SL INDUSTRIES INC
Form 10-Q
May 12, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

OR

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

Commission file number 1-4987

SL INDUSTRIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

New Jersey	**21-0682685**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
520 Fellowship Road, Suite A114, Mt. Laurel, NJ	**08054**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **856-727-1500**

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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 the definitions 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 þ (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of common stock outstanding as of May 5, 2008 was 5,861,909.

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Item 1. Financial Statements

SL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$	$ 733,000
Receivables, net	30,261,000	30,068,000
Inventories, net	22,980,000	22,242,000
Prepaid expenses	1,379,000	959,000
Deferred income taxes, net	2,101,000	4,302,000
Total current assets	56,721,000	58,304,000
Property, plant and equipment, net	10,823,000	11,047,000
Deferred income taxes, net	6,982,000	5,148,000
Goodwill	21,990,000	22,006,000
Other intangible assets, net	6,519,000	6,741,000
Other assets and deferred charges	1,492,000	1,427,000
Total assets	$104,527,000	$104,673,000
LIABILITIES		
Current liabilities:		
Accounts payable	$ 11,946,000	$ 12,612,000
Accrued income taxes	521,000	495,000
Accrued liabilities:		
Payroll and related costs	5,334,000	7,948,000
Other	5,651,000	6,643,000
Total current liabilities	23,452,000	27,698,000
Debt	8,837,000	6,000,000
Deferred compensation and supplemental retirement benefits	2,788,000	2,812,000
Other liabilities	6,605,000	6,534,000
Total liabilities	41,682,000	43,044,000
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Preferred stock, no par value; authorized, 6,000,000 shares; none issued	$	$
	1,660,000	1,660,000

Common stock, $0.20 par value; authorized, 25,000,000 shares; issued, 8,298,000 shares		
Capital in excess of par value	43,157,000	42,999,000
Retained earnings	37,935,000	36,801,000
Accumulated other comprehensive (loss)	(134,000)	(70,000)
Treasury stock at cost, 2,441,000 and 2,449,000 shares, respectively	(19,773,000)	(19,761,000)
Total shareholders equity	62,845,000	61,629,000
Total liabilities and shareholders equity	$104,527,000	$104,673,000

See accompanying notes to consolidated financial statements.

SL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net sales	$45,361,000	$48,327,000
Cost and expenses:		
Cost of products sold	30,572,000	32,371,000
Engineering and product development	3,462,000	3,195,000
Selling, general and administrative	8,248,000	8,544,000
Depreciation and amortization	916,000	906,000
Total cost and expenses	43,198,000	45,016,000
Income from operations	2,163,000	3,311,000
Other income (expense):		
Amortization of deferred financing costs	(22,000)	(22,000)
Interest income	10,000	17,000
Interest expense	(123,000)	(323,000)
Income from continuing operations before income taxes	2,028,000	2,983,000
Income tax provision	682,000	945,000
Income from continuing operations	1,346,000	2,038,000
(Loss) from discontinued operations (net of tax)	(212,000)	(371,000)
Net income	$ 1,134,000	$ 1,667,000
Basic net income (loss) per common share		
Income from continuing operations	$ 0.23	$ 0.36
(Loss) from discontinued operations (net of tax)	(0.04)	(0.07)
Net income	$ 0.19	$ 0.30*
Diluted net income (loss) per common share		
Income from continuing operations	$ 0.23	$ 0.35
(Loss) from discontinued operations (net of tax)	(0.04)	(0.06)
Net income	$ 0.19	$ 0.29
Shares used in computing basic net income (loss) per common share	5,853,000	5,641,000
Shares used in computing diluted net income (loss) per common share	5,972,000	5,768,000

SL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net income	$1,134,000	$1,667,000
Other comprehensive income (net of tax):		
Foreign currency translation	(42,000)	(17,000)
Comprehensive income	$1,092,000	$1,650,000

* Earnings per share does not total due to rounding.

See accompanying notes to consolidated financial statements.

SL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,
(Unaudited)

	2008	2007
OPERATING ACTIVITIES		
Net income	$ 1,134,000	$ 1,667,000
Adjustment for losses from discontinued operations	212,000	371,000
Income from continuing operations	1,346,000	2,038,000
Adjustments to reconcile income from continuing operations to net cash (used in) provided by operating activities:		
Depreciation	541,000	574,000
Amortization	375,000	332,000
Amortization of deferred financing costs	22,000	22,000
Non-cash compensation (benefit)	(8,000)	(180,000)
(Recovery of) provisions for losses on accounts receivable	88,000	(22,000)
Deferred compensation and supplemental retirement benefits	105,000	105,000
Deferred compensation and supplemental retirement benefit payments	(127,000)	(127,000)
Deferred income taxes	378,000	87,000
Changes in operating assets and liabilities, excluding effects of business acquisition:		
Accounts receivable	(280,000)	1,117,000
Inventories	(738,000)	(524,000)
Prepaid expenses	(421,000)	(51,000)
Other assets		18,000
Accounts payable	(666,000)	907,000
Accrued liabilities	(2,852,000)	(920,000)
Accrued income taxes	104,000	270,000
Net cash (used in) provided by operating activities from continuing operations	(2,133,000)	3,646,000
Net cash (used in) operating activities from discontinued operations	(901,000)	(333,000)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(3,034,000)	3,313,000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(447,000)	(309,000)
Purchases of other assets	(172,000)	
NET CASH (USED IN) INVESTING ACTIVITIES	(619,000)	(309,000)
FINANCING ACTIVITIES		
Proceeds from Revolving Credit Facility	5,047,000	4,290,000
Payments of Revolving Credit Facility	(2,210,000)	(7,970,000)

Proceeds from stock options exercised	19,000	44,000
Tax benefit from exercise of stock options	4,000	14,000
Treasury stock sales (purchases)	124,000	(114,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,984,000	(3,736,000)
Effect of exchange rate changes on cash	(64,000)	(25,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(733,000)	(757,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	733,000	757,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 113,000	$ 340,000
Income taxes	$ 239,000	$ 443,000

See accompanying notes to consolidated financial statements.

SL INDUSTRIES, INC.
Notes to Consolidated Financial Statements (Unaudited)
1. Basis Of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These financial statements should be read in conjunction with the Company s audited financial statements and notes thereon included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

2. Receivables

Receivables consist of the following:

	March 31, 2008	December 31, 2007
	(in thousands)	
Trade receivables	$30,078	$29,790
Less: allowance for doubtful accounts	(953)	(865)
	29,125	28,925
Recoverable income taxes	97	58
Other	1,039	1,085
	$30,261	$30,068

3. Inventories

Inventories consist of the following:

	March 31, 2008	December 31, 2007
	(in thousands)	
Raw materials	$16,705	$15,805
Work in process	5,553	4,849
Finished goods	4,029	4,615
	26,287	25,269
Less allowances	(3,307)	(3,027)
	$22,980	$22,242

4. Income Per Share

The Company has presented net income per common share pursuant to the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard No. 128, Earnings per Share. Basic net income per common share is computed by dividing reported net income

available to common shareholders by the weighted average number of shares outstanding for the period.
Diluted net income per common share is computed by dividing reported net income 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 per share:

	Three Months Ended March 31,					
	2008			2007		
	(in thousands, except per share amounts)					
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic net income per common share	$1,134	5,853	$0.19	$1,667	5,641	$ 0.30
Effect of dilutive securities		119			127	(0.01)
Diluted net income per common share	$1,134	5,972	$0.19	$1,667	5,768	$ 0.29

For the three-month periods ended March 31, 2008 and March 31, 2007, zero and 2,658 stock options, respectively, were excluded from the dilutive computations because the option exercise prices were greater than the average market price of the Company s common stock.

Stock-Based Compensation

The Company maintains two shareholder approved stock option plans: the Non-Employee Director Nonqualified Stock Option Plan (the Director Plan) and the Long-Term Incentive Plan (the 1991 Incentive Plan). Both plans have expired; however, 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, when elected. The Director Plan enabled the Company to grant options, with an exercise price per share not less than fair market value of the Company s common stock on the date of grant, which are exercisable at any time. Each option granted under the Director Plan expires no later than 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, which are exercisable at any time. Each option granted under the 1991 Incentive Plan expires no later than ten years from date of grant. The Plan expired on September 25, 2001 and no future options can be granted under the Plan.

For the three months ended March 31, 2008 and March 31, 2007, the Company did not recognize any stock-based employee compensation expense under the provisions of the SFAS No. 123(R). The Company has recognized a benefit of approximately $8,000 and $180,000 in the three-month periods ended March 31, 2008 and March 31, 2007, respectively, related to certain stock-based compensation arrangements.
The following table summarizes stock option activity for all plans:

	Outstanding Options	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
	(in thousands)			(in thousands)
Outstanding as of December 31, 2007	266	$ 8.98	3.52	
Granted				
Exercised	(2)	$ 12.26		
Forfeited				
Exercisable				
Expired				
Outstanding and Exercisable as of March 31, 2008	264	$ 8.96	3.29	$ 2,852

During the three month periods ended March 31, 2008 and March 31, 2007, the total intrinsic value of options exercised was $11,000 and $37,000, respectively, and the actual tax benefit realized for the tax deduction from these option exercises was $4,000 and $14,000, respectively. During the three months ended March 31, 2008, options to purchase approximately 2,000 shares of common stock with an aggregate exercise price of $19,000 were exercised by option holders. During the three months ended March 31, 2007, options to purchase approximately 5,000 shares of common stock with an aggregate exercise price of $44,000 were exercised by option holders.
There were no options granted during the three month periods ended March 31, 2008 and March 31, 2007.

5. Income Tax

On January 1, 2007, the Company adopted the provisions of FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48). The amount of gross unrecognized tax benefits, excluding interest and penalties, as of March 31, 2008 and December 31, 2007 was $2,838,000 and $2,785,000, respectively. If recognized, all of the net unrecognized tax benefits would impact the Company s effective tax rate.
The Company is subject to federal and state income taxes in the United States, as well as income taxes in certain foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is not subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2004.
The Company has been examined by the Internal Revenue Service (the IRS) for periods up to and including the calendar year 2004. In addition, a foreign tax authority is examining the Company s transfer pricing policies. It is possible that this examination may be resolved within twelve months. However, it is not possible to estimate the range of any changes to the gross

unrecognized tax benefits. In addition, 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 in various states by a range of zero to $61,000. The Company has recorded a liability for unrecognized benefits of $1,275,000, $645,000 and $918,000 for federal, foreign and state taxes primarily related to expenses in those jurisdictions. It is reasonably possible that the resolution of these issues could result in payments of tax ranging from zero to $49,000. The Company classifies interest and penalties related to unrecognized tax benefits as income tax expense. The Company has accrued approximately $211,000 for the payment of interest and penalties at March 31, 2008.

The following is a reconciliation of income tax expense (benefit) at the applicable federal statutory rate and the effective rates from continuing operations:

	Three Months Ended March 31,	
	2008	2007
Statutory rate	34%	34%
Tax rate differential on domestic manufacturing deduction	(1)	(1)
International rate differences		(1)
State income taxes, net of federal income tax benefit	4	4
Research and development credits	(5)	(4)
Foreign tax credit adjustment	2	
	34%	32%

During the three months ended March 31, 2008, the Company recorded additional benefits from research and development tax credits of $105,000. As of March 31, 2008, the Company s gross research and development tax credit carryforwards totaled approximately $2,066,000. Of these credits, approximately $1,497,000 can be carried forward for 15 years and will expire between 2013 and 2023, while $569,000 can be carried forward indefinitely.

As of March 31, 2008, the Company s gross foreign tax credits totaled approximately $537,000. These credits can be carried forward for ten years and will expire between 2013 and 2018.

6. New and Proposed Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In June 2007, the FASB Emerging Issues Task Force (EITF) published Issue No. 07-3 Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities. The EITF reached a consensus that these payments made by an entity to third parties should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. Entities should report the effects of applying this Issue as a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. EITF Issue No. 07-3 was effective for the Company beginning on January 1, 2008.

Earlier application was not permitted. The Company adopted the provisions of EITF Issue No. 07-3, which did not have an impact on the Company s financial position or results of operations.

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (Revised 2007) Business Combinations (SFAS 141R). SFAS 141R will significantly change the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including (1) earn-outs and other forms of contingent consideration will be recorded at fair value on the acquisition date, (2) acquisition costs will generally be expensed as incurred, (3) restructuring costs will generally be expensed as incurred, (4) in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date, and (5) changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period will impact income tax expense. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (January 1, 2009 for the Company). Early adoption of SFAS 141R is prohibited. The Company expects that SFAS 141R will have an impact on accounting for future business combinations once adopted, but the effect is dependent upon the acquisitions that are made in the future.

In December 2007, the FASB issued SFAS No. 160 Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No.51 (SFAS 160). SFAS 160 establishes new accounting and reporting standards for non-controlling interest, sometimes called a minority interest, in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and separate from the parent company s equity. Among other requirements, this statement requires that consolidated net income be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest and that they be clearly identified and presented on the face of the consolidated statement of income. This statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 (January 1, 2009 for the Company). Earlier adoption is prohibited. The Company does not expect that adoption of SFAS 160 will have a material impact on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). The Statement provides companies an option to report certain financial assets and liabilities at fair value. The intent of SFAS 159 is to reduce the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 is effective for financial statements issued for fiscal years after November 15, 2007; as a result it is effective for the Company s fiscal year beginning January 1, 2008. The Company decided not to apply the fair value option to any of its outstanding instruments and, therefore, SFAS 159 did not have an impact on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157 Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The statement does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. The statement emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Companies will be required to disclose the extent to which fair value is used to measure assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings (or changes in net assets) for the period. In February 2008, the FASB issued FASB Staff Position FAS 157-2 Effective Date of FASB Statement No.157 (FSP FAS 157-2). FSP FAS 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSB FAS 157-2 defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for items within its scope. As a result, SFAS No. 157 is effective for the Company s fiscal year beginning January 1, 2009. The Company is evaluating the potential effects that SFAS 157 will have on the reporting of its financial position, results of operations or debt covenants.

In March 2008, the FASB issued Statement of Financial Accounting Standard No. 161 Disclosures about Derivatives Instruments and Hedging Activities-an amendment to SFAS No. 133 (SFAS No. 161). This statement changes the disclosure requirements for derivative instruments and hedging instruments. Entities are required to provide enhanced disclosures about (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity s financial performance, and cash flows. Also, among other disclosures, this statement requires cross-referencing within footnotes, which should help users of financial statements locate important information about derivate instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is evaluating the potential effects that SFAS 161 will have on the reporting of its financial position, results of operations or debt covenants but believes that there will be no material impact.

7. Goodwill And Intangible Assets

Goodwill and intangible assets consist of the following:

	March 31, 2008			December 31, 2007		
	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
			(in thousands)			
Goodwill	$21,990	$	$21,990	$22,006	$	$22,006
Other intangible assets:						
Customer relationships	3,700	636	3,064	3,700	553	3,147
Patents	1,244	952	292	1,219	924	295
Trademarks	1,672		1,672	1,672		1,672
Developed technology	1,700	455	1,245	1,700	334	1,366
Licensing fees	355	133	222	355	124	231
Covenant-not-to-compete	100	81	19	100	75	25
Other	51	46	5	51	46	5
Total other intangible assets	8,822	2,303	6,519	8,797	2,056	6,741
	$30,812	$2,303	$28,509	$30,803	$2,056	$28,747

The other intangible assets that have definite lives are all amortizable and have original estimated useful lives as follows: customer relationships are amortized over six years and eight years; patents are amortized over 13 years, seven years or five years; developed technology is amortized over five years and six years; licensing fees over 10 years; covenants-not-to-compete are amortized over one and two-thirds years. Trademarks are not amortized. Amortization expense for intangible assets for each of the three-month periods ended March 31, 2008 and March 31, 2007 was $247,000 and $257,000, respectively. Amortization expense for intangible assets subject to amortization in each of the next five fiscal years is estimated to be: $860,000 in 2008, $854,000 in 2009, $853,000 in 2010, $818,000 in 2011 and $713,000 in 2012. Intangible assets subject to amortization have a weighted average life of approximately eight years.

Changes in goodwill balances by segment are as follows:

	Balance December 31, 2007	Foreign Exchange	Balance March 31, 2008
		(in thousands)	
SLPE (Ault)	$3,513	$(16)	$3,497
High Power Group (MTE)	8,189		8,189
High Power Group (Teal)	5,055		5,055
RFL	5,249		5,249
Total			