 million, respectively, resulting from the liquidation of precious metal inventory valued at LIFO cost.
(b) Segment operating income for the Tubing segment for 2009 includes non-cash asset impairment charges of $0.9 million to write-down to fair value certain equipment formerly used in the manufacture of a discontinued product line.
(c) Segment operating results for the Arlon EM segment for 2009 include a $1.1 million goodwill impairment charge recorded to adjust the carrying value of one of the Arlon EM segment's reporting units to its estimated fair value.
(d) Segment operating income for the Kasco segment for 2009 includes $0.2 million asset impairment charge associated with certain real property located in Atlanta Georgia.

Capital Expenditures	2009	2008
	(in thousands)	
Precious Metal	$ 629	$ 3,188
Tubing	2,525	1,061
Engineered Materials	2,083	3,057
Arlon Electronic Materials	819	1,180
Kasco	937	1,868
Corporate and other	211	41
	$ 7,204	$ 10,395

Depreciation and amortization expense	2009	2008
	(in thousands)	
Precious Metal	$ 1,635	$ 1,428
Tubing	3,056	3,236
Engineered Materials	4,858	4,705
Arlon Electronic Materials	3,971	4,539
Kasco	2,690	2,808
Corporate and other	870	1,361
	$ 17,080	$ 18,077

	December 31,	
Total Assets	2009	2008
	(in thousands)	
Precious Metal	$ 40,582	$ 37,211
Tubing	36,291	45,758
Engineered Materials	127,105	140,063
Arlon Electronic Materials	65,583	69,718
Kasco	26,484	29,913
Corporate and other	19,666	26,917
Discontinued operations	38,129	52,661
	$ 353,840	$ 402,241

The following table presents revenue and long lived asset information by geographic area as of and for the years ended December 31. Long-lived assets in 2009 and 2008 consist of property, plant and equipment, plus approximately $7.8 million and $8.4 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 in other non-current assets on the consolidated balance sheets.

Geographic Information

	Revenue		Long-Lived Assets	
	2009	2008	2009	2008
	(in thousands)		(in thousands)	
United States	$ 424,047	$ 545,391	$ 81,107	$ 94,777
Foreign	36,655	46,468	13,574	14,500
	$ 460,702	$ 591,859	$ 94,681	$ 109,277

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.

There were no customers which accounted for more than 5% of consolidated net sales in 2009 and 2008. In 2009 and 2008, the 15 largest customers accounted for approximately 25% and 22% of consolidated net sales, respectively.

Note 21 –Subsequent Events

The Company has updated its historical consolidated financial statements to reflect certain businesses that were sold since the issuance of the original financial statements, and these businesses are presented in the accompanying financial statements as discontinued operations.

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 $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. A gain on the sale of these assets of $11.5 million was recorded in the first quarter of 2011.

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's Engineered Coated Products Division and SignTech subsidiary for an aggregate sale 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 Company recorded a loss of $5.0 million on the sale of these assets in the first quarter of 2011. The net proceeds from these asset sales were used to repay indebtedness under the Company's revolving credit facility.

During the third quarter of 2011, the Company sold the stock of Kasco-France, a part of its Kasco segment, to Kasco-France's former management team for one Euro plus 25% of any pre-tax earnings over the next three years. Additionally, Kasco-France signed a five year supply agreement to purchase certain products from Kasco. As a result of the sale, the Company recorded a loss, net of tax, of $0.6 million in the third quarter of 2011.

Arlon CM and Kasco-France have been included in the accompanying financial statements as discontinued operations on a retroactive basis for the twelve months ending December 31, 2009 and 2008.

FINANCIAL STATEMENTS OF STEEL EXCEL INC. (FORMERLY ADPT CORPORATION)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Steel Excel, Inc.
Milpitas, California

We have audited the accompanying consolidated balance sheet of Steel Excel, Inc. (formerly ADPT Corporation or the "Company") as of September 30, 2011 and the related consolidated statements of operations, stockholders' equity, and cash flows for the nine months then ended. These consolidated 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 in accordance with 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 consolidated financial statements are free of material misstatement. As of September 30, 2011, 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 presentation of the consolidated financial statements. We believe that our audit provides 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. as of September 30, 2011, and the results of its operations and its cash flows for the nine months 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 and the years ended March 31, 2010 and 2009 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 3 of Exhibit 99.2. 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, March 31, 2010 and 2009 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, March 31, 2010 and 2009 financial statements taken as a whole. The reclassifications had no effect on net income (loss).

/s/ BDO USA, LLP

San Jose, California
December 14, 2011

Steel Excel Inc.
STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Nine-Month Period Ended	
	September 30, 2011	**October 1, 2010**
		(unaudited)
Revenues	$ 707	$ -
Cost of revenues	176	-
Gross margin	531	-
Operating expenses:		
Selling, marketing and administrative	7,414	14,848
Amortization of acquisition-related intangible assets	8	-
Restructuring charges	38	3,977
Total operating expenses	7,460	18,825
Operating loss	(6,929)	(18,825)
Interest and other income, net	8,109	5,633
Income (loss) from continuing operations before income taxes	1,180	(13,192)
Benefit from income taxes	337	111
Income (loss) from continuing operations, net of taxes	1,517	(13,081)
Income (loss) from discontinued operations, net of taxes	1,910	(12,817)
Gain on disposal of discontinued operations, net of taxes	5,005	11,012
Income (loss) from discontinued operations, net of taxes	6,915	(1,805)
Net income (loss)	$ 8,432	$ (14,886)
Income (loss) per share:		
Basic		
Income (loss) from continuing operations, net of taxes	$ 0.14	$ (1.10)
Income (loss) from discontinued operations, net of taxes	$ 0.64	$ (0.15)
Net income (loss)	$ 0.78	$ (1.25)
Diluted		
Income (loss) from continuing operations, net of taxes	$ 0.14	$ (1.10)
Income (loss) from discontinued operations, net of taxes	$ 0.63	$ (0.15)
Net income (loss)	$ 0.77	$ (1.25)
Shares used in computing income (loss) per share:		
Basic	10,881	11,917
Diluted	10,898	11,917

See accompanying Notes to Financial Statements.

Steel Excel Inc.
BALANCE SHEETS
(In thousands)

		September 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$	10,110
Marketable securities		344,141
Restricted cash		-
Prepaid expenses and other current assets		2,691
Assets held for sale		-
Total current assets		356,942
Property and equipment, net		5,923
Goodwill		1,988
Intangible assets, net		227
Other long-term assets		3,452
Total Assets	$	368,532
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$	1,569
Accrued and other liabilities		1,430
3/4% convertible senior subordinated notes due 2023		346
Total current liabilities		3,345
Other long-term liabilities		10,525
Deferred income taxes		986
Total liabilities		14,856
Commitments and contingencies (Note 9)		
Shareholders' Equity:		
Common stock		108
Additional paid-in capital		172,006
Accumulated other comprehensive income, net of taxes		820
Retained earnings		180,742
Total shareholders' equity		353,676
Total Liabilities and Shareholders' Equity	$	368,532

See accompanying Notes to Financial Statements.

Steel Excel Inc.
STATEMENTS OF CASH FLOWS
(In thousands)

	Nine-Month Period Ended September 30, 2011	Nine-Month Period Ended October 1, 2010 (unaudited)
Cash Flows From Operating Activities:		
Net income (loss)	$ 8,432	$ (14,886)
Less: (Income) loss from discontinued operations, net of taxes	(6,915)	1,805
Income (loss) from continuing operations, net of taxes	1,517	(13,081)
Adjustments to reconcile income (loss) from continuing operations, net of taxes, to net cash used in operating activities, net of assets acquired and liabilities assumed:		
Stock-based compensation expense	490	851
Inventory-related charges	-	(37)
Depreciation and amortization	2,040	13,350
Gain on release of foreign currency translation, net of taxes	(2,542)	-
Adjustment of deferred taxes	1,365	-
Loss on retirement/impairment of assets	-	10,205
Changes in current assets and liabilities	2,217	(19,259)
Net cash provided by (used in) operating activities of continuing operations	5,087	(7,971)
Net cash provided by (used in) operating activities of discontinued operations	6,933	(12,809)
Net cash provided by (used in) operating activities	12,020	(20,780)
Cash Flows From Investing Activities:		
Purchases of net assets in acquisitions	(7,530)	-
Purchases of intangible assets	-	(953)
Purchases of property and equipment	-	(106)
Purchases of marketable securities	(491,499)	(202,183)
Sales of marketable securities	396,194	129,496
Maturities of marketable securities	62,321	65,011
Net cash used in investing activities of continuing operations	(40,514)	(8,735)
Net cash provided by investing activities of discontinued operations	-	28,945
Net cash (used in) provided by investing activities	(40,514)	20,210
Cash Flows From Financing Activities:		
Repurchases of long-term debt	-	(68)
Repurchases of common stock	-	(20,385)
Proceeds from issuance of common stock	29	2,359
Net cash provided by (used in) financing activities of continuing operations	29	(18,094)
Net cash provided by financing activities of discontinued operations	-	-
Net cash provided by (used in) financing activities	29	(18,094)
Effect of foreign currency translation on cash and cash equivalents	299	(253)
Net decrease in cash and cash equivalents	(28,166)	(18,917)
Cash and cash equivalents, beginning of period	38,276	85,930
Cash and cash equivalents, end of period	$ 10,110	$ 67,013
Non-Cash Investing and Financing Activities:		
Unrealized gains (losses) on available-for-sale securities, net of taxes	$ 336	$ (1,018)

See accompanying Notes to Financial Statements.

Steel Excel Inc.
STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income, Net of Taxes	Retained Earnings	Total
Balance, December 31, 2010	10,882	$ 108	$ 170,987	$ 2,861	$ 172,310	$ 346,266
Components of comprehensive loss:						
Net income					8,432	8,432
Unrealized losses on available-for-sale investments, net of taxes	-	-	-	336	-	336
Foreign currency translation adjustments, net of taxes	-	-	-	(2,377)	-	(2,377)
Total comprehensive income, net of taxes						6,391
Exercises of stock options	1	29	-	-	-	29
Net settlement of restricted shares	4	-	-	-	-	-
Stock-based compensation	-	-	490			490
Minority interest	-	-	500			500
Balance, September 30, 2011	10,887	$ 137	$ 171,977	$ 820	$ 180,742	$ 353,676

See accompanying Notes to Financial Statements.

1. Description and Basis of Presentation

Description

Steel Excel Inc. ("Steel Excel" or the "Company") 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 the Company's net tax operating losses ("NOLs") in the future. The identification of new business operations includes, but is not limited to, the oilfield servicing, sports, training, education, entertainment, andlifestyle businesses. 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 Company's Financial Statements include the accounts of Steel Excel and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The financial information for the nine months ended October 1, 2010 is unaudited and has been presented for comparison purposes. The results of operations for the nine-months ended September 30, 2011 are not necessarily indicative of the results to be expected for the entire fiscal year.

Certain reclassifications have been made to prior years' amounts to conform to the current year's presentation. 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 Aristos Business is reflected as a discontinued operation 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, we 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 our 2011 annual stockholders meeting, our 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, our 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.

2. Recent Accounting Pronouncements

In September, the Financial Accounting Standards Board (the "FASB") issued updated guidance allowing the use of a qualitative approach to test goodwill for impairment. The updated guidance would permit our Company to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of one of our reporting units is less than its carrying value. If we conclude that this is the case, it is then necessary for us to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The updated guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 with early adoption permitted. We are currently evaluating the impact of our pending adoption of this update.

In June 2011, FASB issued Accounting Standards Update ("ASU") No. 2011-05, "Presentation of Comprehensive Income" ("ASU 2011-05"). ASU 2011-05 requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. Under the continuous statement approach, the statement would include the components and total of net income, the components and total of other comprehensive income, and the total of comprehensive income. Under the two statement approach, the first statement would include the components and total of net income and the second statement would include the components and total of other comprehensive income and the total of comprehensive income. ASU 2011-05 does not change the items that must be reported in other comprehensive income. ASU 2011-05 is effective retrospectively for interim and annual periods beginning after December 15, 2011, with early adoption permitted. We are currently evaluating the impact of the adoption of ASU 2011-05 on our financial presentation.

3. Acquisitions

During the nine-month period ended September 30, 2011, we made two acquisitions of baseball-related sports businesses to begin the redeployment of our working capital into operating businesses. We consider both these business combinations to be immaterial individually and in the aggregate.

On June 27, 2011, we 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.

The Company accounted for the Baseball Heaven acquisition as a business combination and the total consideration of $6.0 million has been allocated on a preliminary basis 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 were customer relationships being amortized on a straight-line basis with a life of five years. The amortization expense of $7,833 is included in the selling, marketing, and administrative expenses in our Statements of Operations for the nine-month period ended September 30, 2011. The goodwill of $0.2 million arises from the growth potential the Company sees for Baseball Heaven and is not expected to be deductible for tax purposes. The acquisition-related costs for the purchase of Baseball Heaven, included in the selling, marketing, and administrative expenses in our Statements of Operations, were $0.2 million for the nine-month period ended September 30, 2011.

On August 15, 2011, we acquired all of the net assets used by The Show, LLC ("The Show"), which we contributed to The Show in exchange for a 75% membership interest. We paid an aggregate purchase price of $1.5 million in cash for these assets. The Show is 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 Company accounted for The Show acquisition as a business combination and the total consideration of $1.5 million has been allocated on a preliminary basis 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 arises from the Company's expectations for the potential of The Show to expand and is not expected to be deductible for tax purposes. The acquisition-related costs for the purchase of The Show, included in the selling, marketing, and administrative expenses in our Statements of Operations, were $0.1 million for the nine-month period ended September 30, 2011.

The results of operations of Baseball Heaven and The Show have been included in the accompanying financial statements since their respective acquisition dates. Since all previous operations of the Company have been discontinued, the revenues and cost of revenues of Baseball Heaven and The Show represent the entire revenues and cost of revenues of the Company for the periods presented.

We are not including 2011 pro forma information for the operations of Baseball Heaven and The Show for the periods prior to their acquisition because they were not material to the Company's results of operations and earnings per share.

The Company is in the process of completing its assessment of the fair value of assets acquired and liabilities assumed in the Baseball Heaven and The Show acquisitions. As a result, the fair value of the net assets acquired is provisional pending completion of the final valuation of such net assets.

4. Employee Stock Benefit Plans

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 and the 2006 Director Plan. As disclosed in Note 1, all share information has been adjusted to reflect the Reverse/Forward Split.

As of September 30, 2011, 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 57,500 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 September 30, 2011, the Company had an aggregate of 0.1 million shares of its common stock reserved for issuance under its 2006 Director Plan, of which 57,601 shares were subject to outstanding options and other stock-based awards and 30,517 shares were available for future grants of options and other stock-based awards.

Stock Benefit Plans Activities

Stock Options*:* A summary of option activity under all of the Company's equity incentive plans as of September 30, 2011 and changes during the nine-month period ended September 30, 2011 was 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 December 31, 2010	80	$ 35.61		
Granted	25	$ 29.10		
Exercised	(1)	$ 28.60		
Forfeited	(1)	28.40		
Expired	(7)	$ 62.10		
Outstanding at September 30, 2011	96	$ 31.96	6.01	$ -
Options vested and expected to vest at September 30, 2011	84	$ 32.36	5.89	$ -
Options exercisable at September 30, 2011	69	$ 33.09	5.59	$ -

The aggregate intrinsic value is calculated as the difference between the closing price of the Company's common stock on the Pink Sheets Electronic Quotation Service and the exercise price of the underlying awards for the 68,771 shares subject to options that were in-the-money at September 30, 2011. As of September 30, 2011, the total unamortized stock-based compensation expense related to non-vested stock options, net of estimated forfeitures, was approximately $0.2 million and this expense is expected to be recognized over a remaining weighted-average period of 2.0 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 September 30, 2011, there were 1,625 shares of service-based restricted stock awards and 17,500 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.

A summary of activity for restricted stock as of September 30, 2011 and changes during the nine-month period ended September 30, 2011 was as follows:

	Shares	Weighted Average Grant-Date Fair Value
	(in thousands, except weighted average grant-date fair value)	
Non-vested restricted stock at December 31, 2010 (1)	8	$ 29.24
Awarded	15	$ 0.10
Vested	(4)	$ 28.49
Forfeited	-	28.39
Non-vested restricted stock at September 30, 2011 (1)	19	$ 29.49

(1) Non-vested restricted stock at each period included shares issued to certain non-employee directors in which vesting will occur immediately if the relationship between the Company and the non-employee director ceases for any reason. These non-vested shares were recognized and fully expensed as stock-based compensation expense in the Statements of Operations at the date of grant or the date of modification.

All restricted stock was awarded at the par value of $0.01 per share. As of September 30, 2011, the total unamortized stock-based compensation expense related to non-vested restricted stock that is expected to vest, net of estimated forfeitures, was approximately $32,463 and this expense is expected to be recognized over a remaining weighted-average period of 2.0 years.

Stock-Based Compensation

The Company measures and recognizes stock-based compensation expense 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 adjusted 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.

Stock-based compensation expense included in the Condensed Statements of Operations for the nine-month periods ended September 30, 2011 and October 1, 2010 (unaudited) was as follows:

	Nine-Month Period Ended	
	September 30, 2011	October 1, 2010
		(unaudited)
	(in thousands)	
Stock-based compensation expense by caption:		
Selling, marketing and administrative	491	624
Effect on income from continuing operations	$ 491	$ 624
Stock-based compensation expense by award type:		
Stock options	$ 43	$ 196
Restricted stock awards and restricted stock units	448	428
Effect on income from continuing operations	$ 491	$ 624

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 the nine-month periods ended September 30, 2011 and October 1, 2010 (unaudited), there were 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 nine-month periods ended September 30, 2011 and October 1, 2010 (unaudited) as the amounts were not material.

Valuation Assumptions

The Company used the Black-Scholes option pricing model for determining the estimated fair value for all stock-based awards. No grants were made in the nine-month period ended October 1, 2010 (unaudited) for stock options and other stock-based awards. The fair value of the stock-based awards granted in the nine-month period ended September 30, 2011 were estimated using the following weighted average assumptions:

	Assumption
Expected life (in years)	4.3
Risk-free interest rates	1.5%
Expected volatility	44%
Dividend yield	0.0
Weighted average fair value of restricted stock	$ 1.09

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 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.

As previously disclosed, 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. Revenues and the components of income related to the DPS Business and Aristos Business included in discontinued operations in the nine-month period ended October 1, 2010 (unaudited) are as follows:

	Nine-Month Period Ended October 1, 2010
	(unaudited) *(in thousands)*
Revenues	$ 37,213
Income (loss) from discontinued operations before income taxes	$ 2,401
Benefit from (provision for) income taxes	(2,512)
Loss from discontinued operations, net of taxes	$ (111)

During the nine-month period ended September 30, 2011, the Company sold patents from its DPS Business for $1.9 million, which was included in income from discontinued operations. There was no financial activity from the Aristos Business during the nine-month period ended September 30, 2011.

6. Marketable Securities

The Company's investment policy focuses on three objectives: to preserve capital, to meet liquidity requirements, and to maximize total return. The Company's 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. Given the overall market conditions, the Company regularly reviews its investment portfolio to ensure adherence to its investment policy and to monitor individual investments for risk analysis and proper valuation.

The Company's portfolio of marketable securities at September 30, 2011 was as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Available-for-Sale Marketable Securities:				
Short-term deposits	$ 1,425	$ -	$ -	$ 1,425
United States government securities	338,303	659	(3)	338,959
Government agencies	3,508	28	-	3,536
Corporate obligations	1,521	11	-	1,532
Total available-for-sale securities	344,757	698	(3)	345,452
Amounts classified as cash equivalents	(1,311)	-	-	(1,311)
Amounts classified as marketable securities	$ 343,446	$ 698	$ (3)	$ 344,141

Sales of marketable securities resulted in gross realized gains of $2.0 million during the nine-month period ended September 30, 2011, and $0.9 million during the nine-month period ended October 1, 2010 (unaudited). Sales of marketable securities resulted in gross realized losses of $0.3 million and $0.5 million during the nine-month periods ended September 30, 2011 and October 1, 2010 (unaudited), 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 time that individual securities have been in a continuous unrealized loss position, at September 30, 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)					
United States government securities	$ 28,287	$ (3)	$ -	$ -	$ 28,287	$ (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 nine-month periods ended September 30, 2011 and October 1, 2010 (unaudited) were not deemed to be other-than-temporary. The Company holds its marketable securities as available-for-sale and marks them to market.

The amortized cost and estimated fair value of investments in available-for-sale debt securities at September 30, 2011, by contractual maturity, were as follows:

	September 30, 2011	
	Cost	Estimated Fair Value
	(in thousands)	
Mature in one year or less	$ 272,010	$ 272,247
Mature after one year through three years	72,748	73,205
Mature after three years through five years	-	-
Total	$ 344,758	$ 345,452

The maturities of asset-backed and mortgage-backed securities were estimated primarily based upon assumed prepayment forecasts utilizing interest rate scenarios and mortgage loan characteristics.

7. 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. 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 September 30, 2011, 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 September 30, 2011 were 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)			
Cash, including short-term deposits (1)	10,225	$ 10,225	$ -	
United States government securities (2)	338,959	338,959	-	
Government agencies (2)	3,536	3,536	-	
Corporate obligations (2)	1,532	-	1,532	
Non-controlling interests in certain funds (3)	1,117	-		1,117
Total	$ 355,369	$ 352,720	$ 1,532	$ 1,117

(1) At September 30, 2011, the Company recorded $10.1 million and $0.1 million within "Cash and cash equivalents," and "Marketable securities," respectively.
(2) Recorded within "Marketable securities."
(3) At September 30, 2011, the Company recorded $1.1 million within "Other long-term assets."

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 September 30, 2011 was approximately $0.3 million. 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 September 30, 2011 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, which is categorized as significant unobservable inputs, included the Company's long-lived assets classified as held for sale. Although the Company used the market approach for the fair value of its long-lived assets classified as held for sale based on similar assets either sold, pending sale or available for sale, the terms of these similar assets are highly subjective, resulting in the classification as level 3.

8. Property and Equipment, Net

The components of property and equipment, net, at September 30, 2011 were as follows:

	Life	2010
		(in thousands)
Leasehold improvements	Lesser of useful life or life of lease	$ 5,620
Equipment	5 - 10 years	286
Furniture and fixtures	5 - 10 years	100
		6,006
Accumulated depreciation		(83)
Property and equipment, net		$ 5,923

Property and equipment are depreciated using the straight-line method over the useful lives disclosed above. Depreciation expense of $0.1 million and $0.2 million are included in "Selling, marketing, and administrative" expenses on our Statements of Operations for the nine-month periods ended September 30, 2011 and October 1, 2010, respectively. An additional $0.5 million of depreciation expense is included in "Loss from discontinued operations, net of taxes" on our Statement of Operations for the nine-month period ended October 1, 2010.

9. Accrued and Other Liabilities

The components of accrued and other liabilities at September 30, 2011 were as follows:

	September 30, 2011
	(in thousands)
Tax-related	$ 236
Restructuring-related	160
Accrued compensation and related taxes	96
Deferred revenue	292
Professional services	523
Other	123
Total	$ 1,430

10. Commitments and Contingencies

Contractual Obligations

The Company completed the sale of its headquarters building on June 1, 2011 for net cash proceeds of $6.3 million. Concurrently, the Company began leasing a 3,581 square foot portion of the building from the new owner for approximately $4,300 per month. The majority of this space is leased through March 31, 2012.

Through its acquisitions of Baseball Heaven and The Show, the Company assumed additional leases of property with the following obligations based on a calendar December 31 year-end:

	Area Leased	Through 2011	2012-2014	After 2014	Total
			(dollars in thousands)		
New York (Baseball Heaven)	27.9 acres	$ 111	$ 670	$ 456	$ 1,237
California (The Show)	1,176 sq ft	4	27	-	31
Oklahoma (The Show)	4,250 sq ft	3	3	-	6
		$ 118	$ 700	$ 456	$ 1,274

Legal Proceedings

From time to time, we may be a party in legal actions in various U.S. and foreign jurisdictions, arising from the normal course of business. In the opinion of management, such legal actions are not expected to have a material adverse effect on our financial condition or results of operations.

11. Restructuring Charges

The Company implemented restructuring plans during the Transition Period and during fiscal years 2010 and 2009. The goals of these plans were to bring its 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 Condensed Statements of Operations.

In the nine-month period ended September 30, 2011, the Company recorded $6,000 restructuring accrual adjustments related to the Transition Period's restructuring plan for severance and benefits, respectively. To date, the Company has recorded a total of $3.9 million associated with this plan, of which $3.7 million related to severance and benefit charges for affected employees who were notified of their impending employment termination date and $0.2 million related to a termination fee for vacating a facility in California. The Company does not expect to record additional restructuring charges related to this plan in the future.

In the nine-month period ended October 1, 2010 (unaudited), the Company recorded restructuring charges of $3.7 million, related to the Company's Transition Period restructuring plan for severance and benefits. In the nine-month period ended October 1, 2010 (unaudited), the Company incurred the previously mentioned $3.9 million of charges plus $0.7 million related to the Company's fiscal 2010 restructuring plan for severance and benefits and restructuring accrual adjustments of $(0.1) million related to a previous acquisition-related restructuring plan and fiscal 2009 restructuring plan due to the estimated loss on the Company's facilities (unaudited).

The activity in the restructuring accrual for all outstanding plans was as follows for the nine-month period ended September 30, 2011:

	Severance and Benefits	Other Charges	Total
		(in thousands)	
Accrual balance at December 31, 2010	$ 881	$ 350	$ 1,231
Accrual adjustments	6	-	6
Cash paid	(845)	(232)	(1,077)
Accrual balance at September 30, 2011	$ 42	$ 118	$ 160

The Company anticipates that this remaining restructuring accrual balance at September 30, 2011, which was reflected in "Accrued and other liabilities" in the Condensed Balance Sheets, will be paid out by December 31, 2011.

12. Interest and Other Income, Net

The components of interest and other income, net, for the nine-month periods ended September 30, 2011 and October 1, 2010 (unaudited) were as follows:

	Nine-Month Period Ended	
	September 30, 2011	October 1, 2010
		(unaudited)
	(in thousands)	
Interest income, net	$ 3,853	$ 5,572
Realized currency translation gains (losses)	3,917	(62)
Other	339	123
Interest and other income (expense), net	$ 8,109	$ 5,633

The realized foreign currency translation gains were primarily due to substantial liquidation of certain of the Company's foreign subsidiaries.

13. Income Taxes

Income tax provisions for interim periods are based on the Company's estimated annual income tax rate for entities that were profitable. Entities that had operating losses with no tax benefit were excluded. The estimated annual tax for the nine-month periods ended September 30, 2011 and October 1, 2010 (unaudited) includes foreign taxes related to the Company's foreign subsidiaries and certain state minimum taxes. Interest is accrued on prior years' tax disputes and refund claims as a discrete item each period. Although the Company believes its tax estimates are reasonable, the ultimate tax outcome may materially differ from the tax amounts recorded in its Financial Statements and may cause a higher effective tax rate that could materially affect its income tax provision, results of operations or cash flows in the period or periods for which such determination is made.

The components of income (loss) from continuing operations before benefit from income taxes for all periods presented were as follows:

	Nine-Month Period Ended	
	September 30, 2011	October 1, 2010
		(unaudited)
	(in thousands)	
Income (loss) from continuing operations before income taxes		
Domestic	$ (1,890)	$ (14,603)
Foreign	3,070	1,411
Total income (loss) from continuing operations before income taxes	$ 1,180	$ (13,192)

The components of the benefit from income taxes from continuing operations for all periods presented were as follows:

	Nine-Month Period Ended	
	September 30, 2011	October 1, 2010
		(unaudited)
	(in thousands)	
Federal:		
Current	-	537
Deferred	(2,339)	-
	(2,339)	537
Foreign:		
Current	2,978	(412)
Deferred	-	19
	2,978	(393)
State:		
Current	(1)	(33)
Deferred	(301)	-
	(302)	(33)
Benefit from income taxes	$ 337	$ 111

The Company's effective tax rate differed from the federal statutory tax rate for all periods presented as follows:

	Nine-Month Period Ended	
	September 30, 2011	October 1, 2010
		(unaudited)
Federal statutory rate	35.0%	35.0%
State taxes, net of federal benefit	25.6%	-0.2%
Foreign losses not benefited	-95.6%	1.5%
Changes in tax reserves	-247.8%	-0.9%
Change in valuation allowance	-2735.8%	-34.5%
Distributions from foreign subsidiaries	3014.7%	0.0%
Other permanent differences	-24.6%	-0.1%
Effective income tax rate	-28.5%	0.8%

The Company recorded a tax benefit of $0.3 million for the nine-month period ended September 30, 2011, primarily due to the reversal of reserves for foreign taxes as a result of a favorable settlement in Singapore. During the nine-month period ended September 30, 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. The nine-month period ended September 30, 2011 also included the Company realizing certain currency translation gains due to substantial liquidation of certain of its foreign subsidiaries during the period. 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. The Company recorded a tax benefit of $8.6 million for the nine-month period ended October 1, 2010 (unaudited), due to losses incurred from continuing operations that were offset against income and taxes recorded in discontinued operations. This was partially offset by state minimum taxes and foreign taxes related to its foreign subsidiaries.

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. For details regarding the Company's NOL carryforwards prior to the nine-month period ended September 30, 2011, please refer to Note 13 of the Notes to Condensed Financial Statements included in the Company's Transition Report on Form 10-K for the nine-month period ended December 31, 2010. There were no significant changes to the Company's NOLs from December 31, 2010.

As of September 30, 2011, the Company's total gross unrecognized tax benefits were $29.9 million, of which $9.3 million, if recognized, would affect the effective tax rate. There have been no material changes to the Company's total gross unrecognized tax benefits from December 31, 2010.

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 September 30, 2011, fiscal years 2004 onward remained open to examination by the U.S. taxing authorities and fiscal years 1999 onward remained open to examination in various foreign jurisdictions. U.S. tax attributes generated in fiscal years 2004 onward also remain subject to adjustment in subsequent audits when they are utilized.

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.

14. 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) was as follows:

	Nine-Month Period Ended	
	September 30, 2011	October 1, 2010
		(unaudited)
	(in thousands, except per share amounts)	
Numerators (basic and diluted):		
Income (loss) from continuing operations, net of taxes	$ 1,517	$ (13,081)
Income (loss) from discontinued operations, net of taxes	6,915	(1,805)
Net income (loss)	$ 8,432	$ (14,886)
Denominators:		
Weighted average shares outstanding - basic	10,881	11,917
Effect of dilutive securities:		
Stock-based awards	14	-
3/4% Notes	3	-
Weighted average shares outstanding - diluted	10,898	11,917
Income (loss) per share:		
Basic		
Income (loss) from continuing operations, net of taxes	$ 0.14	$ (1.10)
Income (loss) from discontinued operations, net of taxes	$ 0.64	$ (0.15)
Net income (loss)	$ 0.78	$ (1.25)
Diluted		
Income (loss) from continuing operations, net of taxes	$ 0.14	$ (1.10)
Income (loss) from discontinued operations, net of taxes	$ 0.63	$ (0.15)
Net income (loss)	$ 0.77	$ (1.25)

Diluted loss per share for the nine-month period ended October 1, 2010 (unaudited) was based only on the weighted-average number of shares outstanding during that period, as the inclusion of any common stock equivalents would have been anti-dilutive. As a result, the same weighted-average number of common shares outstanding during that period was used to calculate both the basic and diluted earnings per share. In addition, certain potential common shares were excluded from the diluted computation for the nine-month period ended September 30, 2011 because their inclusion would have been anti-dilutive. The weighted-average number of common shares used to calculate the diluted earnings per share for loss from continuing operations, net of taxes, during each of the periods was also used to compute all other reported diluted earnings per share, even though it could result in anti-dilution. The potential common shares excluded for the nine-month periods ended September 30, 2011 and October 1, 2010 (unaudited) were as follows:

	Nine-Month Period Ended	
	September 30, 2011	October 1, 2010
		(unaudited)
	(in thousands)	
Outstanding stock options	22	40
Outstanding restricted stock	22	10
3/4% convertible senior subordinated notes due 2023	3	2

Comprehensive Income (Loss)

The Company's comprehensive loss, net of taxes, which consisted of net income (loss) and the changes in net unrealized loss on marketable securities net of taxes, and foreign currency translation adjustments, net of taxes, was as follows:

	Nine-Month Period Ended	
	September 30, 2011	October 1, 2010
		(unaudited)
	(in thousands)	
Net foreign currency translation adjustment, net of taxes		
Foreign currency translation adjustment, net of taxes	$ 165	$ (112)
Release of currency translation gains, net of taxes	(2,542)	-
Total	(2,377)	(112)
Net income (loss)	8,462	(14,886)
Net unrealized gain (loss) on marketable securities, net of taxes	336	(536)
Comprehensive income (loss), net of taxes	$ 6,421	$ (15,534)

The Company has considered all available evidence and determined that the marketable securities in which unrealized losses were recorded in the three-month and nine-month periods ended September 30, 2011 and October 1, 2010 (unaudited) were not deemed to be other-than-temporary. The Company holds its marketable securities as available-for-sale and marks them to market. The Company expects to realize the full value of all its marketable securities upon maturity or sale, as the Company has the intent and ability to hold the securities until the full value is realized. However, the Company cannot provide any assurance that its invested cash, cash equivalents and marketable securities will not be impacted by adverse conditions in the financial markets, which may require the Company to record an impairment charge that could adversely impact its financial results.

The components of accumulated other comprehensive income (loss), net of taxes, at September 30, 2011 were as follows:

	September 30, 2011
	(in thousands)
Net unrealized gain on marketable securities, net of taxes	$ 695
Foreign currency translation, net of taxes	125
Accumulated other comprehensive income, net of taxes	$ 820

15. Related Party Transactions

As of September 30, 2011, Warren G. Lichtenstein, Steel Partners, LLC, Steel Partners Holdings, L.P., SPH Group Holdings LLC and SPH Group LLC (collectively, "Steel Partners") beneficially owned approximately 38% of the Company's outstanding common stock. Jack L. Howard, John J. Quicke and Mr. 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 are 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 and is compensated $30,000 per month in connection with this role, which is in addition to the compensation he receives as a non-executive board member. During the nine-month period ended September 30, 2011 and October 1, 2010, Mr. Quicke received bonuses aggregating $500,000 and $250,000, respectively. Mr. Quicke also serves as the CEO of another affiliate of Steel Partners. Further, Mr. Lichtenstein is President of a subsidiary of the Company that is engaged in the sports, training, education, entertainment, and lifestyle businesses. In connection with his appointment to such office, Mr. Lichtenstein was awarded an option to acquire 250,000 shares of the Company's Common Stock in lieu of an annual salary. This equity award is in addition to the compensation he receives as a non-executive board member.

Pursuant to a management services agreement between the Company and SP Corporate Services LLC (SP Corporate), the Company paid $0.1 million to SP Corporate for various services during the nine-month period ended September 30, 2011. SP Corporate is an affiliate of Steel Partners.

16. Subsequent Event

On December 8, 2011, the Company acquired the business and assets of Rogue Pressure Services, LLC, a leader in the oilfield service industry located primarily in Williston, North Dakota and Eagle Ford, Texas. The purchase price for this acquisition was $29.0 million in cash plus a future earnout if certain financial targets are met. The Company has not completed the purchase accounting as the valuation work is currently in process.

This acquisition marks the launch of a new strategy by the Company to focus a portion of its acquisition efforts on new opportunities in the U.S. oilfield service industry presented by technological advances in horizontal drilling and hydraulic fracturing.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Steel Excel Inc.

In our opinion, the consolidated balance sheets as of December 31, 2010 and March 31, 2010, and the related consolidated statements of operations, consolidated statements of cash flows and consolidated statements of stockholders' equity, for the nine month period ended December 31, 2010 and for each of the years ended March 31, 2010 and 2009, before the effects of the adjustments to retrospectively reflect the discontinued operations and the reverse/forward stock split described in Note 1, present fairly, in all material respects, the financial position of Steel Excel Inc. (formerly ADPT Corporation) and its subsidiaries at December 31, 2010, and the results of their operations and their cash flows for the nine month period ended December 31, 2010 and for each of the years ended March 31, 2010 and 2009, 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 audits. We conducted our audits, 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 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, and evaluating the overall financial statement presentation. We believe that our audits provide 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.

PricewaterhouseCoopers LLP
San Jose, California
March 3, 2011

ADPT Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
Revenues	$ -	$ -	
Cost of revenues	-	-	
Gross margin	-	-	-
Operating expenses:			
General and administrative	11,045	29,400	26,130
Restructuring charges	3,944	1,135	3,523
Total operating expenses	14,989	30,535	29,653
Operating loss	(14,989)	(30,535)	(29,653)
Interest and other income (expense), net	5,208	10,461	21,008
Interest expense	(3)	(6)	(1,229)
Loss from continuing operations before income taxes	(9,784)	(20,080)	(9,874)
Benefit from (provision for) income taxes	(7,602)	2,848	3,375
Income (loss) from continuing operations, net of taxes	(17,386)	(17,232)	(6,499)
Discontinued operations, net of taxes:			
Loss from discontinued operations, net of taxes	(11,289)	(1,438)	(8,418)
Gain on disposal of discontinued operations, net of taxes	10,916	1,236	4,727
Loss from discontinued operations, net of taxes	(373)	(202)	(3,691)
Net loss	$ (17,759)	$ (17,434)	$ (10,190)
Basic and diluted loss per share:			
Income (loss) from continuing operations, net of taxes	$ (1.50)	$ (1.45)	$ (0.54)
Loss from discontinued operations, net of taxes	$ (0.03)	$ (0.02)	$ (0.31)
Net loss	$ (1.53)	$ (1.47)	$ (0.85)
Shares used in computing loss per share:			
Basic and diluted	11,609	11,920	11,977

See accompanying Notes to the Consolidated Financial Statements.

ADPT Corporation
CONSOLIDATED BALANCE SHEETS
(in thousands except par value)

	December 31, 2010	March 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 38,276	$ 63,948
Marketable securities	314,135	311,399
Restricted cash	1,676	-
Accounts receivable, net of allowance for doubtful accounts of $0 at December 31, 2010 and $34 at March 31, 2010	-	7,528
Inventories	-	2,342
Prepaid expenses	929	2,354
Other current assets	3,878	11,269
Assets held for sale	6,000	-
Total current assets	364,894	398,840
Property and equipment, net	-	11,353
Intangible assets, net	-	16,029
Other long-term assets	2,658	2,854
Total Assets	$ 367,552	$ 429,076
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 3,353	$ 9,188
Accrued and other liabilities	4,398	12,271
3/4% convertible senior subordinated notes due 2023	346	346
Total current liabilities	8,097	21,805
Other long-term liabilities	12,203	4,755
Deferred income taxes	986	4,813
Total liabilities	21,286	31,373
Commitments and contingencies (Note 9)		
Shareholders' 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, 10,882 at December 31, 2010 and 12,040 at March 31, 2010	108	119
Additional paid-in capital	170,987	203,229
Accumulated other comprehensive income, net of taxes	2,861	4,286
Retained earnings	172,310	190,069
Total shareholders' equity	346,266	397,703
Total Liabilities and Shareholders' Equity	$ 367,552	$ 429,076

See accompanying Notes to Consolidated Financial Statements.

ADPT Corporation
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
Cash Flows From Operating Activities:			
Net loss	$ (17,759)	$ (17,434)	$ (10,190)
Less: Loss from discontinued operations, net of taxes	(373)	(202)	(3,691)
Income (loss) from continuing operations, net of taxes	(17,386)	(17,232)	(6,499)
Adjustments to reconcile income (loss) from continuing operations, net of taxes, to net cash used in operating activities of continuing operations:			
Stock-based compensation expense	470	2,952	1,687
Depreciation and amortization	3,214	3,184	3,500
Gain on sales of investments	-	(440)	(2,255)
Gain on extinguishment of debt	-	-	(1,643)
Changes in current assets and liabilities			
Prepaid expenses and other current assets	6,554	(30)	6,881
Other assets	153	6,332	(4,736)
Accounts payable	(7,120)	(1,202)	(2,195)
Other liabilities	(6,717)	(8,513)	(8,786)
Net cash used in operating activities of continuing operations	(20,832)	(14,949)	(14,046)
Net cash provided by (used in) operating activities of discontinued operations	6,519	18,362	27,696
Net cash provided by (used in) operating activities	(14,313)	3,413	13,650
Cash Flows From Investing Activities:			
Purchases of property and equipment	-	(281)	(463)
Proceeds from sale of investments	-	440	-
Purchases of marketable securities	(198,403)	(236,947)	(231,349)
Sales of marketable securities	141,681	102,856	273,132
Maturities of marketable securities	49,536	85,187	79,777
Maturities of restricted marketable securities	-	-	1,688
Net cash provided by (used in) investing activities of continuing operations	(7,186)	(48,745)	122,785
Net cash provided by (used in) investing activities of discontinued operations	28,285	(1,704)	(37,388)
Net cash provided (used in) by investing activities	21,099	(50,449)	85,397
Cash Flows From Financing Activities:			
Repurchases of long-term debt	-	(128)	(222,915)
Repurchases of common stock	(34,684)	(1,756)	(2,401)
Proceeds from issuance of common stock	2,169	448	1,676
Net cash used in financing activities of continuing operations	(32,515)	(1,436)	(223,640)
Net cash provided by financing activities of discontinued operations	-	-	-
Net cash provided by financing activities	(32,515)	(1,436)	(223,640)
Effect of foreign currency translation on cash and cash equivalents	57	696	(3,594)
Net decrease in cash and cash equivalents	(25,672)	(47,776)	(128,187)
Cash and cash equivalents, beginning of period	63,948	111,724	239,911
Cash and cash equivalents, end of period	$ 38,276	$ 63,948	$ 111,724

See accompanying Notes to Consolidated Financial Statements.

ADPT Corporation
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income, Net of Taxes	Retained Earnings	Total
	Shares	Amount				
Balance, March 31, 2008	12,092	$ 121	$ 199,289	$ 6,993	$ 217,693	$ 424,096
Components of comprehensive loss:						
Net loss	-	-	-	-	(10,190)	(10,190)
Unrealized losses on available-for-sale investments, net of taxes	-	-	-	(600)		(600)
Foreign currency translation adjustments, net of taxes	-	-	-	(3,429)		(3,429)
Total comprehensive loss, net of taxes						(14,219)
Sale of common stock under employee option plans	50	1	1,675	-	-	1,676
Net issuance of restricted shares	67	-	-	-	-	-
Net settlement of restricted shares	(35)	(1)	(1,659)	-	-	(1,660)
Stock-based compensation	-	-	3,388	-	-	3,388
Repurchase of common stock	(103)	(1)	(2,400)	-	-	(2,401)
Balance, March 31, 2009	12,071	120	200,293	2,964	207,503	410,880
Components of comprehensive loss:						
Net loss	-	-	-	-	(17,434)	(17,434)
Unrealized losses on available-for-sale investments, net of taxes	-	-	-	110	-	110
Foreign currency translation adjustments, net of taxes	-	-	-	1,212	-	1,212
Total comprehensive loss, net of taxes						(16,112)
Sale of common stock under employee option plans	18	1	447	-	-	448
Net issuance of restricted shares	62	-	-	-	-	-
Net settlement of restricted shares	(40)	(1)	(1,572)	-	-	(1,573)
Stock-based compensation	-	-	5,816	-	-	5,816
Repurchase of common stock	(71)	(1)	(1,755)	-	-	(1,756)
Balance, March 31, 2010	12,040	119	203,229	4,286	190,069	397,703
Components of comprehensive loss:						
Net loss	-	-	-	-	(17,759)	(17,759)
Unrealized losses on available-for-sale investments, net of taxes	-	-	-	(1,566)	-	(1,566)
Foreign currency translation adjustments, net of taxes	-	-	-	141	-	141
Total comprehensive loss, net of taxes						(19,184)
Sale of common stock under employee option plans	76	1	2,168	-	-	2,169
Net issuance of restricted shares	(62)	-	-	-	-	-
Net settlement of restricted shares	1	(1)	(860)	-	-	(861)
Stock-based compensation	-	-	1,123	-	-	1,123
Repurchase of common stock	(1,173)	(11)	(34,673)	-	-	(34,684)
Balance, December 31, 2010	10,882	$ 108	$ 170,987	$ 2,861	$ 172,310	$ 346,266

See accompanying Notes to the Consolidated Financial Statements.

Note 1. Organization and Summary of Significant Accounting Policies

Description

ADPT Corporation ("ADPT" or the "Company") is primarily focused on capital redeployment and identification of new, profitable business operations in which it can utilize its existing working capital and maximize the use of the Company's net operating losses ("NOLs") in the future. In September 2010, the Company completed the wind down of its products and associated technology obtained from its acquisition of Aristos Logic Corporation ("Aristos Business"), which provided enterprise-class external storage products, including Application Specific Integrated Circuits ("ASICs") and software, to Original Equipment Manufacturers ("OEMs"). The Company considered all of its products to be similar in nature and function. The Company also operates in one segment and did not derive any amount of its revenue from services or support. For details regarding the Company's historical business, which has been accounted for as discontinued operations, refer to Note 3 to the Consolidated Financial Statements.

Basis of Presentation

As the Company reclassified the Aristos Business to discontinued operations in July 2011, these Consolidated Financial Statements are being recast to reflect this change in presentation. For details regarding this reclassification, refer to Note 3 to the Consolidated Financial Statements.

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"). 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. All shares outstanding and per share information for the financial periods being reported have been adjusted to reflect this Reverse/Forward Split.

In December 2010, the Company changed its fiscal year end from March 31 to December 31. As a result of this change, the Company's consolidated financial statements and notes thereto included the nine-month transition period from April 1, 2010 to December 31, 2010 ("the transition period for fiscal 2010") in its Transition Report on Form 10-K for the fiscal year ended December 31, 2010. The disclosures surrounding the historical consolidated financial statements and notes thereto remain unchanged for the twelve month period from April 1 to March 31 for fiscal years ended March 31, 2010 ("fiscal 2010") and March 31, 2009 ("fiscal 2009") or (collectively "fiscal years 2010 and 2009"). Subsequent to this Transition Report on Form 10-K, the Company's reports on Form 10-K will cover the calendar year from January 1 to December 31 with historical periods remaining unchanged.

The Company's Consolidated Financial Statements include the accounts of ADPT and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates and Reclassifications

In accordance with accounting principles generally accepted in the United States of America, 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. Management bases its estimates on historical experience and regularly evaluates estimates and assumptions related to review of long-lived assets for impairments, non-controlling interests in certain funds, stock-based compensation expense, deferred income tax asset valuation allowances, uncertain tax positions, tax contingencies, restructuring costs, litigation and other loss contingencies, goodwill, purchased intangible asset valuations, self-insurance, revenue recognition, allowances for doubtful accounts, sales returns and allowances, warranty reserves and inventory reserves. The actual results the Company experiences may differ materially and adversely from its original estimates.

Certain reclassifications have been made to prior period reported amounts to conform to the current period presentation, including the Company's disclosures surrounding discontinued operations, as discussed further in Notes 2, 3, 6, 7, 9, 11, 13, 14 and 20 to the Consolidated Financial Statements. The discontinued operations included the reclassification of the Company's financial statements and related disclosures for all periods presented, except for the historical Consolidated Balance Sheets and Consolidated Statements of Stockholder's Equity. These reclassifications had no impact on net loss, total assets or total stockholders' equity. Unless otherwise indicated, the Notes to the Consolidated Financial Statements relate to the discussion of the Company's continuing operations.

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.

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these items. Investments in available-for-sale securities are carried at fair value based on quoted market prices or estimated based on quoted market prices for financial instruments with similar characteristics.

The related cost basis for the Company's 3/4% Convertible Senior Notes due December 22, 2023 (the "3/4% Notes") at both December 31, 2010 and March 31, 2010 was $0.3 million. 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 of $0.3 million at both December 31, 2010 and March 31, 2010 for the 3/4% Notes to approximate fair value. The Company's convertible debt is recorded at its carrying value, not the estimated fair value.

Cash Equivalents and Marketable Securities

Cash equivalents consist of liquid investments with remaining maturities of three months or less from the date of purchase. Marketable securities consist of corporate obligations, commercial paper, state and municipal bonds, United States government securities, government agencies, and other debt securities related to mortgage-backed and asset-backed securities with remaining maturities beyond three-months from the date of purchase. The Company classifies its marketable securities as short-term, even though certain securities mature beyond one year, as the Company has the ability to liquidate these securities at any time. The Company's policy is to protect the value of its investment portfolio and minimize principal risk by earning returns based on current interest rates.

Marketable securities, including equity securities, are classified as available-for-sale and are reported at fair market value and unrealized gains and losses, net of income taxes are included in "Accumulated other comprehensive income, net of taxes" as a separate component of stockholders' equity in the Consolidated Balance Sheets. The marketable securities are adjusted for accretion of premiums and amortization of discounts and such accretion or amortization is included in "Interest and other income, net" in the Consolidated Statements of Operations. When the fair value of an investment declines below its original cost, the Company considers all available evidence to evaluate whether the decline in value is other-than-temporary. Among other things, the Company considers the duration and extent to which the market value has declined relative to its cost basis and economic factors influencing the markets. Unrealized losses considered to be other-than-temporary are recorded to "Interest and other income, net" in the Consolidated Statements of Operations in the period in which the determination is made. Gains and losses on securities sold are determined based on the average cost method and are included in "Interest and other income, net" in the Consolidated Statements of Operations. The Company does not hold its securities for trading or speculative purposes.

Concentration of 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. The Company invests in high-credit quality investments, maintained with major financial institutions. 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.

The Company primarily sold its products to OEMs throughout the world. Sales to customers were predominantly denominated in United States Dollars and, as a result, the Company believed its foreign currency risk relating to sales was minimal. The Company performed ongoing credit evaluations of its customers' financial condition and generally did not require collateral from its customers. The Company maintained an allowance for doubtful accounts based upon the expected collectability of all accounts receivable.

There were no accounts receivables at December 31, 2010. Three customers accounted for 32%, 15% and 13% of gross accounts receivable at March 31, 2010. In the transition period for fiscal 2010, Apple, Inc. ("Apple") and International Business Machines ("IBM") accounted for 59% and 35% of the Company's total net revenues, respectively. In fiscal 2010, Apple accounted for 92% of the Company's total net revenues. In fiscal 2009, Apple and Xiotech Corporation accounted for 70% and 14% of the Company's total net revenues, respectively. All revenues were reclassified to discontinued operations for the periods presented, as discussed further in Note 3 to the Consolidated Financial Statements.

The Company believes that its existing sources of liquidity, including its cash, cash equivalents and marketable securities, will be adequate to support its operating and capital investment activities for the next twelve months.

Inventories

There were no inventories at December 31, 2010. Inventories at March 31, 2010 were stated at the lower of cost or market, with cost determined on a first-in, first-out basis. The Company wrote down inventories based on estimated excess and obsolete inventories, determined primarily by future demand forecasts. At the point of loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Goodwill

Goodwill represented the excess of the purchase price paid over the fair value of tangible and identifiable intangible net assets acquired in business combinations. Goodwill was not amortized, but instead was reviewed annually, in the Company's fourth quarter of each year, and whenever events or changes in circumstances occurred which indicated that goodwill might be impaired. Impairment of goodwill was tested at the Company level, as the Company contained only one reporting unit, and compared the net book value, including goodwill, to the fair value. To determine fair value, the Company's review process used the income approach and the market approach. The Company also considered its market capitalization on the dates of its impairment tests in determining the fair value of the Company. If the net book value of the Company exceeds its implied fair value, goodwill is considered impaired and a second step is performed to measure the amount of impairment loss, if any. For details regarding goodwill and associated impairment charges taken in fiscal 2009 refer to Note 7 to the Consolidated Financial Statements.

Intangible Assets, Net

Intangible assets, net, consisted of acquisition-related intangible assets, software license agreement, intellectual property and warrants and were carried at cost less accumulated amortization. Intangible assets, net, were amortized over their estimated useful lives, which originally ranged from three months to five years, and were subsequently changed, during the transition period for fiscal 2010, to useful lives which ranged from two months to approximately 5.25 months, reflecting the pattern in which the economic benefits of the assets are expected to be realized. For details regarding intangible assets, net, refer to Note 7 to the Consolidated Financial Statements.

Property and Equipment, Net

Property and equipment, net, were stated at cost and were depreciated or amortized using the straight-line method over the estimated useful lives of the assets. The Company capitalizes substantially all costs related to the purchase and implementation of software projects used for internal business operations. Capitalized internal-use software costs primarily include license fees, consulting fees and any associated direct labor costs and were amortized over the estimated useful life of the asset, typically a three-year to five-year period.

Impairment of Long-Lived Assets

The Company regularly performs reviews to determine if facts or circumstances are present, either internal or external, which would indicate if the carrying values of its long-lived assets are impaired. 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 recoverability of the carrying value of the long-lived assets, other than goodwill, was based on the estimated future undiscounted cash flows derived from the use of the asset. The estimate of fair value of long-lived assets was based on a discounted estimated future cash flows method and applying a discount rate commensurate with the risks inherent in the Company's business model. The impairment of long-lived assets is included in "Loss from discontinued operations, net of taxes" in the Consolidated Statements of Operations. For details regarding long-lived assets' impairment analysis or charges taken in the transition period for fiscal 2010 and fiscal years 2010 and 2009, refer to Notes 7 to the Consolidated Financial Statements.

Stock-Based Compensation

The Company has employee and director stock compensation plans, which are described in Note 9 to the Consolidated Financial Statements. The Company measures and recognizes stock-based compensation expense for all stock-based awards 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. Tax shortfalls arise when actual tax benefits realized upon the exercise of stock options are less than the tax benefit recorded in the financial statements. Disclosure provisions related to equity instruments, including stock-based compensation expense, are discussed further in Note 9 to the Consolidated Financial Statements.

Revenue Recognition

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 OEMs, when persuasive evidence of an arrangement existed, delivery has occurred or services have 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 has transferred to the customer, customer acceptance was obtained or acceptance provisions have lapsed, or the Company has established a historical pattern that acceptance by the customer has been fulfilled. The Company's sales were based on customer purchase orders, and to a lesser extent, contractual agreements, which provided that evidence of 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 establishes allowances for rebate payments under certain marketing programs entered into with distributors. These allowances comprise the Company's revenue reserves and are recorded as direct reductions of revenue and accounts receivable. The Company made estimates of future returns band 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 have not been significantly different from the Company's estimates.

For products which 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 exists, 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 were met. Vendor specific fair value for each element is established based on the sales price charged when the same element is sold separately or based upon a renewal rate.

All revenues were reclassified to discontinued operations for the periods presented, as discussed further in Note 3 to the Consolidated Financial Statements.

Software Development Costs

The Company's policy is to capitalize software development costs incurred after technological feasibility has been demonstrated, which is determined to be the time a working model has been completed. Through December 31, 2010, costs incurred subsequent to the establishment of technological feasibility have not been significant and all software development costs are charged to "Research and development" in the Consolidated Statements of Operations. All research and development expenses were reclassified to discontinued operations for the periods presented, as discussed further in Note 3 to the Consolidated Financial Statements.

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 the Company's 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. At December 31, 2010 and March 31, 2010, the Company had recorded liabilities of $11.4 million and $3.7 million, respectively, for uncertain tax positions and the Company continues to recognize interest and/or penalties related to uncertain tax positions as income tax expense 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 the transition period for fiscal 2010 and fiscal years 2010 and 2009 was immaterial. 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 cash settlement will be made for the Company's liabilities associated with uncertain tax positions.

The Company accounts for income taxes using an asset and liability approach, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's Consolidated Financial Statements, but have not been reflected in the Company's taxable income. A valuation allowance is established to reduce deferred tax assets to their estimated realizable value. The Company provides a valuation allowance to the extent that the Company does not believe it is more likely than not that it will generate sufficient taxable income in future periods to realize the benefit of its deferred tax assets. Predicting future taxable income is difficult, and requires the use of significant judgment.

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board ("FASB") amended the requirements for revenue recognition, which eliminates the use of the residual method and incorporates the use of an estimated selling price to allocate arrangement consideration. In addition, the revenue recognition guidance amends the scope to exclude tangible products that contain software and non-software components that function together to deliver the product's essential functionality. The amendments to the accounting standards related to revenue recognition are effective for fiscal years beginning after June 15, 2010, which will begin with the Company's first quarter of fiscal 2011, unless adopted early. Upon adoption, the Company may apply the guidance retrospectively or prospectively for new or materially modified arrangements. Since the Company completed the wind down of its product offerings by September 2010, this accounting standard will have no financial impact in future quarters, until a business is acquired.

In January 2010, the FASB amended the disclosure requirements for the fair value measurements for recurring and nonrecurring non-financial assets and liabilities. The guidance provides that an entity shall disclose any significant transfers of assets and liabilities between those that are actively traded in markets (level 1) and those that are not actively traded but have observable inputs (level 2), and the reasons for the transfers. The disclosure requirements regarding the transfers of assets and liabilities, which was effective for interim or fiscal periods beginning after December 15, 2009, or which began with the Company's fourth quarter of fiscal 2010, did not have a financial impact on the Company's Consolidated Financial Statements; however, the disclosure requirements mandated by this accounting standard are discussed further in Notes 5 to the Consolidated Financial Statements. The guidance also provides that disclosures for assets and liabilities with significant unobservable inputs (level 3) should separately disclose the purchases, sales, issuances and settlements in a rollforward as opposed to aggregating it as one. The disclosure requirements regarding further details surrounding assets and liabilities utilizing level 3 are effective for fiscal years beginning after December 15, 2010, which will begin with the Company's first quarter of fiscal 2011. The Company does not anticipate that the additional disclosure requirements will have a material impact on its Consolidated Financial Statements.

Note 2. Acquisition

On September 3, 2008, the Company completed the acquisition of Aristos Logic Corporation ("Aristos"), a provider of redundant array of independent disks, or ("RAID"), technology to the data storage industry, pursuant to an Agreement and Plan of Merger dated as of August 27, 2008 (the "Merger Agreement") by and among Adaptec, Aristos, Ariel Acquisition Corp., a wholly owned subsidiary of Adaptec, and TPG Ventures, L.P., solely in its capacity as the representative of stockholders of Aristos. The Merger Agreement provided for the Company's acquisition of Aristos through a merger in which Aristos became a wholly-owned subsidiary of the Company. The acquisition of Aristos was to allow the Company to expand into adjacent RAID markets that the Company believed would provide it with growth opportunities, including blade servers, enterprise-class external storage systems and performance desktops, and would provide the Company with a strong ASIC roadmap. In addition, this acquisition enabled the Company to pursue new OEM opportunities and expand its channel product offerings containing unified serial technologies.

The Company acquired Aristos for a purchase price of approximately $38.9 million, which consisted of: (i) approximately $28.7 million that was paid to certain Aristos senior preferred stockholders and warrant holders; (ii) approximately $3.2 million under a management liquidation pool established by Aristos prior to completion of the merger, which was immediately paid upon closing of the transaction; (iii) approximately $6.2 million to retire and satisfy certain commercial obligations and payables of Aristos; and (iv) $0.8 million accrued in direct transaction fees, including legal, valuation and accounting fees. A summary of the purchase cost was as follows (in thousands):

Cash paid to certain Aristos senior preferred stockholders and warrant holders, including escrow account	$	28,727
Cash paid under management liquidation pool		3,221
Cash paid to retire and satisfy certain commerical obligations and payables of Aristos		6,162
Direct acquisition-related transaction costs		800
Total purchase price	$	38,910

Aristos Holdback: A portion of the Aristos acquisition price totaling $4.3 million was held in an escrow account ("Aristos Holdback") to secure potential indemnification obligations of Aristos stockholders for unknown liabilities that may have existed as of the acquisition date. The Aristos Holdback was to be paid in two installments to the former Aristos stockholders during the twelfth and eighteenth months after the acquisition closing date, except for funds necessary to provide for any pending claims. The Aristos Holdback of $4.3 million was paid in full in fiscal 2010.

Management Liquidation Pool: As part of the Merger Agreement, the Company agreed to pay certain former employees of Aristos a total of $5.6 million through a management liquidation pool established by Aristos prior to the completion of the merger. Of the $5.6 million, $3.2 million was immediately paid upon closing of the transaction and was included in the purchase price allocation of the cost to acquire Aristos. The remaining $2.4 million was payable over time, not to exceed twelve months, contingent upon the continued employment of certain employees with the Company, and was expensed to the Consolidated Statements of Operations as earned. In fiscal years 2010 and 2009, the Company recorded expense of $0.1 million and $2.3 million, respectively, in the Consolidated Statements of Operations related to the management liquidation pool.

The Aristos acquisition was accounted for as a business combination and, accordingly, the results of Aristos were included in the Company's consolidated results of operations and financial position from the date of acquisition. The allocation of the Aristos purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed is summarized below, and was based on valuation techniques such as the discounted cash flows and weighted average cost methods used in the high technology industry using assumptions and estimates from management to calculate fair value.

	September 26, 2008
	(in thousands, except per share amounts)
Goodwill	$ 16,947
Intangible assets:	
Core and existing technologies	18,800
Customer relationships	3,900
Backlog	340
Total intangible assets	23,040
Tangible assets acquired and liabilities assumed:	
Cash	105
Accounts receivable, net	201
Inventory	580
Prepaid expenses and other current assets	1,235
Property and equipment, net	570
Total assets acquired	2,691
Accounts payable	(352)
Current liabilities	(3,416)
Total liabilities assumed	(3,768)
Net liabiltiies assumed	(1,077)
Total purchase price	$ 38,910

The values allocated to core and existing technologies, customer relationships and backlog created as a result of the acquisition of Aristos were initially amortized over estimated useful lives of sixty months, thirty-six months and three months, respectively, and were subsequently changed during the transition period for fiscal 2010 to approximately 5.25 months (Note 7), reflecting the period in which the economic benefits of the assets are expected to be realized. The total value allocated to the acquired intangible assets as a result of the Aristos acquisition was initially amortized over an estimated weighted average useful life of fifty-five months. No residual value was estimated for the intangible assets. Goodwill was not expected to be deductible for tax purposes.

Pro forma financial information: The following unaudited pro forma financial information for fiscal 2009 presents the combined results of the Company and Aristos, as if the acquisition had occurred at the beginning of the period presented. Such pro forma results are not necessarily indicative of what actually would have occurred had the Aristos acquisition been in effect for the periods presented nor are they indicative of results that could occur in the future. Certain adjustments have been made to the combined results of operations, including the amortization of acquired other intangible assets, a reduction to interest income to reflect the cash paid for the acquisition, a reduction to interest expense related to the Aristos debt and the elimination of the change in fair value of preferred stock warrants, which were extinguished as part of the Merger Agreement, and the elimination of share-based compensation expense recognized by Aristos, as the Company did not assume any share-based awards as part of the merger. The pro forma financial results for fiscal 2009 were as follows:

	Fiscal Year Ended March 31, 2009
	(in thousands)
Net revenues	$ 4,519
Loss from continuing operations, net of taxes	$ (38,494)
Income from discontinued operations, net of taxes	17,645
Net loss	$ (20,849)
Basic and diluted income (loss) per share:	
Loss from continuing operations, net of taxes	$ (0.32)
Income from discontinued operations, net of taxes	$ 0.15
Net loss	$ (0.17)
Shares used in computing loss per share:	
Basic and diluted	11,977

In July 2011, the Company reclassified the Aristos Business to discontinued operations. For presentation purposes, all periods presented in this Transition Form 10-KT have been reclassified to present the Aristos Business as part of discontinued operations as discussed in Note 3 to the Consolidated Financial Statements.

Note 3. Discontinued Operations

Aristos Business: As previously indicated, the Company completed the wind-down of the Aristos Business in September 2010 and cleared all its balance sheet items by December 2010 , however, the Company did not classify the Aristos Business as discontinued operations as it was the Company's sole business segment. In July 2011, the Company abandoned its efforts to sell patents from Aristos, started the redeployment of its capital, and began operating its sports business segment. As such, the Aristos Business was moved to discontinued operations. For presentation purposes, the Company is reclassifying the Aristos Business to discontinued operations for all periods presented.

Net revenues and components of (income) loss related to the Aristos Business included in discontinued operations, were as follows:

	Nine-Month Period Ended December 31,	Fiscal Year Ended March 31,	
	2010	2010	2009
		(in thousands)	
Net revenues	$ 8,895	$ 4,133	$ 2,733
Loss from discontinued operations before provision for income taxes	$ (17,858)	$ (13,035)	$ (29,325)

The components of net assets related to the Aristos Business as of March 31, 2010, were as follows:

	March 31, 2010
	(in thousands)
Inventories	$ 2,342
Accounts receivable, net	7,528
Prepaid expenses and other current assets	1,067
Total current assets of discontinued operations	10,937
Property and equipment, net	143
Intangible assets, net	16,029
Total assets of discontinued operations	27,109
Accounts payable	(382)
Accrued and other liabilities	(4,779)
Total current liabilities of discontinued operations	(5,161)
Net assets of discontinued operations	$ 21,948

DPS Business: On June 8, 2010, the Company consummated a transaction with PMC-Sierra, Inc. ("PMC-Sierra") in which PMC-Sierra purchased certain assets related to the Company's business of providing data storage hardware and software solutions and products (the "DPS Business") and PMC-Sierra assumed certain liabilities of the Company related to the DPS Business. The transaction was pursuant to the Asset Purchase Agreement (the "Purchase Agreement") entered into by PMC-Sierra and ADPT on May 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 is being withheld in an escrow account ("DPS Holdback") to secure potential indemnification obligations pursuant to the Purchase Agreement with PMC-Sierra. The DPS Holdback is to be released to the Company on June 8, 2011, one year after the consummation of the sale of the Company's DPS Business, except for funds necessary to provide for any pending or satisfied claims, and will be recognized as contingent consideration in discontinued operations when received. As of December 31, 2010, the full DPS Holdback of $5.0 million remains outstanding for potential indemnification obligations that may arise. Under the Purchase Agreement, PMC-Sierra purchased substantially all accounts receivable and inventory related to the DPS Business and certain fixed assets and intellectual property (other than certain patents for which PMC-Sierra received a perpetual non-exclusive royalty free license). Included in the intellectual property assigned to PMC-Sierra was the Company's former brand name, Adaptec. In addition, certain contracts were assigned to PMC-Sierra. PMC-Sierra has also assumed the obligations for certain of the Company's leased facilities, primarily related to international sites used in the DPS Business, certain employee retention obligations, certain obligations related to a defined benefit retirement plan at one of the foreign subsidiaries and support and service liabilities. Expenses incurred in the transaction primarily included approximately $3.4 million for commissions and legal and accounting fees. 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 for fiscal 2010 in "Gain on disposal of discontinued operations, net of taxes," in the Consolidated Statements of Operations.

On June 8, 2010, the Company also 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 for fiscal 2010, the Company incurred approximately $1.3 million in direct costs under the transition service agreement with PMC-Sierra, which were reimbursed by PMC-Sierra. As of December 31, 2010, PMC-Sierra owed the Company $0.1 million under the transition service agreement, which was included in "Other current assets" on the Company's Consolidated Balance Sheets.

Net revenues and the components of income (loss) related to the DPS Business included in discontinued operations, were as follows:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
		(in thousands)	
Net revenues	$ 11,725	$ 69,549	$ 112,041
Income from discontinued operations before provision for income taxes	$ 212	$ 11,970	$ 22,618

The components of net assets, at the time of the sale of the DPS Business, were as follows:

	July 2, 2010
	(in thousands)
Inventories	$ 3,817
Accounts receivable, net	6,437
Prepaids and other current assets	180
Total current assets of discontinued operations	10,434
Property and equipment, net	858
Total assets of discontinued operations	11,292
Accrued and other liabilities	(1,746)
Total current liabilities of discontinued operations	(1,746)
Other long-term liabilities	(956)
Total liabilities of discontinued operations	(2,702)
Net assets of discontinued operations	$ 8,590

Snap Server Network Attached Storage ("NAS") Business: On June 27, 2008, the Company entered into an asset purchase agreement with Overland Storage, Inc. ("Overland") for the sale of the Snap Server NAS portion of the Company's former Storage Solutions Group segment (the "Snap Server NAS business") for $3.3 million, of which $2.1 million was received by the Company upon the closing of the transaction and the remaining $1.2 million was to be received on the twelve-month anniversary of the closing of the transaction pursuant to a promissory note issued to the Company. In fiscal 2009, the Company established a reserve for the remaining $1.2 million of this receivable as a result of the financial difficulties Overland had reported. In fiscal 2010, the Company amended the promissory note agreement with Overland, which allowed Overland to pay the Company the remaining $1.2 million receivable plus accrued interest by March 31, 2010; however, the Company received the final payment of $0.1 million from Overland in June 2010. Due to the Company's continued concern regarding Overland's ability to pay the Company, the Company released the reserve on the receivable as cash was collected. Under the terms of the agreement, Overland granted the Company a nonexclusive license to certain intellectual property and the Company provided Overland limited support services to help ensure a smooth transition. Expenses incurred in the transaction primarily include approximately $0.5 million for broker, legal and accounting fees in fiscal 2009. In addition, the Company accrued $0.1 million for lease obligations in fiscal 2009. The Company recorded a gain of $0.1 million, $1.2 million and $4.6 million on the disposal of the Snap Server NAS business in the transition period for fiscal 2010 and fiscal years 2010 and 2009, respectively, in "Gain on disposal of discontinued operations, net of taxes," in the Consolidated Statements of Operations. To date, the Company has recorded a cumulative gain of $5.9 million through the transition period for fiscal 2010 on the disposal of the Snap Server NAS business in "Gain on disposal of discontinued operations, net of taxes," in the Consolidated Statements of Operations.

Net revenues and the components of loss related to the Snap Server NAS business included in discontinued operations, which were previously included in the Company's SSG segment, were as follows:

	Fiscal Year Ended March 31, 2009
	(in thousands)
Net revenues	$ 4,413
Loss from discontinued operations before provision for income taxes	$ (941)

In the third quarter of fiscal 2009, the Company recorded $0.2 million related to the settlement of certain claims and accruals that resulted from the sale of the Snap Server NAS business.

The components of net liabilities, at the time of the sale of the Snap Server NAS business, were as follows:

	June 27, 2008
	(in thousands)
Inventories	$ 1,466
Accounts receivable, net	(466)
Total current assets of discontinued operations	1,000
Property and equipment, net	53
Total assets of discontinued operations	1,053
Accrued and other liabilities	(4,067)
Total current liabilities of discontinued operations	(4,067)
Net liabilities of discontinued operations	$ (3,014)

Accounts receivable and accounts payable on the Consolidated Balance Sheet at June 27, 2008, related to the Snap Server NAS business, were not included in discontinued operations as the Company retained these assets and liabilities; however, since Overland assumed service and support liabilities for deferred revenue, deferred margin and warranty, the Company was relieved of these liabilities as well as certain sales returns and allowances contained in accounts receivable.

Note 4. Marketable Securities

The Company's investment policy focuses on three objectives: to preserve capital, to meet liquidity requirements and to maximize total return. The Company's 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. Given the overall market conditions, the Company regularly reviews its investment portfolio to ensure adherence to its investment policy and to monitor individual investments for risk analysis and proper valuation.

The Company's portfolio of marketable securities at December 31, 2010 was as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Available-for-Sale Marketable Securities:				
Short-term deposits	$ 5,737	$ -	$ -	$ 5,737
United States government securities	57,379	409	(32)	57,756
Government agencies	53,065	308	(51)	53,322
Mortgage-backed securities	32,161	141	(36)	32,266
State and municipalities	4,021	2	(39)	3,984
Corporate obligations	183,971	1,122	(117)	184,976
Asset-backed securities	492	17	-	509
Total available-for-sale securities	336,826	1,999	(275)	338,550
Amounts classified as cash equivalents	(24,415)	-	-	(24,415)
Amounts classified as marketable securities	$ 312,411	$ 1,999	$ (275)	$ 314,135

The Company's portfolio of marketable securities at March 31, 2010 was as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Available-for-Sale Marketable Securities:				
Short-term deposits	$ 16,739	$ -	$ -	$ 16,739
United States government securities	41,058	156	(15)	41,199
Government agencies	92,795	905	(34)	93,666
Mortgage-backed securities	42,309	559	(55)	42,813
State and municipalities	1,065	-	(2)	1,063
Corporate obligations	136,934	1,675	(18)	138,591
Asset-backed securities	7,791	119	-	7,910
Total available-for-sale securities	338,691	3,414	(124)	341,981
Amounts classified as cash equivalents	(30,582)	-	-	(30,582)
Amounts classified as marketable securities	$ 308,109	$ 3,414	$ (124)	$ 311,399

Sales of marketable securities resulted in gross realized gains of $1.1 million, $0.7 million and $1.4 million during the transition period for fiscal 2010 and fiscal years 2010 and 2009, respectively. Sales of marketable securities resulted in gross realized losses of $0.5 million, $0.2 million and $0.8 million during the transition period for fiscal 2010 and fiscal years 2010 and 2009, 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 time that individual securities have been in a continuous unrealized loss position, at December 31, 2010:

	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)					
United States government securities	$ 12,793	$ (32)	$ -	$ -	$ 12,793	$ (32)
Government agencies	17,977	(51)	-	-	17,977	(51)
Mortgage-backed securities	11,019	(36)	-	-	11,019	(36)
State and municipalities	2,843	(39)	-	-	2,843	(39)
Corporate obligations	36,815	(117)	-	-	36,815	(117)
Total	$ 81,447	$ (275)	$ -	$ -	$ 81,447	$ (275)

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 time that individual securities have been in a continuous unrealized loss position, at March 31, 2010:

	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)					
United States government securities	$ 4,957	$ (15)	$ -	$ -	$ 4,957	$ (15)
Government agencies	23,322	(34)	-	-	23,322	(34)
Mortgage-backed securities	7,702	(55)	-	-	7,702	(55)
State and municipalities	1,064	(2)	-	-	1,064	(2)
Corporate obligations	16,038	(18)	-	-	16,038	(18)
Total	$ 53,083	$ (124)	$ -	$ -	$ 53,083	$ (124)

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 liquidity challenges and 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 for fiscal 2010 and fiscal 2010 were not deemed to be other-than-temporary. The Company holds its marketable securities as available-for-sale and marks them to market. The Company expects to realize the full value of all its marketable securities upon maturity or sale, as the Company has the intent and ability to hold the securities until the full value is realized. However, the Company cannot provide any assurance that its invested cash, cash equivalents and marketable securities will not be impacted by adverse conditions in the financial markets, which may require the Company to record an impairment charge that could adversely impact its financial results.

The amortized cost and estimated fair value of investments in available-for-sale debt securities at December 31, 2010 and March 31, 2010, by contractual maturity, were as follows:

	December 31, 2010		March 31, 2010	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
	(in thousands)			
Mature in one year or less	$ 149,441	$ 149,900	$ 154,314	$ 155,728
Mature after one year through three years	184,162	185,436	184,060	185,934
Mature after three years through five years	3,223	3,214	317	319
	$ 336,826	$ 338,550	$ 338,691	$ 341,981

The maturities of asset-backed and mortgage-backed securities were estimated primarily based upon assumed prepayment forecasts utilizing interest rate scenarios and mortgage loan characteristics.

Note 5. 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.

Assets Measured at Fair Value on a Recurring Basis

The Company utilized levels 1 and 2 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, state and municipalities, and substantially all mortgage-backed securities 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 corporate obligations and asset-backed securities as similar or identical instruments can be found in active markets. At both December 31, 2010 and March 31, 2010, there were no significant transfers that occurred between levels 1 and 2 of its financial assets. In addition, at both December 31, 2010 and March 31, 2010, the Company did not have any financial assets utilizing level 3 to value its financial assets on a recurring basis. Level 3 is supported by little or no market activity and requires a high level of judgment to determine fair value.

Financial assets measured at fair value on a recurring basis at December 31, 2010 and March 31, 2010 were as follows:

	December 31, 2010			March 31, 2010		
		Fair Value Measurements At Reporting Date Using			Fair Value Measurements At Reporting Date Using	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
			(in thousands)			
Cash, including short-term deposits[1]	$ 19,598	$ 19,598	$ -	$ 50,105	$ 50,105	$ -
United States government securities[2]	57,756	57,756	-	41,199	41,199	-
Government agencies[3]	53,322	53,322	-	93,666	93,666	-
Mortgage-backed securities[3]	32,266	31,870	396	42,813	41,696	1,117
State and municipalities[3]	3,984	3,984	-	1,063	1,063	-
Corporate obligations[4]	184,976	-	184,976	138,591	-	138,591
Asset-backed securities[3]	509	-	509	7,910	-	7,910
Total	$ 352,411	$ 166,530	$ 185,881	$ 375,347	$ 227,729	$ 147,618

(1) At December 31, 2010, the Company recorded $19,483,000 and $115,000 within "Cash and cash equivalents" and "Marketable securities," respectively. At March 31, 2010, the Company recorded $50,100,000 and $5,000 within "Cash and cash equivalents" and "Marketable securities," respectively.

(2) At December 31, 2010, the Company recorded $57,756,000 within "Marketable securities". At March 31, 2010, the Company recorded $4,099,000 and $37,100,000 within "Cash and cash equivalents" and "Marketable securities," respectively.

(3) Recorded within “Marketable securities.”
(4) At December 31, 2010, the Company recorded $18,793,000 and $166,183,000 within “Cash and cash equivalents” and “Marketable securities,” respectively. At March 31, 2010, the Company recorded $9,749,000 and $128,842,000 within “Cash and cash equivalents” and “Marketable securities,” respectively.

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. These non-financial assets were adjusted to its implied fair value as indicators were present that the carrying value of such assets may not be fully recoverable. Level 3 instruments, which are categorized as significant unobservable inputs, included the Company’s long-lived assets classified as held for sale and non-controlling interest in certain non-public companies through two venture capital funds, Pacven Walden Ventures V Funds and APV Technology Partners II, L.P. Although the Company used the market approach for the fair value of its long-lived assets classified as held for sale based on similar assets either sold, pending sale or available for sale, the terms of these similar assets are highly subjective, resulting in the classification as level 3. In addition, Pacven Walden Ventures V Funds invests in technology companies worldwide, primarily in the communications, electronics, information technology services, internet, software, life sciences and semiconductor industries. APV Technology Partners II, L.P. invests in technology companies that are privately-held, which are organized in the United States. The Company regularly monitors these investments by recording these investments within “Other long-term assets” on the Consolidated 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 Consolidated Statements of Operations. At both December 31, 2010 and March 31, 2010, there were no transfers in or out of level 3 related to the Company’s long-lived assets classified as held for sale and the Company’s two venture capital funds.

Financial assets measured at fair value on a non-recurring basis at December 31, 2010 were as follows:

		Fair Value Measurement At Reporting Date Using		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
		(in thousands)		
Non-controlling interest in certain funds[1]	$ 1,184	$ -	$ -	$ 1,184
Long-lived assets held and used[2]	-	-	-	-
Long-lived assets held for sale[3]	6,000	-	-	6,000
	$ 7,184	$ -	$ -	$ 7,184

(1) The Company’s carrying value for non-controlling interest in certain non-public companies approximates its fair value, as discussed in further detail above.
(2) Long-lived assets held and used with a carrying amount of $6.1 million were fully impaired and written off to its implied fair value, which was included in the Consolidated Statements of Operations in the transition period for fiscal 2010 (Note 7).
(3) Long-lived assets held for sale, which was previously classified as held and used with a carrying value of $10.1 million at July 2, 2010, were written down to the implied fair value of $6.0 million, net of cost to sell, resulting in an impairment of $4.1 million, which was included in the Statements of Operations in the transition period for fiscal 2010 (Note 7).

Financial assets measured at fair value on a non-recurring basis at March 31, 2010 were as follows:

	Total	Fair Value Measurement At Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	(in thousands)			
Non-controlling interest in certain funds[1]	$ 1,233	$ -	$ -	$ 1,233

Note 6. Balance Sheet Details

Inventories

The components of inventories at December 31, 2010 and March 31, 2010 were as follows:

	December 31, 2010	March 31, 2010
	(in thousands)	
Raw materials	$ -	$ 8
Work-in-process	-	393
Finished goods	-	1,941
	$ -	$ 2,342

As disclosed in Note 3 to the Consolidated Financial Statements, these inventories related to the discontinued operations of the Aristos Business.

Accrued and Other Liabilities

The components of accrued and other liabilities at December 31, 2010 and March 31, 2010 were as follows:

	December 31, 2010	March 31, 2010
	(in thousands)	
Tax-related	$ 557	$ 1,075
Restructuring-related	1,231	618
Accrued compensation and related taxes	1,334	4,637
Professional services	1,148	1,118
Deferred margin	-	2,717
Oligations under software license agreement	-	1,053
Other	128	1,053
Accrued and other liabilities	$ 4,398	$ 12,271

Other Long-term Liabilities

The components of other long-term liabilities at December 31, 2010 and March 31, 2010 were as follows:

	December 31, 2010	March 31, 2010
	(in thousands)	
Tax-related	$ 11,434	$ 3,656
Restructuring-related	-	165
Other	769	934
Other long-term liabilities	$ 12,203	$ 4,755

Accumulated Other Comprehensive Income, Net of Taxes

The components of accumulated other comprehensive income, net of taxes, at December 31, 2010 and March 31, 2010 were as follows:

	December 31, 2010	March 31, 2010
	(in thousands)	
Net unrealized gain on marketable securities, net of taxes of $1,365 in both December 31, 2010 and March 31, 2010	$ 364	$ 1,930
Foreign currency translation, net of taxes of $1,351 at December 31, 2010 and $1,287 at March 31, 2010	2,497	2,356
Accumulated other comprehensive income, net of taxes	$ 2,861	$ 4,286

Note 7. Goodwill and Long-Lived Assets

Goodwill

In September 2008, goodwill was increased by $16.9 million due to the acquisition of Aristos (Note 2). Goodwill was not allocated but managed at the Company level, as the Company contains only one reporting unit. During the fourth quarter of fiscal 2009, the Company experienced a significant and continued decline in the market value of its common stock, which resulted in the Company's market capitalization falling below its net book value. In addition, the Company performed its annual review of goodwill in the fourth quarter of fiscal 2009. As a result of the assessment, the Company determined that its net book value exceeded the implied fair value; therefore, the Company recorded an impairment charge of $16.9 million in fiscal 2009 to write off the entire goodwill balance. This impairment charge was recorded within "Loss from discontinued operations, net of taxes" in the Consolidated Statements of Operations.

Property and Equipment, Net

The components of property and equipment, net, at December 31, 2010 and March 31, 2010 were as follows:

	Life	December 31, 2010	March 31, 2010
		(in thousands)	
Land	-	$ -	$ 2,855
Buildings and improvements	5-40 years	-	12,698
Machinery and equipment	3-5 years	-	3,672
Furniture and fixtures	3-7 years	-	13,279
Leasehold improvements	Lesser of useful life or life of lease	-	123
		-	32,627
Accumulated depreciation and amortization		-	(21,274)
Property and equipment, net		$ -	$ 11,353

(1) During the transition period for fiscal 2010, all property and equipment, net was either sold or reclassified to "Assets held for sale" in the Consolidated Balance Sheets, as discussed in further detail below.

Depreciation and amortization expense was $0.3 million, $1.2 million and $1.5 million in the transition period for fiscal 2010 and fiscal years 2010 and 2009, respectively. The Company impaired certain of its assets in the transition period for fiscal 2010, resulting in the write down of $4.1 million as discussed in further detail below.

Intangible Assets, Net

The components of intangible assets, net, at December 31, 2010 and March 31, 2010 were as follows:

	December 31, 2010			March 31, 2010		
	Gross Carrying Amount	Impairment/ Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
			(in thousands)			
Acquisition-related intangible assets:						
Patents, core and existing technologies(1)	$ 18,800	$ (18,800)	$ -	$ 34,348	$ (21,501)	$ 12,847
Customer relationship(2)	3,900	(3,900)	-	4,233	(2,391)	1,842
Trade names	-	-	-	674	(674)	-
Backlog	340	(340)	-	340	(340)	-
Subtotal	23,040	(23,040)	-	39,595	(24,906)	14,689
Intellectual property assets and warrants	-	-	-	26,992	(26,992)	-
Software license	1,755	(1,755)	-	1,755	(415)	1,340
Intangible assets, net	$ 24,795	$ (24,795)	$ -	$ 68,342	$ (52,313)	$ 16,029

(1) Accumulated amortization at December 31, 2010 included impairment charges of $5,333,000, which was recorded within "Cost of revenues" in the Consolidated Statements of Operations in the transition period for fiscal 2010.
(2) Accumulated amortization at December 31, 2010 included impairment charges of $764,000, which was recorded within "Impairment of long-lived assets" in the Consolidated Statements of Operations in the transition period for fiscal 2010.

At December 31, 2010, the intangible assets, net, included intangible assets purchased as part of the Aristos acquisition in September 2008 (Note 2) and a software license agreement the Company entered into with Synopsys, Inc. ("Synopsys") in July 2009. The decrease of the gross carrying amount and the associated accumulated amortization for certain related intangible assets from March 31, 2010 to December 31, 2010 was a result of PMC-Sierra acquiring the DPS Business.

The software license agreement with Synopsys was for $1.8 million, of which $0.7 million was paid in fiscal 2010 and $1.0 million was paid in the transition period for fiscal 2010. The amortization of the software license agreement was recorded in "Research and development" over an original estimated useful life of three years, and was subsequently changed to two months during the transition period for fiscal 2010, reflecting the pattern in which economic benefits of the assets are realized.

In the transition period for fiscal 2010, the Company changed the amount to be amortized prospectively related to net book value of its remaining intangible assets of $16.0 million at March 31, 2010 based upon the pattern in which economic benefits of the assets were expected to be realized. The remaining useful life of its intangible assets related to patents, core and existing technologies, and customer relationships changed from 40 months and 16 months, respectively, to approximately 5.25 months for each intangible asset, resulting in an increase in the total quarterly amortization by $7.3 million beginning in the three-month period ended July 2, 2010. This was based on the Company's evaluation of whether to pursue the sale or to wind down its Aristos Business, in either case by the end of September 2010, after entering into a Purchase Agreement with PMC-Sierra. The amortization of the patents, core and existing technologies, and customer relationships was recorded in "Loss from discontinued operations, net of taxes" in the Consolidated Statements of Operations. The remaining useful life of the Company's intangible assets related to a software license agreement with Synopsys changed from 15.5 months to two months reflecting a change in the quarterly amortization of $1.2 million beginning in the three-month period ended July 2, 2010, as the Company ceased using the license in May 2010 in connection with actions taken under its fiscal 2011 restructuring plan. The amortization of the software license agreement was recorded in "Loss from discontinued operations, net of taxes" in the Consolidated Statements of Operations. Amortization of intangible assets, net was $9.9 million, $5.5 million and $3.3 million in the transition period for fiscal 2010 and fiscal years 2010 and 2009, respectively.

Impairment Review

In December 2009, the Company announced that it initiated a process to pursue the potential sale or disposition of certain of its assets or business operations. As a result of this announcement, the Company evaluated its long-lived assets to determine whether the carrying value would be recoverable in the third quarter of fiscal 2010. As the Company continued through this sale process on certain of its assets or business operations in the fourth quarter of fiscal 2010, the Company reevaluated the recoverability of its long-lived assets' carrying value at March 31, 2010. Based on the Company's analysis, its long-lived assets were not considered impaired in either the third or fourth quarters of fiscal 2010 as the sum of the expected undiscounted future cash flows exceeded the carrying value of its long-lived assets of $27.4 million at March 31, 2010. The sum of the expected undiscounted future cash flows was weighted to take into consideration the possible outcomes of whether the long-lived assets, which were considered as one asset group based on the lowest level of independent cash flows generated, would be retained and utilized as opposed to sold or disposed.

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 anticipated putting its building up for sale towards the end of the transition period for fiscal 2010. As a result of these additional 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 for fiscal 2010, of which $5.4 million and $4.8 million were reflected in "Loss from discontinued operations, net of taxes" in the Consolidated Statements of Operations. Of the $10.2 million impairment charge of its long-lived assets recorded in the transition period for fiscal 2010, $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 require judgment by the Company.

Assets Held For Sale

By the end of September 2010, the Company ceased to have an operational business to support and put its headquarters up for sale. The building was classified as "Assets held for sale" in the Consolidated Balance Sheets at December 31, 2010 at its estimated fair value, less cost to sell, of $6.0 million. The estimated fair value approximated its carrying value, which was determined using the market approach and considered the perspective of market participants. The Company has entered into an exclusive sales listing agreement with a broker to sell its headquarters and expects to sell its facilities by the end of the first quarter of fiscal 2011. While classified as held for sale, the Company may need to reassess the fair value of the building at each of its reporting periods and determine whether the carrying value is recoverable. If the carrying value is not deemed to be recoverable based on current market conditions, the Company may be required to record additional impairment charges for its long-lived assets in the future.

Note 8. 3/4% 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 did not apply the accounting standard issued in May 2008 by the FASB with regards to applying a nonconvertible debt borrowing rate on its 3/4% Notes in fiscal 2010, as its 3/4% Notes may not be settled in cash or other assets upon conversion. As a result, this accounting standard, which was effective for the Company beginning with its fiscal 2010, had no impact on its Consolidated Financial Statements.

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 85.4409 shares of the Company's common stock (equivalent to an initial conversion price of approximately $11.704 per share of common stock).

In fiscal 2009, the Company repurchased a total of $191.0 million in principal amount of its 3/4% Notes on the open market for an aggregate price of $188.9 million, resulting in a gain on extinguishment of debt of $1.7 million (net of unamortized debt issuance costs of $0.4 million), which was recorded within "Interest and other income, net" in the Consolidated Statements of Operations. In addition, the majority of the remaining holders of the 3/4% Notes exercised their put option in December 2008 and January 2009, which required the Company to purchase its 3/4% Notes at a price equal to 100.25% of the principal of the 3/4% Notes, resulting in the redemption of the 3/4% Notes for an aggregate cost of $34.0 million, plus accrued and unpaid interest. 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, 2010, 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.

Convertible Bond Hedge and Warrant

Concurrent with the issuance of the 3/4% Notes, the Company entered into a convertible bond hedge transaction with an affiliate of one of the initial purchasers of the 3/4% Notes. Under the convertible bond hedge arrangement, the counterparty agreed to sell to the Company up to 19.2 million shares of the Company's common stock at a price of $11.704 per share. The convertible bond hedge transaction cost of $64.1 million was accounted for as an equity transaction. The Company did not receive net shares or cash from the convertible bond hedge as this instrument had no value and expired in December 2008.

In fiscal 2004, in conjunction with the issuance of the 3/4% Notes, the Company received $30.4 million from the issuance to an affiliate of one of the initial purchasers of the 3/4% Notes of a warrant to purchase up to 19.2 million shares of the Company's common stock at an exercise price of $18.56 per share. The warrant was valued using the Black-Scholes valuation model using a volatility rate of 42%, risk-free interest rate of 3.6% and an expected life of five years. The value of the warrant of $30.4 million was classified as equity. The warrant expired unexercised in December 2008.

Note 9. Employee Stock and Other Benefit Plans

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 and the 2006 Director Plan. In addition, the Company has outstanding options issued under equity incentive plans that have terminated and minimal outstanding options under an equity plan that it assumed in connection with its previous acquisition. These plans are described in further detail below.

Equity Incentive Plans, including the 2004 Equity Incentive Plan, the 2000 Non-statutory Stock Option Plan, 1999 Stock Plan and 1990 Stock Plan: In August 2004, the Company's Board of Directors and its stockholders approved the Company's 2004 Equity Incentive Plan and reserved for issuance thereunder 10,000,000 shares of the Company's common stock plus shares reserved but not issued under the Company's 2000 Non-statutory Stock Option Plan, 1999 Stock Plan and 1990 Stock Plan. The 2004 Equity Incentive Plan provides for the granting of incentive stock options, non-statutory stock options, restricted stock, stock awards, restricted stock units and stock appreciation rights to employees, employee directors and consultants. Stock options are subject to terms and conditions as determined by the Compensation Committee of the Company's Board of Directors. For new hires, 25% of the shares subject to stock options generally vest and become exercisable one year from the date of grant and the balance of the shares then vest quarterly thereafter for the next three years. Stock options expire seven years from the date of grant. The Company's stockholders approved the amendment and restatement of its 2004 Equity Incentive Plan at the 2008 Annual Meeting of Stockholders. Amendments to the 2004 Equity Incentive Plan included, but were not limited to, (1) reducing the number of shares available for grant to 14,500,000; (2) removing the 5,000,000 share limitation with respect to stock-based awards granted at less than fair market value; (3) revising the categories of performance-related goals that may be applicable to stock-based awards granted under the plan; (4) removing the "single trigger" acceleration of vesting upon a change in control; and (5) modifying the definition of incumbent directors with respect to the definition of a change of control. As of December 31, 2010, the Company had an aggregate of 17.8 million shares of its common stock reserved for issuance under its 2004 Equity Incentive Plan, of which 0.4 million shares were subject to outstanding options and other stock awards, and 17.4 million shares were available for future grants of options and other stock awards.

Director Stock Option Plans, including the 2006 Director Stock Option Plan, 2000 Director Stock Option Plan and 1990 Directors' Stock Option Plan: In September 2006, the Company's Board of Directors and its stockholders approved the Company's 2006 Director Plan and reserved for issuance thereunder 1,200,000 shares of the Company's common stock plus shares reserved but not issued under the Company's 2000 Director Stock Option Plan and the 1990 Directors' Stock Option Plan. The 2006 Director Plan provides for the granting of non-qualified stock options, restricted stock awards, restricted stock units, restricted stock units and stock appreciation rights to non-employee directors. Although grants made under the 2006 Director Plan are discretionary, the Company's compensation program practice was as follows for the transition period for fiscal 2010: (1) each new non-employee director received an option to purchase 3,250 shares of the Company's common stock, in which one-third of the shares subject to such options will vest and become exercisable one year from the date of grant and the balance of the shares will vest quarterly thereafter over two years (2) each new non-employee directors received 1,625 shares of restricted stock awards or restricted stock units, in which one-third of the shares will vest one year from the date of grant and the balance of the shares will vest quarterly thereafter over two years (3) each existing non-employee director received an option to purchase 1,250 shares of the Company's common stock each year, with such option vesting quarterly over one year and, (4) each existing non-employee directors received 1,250 shares of restricted stock each year, which will fully vest one year after the date of grant. However, both the option to purchase 1,250 shares of the Company's common stock and 1,250 shares of restricted stock awards or restricted stock units will vest immediately if the relationship between the Company and the existing non-employee director ceases for any reason. In fiscal 2010, the Company's Board of Directors modified the vesting terms for all grants made prior to fiscal 2010 such that the options to purchase the Company's stock and shares of restricted stock awards or restricted stock units will vest immediately if the relationship between the Company and the non-employee director ceases for any reason. As of December 31, 2010, the Company had an aggregate of 89,430 shares of its common stock reserved for issuance under its 2006 Director Plan, of which 43,913 shares were subject to outstanding options and other stock awards, and 45,517 shares were available for future grants.

Assumed Stock Option Plans: The Company assumed the stock option plan and the outstanding stock options of an acquired company, Snap Appliance, Inc. in fiscal 2005. No further options may be granted under this assumed plan. However, options that were outstanding under this plan will continue to be governed by their existing terms and may be exercised for shares of the Company's common stock at any time prior to the expiration of the option term. As of December 31, 2010, the Company had minimal shares of common stock reserved that are subject to outstanding options under this assumed plan.

Stock Benefit Plans Activities

Equity Incentive Plans: A summary of option activity under all of the Company's equity incentive plans as of December 31, 2010, March 31, 2010 and March 31, 2009 and changes during the transition period for fiscal 2010 and fiscal years 2010 and 2009 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	(in thousands, except exercise price and contractual term)			
Outstanding at March 31, 2008	898	$ 66.70		
Granted	129	$ 34.50		
Exercised	(50)	$ 33.60		
Forfeited	(79)	$ 47.80		
Expired	(361)	$ 85.80		
Outstanding at March 31, 2009	537	$ 52.10		
Granted	158	$ 28.70		
Exercised	(18)	$ 24.60		
Forfeited	(51)	$ 30.80		
Expired	(138)	$ 77.80		
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	$ 35.60	6.11	$ 180
Options vested and expected to vest at December 31, 2010	77	$ 35.90	5.96	$ 180
Options exercisable at:				
March 31, 2009	376	$ 59.00		
March 31, 2010	384	$ 43.40		
December 31, 2010	69	$ 36.60	5.57	$ 170

The aggregate intrinsic value is calculated as the difference between the price of the Company's common stock on the Pink Sheets Electronic Quotation Service (the "Pink Sheets") and the exercise price of the underlying awards for the 29,209 shares subject to options that were in-the-money at December 31, 2010. During the transition period for fiscal 2010 and fiscal years 2010 and 2009, the aggregate intrinsic value of options exercised under the Company's equity incentive plans was minimal, $0.3 million and $0.3 million, respectively, determined as of the date of option exercise. The following table summarizes information about the Company's options outstanding and exercisable equity incentive plans as of December 31, 2010:

		Options Outstanding				Options Exercisable		
Range of Exercise Prices		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						
$	28.40 - $28.40	9	7.81	$	28.40	8	$	28.40
$	28.60 - $28.60	14	5.59	$	28.60	14	$	28.60
$	29.30 - $29.40	9	9.88	$	29.30	-	$	-
$	32.80 - $32.80	10	7.05	$	32.80	10	$	32.80
$	32.90 - $37.60	8	8.04	$	33.30	8	$	33.30
$	37.80 - $37.80	10	4.59	$	37.80	10	$	37.80
$	38.10 - $38.10	9	3.73	$	38.10	9	$	38.10
$	38.30 - $44.80	8	4.51	$	40.60	8	$	40.60
$	93.10 - $149.00	3	0.18	$	101.10	3	$	101.10
$	28.30 - $149.00	80	6.11	$	35.60	70	$	36.60

As of December 31, 2010, the total unamortized stock-based compensation expense related to non-vested stock options, net of estimated forfeitures, was approximately $38,000 and this expense is expected to be recognized over a remaining weighted-average period of 2.79 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. The Company's right to repurchase shares of restricted stock awards lapses upon vesting, at which time the shares of restricted stock awards are released to the employees or directors. Restricted stock units are converted into common stock upon vesting and are subsequently released to the employees or directors. Upon the vesting of restricted stock, the Company primarily used the net share settlement approach, which withheld a portion of the shares to cover the applicable taxes. As of December 31, 2010, there were 2,167 shares of service-based restricted stock awards and 6,250 shares of restricted stock units outstanding.

Under the 2004 Equity Incentive Plan, restrictions generally lapsed in one of the following ways: (1) 50% one year from the date of grant and the remainder on the second anniversary of the grant date; (2) 100% one year from the date of grant; (3) 33–1/3% one year from the date of grant and the remainder on the second anniversary of the grant date; (4) 66–2/3% one year from the date of grant and the remainder on the second anniversary of the grant date or (5) upon meeting certain performance criteria after being evaluated over a specified period, which generally ranged from 18 months to 36 months, from the date of grant. Under the 2006 Director Plan, restrictions generally lapse (1) one year from the date of grant for one-third of the shares and quarterly thereafter for the next two years for the remaining balance for new non-employee directors and (2) one year from the date of grant for non-employee directors; however, restricted stock will vest immediately if the relationship between the Company and the non-employee director ceases for any reason.

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; except for those restricted stock units which vested over a specified period based upon meeting certain performance criteria from the date of grant, which would then be evaluated on a quarterly basis. The Company assessed the probability of achieving the performance criteria for certain restricted stock units at March 31, 2010 and 2009 and determined its probability was remote. Therefore, the Company did not record any stock-based compensation expense associated with these restricted stock units with performance-based vesting in fiscal years 2010 and 2009. During the transition period for fiscal 2010, the restricted stock units with performance-based vesting were modified as further discussed in "Stock-Based Compensation" below.

A summary of activity for restricted stock as of December 31, 2010, March 31, 2010 and March 31, 2009 and changes during the transition period for fiscal 2010 and fiscal years 2010 and 2009 was as follows:

	Shares	**Weighted Average Grant Date Fair Value**
	(in thousands)	
Non-vested stock at March 31, 2008	199	$ 36.40
Awarded	215	$ 34.60
Vested	(111)	$ 36.80
Forfeited	(85)	$ 36.60
Non-vested stock at March 31, 2009	218	$ 34.30
Awarded	181	$ 28.50
Vested	(126)	$ 36.40
Forfeited	(101)	$ 28.60
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

All restricted stock was awarded at the par value of $0.001 per share. As of December 31, 2010, the total unrecognized compensation expense related to non-vested restricted stock that is expected to vest, net of estimated forfeitures, was approximately $44,000, and this expense is expected to be recognized over a remaining weighted-average period of 2.79 years.

Stock-Based Compensation

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 ("CEO")). 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 for fiscal 2010.

Stock-based compensation expense included in the Consolidated Statements of Operations for the transition period for fiscal 2010 and fiscal years 2010 and 2009 were as follows:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
		(in thousands)	
Stock-based compensation expense by caption:			
Selling, marketing and administrative	$ 470	$ 2,952	$ 1,687
Stock-based compensation expense effect on income (loss) from continuing operations, net of taxes(1)	$ 470	$ 2,952	$ 1,687
Stock-based compensation expense by type of award:			
Stock options	$ 215	$ 1,408	$ 611
Restricted stock awards and restricted stock units	255	1,544	1,076
Stock-based compensation expense effect on income (loss) from continuing operations, net of taxes(1)	$ 470	$ 2,952	$ 1,687

(1) The total stock-based compensation, net of taxes, recorded on the Consolidated Statements of Operations and Consolidated Statements of Cash Flows for the transition period for fiscal 2010 and fiscal years 2010 and 2009 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 expense recorded in the transition period for fiscal 2010 in the above table 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.

(3) In fiscal 2010, the Company's Consolidated Statements of Operations included additional compensation expense related to the accelerated vesting of certain options and shares of restricted stock or extending the period to exercise stock options after termination. Additional compensation expense recorded in fiscal 2010 included $0.9 million related to the modification of stock-based awards in connection with the Separation Agreement of Subramanian Sundaresh, the Company's former Chief Executive Officer.

Stock-based compensation expense in the above table does not reflect any significant income taxes, which is consistent with the Company's treatment of income or loss from its United States operations. For the transition period for fiscal 2010 and fiscal years 2010 and 2009, there was 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 for fiscal 2010 and fiscal years 2010 and 2009 as the amounts were not material.

Valuation Assumptions

The Company used the Black-Scholes option pricing model for determining the estimated fair value for stock-based awards. The use of the Black-Scholes model requires the use of extensive actual exercise behavior data and the use of a number of complex assumptions including expected volatility, risk-free interest rate, expected term, and expected dividends.

The Company's policy is to estimate the volatility of its stock using historical volatility, as well as the implied volatility in market-traded options on its common stock. Given the lack of market data since April 1, 2006 relating to traded options in the Company's common stock, only historical volatility has been used in the Company's stock-based fair value calculations. The Company will continue to monitor these and other relevant factors used to measure expected volatility for future option grants.

The risk-free interest rate assumption is based upon observed interest rates using the implied yield currently available on U.S. Treasury zero-coupon issues that is appropriate for the term of the Company's stock options.

The dividend yield assumption is based on the Company's history and expectation of dividend payouts. The Company has historically not paid dividends and has no foreseeable plans to issue dividends as it is the Company's current policy to reinvest earnings for its business.

The expected term of stock options represents the weighted-average period that the stock options are expected to remain outstanding. The Company derived the expected term assumption based on its historical settlement experience, while giving consideration to options that have life cycles less than the contractual terms and vesting.

The fair value of the Company's outstanding stock options and other stock-based awards granted in the transition period for fiscal 2010 and fiscal years 2010 and 2009, was estimated using the following weighted-average assumptions:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
Expected life (in years)	5.5	4.0	4.4
Risk-free interest rates	1.7%	2.2%	2.7%
Expected volatility	44%	49%	38%
Dividend yield	-	-	-
Weighted average fair value			
Stock options	$ 12.30	$ 11.60	$ 12.10
Restricted stock	$ 29.30	$ 28.60	$ 34.60

(1) The stock option granted in fiscal 2010 were made primarily during the first half of fiscal 2010, which was prior to the Company's announcement that it would pursue a potential sale or disposition of certain of its assets or business operations. As a result, the expected term reflects the weighted-average period that the stock options were expected to remain outstanding, which was determined at the time of grant.

There are significant variations among allowable valuation models, and there is a possibility that the Company may adopt a different valuation model or refine the inputs and assumptions under its current valuation model in the future resulting in a lack of consistency in future periods. The Company's current or future valuation model and the inputs and assumptions it makes may also lack comparability to other companies that use different models, inputs, or assumptions, and the resulting differences in comparability could be material.

Other Benefit Plans

The Company had a defined contribution retirement plan under Section 401(k) of the Internal Revenue Code ("401(k)") for eligible U.S. employees. The 401(k) allowed participants to defer between 3% and 25% of their annual compensation for fiscal 2009 on a pre-tax basis and defer between 3% and 75% of their annual compensation for fiscal 2010 and the transition period for fiscal 2010 on a pre-tax basis, which were all subject to the statutory limits prescribed by the Internal Revenue Code. The Company terminated its 401(k) plan on September 30, 2010. The Company matched at a 50% rate for each dollar contributed by each eligible employee on their first $6,000 contributed during the calendar year. The matching contributions made by the Company were immediately vested. During the transition period for fiscal 2010 and fiscal years 2010 and 2009, the Company's contributions to the 401(k) plan were $0.1 million, $0.4 million and $0.5 million, respectively. The Company also maintained other benefit plans for its non-U.S. employees in which, the Company contributed $0.2 million, $0.2 million and $0.3 million in the transition period for fiscal 2010 and fiscal years 2010 and 2009, respectively.

Common Stock Repurchase Program

In July 2008, the Company's Board of Directors authorized a stock repurchase program to purchase up to $40 million of the Company's common stock. The Company announced the adoption of this program on July 31, 2008. During the transition period for fiscal 2010, the Company repurchased approximately 1.2 million shares of its common stock at an average price of $29.30 for an aggregate repurchase price of $34.3 million, excluding brokerage commissions. During fiscal 2010, the Company repurchased approximately 70,640 shares of its common stock at an average price of $24.60 for an aggregate repurchase price of $1.7 million, excluding brokerage commissions. During fiscal 2009, the Company repurchased approximately 103,340 shares of its common stock at an average price of $22.90 for an aggregate repurchase price of $2.4 million, excluding brokerage commissions. The Company has accounted for these treasury shares, which have not been retired or reissued, under the treasury method. All purchases made under the program were made in the open market. In December 2010, the Company terminated the stock repurchase program. Under the authorized stock repurchase program, the Company has cumulatively repurchased approximately 1.3 million shares of the Company's common stock for an aggregate repurchase price of $38.4 million, excluding brokerage commissions, through December 31, 2010.

Note 10. Commitments and Contingencies

Operating Lease Obligations

The Company leases certain office facilities and equipment under operating lease agreements that expire in the fourth quarter of fiscal 2011. As of December 31, 2010, future minimum lease payments and future lease income from the Company's tenants in its owned building and sublease income from subtenants in its leased facilities under non-cancelable operating leases and subleases were as follows:

	Future Minimum Lease Payments	Future Lease and Sublease Income
	(in thousands)	
2011[(1)]	$ 996	$ 1,595
2012	-	794
2013	-	723
2014	-	738
2015	-	759
Total	$ 996	$ 4,609

(1) Amounts include future minimum lease payments and future sublease income for a facility that has been accounted for as part of the Company's previous acquisition-related restructuring plan, as discussed in further detail in Note 11.

Net rent expense was minimal in the transition period for fiscal 2010. Net rent expense was approximately $1.0 million and $1.5 million during fiscal years 2010 and 2009, respectively.

Purchase Obligations

Purchase obligations relate to the Company's contractual commitments primarily for services. At December 31, 2010, the Company's purchase obligations were minimal, which was based on the Company's current needs and the Company's expectations that its vendors will fulfill services in fiscal 2011.

Legal Proceedings

The Company is a party to litigation matters and claims, including those related to intellectual property and businesses that the Company wound down or sold, which are normal in the course of its operations, and while the results of such litigation matters and claims cannot be predicted with certainty, the Company believes that the final outcome of such matters will not have a material adverse impact on its 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, the Company's business, financial condition, results of operations and cash flows could be materially and adversely affected.

In connection with the Company's acquisitions of Aristos and Eurologic Systems Group Limited ("Eurologic"), a portion of the respective purchase prices and other future payments totaling $4.3 million and $3.8 million, respectively, were held back (the "Holdbacks") to secure potential indemnification obligations of Aristos and Eurologic stockholders for unknown liabilities that may have existed as of each acquisition date. The Aristos Holdback of $4.3 million was paid in full in fiscal 2010. In fiscal 2009, the Company resolved the remaining disputed outstanding claims against the Eurologic Holdback by entering into a deed of indemnity and a written settlement agreement with the representative of the Eurologic stockholders, which resulted in an additional payment of $1.3 million. The Company's initial payment of $2.3 million to the Eurologic stockholders was recorded in fiscal 2005. The remaining Eurologic Holdback balance of $0.2 million was retained by the Company and was recognized as a gain in fiscal 2009 in "Loss from discontinued operations, net of taxes" in the Consolidated Statements of Operations.

Note 11. Restructuring Charges

The Company implemented several restructuring plans during the transition period for fiscal 2010 and fiscal years 2010 and 2009 and recorded restructuring charges of $3.9 million, $1.1 million and $3.5 million, respectively. The goal of these plans was to bring its operational expenses to appropriate levels relative to its net revenues, while simultaneously implementing extensive company-wide expense-control programs.

The restructuring charges of $3.9 million recorded in the transition period for fiscal 2010 primarily related to the restructuring plan implemented during the transition period for fiscal 2010 with minimal adjustments related to prior fiscal years' restructuring plans. The restructuring charges of $1.1 million recorded in fiscal 2010 primarily related to the restructuring plan implemented during that fiscal year with minimal adjustments related to prior fiscal years' restructuring plans. Of the $3.5 million recorded in fiscal 2009, $3.3 million related to restructuring charges for plans implemented in fiscal 2009 and $0.2 million related to adjustments made for prior fiscal years' restructuring plans due to additional lease costs for facilities previously consolidated. All expenses, including adjustments, associated with the Company's restructuring plans are included in "Restructuring charges" and "Income (loss) from discontinued operations, net of taxes" in the Consolidated Statements of Operations. The restructuring plans are discussed in detail below.

Transition Period for Fiscal 2010 Restructuring Plan

In June 2010, the Company completed its actions and notified affected employees of the termination of their employment, primarily in engineering and general administrative functions, in connection with a restructuring plan adopted on May 6, 2010, with expected restructuring charges of $3.9 million. The execution of this restructuring plan was substantially contingent upon the sale of the Company's DPS Business to PMC-Sierra, which transaction was consummated on June 8, 2010, and was intended to allow the Company to reduce its operating expenses following such sale. Certain of the employees notified continued to provide services through December 2010 in connection with the transition services the Company provided to PMC-Sierra, and to a lesser extent, to assist in corporate matters, including the completion of the wind down of the Aristos Business by the end of September 2010. The Company expects to incur severance and related benefits charges of $3.7 million associated with this restructuring plan, of which $3.7 million was recorded in the transition period for fiscal 2010 and minimal charges are expected to be recorded in the first quarter of fiscal 2011. The Company also consolidated its facilities and incurred a termination fee of $0.2 million in the transition period for fiscal 2010 upon vacating a facility in California.

The following table sets forth the activity in the accrued restructuring balances related to the restructuring plan implemented in the transition period for fiscal 2010:

	Severance and Benefits	Other Charges	Total
		(in thousands)	
Charges for Transition Period for Fiscal 2010 Restructuring Plan[1]	$ 4,276	$ 150	$ 4,426
Cash paid	(3,395)	(150)	(3,545)
Accrual balance at December 31, 2010	$ 881	$ -	$ 881

(1) The charges for the transition period for fiscal 2010 restructuring plan included amounts of $560,000 classified as discontinued operations, which was reflected in "Income (loss) from discontinued operations, net of taxes," in the Consolidated Statements of Operation.

The Company anticipates that the remaining restructuring severance and benefits accrual balance of $0.9 million at December 31, 2010 will be substantially paid out by the end of the first quarter of fiscal 2011.

Fiscal 2010 Restructuring Plan

In the third quarter of fiscal 2010, the Company committed to a restructuring plan to better align its operating costs with the continued decline in its net revenues, resulting in a restructuring charge of $1.2 million in fiscal 2010. The Company reduced its workforce primarily in the general administrative functions and provided severance and related benefits of $1.0 million. The Company also consolidated its facilities further and incurred a net estimated loss of $0.2 million for vacating certain premises. As of December 31, 2010, the Company utilized all of these charges and the plan is now complete.

The following table sets forth the activity in the accrued restructuring balances related to the restructuring plan implemented in fiscal 2010:

	Severance and Benefits	Other Charges	Total
		(in thousands)	
Charges for Fiscal 2010 Restructuring Plan[1]	$ 1,435	$ 220	$ 1,655
Cash paid	(1,355)	(124)	(1,479)
Accrual balance at March 31, 2010	80	96	176
Accrual adjustments	(15)	-	(15)
Cash paid	(65)	(96)	(161)
Accrual balance at December 31, 2010	$ -	$ -	$ -

(1) The total fiscal 2010 restructuring plan charges included amounts of $478,000 classified as discontinued operations in fiscal 2010, which was reflected in “Income (loss) from discontinued operations, net of taxes,” in the Consolidated Statements of Operations.

Fiscal 2009 Restructuring Plans

In the first quarter of fiscal 2009, the Company approved and initiated a restructuring plan to (1) reduce its operating expenses due to a declining revenue base, (2) streamline its operations and (3) better align its resources with its strategic business objectives, resulting in a restructuring charge of $1.9 million in fiscal 2009. This restructuring plan included workforce reductions in all functions of the organization worldwide and consolidation of its facilities, which resulted in restructuring charges of $1.1 million and $0.8 million, respectively. Of the $1.9 million recorded in fiscal 2009 related to this restructuring plan, $0.3 million was recorded in the fourth quarter of fiscal 2009, related to accrual adjustments for the additional estimated loss on the Company’s facilities and disposing of duplicative assets.

In the third quarter of fiscal 2009, the Company initiated additional actions to reduce expenses as its business began to be impacted by the deterioration of macroeconomic conditions, resulting in a restructuring charge of $1.4 million in fiscal 2009 related to severance and benefits for employee reductions primarily in sales, marketing and administrative functions.

As of December 31, 2010, the Company utilized all of these charges and the plans are now complete.

The following table sets forth the activity in the accrued restructuring balances related to the restructuring plans implemented in fiscal 2009:

	Severance and Benefits	Other Charges	Total
		(in thousands)	
Charges for Fiscal 2009 Restructuring Plans[1]	$ 5,186	$ 354	$ 5,540
Accrual adjustments[1]	(54)	395	341
Non-cash utilization	-	(124)	(124)
Cash paid	(4,046)	(455)	(4,501)
Accrual balance at March 31, 2009	1,086	170	1,256
Accrual adjustments[1]	(16)	-	(16)
Cash paid	(1,070)	(157)	(1,227)
Accrual balance at March 31, 2010	-	13	13
Cash paid	-	(13)	(13)
Accrual balance at Decemer 31, 2010	$ -	$ -	$ -

(1) The total fiscal 2009 restructuring plan charges included amounts of $(5,000) and $2,569,000 classified as discontinued operations in fiscal years 2010 and 2009, respectively, which was reflected in "Income (loss) from discontinued operations, net of taxes," in the Consolidated Statements of Operations.

Previous Acquisition-Related Restructuring

In fiscal 2006, in connection with one of its previous acquisitions, the Company finalized its plan to integrate the acquired company's operations to eliminate certain duplicative resources, including severance and related benefits in connection with the involuntary termination of employees, exiting duplicative facilities and disposing of duplicative assets. This plan was initially included in the purchase price allocation of the acquired company. The severance and related benefits was paid by fiscal 2007. The remaining liability related to long-term lease obligations, in which the lease term ends in October 2011. Any further changes to the Company's finalized plan will be recorded in "Restructuring charges" in the Consolidated Statements of Operations. In the transition period for fiscal 2010 and fiscal 2009, the Company recorded adjustments of $0.1 million and $0.2 million, respectively, due to additional lease costs related to the estimated loss on the facility that the Company subleased.

The following table sets forth the activity in the accrued restructuring balance related to its previous acquisition-related restructuring plan for the transition period for fiscal 2010 and fiscal years 2010 and 2009:

	Other Charges
	(in thousands)
Accrual balance at March 31, 2008	$ 1,736
Accrual adjustments	214
Cash paid	(719)
Accrual balance at March 31, 2009	1,231
Accrual adjustments	(17)
Cash paid	(630)
Accrual balance at March 31, 2010	584
Accrual adjustments	92
Cash paid	(326)
Accrual balance at December 31, 2010	$ 350

The Company anticipates that the remaining restructuring balance of $0.4 million at December 31, 2010, related to lease obligations, will be paid out through the fourth quarter of fiscal 2011, which was reflected in "Accrued and other liabilities" in the Consolidated Balance Sheets.

Note 12. Interest and Other Income, Net

The components of interest and other income, net, for all periods presented were as follows:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
		(in thousands)	
Interest income	$ 5,101	$ 8,496	$ 16,932
Gain on sale of marketable equity securities	-	-	2,255
Gain on sale of investments	-	440	-
Gain on settlement of class action suit	-	944	-
Gain on extinguishment of debt, net	-	-	1,643
Realized currency translation gaines (losses)	18	399	(789)
Other	89	182	967
Interest and other income, net	$ 5,208	$ 10,461	$ 21,008

In fiscal 2010, the Company received $0.9 million from Micron Technology, Inc. as part of a class action settlement regarding DRAM antitrust matters and recorded a gain of $0.4 million from the sale of an investment in a non-controlling interest of a non-public company.

In fiscal 2009, the Company recorded a gain, net of selling costs, of $2.3 million on the sale of marketable equity securities of a publicly traded company.

In fiscal 2009, the Company repurchased a total of $191.0 million in principal amount of its 3/4% Notes on the open market for an aggregate price of $188.9 million, resulting in a gain on extinguishment of debt of $1.7 million (net of unamortized debt issuance costs of $0.4 million). In addition, the majority of the remaining holders of the 3/4% Notes exercised their put option in December 2008, which required the Company to purchase its 3/4% Notes at a price equal to 100.25% of the principal of the 3/4% Notes, resulting in the redemption of the 3/4% Notes for an aggregate cost of $34.0 million, plus accrued and unpaid interest. See Note 8 to the Consolidated Financial Statements for further details.

Note 13. Income Taxes

The components of loss from continuing operations before benefit from (provision for) income taxes for all periods presented were as follows:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
	(in thousands)		
Income (loss) from continuing operations before income taxes			
Domestic	$ (12,220)	$ (21,500)	$ (3,484)
Foreign	2,436	1,420	(6,390)
Total income (loss) from continuing operations before income taxes	$ (9,784)	$ (20,080)	$ (9,874)

The components of the benefit from (provision for) income taxes from continuing operations for all periods presented were as follows:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
	(in thousands)		
Federal:			
Current	76	1,341	343
Deferred	-	-	-
	76	1,341	343
Foreign:			
Current	(7,961)	535	1,515
Deferred	276	1,018	6
	(7,685)	1,553	1,521
State:			
Current	7	(46)	1,511
Deferred	-	-	-
	7	(46)	1,511
Benefit from (provision for) income taxes	$ (7,602)	$ 2,848	$ 3,375

The Company's effective tax rate differed from the federal statutory tax rate for all periods presented as follows:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
Federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	0.0%	-0.2%	7.5%
Foreign losses not benefited	1.2%	-1.8%	-38.5%
Changes in tax reserves	-78.2%	2.2%	33.9%
OID interest	0.0%	0.0%	25.2%
Change in valuation allowance	-33.6%	8.3%	96.8%
Distributions from foreign subsidiaries	-3.8%	-36.3%	-70.9%
Goodwill impairment cxharges	0.0%	0.0%	-60.1%
Benefit from NOL carryback	0.0%	6.7%	0.0%
Other permanent differences	1.7%	0.3%	5.3%
Effective income tax rate	-77.7%	14.2%	34.2%

In the transition period for fiscal 2010 and fiscal years 2010 and 2009, the Company's tax benefit (provision) was associated with losses incurred from continuing operations that were offset against income and taxes recorded in discontinued operations. This was partially offset by state minimum taxes and foreign taxes related to its foreign subsidiaries.

In the transition period for fiscal 2010, the Company's tax provision included discrete tax expenses of $7.9 million primarily due to changes in judgment related to the on-going audits in its foreign jurisdictions.

In fiscal 2010, the Company's tax benefit included discrete tax benefits of $1.3 million related to additional tax refunds that became available to the Company during fiscal 2010 due to the enactment of the Worker, Homeownership and Business Act of 2009, which allowed for an extension of the NOL carryback period from two to five years for United States federal tax purposes. The Company also recorded discrete tax benefits of $4.4 million in fiscal 2010 primarily due to reaching final settlement with the German tax authorities for fiscal years 2001 through 2004 and the Singapore tax authorities for fiscal year 2001, reflecting the reversal of previously accrued liabilities and refunded tax amounts. This was partially offset by discrete tax expense of $3.6 million in fiscal 2010 primarily due to changes in judgment related to the on-going audits in its foreign jurisdictions.

In fiscal 2009, the Company's tax benefit included discrete tax benefits of $1.4 million, which included the reversal of previously accrued liabilities related to reaching final settlement with the Singapore tax authorities for fiscal years 1998 through 2000 and the lapsing of the statute of limitations on a pre-acquisition tax issue related to Eurologic. This was offset by changes in judgment related to on-going audits in its foreign jurisdictions and new foreign tax issues that were identified, which included its tax exposures that pre-date its acquisition of ICP vortex Computersysteme GmbH ("ICP vortex"), resulting in increases in the Company's liabilities for uncertain tax positions. Changes to the liabilities for uncertain tax benefits related to the Eurologic and ICP vortex items were recorded as part of the tax provision as opposed to adjusting amounts to purchase accounting as no goodwill or related intangible assets existed at March 31, 2009, due to impairments or the full amortization of intangible assets in previous fiscal years. In fiscal 2009, the Company also recorded a favorable tax impact due from the state of California, including accrued and unpaid interest, of approximately $1.6 million due to notices received from the California Franchise Tax Board in January 2009 as a result of their review of the Company's amended fiscal years 1994 through 2003 tax returns. These notices indicated that certain adjustments were to be made in conjunction with adjustments made on the Company's amended Federal tax returns for those fiscal years, due to reaching resolutions with the United States taxing authorities on all outstanding audit issues, as further discussed below.

The Company has concluded its negotiations with the Internal Revenue Service (the "IRS") taxing authorities with regard to its tax disputes for the Company's fiscal years 1994 through 2006. In fiscal 2009, the IRS issued a No Change Report indicating no change to the Company's tax liability; however, the IRS continues to have the ability to adjust tax attributes relating to these years in subsequent audits. The Company believes that it has provided sufficient tax provisions for these years and that the ultimate outcome of any future IRS audits that include the tax attributes will not have a material adverse impact on its financial position or results of operations in future periods. The tax authorities in the foreign jurisdictions in which the Company operates or formerly operated in continue to audit its tax returns for fiscal years subsequent to 1999. The potential outcome of these audits is uncertain and could result in material tax provisions or benefits in future periods. However, the Company cannot predict with certainty how these matters will be resolved and whether the Company will be required to make additional tax payments and believes that it has provided sufficient tax provisions for the tax exposures in such foreign jurisdictions.

The significant components of the Company's deferred tax assets and liabilities at December 31, 2010 and March 31, 2010 were as follows:

	December 31, 2010	March 31, 2010
	(in thousands)	
Deferred tax assets:		
Intangible assets	$ 234	$ 26,790
Net operating loss carryover	86,124	53,424
Research and development tax credits	29,659	29,440
Capitalized research and development	5,644	6,291
Compensatory and other accruals	689	9,847
Restructuring charges	480	265
Foreign tax credits	10,035	9,826
Deferred revenue	-	1,051
Inventory reserves	-	2,188
Uniform capitalization adjustment	-	561
Fixed assets accrual	1,825	1,456
Other, net	3,710	1,454
Gross deferred tax assets	138,400	142,593
Deferred tax liabilities:		
Acquisition-related charges	-	(329)
Unremitted earnings	(66,666)	(59,144)
Unrealized loss on investments	(540)	(1,000)
Gross deferred tax liabilities	(67,206)	(60,473)
Valuation allowance	(70,449)	(81,218)
Net deferred tax assets	$ 745	$ 902

The significant components of the Company's deferred tax assets and liabilities at December 31, 2010 and March 31, 2010 were classified on its Consolidated Balance Sheets as follows:

	December 31, 2010	March 31, 2010
	(in thousands)	
Deferred tax assets:		
Other current assets	$ 986	$ 5,089
Other long-term assets	745	626
Total deferred tax assets	1,731	5,715
Deferred tax liabilities:		
Other long-term liabilities	(986)	(4,813)
Total deferred tax liabilities	(986)	(4,813)
Net deferred tax assets	$ 745	$ 902

The Company continues to provide U.S. deferred income taxes and foreign withholding taxes on its' undistributed earnings. At December 31, 2010 and March 31, 2010, the Company recorded a deferred tax liability of $66.7 million, which included immaterial out-of-period adjustments that had no impact to net loss, and $59.1 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, 2010 and March 31, 2010, 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 full valuation allowance for deferred tax assets of $70.4 million, which included immaterial out-of-period adjustments that had no impact to net loss, and $81.2 million, respectively. This resulted in a decrease to the valuation allowance by $10.8 million during the transition period for fiscal 2010 and an increase to the valuation allowance by $5.3 million during fiscal 2010. 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 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, 2010, the Company had net operating loss carryforwards of $239.5 million for federal and $254.1 million for state purposes that expire in various years beginning in 2019 for federal and 2011 for state purposes. At December 31, 2010, 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, 2010, The Company had foreign tax credits of $3.4 million that expire in various years beginning in 2010. 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 the Company’s 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 the transition period for fiscal 2010, fiscal years 2010 and 2009 was immaterial.

A reconciliation of the changes to the Company’s gross unrecognized tax benefits for the transition period for fiscal 2010 and fiscal years 2010 and 2009 was as follows:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
		(in thousands)	
Balance at beginning of period	$ 23,925	$ 27,779	$ 21,510
Tax positions related to current year:			
Additions	84	430	1,534
Tax positions related to prior years:			
Additions	7,809	423	6,854
Reductions	-	(271)	-
Settlements	-	(4,436)	(1,319)
Lapses in statutes of limitations	-	-	(800)
Balance at end of period	$ 31,818	$ 23,925	$ 27,779

As of December 31, 2010, the Company’s total gross unrecognized tax benefits were $31.8 million, of which $12.1 million, if recognized, would affect the effective tax rate. There was an overall increase of $7.9 million in the Company’s gross unrecognized tax benefits from fiscal 2010 to the transition period for fiscal 2010 primarily due to tax expenses from the ongoing audits primarily in the Company’s foreign jurisdictions as noted above.

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, 2010, fiscal years 2004 onward remained open to examination by the U.S. taxing authorities and fiscal years 1999 onward remained open to examination in various foreign jurisdictions. U.S. tax attributes generated in fiscal years 2004 onward also remain subject to adjustment in subsequent audits when they are utilized.

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 as discussed above and the outcome of any tax audits are inherently uncertain, which could change this judgment in any given quarter.

Note 14. Net Income (Loss) Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share gives effect to all potentially dilutive common shares outstanding during the period, which include certain stock–based awards and warrants, 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.

A reconciliation of the numerator and denominator of the basic and diluted loss per share computations for continuing operations, discontinued operations and net loss were as follows:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
	(in thousands, except per share amounts)		
Numerator:			
Income (loss) from continuing operations, net of taxes	$ (17,386)	$ (17,232)	$ (6,499)
Loss from discontinued operations, net of taxes	(373)	(202)	(3,691)
Net loss	$ (17,759)	$ (17,434)	$ (10,190)
Denominator:			
Weighted average shares and/or potentially dilutive common shares outstanding - basic and diluted	11,609	11,920	11,977
Basic and diluted income (loss) per share:			
Income (loss) from continuing operations, net of taxes	$ (1.50)	$ (1.45)	$ (0.54)
Loss from discontinued operations, net of taxes	$ (0.03)	$ (0.02)	$ (0.31)
Net loss	$ (1.53)	$ (1.47)	$ (0.85)

Diluted loss per share for the transition period for fiscal 2010 and fiscal years 2010 and 2009 was based only on the weighted-average number of shares outstanding during each of the periods, as the inclusion of any common stock equivalents would have been anti-dilutive. As a result, the same weighted-average number of common shares outstanding during each of those periods was used to calculate both the basic and diluted earnings per share. The weighted-average number of common shares used to calculate the diluted earnings per share for loss from continuing operations, net of taxes, during each of the periods was also used to compute all other reported diluted earnings per share, even though it could result in anti-dilution. The potential common shares excluded for the transition period for fiscal 2010 and fiscal years 2010 and 2009 were as follows:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
	(in thousands)		
Outstanding stock options	297	556	6,881
Outstanding restricted stock	43	230	195
Warrants[1]	-	17	978
3/4% notes	3	3	929

(1) In connection with the issuance of its 3/4% Notes, the Company entered into a derivative financial instrument to repurchase up to 19,224,000 shares of its common stock, at the Company's option, at specified prices in the future to mitigate any potential dilution as a result of the conversion of the 3/4% Notes. However, this warrant expired unexercised in December 2008. See Note 8 to the Consolidated Financial Statements for further details. In addition, in connection with agreements entered into with IBM, the Company issued IBM warrants to purchase 500,000 shares of the Company's common stock, which expired unexercised in June and August 2009. See Note 15 to the Consolidated Financial Statements for further details.

Note 15. IBM Distribution Agreement

In August 2004, the Company entered into an agreement to sell external storage products to IBM. In connection with the agreement, the Company issued IBM a warrant to purchase 250,000 shares of the Company's common stock at an exercise price of $6.94 per share. The warrant has a term of five years from the date of issuance and was immediately exercisable; however, the warrant expired unexercised in August 2009. The warrant was valued at $1.0 million using the Black-Scholes valuation model using a volatility rate of 62%, a risk-free interest rate of 4.0% and an estimated life of five years. The value of the warrant was fully expensed, as the economic benefits were not considered probable, at March 31, 2005.

In connection with the IBM internet protocol Series RAID acquisition in June 2004, the Company issued a warrant to IBM to purchase 250,000 shares of the Company's common stock at an exercise price of $8.13 per share. The warrant had a term of five years from the date of issuance and was immediately exercisable; however, the warrant expired unexercised in June 2009. The warrant was valued at $1.1 million, net of registration costs, using the Black-Scholes valuation model using a volatility rate of 62%, a risk-free interest rate of 3.9% and an estimated life of five years.

Note 16. Guarantees

Intellectual Property and Other Indemnification Obligations

The Company has entered into agreements with PMC-Sierra that include certain indemnification obligations related to the sale of the DPS Business. These indemnification obligations generally require 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 is conditional on the other party making a claim pursuant to the procedures specified in the particular agreements, which procedures typically allow the Company to challenge the other party's claims. Further, the Company's obligations under these agreements may be limited in terms of time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments made by it under these agreements. In addition, the Company has agreements whereby it indemnifies 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.

Product Warranty

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; however, the Company made no adjustments to pre-existing warranty accruals in the transition period for fiscal 2010 and fiscal years 2010 and 2009. 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 have been fulfilled.

A reconciliation of the changes to the Company's warranty accrual for the transition period for fiscal 2010 and fiscal years 2010 and 2009 was as follows:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31,	
		2010	2009
	(in thousands)		
Balance at beginning of period	$ 310	$ 400	$ 741
Warranties provided	2	624	930
Actual costs provided	(37)	(714)	(1,117)
Warranty obligations transferred with discontinued operations	(275)	-	(154)
Balance at end of period	$ -	$ 310	$ 400

Note 17. Related Party Transactions

Warren G. Lichtenstein, Steel Partners, LLC, Steel Partners Holdings, L.P. and one of their affiliates, Steel Partners II, L.P. (collectively, "Steel Partners") became a 5% stockholder of the Company in March 2007. Jack L. Howard, John J. Quicke and John Mutch were nominated for election at the 2007 Annual Meeting of Stockholders. At such time, both Mr. Howard and Mr. Quicke were deemed to be affiliates of Steel Partners under the rules of the Securities Exchange Act of 1934, as amended; however, Mr. Mutch was not deemed to be an affiliate of Steel Partners at such time. Messrs. Howard, Quicke and Mutch continue to serve on the Company's Board of Directors and Mr. Quicke currently serves as the Interim President and CEO of the Company. In October 2010, the Company appointed Mr. Lichtenstein, who is deemed to be an affiliate of Steel Partners, to serve on its Board of Directors to fill a newly created vacancy arising as a result of the Board of Director's expansion in size. Each of the four directors, including the three directors who are deemed affiliates of Steel Partners, are compensated with equity awards or equity-based awards in amounts that are consistent with the Company's Non-Employee Director Compensation Policy. As of December 31, 2010, Steel Partners beneficially owned approximately 33% of the Company's outstanding common stock.

In fiscal 2010, the Company agreed to pay Mr. Quicke $30,000 per month, effective, January 4, 2010, in connection with his role as Interim President and CEO, in addition to the compensation he receives as a non-executive board member. In the transition period for fiscal 2010, the Company expensed $0.5 million related to a discretionary cash bonus the Company agreed to pay Mr. Quicke in connection with his efforts to consummate the sale of the DPS Business to PMC-Sierra.

In addition, in fiscal 2010, the Company reimbursed $0.7 million related to professional fees that Steel Partners II, L.P., Steel Partners Holdings L.P., Steel Partners LLC, Steel Partners II GP LLC, Warren Lichtenstein, Jack L. Howard, and John J. Quicke incurred with respect to the consent solicitation, which was recorded within "Selling, marketing and administrative expenses" in the Consolidated Statements of Operations.

Note 18. Geographic Information

Net property and equipment by countries based on the location of the assets at December 31, 2010 and March 31, 2010 was as follows:

	December 31, 2010	March 31, 2010
United States	$ -	$ 11,097
Europe	-	210
Pacific Rim	-	46
Property and equipment, net	$ -	$ 11,353

All other long-lived assets at December 31, 2010 resided in the United States while significantly all other long-lived assets at March 31, 2010 resided in the United States. All of the Company's net revenues for the transition period for fiscal 2010 and fiscal years 2010 and 2009 were derived primarily from customers located in the Pacific Rim.

Note 19. Supplemental Disclosure of Cash Flows

A summary of supplemental disclosures of cash flows follows:

	Nine-Month Period Ended December 31, 2010	Fiscal Year Ended March 31, 2010	Fiscal Year Ended March 31, 2009
		(in thousands)	
Interest paid	$ 4	$ 4	$ 2,011
Income taxes paid	$ 759	$ 2,493	$ 720
Income tax refund received	$ 1,649	$ 7,617	$ 1,082
Non-cash investing and financing activities:			
Unrealized gains (losses) on available-for-sale securities	$ (1,566)	$ 110	$ (600)

Note 20. 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, to reflect the sale of the DPS Business and the wind down of the Aristos Business as discontinued operations:

	Three-Month Period Ended July 1, 2010	Three-Month Period Ended October 1, 2010	Three-Month Period Ended December 31, 2010	Nine-Month Period Ended December 31, 2010
		(in thousands, except per share amounts)		
Net revenues	$ -	$ -	$ -	$ -
Gross margin	$ -	$ -	$ -	$ -
Income (loss) from continuing operations, net of taxes	$ (6,638)	$ (384)	$ (10,364)	$ (17,386)
Loss from discontinued operations, net of taxes	$ (2,492)	$ 1,601	$ 518	$ (373)
Net income (loss)	$ (9,130)	$ 1,217	$ (9,846)	$ (17,759)
Income (loss) per share:				
Basic				
Income (loss) from continuing operations, net of taxes	$ (0.55)	$ (0.03)	$ (0.94)	$ (1.50)
Loss from discontinued operations, net of taxes	$ (0.21)	$ 0.14	$ 0.05	$ (0.03)
Net income (loss)	$ (0.76)	$ 0.11	$ (0.89)	$ (1.53)
Diluted				
Income (loss) from continuing operations, net of taxes	$ (0.55)	$ (0.03)	$ (0.94)	$ (1.50)
Loss from discontinued operations, net of taxes	$ (0.21)	$ 0.14	$ 0.05	$ (0.03)
Net income (loss)	$ (0.76)	$ 0.10	$ (0.89)	$ (1.53)
Shares used in computing income (loss) per share:				
Basic	11,967	11,842	11,016	11,609
Diluted	11,967	11,854	11,016	11,609

	Three-Month Period Ended				Fiscal Year Ended
	July 3, 2009	October 2, 2009	January 1. 2010	March 31, 2010	March 31, 2010
	(in thousands, except per share amounts)				
Net revenues	$ -	$ -	$ -	$ -	$ -
Gross margin	$ -	$ -	$ -	$ -	$ -
Income (loss) from continuing operations, net of taxes	$ (1,336)	$ (3,961)	$ (5,877)	$ (6,058)	$ (17,232)
Loss from discontinued operations, net of taxes	$ 1,930	$ 188	$ (1,405)	$ (915)	$ (202)
Net income (loss)	$ 594	$ (3,773)	$ (7,282)	$ (6,973)	$ (17,434)
Income (loss) per share:					
Basic					
Income (loss) from continuing operations, net of taxes	$ (0.11)	$ (0.33)	$ (0.49)	$ (0.51)	$ (1.45)
Loss from discontinued operations, net of taxes	$ 0.16	$ 0.02	$ (0.12)	$ (0.08)	$ (0.02)
Net income (loss)	$ 0.05	$ (0.33)	$ (0.61)	$ (0.59)	$ (1.47)
Diluted					
Income (loss) from continuing operations, net of taxes	$ (0.11)	$ (0.33)	$ (0.49)	$ (0.51)	$ (1.45)
Loss from discontinued operations, net of taxes	$ 0.16	$ 0.02	$ (0.12)	$ (0.08)	$ (0.02)
Net income (loss)	$ 0.05	$ (0.31)	$ (0.61)	$ (0.59)	$ (1.47)
Shares used in computing income (loss) per share:					
Basic	11,928	11,896	11,914	11,940	11,920
Diluted	11,928	11,896	11,914	11,940	11,920

For the three-month period ended July 2, 2010, the Company recorded an impairment charge of $10.2 million, which is reflected in “Loss from discontinued operations, net of taxes” in the table above. For the three-month period ended July 2, 2010, October 1, 2010 and December 31, 2010, the Company recorded restructuring charges of $2.3 million, $1.1 million and $0.6 million, respectively, primarily related to a restructuring plan implemented during the fiscal year. For the three-month period ended July 2, 2010, the Company recorded a gain of $10.5 million within “Gain on disposal of discontinued operations, net of taxes” in the Consolidated Statements of Operations related to the sale of the DPS Business to PMC-Sierra. For the three-month period ended July 2, 2010 and December 31, 2010, the Company recorded stock-based compensation expense of $0.2 million and $0.3 million, respectively. For the three-month period ended July 2, 2010, the Company recorded cash compensation expense of $1.2 million the settlement of unvested stock-based awards in the form of a fixed cash payment based on the modifications to such awards approved the Compensation Committee of the Board of Directors.

For the three-month period ended July 3, 2009, October 2, 2009, January 1, 2010 and March 31, 2010, the Company recorded restructuring charges (credits) of $0.1 million, $(0.1) million, $0.5 million and $0.6 million, respectively, primarily related to adjustments made to previous restructuring plans and a restructuring plan implemented during the fiscal year. For the three-month period ended July 3, 2009, October 2, 2009, January 1, 2010 and March 31, 2010, the Company recorded a gain of $0.4 million, $0.3 million, $0.2 million and $0.3 million, respectively, within “Gain on disposal of discontinued operations, net of taxes” in the Consolidated Statements of Operations, based on the release of the reserve on the remaining receivable due from Overland as cash was collected. For the three-month period ended July 3, 2009, October 2, 2009, January 1, 2010 and March 31, 2010, the Company recorded stock-based compensation expense of $0.6 million, $0.5 million, $1.8 million and $0.6 million, respectively. For the three-month period ended January 1, 2010, the Company received $0.9 million as part of a class action suit and $0.4 million from the sale of an investment in a non-controlling interest of a non-public company, which was recorded within “Interest and other income, net” in the Consolidated Statements of Operations.

Note 21. Transition Period Comparative Financial Data

In December 2010, the Company changed its fiscal year end from March 31 to December 31. As a result, the Company provided certain comparable financial information for the nine-month period ended December 31, 2010 and January 1, 2010 as follows:

	Nine-Month Period Ended	
	December 31, 2010	January 1, 2010
		(unaudited)
	(in thousands)	
Consolidated Statements of Operations Data:		
Net revenues	$ -	$ -
Cost of revenues	$ -	$ -
Gross margin	$ -	$ -
Total operating expenses	$ 14,989	$ 22,746
Loss from continuing operations before income taxes	$ (9,784)	$ (14,154)
Benefit from (provision for) income taxes	$ (7,602)	$ 2,980
Loss from continuing operations, net of taxes	$ (17,386)	$ (11,174)
Income (loss) from discontinued operations, net of taxes	$ (373)	$ 713
Net loss	$ (17,759)	$ (10,461)
Basic and diluted income (loss) per share:		
Loss from continuing operations, net of taxes	$ (1.50)	$ (0.94)
Loss from discontinued operations, net of taxes	$ (0.03)	$ 0.06
Net loss	$ (1.53)	$ (0.88)
Shares used in computing income (loss) per share:		
Basic and diluted	11,609	11,913

	Nine-Month Period Ended	
	December 31, 2010	January 1, 2010
		(unaudited)
	(in thousands)	
Consolidated Statements of Cash Flows Data:		
Cash Flows from Operating Activities:		
Net cash used in operating activities of continuing operations	$ (20,832)	$ (9,111)
Net cash provided by operating activities of discontinued operations	6,519	15,761
Net cash provided by (used in) operating activities	(14,313)	6,650
Cash Flows from Investing Activities:		
Net cash used in investing activities of continuing operations	(7,186)	(31,322)
Net cash provided by (used in) investing activities of discontinued operations	28,285	(624)
Net cash provided by (used in) investing activities	21,099	(31,946)
Cash Flows from Financing Activities:		
Net cash used in financing activities of continuing operations	(32,515)	(1,665)
Net cash used in financing activities of discontinued operations	-	-
Net cash used in financing activities	(32,515)	(1,665)
Effects of Foreign Currency of Cash and Cash Equivalents	57	1,167
Net Decrease in Cash and Cash Equivalents	(25,672)	(25,794)
Cash and Cash Equivalents at Beginning of Period	63,948	111,724
Cash and Cash Equivalents at End of Period	$ 38,276	$ 85,930

The comparative financial information provided for the nine-month period ended January 1, 2010 is unaudited, since it represented an interim period of the fiscal year ended March 31, 2010 and included all normal recurring adjustments necessary for the fair statement of the results for that period.

FINANCIAL STATEMENTS OF SL INDUSTRIES, INC.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
SL Industries, Inc.

We have audited the accompanying consolidated balance sheets of SL Industries, Inc. (a New Jersey Corporation) and its subsidiaries (the Company) as of December 31, 2010 and 2009 and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2010. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under Schedule II, Valuation and Qualifying Accounts. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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 audits 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SL Industries, Inc. and its subsidiaries as of December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania

March 31, 2011

SL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,374,000	$ 9,967,000
Receivables, net	30,753,000	22,388,000
Inventories, net	22,225,000	18,815,000
Other current assets	1,994,000	685,000
Deferred income taxes, net	4,743,000	4,058,000
Total current assets	61,089,000	55,913,000
Property, plant and equipment, net	8,921,000	9,274,000
Deferred income taxes, net	6,984,000	5,331,000
Goodwill	22,756,000	22,769,000
Other intangible assets, net	4,012,000	4,939,000
Other assets and deferred charges, net	1,137,000	1,225,000
Total assets	$ 104,899,000	$ 99,451,000
LIABILITIES		
Current liabilities:		
Debt, current portion	$ 9,800,000	$ —
Accounts payable	14,894,000	10,208,000
Accrued income taxes	1,400,000	830,000
Accrued liabilities:		
Payroll and related costs	6,260,000	3,482,000
Other	8,614,000	6,329,000
Total current liabilities	40,968,000	20,849,000
Debt, less current portion	—	—
Deferred compensation and supplemental retirement benefits	2,244,000	2,365,000
Other long-term liabilities	14,438,000	7,137,000
Total liabilities	57,650,000	30,351,000
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; authorized, 6,000,000 shares; none issued	$ —	$ —
Common stock, $.20 par value; authorized, 25,000,000 shares; issued, 6,963,000 and 8,298,000 shares, respectively	1,393,000	1,660,000
Capital in excess of par value	24,085,000	43,027,000
Retained earnings	44,627,000	42,071,000
Accumulated other comprehensive (loss)	(87,000)	(141,000)
Treasury stock at cost, 2,477,000 and 2,166,000 shares, respectively	(22,769,000)	(17,517,000)
Total shareholders' equity	47,249,000	69,100,000
Total liabilities and shareholders' equity	$ 104,899,000	$ 99,451,000

See accompanying notes to consolidated financial statements.

SL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,

	2010	2009	2008
Net sales	$ 189,768,000	$ 147,551,000	$ 185,954,000
Cost and expenses:			
Cost of products sold	128,011,000	98,732,000	129,473,000
Engineering and product development	12,664,000	11,575,000	13,972,000
Selling, general and administrative	32,819,000	28,070,000	30,867,000
Depreciation and amortization	3,026,000	3,395,000	3,652,000
Restructuring costs	—	690,000	677,000
Total cost and expenses	176,520,000	142,462,000	178,641,000
Income from operations	13,248,000	5,089,000	7,313,000
Other income (expense):			
Amortization of deferred financing costs	(252,000)	(351,000)	(77,000)
Fire related loss, net	(109,000)	—	—
Interest income	2,000	8,000	28,000
Interest expense	(86,000)	(63,000)	(237,000)
Income from continuing operations before income taxes	12,803,000	4,683,000	7,027,000
Income tax provision	3,021,000	1,119,000	2,391,000
Income from continuing operations	9,782,000	3,564,000	4,636,000
(Loss) from discontinued operations (net of tax)	(7,226,000)	(628,000)	(2,302,000)
Net income	$ 2,556,000	$ 2,936,000	$ 2,334,000
Basic net income (loss) per common share			
Income from continuing operations	$ 1.69	$ 0.59	$ 0.79
(Loss) from discontinued operations (net of tax)	(1.25)	(0.10)	(0.39)
Net income	$ 0.44	$ 0.49	$ 0.40
Diluted net income (loss) per common share			
Income from continuing operations	$ 1.68	$ 0.59	$ 0.78
(Loss) from discontinued operations (net of tax)	(1.24)	(0.10)	(0.39)
Net income	$ 0.44	$ 0.49	$ 0.39
Shares used in computing basic net income (loss) per common share	5,775,000	6,004,000	5,868,000
Shares used in computing diluted net income (loss) per common share	5,811,000	6,015,000	5,948,000

SL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,

	2010	2009	2008
Net income	$ 2,556,000	$ 2,936,000	$ 2,334,000
Other comprehensive income (net of tax):			
Foreign currency translation	54,000	(23,000)	(48,000)
Comprehensive income	$ 2,610,000	$ 2,913,000	$ 2,286,000

See accompanying notes to consolidated financial statements.

SL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2009 AND 2010

	Common Stock				Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Shareholders' Equity
	Issued		Held In Treasury					
	Shares	Amount	Shares	Amount				
Balance December 31, 2007	8,298,000	$ 1,660,000	(2,449,000)	$ (19,761,000)	$ 42,999,000	$ 36,801,000	$ (70,000)	$ 61,629,000
Net income						2,334,000		2,334,000
Foreign currency translation							(48,000)	(48,000)
Other, including exercise of employee stock options and related income tax benefits			4,000	34,000	27,000			61,000
Stock-based compensation					317,000			317,000
Treasury stock sold			84,000	684,000	308,000			992,000
Treasury stock purchased			(30,000)	(425,000)				(425,000)
Balance December 31, 2008	8,298,000	$ 1,660,000	(2,391,000)	$ (19,468,000)	$ 43,651,000	$ 39,135,000	$ (118,000)	$ 64,860,000
Net income						2,936,000		2,936,000
Foreign currency translation							(23,000)	(23,000)
Stock-based compensation					253,000			253,000
Treasury stock sold			391,000	3,182,000	(877,000)			2,305,000
Treasury stock purchased			(166,000)	(1,231,000)				(1,231,000)
Balance December 31, 2009	8,298,000	$ 1,660,000	(2,166,000)	$ (17,517,000)	$ 43,027,000	$ 42,071,000	$ (141,000)	$ 69,100,000
Net income						2,556,000		2,556,000
Foreign currency translation							54,000	54,000
Other, including exercise of employee stock options and related income tax benefits			107,000	877,000	(104,000)			773,000
Stock-based compensation					174,000			174,000
Repurchase and retirement of common stock	(1,335,000)	(267,000)			(19,184,000)			(19,451,000)
Treasury stock sold			60,000	476,000	172,000			648,000
Treasury stock purchased			(478,000)	(6,605,000)				(6,605,000)
Balance December 31, 2010	6,963,000	$ 1,393,000	(2,477,000)	$ (22,769,000)	$ 24,085,000	$ 44,627,000	$ (87,000)	$ 47,249,000

See accompanying notes to consolidated financial statements.

SL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2010	2009	2008
OPERATING ACTIVITIES:			
Net income	$ 2,556,000	$ 2,936,000	$ 2,334,000
Adjustment for losses from discontinued operations	7,226,000	628,000	2,302,000
Income from continuing operations	9,782,000	3,564,000	4,636,000
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation	1,894,000	2,080,000	2,218,000
Amortization	1,132,000	1,315,000	1,434,000
Amortization of deferred financing costs	252,000	351,000	77,000
Stock-based compensation	174,000	253,000	317,000
Tax benefit from exercise of stock options	(19,000)	—	(7,000)
Non-cash compensation expense (benefit)	156,000	(18,000)	(655,000)
Non-cash fire related loss	109,000	—	—
Non-cash restructuring	—	—	170,000
(Recoveries of) provisions for losses on accounts receivable	(66,000)	22,000	(169,000)
Cash surrender value of life insurance policies	1,000	(14,000)	(13,000)
Deferred compensation and supplemental retirement benefits	428,000	421,000	431,000
Deferred compensation and supplemental retirement benefit payments	(536,000)	(740,000)	(543,000)
Deferred income taxes	(2,047,000)	152,000	(1,013,000)
Loss on sales of equipment	41,000	104,000	159,000
Changes in operating assets and liabilities, excluding effects of business combinations and dispositions:			
Accounts receivable	(8,299,000)	3,087,000	4,809,000
Inventories	(3,250,000)	2,762,000	664,000
Prepaid expenses	(1,060,000)	373,000	(100,000)
Other assets	(107,000)	35,000	91,000
Accounts payable	4,681,000	267,000	(2,358,000)
Other accrued liabilities	2,126,000	(1,676,000)	(2,645,000)
Accrued income taxes	3,922,000	(442,000)	2,543,000
Net cash provided by operating activities from continuing operations	9,314,000	11,896,000	10,046,000
Net cash (used in) operating activities from discontinued operations	(1,496,000)	(2,297,000)	(1,680,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	7,818,000	9,599,000	8,366,000
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,416,000)	(838,000)	(2,426,000)
Purchases of other assets	(232,000)	(110,000)	(8,000)
NET CASH (USED IN) INVESTING ACTIVITIES	(1,648,000)	(948,000)	(2,434,000)
FINANCING ACTIVITIES:			
Proceeds from Revolving Credit Facility	19,800,000	100,000	20,440,000
Payments of Revolving Credit Facility	(10,000,000)	(100,000)	(26,440,000)
Payments of deferred financing costs	(57,000)	(250,000)	(551,000)
Repurchase and retirement of common stock	(19,451,000)	—	—
Treasury stock purchases	(6,605,000)	(1,231,000)	(425,000)
Treasury stock sales	648,000	2,305,000	992,000
Proceeds from stock options exercised	754,000	—	54,000
Tax benefit from exercise of stock options	19,000	—	7,000
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(14,892,000)	824,000	(5,923,000)
Effect of exchange rate changes on cash	129,000	(12,000)	(238,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(8,593,000)	9,463,000	(229,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,967,000	504,000	733,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,374,000	$ 9,967,000	$ 504,000

See accompanying notes to consolidated financial statements.

Notes To Consolidated Financial Statements

Note 1. Summary Of Significant Accounting Policies

Background: SL Industries, Inc. (the "Company"), a New Jersey corporation, through its subsidiaries, designs, manufactures and markets power electronics, motion control, power protection, power quality electromagnetic products and specialized communication equipment that is used in a variety of commercial and military aerospace, computer, datacom, industrial, medical, telecom, transportation and utility equipment applications. Its products are incorporated into larger systems to increase operating safety, reliability and efficiency. The Company's products are largely sold to original equipment manufacturers, the utility industry, and, to a lesser extent, commercial distributors. The Company's customer base is primarily located in the United States. The Company's operating subsidiaries are described and defined in Note 16. The Company's discontinued operations are described and defined in Note 2.

Basis Of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Use Of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas that require the use of management estimates relate to product warranty costs, accrued liabilities related to litigation, allowance for doubtful accounts, allowance for inventory obsolescence and environmental costs.

Reclassifications: Certain reclassifications have been made to prior period Consolidated Statement of Cash Flows to conform to the current year presentation.

Cash Equivalents: The Company considers all highly liquid debt instruments with an original maturity date of three months or less and investments in money market accounts to be cash equivalents. At December 31, 2010 and December 31, 2009, cash and cash equivalents held in the United States are held principally at one financial institution.

Accounts Receivable: The Company's accounts receivable primarily consist of trade receivables and are reported net of allowances for doubtful accounts of approximately $585,000 and $651,000 as of December 31, 2010 and December 31, 2009, respectively. The Company's estimate for the allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved. First, the Company evaluates specific accounts where it has information that the customer may have an inability to meet its financial obligations (e.g., bankruptcy or insolvency). In these cases, the Company uses its judgment, based on the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. Second, a general reserve is established for all customers based on several factors, including historical write-offs as a percentage of sales. If circumstances change (e.g., higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligation), the Company's estimates of the recoverability of amounts due could be reduced by a material amount. Receivables are charged off against the reserve when they are deemed uncollectible.

Inventories: Inventories are valued at the lower of cost or market. Cost is primarily determined using the first-in, first-out ("FIFO") method. Cost for certain inventories is determined using the last-in, first-out ("LIFO") method. The Company's carrying cost of inventory is valued at the lower of cost or market as the Company continually reviews the book value of discontinued product lines to determine if these items are properly valued. The Company identifies these items and assesses the ability to dispose of them at a price greater than cost. If it is determined that cost is less than market value, then cost is used for inventory valuation. If market value is less than cost, then related inventory is adjusted to market value. If a write down to the current market value is necessary, the market value cannot be greater than the net realizable value, which is defined as selling price less costs to complete and dispose, and cannot be lower than the net realizable value less a normal profit margin. The Company also continually evaluates the composition of its inventory and identifies slow-moving and excess inventories. Inventory items identified as slow-moving or excess are evaluated to determine if reserves are required. If the Company were not able to achieve its expectations of the net realizable value of the inventory at current market value, it would have to adjust its reserves accordingly. The Company attempts to accurately estimate future product demand to properly adjust inventory levels. However, significant unanticipated changes in demand could have a significant impact on the value of inventory and of operating results.

Property, Plant And Equipment: Property, plant and equipment are carried at cost and include expenditures for new facilities and major renewals and betterments. Maintenance, repairs and minor renewals are charged to expense as incurred. When assets are sold or otherwise disposed of, any gain or loss is recognized currently. Depreciation is provided primarily using the straight-line method over the estimated useful lives of the assets, which range from 25 to 40 years for buildings, 3 to 15 years for equipment and other property, and the lesser of the lease term or life of the asset for leasehold improvements.

Goodwill And Other Intangibles: The Company follows Accounting Standards Codification ("ASC") 350 "Intangibles — Goodwill and Other," which requires that goodwill and other indefinite-lived intangible assets will no longer be amortized to earnings, but instead be subject to periodic testing for impairment. Intangible assets determined to have definitive lives will continue to be amortized over their estimated useful lives.

The Company's impairment testing is undertaken annually, or more frequently upon the occurrence of some indication that an impairment may take place. The Company conducted its annual impairment test as of December 31, 2010.

A two-step process is utilized to determine if goodwill has been impaired. In the first step, the fair value of each reporting unit is compared to the net asset value recorded for such unit. If the fair value exceeds the net asset value, the goodwill of the reporting unit is not adjusted. However, if the recorded net asset value exceeds the fair value, the Company would perform a second step to measure the amount of impairment loss, if any. In the second step, the implied fair value of the reporting unit's goodwill is compared with the goodwill recorded for such unit. If the recorded amount of goodwill exceeds the implied fair value, an impairment loss is recognized in the amount of the excess.

As a result of the testing that was conducted as of December 31, 2010, the Company concluded that no impairment charge was warranted. However, there can be no assurance that the economic conditions currently affecting the world economy or other events may not have a negative material impact on the long-term business prospects of any of the Company's reporting units. In such case, the Company may need to record an impairment loss, as stated above. There were no impairment charges related to goodwill and intangible assets recorded during 2010, 2009 and 2008.

Long-Lived Assets: The Company evaluates the recoverability of its long-lived assets in accordance with ASC 360 "Property, Plant, and Equipment." The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets are measured by a comparison of the carrying amount of an asset to future cash flows expected to be generated by the asset, undiscounted and without interest or independent appraisals. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the assets.

Revenue Recognition: Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the purchase price is fixed or determinable and collectability is reasonably assured. Generally, those criteria are met at the time the product is shipped. Provisions are made at the time the related revenue is recognized for product returns, product warranties, rebates, certain stock scrap programs with distributors and other sales incentives offered by the Company to its customers. Freight revenues billed to customers are included in net sales and expenses for shipping products are included in cost of sales.

Environmental Expenditures: Environmental expenditures that relate to current operations are charged to expense or capitalized, as appropriate. Expenditures that relate to an existing condition caused by formerly owned operations are expensed and recorded as part of discontinued operations. Expenditures include costs of remediation and legal fees to defend against claims for environmental liability. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated. The liability for remediation expenditures includes, as appropriate, elements of costs such as site investigations, consultants' fees, feasibility studies, outside contractor expenses and monitoring expenses. Estimates are not discounted and they are not reduced by potential claims for recovery from insurance carriers. The liability is periodically reviewed and adjusted to reflect current remediation progress, prospective estimates of required activity and other relevant factors, including changes in technology or regulations.

Deferred Financing Costs: Costs incurred in securing long-term debt are deferred and amortized on a straight-line basis over the term of the related debt. In the case of loan modifications, the Company follows the guidance provided by ASC 470-50 "Debt — Modification and Extinguishments." The net deferred financing costs at December 31, 2010 and December 31, 2009 were $229,000 and $424,000, respectively. The financing cost amortization expense was $252,000, $351,000, and $77,000, for 2010, 2009, and 2008, respectively.

Product Warranty Costs: The Company offers various warranties on its products. These warranties vary in length depending on the product. The Company provides for its estimated future warranty obligations in the period in which the related sale is recognized primarily based on historical experience. For 2010, 2009 and 2008, these expenses were $1,293,000, $728,000 and $898,000, respectively.

Advertising Costs: Advertising costs are expensed as incurred. For 2010, 2009 and 2008, these costs were $192,000, $214,000 and $245,000, respectively.

Research And Development Costs: Research and development costs are expensed as incurred. For 2010, 2009 and 2008, these costs were $2,734,000, $2,987,000 and $3,287,000, respectively.

Income Taxes: The Company accounts for income taxes based on the estimated effective annual income tax rates. The tax provision differs from taxes payable due to certain items of income, and expenses are recognized in different periods for financial statement purposes than for tax return purposes. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The Company establishes valuation allowances if the Company believes that it is more likely than not that some of the deferred tax assets will not be realized. The Company does not recognize a tax benefit unless it is more likely than not that the benefit will be sustained on audit by the taxing authority based on the merits of the associated tax position. If the recognition threshold is met, the Company recognizes a tax benefit measured at the largest amount of the tax benefit that, based on the Company's judgment, is greater than fifty percent likely to be realized. The Company records interest and penalties related to unrecognized tax benefits as income tax expense.

Foreign Currency Conversion: Assets and liabilities of foreign operations are translated from local currency to U.S. dollars at the exchange rates in effect at the end of the fiscal period. Gains and losses from the translation of foreign operations are included in accumulated other comprehensive (loss) on the Company's Consolidated Balance Sheets. Revenue and expenses are translated at the year-to-date average rate of exchange. Transaction gains and losses arising from currency exchange rate fluctuations on transactions denominated in a currency other than the local currency are included in the Company's Consolidated Statements of Income.

Net Income (Loss) Per Common Share: The Company has presented net income (loss) per common share pursuant to ASC 260 "Earnings Per Share." Basic net income (loss) per common share is computed by dividing reported net income (loss) available to common shareholders by the weighted average number of shares outstanding for the period.

Diluted net income (loss) per common share is computed by dividing reported net income (loss) available to common shareholders by the weighted average shares outstanding for the period, adjusted for the dilutive effect of common stock equivalents, which consist of stock options, using the treasury stock method.

The table below sets forth the computation of basic and diluted net income (loss) per share:

	December 31, 2010	December 31, 2009	December 31, 2008
	(in thousands, except per share amounts)		
Basic net income available to common shareholders:			
Net income available to common shareholders from continuing operations	$ 9,782	$ 3,564	$ 4,636
Diluted net income available to common shareholders from continuing operations	$ 9,782	$ 3,564	$ 4,636
Shares:			
Basic weighted average number of common shares outstanding	5,775	6,004	5,868
Common shares assumed upon exercise of stock options	36	11	80
Diluted weighted average number of common shares outstanding	5,811	6,015	5,948
Basic net income (loss) per common share:			
Income from continuing operations	$ 1.69	$ 0.59	$ 0.79
(Loss) from discontinued operations (net of tax)	(1.25)	(0.10)	(0.39)
Net income	$ 0.44	$ 0.49	$ 0.40
Diluted net income (loss) per common share:			
Income from continuing operations	$ 1.68	$ 0.59	$ 0.78
(Loss) from discontinued operations (net of tax)	(1.24)	(0.10)	(0.39)
Net income	$ 0.44	$ 0.49	$ 0.39

For the years ended December 31, 2010 and December 31, 2009, approximately 106,000 and 253,000 stock options, respectively, were excluded from the dilutive computations. No stock options were excluded from the dilutive computations for the year ended December 31, 2008. Stock options are excluded from dilutive computations when the option exercise prices are greater than the average market price of the Company's common stock.

Stock-Based Compensation

At December 31, 2010, the Company had stock-based employee compensation plans as described below. For the years ended December 31, 2010, December 31, 2009, and December 31, 2008, the total compensation expense (included in selling, general and administrative expense) related to these plans was $174,000, $253,000, and $317,000 ($107,000, $156,000, and $196,000, net of tax), respectively.

The Company maintains two shareholder approved stock option plans that have expired: the Non-Employee Director Nonqualified Stock Option Plan (the "Director Plan") and the Long-Term Incentive Plan (the "1991 Incentive Plan"). Stock options issued under each plan remain outstanding.

The Director Plan provided for the granting of nonqualified options to purchase up to 250,000 shares of the Company's common stock to non-employee directors of the Company in lieu of paying quarterly retainer fees and regular quarterly meeting attendance fees. Stock options granted under the Director Plan stipulated an exercise price per share of the fair market value of the Company's common stock on the date of grant. Each option granted under the Director Plan is exercisable at any time and expires ten years from date of grant. The expiration date of the Director Plan was May 31, 2003.

The 1991 Incentive Plan enabled the Company to grant either nonqualified options, with an exercise price per share established by the Board's Compensation Committee, or incentive stock options, with an exercise price per share not less than the fair market value of the Company's common stock on the date of grant. Each option granted under the 1991 Incentive Plan is exercisable at any time and expires ten years from date of grant. The 1991 Incentive Plan expired on September 25, 2001.

On May 14, 2008, the shareholders approved the 2008 Incentive Stock Plan (the "2008 Plan"). The 2008 Plan was proposed to create an additional incentive to retain directors, key employees and advisors of the Company. The 2008 Plan provides up to 315,000 shares of the Company's common stock that may be subject to options and stock appreciation rights. Options granted under the 2008 Plan are required to stipulate an exercise price per share of not less than the fair market value of the Company's common stock on the business day immediately prior to the date of the grant. Options granted under the 2008 Plan are exercisable no later than ten years after the grant date.

During 2008, the Company granted 155,000 incentive options to select executives and a key employee under the 2008 Plan. The options issued vest in three equal installments, with the first installment vesting on the date of the grant and the remaining two installments each vesting on the second and third anniversary of the grant. During 2010, 135,000 of these options were cancelled in connection to the termination of certain executives in June 2010.

During 2010, the Company granted 160,000 stock options to select executives and key employees under the 2008 Plan. All stock options that were issued vest over a three year period except for one grant of 15,000 shares, in which 7,500 shares vested on the date of grant and the remainder vests on the first anniversary of the grant date. Compensation expense is recognized over the vesting period of the options.

The fair value of all option grants was estimated using the Black-Scholes option pricing model with the following assumptions and weighted average fair values as follows:

	Year Ended December 31, 2010	Year Ended December 31, 2009 (1)	Year Ended December 31, 2008
Weighted average fair value of grants	$ 6.78	—	$ 4.43
Valuation assumptions:			
Expected dividend yield	0.00%	—	0.00%
Expected volatility	68.44	—	42.52
Expected life (in years)	4.44	—	4.25
Risk-free interest rate	1.71%	—	3.12%

(1) No stock options were granted during fiscal 2009.

Stock Options

Option activity under the principal option plans as of December 31, 2010 and changes during the year then ended were as follows:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) [1]
Outstanding as of December 31, 2008	405	$ 10.322	4.24	N/M
Cancelled	(25)	$ 13.24		
Outstanding as of December 31, 2009	380	$ 10.129	3.48	N/M
Granted	160	$ 12.59		
Exercised	(107)	$ 7.05		
Cancelled	(180)	$ 12.44		
Outstanding as of December 31, 2010	253	$ 11.339	4.93	$ 1,554
Exercisable as of December 31, 2010	100	$ 9.448	2.50	$ 805

(1) N/M — the aggregate intrinsic value was not material since the value was less than $1,000.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of fiscal 2010 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2010. This amount changes based on the fair market value of the Company's stock. The total intrinsic value of options exercised for the years ended December 31, 2010 and December 31, 2008, was $568,000 and $26,000, respectively. No options were exercised during fiscal 2009.

As of December 31, 2010, $877,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 2.6 years.

Tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as financing cash flows. Cash received from option exercises for the year ended December 31, 2010 was $754,000. The actual tax benefit realized for the tax deduction from option exercises of the share-based payment units totaled $67,000 and $97,000 for the fiscal years ended December 31, 2010 and December 31, 2009. The Company has applied the "Short-cut" method in calculating the historical windfall tax benefits. All tax shortfalls will be applied against this windfall before being charged to earnings.

The following table summarizes the Company's Director Plan for fiscal years 2009 and 2010.

	Shares (in thousands)	Option Price	Weighted Average Exercise Price
Outstanding and exercisable as of December 31, 2008	111	$ 6.00 to $12.9375	$ 6.86
Cancelled	(6)	$ 11.375 to $12.9375	$ 12.29
Outstanding and exercisable as of December 31, 2009	105	$ 6.00 to $12.84	$ 6.58
Exercised	(56)	$ 6.00 to $8.20	$ 6.17
Cancelled	(9)	$ 9.2188 to $12.84	$ 11.25
Outstanding and exercisable as of December 31, 2010	40	$ 6.00 to $6.00	$ 6.00

The following table summarizes information for fiscal years 2009 and 2010 related to the 1991 Incentive Plan and the options issued in 2005:

	Shares (in thousands)	Option Price	Weighted Average Exercise Price
Outstanding and exercisable as of December 31, 2008	139	$ 5.75 to $13.50	$ 10.32
Cancelled	(19)	$ 13.50 to $13.50	$ 13.50
Outstanding and exercisable as of December 31, 2009	120	$ 5.75 to $12.175	$ 9.80
Exercised	(51)	$ 5.75 to $12.175	$ 8.02
Cancelled	(36)	$ 11.125 to $12.175	$ 11.42
Outstanding and exercisable as of December 31, 2010	33	$ 5.75 to $12.175	$ 10.78

The following table summarizes the Company's 2008 Plan for fiscal years 2009 and 2010:

	Shares (in thousands)	Option Price	Weighted Average Exercise Price
Outstanding as of December 31, 2008	155	$ 12.80 to $12.80	$ 12.80
Cancelled	—	—	—
Outstanding as of December 31, 2009	155	$ 12.80 to $12.80	$ 12.80
Granted	160	$ 11.75 to $16.75	$ 12.59
Cancelled	(135)	$ 12.80 to $12.80	$ 12.80
Outstanding as of December 31, 2010	180	$ 11.75 to $16.75	$ 12.61

The number of shares exercisable under the Company's 2008 Plan as of December 31, 2010 was 27,000.

The following tables list the outstanding options and exercisable options as of December 31, 2010, into three ranges:

Options Outstanding (in thousands)	Range of Option Prices per Share	Weighted Average Exercise Price	Weighted Average Life Remaining (years)
47	$5.75 to $6.00	$ 5.961	1.9
100	$11.75 to $11.75	$ 11.750	6.5
106	$12.175 to $16.75	$ 13.322	4.8
253			

Options Exercisable (in thousands)	Range of Option Prices per Share	Weighted Average Exercise Price
47	$5.75 to $6.00	$ 5.961
0	$11.75 to $11.75	$ 0.000
53	$12.175 to $16.75	$ 12.497
100		

Recently Adopted Accounting Standards

In December 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-17 "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities," which amends Accounting Standards Codification ("ASC") 810 "Consolidation" to address the elimination of the concept of a qualifying special purpose entity. The standard also replaces the quantitative-based risks and rewards calculation for determining which enterprise has a controlling financial interest in a variable interest entity ("VIE") with an approach focused on identifying which enterprise has the power to direct the activities of a VIE and the obligation to absorb losses of the entity or the right to receive benefits from the entity. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE whereas previous accounting guidance required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. The standard provides more timely and useful information about an enterprise's involvement with a VIE and is effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The adoption of the provisions of ASU No. 2009-17 did not have a material impact on the Company's consolidated financial statements.

In December 2009, the FASB issued ASU No. 2009-16 "Accounting for Transfers of Financial Assets," which amends ASC 860 "Transfers and Servicing" by eliminating the concept of a qualifying special-purpose entity ("QSPE"), clarifying and amending the derecognition criteria for a transfer to be accounted for as a sale, amending and clarifying the unit of account eligible for sale accounting and requiring that a transferor initially measure at fair value and recognize all assets obtained (for example, beneficial interests) and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. Additionally, on and after the effective date, existing QSPEs (as defined under previous accounting standards) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance. The standard requires enhanced disclosures about, among other things, a transferor's continuing involvement with transfers of financial assets accounted for as sales, the risks inherent in the transferred financial assets that have been retained, and the nature and financial effect of restrictions on the transferor's assets that continue to be reported in the statement of financial position. The standard is effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The adoption of the provisions of ASU No. 2009-16 did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06 "Improving Disclosures about Fair Value Measurements," which amends ASC 820 "Fair Value Measures and Disclosures" to require disclosure of transfers into and out of Level 1 and Level 2 fair value measurements, and also require more detailed disclosure about the activity within Level 3 fair value measurements. The Company adopted the guidance in ASU No. 2010-06 on January 1, 2010, except for the requirements related to Level 3 disclosures, which will be effective for annual and interim reporting periods beginning after December 15, 2010. This guidance requires expanded disclosures only. The adoption of the provisions of ASU No. 2010-06 did not have a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued ASU No. 2010-09 "Subsequent Events — Amendments to Certain Recognition and Disclosure Requirements," which amends ASC 855 "Subsequent Events." ASU No. 2010-09 requires an entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement that an SEC filer disclose the date through which subsequent events have been evaluated. ASU No. 2010-09 was effective upon issuance. The adoption of the provisions of ASU No. 2010-09 did not have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20 "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." ASU 2010-20 requires further disaggregated disclosures that improve financial statement users' understanding of (1) the nature of an entity's credit risk associated with its financing receivables and (2) the entity's assessment of that risk in estimating its allowance for credit losses as well as changes in the allowance and the reasons for those changes. The new and amended disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The adoption of the provisions of ASU No. 2010-20 did not have a material impact on the Company's consolidated financial statements. In January 2011, the FASB issued ASU No. 2011-01 "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011. The Company believes that the adoption of the provisions of ASU No. 2011-01 will not have a material impact on its consolidated financial statements.

New Accounting Pronouncements and Other Standards

In October 2009, the FASB issued ASU No. 2009-13 "Multiple-Deliverable Revenue Arrangements." ASU No. 2009-13 amends guidance included within ASC 605-25 to require an entity to use an estimated selling price when vendor specific objective evidence or acceptable third party evidence does not exist for any products or services included in a multiple-element arrangement. The arrangement consideration should be allocated among the products and services based upon their relative selling prices, thus eliminating the use of the residual method of allocation. ASU No. 2009-13 also requires expanded qualitative and quantitative disclosures regarding significant judgments made and changes in applying this guidance. ASU No. 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption and retrospective application are also permitted. The Company believes that adoption of the provisions of ASU No. 2009-13 will not have a material impact on its consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-14 “Certain Revenue Arrangements That Include Software Elements.” ASU No. 2009-14 amends guidance included within ASC 985-605 to exclude tangible products containing software components and non-software components that function together to deliver the product’s essential functionality. Entities that sell joint hardware and software products that meet this scope exception will be required to follow the guidance of ASU No. 2009-13. ASU No. 2009-14 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption and retrospective application are also permitted. The Company believes that the adoption of the provisions of ASU No. 2009-14 will not have a material impact on its consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-13 “Compensation — Stock Compensation — Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades.” ASU No. 2010-13 provides amendments to ASC 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity’s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in ASU No. 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company believes that the adoption of the provisions of ASU No. 2010-13 will not have a material impact on its consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-28 “Intangibles — Goodwill and Other.” ASC 350 is amended to clarify the requirement to test for impairment of goodwill. ASC 350 has required that goodwill be tested for impairment if the carrying amount of a reporting unit exceeds its fair value. Under ASU No. 2010-28, when the carrying amount of a reporting unit is zero or negative an entity must assume that it is more likely than not that a goodwill impairment exists, perform an additional test to determine whether goodwill has been impaired and calculate the amount of that impairment. The modifications to ASC 350 resulting from the issuance of ASU No. 2010-28 are effective for fiscal years beginning after December 15, 2010 and interim periods within those years. Early adoption is not permitted. The Company believes that the adoption of the provisions of ASU No. 2010-28 will not have a material impact on its consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29 “Business Combinations — Disclosure of Supplementary Pro Forma Information for Business Combinations.” This standard update clarifies that, when presenting comparative financial statements, SEC registrants should disclose revenue and earnings of the combined entity as though the current period business combinations had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU No. 2010-29 is effective prospectively for material (either on an individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010 with early adoption permitted. The Company believes that the adoption of the provisions of ASU No. 2010-29 will not have a material impact on its consolidated financial statements.

Note 2. Discontinued Operations

On November 24, 2003, the Company sold the operating assets of SL Surface Technologies, Inc. ("SurfTech"). SurfTech produced industrial coatings and platings for equipment in the corrugated paper and telecommunications industries. The Company continues to own the land and a building on which SurfTech's operations were conducted. During fiscal 2010, 2009, and 2008 the Company incurred legal and remediation costs, which are recorded as part of discontinued operations, net of tax.

During 2010, the Company recorded additions to the environmental reserve of $9,669,000, which were partially offset by payments of $617,000. During 2009, the Company recorded additions to the environmental reserve of $316,000 and payments of $1,339,000. The additions and payments to the environmental reserve were related to estimated environmental remediation liabilities associated with the past operations of SurfTech (see Note 13).

For the years ended December 31, 2010, December 31, 2009, and December 31, 2008, total loss from discontinued operations was $10,577,000, $1,009,000, and $3,671,000 ($7,226,000, $628,000, and $2,302,000, net of tax), respectively.

Note 3. Income Taxes

Income tax provision (benefit) for the fiscal years 2010, 2009 and 2008 is as follows:

	Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
Income tax provision from continuing operations	$ 3,021	$ 1,119	$ 2,391
Income tax (benefit) from discontinued operations	(3,351)	(381)	(1,369)
Total	$ (330)	$ 738	$ 1,022

Income from continuing operations before provision for income taxes consists of the following:

	Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
Domestic	$ 8,073	$ 3,479	$ 5,251
Foreign	4,730	1,204	1,776
Total	$ 12,803	$ 4,683	$ 7,027

The provision for income taxes from continuing operations consists of the following:

	Years Ended December 31, 2010	2009	2008
		(in thousands)	
Current:			
Federal	$ (2,317)	$ 534	$ 3,982
Foreign	3,343	341	598
State	1,306	267	(11)
Deferred:			
Federal	4,058	278	(2,199)
Foreign	(2,031)	71	—
State	(1,338)	(372)	21
Total Provision	$ 3,021	$ 1,119	$ 2,391

The benefit for income taxes related to discontinued operations for 2010 was $3,351,000. The benefit for income taxes related to discontinued operations for 2009 was $381,000.

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2010 and December 31, 2009 are as follows:

	December 31, 2010	2009
	(in thousands)	
Deferred tax assets:		
Deferred compensation	$ 948	$ 989
Inventory valuation	742	1,063
Tax loss carryforward	2,269	3,388
Foreign tax credit carryforward	373	2,537
R&D tax credit carryforward	1,457	1,857
Accrued expenses	989	841
Warranty	587	538
Vacation and bonus expense	1,538	609
Other	814	790
Less valuation allowances	—	(121)
Deferred tax assets	9,717	12,491
Deferred tax liabilities:		
Accelerated depreciation and amortization	3,130	3,648
Unremitted foreign earnings	—	2,410
Deferred tax liabilities	3,130	6,058
Net deferred tax assets related to continuing operations	6,587	6,433
Net deferred tax assets related to discontinued operations	5,140	2,956
Net deferred tax assets	$ 11,727	$ 9,389

The Company provides U.S. income tax on the earnings of foreign subsidiaries. To the extent that the foreign earnings are repatriated, the related U.S. tax liability will be reduced by any foreign income taxes paid on these earnings.

As of December 31, 2010 and December 31, 2009, the Company's gross foreign tax credits totaled approximately $373,000 and $2,537,000, respectively. These credits can be carried forward for ten years and expire between 2014 and 2020.

As of December 31, 2010 and December 31, 2009, the Company's research and development tax credits totaled approximately $1,457,000 and $1,857,000, respectively. Of the December 31, 2010 credits, approximately $701,000 can be carried forward for 15 years and expire between 2013 and 2025, while $756,000 will carry over indefinitely.

As of December 31, 2010, the Company has federal and state net operating loss carryforwards of $1,789,000 and $151,000, respectively, which expire at various dates from 2015 to 2026. In addition, the Company has a foreign net operating loss carryforward of $329,000, which does not expire.

The Company has assessed its past earnings history and trends, sales backlog, budgeted sales, and expiration dates of tax carryforwards and has determined that it is more likely than not that $11,727,000 of the net deferred tax assets as of December 31, 2010 will be realized. The Company has an allowance of $937,000 (related to discontinued operations) provided against the gross deferred tax assets, which relates to the inability of the Company to realize the state tax benefit of the environmental expenses and the state net operating loss carryforwards.

The following is a reconciliation of income tax expense (benefit) related to continuing operations at the applicable federal statutory rate and the effective rates from continuing operations:

	Years Ended December 31,		
	2010	2009	2008
Statutory rate	34%	34%	34%
Tax rate differential on domestic manufacturing deduction benefit	(1)	(1)	(1)
State income taxes, net of federal income tax	1	—	2
Foreign operations	(2)	(2)	1
Research and development credits	(5)	(13)	(5)
Other	(3)	6	3
Effective tax rate	24%	24%	34%

For the fiscal year ended December 31, 2010, included in the research and development credits is the recognition of previously unrecognized tax benefits (including interest) in accordance with the guidance provided in ASC 740-10-25 "Income Taxes, Overall, Recognition."

Unrecognized Tax Positions

The Company and its subsidiaries file income tax returns in the United States and in various state, local and foreign jurisdictions. The Company and its subsidiaries are occasionally examined by tax authorities in these jurisdictions. At December 31, 2010, the Company had been examined by the Internal Revenue Service (the "IRS") through calendar year 2004. In addition, the Company reached a settlement with a foreign tax authority regarding the Company's transfer pricing policies. As a result, in 2010, we recognized a previously unrecognized tax position related to the settlement in the amount of $490,000 ($289,000 tax and $201,000 interest). It is reasonably possible that the Company's gross unrecognized tax benefits balance may change within the next twelve months due to the expiration of the statutes of limitation of the federal government and various state governments by a range of zero to $364,000. The Company has recorded $2,659,000 in other long-term liabilities which represents the gross unrecognized tax benefits.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits, excluding interest and penalties, is as follows:

	December 31,		
	2010	2009	2008
Gross unrecognized tax benefits at January 1, 2010	$ 2,526,000	$ 2,845,000	$ 2,785,000
Increases in tax positions taken in the current year	660,000	91,000	132,000
Increases in tax positions taken in prior years	31,000	—	—
Decreases in tax positions taken in prior years	(138,000)	(39,000)	(48,000)
Decreases in tax positions related to settlement with tax authorities	(289,000)	—	—
Statute of limitations expired	(432,000)	(371,000)	(24,000)
Gross unrecognized tax benefits at December 31, 2010	$ 2,358,000	$ 2,526,000	$ 2,845,000

If recognized, all of the net unrecognized tax benefits at December 31, 2010 would impact the effective tax rate. The Company accrues interest and penalties related to unrecognized tax benefits as income tax expense. At December 31, 2010, the Company had accrued interest and penalties related to unrecognized tax benefits of $301,000.

Note 4. Receivables

Receivables consist of the following:

	December 31,	
	2010	2009
	(in thousands)	
Trade receivables	$ 30,728	$ 22,607
Less: allowance for doubtful accounts	(585)	(651)
	30,143	21,956
Recoverable income taxes	68	—
Other	542	432
	$ 30,753	$ 22,388

Note 5. Concentrations Of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Company places its temporary cash investments with high credit quality financial institutions. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company’s customer base, and their dispersion across many industries and geographic regions. The Company seeks to limit its exposure to credit risks in any single country or region. The Company performs periodic credit evaluations of its customers’ financial condition and generally requires no collateral from its customers. The Company provides an allowance for potential credit losses based upon collectability of such receivables. Losses have not been significant for any of the periods presented. All financial investments inherently expose holders to market risks, including changes in currency and interest rates. The Company manages its exposure to these market risks through its regular operating and financing activities.

Note 6. Inventories

Inventories consist of the following:

	December 31,	
	2010	2009
	(in thousands)	
Raw materials	$ 15,636	$ 15,234
Work in process	4,137	3,534
Finished goods	4,814	3,368
	24,587	22,136
Less: allowances	(2,362)	(3,321)
	$ 22,225	$ 18,815

The above includes certain inventories that are valued using the LIFO method, which aggregated $4,494,000 and $4,898,000 as of December 31, 2010 and December 31, 2009, respectively. The excess of FIFO cost over LIFO cost as of December 31, 2010 and December 31, 2009 was approximately $524,000 and $529,000, respectively.

Note 7. Property, Plant And Equipment

Property, plant and equipment consist of the following:

	December 31, 2010	December 31, 2009
	(in thousands)	
Land	$ 1,074	$ 1,074
Buildings and leasehold improvements	8,257	7,991
Equipment and other property	23,849	23,020
	33,180	32,085
Less: accumulated depreciation	(24,259)	(22,811)
	$ 8,921	$ 9,274

Depreciation expense on property, plant and equipment was $1,894,000, $2,080,000, and $2,218,000 for 2010, 2009, and 2008, respectively.

Note 8. Goodwill and Intangible Assets

Goodwill and intangible assets consist of the following:

	December 31, 2010			December 31, 2009		
	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
	(in thousands)					
Goodwill	$ 22,756	$ —	$ 22,756	$ 22,769	$ —	$ 22,769
Other intangible assets:						
Customer relationships	3,700	2,079	1,621	3,700	1,570	2,130
Patents	1,245	1,107	138	1,271	1,053	218
Trademarks	1,672	—	1,672	1,672	—	1,672
Developed technology	1,700	1,243	457	1,700	940	760
Licensing fees	355	231	124	355	196	159
Covenant-not-to-compete	—	—	—	100	100	—
Other	—	—	—	51	51	—
Total other intangible assets	8,672	4,660	4,012	8,849	3,910	4,939
	$ 31,428	$ 4,660	$ 26,768	$ 31,618	$ 3,910	$ 27,708

Goodwill is tested at the reporting unit levels annually, and if necessary, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The fair values of the reporting units were estimated using a combination of the expected present values of future cash flows, an assessment of comparable market multiples and a review of market capitalization with estimated control premiums. There were no impairment charges related to goodwill and intangible assets recorded during 2010, 2009 and 2008.

Other intangible assets that have definite lives are amortizable and have original estimated useful lives as follows: customer relationships are amortized over approximately six years and eight years; patents are amortized over a range from five to twenty years; developed technology is amortized over approximately five years and six years; and licensing fees are amortized over approximately ten years. Covenants-not-to-compete were amortized over approximately one and two-thirds years, prior to their expiration. Trademarks are not amortized.

Amortization expense for intangible assets subject to amortization in each of the next five fiscal years is estimated to be: $865,000 in 2011, $715,000 in 2012, $386,000 in 2013, $347,000 in 2014 and $4,000 in 2015.

Amortization expense related to intangible assets for 2010, 2009 and 2008 was $901,000, $904,000 and $950,000, respectively.

Changes in goodwill balances by segment (which are defined below) are as follows:

	Balance December 31, 2009	Foreign Exchange	Balance December 31, 2010
		(in thousands)	
SLPE (Ault)	$ 4,276	$ (13)	$ 4,263
High Power Group (MTE)	8,189	—	8,189
High Power Group (Teal)	5,055	—	5,055
RFL	5,249	—	5,249
Total	$ 22,769	$ (13)	$ 22,756

Note 9. Debt

	December 31, 2010	December 31, 2009
	(in thousands)	
2008 Credit Facility:		
$40 million variable interest rate revolving credit facility maturing in 2011	$ 9,800	$ —
Total	9,800	—
Less: current portion	(9,800)	—
Total long-term debt	$ —	$ —

On August 3, 2005, the Company entered into a revolving credit facility (the “2005 Credit Facility”) with Bank of America, N.A. (“Bank of America”) to replace its former senior credit facility. The 2005 Credit Facility (with a standby and commercial letter of credit sub-limit of $5,000,000) provided for borrowings up to $30,000,000. On October 23, 2008, the Company and certain of its subsidiaries entered into an Amended and Restated Revolving Credit Facility (the “2008 Credit Facility”) with Bank of America, individually, as agent, issuer and a lender thereunder, and the other financial institutions party thereto. The 2008 Credit Facility amends and restates the Company’s 2005 Credit Facility to provide for an increase in the facility size and certain other changes.

The 2008 Credit Facility provided for maximum borrowings of up to $60,000,000 and included a standby and commercial letter of credit sub-limit of $10,000,000. The 2008 Credit Facility is scheduled to expire on October 1, 2011, unless earlier terminated by the agent thereunder following an event of default. Borrowings under the 2008 Credit Facility bear interest, at the Company’s option, at the British Bankers Association LIBOR rate plus 1.75% to 3.25%, or an alternative rate, which is the higher of (i) the Federal Funds rate plus 0.5% or (ii) Bank of America, N.A.’s publicly announced prime rate, plus a margin rate ranging from 0% to 1.0%. The margin rates are based on certain leverage ratios, as provided in the facility documents. The Company is subject to compliance with certain financial covenants set forth in the 2008 Credit Facility, including a maximum ratio of total funded indebtedness to EBITDA (as defined), minimum levels of interest coverage and net worth and limitations on capital expenditures, as defined. Availability under the 2008 Credit Facility is based upon the Company’s trailing twelve month EBITDA, as defined. At December 31, 2009, the Company had a total availability under the 2008 Credit Facility of $28,200,000.

As a result of the Company’s diminished results during the current economic downturn, the Company was not in compliance with the interest coverage financial covenant in the second quarter 2009. In response, the lenders to the 2008 Credit Facility agreed to waive compliance with the covenant for the second quarter 2009 and to reset the covenant terms for the third quarter 2009. The parties also agreed to reduce the maximum credit limit under the 2008 Credit Facility to $40,000,000. In consideration for these waivers and amendments, the Company agreed to pay the lenders $250,000, which was remitted in the third quarter of 2009 and is being amortized over the remaining life of the 2008 Credit Facility.

On November 19, 2010, the Company entered into a Second Amendment to Credit Agreement with Bank of America, as administrative agent and lender, and a syndicate of other lenders party thereto (the “Second Amendment”), further amending the 2008 Credit Facility among the Company, subsidiaries of the Company party thereto, Bank of America, as administrative agent and lender, and a syndicate of other lenders party thereto.

The Second Amendment, among other things, (a) amends certain terms of the 2008 Credit Facility in order to permit the Company to issue one or more dividends and/or purchase its registered capital stock then issued and outstanding in an amount not in excess, in the aggregate, of Thirteen Million Dollars ($13,000,000) prior to the maturity date of the 2008 Credit Facility; (b) removes the Ten Million Dollar ($10,000,000) maximum for environmental liabilities; and (c) amends the definitions of EBIT and EBITDA to include the add-back of non-cash charges with respect to liabilities arising under Environmental Laws and to reduce EBIT and EBITDA by the amount of the related cash payments related thereto. In consideration for these amendments, the Company agreed to pay the lenders $50,000, which was remitted in the fourth quarter of 2010 and is being amortized over the remaining life of the 2008 Credit Facility. At December 31, 2010, the Company had a total availability under the 2008 Credit Facility of $29,700,000.

As of December 31, 2010, the Company had an outstanding balance under the 2008 Credit Facility of $9,800,000, which bore interest at the LIBOR rate of 2.01%, and was included in short-term borrowings in the accompanying consolidated balance sheets since the facility expires in October 2011. In 2010 the Company maintained an average debt outstanding of $1,478,000. The weighted average interest rate on borrowings was 2.06% during 2010. As of December 31, 2009, the Company had no outstanding balance under the 2008 Credit Facility.

The Company's obligations under the 2008 Credit Facility are secured by the grant of security interests in substantially all of its respective assets.

Note 10. Accrued Liabilities — Other and Other Long-Term Liabilities

Accrued liabilities — other consist of the following:

	December 31, 2010	December 31, 2009
	(in thousands)	
Taxes (other than income) and insurance	$ 556	$ 209
Commissions	707	744
Litigation and legal fees	151	96
Other professional fees	659	674
Environmental	3,132	1,355
Warranty	1,553	1,373
Deferred revenue	78	28
Other	1,778	1,850
	$ 8,614	$ 6,329

Included in the environmental accrual are estimates for all known costs believed to be probable for sites that the Company currently operates or operated at one time (see Note 13 for additional information).

A summary of the Company's warranty reserve is as follows:

	December 31, 2010	December 31, 2009
	(in thousands)	
Liability, beginning of year	$ 1,373	$ 1,325
Expense for new warranties issued	1,293	869
Expense related to accrual revisions for prior year	—	(141)
Warranty claims paid	(1,113)	(680)
Liability, end of period	$ 1,553	$ 1,373

Other long-term liabilities consist of the following:

	December 31, 2010	December 31, 2009
	(in thousands)	
Environmental	$ 11,779	$ 4,528
Gross unrecognized tax benefits	2,659	2,609
	$ 14,438	$ 7,137

Note 11. Restructuring Charges

No restructuring activity was recorded during 2010. Restructuring activity for the period ended December 31, 2009 was as follows:

	Year Ended December 31, 2009 (in thousands)		
	Severance	Other Costs	Total
Beginning balance	$ 88	$ 82	$ 170
Restructuring charges	526	164	690
Cash payments	(614)	(246)	(860)
Ending balance	$ —	$ —	$ —

During fiscal 2009, the Company recorded a total restructuring charge of $690,000, of which $535,000 was recorded at SL Power Electronics Corp. ("SLPE") and $155,000 at MTE Corporation ("MTE"). Most of the charges at SLPE were recorded in the second quarter of fiscal 2009. These restructuring charges primarily related to workforce reductions to align the cost structure to reduced business levels. The charges recorded at MTE were primarily recorded in the fourth quarter of fiscal 2009 and related to certain exit costs related to the relocation from its leased manufacturing facility in Juarez, Mexico to the Company's existing manufacturing facilities in Mexicali, Mexico. All of the restructuring costs have been fully paid and the Company has no outstanding liability for these matters.

During the third and fourth quarters of 2008, the Company reviewed its business levels and cost structure and initiated cost optimization initiatives. As a result of these initiatives, in 2008 the Company recorded restructuring charges of $677,000. All of the restructuring costs have been fully paid and the Company has no outstanding liability for these matters.

Note 12. Retirement Plans And Deferred Compensation

During the years ended December 31, 2010, December 31, 2009 and December 31, 2008, the Company maintained a defined contribution pension plan covering all full-time, U.S. employees of SLPE, Teal Electronics Corporation ("Teal"), SL Montevideo Technology, Inc. ("SL-MTI"), RFL Electronics Inc. ("RFL"), MTE and the corporate office. The Company's contributions to this plan are based on a percentage of employee contributions and/or plan year gross wages, as defined. Costs incurred under these plans during 2010, 2009 and 2008 amounted to approximately $1,315,000, $708,000 and $1,298,000, respectively.

The Company has agreements with certain active and retired directors, officers and key employees providing for supplemental retirement benefits. The liability for supplemental retirement benefits is based on the most recent mortality tables available and discount rates ranging from 6% to 12%. The amount charged to expense in connection with these agreements amounted to $416,000, $398,000 and $360,000 for 2010, 2009 and 2008, respectively.

The Company is the owner and beneficiary of life insurance policies on the lives of some of the participants having a deferred compensation or supplemental retirement agreement. As of December 31, 2010, the aggregate death benefit totaled $560,000, with the corresponding cash surrender value of all policies totaling $306,000. As of December 31, 2009, the aggregate death benefit totaled $554,000 with the corresponding cash surrender value of all policies totaling $307,000.

As of December 31, 2010, certain agreements restrict the Company from utilizing the cash surrender value of certain life insurance policies totaling approximately $306,000 for purposes other than the satisfaction of the specific underlying deferred compensation agreements. The Company offsets the dividends realized from the life insurance policies with premium expenses. Net expenses recorded in connection with these policies amounted to $17,000, $2,000 and $13,000 for 2010, 2009 and 2008, respectively.

Note 13. Commitments And Contingencies

Leases: The Company is a party to certain leases for facilities, equipment and vehicles from third parties, which expire through 2020. The minimum rental commitments as of December 31, 2010 are as follows:

	Operating Leases (in thousands)
2011	$ 1,594
2012	1,282
2013	769
2014	693
2015	639
Thereafter	1,672
Total minimum payments	$ 6,649

For 2010, 2009 and 2008, rental expense applicable to continuing operations aggregated approximately $1,874,000, $1,917,000 and $2,204,000, respectively.

Letters Of Credit: As of December 31, 2010 and December 31, 2009, the Company was contingently liable for $544,000 and $649,000, respectively, under an outstanding letter of credit issued for casualty insurance requirements.

Litigation: The Company is and has been the subject of administrative actions that arise from its ownership of SL Surface Technologies, Inc. (“SurfTech”), a wholly-owned subsidiary, the assets of which were sold in November 2003. SurfTech formerly operated chrome-plating facilities in Pennsauken Township, New Jersey (the “Pennsauken Site”) and Camden, New Jersey (the “Camden Site”).

On June 12, 2002, the Company and SurfTech were served with a class action complaint by twelve individual plaintiffs (the “Complaint”) filed in Superior Court of New Jersey for Camden County (the “Private Action”). The Company and SurfTech were two of approximately 28 defendants named in the Private Action. The Complaint alleged, among other things, that the plaintiffs are subject to an increased risk of disease as a result of consuming water distributed from the Puchack Well Field located in Pennsauken Township, New Jersey (which was one of several water sources that supplied Camden, New Jersey). Medical monitoring of the plaintiff class was sought in the litigation.

The Private Action arose from similar factual circumstances as a current federal administrative action involving the Puchack Well Field, with respect to which the Company has been identified as a potential responsible party ("PRP"). This action and the Private Action both allege that SurfTech and other defendants contaminated groundwater through the disposal of hazardous substances at facilities in the area. SurfTech once operated a chrome-plating facility at the Pennsauken Site. The federal administrative action is discussed below.

With respect to the Private Action, the Superior Court denied class certification in June 2006. In 2007, the Superior Court dismissed the claims of all plaintiffs on statute of limitations grounds. The plaintiffs appealed and lost on all issues. In January 2010, the New Jersey Supreme Court denied plaintiffs' petition for certification to the Supreme Court, which effectively terminated this litigation with prejudice.

The Company is the subject of lawsuits and administrative actions that arise from its ownership of SurfTech and its Pennsauken Site. These actions relate to environmental issues concerning the Pennsauken Landfill and the Puchack Well Field. In 1991 and 1992, the New Jersey Department of Environmental Protection (the "NJDEP") served directives that would subject the Company to, among other things, collective reimbursements (with other parties) for the remediation of the Puchack Well Field. The litigation involving the Pennsauken Landfill involved claims under the Spill Compensation and Control Act (the "Spill Act"), other statutes and common law against the Company and numerous other defendants alleging that they are liable for contamination at and around a municipal solid waste landfill located in Pennsauken Township, New Jersey. In the first quarter 2009, the Company agreed to terms with the plaintiffs for the settlement of all pending claims in this case. Accordingly, the case was dismissed with prejudice in February 2009.

In 2006 the United States Environmental Protection Agency (the "EPA") named the Company as a potential responsible party (a "PRP") in connection with the remediation of the Puchack Well Field, which has been designated as a Superfund Site. The EPA has alleged that hazardous substances generated at the Company's Pennsauken Site contaminated the Puchack Well Field. As a PRP, the Company is potentially liable, jointly and severally, for the investigation and remediation of the Puchack Well Field Superfund Site under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA").

The EPA is remediating the Puchack Well Field Superfund Site in two separate operable units. The first operable unit consists of an area of chromium groundwater contamination that exceeds the selected cleanup standard ("OU-1"). The second operable unit ("OU-2") pertains to sites that are allegedly the sources of contamination for the first operable unit. The EPA advised the Company in October 2010 that OU-2 includes soil contamination in the immediate vicinity of the Company's Pennsauken Site.

In September 2006, the EPA issued a Record of Decision that selected a remedy for OU-1 to address the groundwater contamination. The estimated cost of the EPA selected remedy for OU-1, to be conducted over a five to ten year timeframe, was approximately $17,600,000, as stated in the Record of Decision. In an October 2010 meeting with the EPA, the EPA informed the Company that the OU-1 remedy will be implemented in two phases. Prior to the issuance of the EPA's Record of Decision, the Company had retained an experienced environmental consulting firm to prepare technical comments on the EPA's proposed remediation of the Puchack Well Field Superfund Site. In those comments, the Company's consultant, among other things, identified flaws in the EPA's conclusions and the factual predicates for certain of the EPA's decisions and for the proposed selected remedy.

Following the issuance of its Record of Decision for OU-1, in November 2006, the EPA sent another letter to the Company encouraging the Company to either perform or finance the remedial actions for OU-1 identified in the EPA's Record of Decision. In addition to paying for the OU-1 remediation, the EPA has sought payment of the past costs that the EPA has allegedly incurred. The Company responded to the EPA that it was willing to investigate the existence of other PRPs and to undertake the activities necessary to design a final remediation for the Superfund Site. In July 2007, the EPA refused the Company's offer to perform the work necessary to design the remediation plan without first agreeing to assume responsibility for the full remediation of the Superfund Site. The EPA did encourage the Company to investigate the existence of other PRPs and to submit evidence thereof, if appropriate. In January 2008, the Company submitted to the EPA evidence demonstrating the existence of several other PRPs.

In subsequent meetings and discussions with the U.S. Department of Justice ("DOJ") and the EPA, the Company was informed that estimated OU-1 remediation costs are now in the range of $30,000,000 to $40,000,000 with additional past costs incurred by the EPA related to OU-1 of approximately $17,000,000. These costs are current estimates provided to the Company by the EPA and DOJ. The Company has asked the DOJ/EPA for but has not been furnished support for these estimates and costs.

Notwithstanding the assertions of the DOJ and EPA, based on discussions with its attorneys and environmental engineering consultants, the Company believes the EPA's analytical effort is far from complete for OU-1. Further, technical data has not established that offsite migration of hazardous substances from the Company's Pennsauken Site (OU-2) caused the contamination of OU-1 of the Puchack Well Field Superfund Site. In any event, the Company believes the evidence establishes that hazardous substances from the Company's Pennsauken Site could have, at most, constituted only a small portion of the total contamination delineated in the vicinity of OU-1 of the Puchack Well Field Superfund Site. Based on the foregoing, the Company believes that it has significant defenses against the EPA claims and that other PRPs should be identified and brought into the legal proceedings by the DOJ to support the ultimate cost of remediation.

Also, the EPA is currently performing investigations relating to OU-2 of the Puchack Well Field Superfund Site. In an October 2010 meeting with EPA, the EPA informed the Company that it did not have an estimate of proposed OU-2 costs at that time. The Company understands that the EPA expects to issue a Record of Decision for OU-2 in the second quarter or third quarter of 2011. On February 24, 2011, the Company's management and legal counsel met with representatives of the EPA and the DOJ with respect to the Puchack Well Field Superfund Site, collectively OU-1 and OU-2. These discussions are ongoing.

The Company is currently in settlement discussions with the EPA and DOJ regarding the remediation and past costs for both OU-1 and OU-2. This settlement may, among other things, consist of a “limited ability to pay” component, which will be provided by the EPA and DOJ and will be negotiated by the Company. While the EPA and DOJ are viewing the OU-1 and OU-2 costs in a single ability to pay analysis, the Company is considering treating OU-1 and OU-2 as two separate and distinct items. Based on the current available information, the Company has estimated a total liability for OU-1 and OU-2 combined of $11,776,000, of which all but $4,000,000 (recorded in 2006) was reserved and recorded as part of discontinued operations, net of tax, in the amount of $5,132,000 in the fourth quarter of 2010. The Company’s estimate of its OU-1 liability is based upon the government’s OU-1 Record of Decision, the government’s estimates of the costs, and the Company’s estimated portion of the liability based upon data from our environmental engineering consultants. The estimated OU-2 liability is based upon data from our environmental engineering consultants. The above liability is included in the total environmental accrual.

It is management’s opinion taking into account the information available to the Company as well as the significant defenses against the EPA claims and other PRPs potential responsibility that the impact of litigation and environmental administrative actions and related liabilities brought against the Company and its operations should not have a material adverse effect on its consolidated financial position or results of operations. However, the ultimate outcome of these matters, as with litigation generally, is inherently uncertain, and it is possible that some of these matters may be resolved adversely to the Company relative to the current reserves. The adverse resolution of any one or more of these matters could have a material adverse effect on the business, operating results, financial condition or cash flows of the Company.

Other

In the ordinary course of its business the Company is subject to other loss contingencies pursuant to foreign and domestic federal, state and local governmental laws and regulations and is also party to certain legal actions, frequently involving complaints by terminated employees and disputes with customers and suppliers. In the opinion of management, any such other loss contingencies are not expected to have a material adverse effect on the financial condition or results of operations of the Company.

Environmental Matters: Loss contingencies include potential obligations to investigate and eliminate or mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as Superfund sites and other facilities, whether or not they are currently in operation. The Company is currently participating in environmental assessments and cleanups at a number of sites and may in the future be involved in additional environmental assessments and cleanups. Based upon investigations completed to date by the Company and its independent engineering-consulting firms, management has provided an estimated accrual for all known costs believed to be probable and costs that can be reasonably estimated in the amount of $14,911,000, of which $11,779,000 is included as other long-term liabilities as of December 31, 2010. However, it is the nature of environmental contingencies that other circumstances might arise, the costs of which are indeterminable at this time due to such factors as changing government regulations and stricter standards, the unknown magnitude of cleanup costs, the unknown timing and extent of the remedial actions that may be required, the determination of the Company’s liability in proportion to other responsible parties, the divisibility of costs, and the extent, if any, to which such costs are recoverable from other parties. These other circumstances could result in additional expenses or judgments, or offsets thereto. The adverse resolution of any one or more of these other circumstances could have a material adverse effect on the business, operating results, financial condition or cash flows of the Company. Most of the Company’s environmental costs relate to discontinued operations and such costs have been recorded in discontinued operations, net of tax.

There are three sites on which the Company may incur material environmental costs in the future as a result of past activities of its former subsidiary, SurfTech. There are two Company owned sites related to its former subsidiary, SurfTech. These sites are located in Pennsauken, New Jersey (the “Pennsauken Site”) and in Camden, New Jersey (the “Camden Site”). There is also a third site, which is not owned by the Company, referred to as the “Puchack Well Field Site”. The Puchack Well Field Site and the Pennsauken Site are part of the Puchack Well Field Superfund Site.

With respect to the Camden Site, the Company has reported soil contamination and a groundwater contamination plume emanating from the site. The Company has been conducting tests and taking other actions to identify and quantify the contamination and to confirm areas of concern. In the third quarter of 2009, pursuant to an Interim Response Action (“IRA”) Work plan approved by the New Jersey Department of Environmental Protection (“NJDEP”), the Company completed building demolition and excavated and disposed of some of the contaminated soil underlying the building’s foundation. Treatability studies for in-situ remediation of the remaining unsaturated contaminated soil were conducted in 2009. Based upon the treatability study results, our environmental consultants prepared an IRA Work plan Addendum (“IRAWA”) to implement a Phase I Pilot Study (“PIPS”), which involved injecting neutralizing chemicals into the saturated soil. The NJDEP approved the IRAWA, and the PIPS was implemented in November 2010. These injections have now been completed. As required by the IRAWA, our consultants are collecting post-injection data for assessment of the overall success of the PIPS. Also, the Company’s environmental consultants are developing an IRA Work plan Addendum II to implement a Phase II Pilot Study to treat contaminated groundwater. During the second quarter of 2010, the Company reviewed the most recent cost studies prepared by its environmental consultants and recorded an additional $1,273,000 reserve related to the Camden Site. At December 31, 2010, the Company had an accrual of $2,171,000 to remediate the Camden Site. Of this amount, the Company anticipates expenditures of approximately $1,525,000 in 2011.

The Company has reported soil and groundwater contamination at the facility of SL-MTI located on its property in Montevideo, Minnesota. An analysis of the contamination has been completed and a remediation plan has been implemented at the site pursuant to the remedial action plan approved by the Minnesota Pollution Control Agency. The remaining steps under this plan are the monitoring of samples. Based on the current information, the Company believes it will incur remediation costs at this site of approximately $95,000, which has been accrued for at December 31, 2010. These costs are recorded as a component of continuing operations.

As of December 31, 2010 and December 31, 2009, environmental accruals of $14,911,000 and $5,883,000, respectively, have been recorded by the Company in accrued liabilities — other and in other long-term liabilities, as appropriate (see Note 10).

Employment Agreements: The Company entered into severance agreements with certain key employees in 2001 that provide for one-time payments in the event the employee is terminated within twelve months of a change-of-control, as defined. These payments range from six to 24 months of the employee's base salary as of the termination date, as defined. If a triggering event had taken place in 2010 and if these employees had been terminated during the year, the payments would have aggregated approximately $2,096,000 under such change-of-control agreements.

During October 2010, two former executives entered into Separation Agreements and Mutual Releases (the "Agreements"). The effective dates of the Agreements were October 22, 2010 and October 28, 2010. Total consideration paid to both executives was $1,042,933, minus applicable taxes and withholdings. The payments were for, among other things, severance, accrued vacation, legal fees, and for one executive, payment pursuant to a certain bonus agreement dated August 5, 2002. The payments were completed during the fourth quarter of 2010.

The Company entered into severance agreements in 2010 with certain key employees that provide for one-time payments in the event the employee is terminated within twelve months of a change-of-control, as defined. These payments range from nine to twelve months of the employee's base salary as of the termination date, as defined. If a triggering event had taken place in 2010 and if these employees had been terminated during the year, the payments would have aggregated approximately $632,000 under such change-of-control agreements.

Note 14. Cash Flow Information

Supplemental disclosures of cash flow information:

	Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
Interest paid	$ 81	$ 63	$ 347
Income taxes paid	$ 1,951	$ 558	$ 725

Note 15. Shareholders' Equity

On September 14, 2010, the Company announced a modified "Dutch Auction" tender offer to purchase up to 1,538,461 shares of its common stock (the "Tender Offer"). The Tender Offer expired on October 13, 2010. Under the terms of the Tender Offer, the Company's shareholders had the option of tendering all or a portion of the Company's common stock that they owned (1) at a price of not less than $13.00 and not more than $14.50, in increments of $0.25 per share, or (2) without specifying a purchase price, in which case the common stock that they owned would have been purchased at the purchase price determined in accordance with the Tender Offer. Shareholders who elected to tender have received the purchase price in cash, without interest, for common stock tendered in accordance with the terms of the Tender Offer. These provisions were described in the Offer to Purchase relating to the Tender Offer that was distributed to shareholders. All common stock purchased by the Company were purchased at the same price.

Based on the final count by the depositary for the Tender Offer, an aggregate of 1,334,824 shares of common stock were properly tendered and not withdrawn at prices at or below $14.50. Accordingly, pursuant to the terms of the Offer to Purchase, the Letter of Transmittal and applicable securities laws, the Company accepted for purchase 1,334,824 shares of its common stock at a purchase price of $14.50 per share. These shares represent approximately 22.0% of the shares outstanding as of October 18, 2010. With the completion of the tender offer, the Company had approximately 4,728,951 shares of common stock outstanding at that time. The aggregate purchase price paid by the Company in connection with the Tender Offer was $19,354,948, excluding transaction costs. The depositary has paid for the shares accepted for purchase in the Tender Offer. The Company paid for the tender with available cash and $7,500,000 in borrowings from its 2008 Credit Facility.

During the fourth quarter of 2010, in response to the diversification requirements in the Pension Protection Act of 2006 for defined contribution plans holding publicly traded employer securities, the Company purchased all Company shares held by its defined contribution plan. As a result, the Company purchased 252,064 shares of Company common stock at an average cost of $17.45 per share, at a total cost of $4,398,664.

Note 16. Industry Segments

The Company currently operates under four business segments: SLPE, the High Power Group, SL-MTI and RFL. Following its acquisition of Ault on January 26, 2006, the Company consolidated the operations of Ault and its subsidiary, Condor D.C. Power Supplies, Inc. ("Condor"), into SLPE. In accordance with the guidance provided in ASC 280 "Segment Reporting," this subsidiary is reported as one business segment. Following the acquisition of MTE on October 31, 2006, the Company combined MTE with its subsidiary, Teal, into one business segment, which is reported as the High Power Group. Management has combined SLPE and the High Power Group into one business unit classified as the Power Electronics Group. The Company aggregates operating business subsidiaries into a single segment for financial reporting purposes if aggregation is consistent with the objectives of ASC 280 and if the segments have similar characteristics in each of the following areas:

- nature of products and services
- nature of production process
- type or class of customer
- methods of distribution

SLPE produces a wide range of custom and standard internal and external AC/DC and DC/DC power supply products to be used in customers' end products. The Company's power supplies closely regulate and monitor power outputs, resulting in stable and highly reliable power. SLPE, which sells products under three brand names (SL Power Electronics, Condor and Ault), is a major supplier to the original equipment manufacturers ("OEMs") of medical, wireless and wire line communications infrastructure, computer peripherals, military, handheld devices and industrial equipment. The High Power Group sells products under two brand names (Teal and MTE). Teal designs and manufactures custom power conditioning and distribution units. Products are developed and manufactured for custom electrical subsystems for OEMs of semiconductor, medical imaging, military and telecommunication systems. MTE designs and manufactures power quality electromagnetic products used to protect equipment from power surges, bring harmonics into compliance and improve the efficiency of variable speed motor drives. SL-MTI designs and manufactures high power density precision motors. New motor and motion controls are used in numerous applications, including military and commercial aerospace equipment, medical devices and industrial products. RFL designs and manufactures communication and power protection products/systems that are used to protect utility transmission lines and apparatus by isolating faulty transmission lines from a transmission grid. The Other segment includes corporate related items, financing activities and other costs not allocated to reportable segments, which includes but is not limited to certain legal, litigation and public reporting charges and certain legacy costs. The accounting policies for the business units are the same as those described in the summary of significant accounting policies (see Note 1 for additional information).

Business segment operations are conducted through domestic subsidiaries. For all periods presented, sales between business segments were not material. No single customer accounted for more than 10% of consolidated net sales during 2010, 2009 or 2008. Each of the segments has certain major customers, the loss of any of which would have a material adverse effect on such segment.

	Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
Net sales			
Power Electronics Group:			
SLPE	$ 79,615	$ 53,464	$ 72,811
High Power Group	56,494	44,865	60,462
Total	136,109	98,329	133,273
SL-MTI	31,261	28,277	28,647
RFL	22,398	20,945	24,034
Consolidated	$ 189,768	$ 147,551	$ 185,954

	Years Ended December 31,		
	2010	2009	2008
		(in thousands)	
Income from operations			
Power Electronics Group:			
SLPE	$ 6,389	$ 735	$ 315
High Power Group	5,418	3,194	4,868
Total	11,807	3,929	5,183
SL-MTI	4,801	4,426	3,892
RFL	2,990	1,919	2,379
Other	(6,350)	(5,185)	(4,141)
Income from operations	13,248	5,089	7,313
Amortization of deferred financing costs	(252)	(351)	(77)
Fire related loss, net	(109)	—	—
Interest income	2	8	28
Interest expense	(86)	(63)	(237)
Income from continuing operations before income taxes	$ 12,803	$ 4,683	$ 7,027

	December 31, 2010	December 31, 2009
	(in thousands)	
Total assets		
Power Electronics Group:		
SLPE	$ 37,155	$ 27,255
High Power Group	31,539	27,192
Total	68,694	54,447
SL-MTI	11,262	11,520
RFL	14,525	15,096
Other	10,418	18,388
Consolidated	$ 104,899	$ 99,451

	December 31, 2010	December 31, 2009
	(in thousands)	
Intangible assets, net		
Power Electronics Group:		
SLPE	$ 5,067	$ 5,433
High Power Group	16,328	16,866
Total	21,395	22,299
SL-MTI	—	—
RFL	5,373	5,409
Consolidated	$ 26,768	$ 27,708

	Years Ended December 31, 2010	2009	2008
		(in thousands)	
Capital expenditures			
Power Electronics Group:			
SLPE	$ 492	$ 57	$ 1,020
High Power Group	440	167	756
Total	932	224	1,776
SL-MTI	258	264	432
RFL	226	350	182
Other	—	—	36
Consolidated	$ 1,416	$ 838	$ 2,426

	Years Ended December 31, 2010	2009 (in thousands)	2008
Depreciation and amortization			
Power Electronics Group:			
SLPE	$ 1,381	$ 1,647	$ 1,820
High Power Group	831	869	854
Total	2,212	2,516	2,674
SL-MTI	302	358	388
RFL	465	465	550
Other	47	56	40
Consolidated	$ 3,026	$ 3,395	$ 3,652

Financial information relating to the Company's segments by geographic area is as follows:

	Years Ended December 31, 2010	2009 (in thousands)	2008
Net sales(1)			
United States	$ 148,361	$ 121,399	$ 155,002
Foreign	41,407	26,152	30,952
Consolidated	$ 189,768	$ 147,551	$ 185,954
Long-lived assets(2)			
United States	$ 5,978	$ 6,690	$ 7,411
Foreign	2,943	2,584	3,237
Consolidated	$ 8,921	$ 9,274	$ 10,648

(1) Net sales are attributed to countries based on location of customer.

(2) Includes net tangible assets excluding goodwill and intangibles.

Note 17. Foreign Operations

In addition to manufacturing operations in California, Minnesota, New Jersey and Wisconsin, the Company manufactures substantial quantities of products in premises leased in Mexicali, Mexico, Matamoros, Mexico and Tecate, Mexico. The Company also has manufacturing facilities in Xianghe, China. These external and foreign sources of supply present risks of interruption for reasons beyond the Company's control, including political or economic instability and other uncertainties.

Generally, the Company's sales are priced in U.S. dollars and its costs and expenses are priced in U.S. dollars, Mexican pesos and Chinese yuan. Accordingly, the competitiveness of the Company's products relative to locally produced products may be affected by the performance of the U.S. dollar compared with that of its foreign customers' and competitors' currencies. Foreign net sales comprised 22%, 18% and 17% of net sales from continuing operations for 2010, 2009 and 2008, respectively.

Additionally, the Company is exposed to foreign currency exchange rate fluctuations, which might result from fluctuations in the value of the Mexican peso and Chinese yuan versus the U.S. dollar. At December 31, 2010, the Company had net liabilities of $1,537,000 subject to fluctuations in the value of the Mexican peso and Chinese yuan. At December 31, 2009, the Company had net assets of $27,000 subject to fluctuations in the value of the Mexican peso and Chinese yuan. Fluctuations in the value of the foreign currencies did not have a material effect on the Company's operations in either 2010 or 2009.

SLPE manufactures most of its products in Mexico and China. Teal has transferred a significant portion of its manufacturing to a wholly-owned subsidiary located in Mexico. SL-MTI manufactures a significant portion of its products in Mexico. SLPE, the High Power Group and SL-MTI price and invoice their sales in U.S. dollars. The Mexican subsidiaries of SLPE, SL-MTI and Teal maintain their books and records in Mexican pesos. SLPE's subsidiaries in China maintain their books and records in Chinese yuan; however, most of their sales are invoiced in U.S. dollars. Business operations conducted in Mexico or China incur their respective labor costs and supply expenses in Mexican pesos and Chinese yuan, as the case may be (see Note 16 for additional information).

18. Fire Related Loss And Insurance Recovery

On March 24, 2010, the Company sustained fire damage at its leased manufacturing facility in Mexicali, Mexico. This facility manufactures products for both SLPE and MTE. The fire was contained to an area that manufactures MTE products. The Company is fully insured for the replacement of the assets damaged in the fire and for the loss of profits due to the business interruption and changed conditions caused by the fire. Details of the net fire related loss are as follows:

	Year Ended December 31, 2010
	(in thousands)
Fire related loss	$ (642)
Insurance recovery	533
Net fire related loss	$ (109)

The Company's fire related loss includes the destruction of property and equipment, damaged inventory, cleanup costs and increased operating expenses incurred as a result of the fire. The Company's insurance recovery represents the replacement cost of property and equipment damaged as a result of the fire, the fair market value of inventory damaged in the fire, cleanup costs and increased business expenses, net of applicable adjustments and deductibles.

In July 2010, the Company received a $200,000 advance from its carrier related to the fire loss. Any additional gains, losses and recoveries will be recognized in subsequent periods as amounts are determined and finalized with the Company's insurance carriers.

Note 19. Related Party Transactions

RFL has an investment of $15,000 in RFL Communications PLC, (“RFL Communications”), representing 4.5% of the outstanding equity thereof. RFL Communications is a distributor of teleprotection and communication equipment located in the United Kingdom. It is authorized to sell RFL products in accordance with an international sales agreement. Sales to RFL Communications for 2010, 2009 and 2008 were $655,000, $715,000 and $1,187,000, respectively. Accounts receivable due from RFL Communications at December 31, 2010 and December 31, 2009 were $100,000 and $157,000, respectively.

The Company was a party to a Management Agreement (the “Agreement”) dated April 1, 2002 with Steel Partners Ltd. (“Steel Partners”). Steel Partners is a management company controlled by Warren G. Lichtenstein. Glen M. Kassan and John H. McNamara are employed by Steel Partners. Messrs. Lichtenstein, Kassan and McNamara are directors of the Company. As previously reported, Mr. Lichtenstein was elected to the Board on March 30, 2010 to fill the vacancy created by the resignation of James R. Henderson. On May 18, 2010, the parties terminated the Agreement. Under the Agreement, Steel Partners provided certain management services to the Company in consideration for an annual fee of $475,000, paid monthly. The Agreement was terminated, effective January 31, 2010, for a one-time payment of $150,000. Fees of approximately $190,000 were expensed by the Company for Steel Partners’ services in 2010. Fees of $475,000 were expensed by the Company for Steel Partners’ services in each of 2009 and 2008. Approximately $40,000 was payable at December 31, 2009.

Note 20. Selected Quarterly Financial Data (Unaudited)

	Three Months Ended March 31, 2010	Three Months Ended June 30, 2010	Three Months Ended September 30, 2010	Three Months Ended December 31, 2010
	(in thousands, except per share data)			
Net sales	$ 42,133	$ 47,790	$ 49,141	$ 50,704
Gross margin	$ 13,990	$ 15,211	$ 16,021	$ 16,535
Income from continuing operations before income taxes	$ 2,044	$ 3,193	$ 3,102	$ 4,464
Net income (loss) (a)	$ 1,126	$ 1,014	$ 2,058	$ (1,642)
Basic net income (loss) per common share	$ 0.18	$ 0.17	$ 0.34	$ (0.34)
Diluted net income (loss) per common share	$ 0.18	$ 0.17	$ 0.34	$ (0.33)
[a] Includes (loss) from discontinued operations, net of tax	$ (150)	$ (1,049)	$ (267)	$ (5,760)[b]

[b] The three months ended December 31, 2010, includes a provision for environmental remediation of $5,132,000, net of tax, related to the Pennsauken Site.

	Three Months Ended March 31, 2009	Three Months Ended June 30, 2009	Three Months Ended September 30, 2009	Three Months Ended December 31, 2009
	(in thousands, except per share data)			
Net sales	$ 36,232	$ 34,956	$ 36,379	$ 39,984
Gross margin	$ 11,887	$ 11,397	$ 12,458	$ 13,077
Income (loss) from continuing operations before income taxes	$ 304	$ (506)	$ 2,298	$ 2,587
Net income (loss) [a]	$ 49	$ (434)	$ 1,719	$ 1,602
Basic net income (loss) per common share	$ 0.01	$ (0.07)	$ 0.28	$ 0.27
Diluted net income (loss) per common share	$ 0.01	$ (0.07)	$ 0.28	$ 0.26
[a] Includes (loss) from discontinued operations, net of tax	$ (196)	$ (87)	$ (157)	$ (188)

Exhibit 99.4

FINANCIAL STATEMENTS OF STEEL PARTNERS II LIQUIDATING SERIES TRUST

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

STEEL PARTNERS II LIQUIDATING SERIES TRUST

For the period from July 15, 2009 (commencement of operations) to December 31, 2009

C O N T E N T S

Audit – Tax – Advisory

Grant Thornton LLP
60 Broad Street, 24th Floor
New York, NY 10004-2306

T 212.422.1000
F 212.422.0144
www.GrantThornton.com

INDEPENDENT AUDITORS' REPORT

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, 2009, and the related statements of operations, changes in net assets and cash flows for the period July 15, 2009 through December 31, 2009. 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 as 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, 2009, and the results of its operations and its cash flows for the period then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ GRANT THORNTON LLP

New York, New York
August 2, 2010

Steel Partners II Liquidating Series Trust
Statement of Net Assets
December 31, 2009
(expressed in United States 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 $239,677,548)	$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
Cash and cash equivalents	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
Restricted cash	9,816	53,201	17,287	38,599	40,746	-	18,570	19,081	2,700	200,000
Interest receivable	307,946	-	546,116	-	818,166	-	-	-	-	1,672,228
Redemptions receivable	-	-	-	-	-	-	-	800,964	-	800,964
Total assets	$13,029,813	$66,321,544	$23,242,463	$34,297,360	$56,819,788	$30,251,421	$29,334,126	$23,554,609	$1,768,160	$278,619,284

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 & other liabilities	$ -	$ -	$ -	$ -	$ -	$ 32,928	$ -	$ -	$ -	$ 32,928
Distributions payable	-	-	-	-	-	30,218,493	2,200,000	-	-	32,418,493
Total liabilities						30,251,421	2,200,000	-	-	32,451,421
Total net assets	$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

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Condensed Schedules of Investments
December 31, 2009
(expressed in United States dollars)

Shares	Series	Fair Value
	Series A	
	Debt - Manufacturing, United States	
	Bairnco Corporation, Prime rate plus 950bps per annum due 1/17/2013	$ 11,292,123
	Total (86.66%) (cost $11,292,123)	11,292,123
	Total investments, at fair value (86.66%) (cost $11,292,123)	$ 11,292,123
	Series B	
	Common Stock - Insurance, Europe	
377,818	Barbican Group Holdings Limited	$ -
	Total (0.00%) (cost $78,125)	-
	Preferred Stock - Insurance, Europe	
36,795,718	Barbican Group Holdings Limited	65,027,900
	Total (98.05%) (cost $82,720,869)	65,027,900
	Total investments, at fair value (98.05%) (cost $82,798,994)	$ 65,027,900
	Series C	
	Debt - Manufacturing, United States	
	BNS Holding, Inc, 15% per annum due 8/31/2011	$ 21,784,959
	Total (93.73%) (cost $21,784,959)	21,784,959
	Total investments, at fair value (93.73%) (cost $21,784,959)	$ 21,784,959
	Series D	
	Common Stock - Restaurants, United States	
72,236	F&H Acq Corp	$ 33,017,050
	Total (96.27%) (cost $36,117,825)	$ 33,017,050
	Total investments, at fair value (96.27%) (cost $36,117,825)	$ 33,017,050

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Condensed Schedules of Investments (continued)
December 31, 2009
(expressed in United States dollars)

Shares	Series		Fair Value
	Series E		
	Debt - Manufacturing, United States		
	Handy and Harman, Prime plus 1300bps per annum due 6/30/2011	$	54,544,379
	Total (96.00%) (cost $54,544,379)		54,544,379
	Total investments, at fair value (96.00%) (cost $54,544,379)	$	54,544,379
	Series G		
	Limited Partnership - Asia		
	Steel Partners China Access I LP	$	26,701,784
	Total (98.41%) (cost $13,450,054)		26,701,784
	Total investments, at fair value (98.41%) (cost $13,450,054)	$	26,701,784
	Series H		
	Limited Partnership - Asia		
	Steel Partners Japan Strategic Fund, L.P.	$	22,351,557
	Total Asia (94.89%) (cost $12,520,611)		22,351,557
	Total investments, at fair value (94.89%) (cost $12,520,611)	$	22,351,557
	Series I		
	Preferred Stock - United States		
521,847	Food - Miscellaneous/Diversified	$	27,714
	Total Preferred Stock (1.57%) (cost $678,402)		27,714
	Debt - United States		
	Other		22,988
	Total (1.30%) (cost $4,890,201)		22,988
	Other - United States		
	Other		-
	Total (0.00%) (cost $1,600,000)		-
	Total investments, at fair value (2.87%) (cost $7,168,603)	$	50,702

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Operations
For the period July 15, 2009 to December 31, 2009
(expressed in United States 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 loss, investments	$ -	$ -	$ -	$ -	$ -	$ (50,154)	$ -	$ -	$ -	$ (50,154)
Change in unrealized gain (loss) from investments and foreign currency translation	-	(1,100,694)	-	(14,252,304)	-	-	5,692,544	(647,587)	(1,699,351)	(12,007,392)
Change in unrealized - other	-	-	-	-	-	-	-	28,142	-	28,142
Total net realized and unrealized gain (loss) from investment and foreign currency translation	-	(1,100,694)	-	(14,252,304)	-	(50,154)	5,692,544	(619,445)	(1,699,351)	(12,029,404)
Investment income										
Interest	664,271	-	1,472,757	-	5,533,904	4	-	-	-	7,670,936
Total investment income	664,271	-	1,472,757	-	5,533,904	4	-	-	-	7,670,936
Expenses										
Professional Fees	10,000	10,000	10,000	10,000	10,000	42,928	10,000	10,000	10,000	122,928
Total Expenses	10,000	10,000	10,000	10,000	10,000	42,928	10,000	10,000	10,000	122,928
Net investment income (loss)	654,271	(10,000)	1,462,757	(10,000)	5,523,904	(42,924)	(10,000)	(10,000)	(10,000)	7,548,008
Net income (loss)	$ 654,271	$ (1,110,694)	$ 1,462,757	$ (14,262,304)	$ 5,523,904	$ (93,078)	$ 5,682,544	$ (629,445)	$ (1,709,351)	$ (4,481,396)

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Changes in Net Assets
For the period July 15, 2009 to December 31, 2009
(expressed in United States 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 loss, investments	$ -	$ -	$ -	$ -	$ -	$ (50,154)	$ -	$ -	$ -	$ (50,154)
Change in unrealized gain (loss) from investments and foreign currency translation	-	(1,100,694)	-	(14,252,304)	-	-	5,692,544	(647,587)	(1,699,351)	(12,007,392)
Change in unrealized - other	-	-	-	-	-	-	-	28,142	-	28,142
Net investment income	654,271	(10,000)	1,462,757	(10,000)	5,523,904	(42,924)	(10,000)	(10,000)	(10,000)	7,548,008
Net increase/(decrease) in net assets from operations	654,271	(1,110,694)	1,462,757	(14,262,304)	5,523,904	(93,078)	5,682,544	(629,445)	(1,709,351)	(4,481,396)
Increase (decrease) in net assets from capital transactions										
Contributions	12,375,542	67,432,238	21,779,706	48,559,664	51,295,884	30,311,571	23,651,582	24,184,054	3,477,511	283,067,752
Distributions	-	-	-	-	-	(30,218 493)	(2,200,000)	-	-	(32,418,493)
Net increase in net assets from capital transactions	12,375,542	67,432,238	21,779,706	48,559,664	51,295,884	93,078	21,451,582	24,184,054	3,477,511	250,649,259
Net increase in net assets	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 beginning of period	-	-	-	-	-	-	-	-	-	-
Net assets at the end of period	$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

The accompanying notes are an integral part of this statement.

Steel Partners II Liquidating Series Trust
Statement of Cash Flows
For the period July 15, 2009 to December 31, 2009
(expressed in United States 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	$ 654,271	$ (1,110,694)	$ 1,462,757	$(14,262,304)	$ 5,523,904	$ (93,078)	$ 5,682,544	$ (629,445)	$(1,709,351)	$ (4,481,396)
Adjustments to reconcile net income (loss) to net cash provided by (used) in operating activities:										
Realized and unrealized gain (loss) from investment and foreign currency transactions	-	1,100,694	-	14,252,304	-	50,154	(5,692,544)	647,586	1,699,352	12,057,546
Proceeds, distribution from investment	-	-	-	-	-	-	2,230,631	-	-	2,230,631
Purchases, payment-in-kind interest	(356,325)	-	(1,558,375)	-	(5,061,845)	-	-	-	-	(6,976,545)
Changes in assets and liabilities										
(Increase) decrease in operating assets										
Interest receivable	(307,946)	-	85,618	-	(472,059)	-	-	-	-	(694,387)
Redemption receivable	-	-	-	-	-	-	-	(28,140)	-	(28,140)
Restricted cash	(9,816)	(53,201)	(17,287)	(38,599)	(40,746)	-	(18,570)	(19,081)	(2,700)	(200,000)
Increase (decrease) in operating liabilities										
Accrued expenses & other liabilities	-	-	-	-	-	32,928	-	-	-	32,928
Net cash provided by (used in) operating activities	(19,816)	(63,201)	(27,287)	(48,599)	(50,746)	(9,996)	2,202,061	(29,080)	(12,699)	1,940,637
Cash flows from financing activities										
Capital contributions	1,439,744	1,303,644	921,388	1,290,310	1,467,243	30,261,417	411,711	412,087	1,727,457	39,235,001
Net cash provided by financing activities	1,439,744	1,303,644	921,388	1,290,310	1,467,243	30,261,417	411,711	412,087	1,727,457	39,235,001
NET CHANGE IN CASH	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 July 15, 2009	-	-	-	-	-	-	-	-	-	-
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
Noncash activities:										
Assets received as contribution from Steel Partners II, LP.										
Investments at fair value	(10,935,798)	(60,481,343)	(20,226,584)	(47,269,354)	(49,482,534)	(50,154)	(23,239,871)	(22,999,145)	(1,750,054)	(236,434,837)
Accrued dividend	-	(5,647,251)	-	-	-	-	-	-	-	(5,647,251)
Accrued interest	-	-	(631,734)	-	(346,107)	-	-	-	-	(977,841)
Redemption receivable	-	-	-	-	-	-	-	(772,822)	-	(772,822)
Total assets received as capital contributions from Steel Partners II, L.P. (Note A)	$ (10,935,798)	$ (66,128,594)	$(20,858,318)	$(47,269,354)	$(49,828,641)	$ (50,154)	$(23,239,871)	$(23,771,967)	$(1,750,054)	$(243,832,751)
Capital Contributions in	$ 10,935,798	$ 66,128,594	$ 20,858,318	$ 47,269,354	$ 49,828,641	$ 50,154	$ 23,239,871	$ 23,771,967	$ 1,750,054	$ 243,832,751

the form of assets from Steel Partners II, L.P.										
Distributions to beneficiaries										
Capital distributions	$ -	$ -	$ -	$ -	$ -	$ 30,218,493	$ 2,200,000	$ -	$ -	$ 32,418,493
Distributions payable	$ -	$ -	$ -	$ -	$ -	$(30,218,493)	$ (2,200,000)	$ -	$ -	$ (32,418,493)

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. 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.

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 U.S. Generally Accepted Accounting Principles (“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 U.S. 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. The following are the significant accounting policies adopted by the Trust:

NOTE B (continued)

1. *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.

2. *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.

3. *Investments and Income*

Transactions and related revenues and expenses are recorded on a trade-date basis. Interest and dividend income are accrued as earned.

4. *Taxation*

The Trust is required to determine whether a tax position is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. De-recognition of a tax benefit previously recognized could result in the Trust recording a tax liability that would reduce net assets. This policy also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities. It must be applied to all existing tax positions upon initial adoption. Based on its analysis, the Liquidating Trustee has determined that the adoption of this policy and as of December 31, 2009, that this policy did not have a material impact on the Trust's financial statements. The Trust's conclusions, however, regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof.

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. The Trust files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Trust is subject to examination by federal, state and local authorities in such jurisdictions, where applicable. As of December 31, 2009, the tax years that remain subject to examination under the relevant statute of limitations in such jurisdictions are from the year 2009 forward. No interest expense or penalties have been assessed for the period July 15, 2009 to December 31, 2009.

NOTE B (continued)

5. 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 are recorded within realized loss, investments 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. Change in unrealized gains (losses) in foreign currency transactions from the translation of assets and liabilities other than investments are included within change in unrealized - 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.

In September 2009 the FASB issued FASB Accounting Standards Update ("ASU") 2009-12, "Fair Value Measurements and Disclosures ("ASC 820") Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)". This update permits a reporting entity to measure the fair value of certain investments on the basis of the net asset value per share of the investment (or its equivalent). This update also requires new disclosures, by major category of investments, about the attributes of investments within the scope of this update. The guidance in this update is effective for interim and

NOTE C (continued)

annual periods ending after December 15, 2009. The adoption of ASU 2009-12 did not have a material effect on the Trust's net assets or results of operations.

In May 2009, the FASB issued an update to ASC 855 "Subsequent Events" ("ASC 855"). ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Trust has evaluated subsequent events for potential recognition and disclosure through the date of issuance of these financial statements.

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. There were no such expenses for the Liquidating Trustee or the Investment Manager for the period ended December 31, 2009.

The investments held by Series A and Series E consist of debt securities of wholly-owned subsidiaries of WHX Corporation, a majority-owned subsidiary of SPH. During the period July 15, 2009 to December 31, 2009, Series A and E recorded interest income of $664,271 and $5,533,904, respectively, from these investments and is included in the statement of operations. Interest receivable of $307,946 and $818,166, respectively, are due at December 31, 2009 and included in the statement of net assets.

The investment held by Series C at December 31, 2009 consisted of a debt security of BNS Holding, Inc. ("BNS"), a majority-owned subsidiary of SPH. During the period July 15, 2009 to December 31, 2009, Series C recorded interest income of $1,472,757 on its investment and is included in the statement of operations. Interest receivable of $546,116 is due at December 31, 2009 and is included in the statement of net assets. In February 2010 BNS repaid the debt and outstanding interest in full.

NOTE E (continued)

Series F had an investment in SP Acquisition Holdings, Inc. (“SPAH”), a blank check company formed for the purpose of acquiring, through a merger, capital stock exchange, asset acquisition or other similar business combination, one or more businesses or assets (a “Business Combination”) which was controlled by an affiliate of the Investment Manager. Series F had a co-investment obligation to SPAH should a Business Combination have taken place by October 10, 2009, which Series F held sufficient cash to fund. The obligation was terminated as a Business Combination was not completed, which also rendered the investment held by Series F in SPAH worthless. During the period July 15, 2009 to December 31, 2009, Series F recorded a realized loss of $50,154 on SPAH and is included within realized loss, investments in the statement of operations.

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 period July 15, 2009 to December 31, 2009, Series G recorded an unrealized gain of $5,692,544 on its investment and is included within change in unrealized, investments in the statement of operations.

The investment held by Series H is an investment in Steel Partners Japan Strategic Fund, L.P., a limited partnership which is co-managed by certain affiliates of the Investment Manager. During the period July 15, 2009 to December 31, 2009, Series H recorded an unrealized loss of $647,587 on its investment and is included within change in unrealized, investments in the statement of operations. At December 31, 2009, Series H had a redemption receivable of $800,964 with respect to this investment and is included in the statement of net assets.

Officers of the Investment Manager and employees of its affiliates hold executive level positions and/or board memberships in several 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 Company. 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.

NOTE F (continued)

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.

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 each investment's fair value.

At December 31, 2009, all investments held by each Series are Level 3 investments.

At December 31, 2009, 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.

(expressed in United States dollars)

NOTE F (continued)

The changes in investments at fair value for which the Trust used Level 3 inputs to determine fair value are as follows for the period ended December 31, 2009:

	Series A	Series B	Series C	Series D	Series E	Series F	Series G	Series H	Series I	Total
Balance, July 15, 2009	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Realized loss, investments	-	-	-	-	-	(50,154)	-	-	-	(50,154)
Change in unrealized gain (loss) from investments and foreign currency translation	-	(1,100,694)	-	(14,252,304)	-	-	5,692,544	(647,587)	(1,699,351)	(12,007,392)
Contributed Assets	10,935,798	66,128,594	20,858,318	47,269,354	49,828,641	50,154	23,239,871	22,999,144	1,750,053	243,059,927
Purchases	356,325	-	926,641	-	4,715,738	-	-	-	-	5,998,704
Sales	-	-	-	-	-	-	(2,230,631)	-	-	(2,230,631)
Balance, December 31, 2009	$ 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

The net change in unrealized loss from investments held at December 31, 2009, was $12,007,392 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.

NOTE H- SUBSEQUENT EVENTS

The Trust has evaluated events and transactions that may have occurred since December 31, 2009 through August 2, 2010, the date the financial statements were available for issuance and has determined the following subsequent events:

At December 31, 2009 Series F and Series G had distributions payable of $30,218,493 and $2,200,000, respectively, and are included in distributions payable in the statement of net assets, which were paid in January 2010 to the beneficiaries.

In February 2010 BNS repaid the debt and outstanding interest in full to Series C and the series was terminated. In May 2010, $23,615,979 was distributed to the Series C beneficiaries.

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

Audit – Tax – Advisory

Grant Thornton LLP
60 Broad Street, 24th Floor
New York, NY 10004-2306

T 212.422.1000
F 212.422.0144
www.GrantThornton.com

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	$ -	0.0%
	Total	78,125	-	0.0
	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	-	0.0
	Total	1,600,000	-	0.0
	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.

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.

(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 OF SWH, INC. AND SUBSIDIARY

SWH, Inc. and Subsidiary Unaudited Interim Consolidated Financial Statements

SWH, Inc. and Subsidiary Audited Consolidated Financial Statements

SWH, INC. AND SUBSIDIARY

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SWH, INC. AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2011 AND 2010

	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 3,173,929	$ 1,146,653
Accounts receivable	6,859,866	5,495,550
Due from related party	–	225,000
Prepaid expenses and other current assets	314,013	138,626
Income tax receivable	410,000	–
Total current assets	10,757,808	7,005,829
Property and equipment, net	22,570,463	16,731,174
Goodwill	18,566,498	17,486,999
Other long-term assets, net	868,439	545,028
TOTAL ASSETS	$ 52,763,208	$ 41,769,030
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 2,442,706	$ 1,356,618
Capital lease obligations, current portion	400,000	1,840,000
Note payable, current portion	4,000,000	–
Current deferred tax liability	–	203,210
Total current liabilities	6,842,706	3,399,828
Deferred gain	–	394,204
Capital lease obligations, net of current portion	1,463,152	10,057,970
Note payable, net of current portion	15,000,000	–
Deferred tax liability	7,366,599	3,820,068
Total liabilities	30,672,457	17,672,070
Shareholders' equity		
Common stock, $0.001 par value, 4,000 shares authorized, 1,000 shares issued and outstanding	–	–
Additional paid-in capital	34,042,616	20,418,241
Dividend distributions	(20,000,000)	–
Retained earnings	8,048,135	3,678,719
Total shareholders' equity	22,090,751	24,096,960
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 52,763,208	$ 41,769,030

See Notes to Unaudited Condensed Consolidated Financial Statements.

SWH, INC. AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	*2010*
Well servicing income	$ 25,875,817	$ 18,937,722
Cost of well servicing	14,843,256	10,325,339
Gross profit	11,032,561	8,612,383
Operating expenses	5,777,648	2,416,672
Income from operations	5,254,913	6,195,711
Other income (expense), net:		
Other income	414,722	43,074
Interest expense	(377,302)	(1,017,181)
Total other income (expense), net	37,420	(974,107)
Income before income taxes	5,292,333	5,221,604
Provision for income taxes	2,132,302	2,078,000
Net income	$ 3,160,031	$ 3,143,604

See Notes to Unaudited Condensed Consolidated Financial Statements.

SWH, INC. AND SUBSIDIARY
UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	*2010*
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,160,031	$ 3,143,604
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,631,324	1,393,593
Write-off of capitalized loan fees	495,480	–
Amortization of deferred gain	(386,623)	(22,742)
Deferred income taxes	2,347,599	264,278
Changes in current assets and liabilities:		
Accounts receivable	(2,236,789)	(2,893,874)
Prepaid expenses and other current assets	(221,559)	(40,844)
Accounts payable and accrued expenses	1,187,788	779,487
Income tax receivable	(410,000)	–
Net cash provided by operating activities	5,567,251	2,623,472
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(4,633,970)	(1,816,881)
Payments related to other assets	(648,798)	–
Receipt (payment) of related party receivable	225,000	(225,000)
Net cash used in investing activities	(5,057,768)	(2,041,881)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	20,000,000	–
Repayments on borrowings	(1,277,536)	–
Additional capital contributed	2,042,365	–
Dividends distributed	(20,000,000)	–
Net reductions of capital lease obligations	(215,402)	(1,212,660)
Net cash provided by (used in) financing activities	549,427	(1,212,660)
Net increase (decrease) in cash and cash equivalents	1,058,910	(631,069)
Cash and cash equivalents, beginning balance	2,115,019	1,777,722
Cash and cash equivalents, ending balance	$ 3,173,929	$ 1,146,653

See Notes to Unaudited Condensed Consolidated Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – SWH, Inc. (the Company), through its wholly-owned operating subsidiary, Sun Well Service, Inc. (the Subsidiary), provides a variety of services to the oil and gas industry. These services include: well servicing and workover, completion services, plug and abandonment services, hydrostatic tubing testing, as well as rentals of various types of well servicing equipment. The Company's operations are primarily concentrated in the Williston basin in North Dakota and eastern Montana.

Ownership – The Company was formed and acquired the Subsidiary in October 2008. The Company was acquired by BNS Holding, Inc. in February 2011.

Basis of Presentation – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant inter-company accounts and transactions have been eliminated in consolidation.

Revenue recognition – The Company's well servicing and workover services are generally short term in nature and revenue is recognized upon completion of each service.

Cash equivalents - Cash equivalents include time deposits, money market mutual funds, and all highly liquid debt instruments with original maturities of three months or less.

Trade receivables - Trade receivables are carried at original invoice. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest is not charged on past due receivables. As of September 30, 2011, management believes its receivables are substantially all collectable and therefore has not provided for an allowance for uncollectability.

Inventories – Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Prepaid expenses - Prepaid expenses include items such as insurance and other miscellaneous items. The prepaid expenses are recognized as an operating expense in the period they benefit.

Property and equipment - Property and equipment is stated at cost less accumulated depreciation using straight-line methods. The estimated lives used to compute depreciation are as follows:

Equipment	2 - 15 years
Vehicles	4 years
Office equipment	5 years

NOTE 1 *(Continued)*

Other long-term assets – Other long-term assets consist of loan fees and goodwill. Loan fees are amortized on a straight-line basis over the life of the loan. Goodwill represents the excess of cost over fair value of net assets acquired through acquisition. In accordance with professional standards, the Company does not amortize goodwill, but evaluates the goodwill on an annual basis for potential impairment. Professional standards require the Company to test the trade name and goodwill for impairment periodically.

Advertising - Advertising costs are expensed as incurred.

Accrued compensated absences - Compensated absences are accrued and charged to expense in the period in which it is earned.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sales Taxes - The Company presents its revenues net of any sales taxes collected from its customers that are required to be remitted to local or state governmental taxing authorities.

Variable Interest Entities – The Company consolidates all variable interest entities in which it holds a variable interest and is deemed to be the primary beneficiary of the variable interest entity. Generally, a variable interest entity, or VIE, is an entity with at least one of the following conditions: (a) the total equity investment at risk is insufficient to allow the entity to finance it activities without additional subordinated financial support or (b) the holders of the equity investment at risk, as a group, lack any one of the following three characteristics: (i) the power to direct the entity’s activities that most significantly impact its economic performance, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity. The primary beneficiary of a VIE is an entity that has a variable interest or a combination of variable interests that provide the entity with a controlling financial interest in the VIE. An entity is deemed to have a controlling financial interest in a VIE if it has both of the following characteristics: (a) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance, and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. As of September 30, 2011 and 2010, the Company has determined that it does not have interests in VIE’s that require consolidation.

Share-Based Compensation – The Company accounts for share-based compensation in accordance with professional standards. The Company records share-based compensation as a component of general and administrative expense.

NOTE 1 *(Continued)*

Income Taxes - The Subsidiary is included in the Company's consolidated income tax returns.

Certain items of income and expense are recognized in different periods for financial reporting purposes than for purposes of computing income taxes currently payable. The income tax effects of transactions are recognized for financial reporting purposes in the year in which they enter into the determination of reported income, regardless of when they are recognized for income tax purposes. Accordingly, applicable deferred income taxes relate to these timing differences. The timing differences relate primarily to differences in the depreciable/amortizable costs associated with its property and equipment, accrued assets and accrued liabilities, and a net operating loss carryforward. Deferred taxes are computed using the asset and liability approach as prescribed in the professional standards.

For all open tax years and all major taxing jurisdictions, management of the Company has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. Open tax years are those that are open for examination by taxing authorities (i.e., generally the last four tax year ends and the interim tax period since then). Furthermore, management of the Company is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

NOTE 2 - OFF-BALANCE-SHEET RISK

The Company has cash deposits at financial institutions which periodically exceed the FDIC insurance coverage limits. The Company has not experienced any losses in these accounts and believes that its cash is not exposed to any significant credit risk.

NOTE 3 – PROPERTY AND EQUIPMENT

Details pertaining to property and equipment as of September 30, 2011 are as follows:

	Cost	Accumulated Depreciation	Net
Equipment	$ 26,647,626	$ 7,425,314	$ 19,222,312
Vehicles	866,485	510,430	356,055
Office equipment	151,382	119,188	32,194
Assets in progress	2,959,902	–	2,959,902
	$ 30,625,395	$ 8,054,932	$ 22,570,463

Details pertaining to property and equipment as of September 30, 2010 are as follows:

	Cost	Accumulated Depreciation	Net
Equipment	$ 21,809,159	$ 5,530,266	$ 16,295,025
Vehicles	727,806	338,898	388,908
Office equipment	151,382	104,141	47,241
Assets in progress	16,132	–	–
	$ 22,704,479	$ 5,973,306	$ 16,731,174

Depreciation expense for the nine months ended September 30, 2011 and 2010 was $1,573,430 and $1,244,948, respectively.

NOTE 4 – OTHER LONG-TERM ASSETS

In accordance with FASB Accounting Standards Codification Topic 350-20, the Company is required to classify its intangible assets subject to amortization and assets not subject to amortization. The following is a summary of the Company's amortizable intangible assets as of September 30, 2011.

	Cost	Accumulated Amortization	Net
Subject to amortization:			
Capitalized loan fees	$ 926,334	$ 57,895	$ 868,439
Not subject to amortization:			
Goodwill	18,566,498	–	18,566,498
	$ 19,492,832	$ 57,895	$ 19,434,937

The following is a summary of the Company's amortizable intangible assets as of September 30, 2010.

	Cost	Accumulated Amortization	Net
Subject to amortization:			
Capitalized loan fees	$ 919,794	$ 374,766	$ 545,028
Not subject to amortization:			
Goodwill	17,486,999	–	17,486,999
	$ 18,406,793	$ 374,766	$ 18,032,027

Amortization expense on all amortizable intangible assets totaled $553,375 for the nine months ended September 30, 2011, which included the write-off of prior capitalized loan fees of $495,480. Amortization expense for amortizable intangible assets totaled $148,644 for the nine months ended September 30, 2010.

NOTE 5 – NOTE PAYABLE AND CAPITAL LEASE OBLIGATIONS

In June 2011, the Subsidiary signed a credit agreement with Wells Fargo Bank, National Association that included a $20,000,000 term loan and a revolving line of credit for up to $5,000,000. The loans are secured by the assets of Subsidiary and bear interest at the option of the Subsidiary 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 term loan is repayable in $1,000,000 quarterly installments from September 30, 2011 through June 30, 2015. Borrowings under the revolving line, which are determined based on eligible accounts receivable, mature on June 30, 2015. The Company has not used the revolving line of credit to date.

The Company leases certain equipment under capital lease obligations. The following is a schedule of the future annual minimum payments for these leases as of September 30, 2011:

NOTE 5 *(Continued)*

Years ending December 31,		Amount
2011 (remainder)	$	87,884
2012		504,210
2013		488,815
2014		458,026
Thereafter		590,471
Total		2,129,406
Interest included in above		(266,254)
Present value of minimum lease payments	$	1,863,152
Current portion of long-term capital lease obligations *	$	400,000

NOTE 6 – RELATED PARTY TRANSACTIONS

On February 2, 2011, BNS Holding Inc. acquired all of the outstanding shares of the Company. In conjunction with the financing of the BNS Holding, Inc. transaction, the Company guaranteed approximately $14,000,000 of BNS Holding Inc.'s outstanding debt. This debt was paid off in September 2011.

The Company used the services of SP Corporate Services LLC ("SPCS"), an affiliate of SPH Group LLC, the parent company of BNS Holding, Inc., in connection with the negotiation of the credit agreement disclosed in Note 5. The Company paid SPCS $500,000 for such services in August 2011.

Beginning in April 2011, the Company began using the resources of BNS Holding, Inc. for management and related services and pays a monthly fee of $30,000 for such services. For the nine months ended September 30, 2011, the Company has paid $180,000 for these services.

During the nine months ended September 30, 2010, the Company leased its shop facility from Confluence Land Company, which was owned by a shareholder of the Company at the time. The lease required monthly rental payments of $2,500 through January 31, 2012. Total rent expense was $22,500 for the nine months ended September 30, 2010. The Company received management and various other services from UIB Capital, Inc. (a previous affiliate) and a prior shareholder of the Company. Fees for those services totaled $455,819 for the nine months ended September 30, 2010. These services were terminated in February 2011 in connection with the sale of the Company to BNS Holding, Inc.

The Company had a note receivable due from a prior shareholder in the amount of $225,000 as of September 30, 2010. The note was non-interest bearing and was due on demand. Payment of this note was received during the nine months ended September 30, 2011.

NOTE 7 – STATEMENT OF CASH FLOWS INFORMATION

For the nine months ended September 30, 2011 and 2010, the Company paid cash for interest expense totaling $1,017,181 and $377,302, respectively. During the nine months ended September 30, 2011 and 2010, the Company paid cash for income taxes of $632,954 and $1,386,000, respectively.

NOTE 7 *(Continued)*

During the nine months ended September 30, 2011 and 2010, the Company purchased property and equipment through capital lease obligations aggregating $1,965,072 and $435,241, respectively.

NOTE 8 – CONTINGENCIES

BNS Holding Inc. has submitted claims for damages of approximately $1,780,000 to the previous shareholders of the Company. These claims relate to representations made by the previous shareholders of the Company in the purchase agreement. The ultimate resolution of the claims and their impact to the Company's financial statements, if any, cannot be reasonably determined. As such, the financial statements do not reflect any adjustments for this contingency.

SWH, INC. AND SUBSIDIARY

FINANCIAL STATEMENTS

AS OF

DECEMBER 31, 2010

AND

INDEPENDENT AUDITOR'S REPORT

SWH, INC. AND SUBSIDIARY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
of SWH, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of SWH, Inc. and Subsidiary (a North Dakota Corporation) as of December 31, 2010, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended. The consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audit provides 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 SWH, Inc. and Subsidiary 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/ BRADY, MARTZ & ASSOCIATES, P.C.

November 4, 2011

SWH, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2010

ASSETS		
Current assets		
Cash and cash equivalents	$	2,115,019
Accounts receivable		4,623,077
Due from related party		225,000
Inventories		31,717
Prepaid expenses		60,737
Total current assets		7,055,550
Property and equipment, net		17,544,850
Goodwill		18,566,498
Other long-term assets, net		495,480
TOTAL ASSETS	$	43,662,378
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$	1,034,918
Income taxes payable		220,000
Capital lease obligations, current portion		2,159,081
Deferred tax liability, current portion		28,000
Total current liabilities		3,441,999
Deferred gain		386,623
Capital lease obligations, net of current portion		9,536,411
Deferred tax liability, net of current portion		4,991,000
Total liabilities		18,356,033
Shareholders' equity		
Common stock, $0.001 par value, 4,000 shares authorized, 1,000 shares issued and outstanding		–
Additional paid-in capital		20,418,241
Retained earnings		4,888,104
Total shareholders' equity		25,306,345
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	43,662,378

See Notes to Consolidated Financial Statements.

SWH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2010

Well servicing income	$	26,014,941
Cost of well servicing		14,325,955
Gross profit		11,688,986
Operating expenses		4,003,404
Income from operations		7,685,582
Other income (expense):		
Other income		71,205
Interest expense		(1,307,575)
Total other income (expense)		(1,236,370)
Income before provision for income taxes		6,449,212
Provision for income taxes		2,484,722
Net income	$	3,964,490

See Notes to Consolidated Financial Statements.

SWH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

	Common stock	Additional paid-in capital	Retained earnings	Total
Balance, December 31, 2009	–	20,418,241	923,614	21,341,855
Net income	–	–	3,964,490	3,964,490
Balance, December 31, 2010	$ –	$ 20,418,241	$ 4,888,104	$ 25,306,345

See Notes to Consolidated Financial Statements.

SWH, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$	3,964,490
Adjustments to reconcile net income to cash		
provided by operating activities:		
Depreciation		1,776,995
Amortization		198,192
Amortization of deferred gain		(30,323)
Gain on sale of assets		(9,972)
Deferred income taxes		569,000
Changes in assets and liabilities:		
Accounts receivable		(2,021,401)
Inventories		17,470
Prepaid expenses		(12,142)
Accounts payable		572,757
Income taxes payable		220,000
Other liabilities		(115,000)
Net cash provided by operating activities		5,130,066
CASH FLOWS FROM INVESTING ACTIVITIES		
Advance to related party		(225,000)
Proceeds from sale of equipment		40,311
Purchase of property and equipment		(2,757,701)
Net cash used for investing activities		(2,942,390)
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term financing repayments		(1,850,379)
Net cash used for financing activities		(1,850,379)
Net increase in cash and cash equivalents		337,297
Beginning cash and cash equivalents		1,777,722
ENDING CASH AND CASH EQUIVALENTS	$	2,115,019

See Notes to Consolidated Financial Statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – SWH, Inc. (the Company), through its wholly-owned operating subsidiary, Sun Well Service, Inc. (the Subsidiary), provides a variety of services to the oil and gas industry. These services include: well servicing and workover, completion services, plug and abandonment services, hydrostatic tubing testing, as well as rentals of various types of well servicing equipment. The Company's operations are primarily concentrated in the Williston basin in North Dakota and eastern Montana.

Ownership – The Company was formed and acquired the Subsidiary in October 2008.

Basis of Presentation – The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant inter-company accounts and transactions have been eliminated in consolidation.

Revenue recognition – The Company's well servicing and workover services are generally short term in nature and revenue is recognized upon completion of each service.

Cash equivalents - Cash equivalents include time deposits, money market mutual funds, and all highly liquid debt instruments with original maturities of three months or less.

Trade receivables - Trade receivables are carried at original invoice. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Interest is not charged on past due receivables. As of December 31, 2010, management believes its receivables are substantially all collectable and therefore has not provided for an allowance for uncollectability.

Inventories – Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Prepaid expenses - Prepaid expenses include items such as insurance and other miscellaneous items. The prepaid expenses are recognized as an operating expense in the period they benefit.

Property and Equipment - Property and equipment is stated at cost less accumulated depreciation using straight-line methods. The estimated lives used to compute depreciation are as follows:

Equipment	2 - 15 years
Vehicles	4 years
Office equipment	5 years

NOTE 1 *(Continued)*

Intangible assets - Intangible assets consist of loan fees and goodwill. Loan fees are amortized on a straight-line basis over the life of the loan. Goodwill represents the excess of cost over fair value of net assets acquired through acquisition. In accordance with professional standards, the Company does not amortize goodwill, but evaluates the goodwill on an annual basis for potential impairment. Professional standards require the Company to test goodwill for impairment.

Advertising - Advertising costs are expensed as incurred.

Accrued compensated absences - Compensated absences are accrued and charged to expense in the period in which it is earned.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sales Taxes - The Company presents its revenues net of any sales taxes collected from its customers that are required to be remitted to local or state governmental taxing authorities.

Variable Interest Entities – The Company consolidates all variable interest entities in which it holds a variable interest and is deemed to be the primary beneficiary of the variable interest entity. Generally, a variable interest entity, or VIE, is an entity with at least one of the following conditions: (a) the total equity investment at risk is insufficient to allow the entity to finance it activities without additional subordinated financial support or (b) the holders of the equity investment at risk, as a group, lack any one of the following three characteristics: (i) the power to direct the entity's activities that most significantly impact its economic performance, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity. The primary beneficiary of a VIE is an entity that has a variable interest or a combination of variable interests that provide the entity with a controlling financial interest in the VIE. An entity is deemed to have a controlling financial interest in a VIE if it has both of the following characteristics: (a) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (b) the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. As of December 31, 2010, the Company has determined that it does not have interests in VIE's that require consolidation.

Share-Based Compensation – The Company accounts for share-based compensation in accordance with professional standards. The Company records share-based compensation as a component of general and administrative expense.

NOTE 1 *(Continued)*

Income Taxes - The Subsidiary is included in the Company's consolidated income tax returns.

Certain items of income and expense are recognized in different periods for financial reporting purposes than for purposes of computing income taxes currently payable. The income tax effects of transactions are recognized for financial reporting purposes in the year in which they enter into the determination of reported income, regardless of when they are recognized for income tax purposes. Accordingly, applicable deferred income taxes relate to these timing differences. The timing differences relate primarily to differences in the depreciable/amortizable costs associated with its property and equipment, accrued assets and accrued liabilities, and a net operating loss carryforward. Deferred taxes are computed using the asset and liability approach as prescribed in the professional standards.

For all open tax years and all major taxing jurisdictions, management of the Company has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. Open tax years are those that are open for examination by taxing authorities (i.e., generally the last four tax year ends and the interim tax period since then). Furthermore, management of the Company is also not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly change in the next twelve months.

NOTE 2 - OFF-BALANCE-SHEET RISK

The Company has cash deposits at financial institutions which periodically exceed the FDIC insurance coverage limits. The Company has not experienced any losses in these accounts and believes that its cash is not exposed to any significant credit risk.

NOTE 3 – PROPERTY AND EQUIPMENT

Details pertaining to property and equipment as of December 31, 2010 are as follows:

	Cost	Accumulated Depreciation	Net
Equipment	$ 22,391,171	$ 5,987,700	$ 16,403,471
Vehicles	745,502	382,406	363,096
Office equipment	151,382	108,072	43,310
Assets in progress	734,973	–	734,973
	$ 24,023,028	$ 6,478,178	$ 17,544,850

Depreciation expense for the year ended December 31, 2010 was $1,776,995.

NOTE 4 – OTHER LONG-TERM ASSETS

In accordance with FASB Accounting Standards Codification Topic 350-20, the Company is required to classify its intangible assets subject to amortization and assets not subject to amortization. The following is a summary of the Company's intangible assets.

	Cost	Accumulated Amortization	Net
Subject to amortization:			
Capitalized loan fees	$ 919,794	$ 424,314	$ 495,480
Not subject to amortization:			
Goodwill	18,566,498	–	18,566,498
	$ 19,486,292	$ 424,314	$ 19,061,978

Amortization expense on all amortizable intangible assets totaled $198,192 for the year ended December 31, 2010.

Estimated aggregate future amortization expenses are as follows:

Years ending December 31,	Amount
2011	$ 198,192
2012	198,192
2013	99,096
	$ 495,480

Professional standards require the Company to test goodwill for impairment. There were no changes in the carrying amount of goodwill due to impairment for the year ended December 31, 2010.

NOTE 5 – CAPITAL LEASES AND LONG TERM DEBT

To facilitate the funding of the Company's acquisition of the Subsidiary's stock in October of 2008, the Subsidiary sold substantially all its capital assets for $13,500,000. The Subsidiary subsequently entered into an agreement with an independent financing institution, NewStar Financial, Inc. (NewStar), to lease the same assets. The lease is classified as a capital lease and as such, the gain generated from the sale (approximately $454,000) was deferred and is recognized into income over the estimated lives of the leased assets. The total gain recognized during the year ended December 31, 2010 was $30,323.

The lease payments provide for a quarterly base rental payment with additional quarterly payments due based on a variable applicable interest rate as defined under the lease agreement. As of December 31, 2010, the applicable interest rate was 9.5%. The lease is secured by all of the leased assets. The total balance outstanding on the lease as of December 31, 2010 was $10,087,484.

NOTE 5 *(Continued)*

The lease agreement also provided funding authorization of $2,500,000 from NewStar to finance subsequent capital expenditures. As of December 31, 2010 the outstanding balance was $1,185,712.

The capital lease obligation and capital expenditures financing described above were repaid subsequent to December 31, 2010. See Note 17 for subsequent event disclosure.

During 2010, the Company entered into a commitment to acquire a new rig. The commitment for the core rig was approximately $800,000. Total in-service cost of the rig is estimated to be approximately $1,000,000. Financing for the rig was obtained through a capital lease arrangement. As of December 31, 2010, the Company had incurred costs of $308,813, which was capitalized as assets in progress and included in the December 31, 2010 capital lease obligations. The rig is scheduled to be completed in early 2011, at which time the financing terms will be finalized. See Note 17 for subsequent event disclosure.

In 2010, the Company acquired a loader through a capital lease agreement. The lease requires monthly principal and interest payments of $3,849 through August 2013. The interest rate is 6.042%. The total amount outstanding related to this capital lease was $113,483 as of December 31, 2010.

The following is a schedule of the future annual minimum payments of the leases described above as of December 31, 2010.

Years ending December 31,		Amount
2011	$	3,163,860
2012		3,530,087
2013		6,882,680
Total		13,576,627
Interest included in above		(2,189,948)
Present value of minimum lease payments		11,386,679
Amounts advanced under new rig capital lease		308,813
Total outstanding capital lease obligations *	$	11,695,492
Current portion of long-term capital lease obligations *	$	2,159,081

*See Note 17 for subsequent event disclosures

NOTE 6 – WORKING CAPITAL AGREEMENT

As of December 31, 2010, the Company had $2,000,000 of credit available under a working capital facility agreement with a financial institution. The agreement matures on October 15, 2013. Substantially all the Company's assets were pledged as collateral under the agreement. There was no outstanding balance as of December 31, 2010. This agreement was terminated subsequent to year-end. See Note 17 for subsequent event disclosures.

NOTE 7 - MAJOR CUSTOMERS

The Company derived 10 percent or more of its revenue during the year ended December 31, 2010 from the following customers:

Customer A	$	5,201,159
Customer B		6,452,417
Customer C		2,702,432

The Company had the following receivable amounts from these customers as of December 31, 2010:

Customer A	$	1,076,660
Customer B		1,722,890
Customer C		593,283

NOTE 8 - ADVERTISING COSTS

Advertising costs, which were expensed as incurred, totaled $45,728 for the year ended December 31, 2010.

NOTE 9 – RELATED PARTY TRANSACTIONS

The Company leases its shop facility from Confluence Land Company, which is owned by a shareholder of the Company. The lease requires monthly rental payments of $2,500 through January 31, 2012. Total rent expense was $30,000 for the year ended December 31, 2010. See footnote 10 for the required future minimum lease payments. See Note 17 for subsequent events related to this lease.

The Company received management and various other services from UIB Capital, Inc. (an affiliate) and a shareholder of the Company. Fees for these services totaled $607,759 for the year ended December 31, 2010.

The Company has a note receivable due from a shareholder in the amount of $225,000 as of December 31, 2010. The note is non-interest bearing and is due on demand.

NOTE 10 – OPERATING LEASES

The Company leases real estate from a related entity as described in Note 9. Total rent expense on this related party lease was $30,000 for the year ended December 31, 2010.

In September 2009, the Company entered into a facility operating lease. The lease required monthly payments of $650 through September 2010, and was extended at the same rate through September 15, 2011. The rent expense under these lease totaled $7,800 for the year ended December 31, 2010.

In November 2009, the Company entered into another facility operating lease. The lease required a monthly payment of $3,500 through November 14, 2010, and was extended at the same rate through November 14, 2011. The rent expense under this lease totaled $42,000 for the year ended December 31, 2010.

Expected future minimum lease payments for the above leases are as follows:

Years ending December 31,	Amount
2011	$ 70,200
2012	2,500
	$ 72,700

The Company has a lease for office space on a month-to-month basis. The total rent expense for this lease was approximately $16,450 in the year ended December 31, 2010.

NOTE 11 - PENSION PLAN

The Company's employees are eligible to participate in a defined contribution 401(k) plan after meeting specific age and period of service requirements. The Company's match is limited to a maximum of 3% of each participating employee's wages. Pension expense for the year ended December 31, 2010 was $87,358.

NOTE 12 - INCOME TAXES

The income tax provision reported in the statement of operations for the year ended December 31, 2010 includes the following components:

Current income tax expense	$ 1,915,722
Deferred income tax expense	569,000
	$ 2,484,722

The source of the timing differences resulting in deferred income tax are primarily associated with different tax and financial accounting policies associated with the Company's property and equipment, accrued assets and accrued liabilities, and net operating loss carryforwards. Deferred income tax balances as of December 31, 2010 are categorized as follows:

NOTE 12 *(Continued)*

Deferred tax assets	$	–
Deferred tax liabilities		(5,019,000)
	$	(5,019,000)

Net deferred income taxes are classified as follows:

Current asset	$	–
Current liability		(28,000)
Long-term liability		(4,991,000)
	$	(5,019,000)

The Company had a net operating loss carryforward of approximately $594,000 as of December 31, 2009. This loss was used to offset a portion of the Company's taxable income for the year ended December 31, 2010.

NOTE 13 – DEFERRED COMPENSATION PLAN

In 2010, the Company established a deferred compensation plan to provide certain key employees with cash retention awards. The Company has accrued $315,000 as of December 31, 2010 for vested benefits due to employees under this plan.

NOTE 14 – PHANTOM SHARE PLAN

Prior to 2010, the Company had implemented a phantom share plan, in which a certain employee was granted phantom shares. The phantom shares vested at specified levels over a ten-year period and conveyed the right to the grantee to receive a cash payment based on a liquidity event as defined under the plan. The value of the cash payment ranged from the terminal value, as defined in the plan, up to 3% of the equity value of the Company. The phantom shares were a "liability" type award under professional standards. As of December 31, 2009, the employee was no longer employed by the Company and as of that date, the Company had accrued $115,000 for its estimated obligation under the plan.

During 2010, the Company paid the employee a total of $150,000, which constituted the entire balance due to the employee under the plan. As of December 31, 2010, the Company had terminated this phantom share plan.

NOTE 15 – COMMITMENTS

See Note 5 for a description of the commitment related to the entity's purchase of a rig as of December 31, 2010. Under this same financing agreement, the Company has the option to finance the purchase of up two additional rigs under the same terms. As of December 31, 2010, the Company had not entered into purchase agreements for the two additional rigs.

NOTE 16 – STATEMENT OF CASH FLOWS INFORMATION

For the year ended December 31, 2010, the Company paid cash for interest expense totaling $1,298,825. The Company paid cash for income taxes of $1,671,000 in the year ended December 31, 2010.

During the year ended December 31, 2010, the Company purchased $435,241 of property and equipment through capital lease obligations.

NOTE 17 – SUBSEQUENT EVENTS

On February 2, 2011, BNS Holding Inc. acquired all of the outstanding shares of the Company. Under the terms of the purchase agreement, approximately $13,768,000 of the sale proceeds were reserved to satisfy certain obligations of the Company, as described below:

Approximately $11,421,000 was reserved to retire the existing debt obligations and accrued interest on the NewStar financing described in Note 5. The funds were remitted to NewStar on February 3, 2011.

Approximately $2,347,000 was reserved to fund certain employee retention payments that were created as a result of the sale. As defined in the purchase agreement, one third of the retention payments were paid to eligible employees in February 2011 and the remaining balance was paid in June 2011 to employees still with the Company.

In conjunction with the financing of the BNS Holding, Inc. transaction, the Company guaranteed approximately $14,000,000 of BNS Holding Inc.'s outstanding debt. This debt was paid off in September 2011.

As described in Note 5, the Company acquired a rig through a capital lease agreement. This rig and lease were finalized in March 2011 for $996,185. The lease requires monthly principal and interest payments of $19,466 through March 2016, with an interest rate is 6.446%. The Company completed a second rig through a capital lease agreement in May 2011 for $968,887. The lease requires monthly principal and interest payments of $18,702 through May 2016, with an interest rate of 5.936%.

As described in Note 9, the Company has a shop facility lease with Confluence Land Company through January 31, 2012. The Company has subsequently obtained an option to extend the lease for one year beyond January 21, 2012. If the Company exercises this option, the monthly rent will be $10,000 beginning in February 2012.

Subsequent to December 31, 2010, the Company also committed to pay a total of $690,000 to certain key employees under the Company's deferred compensation plan. These payments were made in February 2011. Of this balance, $315,000 related to the 2010 award year and was accrued for as of December 31, 2010. The remaining $375,000 relates to the 2011 award year and as such was not accrued as of December 31, 2010.

NOTE 17 *(Continued)*

In April 2011, the Company implemented a new phantom stock plan in which certain employees were granted phantom shares. The phantom shares vest at equal levels over a three-year period and convey the right to the grantees to receive cash payments based on EBITDA (earnings before interest, income taxes, depreciation, and amortization expenses) as defined under the plan. The phantom shares are a "liability" type award under professional standards.

In May 2011, the Company signed a contract to commence construction of a new headquarters building in June 2011. The contract is for $4,528,581 and estimates a completion date in February 2012. The Company shall make progress payments as requested by the contractor based on percentage of completion calculations.

In June 2011, the Subsidiary signed a credit agreement with Wells Fargo Bank, National Association that included a $20,000,000 term loan and a revolving line of credit for up to $5,000,000. The loans are secured by the assets of Subsidiary and bear interest at the option of the Subsidiary 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 term loan is repayable in $1,000,000 quarterly installments from September 30, 2011 through June 30, 2015. Borrowings under the revolving line, which are determined based on eligible accounts receivable, mature on June 30, 2015. The Company has not used the revolving line of credit to date. In July 2011, the Company borrowed the full term loan and paid BNS Holding, Inc. a dividend of $20,000,000.

No other significant events occurred subsequent to the Company's year end. Subsequent events have been evaluated through November 4, 2011, which is the date these financial statements were available to be issued.

NOTE 18 – CONTINGENCIES

BNS Holding Inc. has submitted claims for damages of approximately $1,780,000 to the previous shareholders of the Company. These claims relate to representations made by the previous shareholders of the Company in the purchase agreement described in Note 17. The ultimate resolution of the claims and their impact to the Company's financial statements, if any, cannot be reasonably determined. As such, the financial statements do not reflect any adjustments for this contingency.