SL INDUSTRIES INC
Form 10-K
March 28, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

OR

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

For the transition period from _________ to _________

Commission file number 1-4987

SL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

New Jersey	**21-0682685**
(State of 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

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, $.20 par value	**NYSE MKT**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 x NO ¨

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨	Non-accelerated filer	¨	Smaller reporting company	x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO x

The aggregate market value of the voting stock held by non-affiliates of the Registrant based on the closing price of the Common Stock on the last business day of the Registrant s most recently completed second fiscal quarter, as reported by the NYSE MKT was approximately $28,691,000.

The number of shares of common stock outstanding as of March 1, 2013 was 4,139,000.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this report (Items 10, 11, 12, 13 and 14) is incorporated by reference from the Company s proxy statement to be filed pursuant to Regulation 14A with respect to the registrant s 2013 annual meeting of stockholders.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. BUSINESS

(a) General Development Of Business

SL Industries, Inc., through its subsidiaries, designs, manufactures and markets power electronics, motion control, power protection, power quality, and specialized communication equipment that is used in a variety of medical, commercial and military aerospace, solar, computer, datacom, industrial, telecom, transportation, utility, rail and highway equipment applications. Its products are generally incorporated into larger systems to improve operating performance, safety, reliability and efficiency. The Company s products are largely sold to Original Equipment Manufacturers (OEMs), the utility industry and, to a lesser extent, to commercial distributors. The Company was incorporated as G-L Electronics Company in the state of New Jersey on March 29, 1956. The Company s name was changed to G-L Industries, Inc. in November 1963; SGL Industries, Inc. in November 1970; and then to the present name of SL Industries, Inc. in September 1984. Unless the context requires otherwise, the terms the Company, SL Industries, we, us and our mean SL Industries, Inc., a New Jersey corporation, and its consolidated subsidiaries.

The Company s business strategy has been to enhance the growth and profitability of each of its businesses through the penetration of attractive new market niches, further improvement of operations through the implementation of lean manufacturing principles, expansion of lean principles into the transactional side of the business, and expansion of global capabilities. The Company intends to focus on improving efficiencies that better leverage the Company s resources. Lean initiatives, both on the factory floor and throughout the organization, are ongoing. The Company expects to pursue its goals during the next twelve months principally through organic growth. The Company also continues to pursue strategic alternatives to maximize shareholder value. Some of these alternatives have included, and could continue to include, selective acquisitions, divestitures and the sale of certain assets. The Company has provided, and may from time to time in the future provide, information to interested parties.

On February 27, 2012, the Company purchased certain assets of Pro-Dex Astromec, Inc. (Astromec), a subsidiary of Pro-Dex Inc. (Pro-Dex), for approximately $1,050,000, which includes the assumption of liabilities for an estimated earn-out of $294,000. The acquisition was paid for in cash. The earn-out is comprised of quarterly payments based on the performance of the acquired business over the three year period immediately following the date of acquisition. During 2012, $112,000 was paid related to the earn-out. SL Montevideo Technology, Inc. (SL-MTI) recorded direct acquisition costs of approximately $434,000 during 2012, which are recorded within selling, general and administrative expenses in the Consolidated Statements of Income. The results from the acquisition date through December 31, 2012 are included in the SL-MTI segment.

On May 30, 2012, the Company announced a modified Dutch Auction Tender Offer to purchase up to $10 million of its common shares (the Tender Offer). The Company accepted for purchase approximately 307,000 shares of its common stock at a purchase price of $13.50 per share. These shares represented approximately 6.9% of the total common stock outstanding as of June 27, 2012 prior to the purchase of shares pursuant to the Tender Offer. With the completion of the Tender Offer, the Company had approximately 4,121,000 shares of common stock outstanding at that time. The aggregate purchase price paid by the Company in connection with the Tender Offer was $4,147,000 excluding transaction costs. The Company paid for the Tender Offer with available cash on hand.

On August 9, 2012, the Company entered into a new senior revolving credit facility (the 2012 Credit Facility) with PNC Bank, National Association (PNC Bank) to replace its Amended and Restated Revolving Credit Agreement, as amended (the 2008 Credit Facility). The 2012 Credit Facility provides for borrowings up to $40,000,000 and under certain conditions maximum borrowings up to $70,000,000. The 2012 Credit Facility included a $5,000,000 sublimit for letters of credit (subsequently amended on March 11, 2013 to a maximum of $25,000,000 subject to designated usage) and provides for a separate $10,700,000 letter of credit which expires one year from the date of closing, with annual extensions. The 2012 Credit Facility expires on August 9, 2016.

On November 26, 2012, the board of directors of the Company declared a one-time special cash dividend of $2.00 per common share (the Dividend) for an aggregate dividend of approximately $8,322,000. The Dividend was payable on December 17, 2012 to shareholders of record at the close of business on December 6, 2012. The Dividend was funded primarily from available cash on hand with the remainder from borrowings under the 2012 Credit Facility.

On November 16, 2010, the Board of Directors authorized a plan that allows for the repurchase up to an aggregate of 470,000 shares of the Company s outstanding common stock (the 2010 Repurchase Plan). Any repurchases pursuant to the 2010 Repurchase Plan would be made in the open market or in negotiated transactions. During 2012, the Company purchased approximately 140,000 shares of Company stock at an average price of $17.59 a share through the 2010 Repurchase Plan. As a result, as of December 31, 2012, approximately 330,000 shares remained available for purchase under the 2010 Repurchase Plan. Currently the 2010 Repurchase Plan has no expiration date.

(b) Financial Information About Segments

Financial information about the Company s business segments is incorporated herein by reference to Note 22 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

(c) Narrative Description Of Business

Segments

The Company currently operates under four business segments: SL Power Electronics Corp. (SLPE), the High Power Group, SL Montevideo Technology, Inc. (SL-MTI) and RFL Electronics Inc. (RFL). Teal Electronics Corp. (Teal) and MTE Corporation (MTE) are combined into one business segment, which is reported as the High Power 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 Segment Reporting.

Table of Contents

SLPE SL Power Electronics Corp. designs, manufactures and markets high-reliability power conversion products in internal and external footprints. The Company s power supplies provide a reliable and safe power source for the customer s specific equipment needs. SLPE, which sells products under three brand names (SL Power Electronics, Condor and Ault), is a major supplier to the OEMs of medical, industrial/instrumentation, military and information technology equipment. For the years ended December 31, 2012, December 31, 2011 and December 31, 2010, net sales of SLPE, as a percentage of consolidated net sales from continuing operations, were 39%, 43% and 42%, respectively.

HIGH POWER GROUP The High Power Group sells products under two brand names: Teal and MTE. Teal designs and manufactures custom power conditioning and distribution units for OEMs of medical imaging, medical treatment, military aerospace, semiconductor, solar and advanced simulation systems. MTE designs and manufactures power quality products used to protect equipment from power surges, bring harmonics into compliance and improve the efficiency of variable speed motor drive systems. MTE s standard product lines include: three-phase AC reactors, DC link chokes and a series of harmonic, RFI/EMI and motor protection filters. Teal and MTE also design and build customer specific and custom products for special applications. These products are typically used in industrial plants, renewable energy facilities, and commercial buildings. For the years ended December 31, 2012, December 31, 2011 and December 31, 2010, net sales of the High Power Group, as a percentage of consolidated net sales from continuing operations, were 32%, 30% and 30%, respectively.

SL-MTI SL-MTI designs and manufactures high power density precision motors that are used in numerous applications, including military and commercial aerospace, oil and gas, medical and industrial products. For the years ended December 31, 2012, December 31, 2011 and December 31, 2010, net sales of SL-MTI, as a percentage of consolidated net sales from continuing operations, were 18%, 16% and 16%, respectively.

RFL RFL designs and manufactures communication and power protection products/systems that are used to protect electric utility transmission lines and apparatus by isolating faulty transmission lines from a transmission grid. These products are sophisticated communication systems that allow electric utilities to manage their high-voltage power lines more efficiently. RFL also provides products and systems used by rail and highway industries. RFL provides systems design, commissioning, training, customer service and maintenance for all of its products. For the years ended December 31, 2012, December 31, 2011 and December 31, 2010, net sales of RFL, as a percentage of consolidated net sales from continuing operations, were 11%, 11% and 12%, respectively.

Discontinued Operations

SURFTECH SL Surface Technologies, Inc. (SurfTech) produced industrial coatings and platings for equipment in the corrugated paper and telecommunications industries. On November 24, 2003, the Company sold substantially all of the assets of SurfTech. As a result, SurfTech is reported as a discontinued operation for all periods presented. A significant portion of the Company s environmental costs, which have been incurred and are expected to be incurred, are related to the former SurfTech operations.

Table of Contents

Raw Materials

Raw material components are supplied by various domestic and international vendors. In general, availability of materials is not a problem for the Company; however, at times the Company has had to locate alternate suppliers for certain key components. Raw materials are purchased directly from the manufacturer whenever possible to avoid distributor mark-ups. Average lead times generally run from immediate availability to 26 weeks. Lead times can be substantially higher for strategic components subject to industry shortages. In most cases, viable multiple sources are maintained for flexibility and competitive leverage.

Patents, Trademarks, Licenses, Franchises And Concessions

The Company has proprietary information that it has developed and uses in its business. This proprietary information is protected by contractual agreements as well as through patents and patents pending, to the extent appropriate. The patents are protected by federal law. To protect its proprietary information, the Company also enters into non-disclosure agreements with its employees, vendors and customers. Where appropriate, the Company will take and has taken all steps necessary to defend its intellectual property.

Seasonality

Generally, seasonality is not a significant factor in any of the Company s segments.

Significant Customers

The Company has no customer that accounts for 10% or more of its consolidated net sales from continuing operations. SLPE, the High Power Group, SL-MTI and RFL each have certain major customers, the loss of any of which could have a material adverse effect on such segment.

Backlog

At March 1, 2013, March 2, 2012 and March 6, 2011, backlog was $65,200,000, $65,415,000, and $76,181,000, respectively. The backlog at March 1, 2013 was relatively flat compared to March 2, 2012.

Competitive Conditions

The Company s businesses are in active competition with domestic and foreign companies with national and international name recognition that offer similar products or services and with companies producing alternative products appropriate for the same uses. Each of the Company s businesses seeks to gain an advantage from its competition by concentrating on differentiating or customizing products based on customer needs. The Company s businesses also seek a competitive advantage based on quality, service, innovation, delivery and price.

Table of Contents

Environmental

The Company (together with the industries in which it operates or has operated) is subject to the environmental laws and regulations of the United States, People s Republic of China (China), Republic of Mexico (Mexico) and United Kingdom concerning emissions to the air, discharges to surface and subsurface waters and generation, handling, storage, transportation, treatment and disposal of waste materials. The Company and the subject industries are also subject to other federal, state and local environmental laws and regulations, including those that require the Company to remediate or mitigate the effects of the disposal or release of certain chemical substances at various sites, mostly at sites where the Company has ceased operations. It is impossible to predict precisely what effect these laws and regulations will have on the Company in the future.

It is the Company s policy to comply with all environmental, health and safety regulations, as well as industry standards for maintenance. The Company s domestic and international competitors are subject to the same environmental, health and safety laws and regulations, and the Company believes in each of its markets that the subject compliance issues and potential related expenditures of its operating subsidiaries are comparable to those faced by its major competitors.

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 United States 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 $24,367,000, of which $19,033,000 is included as other long-term liabilities as of December 31, 2012. 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. 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. The Company s environmental costs primarily 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. The Company s environmental contingencies with respect to the Pennsauken Site are fully discussed in Item 3. Legal Proceedings included in Part I of this Annual Report on Form 10-K.

Table of Contents

With respect to the Camden Site, the Company has reported soil contamination and a groundwater contamination plume emanating from the site. Delineation of the soil and groundwater contamination is substantially complete. In the third quarter of 2009, the Company completed building demolition and excavated and disposed of some of the contaminated soil underlying the building s foundation The New Jersey Department of Environmental Protection (NJDEP) approved, and the Company implemented in 2010 an interim remedial action pilot study to inject neutralizing chemicals into the unsaturated soil. Based on an assessment of post-injection data, our consultants believe the pilot study can be implemented as a full scale soil remedy to treat unsaturated contaminated soil. A Remedial Action Workplan for soils (RAWP) is being developed. The RAWP will select the injection remedy as the site wide remedy for unsaturated soils, along with demolition and proper disposal of the former concrete building slab and targeted excavation and disposal of impacted soil immediately underlying the slab. Additionally, the RAWP will address a small area of impacted soil off the property. The RAWP will be submitted to the NJDEP, by the Licensed Site Remediation Professional (LSRP) for the site. The RAWP is scheduled to be implemented in 2013. Also, the Company s environmental consultants finalized an interim remedial action pilot study to treat on-site contaminated groundwater, consisting of injecting food-grade product, into the groundwater at the down gradient property boundary, to create a bio-barrier. The pilot study includes post-injection monitoring to assess the bio-barrier s ability to treat contaminated groundwater. The groundwater injection pilot study and permit application were submitted to the NJDEP in May 2011, and then re-submitted in June 2012 by the Company s LSRP. The Company received from the NJDEP the permit approval in October 2012. Implementation of the groundwater pilot study is scheduled to occur in 2013 with post injection effectiveness monitoring to occur in 2014. At December 31, 2012, the Company had an accrual of $2,204,000 to remediate the Camden Site. Of this amount, the Company anticipates expenditures of approximately $1,040,000 in 2013.

As previously reported, the Company is currently participating in environmental assessments and cleanups at a number of sites. One of these sites is a commercial facility, located in Wayne, New Jersey. Contaminated soil and groundwater has undergone remediation with NJDEP oversight, but contaminants of concern (COCs) in groundwater and surface water, which extend off-site, still remain above applicable NJDEP remediation standards. Certain COCs have also been detected in the indoor air of two commercial buildings, located on the property. One of the buildings (the Main Building) was outfitted with a sub-slab depressurization system as a mitigation measure. The source investigations under the Main Building were completed in June 2012. Soil and groundwater samples collected from underneath the Main Building identified COCs in excess of the NJDEP s applicable remediation standards. Consequently, a soil contaminant source remains under the Main Building that is feeding the groundwater contamination. The remedial investigation conducted in the second quarter of 2012 identified a new source of COCs, outside of a second building and two sub-grade anomalies. Additional investigations conducted in December 2012 mostly delineated the extent of COC s in soil at the new soil source area and confirmed that the sub-grade anomalies did not contain regulated features requiring additional investigation. A soil remedial action plan will be required in order to remove the new soil source of contamination by the second building that continues to impact groundwater. Our consultants have reviewed data to determine what supplemental remedial action is necessary for soils, and whether to modify or expand the groundwater remedy that will likely consist of additional in-situ injections of food grade product into the groundwater. Estimates have been developed by the Company s consultants, which includes costs to enhance the existing vapor intrusion system, remedial injections, soil excavation and additional tests and remedial activities. Accordingly, the reserve for this site was increased by $485,000 to account for these remedial activities. The accrual for remediation cost at December 31, 2012 for this site is $1,255,000. Costs related to this site are recorded as part of discontinued operations, net of tax.

Table of Contents

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 $111,000, which has been accrued for at December 31, 2012. These costs are recorded as a component of continuing operations.

Employees

As of December 31, 2012, the Company had approximately 1,400 employees. Of these employees, 137, or approximately 10%, were subject to collective bargaining agreements in Mexico.

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, Tecate, Mexico, and Xianghe, China. SLPE manufactures most of its products in Mexico and China. Teal, which is part of the High Power Group, has transferred the majority of its manufacturing to a wholly-owned subsidiary located in Mexico. SL-MTI manufactures a significant portion of its products in Mexico. 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 (USD), Mexican pesos (MXN) and Chinese yuan (CNH). SLPE, the High Power Group and SL-MTI price and invoice their sales primarily in U.S. dollars. The Mexican subsidiaries of SLPE, the High Power Group and SL-MTI 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. RFL sales, costs, and expenses are priced in U.S. dollars.

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 20%, 21% and 22% of net sales from continuing operations for fiscal 2012, 2011 and 2010, respectively. Additionally, the Company is exposed to foreign currency exchange rate fluctuations, which may result from fluctuations in the value of the Mexican peso and Chinese yuan versus the U.S. dollar.

Table of Contents

During 2012, the Company entered into a series of foreign currency forward contracts to hedge its exposure to foreign exchange rate movements in its forecasted expenses in China and Mexico. The foreign currency forwards are not speculative and are being used to manage the Company s exposure to foreign exchange rate movements. Foreign currency forward agreements involve fixing the USD-MXN and USD-CNH exchange rates for delivery of a specified amount of foreign currency on a specified date. The Company has elected not to apply hedge accounting to these derivatives and they are marked to market through earnings. Therefore, gains and losses resulting from changes in the fair value of these contracts are recognized at the end of each reporting period directly in earnings in other gain (loss), net on the Consolidated Statements of Income.

For additional information related to financial information about foreign operations, see Notes 16 and 22 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

Additional Information

Additional information regarding the development of the Company s businesses during 2012 and 2011 is contained in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations included in Part II and Notes 1 and 4 of the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

The Company s Current Reports on Form 8-K, Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K are electronically filed with or furnished to Securities and Exchange Commission (the SEC), and all such reports and amendments to such reports filed have been and will be made available, free of charge, through the Company s website (http://www.slindustries.com) as soon as reasonably practicable after such filing. Such reports will remain available on the Company s website for at least 12 months. The contents of the Company s website are not incorporated by reference into this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

Set forth below are the properties where the Company conducted business as of December 31, 2012.

Location	General Character	Approx. Square Footage	Owned or Leased And Expiration Date	
Ventura, CA	Administration, design and sales of power supply products (SLPE)	31,200	Leased	1/31/2016
Canton, MA	Design of power supply products (SLPE)	4,800	Leased	8/31/2013
Mexicali, Mexico	Manufacture and distribution of power supply products (SLPE)	82,400	Leased	12/15/2020
South Molton, United Kingdom	Sales and distribution of power supply products (SLPE)	2,500	Leased	month to month
Shanghai, China	Design of power supply products (SLPE)	8,800	Leased	7/31/2013
Shanghai, China	Design of power supply products (SLPE)	600	Leased	6/30/2013
Shanghai, China	Employee dormitory (SLPE)	1,400	Leased	7/31/2013
Xianghe, China	Manufacture and distribution of power supply products and employee dormitory (SLPE)	60,600	Leased	6/30/2013
Xianghe, China	Manufacture and distribution of power supply products and employee dormitory (SLPE)	43,300	Owned	
San Diego, CA	Administration, sales, design and manufacture of power distribution and conditioning units (High Power Group)	35,500	Leased	12/31/2017
Tecate, Mexico	Manufacture of power distribution and conditioning units (High Power Group)	20,800	Leased	3/31/2013
Menomonee Falls, WI	Design, sales, manufacture and distribution of power quality products (High Power Group)	38,500	Leased	7/31/2015
Montevideo, MN	Administration, design, sales and manufacture of precision motors and motion control systems (SL-MTI)	30,000	Owned	
Matamoros, Mexico	Manufacture of precision motors (SL-MTI)	28,300	Leased	12/31/2013
Boonton Twp., NJ	Administration, design, sales and manufacture of electric utility equipment protection systems (RFL)	78,000	Owned	
Pennsauken, NJ	Document warehouse (Other) [1]	6,000	Owned	
Mt. Laurel, NJ	Corporate office (Other)	4,200	Leased	11/30/2015

[1] Formerly used for industrial surface finishing operations.

The Company believes that most of its manufacturing facilities are adequate for current production requirements. The Company believes that its remaining facilities are sufficient for current operations, maintained in good operating condition and adequately insured. Of the owned properties, none are subject to a major encumbrance material to the operations of the Company.

10

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

Environmental Matters

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).

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 in three aquifers 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 (ROD) 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 ROD. Following the issuance of its ROD for OU-1, in November 2006, the EPA sent a letter to the Company encouraging the Company to either perform or finance the remedial actions for OU-1 identified in the EPA s ROD. In addition to paying for the OU-1 remediation, the EPA has sought payment of the past costs that the EPA has allegedly incurred.

In June 2011, the EPA announced a proposed plan for cleaning up the soil at OU-2. The remedy proposed by the EPA is Geochemical Fixation. This remedy involves applying a chemical reductant to the contaminated soil to reduce hexavalent chromium by converting it to immobilized trivalent chromium. The EPA s estimated cost for this remedy is $20,700,000 over seven years. The public comment period for the proposed plan expired on July 27, 2011. On September 26, 2011 the EPA issued a ROD selecting the Geochemical Fixation remedy. This remedy involves mixing a reducing agent to treat soils containing concentrations of hexavalent chromium greater than 20 parts per million. The remedy also requires post-remediation sampling, site restoration and implementing a groundwater sampling and analysis program.

The Company has reached an agreement with both the United States Department of Justice (DOJ) and EPA related to its liability for both OU-1 and OU-2 and has entered into a Consent Decree which governs the agreement. The Company has agreed to perform the remediation for OU-2. The Company intends to have its environmental consultants, who are expected to perform the requirements of the OU-2 remediation, and perform an active role in the remediation design. Also, the Company has agreed to pay a fixed sum for the EPA s past cost for OU-2 and a portion of the EPA s past cost for OU-1. The payments are to be made in five equal payments of $2,141,000 for a total $10,705,000, plus interest. The first payment plus interest is to be made thirty days after the effective date of the Consent Decree (day the judge signs and files the decree). The next four payments will be made on the anniversary of the first payment plus ten days in the same amount of $2,141,000 plus interest to avoid two payments in one continuous twelve month period. The Company has also agreed to pay the EPA s costs for oversight of the OU-2 remediation. The Consent Decree is subject to a public comment period and finally must be approved by the Federal District Court which we expect to occur by the second quarter of fiscal 2013 thereby triggering the Company s obligation under the Consent Decree. During the third quarter of 2012, the Company s legal counsel had been notified by the Assistant Attorney General of the State of New Jersey that they may file a claim for certain costs. On December 3, 2012, the Company received a demand letter from the State of New Jersey. The demand is for $1,300,000 for past and future cleanup costs and $500,000 for natural resource damages (NRD) for a total of $1,800,000.

Table of Contents

Although the Company and its counsel believe that it has meritorious defenses to any claim for reimbursement of past cost and NRD damages, the Company has offered to pay $250,000 to fully resolve the claim recently presented by the State of New Jersey for past costs, future costs and NRD at the Puchack Well Field Superfund site. The State of New Jersey is currently evaluating the Company s counter-offer. Based on the current available information, the Company has estimated a total combined potential liability for OU-1 and OU-2 to be in the range of $20,378,000 to $32,078,000. The Company has recorded an accrual of $20,378,000 related to its combined liability related to this site. The estimated OU-2 remediation liability is based upon the EPA s plan for remediation as provided in the ROD for OU-2 and the evaluation of data by our environmental engineering consultants. The liability for past costs of OU-1 and OU-2 is based upon the current terms of the Consent Decree. The Company, in consultation with its consultants and legal counsel, has agreed to a Statement of Work (SOW) for the implementation of the remedy selected in the September 26, 2011 ROD for OU-2. The SOW will be incorporated into the Consent Decree and will be an enforceable part of the Consent Decree.

Other

The Company conducted an investigation to determine whether certain employees of SL Xianghe Power Electronics Corporation, SL Shanghai Power Electronics Corporation and SL Shanghai International Trading Corporation, three of the Company s indirect wholly-owned subsidiaries incorporated and operating exclusively in China, may have improperly provided gifts and entertainment to government officials (the China Investigation). Based upon the China Investigation, which is substantially complete, the estimated amounts of such gifts and entertainment was not material to the Company s financial statements. Such estimate does not take into account the costs to the Company of the China Investigation itself, or any other additional costs.

The China Investigation included determining whether there were any violations of laws, including the U.S. Foreign Corrupt Practices Act (FCPA). The Company s outside counsel has contacted the DOJ and the Securities and Exchange Commission (the SEC) voluntarily to disclose that the Company was conducting an internal investigation, and agreed to cooperate fully and update the DOJ and SEC periodically on further developments. The Company s counsel has done so, and the Company has continued to cooperate fully with the DOJ and the SEC on the results of the China Investigation and various remediation actions undertaken by the Company.

Table of Contents

The Company had retained outside counsel and forensic accountants to assist in the China Investigation. Additionally, the Company has hired outside consultants to provide assistance in implementing a mandatory FCPA compliance program for all of its employees which was completed in December 2012. The Company cannot predict at this time whether any regulatory action may be taken or any other adverse consequences may result from this matter.

In the ordinary course of its business the Company is and may be subject to other loss contingencies pursuant to foreign and domestic federal, state and local governmental laws and regulations and may be party to certain legal actions, frequently involving complaints by terminated employees and disputes with customers, suppliers and others. 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company s common stock is currently listed on the NYSE MKT under the ticker symbol SLI . The following table sets forth the high and low closing sales price per share of the Company s common stock for the periods indicated:

	Year Ended December 31, 2012		Year Ended December 31, 2011	
	HIGH	LOW	HIGH	LOW
Stock Prices				
1st Quarter	$ 20.00	$ 16.48	$ 20.24	$ 16.50
2nd Quarter	$ 19.91	$ 11.30	$ 24.12	$ 19.28
3rd Quarter	$ 16.75	$ 13.00	$ 24.95	$ 16.00
4th Quarter	$ 20.75	$ 11.83	$ 20.40	$ 16.05

Holders of Record

As of March 1, 2013, there were approximately 464 holders of record of the Company s common stock.

Dividends

On November 26, 2012, the board of directors of the Company declared a one-time special cash dividend of $2.00 per common share (the Dividend) for an aggregate dividend of approximately $8,322,000. The Dividend was payable on December 17, 2012 to shareholders of record at the close of business on December 6, 2012. The Dividend was funded primarily from available cash on hand with the remainder from borrowings under the 2012 Credit Facility. No dividends were paid during fiscal 2011.

The declaration and payment of dividends in the future, if any, and their amounts, will be determined by the Board of Directors in light of conditions then existing, including the Company s earnings, financial condition and business requirements (including working capital needs), and other factors. On August 9, 2012, the Company entered into the 2012 Credit Facility with PNC Bank to replace its 2008 Credit Facility. The 2012 Credit Facility imposes restrictions on our ability to pay dividends, and thus the Company s ability to pay dividends on our common stock will depend upon, among other things, the Company s level of indebtedness at the time of the proposed dividend and whether the Company is in default under any of our debt obligations. The Company s ability to pay dividends will also depend on the requirements of any future financing agreements to which we may be a party.

Issuer Purchases of Equity Securities

On November 16, 2010, the Board of Directors authorized a plan that allows for the repurchase up to an aggregate of 470,000 shares of the Company s outstanding common stock (the 2010 Repurchase Plan). Any repurchases pursuant to the 2010 Repurchase Plan would be made in the open market or in negotiated transactions. During 2012, the Company purchased approximately 140,000 shares of Company stock at an average price of $17.59 a share through the 2010 Repurchase Plan. As a result, as of December 31, 2012, approximately 330,000 shares remained available for purchase under the 2010 Repurchase Plan. Currently the 2010 Repurchase Plan has no expiration date.

On May 30, 2012, the Company announced a modified Dutch Auction Tender Offer to purchase up to $10 million of its common shares. The Tender Offer expired on June 27, 2012. 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 $12.00 and not greater than $13.50, 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. All common stock purchased by the Company were purchased at the same price.

The Company accepted for purchase approximately 307,000 shares of its common stock at a purchase price of $13.50 per share. These shares represented approximately 6.9% of the total common stock outstanding as of June 27, 2012 prior to the purchase of shares pursuant to the Tender Offer. With the completion of the Tender Offer, the Company had approximately 4,121,000 shares of common stock outstanding at that time. The aggregate purchase price paid by the Company in connection with the Tender Offer was $4,147,000 excluding transaction costs. The Company paid for the Tender Offer with available cash on hand.

Table of Contents

The following table presents information related to the repurchase of common stock that the Company made during the twelve months ended December 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased under Publicly Announced Plans or Programs
January 2012	6,000 (1)	$ 18.98	6,000	464,000 (3)
February 2012	9,000 (1)	17.61	9,000	455,000 (3)
March 2012	9,000 (1)	17.99	9,000	446,000 (3)
April 2012	106,000 (1)	17.94	106,000	340,000 (3)
May 2012	10,000 (1)	12.88	10,000	1,163,000 (4)
June 2012	307,000 (2)	13.50	307,000	330,000 (3)
July 2012				330,000 (3)
August 2012				330,000 (3)
September 2012				330,000 (3)
October 2012				330,000 (3)
November 2012				330,000 (3)
December 2012				330,000 (3)
Total	**447,000**	**$ 14.78**	**447,000**	**330,000**

(1) The number of shares purchased pursuant to the 2010 Repurchase Plan.

(2) The number of shares purchased pursuant to the Tender Offer. The Tender Offer expired on June 27, 2012.

(3) Equals the maximum number of shares that may yet be purchased pursuant to the 2010 Repurchase plan.

(4) Equals the maximum number of shares that may be purchased pursuant to the Tender Offer (833,000 shares) plus the remaining maximum number of shares that may yet be purchased pursuant to the 2010 Repurchase plan (330,000 shares). The Tender Offer expired on June 27, 2012, in which the Company accepted for purchase approximately 307,000 shares of its common stock at a purchase price of $13.50 per share. As a result, no further shares remain available for purchase pursuant to the Tender Offer.

Table of Contents

Equity Compensation Plan Information

Information relating to securities authorized for issuance under equity compensation plans as of December 31, 2012, is as follows:

	Number of securities to be issued upon exercise of outstanding options, warranty and rights (a)	Weighted-average exercise price of outstanding options, warranty and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by security holders	225,000 [(1)]	$ 12.79 [(2)]	158,000 [(3)]
Equity compensation plans not approved by security holders	none		
Total	225,000	$ 12.79	158,000

(1) This amount includes the following:

135,000 shares issuable upon the exercise of outstanding stock options under the 2008 Incentive Stock Plan (the 2008 Plan) with a weighted-average price of $12.79.

36,000 restricted stock units (RSUs) issuable under the Company s 2011 Long-term Incentive Plan (the 2011 LTIP) pursuant to the 2008 Plan. Assumes that outstanding performance-based RSUs will vest at target.

54,000 RSUs issuable under the Company s 2012 Long-term Incentive Plan (the 2012 LTIP) pursuant to the 2008 Plan. Assumes that outstanding performance-based RSUs will vest at target.

(2) The 2012 LTIP and 2011 LTIP RSUs have been excluded from the computation of the weighted-average exercise price since these awards have no exercise price.

(3) This amount represents the number of shares available for issuance pursuant to stock options and awards that could be granted in the future under the Company s active shareholder approved stock plan, the 2008 Plan. The 2008 Plan allows for the issuance of up to 450,000 shares.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

Selected consolidated financial data with respect to the years ended December 31, 2012, 2011, 2010, 2009, and 2008 are presented below.

	Years Ended December 31,				
	2012	2011	2010	2009	2008
	(amounts in thousands except per share data)				
Net sales	$ 200,577	$ 212,331	$ 189,768	$ 147,551	$ 185,954
Income from continuing operations	$ 9,357	$ 12,835	$ 9,782	$ 3,564	$ 4,636
(Loss) from discontinued operations [1]	$ (1,580)	$ (4,637)	$ (7,226)	$ (628)	$ (2,302)
Net income [2]	$ 7,777	$ 8,198	$ 2,556	$ 2,936	$ 2,334
Diluted net income per common share	$ 1.80	$ 1.79	$ 0.44	$ 0.49	$ 0.39
Shares used in computing diluted net income per common shares [3]	4,330	4,573	5,811	6,015	5,948
Year-end financial position					
Working capital [4]	$ 26,309	$ 34,404	$ 21,029	$ 35,064	$ 29,528
Current ratio [4]	1.76	2.09	1.52	2.68	2.22
Total assets [5]	$ 107,137	$ 111,226	$ 104,899	$ 99,451	$ 98,980
Shareholders equity	$ 50,432	$ 56,857	$ 47,249	$ 69,100	$ 64,860
Book value per share	$ 12.18	$ 12.45	$ 10.53	$ 11.27	$ 10.98
Other					
Capital expenditures	$ 1,804	$ 2,690	$ 1,416	$ 838	$ 2,426
Depreciation and amortization [6]	$ 2,711	$ 2,870	$ 3,026	$ 3,395	$ 3,652

(1) Discontinued operations for fiscal 2012 largely relate to expenses for environmental remediation activities associated with the Company s five environmental sites. Prior to fiscal 2012, discontinued operations for the periods indicated largely relate to expenses for environmental remediation activities, legal expenses, and potential settlement costs associated with SurfTech.

(2) During the fourth quarter of 2011, the Company recorded a $5,151,000, net of tax, charge related to estimated environmental remediation liabilities associated with the Pennsauken Site, which was partially offset by a $787,000 favorable settlement with a foreign tax authority during the second quarter of 2011. Fiscal 2010 includes a provision for environmental remediation of $5,132,000, net of tax, related to the Pennsauken Site and $784,000, net of tax, related to the Camden Site. Fiscal 2008 includes a provision for environmental remediation of $1,410,000, net of tax.

(3) Fiscal 2012 represents the effect of the Company s Tender Offer that expired on June 27, 2012 and the purchase of Company stock pursuant to the Company s 2010 Repurchase Plan. The Company purchased and retired approximately 307,000 shares of its common stock in connection with the Tender Offer, and purchased approximately 140,000 in connection with the 2010 Repurchase Plan.

Fiscal 2011 represents the full year effect of the Company s tender offer that expired on October 13, 2010 and the purchase of Company stock held by the Company s defined contribution plan during the fourth quarter of 2010. During 2010, the Company purchased and retired approximately 1,335,000 shares of its common stock in connection with the tender offer, and purchased approximately 252,000 shares of its common stock held by its defined contribution plan.

(4) The Consolidated Balance Sheet for fiscal year 2010 was revised due to the reclassification of the Company s long-term incentive plan accrual from payroll and related costs to other long-term liabilities.

(5) Deferred tax assets and liabilities, as of December 31, 2008, have been reclassified to include a deferred tax liability for foreign taxes previously reported as accrued income taxes.

(6) Excludes amortization of deferred financing costs.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following section highlights significant factors impacting the consolidated operations and financial condition of the Company and its subsidiaries. The following discussion should be read in conjunction with Item 6. Selected Financial Data, Item 8. Financial Statements and Supplementary Data, and the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

Forward-Looking Statements

In addition to other information in this Annual Report on Form 10-K, this Management s Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and the current economic environment. These statements are not guarantees of future performance. They involve a number of risks and uncertainties that are difficult to predict, including, but not limited to, the Company s ability to implement its business plan, retain key management, anticipate industry and competitive conditions, realize operating efficiencies, secure necessary capital facilities and obtain favorable determinations in various legal and regulatory matters. Actual results could differ materially from those expressed or implied in the forward-looking statements. Some important assumptions and other critical factors that could cause actual results to differ materially from those in the forward-looking statements are specified in the Company s filings with the SEC, including the Company s Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

Overview

SL Industries, Inc., through its subsidiaries, designs, manufactures and markets power electronics, motion control, power protection, power quality, and specialized communication equipment that is used in a variety of medical, commercial and military aerospace, solar, computer, datacom, industrial, telecom, transportation, utility, rail and highway equipment applications. Its products are generally incorporated into larger systems to improve operating performance, safety, reliability and efficiency. The Company s products are largely sold to OEMs, the utility industry and, to a lesser extent, to commercial distributors. The Company is comprised of four domestic business segments, three of which have significant manufacturing operations in Mexico. SLPE has manufacturing, engineering and sales capability in China. Most of the Company s sales are made to customers who are based in the United States. The Company places an emphasis on highly engineered, well-built, high quality, dependable products and is dedicated to continued product enhancement and innovation.

The Company s business strategy has been to enhance the growth and profitability of each of its businesses through the penetration of attractive new market niches, further improvement of operations through the implementation of lean manufacturing principles, expansion of lean principles into the transactional side of the business, and expansion of global capabilities. The Company intends to focus on improving efficiencies that better leverage the Company s resources. Lean initiatives, both on the factory floor and throughout the organization, are ongoing. The Company expects to pursue its goals during the next twelve months principally through organic growth. The Company also continues to pursue strategic alternatives to maximize shareholder value. Some of these alternatives have included, and could continue to include, selective acquisitions, divestitures and the sale of certain assets. The Company has provided, and may from time to time in the future provide, information to interested parties.

Table of Contents

In the sections that follow, statements with respect to 2012 or fiscal 2012 refer to the twelve month period ending December 31, 2012. Statements with respect to 2011 or fiscal 2011 refer to the twelve month period ending December 31, 2011.

Significant Transactions and Financial Trends

Significant transactions during 2012 that impacted the Company s financial results and cash flows include a net of tax loss from discontinued operations of $1,580,000. The loss from discontinued operations was primarily comprised of environmental remediation costs, consulting fees, legal charges, and certain claims associated with the past operations at the Company s five environmental sites.

The Company has reached an agreement with both the United States Department of Justice (DOJ) and EPA related to its liability for both OU-1 and OU-2 and has entered into a Consent Decree which governs the agreement. The Company has agreed to perform the remediation for OU-2. The Company intends to have its environmental consultants, who are expected to perform the requirements of the OU-2 remediation, and perform an active role in the remediation design. Also, the Company has agreed to pay a fixed sum for the United States EPA past cost for OU-2 and a portion of the EPA s past cost for OU-1. The payments are to be made in five equal payments of $2,141,000 for a total $10,705,000, plus interest. The first payment plus interest is to be made thirty days after the effective date of the Consent Decree (day the judge signs and files the decree). The next four payments will be made on the anniversary of the first payment plus ten days in the same amount of $2,141,000 plus interest to avoid two payments in one continuous twelve month period. The Company has also agreed to pay the EPA s costs for oversight of the OU-2 remediation. The Consent Decree is subject to a public comment period and finally must be approved by the Federal District Court which we expect to occur by the second quarter of fiscal 2013 thereby triggering the Company s obligation under the Consent Decree. During the third quarter of 2012, the Company s legal counsel had been notified by the Assistant Attorney General of the State of New Jersey that they may file a claim for certain costs. On December 3, 2012, the Company received a demand letter from the State of New Jersey. The demand is for $1,300,000 for past and future cleanup costs and $500,000 for NRDs for a total of $1,800,000. Although the Company and its counsel believe that it has meritorious defenses to any claim for reimbursement of past cost and NRD damages, the Company has offered to pay $250,000 to fully resolve the claim recently presented by the State of New Jersey for past costs, future costs and NRD at the Puchack Well Field Superfund site. The State of New Jersey is currently evaluating the Company s counter-offer. Based on the current available information, the Company has estimated a total combined potential liability for OU-1 and OU-2 and the State of New Jersey s claim to be in the range of $20,378,000 to $32,078,000. The Company has recorded an accrual of $20,378,000 related to its combined liability related to this site. The estimated OU-2 remediation liability is based upon the EPA s plan for remediation as provided in the ROD for OU-2 and the evaluation of data by our environmental engineering consultants. The liability for past costs of OU-1 and OU-2 is based upon the current terms of the Consent Decree. The Company, in consultation with its consultants and legal counsel, has agreed to a SOW for the implementation of the remedy selected in the September 26, 2011 ROD for OU-2. The SOW will be incorporated into the Consent Decree and will be an enforceable part of the Consent Decree.

Table of Contents

On February 27, 2012, the Company purchased certain assets of Pro-Dex Astromec, Inc., a subsidiary of Pro-Dex Inc., for approximately $1,050,000, which includes the assumption of liabilities for an estimated earn-out of $294,000. The acquisition was paid for in cash. The earn-out is comprised of quarterly payments based on the performance of the acquired business over the three year period immediately following the date of acquisition. During 2012, $112,000 was paid related to the earn-out. SL-MTI recorded direct acquisition costs of approximately $434,000 during 2012, which are recorded within selling, general and administrative expenses in the Consolidated Statements of Income. The results from the acquisition date through December 31, 2012 are included in the SL-MTI segment.

During 2012, the Company entered into a series of foreign currency forward contracts to hedge its exposure to foreign exchange rate movements in its forecasted expenses in China and Mexico. The foreign currency forwards are not speculative and are being used to manage the Company s exposure to foreign exchange rate movements. Foreign currency forward agreements involve fixing the USD-MXN and USD-CNH exchange rates for delivery of a specified amount of foreign currency on a specified date. The Company has elected not to apply hedge accounting to these derivatives and they are marked to market through earnings. Therefore, gains and losses resulting from changes in the fair value of these contracts are recognized at the end of each reporting period directly in earnings. During 2012, the Company recognized a $243,000 gain associated with the foreign currency forward contracts, which is included in other gain (loss), net on the Consolidated Statements of Income. As of December 31, 2012, the fair value of the foreign currency forward contracts was recorded as a $243,000 asset in other current assets on the Consolidated Balance Sheets.

On May 30, 2012, the Company announced a modified Dutch Auction Tender Offer to purchase up to $10 million of its common shares. The Company accepted for purchase approximately 307,000 shares of its common stock at a purchase price of $13.50 per share. These shares represented approximately 6.9% of the total common stock outstanding as of June 27, 2012 prior to the purchase of shares pursuant to the Tender Offer. With the completion of the Tender Offer, the Company had approximately 4,121,000 shares of common stock outstanding at that time. The aggregate purchase price paid by the Company in connection with the Tender Offer was $4,147,000 excluding transaction costs. The Company paid for the Tender Offer with available cash on hand.

On August 9, 2012, the Company entered into a new senior revolving credit facility (the 2012 Credit Facility) with PNC Bank to replace its 2008 Credit Facility. The 2012 Credit Facility provides for borrowings up to $40,000,000 and under certain conditions maximum borrowings up to $70,000,000. The 2012 Credit Facility included a $5,000,000 sublimit for letters of credit (subsequently amended on March 11, 2013 to a maximum of $25,000,000 subject to designated usage) and provides for a separate $10,700,000 letter of credit which expires one year from the date of closing, with annual extensions. The 2012 Credit Facility expires on August 9, 2016.

During the third quarter of 2012, the Company announced to its employees a restructuring plan to align its costs with current and projected sales activity. The cost reductions were primarily direct labor employees and engineering, selling and administration employees at SLPE, RFL, and TEAL, which is part of the High Power Group. During 2012, there was a consolidated charge to earnings of $857,000, which was comprised of a $732,000 charge at SLPE, a $67,000 charge at RFL, and a $58,000 charge at TEAL. The charges are composed of severance and other employee related charges. The total number of employees affected by the restructuring plan was 67, all of which had been terminated as of December 31, 2012.

Table of Contents

On November 26, 2012, the board of directors of the Company declared a one-time special cash dividend of $2.00 per common share (the Dividend) for an aggregate dividend of approximately $8,322,000. The Dividend was payable on December 17, 2012 to shareholders of record at the close of business on December 6, 2012. The Dividend was funded primarily from available cash on hand with the remainder from borrowings under the 2012 Credit Facility.

On November 16, 2010, the Board of Directors authorized a plan that allows for the repurchase up to an aggregate of 470,000 shares of the Company s outstanding common stock (the 2010 Repurchase Plan). Any repurchases pursuant to the 2010 Repurchase Plan would be made in the open market or in negotiated transactions. During 2012, the Company purchased approximately 140,000 shares of Company stock at an average price of $17.59 a share through the 2010 Repurchase Plan. As a result, as of December 31, 2012, approximately 330,000 shares remained available for purchase under the 2010 Repurchase Plan. Currently the 2010 Repurchase Plan has no expiration date.

Business Trends

Demand for the Company s products and services decreased during 2012, compared to 2011. Sales for the year decreased by $11,754,000, or 6%, while income from operations decreased by $5,633,000, or 30%. During the year, sales decreased during the first nine months of 2012 but were relatively flat during the fourth quarter of 2012. Income from operations decreased during the first nine months of 2012 but rebounded for an increase of $308,000, or 7%, during the fourth quarter of 2012.

Bookings during 2012 decreased by $5,382,000, or 3%, compared to 2011. The decrease was due to a 5% decrease at SL-MTI and RFL, and a 3% decrease at SLPE. Bookings for the year at the High Power Group were relatively flat. Backlog at December 31, 2012 was $60,445,000, compared to $61,104,000, for a decrease of 1%, compared to December 31, 2011.

The Company s management is taking numerous actions to improve sales through the deployment of numerous growth tools aimed at identifying attractive market segments and penetrating those markets through aggressive new product introduction. The Company is also identifying and penetrating selected geographic opportunities. The Company is continuing to emphasize lean initiatives at all of its facilities in manufacturing as well as in the office.

While these items are important in understanding and evaluating financial results and trends, other transactions or events, which are disclosed in this Management s Discussion and Analysis, may have a material impact on continuing operations. A complete understanding of these transactions is necessary in order to estimate the likelihood that these trends will continue.

Critical Accounting Policies

The Company s consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States (GAAP). GAAP requires management to make estimates and assumptions that affect the amounts of reported and contingent assets and liabilities at the date of the consolidated financial statements and the amounts of reported net sales and expenses during the reporting period.

The SEC has issued disclosure guidance for critical accounting policies. The SEC defines critical accounting policies as those that are most important to the portrayal of the Company s financial condition and results, and that require application of management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The Company s significant accounting policies are described in Note 1 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies are deemed to be critical within the SEC definition. The Company s senior management has reviewed these critical accounting policies and estimates and the related Management s Discussion and Analysis of Financial Condition and Results of Operations with the Audit Committee of the Board of Directors.

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. Revenue is recorded in accordance with Staff Accounting Bulletin (SAB) No. 104 and in certain circumstances in accordance with the guidance provided by ASC 605-25 Revenue Recognition Multiple-Element Arrangements. The major portion of the Company s revenue is derived from equipment sales. The Company recognizes equipment revenue upon shipment or delivery, depending upon the terms of the order, and transfer of title. Generally, the revenue recognition criteria is met at the time the product is shipped. Provisions are established for product warranties, principally based on historical experience. At times the Company establishes reserves for specific warranty issues known by management. Customer service and installation revenue is recognized when completed. RFL has customer service revenue, which accounted for less than one percent of consolidated net revenue for the years ended 2012 and 2011. At SL-MTI, revenue from one particular contract was considered a multiple-element arrangement and, in that case, revenues were allocated among the separate accounting units based on relative fair value. In this case the total arrangement consideration was fixed and there was objective and reliable evidence of fair value. This contract was completed during 2010.

SLPE has two sales programs with distributors, pursuant to which credits are issued to distributors: (1) a re-stocking program and (2) a competitive discount program. The distributor re-stocking program allows distributors to rotate up to a pre-determined percentage of their purchases over the previous six month period. SLPE provides for this allowance as a decrease to revenue based upon the amount of sales to each distributor and other historical factors. The competitive discount program allows a distributor to sell a product out of its inventory at a negotiated price in order to meet certain competitive situations. SLPE records this discount as a reduction to revenue based on the distributor s eligible inventory. The eligible distributor inventory is reviewed at least quarterly. No cash is paid under either distributor program. These programs affected consolidated gross revenue for 2012, 2011 and 2010 by approximately 0.6%, 0.5% and 0.6%, respectively.

Certain judgments affect the application of the Company s revenue policy, as mentioned above. Revenue recognition is significant because net revenue is a key component of results of operations. In addition, revenue recognition determines the timing of certain expenses, such as commissions, royalties and certain incentive programs. Revenue results are difficult to predict. Any shortfall in revenue or delay in recognizing revenue could cause operating results to vary significantly from year to year and quarter to quarter.

Allowance For Doubtful Accounts

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. The Company s allowance for doubtful accounts represented 2.0% and 2.0% of gross trade receivables at December 31, 2012 and December 31, 2011, respectively.

Inventories

The Company values inventory at the lower of cost or market, and 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 obsolete, slow-moving and excess inventories. Inventory items identified as obsolete, 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.

Table of Contents

Derivative Instruments and Hedging Activities

FASB ASC 815, Derivatives and Hedging (ASC 815), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company s objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. Certain of the Company s foreign operations expose the Company to fluctuations of foreign interest rates and exchange rates. These fluctuations may impact the value of the Company s revenues, expenses, cash receipts and payments in terms of the Company s functional currency. The Company enters into derivative financial instruments to protect the value or fix the amount of certain cash flows in terms of the functional currency of the business unit with that exposure.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. The Company enters into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting. Currently, the Company does not apply hedge accounting to any of its foreign currency derivatives.

Accounting For Income Taxes

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. Net deferred tax assets as of December 31, 2012 and December 31, 2011 were $13,134,000 and $13,314,000, respectively, net of valuation allowances of $1,987,000 (mostly related to discontinued operations) for fiscal 2012 and $1,926,000 (mostly related to discontinued operations) for 2011. The carrying value of the Company s net deferred tax assets assumes that the Company will be able to generate sufficient future taxable income in certain tax jurisdictions. Valuation allowances are attributable to uncertainties related to the Company s ability to utilize certain deferred tax assets prior to expiration. These deferred tax assets primarily consist of the state tax expense on certain expenses and loss carryforwards. The valuation allowance is based on estimates of taxable income, expenses and credits by the jurisdictions in which the Company operates and the period over which deferred tax assets will be recoverable. In the event that actual results differ from these estimates or these estimates are adjusted in future periods, the Company may need to establish an additional valuation allowance that could materially impact its consolidated financial position and results of operations. Each quarter, management evaluates the ability to realize the deferred tax assets and assesses the need for additional valuation allowances.

Table of Contents

The Company applies the provisions of ASC 740-10-55 to all tax positions for which the statute of limitations remain open. The amount of unrecognized tax benefits as of December 31, 2012 was $595,000, excluding interest and penalties. This amount represents unrecognized tax benefits, which, if ultimately recognized, will reduce the Company s effective tax rate. As of December 31, 2012 and December 31, 2011, the Company reported accrued interest and penalties related to unrecognized tax benefits of $62,000 and $80,000, respectively. For additional disclosures related to accounting for income taxes, see Note 10 in the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

Legal Contingencies

The Company is currently involved in certain legal proceedings. As discussed in Note 15 in the Notes to the Consolidated Financial Statements included in Part IV to this Annual Report on Form 10-K, the Company has accrued an estimate of the probable costs for the resolution of these claims. This estimate has been developed based on the current stage of negotiations and data from the Company s environmental engineering consultants and legal counsel. Management does not believe these proceedings will have a further material adverse effect on the Company s consolidated financial position, except as discussed in Note 15. As with litigation, generally the outcome is inherently uncertain. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in these assumptions, or the effectiveness of these strategies, related to these proceedings.

Goodwill

The Company has allocated its adjusted goodwill balance to its reporting units. The Company tests goodwill for impairment annually at fiscal year-end and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired, such as a significant adverse change in business climate, an adverse action or assessment by a regulator or the decision to sell a business, that would make it more likely than not that an impairment may have occurred. The goodwill impairment test is a two-step process. The first step of the impairment analysis compares the fair value to the net book value. In determining fair value, the accounting guidance allows for the use of several valuation methodologies, although it indicates that quoted market prices are the best evidence of fair value. The Company uses a combination of expected present values of future cash flows and comparative market multiples. It has also performed a review of market capitalization with estimated control premiums at December 31, 2012. If the fair value of a reporting unit is less than its net book value, the Company would perform a second step in its analysis, which compares the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, the Company recognizes an impairment loss equal to that excess amount. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount and growth rates, operating margins and working capital requirements, selecting comparable companies within each reporting unit and market and determining control premiums. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Table of Contents

The assumptions about future cash flows and growth rates are based on the budget and long-term business plans of each reporting unit. Such assumptions take into account numerous factors including but not limited to historical experience, anticipated economic conditions, new product introductions, product cost and cost structure of each reporting unit. The growth rates assumptions were generally consistent with those utilized in prior year forecasted periods, except in certain circumstances where operational strategies support otherwise. Based upon the Company s annual assessment using the assumptions described above, a hypothetical 20% reduction in the estimated fair value in each reporting unit would not result in an impairment charge.

The Company has performed sensitivity analysis to illustrate the impact of changes in assumptions underlying the first step of the impairment test. Based upon the Company s annual assessment:

- a one percentage point decrease in the perpetual growth rate would reduce the indicated fair value of each reporting unit by a range of approximately 1% to 2% and would not result in an impairment of any reporting unit;

- a three percentage point decrease in the operating margin (operating income before tax) would reduce the indicated fair value of each reporting unit by a range of approximately 9% to 19% and would not result in an impairment of any reporting unit; or

- a one percentage point increase in the discount rate would reduce the indicated fair value of each reporting unit by a range of approximately 3% to 5% and would not result in an impairment of any reporting unit.

There were no impairment charges in 2012, 2011 or 2010. Goodwill totaled $22,735,000 and $22,738,000 as of December 31, 2012 and December 31, 2011 (representing 21% and 20% of total assets), respectively. For 2012 and 2011, there were four reporting units identified for impairment testing. Those units are SLPE, Teal, MTE and RFL.

Impairment Of Long-Lived And Intangible Assets

The Company s long-lived and intangible assets primarily consist of fixed assets, goodwill and other intangible assets. The Company periodically reviews the carrying value of its long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, and assets to be disposed of whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. The Company assesses the recoverability of the asset by estimated cash flows and at times by independent appraisals. It compares estimated cash flows expected to be generated from the related assets, or the appraised value of the asset, to the carrying amounts to determine whether impairment has occurred. If the estimate of cash flows expected to be generated changes in the future, the Company may be required to record impairment charges that were not previously recorded for these assets. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Asset impairment evaluations are by nature highly subjective.

Table of Contents

Environmental Expenditures

The Company is subject to United States, Mexican, Chinese and United Kingdom environmental laws and regulations concerning emissions to the air, discharges to surface and subsurface waters, and generation, handling, storage, transportation, treatment and disposal of waste materials. The Company is also subject to other federal, state and local environmental laws and regulations, including those that require it to remediate or mitigate the effects of the disposal or release of certain chemical substances at various sites, mostly at sites where the Company has ceased operations. It is impossible to predict precisely what effect these laws and regulations will have in the future.

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, net of tax. Expenditures include costs of remediation, consulting, legal fees to defend against claims for environmental liability and certain costs to assist the Company with compliance matters and administrative tasks. 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 Company does not currently have any outstanding claims against insurance carriers related to remediation expenditures. 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. For additional information related to environmental matters, see Note 15 of the Notes to the Consolidated Financial Statements.

The above listing is not intended to be a comprehensive list of all of the Company s accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP with no need for management s judgment in its application. There are also areas in which management s judgment in selecting any available alternatives would not produce a materially different result. For a discussion of accounting policies and other disclosures required by GAAP, see the Company s audited Consolidated Financial Statements and Notes thereto included in Part IV of this Annual Report on Form 10-K.

Table of Contents

Liquidity And Capital Resources

	December 31, 2012	December 31, 2011	$ Variance	% Variance
		(in thousands)		
Cash and cash equivalents	$ 3,196	$ 5,632	$ (2,436)	(43%)
Working capital	$ 26,309	$ 34,404	$ (8,095)	(24%)
Shareholders equity	$ 50,432	$ 56,857	$ (6,425)	(11%)

The Company s liquidity needs have related to, and are expected to continue to relate to, capital investments, product development costs, acquisitions, working capital requirements, and certain environmental and legal remediation costs. The Company has met its liquidity needs primarily through cash generated from operations and, to a lesser extent, through bank borrowings. The Company believes that cash provided by operating activities from continuing operations and funding available under the 2012 Credit Facility will be adequate to service debt and meet working capital needs, capital investment requirements, and product development requirements for the next twelve months.

On August 9, 2012, the Company entered into the 2012 Credit Facility with PNC Bank to replace its 2008 Credit Facility. The 2012 Credit Facility, which consists of a new $40,000,000 four year senior revolving credit facility with a $5,000,000 sublimit for letters of credit (subsequently amended on March 11, 2013 to a maximum of $25,000,000 subject to designated usage) and provides for a separate $10,700,000 letter of credit. The senior revolving credit facility can be increased up to $70,000,000 under certain conditions. The 2012 Credit Facility expires on August 9, 2016.

Borrowings under the 2012 Credit Facility bear interest, at the Company s option, at the London interbank offering rate (LIBOR) plus a margin rate ranging from 1.25% to 2.0%, or the higher of a Base Rate plus a margin rate ranging from 0.25% to 1.0%. The Base Rate is equal to the highest of (i) the Federal Funds Open Rate plus 0.5% and (ii) the Prime Rate and (iii) the Daily Libor Rate plus 1%. The margin rates are based on certain leverage ratios, as defined. The Company is subject to compliance with certain financial covenants set forth in the 2012 Credit Facility, including, but not limited to, indebtedness to EBITDA, as defined, minimum levels of fixed charges and limitations on capital expenditures, as defined. Availability under the 2012 Credit Facility is based upon the Company s trailing twelve month EBITDA, as defined.

The Company s obligations under the 2012 Credit Facility are secured by the grant of security interests in substantially all of its assets.

At December 31, 2012, the Company reported $3,196,000 of cash and cash equivalents, compared to $5,632,000 of cash and cash equivalents as of December 31, 2011. Cash and cash equivalents decreased in 2012 primarily due to $15,281,000 of cash used in financing activities and $2,694,000 of cash used in investing activities, which was partially offset by $16,487,000 of cash provided by operating activities from continuing operations. The decrease in cash in 2012 was also partially due to $959,000 of cash used in operating activities from discontinued operations.

Table of Contents

During 2012, net cash provided by operating activities from continuing operations was $16,487,000 as compared to net cash provided by operating activities from continuing operations of $17,023,000 during 2011. The primary sources of cash from operating activities for 2012 were income from continuing operations of $9,357,000, an increase in accounts payable of $1,913,000, a decrease in inventory of $1,195,000, and a decrease in accounts receivable of $831,000. In addition, depreciation and amortization expense of $2,711,000 and non-cash stock compensation expense of $842,000 were added to income from continuing operations. All of the Company s operating segments recorded increases in accounts payable during 2012 due primarily to increased efforts to extend payment terms with suppliers. The increase in accounts payable was also due to large increases at TEAL and MTE due to increased inventory purchases to meet anticipated customer demand in 2013. The decrease in inventory was primarily due to a large decrease at SLPE, which was partially offset by increases at MTE, TEAL, and SL-MTI. The decrease at SLPE was primarily due to lean initiatives to reduce inventory levels coupled with a decline in sales volumes. The increase at TEAL and MTE was due to the build-up of inventory to meet anticipated customer demand in 2013. The increase at SL-MTI was due to increased inventory for new customer projects coupled with the rescheduling of existing customer orders to the first quarter of 2013. The decrease in accounts receivable was primarily due to large decreases at SL-MTI and SLPE, which was partially offset by a large increase at TEAL. The decreases at SL-MTI and SLPE were primarily due to decreased net sales during the fourth quarter of 2012 as compared to the fourth quarter of 2011. The decrease at SL-MTI was also due to strong collections during December 2012 as compared to December 2011. The increase in accounts receivable at TEAL was primarily due to a 49% increase in net sales during the fourth quarter of 2012 as compared to the fourth quarter of 2011.

During 2011, net cash provided by continuing operating activities was $17,023,000. The primary sources of cash from operating activities for 2011 were income from continuing operations of $12,835,000, an increase in other accrued liabilities of $3,360,000, an increase in accounts payable of $1,981,000, and the add-back of depreciation and amortization expense of $2,870,000. The increase in other accrued liabilities was primarily due to a $8,300,000 charge related to estimated environmental remediation liabilities associated with the Pennsauken Site. All operating entities experienced increases in accounts payable, except for TEAL, due primarily to increased inventory purchases to meet customer demand and increased efforts to extend payment terms to suppliers. These sources and add-backs were partially offset by an increase in deferred income taxes of $1,587,000, a decrease in accrued income taxes of $1,215,000, an increase in other current assets of $599,000, an increase in accounts receivable of $388,000, and an increase in inventories of $374,000. The increase in deferred income taxes was primarily due to a tax benefit related to the recording of estimated environmental remediation costs associated with the Pennsauken Site mentioned above. The decrease in accrued income taxes was primarily due to an increase in income taxes paid during 2011. The increase in other current assets was primarily due to an increase in payments related to an inventory purchase agreement for copper at Teal. The increase in other current assets was partially offset by the collection of a fire loss insurance claim related to the Company s former leased manufacturing facility in Mexicali, Mexico, which was received on July 15, 2011 in the amount of $610,000. The largest increases in accounts receivable occurred at SLPE, MTE, and SL-MTI primarily due to increased sales during 2011. The increase in accounts receivable at SL-MTI was also due to relatively low accounts receivable balances as of December 31, 2010 due to significant collections during December 2010. The increase in inventory was due to an increase in inventory at SLPE in order to meet the increase in demand from customers. The increase in inventory was also due to an increase at TEAL due to the rescheduling of existing customer orders to the first quarter of 2012. These increases were partially offset by a decrease in inventory at RFL and SL-MTI due to lean initiatives to reduce inventory levels.

Table of Contents

During 2012, net cash used in investing activities was $2,694,000 as compared to net cash used in investing activities of $2,624,000 during 2011. Cash used in investing activities during 2012 was for the purchases of property, plant and equipment of $1,804,000, the acquisition of certain assets of a business of $756,000, and for the purchase of other assets of $215,000, which was partially offset by $81,000 of proceeds from the sale of an investment. Purchases of property, plant and equipment were primarily used to upgrade production capabilities and technology. Purchases of other assets were primarily related to the purchase of software and the capitalization of legal fees related to a new patent application at MTE. On December 17, 2012, the Company sold its investment in RFL Communications PLC, (RFL Communications) for $81,000 and recognized a gain on sale of $59,000. Cash used in investing activities during 2011 was for the purchases of property, plant and equipment and tenant improvements of $2,690,000 and the purchases of other assets of $71,000, which was partially offset by the return of a deposit for land rights in China. During 2011, SLPE incurred approximately $1,125,000 in tenant improvements related to its relocation to a more modern facility in Mexicali, Mexico. The remaining cash used in investing activities for the purchases of property, plant and equipment was primarily used to upgrade production capabilities and upgrade technology. Purchases of other assets were primarily related to the purchase of software and other intangible assets.

On February 27, 2012, the Company purchased certain assets of Astromec, a subsidiary of Pro-Dex, for approximately $1,050,000, which includes the assumption of liabilities for an estimated earn-out of $294,000. The acquisition was paid for in cash. The earn-out is comprised of quarterly payments based on the performance of the acquired business over the three year period immediately following the date of acquisition. During 2012, $112,000 was paid related to the earn-out. SL-MTI recorded direct acquisition costs of approximately $434,000 during 2012 within selling, general and administrative expenses in the Consolidated Statements of Income. The results from the acquisition date through December 31, 2012 are included in the SL-MTI segment.

During 2012, net cash used in financing activities was $15,281,000 as compared to net cash used in financing activities of $8,759,000 during 2011. Cash used in financing activities during 2012 was primarily related to the payment of a cash dividend, the repurchase and retirement of common stock pursuant to the Company s Tender Offer, and the purchase of Company stock pursuant to the Company s 2010 Repurchase Plan. Cash used in financing activities during 2012 was also due to payments of deferred financing costs primarily associated with costs to replace the 2008 Credit Facility with the new 2012 Credit Facility. Cash used in financing activities during 2011 was primarily related to $9,800,000 in net payments to the 2008 Credit Facility, which was partially offset by $817,000 of proceeds from stock option exercises and $291,000 from the tax benefit on the exercise of stock options.

On May 30, 2012, the Company announced a modified Dutch Auction Tender Offer to purchase up to $10 million of its common shares. The Company accepted for purchase 307,000 shares of its common stock at a purchase price of $13.50 per share. These shares represented approximately 6.9% of the total common stock outstanding as of June 27, 2012 prior to the purchase of shares pursuant to the Tender Offer. With the completion of the Tender Offer, the Company had approximately 4,121,000 shares of common stock outstanding at that time. The aggregate purchase price paid by the Company in connection with the Tender Offer was $4,147,000 excluding transaction costs. The Company paid for the Tender Offer with available cash on hand.

Table of Contents

On November 26, 2012, the board of directors of the Company declared a one-time special cash Dividend of $2.00 per common share for an aggregate dividend of approximately $8,322,000. The Dividend was payable on December 17, 2012 to shareholders of record at the close of business on December 6, 2012. The Dividend was funded primarily from available cash on hand with the remainder from borrowings under the 2012 Credit Facility.

On November 16, 2010, the Board of Directors authorized a plan that allows for the repurchase up to an aggregate of 470,000 shares of the Company s outstanding common stock. Any repurchases pursuant to the 2010 Repurchase Plan would be made in the open market or in negotiated transactions. During 2012, the Company purchased 140,000 shares of Company stock at an average price of $17.59 a share, for a total purchase price of $2,468,000 excluding transaction costs. As a result, as of December 31, 2012, 330,000 shares remained available for purchase under the 2010 Repurchase Plan. Currently the 2010 Repurchase Plan has no expiration date.

As of December 31, 2012, the Company had no outstanding balance under the 2012 Credit Facility. At December 31, 2012, the Company had total availability under the 2012 Credit Facility of $39,510,000. As of December 31, 2011, the Company had no outstanding balance under the 2008 Credit Facility. At December 31, 2011, the Company had total availability under the 2008 Credit Facility of $39,527,000.

The Company s current ratio was 1.76 to 1 at December 31, 2012 and 2.09 to 1 at December 31, 2011. Current assets decreased by $4,995,000 from December 31, 2011, while current liabilities increased by $3,100,000 during the same period.

Capital expenditures were $1,804,000 in 2012, which represented a decrease of $886,000 from the capital expenditure levels of 2011. The decrease in capital expenditures was primarily due to $1,125,000 in tenant improvements related to its relocation to a more modern facility in Mexicali, Mexico during 2011. In 2013, the Company anticipates spending approximately $3,600,000 on property, plant and equipment, used primarily to upgrade production capabilities and upgrade technology. The 2013 capital additions are expected to be funded primarily through cash from operating activities.

With the exception of the segment reported as Unallocated Corporate Expenses (which consists primarily of corporate office expenses, financing activities, certain treasury, risk management, legal, litigation, public reporting costs, legacy costs and costs not specifically allocated to the reportable business segments), all of the Company s operating segments recorded income from operations during 2012 and 2011.

Contractual Obligations

The following is a summary of the Company s contractual obligations at December 31, 2012 for the periods indicated:

	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years	Total
			(in thousands)		
Operating Leases	$ 1,696	$ 2,626	$ 1,763	$ 1,132	$ 7,217

The table above excludes the Company s gross liability for uncertain tax positions of $595,000, including accrued interest and penalties, which totaled $62,000 as of December 31, 2012, since the Company cannot predict with reasonable reliability the timing or certainty of cash settlements to the respective taxing authorities.

Table of Contents

Off-Balance Sheet Arrangements

It is not the Company s usual business practice to enter into off-balance sheet arrangements such as guarantees on loans and financial commitments, indemnification arrangements and retained interests in assets transferred to an unconsolidated entity for securitization purposes. Consequently, the Company has no off-balance sheet arrangements which have, or are reasonably likely to have, a material current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, except for operating lease commitments disclosed in the table above.

In an attempt to stabilize copper costs, the Company has in the past, and may in the future, enter into purchase agreements for copper. As of December 31, 2012, the Company has no material inventory purchase agreements for copper.

Restructuring Costs

Restructuring activity for the period ended December 31, 2012 was as follows:

	Accrual at Beginning of the Year	Charged to Earnings	Cash Payments	Accrual at December 31, 2012
		(in thousands)		
2012 Plan				
Severance and other employee-related charges	$	$ 857	$ 857	$
2011 Plan				
Severance and other employee-related charges	56		56	
Total restructuring reserve	$ 56	$ 857	$ 913	$

2012 Restructuring Plan

During the third quarter of 2012, the Company announced to its employees a restructuring plan (2012 Plan) to align its costs with current and projected sales activity. The costs reductions were primarily direct labor employees and engineering, selling and administration employees at SLPE, RFL, and TEAL, which is part of the High Power Group. As of December 31, 2012, there was a consolidated charge to earnings of $857,000, which was comprised of a $732,000 charge at SLPE, a $67,000 charge at RFL, and a $58,000 charge at TEAL. The charges are composed of severance and other employee related charges. The total number of employees affected by the restructuring plan was 67, all of which had been terminated as of December 31, 2012.

Table of Contents

2011 Restructuring Plan

During the fourth quarter of 2011, the Company announced a restructuring plan (2011 Plan) to reduce certain costs of sales and certain operating expenses, including engineering, selling and administration at SLPE and TEAL, which is part of the High Power Group. For the year ended December 31, 2011, there was a consolidated charge to earnings of $261,000 which was comprised of a $207,000 charge at SLPE and a $54,000 charge at TEAL. The charges are composed of severance and other employee related charges. The total number of employees affected by the restructuring plan was 47, all of which had been terminated as of December 31, 2011. The remaining unpaid termination benefits associated with the plan were paid during January 2012.

RESULTS OF OPERATIONS

Year Ended December 31, 2012 Compared With Year Ended December 31, 2011

	Net Sales			
	Years Ended December 31,			
	2012	2011	$ Variance	% Variance
	(in thousands)			
SLPE	$ 77,869	$ 91,066	$ (13,197)	(14%)
High Power Group	65,283	63,027	2,256	4
SL-MTI	36,223	35,413	810	2
RFL	21,202	22,825	(1,623)	(7)
Net Sales	$ 200,577	$ 212,331	$ (11,754)	(6%)

	Income from Operations			
	Years Ended December 31,			
	2012	2011	$ Variance	% Variance
	(in thousands)			
SLPE	$ 2,487	$ 7,825	$ (5,338)	(68%)
High Power Group	6,822	6,940	(118)	(2)
SL-MTI	6,292	6,219	73	1
RFL	2,763	3,189	(426)	(13)
Unallocated Corporate Expenses	(5,463)	(5,639)	176	3
Income from Operations	$ 12,901	$ 18,534	$ (5,633)	(30%)

During 2012, consolidated net sales decreased by $11,754,000, or 6%. When compared to 2011, net sales at SLPE decreased by $13,197,000, or 14%; net sales of the High Power Group increased by $2,256,000, or 4%; net sales of SL-MTI increased by $810,000, or 2%; and net sales at RFL decreased by $1,623,000, or 7%. SL-MTI benefited from $2,617,000 of sales related to the Astromec acquisition which was completed on February 27, 2012.

In 2012, the Company s income from operations was $12,901,000, compared to $18,534,000 in 2011, representing a decrease of $5,633,000 or 30%. Income from operations was 6% of sales compared to income from operations of 9% in 2011. All of the Company s operating entities recorded income from operations in 2012 and 2011. SL-MTI incurred $434,000 of direct acquisition costs related to the Astromec acquisition.

Income from continuing operations in 2012 was $9,357,000, or $2.16 per diluted share, compared to income from continuing operations in 2011 of $12,835,000, or $2.80 per diluted share. Income from continuing operations was approximately 5% of net sales in 2012, compared to income from continuing operations of 6% of net sales in 2011. In 2012 and 2011, income from continuing operations benefited from research and development tax credits by approximately $512,000 and $717,000, or $0.12 and $0.16 per diluted share, respectively. Also, in 2012 and 2011, restructuring costs of $857,000 and $261,000 ($616,000 and $182,000, net of tax) had a negative impact of approximately $0.14 and $0.04 per diluted share, respectively.

The Company s business segments and the components of operating expenses are discussed in the following sections.

SLPE

SLPE recorded net sales of $77,869,000, or 39% of consolidated net sales in 2012, compared to $91,066,000, or 43% of consolidated net sales in 2011. At SLPE, the net sales of its medical equipment product line decreased by $6,581,000, or 11%, sales of the industrial product line decreased by $3,055,000, or 21%, sales of the data communications product line decreased by $2,250,000, or 17%, and sales of other products decreased $1,311,000, or 55%. The decrease in sales of the medical equipment product line was primarily due to decreased distributor sales to medical customers, including decreased sales volumes to several large domestic distributors and one large international distributor. The decrease was also due to a general decline in demand in both the domestic and international markets. The decrease in sales in the industrial product line was primarily due to decreased distributor sales to industrial customers, including decreased sales volumes to one large domestic distributor. The decrease was also due to a decrease in sales volumes to a large international customer during 2012. The decrease in sales of the data communications product line was primarily due to decreased sales volumes to a large domestic customer and a general decline in demand in this market segment, which was partially offset by sales to a new large domestic customer. The decrease in sales of other products was primarily due to a decrease in volumes as a result of a shift in focus to standard platform products and services. Returns and distributor credits also negatively affected net sales, which represented approximately 2% and 1% of gross sales in 2012 and 2011, respectively. Domestic sales decreased by 10% and international sales decreased by 25% during 2012.

Table of Contents

SLPE reported income from operations of $2,487,000 in 2012, compared to income from operations of $7,825,000 in 2011. Income from operations decreased in 2012 due to a 14% decrease in sales, and an increase in cost of products sold as a percentage of net sales, which were partially offset by a decrease in operating expenses. Cost of products sold increased by approximately 3% as a percentage of net sales during 2012. Operating costs decreased by approximately 5% during 2012, or $906,000, primarily due to a decrease in engineering and product development costs of $1,382,000 and a decrease in depreciation and amortization expense of $280,000, which was partially offset by an increase in restructuring charges of $525,000 and an increase in selling, general and administrative expenses of $231,000. Included in selling, general and administrative expenses are $844,000 of charges related to the China Investigation.

High Power Group

The High Power Group reported net sales of $65,283,000, or 32% of consolidated net sales in 2012, compared to $63,027,000, or 30% of consolidated net sales in 2011. The increase in net sales during 2012 was due to an increase in sales at MTE of $1,761,000, or 6%, and an increase in sales at Teal of $495,000, or 2%.

MTE s sales increase during 2012 was primarily attributable to an increase in sales to the natural resource markets, especially the oil and gas industry, an increase in sales in the shipboard marine market, and an increase in sales to the commercial facilities market, which was partially offset by a decrease in sales to the general industrial automation market. Domestic sales increased by 7% while international sales increased by 3%. The increase in domestic sales was primarily due to increased filter sales to several customers in the oil and gas industry sales, as well as increased sales to one large customer in the shipboard marine market and increased sales to one large customer in the commercial facilities market. The overall sales increase was also aided by the introduction of a new filter product line and certain price actions taken by MTE. The increase in sales was partially offset by a decline in sales to one large OEM in the general industrial automation market. The increase in international sales was primarily due to increased sales to OEMs in the general industrial automation market and commercial facilities market, which was partially offset by decreased sales to a large oil and gas customer.

Teal s sales increase was primarily attributable to an increase in sales to customers in the solar market of $2,668,000, which was partially offset by a decrease in sales to the military and aerospace markets of $1,288,000, and a decrease in sales to the semi-conductor market of $730,000. Sales to customers in the medical equipment market were relatively flat in 2012. Teal s sales to customers in the solar market increased primarily due to a new focus for expansion and growth in the solar market, which included a large order from a large domestic customer during 2012. Sales to military and aerospace customers decreased during 2012 primarily due to decreased volumes to a large domestic customer, partially offset by increased sales to several smaller domestic customers. The decrease in the semi-conductor market was almost entirely driven by a decrease in sales to international customers. Domestic sales increased by 2% and international sales decreased by 1% during 2012.

Table of Contents

The High Power Group reported income from operations of $6,822,000 in 2012, which represented a decrease of 2% from 2011. The decrease in income from operations during 2012 was due to a decrease at TEAL of $1,091,000, which was almost entirely offset by an increase at MTE of $973,000. The decrease in the High Power Group s income from operations was due to an increase in operating expenses, which was partially offset by an improvement in cost of products sold as a percentage of net sales and an increase in net sales. Cost of products sold as a percentage of net sales improved by approximately 1% at the High Power Group. Operating expenses increased by approximately 11% during 2012 primarily due to an increase in selling, general and administrative expenses of $951,000 and an increase in engineering and product development costs of $246,000.

SL-MTI

SL-MTI recorded net sales of $36,223,000, or 18% of consolidated net sales in 2012, compared to $35,413,000, or 16% of consolidated net sales in 2011. SL-MTI recorded $2,617,000 of sales related to the Astromec acquisition during the 2012. As a result, comparable sales, net of the acquisition, decreased by $1,807,000, or 5%, during 2012 as compared to 2011. Sales to customers in the defense industry, excluding the acquisition, decreased by $2,331,000, or 11%, which was partially offset by an increase in other commercial products, excluding Astromec sales, of $245,000, or 12%, an increase in sales of medical products, excluding Astromec sales, of $156,000, or 23%, and an increase in sales to customers in the commercial aerospace industries, excluding Astromec sales, of $123,000, or 1%. Domestic sales increased by 3% and international sales decreased by 5% during 2012. The increase in domestic sales was primarily due to $2,617,000 of sales related to the Astromec acquisition previously mentioned, which was partially offset by a decrease in military sales. The decrease in international sales was primarily related to lower volumes to two large military customers, partially offset by a large customer order in Australia, an increase in sales to customers in the medical industry and an increase in sales to customers in the oil and gas industry.

SL-MTI reported income from operations of $6,292,000 in 2012, which represented an increase of 1% from 2011. SL-MTI recorded $434,000 of direct costs related to the Astromec acquisition during 2012. Excluding the one-time acquisition costs, income from operations increased by $507,000, or 8%, in 2012. The increase was due to an improvement in cost of products sold as a percentage of net sales, which was partially offset by an increase in operating expenses. Cost of products sold improved by approximately 1% as a percentage of net sales during 2012. Operating expenses increased by 4%, excluding acquisition costs, primarily due to an increase in selling, general and administrative expenses of $183,000, excluding acquisition costs, and an increase in depreciation and amortization expense of $122,000, which were partially offset by a decrease in engineering and product development costs of $113,000.

Table of Contents

RFL

RFL recorded net sales of $21,202,000, or 11% of consolidated net sales in 2012, compared to $22,825,000, or 11% of consolidated net sales in 2011. Sales of RFL s protection products decreased by $1,409,000, or 12%, sales of communication products decreased $406,000, or 4%, which was partially offset by an increase in customer service sales of $192,000, or 21%. The decrease in protection products was primarily due to large international customer project in 2011 without a comparable project of that size in 2012 and decreased legacy product sales. The decrease in the communications product line was primarily due to decreased sales to a large domestic customer and decreased sales to an international customer located in Venezuela, which were partially offset by increased sales to a large domestic customer in the rail industry and a new large customer project in the utilities industry. Customer service sales increased primarily due to higher spare parts sales to a domestic customer. Domestic sales decreased by $2,292,000 or 12%, while international sales increased by $669,000, or 16%.

RFL reported income from operations of $2,763,000 in 2012, which represented a decrease of 13% from 2011. Income from operations decreased in 2012 due to a decrease in net sales, which was partially offset by an improvement in cost of products sold as a percentage of net sales. Cost of products sold as a percentage of net sales improved by approximately 2% in 2012. Operating expenses were relatively flat primarily due to an increase in engineering and product development costs of $175,000 and restructuring charges of $67,000, which were primarily offset by a decrease in selling, general, and administrative expenses of $156,000 and decrease in depreciation and amortization expenses of $58,000.

Cost Of Products Sold

Cost of products sold was approximately 68% of net sales in 2012 and 2011, respectively. The cost of products sold as a percentage of net sales remained relatively flat on a decrease in net sales of 6%.

SLPE recorded an increase in cost of products sold as a percentage of net sales, while the High Power Group, SL-MTI and RFL each recorded a decrease in cost of products sold as a percentage of sales. SLPE s cost of products sold as a percentage of net sales increased by approximately 3% primarily due to unabsorbed manufacturing overhead related to reduced sales and an unfavorable sales mix. SLPE s cost of products sold as a percentage of net sales also increased due to increases in their inventory reserve and an increase in social security tax in China. The High Power Group recorded a 1% decrease in its cost of products sold as a percentage of net sales due to a 4% decrease at MTE, which was partially offset by a 3% increase at TEAL. The decrease in cost of products sold as a percentage of net sales at MTE was primarily due to increased sales levels, which improved overhead absorption. The decrease at MTE was also due to lower commodity costs, increased product pricing, a more favorable product mix, improved efficiencies at the Mexicali plant, and favorable foreign exchange rates. The increase in cost of products sold as a percentage of net sales at TEAL was primarily due to an unfavorable sales mix and increased overhead spending. During 2012, SL-MTI recorded a 1% decrease in its cost of products sold as a percentage of net sales primarily due to lower overhead spending, lower warranty costs, and lean initiatives implemented at its manufacturing facilities in Matamoros, Mexico and Montevideo, Minnesota. The decrease in SL-MTI s cost of products sold as a percentage of net sales was partially offset by an increase in cost of products sold as a percentage of net sales due to the integration of Astromec operations during the first half of the year. Cost of products sold as a percentage of net sales decreased by approximately 2% at RFL due to a favorable change in customer and sales mix during the first half of 2012.

All operating entities are at various stages of emphasizing lean initiatives throughout the factory floor in an attempt to improve future margins. During the third quarter of 2012, the management of SLPE, RFL, and TEAL, which is part of the High Power Group, announced to its employees a restructuring plan to align its costs with current and projected sales activity (See the Restructuring Costs section located below and Note 23 for additional information).

Engineering And Product Development Expenses

Engineering and product development expenses were approximately 6% of net sales in 2012 and 2011, respectively. Engineering and product development expenses decreased by $1,074,000, or 8% during 2012 primarily due to a decrease of $1,382,000 at SLPE and a decrease of $113,000 at SL-MTI, which were partially offset by an increase of $246,000 at the High Power Group and increase of $175,000 at RFL. The decrease in engineering and product development costs at SLPE was primarily due to a reduction in engineering staff in 2012. The decrease in engineering and product development costs at SL-MTI was primarily due to a decrease in employee recruiting and relocation expenses during 2012. The increase in engineering and product development costs at the High Power Group was primarily due to an increase at TEAL due to increased consulting costs and a decrease in customer reimbursement for new product development in 2012. Engineering and product development costs at RFL increased primarily due to an increase in engineering staff and an increase in consulting expenses in 2012.

Selling, General And Administrative Expenses

Selling, general and administrative expenses were approximately 18% of net sales for 2012 and 16% of net sales for 2011. During 2012, selling, general and administrative expenses increased by $1,394,000, or 4%, on a 6% decrease in sales.

SLPE s expenses increased by $231,000 in 2012 primarily due to an increase in consulting and legal fees related to the China Investigation, which was partially offset by lower commission expenses due to reduced sales volumes in 2012 and a decrease in executive bonus expense. The High Power Group recorded an increase in selling, general and administrative expenses of $951,000 primarily due to an increase in selling, general and administrative expenses at MTE of $882,000 and an increase at TEAL of $69,000. MTE s expenses increased primarily due to litigation costs related to settlement proceedings which have been resolved, and increased selling expenses related to increased sales and new product growth. The increase at the TEAL was primarily due to increased salaries and commissions, partially offset by a decrease in executive bonus expense. SL-MTI increased by $617,000 primarily due to direct costs related to the Astromec acquisition of $434,000. Selling, general and administrative expenses at RFL decreased by $156,000 primarily due to decreased salaries and other employee compensation expenses as a result of reduced headcount, which were partially offset by increased consulting costs for marketing services. Unallocated Corporate Expenses decreased by $176,000 primarily due to a decrease in executive bonus expense and reduced professional fees, primarily related to legal and consulting fees, partially offset by an increase in stock compensation expense related to restricted shares granted to the Company s Directors on April 2, 2012. During the third quarter of 2012, the management of SLPE, RFL, and TEAL, which is part of the High Power Group, announced to its employees a restructuring plan to align its costs with current and projected sales activity (See Note 23 for additional information).

Depreciation And Amortization Expenses

Depreciation and amortization expenses were approximately 1% of net sales in 2012 and 2011, respectively.

Table of Contents

Restructuring Costs

Restructuring costs were $857,000 in 2012 compared to $261,000 in 2011 and consisted of severance costs and other employee related charges. During the third quarter of 2012, the Company announced to its employees a restructuring plan to align its costs with current and projected sales activity. The cost reductions were primarily direct labor employees and engineering, selling and administration employees at SLPE, RFL, and TEAL, which is part of the High Power Group. During the fourth quarter of 2011, the Company announced a restructuring plan to reduce certain costs of sales and certain operating expenses, including engineering, selling and administration at SLPE and TEAL.

Amortization Of Deferred Financing Costs

In connection with entering into the 2012 Credit Facility, the Company incurred deferred financing costs which will be amortized over the term of the 2012 Credit Facility. In connection with entering into the 2008 Credit Facility and related waivers and amendments, the Company incurred deferred financing costs which were amortized over the term of the 2008 Credit Facility. During 2012 and 2011, the amortization of deferred financing costs equaled $138,000 and $218,000, respectively.

Interest Income And Interest Expense

In 2012, interest income was $5,000, compared to $3,000 in 2011. Interest expense in 2012 was $48,000, compared to $179,000 in 2011. The decrease in interest expense in 2012 was primarily due to decreased borrowings under the Company s new 2012 Credit Facility and under the Company s 2008 Credit Facility, which expired on August 9, 2012, compared to the same period in 2011. The Company had no outstanding balance as of December 31, 2012 under the 2012 Credit Facility and no outstanding balance as of December 31, 2011 under the 2008 Credit Facility.

Fire Related Gain (Loss), Net

On March 24, 2010, the Company sustained fire damage at its then leased manufacturing facility in Mexicali, Mexico. This facility manufactured products for both SLPE and MTE. The fire was contained to an area that manufactured MTE products. The Company was fully insured for the replacement of the assets damaged in the fire and for the loss of profits due to business interruption and changed conditions caused by the fire. 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.

During June 2011, the Company settled the fire damage claims with its insurance carriers for $810,000 and as a result the Company recorded a gain related to the fire of $277,000. No additional material gains, losses or recoveries were recognized in subsequent periods related to the fire loss.

Other gain (loss), net

Other gain (loss), net in 2012 was a net gain of $302,000 while no gain or loss was recorded in 2011. During 2012, the Company entered into a series of foreign currency forward contracts to hedge its exposure to foreign exchange rate movements in its forecasted expenses in China and Mexico. The Company recognized a $243,000 gain in 2012, which represents the unrealized gain on foreign currency forward contracts that are marked to market. The Company did not enter into foreign exchange contracts during 2011. Other gain (loss), net also includes a $59,000 gain recognized on the sale of the Company s investment in RFL Communications during 2012.

Table of Contents

Taxes (Continuing Operations)

The effective tax rate was approximately 28% in 2012 as compared to approximately 30% in 2011. The decrease in the effective tax rate during 2012 was due to a 1% decrease in both the tax rate differential on domestic manufacturing deduction benefit and the state income tax expense, net of federal benefit.

Discontinued Operations

Loss from discontinued operations was $1,580,000, net of tax, in 2012 as compared to $4,637,000, net of tax, in 2011. Loss from discontinued operations during 2012 primarily related to environmental remediation costs, consulting fees, legal charges, and certain claims associated with the past operations at the Company s five environmental sites (See Note 15 Commitments and Contingencies for further information concerning the environmental sites).

During the fourth quarter of 2011, the Company recorded a $5,151,000, net of tax, charge related to estimated environmental remediation liabilities associated with the Pennsauken Site. The remaining loss from discontinued operations during 2011 was related to environmental remediation costs, consulting fees, and legal charges associated with the past operations of the Company s other four environmental sites. The charges mentioned above were partially offset by a favorable settlement with a foreign tax authority which was recorded as part of discontinued operations. The settlement was associated with the Company s Elektro-Metall Export GmbH subsidiary, which was sold in January 2003. As a result, during the second quarter of 2011, the Company recognized a previously unrecognized tax position related to the settlement in the amount of $787,000 ($619,000 tax and $168,000 interest). The tax settlement had no impact on the Company s cash flows.

For a discussion of potential environmental liabilities, see Item 3. Legal Proceedings included in Part I of this Annual Report on Form 10-K.

Net Income

Net income was $7,777,000, or $1.80 per diluted share, for 2012 compared to $8,198,000, or $1.79 per diluted share, for 2011. The weighted-average number of shares used in the diluted earnings per share computation was 4,330,000 and 4,573,000 for 2012 and 2011, respectively.

Table of Contents

Year Ended December 31, 2011 Compared With Year Ended December 31, 2010

	Net Sales Years Ended December 31, 2011	2010	$ Variance	% Variance
	(in thousands)			
SLPE	$ 91,066	$ 79,615	$ 11,451	14%
High Power Group	63,027	56,494	6,533	12
SL-MTI	35,413	31,261	4,152	13
RFL	22,825	22,398	427	2
Net Sales	$ 212,331	$ 189,768	$ 22,563	12%

	Income from Operations Years Ended December 31, 2011	2010	$ Variance	% Variance
	(in thousands)			
SLPE	$ 7,825	$ 6,389	$ 1,436	22%
High Power Group	6,940	5,418	1,522	28
SL-MTI	6,219	4,801	1,418	30
RFL	3,189	2,990	199	7
Unallocated Corporate Expenses	(5,639)	(6,350)	711	11
Income from Operations	$ 18,534	$ 13,248	$ 5,286	40%

During 2011, consolidated net sales increased by $22,563,000, or 12%. When compared to 2010, net sales of the Power Electronics Group increased by $17,984,000, or 13%; net sales of SL-MTI increased by $4,152,000, or 13%; and net sales of RFL increased by $427,000, or 2%.

In 2011, the Company s income from operations was $18,534,000, compared to $13,248,000 in 2010, representing an increase of $5,286,000 or 40%. Income from operations was 9% of sales compared to income from operations of 7% in 2010. All of the Company s operating entities recorded income from operations in 2011 and 2010.

Income from continuing operations in 2011 was $12,835,000, or $2.80 per diluted share, compared to income from continuing operations in 2010 of $9,782,000, or $1.68 per diluted share. Income from continuing operations was approximately 6% of net sales in 2011, compared to income from continuing operations of 5% of net sales in 2010. In 2011 and 2010, income from continuing operations benefited from research and development tax credits by approximately $717,000 and $667,000, or $0.16 and $0.11 per diluted share, respectively. Also, restructuring costs in 2011 of $261,000 ($182,000, net of tax) had a negative impact of approximately $0.04 per diluted share.

The Company s business segments and the components of operating expenses are discussed in the following sections.

Table of Contents

SLPE

SLPE recorded net sales of $91,066,000, or 43% of consolidated net sales in 2011, compared to $79,615,000, or 42% of consolidated net sales in 2010. At SLPE, the net sales of its medical equipment product line increased by $11,658,000, or 24%. Sales of the industrial product line increased by $2,446,000, or 20%, while sales of the data communications product line decreased by $1,845,000, or 12%. The increase in sales of the medical equipment product line was primarily due to increased sales volumes to several large domestic and international customers during 2011. The increase in sales of the industrial product line was primarily due to a large international customer order in 2011. The decrease in sales of the data communications product line was primarily due to a decrease in volumes to a large international customer in 2011. Returns and distributor credits also affected net sales, which represented approximately 1% and 2% of gross sales in 2011 and 2010, respectively. Domestic sales increased by 11% and international sales increased by 27% during 2011.

SLPE reported income from operations of $7,825,000 in 2011, compared to income from operations of $6,389,000 in 2010. Income from operations increased in 2011 due to an increase in sales and a decrease in operating expenses as a percentage of net sales. Operating costs decreased by approximately 1% (excluding restructuring costs of $207,000) as a percentage of net sales during 2011 due primarily to a decrease in engineering and product development costs as a percentage of net sales. SLPE s cost of products sold was relatively flat as a percentage of net sales during 2011 and 2010.

High Power Group

The High Power Group reported net sales of $63,027,000, or 30% of consolidated net sales in 2011, compared to $56,494,000, or 30% of consolidated net sales in 2010. The increase in net sales during 2011 was due to an increase in sales at MTE of $6,180,000, or 25%, and an increase in sales at Teal of $353,000, or 1%.

MTE s sales increase is primarily attributable to an increase in sales to OEMs and distributors during 2011, especially in the industrial automation industry and the oil and gas industry. International sales increased 32%, while domestic sales increased 23%. The increase in international sales is primarily due to several large customer orders due to increased efforts to expand to markets in Mexico and South America, especially in the industrial automation and oil and gas markets. The increase in domestic sales is due to an across the board increase in all of MTE s markets, especially in the industrial automation market and the oil and gas market.

Teal s sales increase is attributable to an increase in sales to the military and aerospace industries of $1,667,000, or 73%, partially offset by decreases in sales to the medical industry of $963,000 or 4%, semi-conductor market of $216,000 or 8%, and other product lines of $135,000 or 32%. Sales to military and aerospace customers increased during 2011 primarily due to increased volumes to a large domestic customer. Sales to medical imaging equipment manufacturers decreased primarily due to lower volumes to several large domestic customers. The decrease in the semi-conductor is almost entirely driven by a decrease in sales to a large international customer. Other product lines net sales decreased primarily due to a decrease in repair and maintenance activities. Domestic sales increased by 2% and international sales decreased by 5% during 2011.

Table of Contents

The High Power Group reported income from operations of $6,940,000 in 2011, which represented an increase of 28% from 2010. The increase in income from operations during 2011 was due to an increase at MTE of $1,499,000 and an increase at Teal of $23,000. The increase in the High Power Group s income from operations is due to an increase in sales coupled with a decrease in cost of sales as a percentage of net sales. Cost of sales decreased by approximately 1% as a percentage of net sales during 2011. Operating expenses as a percentage of net sales remained relatively flat during 2011 and 2010.

SL-MTI

SL-MTI recorded net sales of $35,413,000, or 16% of consolidated net sales in 2011, compared to $31,261,000, or 16% of consolidated net sales in 2010. During 2011, sales to customers in the commercial aerospace industries increased by $2,535,000, or 26%, sales to customers in the defense industry increased by $863,000, or 4%, sales of other commercial products increased by $651,000, or 47%, and sales of medical products increased by $103,000, or 18%. Domestic sales increased by 31% and international sales decreased by 40% during 2011. The increase in domestic sales is primarily due to higher volumes to several customers in the aerospace, military, and oil and gas industries. The decrease in international sales was primarily related to lower volumes to a military customer located in Canada.

SL-MTI reported income from operations of $6,219,000 in 2011, which represented an increase of 30% from 2010. The increase in income from operations during 2011 was due to an increase in sales, a decrease in cost of sales as a percentage of net sales, and a decrease in operating expenses as a percentage of net sales. Cost of sales decreased by approximately 1% as a percentage of net sales during 2011. Operating costs decreased by approximately 1% as a percentage of net sales during 2011 primarily due to a decrease in SG&A as a percentage of net sales.

RFL

RFL recorded net sales of $22,825,000, or 11% of consolidated net sales in 2011, compared to $22,398,000, or 12% of consolidated net sales in 2010. Sales of RFL s protection products increased by $383,000, or 3%. The increase in protection products is primarily related to a new large international customer project without a comparable project during 2010. Sales in the communications product line were relatively flat during 2011 and 2010, primarily due to high volumes of a new product, partially offset by decreased legacy communication product sales. Customer service sales remained relatively flat. Domestic sales increased by $962,000, or 5%, while international sales decreased by $535,000, or 11%. The increase in domestic sales is primarily due to a large customer order in the production products line and new product growth in the communications product line. The decrease in international sales is primarily due to decreases in communication product sales of $1,314,000 to customers located in Canada, China, and Mexico, partially offset by increases of $814,000 in protection product sales to customers located in Spain and Venezuela.

RFL reported income from operations of $3,189,000 in 2011, which represented an increase of 7% from 2010. Income from operations increased in 2011 due to an increase in sales and a decrease in operating expenses as a percentage of net sales, partially offset by an increase in cost of sales as a percentage of net sales. Operating expenses as a percentage of net sales decreased by approximately 3% due to a decrease in SG&A costs as a percentage of net sales. Cost of products sold as a percentage of net sales increased by approximately 2% in 2011.

Table of Contents

Cost Of Products Sold

Cost of products sold was approximately 68% of net sales in 2011 and 2010. The cost of products sold as a percentage of net sales remained relatively flat on an increase in net sales of 12%. The High Power Group and SL-MTI recorded decreases in their cost of products sold as a percentage of net sales of approximately 1%. The decreases at the High Power Group and SL-MTI are partially offset by RFL, which recorded an increase in cost of products sold as a percentage of net sales of approximately 2%. The High Power Group had a decrease in its cost of products sold percentage primarily due to high sales volume, lean initiatives and improved supply chain management. SL-MTI s decrease in cost of products sold as a percentage of net sales is primarily due to high volume of sales and lean initiatives implemented primarily at its manufacturing facility in Matamoros, Mexico. RFL s increase in the percentage of cost of products sold was primarily due to an unfavorable customer and product mix. SLPE s cost of products sold was relatively flat as a percentage of net sales in 2011. All operating entities are at various stages of implementing lean initiatives through the factory floor to reduce cost of products sold.

Engineering And Product Development Expenses

Engineering and product development expenses were approximately 6% of net sales in 2011, compared to 7% in 2010. Engineering and product development expenses increased by $156,000, or 1%, during 2011 due to a $272,000 increase at the High Power Group, a $150,000 increase at SL-MTI, and a $50,000 increase at RFL, which was partially offset by a $316,000 decrease at SLPE. The increases in engineering and product development expenses were primarily driven by increased compensation expense and continued investment in new programs and products during 2011. The decrease in engineering and product development expenses at SLPE was primarily due to a shift of engineering and product development costs to lower cost locations.

Selling, General And Administrative Expenses

Selling, general and administrative expenses were approximately 16% of net sales for 2011 and 17% of net sales for 2010. Selling, general and administrative expenses increased by $1,607,000, or 5%, on a 12% increase in sales. SLPE s expenses increased by $1,966,000, compared to 2010, due to an increase in sales related costs, compensation expenses, and severance paid to the former president of SLPE. The High Power Group recorded an increase in selling, general and administrative expenses of $687,000, due to the addition of employees and increased commissions and compensation expense due to higher sales levels. SL-MTI increased by $162,000, primarily related to increased commissions and compensation expense due to higher sales volumes. The increases at SLPE, the High Power Group and SL-MTI were partially offset by a $468,000 decrease in selling, general and administrative expense at RFL. The decrease at RFL was primarily due to decreased sales and commissions expenses. Unallocated Corporate Expenses decreased by $711,000, or 11%, primarily related to decreased professional fees and severance costs paid to two former executives in 2010.

Depreciation And Amortization Expenses

Depreciation and amortization expenses were approximately 1% of net sales in 2011 and 2% in 2010, respectively.

Table of Contents

Restructuring Costs

Restructuring costs were $261,000 in 2011 and consisted of severance costs and other employee related charges. No restructuring costs were incurred during 2010. The purpose of the restructuring plan was to reduce certain costs of sales and certain operating expenses, including engineering, selling and administration at SLPE and TEAL.

Amortization Of Deferred Financing Costs

In connection with entering into the 2008 Credit Facility and related waivers and amendments, the Company incurred deferred financing costs which are amortized over the term of the 2008 Credit Facility in accordance with the guidance provided by ASC 470-50 Debt-Modification and Extinguishments. During 2011 and 2010, the amortization of deferred financing costs equaled $218,000 and $252,000, respectively.

Fire Related Loss, Net

On March 24, 2010, the Company sustained fire damage at its then leased manufacturing facility in Mexicali, Mexico. This facility manufactured products for both SLPE and MTE. The fire was contained to an area that manufactured MTE products. The Company was fully insured for the replacement of the assets damaged in the fire and for the loss of profits due to business interruption and changed conditions caused by the fire. 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 indemnification for these costs, net of applicable adjustments and deductibles.

During June 2011, the Company settled the fire damage claims with its insurance carriers for $810,000 and as a result the Company recorded a gain related to the fire of $277,000. The Company had recorded estimated insurance recoveries of $533,000 as of December 31, 2010. The Company received $610,000 from its insurance carriers on July 15, 2011 since the Company received a $200,000 advance from its carrier related to the fire loss in July 2010. No additional material gains, losses or recoveries are expected to be recognized in subsequent periods related to the fire loss.

During 2010, the Company recorded $642,000 of estimated fire related losses and $533,000 of estimated insurance recoveries, for an estimated net loss of $109,000.

Interest Income And Interest Expense

In 2011, interest income was $3,000, compared to $2,000 in 2010. Interest expense in 2011 was $179,000, compared to $86,000 in 2010. The increase in interest expense was primarily due to higher debt levels during 2011, compared to the same period in 2010. During October 2010, $7,500,000 of borrowings were incurred to pay for the Tender Offer and $3,000,000 of borrowings were incurred during December 2010 to pay for the repurchase of Company shares held by the Company s defined contribution plan. Borrowings were repaid in full during the fourth quarter of 2011.

Table of Contents

Taxes (Continuing Operations)

The effective tax rate for 2011 was approximately 30%. In 2010, the effective tax rate was 24%. The effective tax rate on continuing operations was impacted by the change in both the federal statutory tax rate and a change in the estimated effective state tax rates. During 2011, the Company s federal statutory tax rate increased from 34% to 35% due to the increase in the Company s earnings. In addition, the Company s policy is to periodically review the effective state tax rates for its deferred taxes based on the most recently filed tax returns. As a result, during the fourth quarter of 2011 the Company increased its effective state tax rate to reflect the future tax expected to be paid in relation to its pre-tax financial statement income.

Discontinued Operations

Loss from discontinued operations, net of tax, was $4,637,000 in 2011 as compared to $7,226,000, net of tax, in 2010. During the fourth quarter of 2011, the Company recorded a $5,151,000, net of tax, charge related to estimated environmental remediation liabilities associated with the Pennsauken Site. The remaining loss from discontinued operations during 2011 was related to environmental remediation costs, consulting fees, and legal charges associated with the past operations of the Company s other four environmental sites. The charges mentioned above were partially offset by a favorable settlement with a foreign tax authority which was recorded as part of discontinued operations. The settlement was associated with the Company s Elektro-Metall Export GmbH subsidiary, which was sold in January 2003. As a result, during the second quarter of 2011, the Company recognized a previously unrecognized tax position related to the settlement in the amount of $787,000 ($619,000 tax and $168,000 interest). The tax settlement had no impact on the Company s cash flows.

During 2010, the loss from discontinued operations was primarily related to ongoing environmental remediation and legal costs associated with the Pennsauken Site and Camden Site. During the fourth quarter of 2010, the Company recorded a $5,132,000, net of tax, charge related to estimated environmental remediation liabilities associated with the Pennsauken Site. During the second quarter of 2010, the Company recorded a $784,000, net of tax, charge related to estimated environmental remediation liabilities associated with the Camden Site.

For a discussion of potential environmental liabilities, see Item 3. Legal Proceedings included in Part I of this Annual Report on Form 10-K.

Net Income

Net income was $8,198,000, or $1.79 per diluted share, for 2011 compared to $2,556,000, or $0.44 per diluted share, for 2010. The weighted-average number of shares used in the diluted earnings per share computation was 4,573,000 and 5,811,000 for 2011 and 2010, respectively.

New Accounting Pronouncements To Be Adopted

For a discussion on the impact of recently issued accounting pronouncements, see New Accounting Standards in the Consolidated Financial Statements incorporated by reference in Item 8. Financial Statements and Supplementary Data in Part IV of this Annual Report on Form 10-K.

Environmental

See Item 3. Legal Proceedings in Part I of this Annual Report on Form 10-K.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements and supplementary data, together with the report of Grant Thornton LLP, independent registered public accounting firm, are included in Part IV of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures, as such term is defined in Rules 13a-15e and 15d-15e promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K. Such controls and procedures are designed to ensure that all material information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is accumulated and communicated as appropriate to allow timely decisions regarding required disclosure and that all such information is recorded, processed, summarized and reported as specified in the rules and forms of the SEC.

Management s Annual Report on Internal Control over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). The Company s internal control over financial reporting is designed to provide reasonable assurance to the Company s management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with GAAP.

The Company s internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the Company s transactions and dispositions of the Company s assets;

provide reasonable assurance that the Company s transactions are recorded as necessary to permit preparation of the Company s financial statements in accordance with GAAP, and that the Company s receipts and expenditures are being made only in accordance with authorizations of the Company s management and the Company s directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on its financial statements.

Table of Contents

Because of its inherent limitations, internal control over financial reporting cannot prevent or detect every potential misstatement. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

The Company s management conducted an evaluation of the effectiveness of the Company s internal control over financial reporting, based on the framework and criteria established in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company s management assessed the effectiveness of the Company s internal control over financial reporting for the year ended December 31, 2012 and concluded that such internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s auditors pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management s report in this annual report.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended December 31, 2012, there were no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Apart from certain information concerning the Company s executive officers, which is set forth in Part I of this Annual Report on Form 10-K, the information required under this Item is incorporated herein by reference to the applicable information in the Proxy Statement for the Company s 2013 Annual Meeting of Shareholders.

Table of Contents

ITEM 11. EXECUTIVE COMPENSATION

The information required under this Item is incorporated herein by reference to the applicable information in the Proxy Statement for the Company s 2013 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this Item is incorporated herein by reference to the applicable information in the Proxy Statement for the Company s 2013 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required under this Item is incorporated herein by reference to the applicable information in the Proxy Statement for the Company s 2013 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required under this Item is incorporated herein by reference to the applicable information in the Proxy Statement for the Company s 2013 Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The information required by this Item is included elsewhere in this Annual Report on Form 10-K. Consolidated financial statements and supplementary data, together with the report of Grant Thornton LLP, independent registered public accounting firm, are filed as part of this Report. See Index at page F-1 to Consolidated Financial Statements included in Part IV of this Annual Report on

Form 10-K.

(a) (2) Financial Statement Schedules

The following financial statement schedule for the years ended December 31, 2012, December 31, 2011 and December 31, 2010 are submitted herewith:

Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because (a) the required information is shown elsewhere in this Annual Report on Form 10-K, or (b) they are inapplicable, or (c) they are not required.

See Index at page F-1 to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

(a) (3) Exhibits

The information required by this Item is listed in the Exhibit Index of this Annual Report on Form 10-K.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SL INDUSTRIES, INC.
(Company)

By /s/ William T. Fejes Date: March 28, 2013
William T. Fejes

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints jointly and severally, Glen M. Kassan and William T. Fejes, or either of them as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney as of the date indicated.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the date indicated.

By /s/ Glen M. Kassan Glen M. Kassan Chairman of the Board	Date: March 28, 2013
By /s/ William T. Fejes William T. Fejes President and Chief Executive Officer (Principal Executive Officer)	Date: March 28, 2013
By /s/ Louis J. Belardi Louis J. Belardi Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	Date: March 28, 2013
By /s/ Warren G. Lichtenstein Warren G. Lichtenstein Director	Date: March 28, 2013
By /s/ Avrum Gray Avrum Gray Director	Date: March 28, 2013
By /s/ James A. Risher James A. Risher Director	Date: March 28, 2013
By /s/ Mark E. Schwarz Mark E. Schwarz Director	Date: March 28, 2013

Table of Contents

INDEX TO EXHIBITS

The exhibit number, description and sequential page number in the original copy of this document where exhibits can be found as follows:

Exhibit #	Description
2.1	Securities Purchase Agreement by and among SL Industries, Inc., SL Industries Vertrieb GmbH, and DCX-Chol Holding GmbH, DCX-Chol Enterprises, Inc. and Chol Enterprises, Inc. dated as of January 3, 2003. Incorporated by reference to Exhibit 2.1 to the Company s report on Form 8-K filed with the Securities and Exchange Commission on January 17, 2003.
2.2	Agreement and Plan of Merger, dated December 16, 2005, by and among SL Industries, Inc., Lakers Acquisition Corp. and Ault Incorporated. Incorporated by reference to Exhibit 2.1 to the Company s report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2005.
2.3	Stock Purchase Agreement, dated October 31, 2006 by and among SL Industries, Inc., Norbert D. Miller, Revocable Living Trust of Fred A. Lewis and Margaret Lange-Lewis U/A dated January 28, 1993, as Amended and Restated as of October 31, 2001 and the Einhorn Family Foundation. Incorporated by reference to Exhibit 10.1 to the Company s report on Form 8-K/A filed with the Securities and Exchange Commission on December 21, 2006.
3.1	Restated Articles of Incorporation. Incorporated by reference to Exhibit 3.1 to the Company s report on Form 10-K for the fiscal year ended December 31, 2000.
3.2	Restated By-Laws. Incorporated by reference to Exhibit 3.2 to the Company s report on Form 10-K for the fiscal year ended December 31, 2000.
10.1*	Supplemental Compensation Agreement for the Benefit of Byrne Litschgi. Incorporated by reference to Exhibit 10.1 to the Company s report on Form 8-K dated November 9, 1990.
10.2*	1991 Long Term Incentive Plan of SL Industries, Inc., as amended, is incorporated by reference to Appendix to the Company s Proxy Statement for its 1995 Annual Meeting held November 17, 1995, previously filed with the Securities and Exchange Commission.
10.3*	2008 Incentive Stock Plan, as amended. Incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-8, filed with the Securities and Exchange Commission on July 29, 2011.

10.4	Amended And Restated Revolving Credit Agreement dated as of October 23, 2008, among Bank of America, N.A., as Agent, various financial institutions party hereto from time to time, as Lenders, SL Industries, Inc., as the parent borrower and, SL Delaware, Inc., SL Delaware Holdings, Inc., MTE Corporation, RFL Electronics Inc., SL Montevideo Technology, Inc., Cedar Corporation, Teal Electronics Corporation, MEX Holdings LLC, SL Power Electronics Corporation, SLGC Holdings, Inc., SLW Holdings, Inc., SL Auburn, Inc., and SL Surface Technologies, Inc. as subsidiary borrowers. Incorporated by reference to Exhibit 10.1 to the Company s report on Form 10-Q for the fiscal quarter ended September 30, 2008.
10.5	First Amendment and Waiver Under Credit Agreement dated as of October 23, 2008, among Bank of America, N.A., as Agent, various financial institutions party hereto from time to time, as Lenders, SL Industries, Inc., as the parent borrower and, SL Delaware, Inc., SL Delaware Holdings, Inc., MTE Corporation, RFL Electronics Inc., SL Montevideo Technology, Inc., Cedar Corporation, Teal Electronics Corporation, MEX Holdings LLC, SL Power Electronics Corporation, SLGC Holdings, Inc., SLS Holdings, Inc., SL Auburn, Inc., and SL Surface Technologies, Inc. as subsidiary borrowers. Incorporated by reference to Exhibit 10.1 to the Company s report on Form 10-Q for the fiscal quarter ended June 30, 2009.
10.6*	Employment Agreement, dated June 29, 2010, between the SL Industries, Inc. and William Fejes, Jr. Incorporated by reference to Exhibit 10.1 to the Company s report on Form 10-Q for the fiscal quarter ended June 30, 2010.
10.7*	Stock Option Agreement, dated June 29, 2010, between the SL Industries, Inc. and William Fejes, Jr. Incorporated by reference to Exhibit 10.2 to the Company s report on Form 10-Q for the fiscal quarter ended June 30, 2010.
10.8*	Separation Agreement and Mutual Release of a former officer, dated as of October 20, 2010. Incorporated by reference to Exhibit 10.1 to the Company s report on Form 10-Q for the fiscal quarter ended September 30, 2010.
10.9*	Separation Agreement and Mutual Release of a former officer, dated as of October 14, 2010. Incorporated by reference to Exhibit 10.2 to the Company s report on Form 10-Q for the fiscal quarter ended September 30, 2010.
10.10*	Change of Control Agreement, dated August 31, 2010, between the SL Industries, Inc. and Louis J. Belardi. Incorporated by reference to Exhibit 10.3 to the Company s report on Form 10-Q for the fiscal quarter ended September 30, 2010.
10.11*	Stock Option Agreement, dated September 2, 2010, between the SL Industries, Inc. and Louis J. Belardi. Incorporated by reference to Exhibit 10.4 to the Company s report on Form 10-Q for the fiscal quarter ended September 30, 2010.

10.12	Second Amendment to Credit Agreement with Bank of America, N.A., dated November 19, 2010, as administrative agent and lender, and a syndicate of other lenders party thereto, further amending that certain Amended and Restated Revolving Credit Agreement entered into as of October 23, 2008 among the Company, subsidiaries of the Company party thereto, Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto. Incorporated by reference to Exhibit 10.17 to the Company s report on Form 10-K for the fiscal year ended December 31, 2010.
10.13	Third Amendment to Credit Agreement, dated March 28, 2011, by and among the Company, Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto, further amending that certain Amended and Restated Revolving Credit Agreement entered into as of October 23, 2008 among the Company, subsidiaries of the Company party thereto, Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto. Incorporated by reference to Exhibit 10.1 to the Company s report on Form 10-Q for the fiscal quarter ended June 30, 2011.
10.14	Fourth Amendment to Credit Agreement, dated July 20, 2011, by and among the Company, Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto, further amending that certain Amended and Restated Revolving Credit Agreement entered into as of October 23, 2008 among the Company, subsidiaries of the Company party thereto, Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto. Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on July 22, 2011.
10.15*	Form of Restricted Stock Unit Grant Letter and Agreement between the Company and each of William Fejes, Jr. and Louis J. Belardi, entered into during the second fiscal quarter of 2011. Incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-8, filed with the Securities and Exchange Commission on July 29, 2011.
10.16*	Form of 2011 Restricted Shares Agreement between the Company and directors of the Company, entered into during the third fiscal quarter of 2011. Incorporated by reference to Exhibit 10.2 to the Company s report on Form 10-Q for the fiscal quarter ended September 30, 2011.
10.17*	Form of Restricted Stock Unit Grant Letter and Agreement between the Company and each of William Fejes, Jr. and Louis J. Belardi, dated February 17, 2012. Form of Restricted Stock Unit Grant Letter and Agreement incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-8, filed with the Securities and Exchange Commission on July 29, 2011.
10.18*	Form of 2012 Restricted Shares Agreement between the Company and each director of the Company, dated April 2, 2012. Incorporated by reference to Exhibit 10.2 to the Company s report on Form 10-Q for the fiscal quarter ended March 31, 2012.

Table of Contents

10.19	Fifth Amendment to Credit Agreement, dated May 29, 2012, by and among the Company, Bank of America, N.A. as administrative agent and lender, and a syndicate of other lenders party thereto, further amending the Amended and Restated Revolving Credit Agreement entered into as of October 23, 2008 among the Company, subsidiaries of the Company party thereto, Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto. Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on May 30, 2012.
10.20	Credit Agreement, dated August 9, 2012, by and among the Company, the Company s subsidiaries, PNC Bank, National Association, as administrative agent, and the lenders from time to time party thereto. Incorporated by reference to Exhibit 10.3 to the Company s report on Form 10-Q for the fiscal quarter ended June 30, 2012.
10.21	Amendment to Credit Agreement, dated March 11, 2013, by and among the Company, the Company s subsidiaries, PNC Bank National Association, as administrative agent and lender, and the lenders from time to time party thereto, amending the Credit Agreement entered into as of August 9, 2012, by and among the Company, the Company s subsidiaries, PNC Bank, National Association, as administrative agent, and the lenders from time to time party thereto. Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on March 12, 2013.
14**	Code of Conduct and Ethics.
21**	Subsidiaries of the Company.
23**	Consent of Independent Registered Public Accounting Firm.
24**	Powers of Attorney (included on the signature page to this Annual Report on Form 10-K).
31.1**	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32***	Certification by Chief Executive Officer and Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS***	XBRL Instance Document.
101.SCH***	XBRL Taxonomy Extension Schema Document.
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document.

* Management contract, or compensatory plan or arrangement.
** Filed herewith.
*** Furnished herewith.

Table of Contents

SL Industries, Inc.

Index to Financial Statements and Financial Statement Schedule

Table of Contents

Report of Independent Registered Public Accounting Firm

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 subsidiaries (the Company) as of December 31, 2012 and 2011, 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, 2012. Our audits of the basic consolidated 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 SL Industries Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

GRANT THORNTON LLP

Philadelphia, Pennsylvania

March 28, 2013

Table of Contents

Item 1. Financial Statements

SL INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,196,000	$ 5,632,000
Receivables, net	30,306,000	31,141,000
Inventories, net	22,102,000	22,599,000
Other current assets	2,098,000	2,074,000
Deferred income taxes, net	3,415,000	4,666,000
Total current assets	61,117,000	66,112,000
Property, plant and equipment, net	9,593,000	9,416,000
Deferred income taxes, net	9,719,000	8,648,000
Goodwill	22,735,000	22,738,000
Other intangible assets, net	2,670,000	3,229,000
Other assets and deferred charges, net	1,303,000	1,083,000
Total assets	$ 107,137,000	$ 111,226,000
LIABILITIES		
Current liabilities:		
Accounts payable	$ 18,838,000	$ 16,875,000
Accrued income taxes	429,000	14,000
Accrued liabilities:		
Payroll and related costs	4,955,000	5,256,000
Other	10,586,000	9,563,000
Total current liabilities	34,808,000	31,708,000
Deferred compensation and supplemental retirement benefits	1,930,000	2,084,000
Other long-term liabilities	19,967,000	20,577,000
Total liabilities	56,705,000	54,369,000
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, 6,656,000 and 6,963,000 shares, respectively	1,331,000	1,393,000
Capital in excess of par value	21,578,000	25,002,000
Retained earnings	52,280,000	52,825,000
Accumulated other comprehensive (loss)	(452,000)	(349,000)
Treasury stock at cost, 2,517,000 and 2,395,000 shares, respectively	(24,305,000)	(22,014,000)

Total shareholders equity	50,432,000	56,857,000
Total liabilities and shareholders equity	$ 107,137,000	$ 111,226,000

See accompanying notes to consolidated financial statements.

Table of Contents

SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31,

	2012	2011	2010
Net sales	$ 200,577,000	$ 212,331,000	$ 189,768,000
Cost and expenses:			
Cost of products sold	136,542,000	143,420,000	128,011,000
Engineering and product development	11,746,000	12,820,000	12,664,000
Selling, general and administrative	35,820,000	34,426,000	32,819,000
Depreciation and amortization	2,711,000	2,870,000	3,026,000
Restructuring charges	857,000	261,000	
Total cost and expenses	187,676,000	193,797,000	176,520,000
Income from operations	12,901,000	18,534,000	13,248,000
Other income (expense):			
Amortization of deferred financing costs	(138,000)	(218,000)	(252,000)
Interest income	5,000	3,000	2,000
Interest expense	(48,000)	(179,000)	(86,000)
Fire related gain (loss), net		277,000	(109,000)
Other gain (loss), net	302,000		
Income from continuing operations before income taxes	13,022,000	18,417,000	12,803,000
Income tax provision	3,665,000	5,582,000	3,021,000
Income from continuing operations	9,357,000	12,835,000	9,782,000
(Loss) from discontinued operations, net of tax	(1,580,000)	(4,637,000)	(7,226,000)
Net income	$ 7,777,000	$ 8,198,000	$ 2,556,000
Basic net income (loss) per common share			
Income from continuing operations	$ 2.17	$ 2.83	$ 1.69
(Loss) from discontinued operations, net of tax	(0.37)	(1.02)	(1.25)
Net income	$ 1.80	$ 1.81	$ 0.44
Diluted net income (loss) per common share			
Income from continuing operations	$ 2.16	$ 2.80	$ 1.68
(Loss) from discontinued operations, net of tax	(0.36)	(1.01)	(1.24)
Net income	$ 1.80	$ 1.79	$ 0.44
Shares used in computing basic net income (loss) per common share	4,313,000	4,535,000	5,775,000
Shares used in computing diluted net income (loss) per common share	4,330,000	4,573,000	5,811,000

SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31,

	2012	2011	2010
Net income	$ 7,777,000	$ 8,198,000	$ 2,556,000
Other comprehensive income, net of tax:			
Foreign currency translation	(103,000)	(262,000)	54,000
Comprehensive income	$ 7,674,000	$ 7,936,000	$ 2,610,000

See accompanying notes to consolidated financial statements.

Table of Contents

SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

	Common Stock Issued		Common Stock Held In Treasury		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Shareholders Equity
	Shares	Amount	Shares	Amount				
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
Net income						8,198,000		8,198,000
Foreign currency translation							(262,000)	(262,000)
Other, including exercise of employee stock options and related income tax benefits			82,000	755,000	353,000			1,108,000
Stock-based compensation					564,000			564,000
Balance December 31, 2011	6,963,000	$ 1,393,000	(2,395,000)	$ (22,014,000)	$ 25,002,000	$ 52,825,000	$ (349,000)	$ 56,857,000
Net income						7,777,000		7,777,000
Foreign currency translation							(103,000)	(103,000)
Other, including exercise of employee stock options, awards released and related income tax benefits			18,000	177,000	(64,000)			113,000
Stock-based compensation					842,000			842,000
Repurchase and retirement of common stock	(307,000)	(62,000)			(4,202,000)			(4,264,000)
Treasury stock purchased			(140,000)	(2,468,000)				(2,468,000)
Dividends declared						(8,322,000)		(8,322,000)
Balance December 31, 2012	6,656,000	$ 1,331,000	(2,517,000)	$ (24,305,000)	$ 21,578,000	$ 52,280,000	$ (452,000)	$ 50,432,000

See accompanying notes to consolidated financial statements.

Table of Contents

SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

	2012	2011	2010
OPERATING ACTIVITIES:			
Net income	$ 7,777,000	$ 8,198,000	$ 2,556,000
Adjustment for losses from discontinued operations	1,580,000	4,637,000	7,226,000
Income from continuing operations	9,357,000	12,835,000	9,782,000
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation	1,791,000	1,842,000	1,894,000
Amortization	920,000	1,028,000	1,132,000
Amortization of deferred financing costs	138,000	218,000	252,000
Stock-based compensation	842,000	564,000	174,000
Tax benefit from exercise of stock options	(33,000)	(291,000)	(19,000)
(Gain) on foreign exchange contracts	(243,000)		
Non-cash compensation expense			156,000
Non-cash fire related (gain) loss		(277,000)	109,000
Provisions for losses on (recoveries of) accounts receivable	20,000	18,000	(66,000)
Deferred compensation and supplemental retirement benefits	399,000	423,000	428,000
Deferred compensation and supplemental retirement benefit payments	(539,000)	(537,000)	(536,000)
Deferred income taxes	181,000	(1,587,000)	(2,047,000)
(Gain) on sale of investment	(59,000)		
Loss on sales of equipment	24,000	22,000	41,000
Changes in operating assets and liabilities, excluding effects of business combinations:			
Accounts receivable	831,000	(388,000)	(8,299,000)
Inventories	1,195,000	(374,000)	(3,250,000)
Other assets	71,000	(599,000)	(1,167,000)
Accounts payable	1,913,000	1,981,000	4,681,000
Other accrued liabilities	(767,000)	3,360,000	2,127,000
Accrued income taxes	446,000	(1,215,000)	3,922,000
Net cash provided by operating activities from continuing operations	16,487,000	17,023,000	9,314,000
Net cash (used in) operating activities from discontinued operations	(959,000)	(1,347,000)	(1,496,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	15,528,000	15,676,000	7,818,000
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,804,000)	(2,690,000)	(1,416,000)
Acquisition of a business, net of cash acquired	(756,000)		
Return of deposit on land rights		137,000	
Purchases of other assets	(215,000)	(71,000)	(232,000)
Proceeds from sale of investment	81,000		
NET CASH (USED IN) INVESTING ACTIVITIES	(2,694,000)	(2,624,000)	(1,648,000)
FINANCING ACTIVITIES:			
Proceeds from Senior Revolving Credit Facility	2,850,000		

Payments of Senior Revolving Credit Facility	(2,850,000)		
Proceeds from Revolving Credit Facility	4,100,000	11,000,000	19,800,000
Payments of Revolving Credit Facility	(4,100,000)	(20,800,000)	(10,000,000)
Payments of deferred financing costs	(340,000)	(67,000)	(57,000)
Repurchase and retirement of common stock	(4,264,000)		(19,451,000)
Treasury stock purchases	(2,468,000)		(6,605,000)
Treasury stock sales			648,000
Proceeds from stock options exercised	80,000	817,000	754,000
Tax benefit from exercise of stock options	33,000	291,000	19,000
Dividends paid	(8,322,000)		
NET CASH (USED IN) FINANCING ACTIVITIES	(15,281,000)	(8,759,000)	(14,892,000)
Effect of exchange rate changes on cash	11,000	(35,000)	129,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,436,000)	4,258,000	(8,593,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,632,000	1,374,000	9,967,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,196,000	$ 5,632,000	$ 1,374,000

See accompanying notes to consolidated financial statements.

Table of Contents

Notes To Consolidated Financial Statements

Note 1. Summary Of Significant Accounting Policies

Background: SL Industries, Inc. (the Company), through its subsidiaries, designs, manufactures and markets power electronics, motion control, power protection, power quality, and specialized communication equipment that is used in a variety of medical, commercial and military aerospace, solar, computer, datacom, industrial, telecom, transportation, utility, rail and highway equipment applications. Its products are generally incorporated into larger systems to improve operating performance, safety, reliability and efficiency. The Company s products are largely sold to Original Equipment Manufacturers (OEMs), the utility industry and, to a lesser extent, to 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 22. The Company s discontinued operations are described and defined in Note 4.

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 the prior period Consolidated Statement of Cash Flows and footnotes 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, 2012 and December 31, 2011, 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 $591,000 and $603,000 as of December 31, 2012 and December 31, 2011, 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.

Table of Contents

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 obsolete, slow-moving, and excess inventories. Inventory items identified as obsolete, 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, 2012.

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.

Table of Contents

As a result of the testing that was conducted as of December 31, 2012, 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 2012, 2011 and 2010.

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. The major portion of the Company s revenue is derived from equipment sales. The Company recognizes equipment revenue upon shipment or delivery, depending upon the terms of the order, and transfer of title. Generally, the revenue recognition criteria is 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 re-stocking 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, net of tax. 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 unamortized deferred financing costs at December 31, 2012 and December 31, 2011 were $268,000 and $65,000, respectively. The financing cost amortization expense was $138,000, $218,000, and $252,000, for 2012, 2011, and 2010, respectively.

Table of Contents

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 2012, 2011 and 2010, these expenses were $695,000, $643,000 and $1,293,000, respectively.

Advertising Costs: Advertising costs are expensed as incurred. For 2012, 2011 and 2010, these costs were $340,000, $299,000 and $192,000, respectively.

Research And Development Costs: Research and development costs are expensed as incurred. For 2012, 2011 and 2010, these costs were $3,316,000, $2,888,000 and $2,734,000, respectively.

Other Income (Expense), net: As of December 31, 2012, Other Income (Expense), net includes $243,000 which represents the unrealized gain on foreign currency forward contracts that are marked to market. The Company did not enter into foreign exchange contracts during 2011 (see Note 18 for additional information). Other Income (Expense), net also includes a $59,000 gain recognized on the sale of the Company s investment in RFL Communications PLC, (RFL Communications) during 2012 (see Note 25 for additional information).

Income Taxes: The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based upon the differences between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. 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.

Table of Contents

Derivative Instruments And Hedging Activities: FASB ASC 815, Derivatives and Hedging (ASC 815), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company s objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. Certain of the Company s foreign operations expose the Company to fluctuations of foreign interest rates and exchange rates. These fluctuations may impact the value of the Company s revenues, expenses, cash receipts and payments in terms of the Company s functional currency. The Company enters into derivative financial instruments to protect the value or fix the amount of certain cash flows in terms of the functional currency of the business unit with that exposure.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. The Company enters into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting. Currently, the Company does not apply hedge accounting to any of its foreign currency derivatives.

Note 2. Income Per 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.

Table of Contents

The table below sets forth the computation of basic and diluted net income (loss) per share:

	December 31, 2012	December 31, 2011	December 31, 2010
	(in thousands, except per share amounts)		
Basic net income available to common shareholders:			
Net income available to common shareholders from continuing operations	$ 9,357	$ 12,835	$ 9,782
Diluted net income available to common shareholders from continuing operations	$ 9,357	$ 12,835	$ 9,782
Shares:			
Basic weighted average number of common shares outstanding	4,313	4,535	5,775
Common shares assumed upon exercise of stock options	17	38	36
Diluted weighted average number of common shares outstanding	4,330	4,573	5,811
Basic net income (loss) per common share:			
Income from continuing operations	$ 2.17	$ 2.83	$ 1.69
(Loss) from discontinued operations (net of tax)	(0.37)	(1.02)	(1.25)
Net income	$ 1.80	$ 1.81	$ 0.44
Diluted net income (loss) per common share:			
Income from continuing operations	$ 2.16	$ 2.80	$ 1.68
(Loss) from discontinued operations (net of tax)	(0.36)	(1.01)	(1.24)
Net income	$ 1.80	$ 1.79	$ 0.44

For the years ended December 31, 2012, December 31, 2011 and December 31, 2010, approximately 6,000, 4,000 and 106,000 stock options, respectively, were excluded from the dilutive computations. 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.

Note 3. Recently Adopted And Issued Accounting Standards

Recently Adopted Accounting Standards And Other Standards

In May 2011, the FASB issued ASU No. 2011-4, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS, which converges fair value measurement and disclosure guidance in U.S. GAAP with fair value measurement and disclosure guidance issued by the International Accounting Standards Board (IASB). The amendments in the authoritative guidance do not modify the requirements for when fair value measurements apply. The amendments generally represent clarifications on how to measure and disclose fair value under ASC 820, Fair Value Measurement. ASU 2011-04 is effective for fiscal years and interim periods beginning after December 15, 2011, with early adoption not permitted. The adoption of the provisions of ASU No. 2011-4 did not have a material impact on the Company s consolidated financial statements.

Table of Contents

In June 2011, the FASB issued ASU 2011-05 Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for fiscal years beginning on or after December 15, 2011 and interim periods within those years. As this new guidance is related to presentation only, the implementation in the first quarter of 2012 did not have a material impact on the Company s results of operations, financial position or cash flows.

In September 2011, the FASB issued ASU 2011-08 Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment, which amends the guidance on the annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors (such as changes in management, key personnel, strategy, key technology, or customers) to determine if it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. ASU 2011-08 is effective for the first annual period beginning after December 15, 2011, with early adoption permitted. The implementation of this guidance did not have a material impact on the Company s consolidated financial statements.

Recently Issued Accounting Pronouncements And Other Standards

In July 2012, the FASB issued ASU 2012-02 Intangibles-Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment, which amends the guidance on impairment testing for indefinite-lived intangible assets. The amended guidance will allow companies to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. A company no longer will be required to test the fair value of an intangible asset unless the company determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. ASU 2012-02 is effective for interim and annual periods beginning after September 15, 2012. The implementation of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

In October 1, 2012, the FASB issued ASU 2012-04 Technical Corrections and Improvements, which makes certain technical corrections and improvements and conforming amendments related to fair value measurements. The amendments represent changes to clarify, correct unintended application of, or make minor improvements to the FASB Accounting Standards Codification that are not expected to have a significant effect on current accounting practice. ASU 2012-04 is effective for fiscal periods beginning after December 15, 2012. The implementation of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220) Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety in the same reporting period. ASU 2013-02 is effective for fiscal periods beginning after December 15, 2012. The implementation of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

Table of Contents

Note 4. Discontinued Operations

For the years ended December 31, 2012, December 31, 2011, and December 31, 2010, total loss from discontinued operations was $2,151,000, $9,688,000, and $10,577,000 ($1,580,000, $4,637,000, and $7,226,000, net of tax), respectively. The losses from discontinued operations relate to environmental remediation costs, consulting fees, legal charges, and certain claims associated with the past operations at the Company s five environmental sites (See Note 15 for additional information).

During the fourth quarter of 2011, the Company recorded a $8,300,000 ($5,151,000 net of tax) charge related to estimated environmental remediation liabilities associated with the past operations of SurfTech (see Note 15 for additional information). The remaining loss from discontinued operations during 2011 was related to environmental remediation costs, consulting fees, and legal charges associated with the past operations of the Company s other four environmental sites. The charges mentioned above were partially offset by a favorable settlement with a foreign tax authority which was recorded as part of discontinued operations. The settlement was associated with the Company s Elektro-Metall Export GmbH subsidiary, which was sold in January 2003. As a result, during the second quarter of 2011, the Company recognized a previously unrecognized tax position related to the settlement in the amount of $787,000 ($619,000 tax and $168,000 interest). The tax settlement had no impact on the Company s cash flows.

During 2010, the Company recorded additions to the environmental reserve of $9,669,000, which were partially offset by payments of $617,000. The additions and payments to the environmental reserve were related to estimated environmental remediation liabilities associated with the past operations of SurfTech.

Note 5. Receivables

Receivables consist of the following:

	December 31,	
	2012	2011
	(in thousands)	
Trade receivables	$ 29,284	$ 30,447
Less: allowance for doubtful accounts	(591)	(603)
Trade receivables, net	28,693	29,844
Recoverable income taxes		202
Other	1,613	1,095
Receivables, net	$ 30,306	$ 31,141

Table of Contents

Note 6. 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 7. Inventories

Inventories consist of the following:

	December 31,	
	2012	2011 [1]
	(in thousands)	
Raw materials	$ 15,726	$ 16,219
Work in process	4,623	4,161
Finished goods	4,819	4,494
Gross inventory	25,168	24,874
Less: allowances	(3,066)	(2,275)
Inventories, net	$ 22,102	$ 22,599

(1) Prior year reclassification for comparative purposes.

The above includes certain inventories that are valued using the LIFO method, which aggregated $5,414,000 and $4,248,000 as of December 31, 2012 and December 31, 2011, respectively. The excess of FIFO cost over LIFO cost as of December 31, 2012 and December 31, 2011 was approximately $687,000 and $639,000, respectively.

Table of Contents

Note 8. Property, Plant And Equipment

Property, plant and equipment consist of the following:

	December 31, 2012	December 31, 2011
	(in thousands)	
Land	$ 1,146	$ 1,074
Buildings and leasehold improvements	9,292	8,963
Equipment and other property	25,781	24,741
	36,219	34,778
Less: accumulated depreciation	(26,626)	(25,362)
Property, plant and equipment, net	$ 9,593	$ 9,416

Depreciation expense on property, plant and equipment was $1,791,000, $1,842,000, and $1,894,000 for 2012, 2011, and 2010, respectively.

Note 9. Goodwill And Intangible Assets

Acquisitions in Fiscal 2012

On February 27, 2012, the Company purchased certain assets of Pro-Dex Astromec, Inc. (Astromec), a subsidiary of Pro-Dex Inc. (Pro-Dex), for approximately $1,050,000, which includes the assumption of liabilities for an estimated earn-out of $294,000. The acquisition was paid for in cash. Astromec designs, develops and manufactures high-reliability, fractional horsepower motors and motion control accessories. Astromec provides custom motor and motion control solutions to the aerospace, defense, medical and commercial and industrial markets. SL-MTI recorded direct acquisition costs of approximately $434,000 during 2012, which are recorded within selling, general and administrative expenses in the Consolidated Statements of Income.

At December 31, 2012, the financial statements reflect the final purchase price based on estimated fair values at the date of acquisition, including $670,000 in inventories, $202,000 in equipment, and $10,000 in other current assets. The acquisition resulted in intangible assets of $168,000 while no goodwill was recognized. Intangible assets were composed of a customer list with a useful life of 5 years. The purchase price also includes $294,000 in liabilities related to an estimated earn-out, which is comprised of quarterly payments based on the performance of the acquired business over the three year period immediately following the date of acquisition. During 2012, $112,000 was paid related to the earn-out. The results from the acquisition date through December 31, 2012 are included in the SL-MTI segment.

Table of Contents

Goodwill And Intangible Assets

Intangible assets consist of the following:

		December 31, 2012			December 31, 2011		
	Amortizable Life (years)	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
				(in thousands)			
Finite-lived intangible assets:							
Customer relationships [1]	5 to 8	$ 3,868	$ 3,078	$ 790	$ 3,700	$ 2,587	$ 1,113
Patents [2]	5 to 20	1,285	1,187	98	1,250	1,154	96
Developed technology	5 to 6	1,700	1,700		1,700	1,517	183
Licensing fees	5 to 10	450	340	110	450	285	165
Total amortized finite-lived intangible assets		7,303	6,305	998	7,100	5,543	1,557
Indefinite-lived intangible assets:							
Trademarks		1,672		1,672	1,672		1,672
Other intangible assets, net		$ 8,975	$ 6,305	$ 2,670	$ 8,772	$ 5,543	$ 3,229

(1) On February 27, 2012, the Company purchased certain assets of Astromec, a subsidiary of Pro-Dex. Included in the purchase price is a customer list valued at $168,000. The estimated useful life of the asset is 5 years.

(2) During 2012, the Company s MTE division capitalized legal fees related to a new patent application. The estimated useful life of the asset is 20 years.

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 2012, 2011 and 2010.

Estimated future amortization expense for intangible assets subject to amortization in each of the next five fiscal years is as follows:

	Amortization Expense (in thousands)
2013	$ 440
2014	$ 401
2015	$ 58
2016	$ 39
2017	$ 14

Total amortization expense, excluding the amortization of deferred financing costs, for 2012, 2011 and 2010 was $920,000, $1,028,000 and $1,132,000, respectively. Amortization expense related to intangible assets for 2012, 2011 and 2010 was $761,000, $884,000 and $901,000, respectively. Amortization expense related to software for 2012, 2011 and 2010 was $159,000, $144,000 and $231,000, respectively.

Table of Contents

Changes in goodwill balances by segment (which are defined below) are as follows:

	Balance December 31, 2011	Foreign Exchange (in thousands)	Balance December 31, 2012
SL Power Electronics Corp.	$ 4,245	$ (3)	$ 4,242
High Power Group:			
MTE Corporation	8,189		8,189
TEAL Electronics Corp.	5,055		5,055
RFL Electronics Inc.	5,249		5,249
Goodwill	$ 22,738	$ (3)	$ 22,735

Note 10. Income Taxes

Income tax provision (benefit) for the fiscal years 2012, 2011 and 2010 is as follows:

	Years Ended December 31, 2012	2011 (in thousands)	2010
Income tax provision from continuing operations	$ 3,665	$ 5,582	$ 3,021
Income tax (benefit) from discontinued operations	(570)	(5,051)	(3,351)
Total income tax provision (benefit)	$ 3,095	$ 531	$ (330)

Income from continuing operations before provision for income taxes consists of the following:

	Years Ended December 31, 2012	2011 (in thousands)	2010
Domestic	$ 10,820	$ 15,304	$ 8,073
Foreign	2,202	3,113	4,730
Income from continuing operations before income taxes	$ 13,022	$ 18,417	$ 12,803

F-18

Table of Contents

The provision for income taxes from continuing operations consists of the following:

	Years Ended December 31, 2012	2011	2010
		(in thousands)	
Current:			
Federal	$ 2,544	$ 2,307	$ (2,317)
Foreign	719	897	3,343
State	(116)	202	1,306
Deferred:			
Federal	577	1,824	4,058
Foreign	89	203	(2,031)
State	(148)	149	(1,338)
Income tax provision from continuing operations	$ 3,665	$ 5,582	$ 3,021

The benefit for income taxes related to discontinued operations for 2012, 2011, and 2010 was $570,000, $5,051,000, and $3,351,000, respectively.

Significant components of the Company s deferred tax assets and liabilities as of December 31, 2012 and December 31, 2011 are as follows:

	December 31, 2012	2011
	(in thousands)	
Deferred tax assets related to continuing operations:		
Deferred compensation	$ 924	$ 998
Inventory valuation	664	661
Tax loss carryforward	1,587	1,913
Foreign tax credit carryforward		17
R&D tax credit carryforward	1,047	876
Accrued expenses	508	520
Warranty	414	514
Vacation and bonus expense	1,330	1,775
Other	537	342
Less valuation allowances	(415)	(417)
Deferred tax assets related to continuing operations	6,596	7,199
Deferred tax liabilities related to continuing operations:		
Accelerated depreciation and amortization	2,676	2,866
Net deferred tax assets related to continuing operations	3,920	4,333
Net deferred tax assets related to discontinued operations	9,214	8,981
Net deferred tax assets	$ 13,134	$ 13,314

Table of Contents

The Company has not made a provision for U.S. income taxes and foreign withholding taxes for the anticipated repatriation of certain earnings of foreign subsidiaries of the Company. The Company considers the undistributed earnings of its foreign subsidiaries above the amount already provided to be permanently reinvested. As of December 31, 2012, $10,548,000 of the undistributed earnings are expected to be permanently reinvested.

As of December 31, 2012, the Company has no foreign tax credits. As of December 31, 2011, the Company s gross foreign tax credits totaled approximately $17,000.

As of December 31, 2012 and December 31, 2011, the Company s research and development tax credits totaled approximately $1,047,000 and $876,000, respectively. The increase in research and development tax credits during 2012 was primarily due to state credits as well as adjustments to prior year federal credits. No new federal research and development credits were recognized during 2012. Of the December 31, 2012 credits, approximately $368,000 can be carried forward for 15 years and expire between 2015 and 2027, while $679,000 will carry over indefinitely.

As of December 31, 2012, the Company has gross federal and state net operating loss carryforward tax benefits of $3,786,000 and $1,960,000, respectively, which expire at various dates from 2013 to 2032. In addition, the Company has a gross foreign net operating loss carryforward tax benefit of $576,000, 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 $13,134,000 of the net deferred tax assets as of December 31, 2012 will be realized. The Company has an allowance of $1,987,000 (mostly 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,		
	2012	2011	2010
Statutory rate	35%	35% [1]	34%
Tax rate differential on domestic manufacturing deduction benefit	(2)	(1)	(1)
State income taxes, net of federal income tax	1	2	1
Foreign operations	(2)	(2)	(2)
Research and development credits	(4)	(4)	(5)
Other			(3)
Effective tax rate	28%	30%	24%

[1] During 2011, the Company s federal statutory tax rate increased from 34% to 35% due to the increase in the Company s earnings.

Table of Contents

For the fiscal year ended December 31, 2012, 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. During the third quarter of 2011 the Company was contacted by the Internal Revenue Service (the IRS) to examine the calendar years 2009 and 2010. The examination was completed during the fourth quarter of 2012 with no material adjustments.

During the second quarter of 2011 the Company reached a favorable settlement with a foreign tax authority which was recorded as part of discontinued operations. The settlement was associated with the Company s Elektro-Metall Export GmbH subsidiary, which was sold in January 2003. As a result, during the second quarter of 2011, the Company recognized income of $787,000 ($619,000 tax and $168,000 interest) from a previously unrecognized tax position related to the settlement.

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,		
	2012	2011	2010
Gross unrecognized tax benefits, beginning of year	$ 722,000	$ 2,358,000	$ 2,526,000
Increases in tax positions taken in the current year	65,000	217,000	660,000
Increases in tax positions taken in prior years	60,000	57,000	31,000
Decreases in tax positions taken in prior years		(932,000)(1)	(138,000)
Decreases in tax positions related to settlement with tax authorities	(96,000)	(564,000)	(289,000)
Statute of limitations expired	(156,000)	(414,000)	(432,000)
Gross unrecognized tax benefits, end of year	$ 595,000	$ 722,000	$ 2,358,000

(1) The Company determined that in one state its credit carry-forward in that state was more-likely-than-not not going to be realized. As a result, the Company reclassified such position in the amount of $373,000 from an unrecognized tax position to a valuation allowance as a reduction to the deferred tax asset. In addition, in 2010 the Company established an unrecognized tax position for its method of accounting for an accrual on its tax return for all open tax years. During 2011, the uncertain tax position was released in the amount of $559,000 and a deferred tax liability was established for the repayment of the underpaid tax.

If recognized, all of the net unrecognized tax benefits at December 31, 2012 would impact the effective tax rate. The Company accrues interest and penalties related to unrecognized tax benefits as income tax expense. At December 31, 2012 and December 31, 2011, the Company had accrued interest and penalties related to unrecognized tax benefits of $62,000 and $80,000, respectively.

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 $37,000. The Company has recorded $657,000 in other long-term liabilities which represents the total gross unrecognized tax benefits, including interest and penalties.

Table of Contents

Note 11. Debt

On October 23, 2008, the Company and certain of its subsidiaries entered into an Amended and Restated Revolving Credit Agreement, as amended (the 2008 Credit Facility) with Bank of America, N.A., a national banking association, individually, as agent, issuer and a lender thereunder, and the other financial institutions party thereto. The 2008 Credit Facility was reset and amended on August 12, 2009, November 19, 2010, March 28, 2011, July 20, 2011 and May 29, 2012.

On May 29, 2012, the Company entered into a Fifth Amendment to the 2008 Credit Facility. The Fifth Amendment, among other things, (a) amended the definition of Maturity Date to extend the Maturity Date of the Credit Agreement to August 30, 2012, (b) amended the Minimum Net Worth financial covenant, and (c) amended the business covenants 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 Twenty Million Dollars ($20,000,000), on a trailing twelve month basis. In consideration for these amendments, the Company agreed to pay the lenders $43,000, which was amortized over the remaining life of the 2008 Credit Facility.

On August 9, 2012, the Company entered into a new senior revolving credit facility (the 2012 Credit Facility) with PNC Bank, National Association (PNC Bank) to replace its 2008 Credit Facility. The 2012 Credit Facility provides for borrowings up to $40,000,000 and under certain conditions maximum borrowings up to $70,000,000. The 2012 Credit Facility included a $5,000,000 sublimit for letters of credit (subsequently amended on March 11, 2013 to a maximum of $25,000,000 subject to designated usage) and provides for a separate $10,700,000 letter of credit which expires one year from the date of closing, with annual extensions. The 2012 Credit Facility expires on August 9, 2016.

Borrowings under the 2012 Credit Facility bear interest, at the Company s option, at the London interbank offering rate (LIBOR) plus a margin rate ranging from 1.25% to 2.0%, or the higher of a Base Rate plus a margin rate ranging from 0.25% to 1.0%. The Base Rate is equal to the highest of (i) the Federal Funds Open Rate plus 0.5% and (ii) the Prime Rate and (iii) the Daily Libor Rate plus 1%. The margin rates are based on certain leverage ratios, as defined. The Company is subject to compliance with certain financial covenants set forth in the 2012 Credit Facility, including, but not limited to, indebtedness to EBITDA, as defined, minimum levels of fixed charges and limitations on capital expenditures, as defined. Availability under the 2012 Credit Facility is based upon the Company s trailing twelve month EBITDA, as defined.

The Company s obligations under the 2012 Credit Facility are secured by the grant of security interests in substantially all of its assets.

As of December 31, 2012, the Company incurred $297,000 in fees and expenses in connection with the 2012 Credit Facility, which are amortized over the term of the 2012 Credit Facility. The remaining unamortized deferred financing costs associated with the 2008 Credit Facility were recognized on the consolidated statement of income in the third quarter of 2012.

As of December 31, 2012, the Company had no outstanding balance under the 2012 Credit Facility. At December 31, 2012, the Company had total availability under the 2012 Credit Facility of $39,510,000. As of December 31, 2011, the Company had no outstanding balance under the 2008 Credit Facility. At December 31, 2011, the Company had total availability under the 2008 Credit Facility of $39,527,000.

Table of Contents

Note 12. Accrued Liabilities Other

Accrued liabilities other consist of the following:

	December 31, 2012	December 31, 2011
	(in thousands)	
Taxes (other than income) and insurance	$ 602	$ 332
Commissions	680	775
Litigation and legal fees	138	97
Other professional fees	418	519
Environmental	5,334	4,676
Warranty	1,102	1,318
Deferred revenue	56	101
Acquisition earn-out, current	164	
Other	2,092	1,745
Accrued liabilities - other	$ 10,586	$ 9,563

Included in the environmental accrual are estimates for all known costs believed to be probable and reasonably estimable for sites that the Company currently operates or operated at one time (see Note 15 for additional information).

A liability is established for estimated future warranty and service claims that relate to current and prior period sales. The Company estimates warranty costs based on historical claim experience and other factors including evaluating specific product warranty issues.

The following is a summary of activity in accrued warranty and service liabilities:

	December 31, 2012	December 31, 2011
	(in thousands)	
Liability, beginning of year	$ 1,318	$ 1,553
Expense for new warranties issued	962	643
Accruals related to preexisting warranties [1]	(267)	
Warranty claims paid	(911)	(878)
Liability, end of period	$ 1,102	$ 1,318

[1] Includes adjustments related to changes in estimates.

Table of Contents

Note 13. Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	December 31, 2012	2011
	(in thousands)	
Environmental	$ 19,033	$ 18,533
Unrecognized tax benefits, interest and penalties	657	802
Long-term incentive plan	220	1,242
Acquisition earn-out, long-term	57	
Other long-term liabilities	$ 19,967	$ 20,577

Note 14. Retirement Plans And Deferred Compensation

During the years ended December 31, 2012, December 31, 2011 and December 31, 2010, the Company maintained a defined contribution pension plan covering all full-time, U.S. employees of SL Power Electronics Corp. (SLPE), the High Power Group, including Teal Electronics Corporation (Teal) and MTE Corporation (MTE), SL Montevideo Technology, Inc. (SL-MTI), RFL Electronics Inc. (RFL) 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 2012, 2011 and 2010 amounted to approximately $653,000, $884,000 and $1,315,000, respectively.

The Company has agreements with certain 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 $399,000, $423,000 and $428,000 for 2012, 2011 and 2010, 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, 2012, the aggregate death benefit totaled $493,000, with the corresponding cash surrender value of all policies totaling $299,000. As of December 31, 2011, the aggregate death benefit totaled $546,000, with the corresponding cash surrender value of all policies totaling $304,000.

As of December 31, 2012, certain agreements restrict the Company from utilizing the cash surrender value of certain life insurance policies totaling approximately $299,000 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 $4,000, $11,000 and $17,000 for 2012, 2011 and 2010, respectively.

Table of Contents

Note 15. 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, 2012 are as follows:

	Operating Leases (in thousands)
2013	$ 1,696
2014	1,367
2015	1,259
2016	887
2017	876
Thereafter	1,132
Total minimum payments	$ 7,217

For 2012, 2011 and 2010, rental expense applicable to continuing operations aggregated approximately $2,110,000, $2,116,000 and $1,874,000, respectively.

Letters Of Credit: As of December 31, 2012 and December 31, 2011, the Company was contingently liable for $490,000 and $473,000, respectively, under an outstanding letter of credit issued for casualty insurance requirements.

Litigation: The Company has been and is 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).

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 in three aquifers 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 (ROD) 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 ROD.

Table of Contents

Following the issuance of its ROD for OU-1, in November 2006, the EPA sent a letter to the Company encouraging the Company to either perform or finance the remedial actions for OU-1 identified in the EPA s ROD. In addition to paying for the OU-1 remediation, the EPA has sought payment of the past costs that the EPA has allegedly incurred.

In June 2011, the EPA announced a proposed plan for cleaning up the soil at OU-2. The remedy proposed by the EPA is Geochemical Fixation. This remedy involves applying a chemical reductant to the contaminated soil to reduce hexavalent chromium by converting it to immobilized trivalent chromium. The EPA s estimated cost for this remedy is $20,700,000 over seven years. The public comment period for the proposed plan expired on July 27, 2011. On September 26, 2011 the EPA issued a ROD selecting the Geochemical Fixation remedy. This remedy involves mixing a reducing agent to treat soils containing concentrations of hexavalent chromium greater than 20 parts per million. The remedy also requires post-remediation sampling, site restoration and implementing a groundwater sampling and analysis program.

The Company has reached an agreement with the both United States Department of Justice (DOJ) and EPA related to its liability for both OU-1 and OU-2 and has entered into a Consent Decree which governs the agreement. The Company has agreed to perform the remediation for OU-2. The Company intends to have its environmental consultants, who are expected to perform the requirements of the OU-2 remediation, and perform an active role in the remediation design. Also, the Company has agreed to pay a fixed sum for the EPA s past cost for OU-2 and a portion of the EPA s past cost for OU-1. The payments are to be made in five equal payments of $2,141,000 for a total $10,705,000, plus interest. The first payment plus interest is to be made thirty days after the effective date of the Consent Decree (day the judge signs and files the decree). The next four payments will be made on the anniversary of the first payment plus ten days in the same amount of $2,141,000 plus interest to avoid two payments in one continuous twelve month period. The Company has also agreed to pay the EPA s costs for oversight of the OU-2 remediation. The Consent Decree is subject to a public comment period and finally must be approved by the Federal District Court which we expect to occur by the second quarter of fiscal 2013 thereby triggering the Company s obligation under the Consent Decree. During the third quarter of 2012, the Company s legal counsel had been notified by the Assistant Attorney General of the State of New Jersey that they may file a claim for certain costs. On December 3, 2012, the Company received a demand letter from the State of New Jersey. The demand is for $1,300,000 for past and future cleanup costs and $500,000 for natural resource damages (NRD) for a total of $1,800,000. Although the Company and its counsel believe that it has meritorious defenses to any claim for reimbursement of past cost and NRD damages, the Company has offered to pay $250,000 to fully resolve the claim recently presented by the State of New Jersey for past costs, future costs and NRD at the Puchack Well Field Superfund site. The State of New Jersey is currently evaluating the Company s counter-offer. Based on the current available information, the Company has estimated a total combined potential liability for OU-1 and OU-2 and the State of New Jersey s claim to be in the range of $20,378,000 to $32,078,000. The Company has recorded an accrual of $20,378,000 related to its combined liability related to this site. The estimated OU-2 remediation liability is based upon the EPA s plan for remediation as provided in the ROD for OU-2 and the evaluation of data by our environmental engineering consultants. The liability for past costs of OU-1 and OU-2 is based upon the current terms of the Consent Decree. The Company, in consultation with its consultants and legal counsel, has agreed to a Statement of Work (SOW) for the implementation of the remedy selected in the September 26, 2011 ROD for OU-2. The SOW will be incorporated into the Consent Decree and will be an enforceable part of the Consent Decree.

Table of Contents

Other

The Company conducted an investigation to determine whether certain employees of SL Xianghe Power Electronics Corporation, SL Shanghai Power Electronics Corporation and SL Shanghai International Trading Corporation, three of the Company s indirect wholly-owned subsidiaries incorporated and operating exclusively in China, may have improperly provided gifts and entertainment to government officials (the China Investigation). Based upon the China Investigation, which is substantially complete, the estimated amounts of such gifts and entertainment was not material to the Company s financial statements. Such estimate does not take into account the costs to the Company of the China Investigation itself, or any other additional costs.

The China Investigation included determining whether there were any violations of laws, including the U.S. Foreign Corrupt Practices Act (FCPA). The Company s outside counsel has contacted the DOJ and the Securities and Exchange Commission (the SEC) voluntarily to disclose that the Company was conducting an internal investigation, and agreed to cooperate fully and update the DOJ and SEC periodically on further developments. The Company s counsel has done so, and the Company has continued to cooperate fully with the DOJ and the SEC on the results of the China Investigation and various remediation actions undertaken by the Company.

The Company had retained outside counsel and forensic accountants to assist in the China Investigation. Additionally, the Company has hired outside consultants to provide assistance in implementing a mandatory FCPA compliance program for all of its employees which was completed in December 2012. The Company cannot predict at this time whether any regulatory action may be taken or any other adverse consequences may result from this matter.

In the ordinary course of its business the Company is and may be subject to other loss contingencies pursuant to foreign and domestic federal, state and local governmental laws and regulations and may be party to certain legal actions, frequently involving complaints by terminated employees and disputes with customers, suppliers and others. 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 in the future may 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 $24,367,000 of which $19,033,000 is included as other long-term liabilities as of December 31, 2012. 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. 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. The Company s environmental costs primarily relate to discontinued operations and such costs have been recorded in discontinued operations, net of tax.

Table of Contents

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. Delineation of the soil and groundwater contamination is substantially complete. In the third quarter of 2009, the Company completed building demolition and excavated and disposed of some of the contaminated soil underlying the building s foundation The New Jersey Department of Environmental Protection (NJDEP) approved, and the Company implemented in 2010 an interim remedial action pilot study to inject neutralizing chemicals into the unsaturated soil. Based on an assessment of post-injection data, our consultants believe the pilot study can be implemented as a full scale soil remedy to treat unsaturated contaminated soil. A Remedial Action Workplan for soils (RAWP) is being developed. The RAWP will select the injection remedy as the site wide remedy for unsaturated soils, along with demolition and proper disposal of the former concrete building slab and targeted excavation and disposal of impacted soil immediately underlying the slab. Additionally, the RAWP will address a small area of impacted soil off the property. The RAWP will be submitted to the NJDEP, by the Licensed Site Remediation Professional (LSRP) for the site. The RAWP is scheduled to be implemented in 2013. Also, the Company s environmental consultants finalized an interim remedial action pilot study to treat on-site contaminated groundwater, consisting of injecting food-grade product, into the groundwater at the down gradient property boundary, to create a bio-barrier. The pilot study includes post-injection monitoring to assess the bio-barrier s ability to treat contaminated groundwater. The groundwater injection pilot study and permit application were submitted to the NJDEP in May 2011, and then re-submitted in June 2012 by the Company s LSRP. The Company received from the NJDEP the permit approval in October 2012. Implementation of the groundwater pilot study is scheduled to occur in 2013 with post-injection effectiveness monitoring to occur in 2014. At December 31, 2012, the Company had an accrual of $2,204,000 to remediate the Camden Site. The Company anticipates expenditures of approximately $1,040,000 during fiscal 2013.

As previously reported, the Company is currently participating in environmental assessments and cleanups at a number of sites. One of these sites is a commercial facility, located in Wayne, New Jersey. Contaminated soil and groundwater has undergone remediation with NJDEP oversight, but contaminants of concern (COCs) in groundwater and surface water, which extend off-site, still remain above applicable NJDEP remediation standards. Certain COCs have also been detected in the indoor air of two commercial buildings, located on the property. One of the buildings (the Main Building) was outfitted with a sub-slab depressurization system as a mitigation measure. The source investigations under the Main Building were completed in June 2012. Soil and groundwater samples collected from underneath the Main Building identified COCs in excess of the NJDEP s applicable remediation standards. Consequently, a soil contaminant source remains under the Main Building that is feeding the groundwater contamination. The remedial investigation conducted in the second quarter of 2012 identified a new soil source of COCs and two sub-grade anomalies. Additional investigations conducted in December 2012 mostly delineated the extent of COC s in soil at the new soil source area and confirmed that the sub-grade anomalies did not contain regulated features requiring additional investigation. A soil remedial action plan will be required in order to remove the new soil source contamination by the second building that continues to impact groundwater. Our consultants have reviewed data to determine what supplemental remedial action is necessary for soils, and whether to modify or expand the groundwater remedy that will likely consist of additional in-situ injections of food grade product into the groundwater. Estimates have been developed by the Company s consultants, which includes costs to enhance the existing vapor intrusion system, remedial injections, soil excavation and additional tests and remedial activities. Accordingly, the reserve for this site was increased during the third quarter of 2012 by $485,000 to account for these remedial activities. The accrual for remediation cost at December 31, 2012 for this site is $1,255,000. Costs related to this site are recorded as part of discontinued operations, net of tax.

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 $111,000, which has been accrued for at December 31, 2012. These costs are recorded as a component of continuing operations.

As of December 31, 2012 and December 31, 2011, environmental accruals of $24,367,000 and $23,209,000, respectively, have been recorded by the Company in accrued liabilities other and in other long-term liabilities, as appropriate (see Notes 12 and 13 for additional information).

Employment 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 $1,043,000, 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.

During 2010, the Company entered into severance agreements 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 equal twelve months of the employee s base salary as of the termination date, as defined. If a triggering event had taken place in 2012 and if these employees had been terminated during the year, the payments would have aggregated approximately $640,000 under such change-of-control agreements.

During 2012, the Company entered into a severance agreement with a key employee that provides for a one-time payment in the event the employee is terminated within twelve months of a change-of-control, as defined. The payment equals eighteen months of the employee s base salary as of the termination date, as defined. If a triggering event had taken place in 2012 and if the employee had been terminated during the year, the payment would have equaled $315,000 under the change-of-control agreement. This agreement expired on January 1, 2013.

Table of Contents

Note 16. 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, Tecate, Mexico, and Xianghe, China. SLPE manufactures most of its products in Mexico and China. Teal, which is part of the High Power Group, has transferred the majority of its manufacturing to a wholly-owned subsidiary located in Mexico. SL-MTI manufactures a significant portion of its products in Mexico. 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. SLPE, the High Power Group and SL-MTI price and invoice their sales primarily in U.S. dollars. The Mexican subsidiaries of SLPE, the High Power Group and SL-MTI 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. RFL sales, costs, and expenses are priced in U.S. dollars.

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 20%, 21% and 22% of net sales from continuing operations for 2012, 2011 and 2010, respectively. Additionally, the Company is exposed to foreign currency exchange rate fluctuations, which may result from fluctuations in the value of the Mexican peso and Chinese yuan versus the U.S. dollar (see Note 18 for additional information).

Note 17. Fair Value Measurement And Financial Instruments

ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FASB ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Table of Contents

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Currently, the Company uses foreign currency forward contracts to hedge its foreign currency risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including spot rates and market forward points. The fair value of the foreign currency forward contracts is based on interest differentials between the currencies being traded, spot rates and market forward points.

To comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees, where applicable.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2012, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

In conjunction with its implementation of updates to the fair value measurements guidance, the Company made an accounting policy election to measure derivative financial instruments subject to master netting agreements on a net basis.

Table of Contents

The following table presents the Company s assets and liabilities measured at fair value on a recurring basis as of December 31, 2012, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2012
		(in thousands)		
Assets				
Derivative financial instruments	$	$ 243	$	$ 243

The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2012.

Credit Risk Contingent Features

The Company has agreements with its derivative counterparties that contain a provision where if the Company defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

Note 18. Derivative Instruments And Hedging Activities

ASC Topic 815, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by ASC Topic 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to variability in expected future cash flows related to forecasted foreign exchange-based risk are considered economic hedges of the Company s forecasted cash flows.

Risk Management Objective of Using Derivatives

The Company is a USD functional currency entity that manufactures products in the USA, Mexico and China. The Company s sales are priced in U.S. dollars and its costs and expenses are priced in U.S. dollars, Mexican peso (MXN) and Chinese yuan (CNH). As a result, the Company has exposure to changes in exchange rates between the time when expenses in the non-functional currencies are initially incurred and the time when the expenses are ultimately paid. The Company s objective in using derivatives is to add stability and to manage its exposure to foreign exchange risks. To accomplish this objective, the Company uses foreign currency forward contracts to manage its exposure to fluctuations in the exchange rates. Foreign currency forward contracts involve fixing the USD-MXN and USD-CNH exchange rates for delivery of a specified amount of foreign currency on a specified date.

Table of Contents

During 2012, the Company entered into a series of foreign currency forward contracts to hedge its exposure to foreign exchange rate movements in its forecasted expenses in China and Mexico. The foreign currency forwards are not speculative and are being used to manage the Company s exposure to foreign exchange rate movements. Foreign currency forward contracts involve fixing the USD-MXN and USD-CNH exchange rates for delivery of a specified amount of foreign currency on a specified date. The Company has elected not to apply hedge accounting to these derivatives and they are marked to market through earnings. Therefore, gains and losses resulting from changes in the fair value of these contracts are recognized at the end of each reporting period directly in earnings. The gains and losses associated with the foreign currency forward contracts are included in other gain (loss), net on the Consolidated Statements of Income. As of December 31, 2012, the fair value of the foreign currency forward contracts was recorded as a $243,000 asset in other current assets on the Consolidated Balance Sheets.

Non-designated Hedges of Foreign Exchange Risk

The notional amounts are used to measure the volume of foreign currency forward contracts and do not represent exposure to foreign currency losses. The following table summarizes the notional values of the Company s derivative financial instruments as of December 31, 2012:

Product	Number of Instruments	Notional (in thousands)
Mexican Peso (MXN) Forward Contracts	9	MXN 43,000
Chinese Yuan (CNH) Forward Contracts	7	CNH 32,000

The following table details the location in the financial statements of the gain or loss recognized on foreign currency forward contracts that are marked to market for the twelve months ended December 31, 2012:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative (in thousands)
Foreign Exchange Contracts	Other gain (loss), net	$ 243

The Company did not enter into foreign exchange contracts during fiscal 2011 and fiscal 2010.

Note 19. Shareholders Equity

On November 16, 2010, the Board of Directors authorized a plan that allows for the repurchase up to an aggregate of 470,000 shares of the Company s outstanding common stock (the 2010 Repurchase Plan). Any repurchases pursuant to the 2010 Repurchase Plan would be made in the open market or in negotiated transactions. During 2012, the Company purchased approximately 140,000 shares of Company stock at an average price of $17.59 a share through the 2010 Repurchase Plan. As a result, as of December 31, 2012, approximately 330,000 shares remained available for purchase under the 2010 Repurchase Plan. Currently the 2010 Repurchase Plan has no expiration date.

Table of Contents

On May 30, 2012, the Company announced a modified Dutch Auction Tender Offer to purchase up to $10 million of its common shares (the Tender Offer). The Tender Offer expired on June 27, 2012. 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 $12.00 and not greater than $13.50, 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. All common stock purchased by the Company were purchased at the same price.

The Company accepted for purchase approximately 307,000 shares of its common stock at a purchase price of $13.50 per share. These shares represented approximately 6.9% of the total common stock outstanding as of June 27, 2012 prior to the purchase of shares pursuant to the Tender Offer. With the completion of the Tender Offer, the Company had approximately 4,121,000 shares of common stock outstanding at that time. The aggregate purchase price paid by the Company in connection with the Tender Offer was $4,147,000 excluding transaction costs. The Company paid for the Tender Offer with available cash on hand.

On November 26, 2012, the board of directors of the Company declared a one-time special cash dividend of $2.00 per common share (the Dividend) for an aggregate dividend of approximately $8,322,000. The Dividend was payable on December 17, 2012 to shareholders of record at the close of business on December 6, 2012. The Dividend was funded primarily from available cash on hand with the remainder from borrowings under the 2012 Credit Facility.

Note 20. Stock-Based Compensation

At December 31, 2012, the Company had stock-based employee compensation plans as described below. For the years ended December 31, 2012, December 31, 2011, and December 31, 2010, the total compensation expense (included in selling, general and administrative expense) related to these plans was $842,000, $564,000, and $174,000 ($605,000, $317,000, and $107,000, net of tax), respectively.

The Company maintains a shareholder approved stock option plan that has expired: the Non-Employee Director Nonqualified Stock Option Plan (the Director Plan). 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. During 2012, 13,000 options were exercised. As a result, no options were outstanding under the Director Plan as of December 31, 2012.

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. Prior to the amendment of the 2008 Plan on June 8, 2011, as described below, up to 315,000 shares of the Company s common stock were subject to the 2008 Plan. 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.

Table of Contents

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.

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. During 2011, 5,000 of these options were cancelled.

During 2011, the shareholders of the Company approved amendments to the 2008 Plan to: (a) increase the number of shares of the Company s common stock subject to the 2008 Plan from 315,000 shares to 450,000 shares, and (b) require shareholder approval prior to the reduction of the exercise price of any outstanding options or stock appreciation rights, any repricing through cancellations and re-grants of new options or stock appreciation rights, or any cancellation of outstanding options or stock appreciation rights with an exercise price above the current stock price in exchange for cash or other securities. No stock options were granted to select executives and key employees under the 2008 Plan during 2012. As of December 31, 2012, there were 135,000 options outstanding under the 2008 Plan. As of December 31, 2012, there were 158,000 shares available for grant under the 2008 Plan.

During the second quarter of 2011, the Company implemented a Long-Term Incentive Plan (the 2011 LTIP) pursuant to the 2008 Plan which awarded restricted stock units (RSUs) to eligible executives. Under the terms of the 2011 LTIP, the number of RSUs that may vest, if any, will be based on, among other things, the Company achieving certain sales and return on invested capital (ROIC), as defined, targets during the January 2011 to December 2013 performance period. Earned RSUs, if any, cliff vest at the end of fiscal 2013 (100% of earned RSUs vest at December 31, 2013). The final value of these RSUs will be determined by the number of shares earned. The value of these RSUs is charged to compensation expense on a straight-line basis over the three year vesting period with periodic adjustments to account for changes in anticipated award amounts. The weighted-average price for these RSUs was $23.00 per share based on the grant date of June 9, 2011. During the twelve months ended December 31, 2012, $34,000 was charged to compensation expense. As of December 31, 2012, total unamortized compensation expense for this grant was $98,000. As of December 31, 2012, the maximum number of achievable RSUs under the 2011 LTIP is 36,000 RSUs.

During the third quarter of 2011, the Company awarded each Director 1,000 restricted shares pursuant to the 2008 Plan that vest upon the earlier of: (1) the first anniversary of the grant date, (2) at the time of the recipient s termination, or (3) at the time of the recipient s retirement. Based on the terms of the awards the shares were immediately expensed and as a result the Company recognized $123,000 of stock compensation expense during the third quarter of 2011. The weighted-average price of these restricted stock grants was $24.62 per share based on the grant date of July 29, 2011. During 2012, 5,000 shares were granted under this award.

Table of Contents

During the first quarter of 2012, the Company implemented a Long-Term Incentive Plan (the 2012 LTIP) pursuant to the 2008 Plan which had similar conditions and vesting terms as the 2011 LTIP. The weighted-average price for these RSUs was $18.00 per share based on the grant date of February 17, 2012. During 2012, $47,000 was charged to compensation expense. As of December 31, 2012, total unamortized compensation expense for this grant was $108,000. As of December 31, 2012, the maximum number of achievable RSUs under the 2012 LTIP was 54,000 RSUs.

On April 2, 2012, the Company granted each Director, except the Chairman, 3,000 restricted shares pursuant to the 2008 Plan. The Chairman was granted 10,000 restricted shares pursuant to the 2008 Plan. The shares vest upon the earlier of: (1) the first anniversary of the grant date, (2) at the time of the recipient s termination, or (3) at the time of the recipient s retirement. Based on the terms of the awards the shares were immediately expensed and as a result the Company recognized $431,000 of stock compensation expense during the second quarter of 2012. The weighted-average price of these restricted stock grants was $19.57 per share based on the grant date of April 2, 2012. As of December 31, 2012, no shares were granted under this award.

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
Weighted average fair value of grants	$ 6.78
Valuation assumptions:	
Expected dividend yield	0.00%
Expected volatility	68.44
Expected life (in years)	4.44
Risk-free interest rate	1.71%

No stock options were granted during fiscal 2012 and fiscal 2011.

Table of Contents

Stock Options

Option activity under the principal option plans as of December 31, 2012 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)
Outstanding as of December 31, 2010	253	$ 11.34	4.93	$ 1,554
Granted				
Exercised	(82)	9.95		
Forfeited	(5)	12.80		
Expired	(18)	10.33		
Outstanding as of December 31, 2011	148	$ 12.17	4.95	$ 608
Granted				
Exercised	(13)	6.00		
Forfeited				
Expired				
Outstanding as of December 31, 2012	135	$ 12.79	4.33	$ 670
Exercisable as of December 31, 2012	87	$ 12.90	4.19	$ 422

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 2012 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, 2012. 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, 2012, December 31, 2011 and December 31, 2010, were $161,000, $879,000 and $568,000, respectively.

As of December 31, 2012, $197,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 0.6 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, 2012 and December 31, 2011 was $80,000 and $817,000, respectively. The actual tax benefit realized for the tax deduction from option exercises of the share-based payment units totaled $33,000 and $291,000 for the fiscal years ended December 31, 2012 and December 31, 2011. 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.

Note 21. Cash Flow Information

Supplemental disclosures of cash flow information:

	Years Ended December 31, 2012	2011	2010
		(in thousands)	
Interest paid	$ 46	$ 185	$ 81
Income taxes paid	$ 2,997	$ 5,264	$ 1,951

F-37

Table of Contents

Note 22. 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. 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 designs, manufactures and markets high-reliability power conversion products in internal and external footprints. The Company s power supplies provide a reliable and safe power source for the customer s specific equipment needs. 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, industrial/instrumentation, military and information technology equipment. The High Power Group sells products under two brand names (Teal and MTE). Teal designs and manufactures custom power conditioning and distribution units for OEMs of medical imaging, medical treatment, military aerospace, semiconductor, solar and advanced simulation systems. MTE designs and manufactures power quality products used to protect equipment from power surges, bring harmonics into compliance and improve the efficiency of variable speed motor drive systems. SL-MTI designs and manufactures high power density precision motors that are used in numerous applications, including military and commercial aerospace, oil and gas, and medical and industrial products. RFL designs and manufactures communication and power protection products/systems that are used to protect electric utility transmission lines and apparatus by isolating faulty transmission lines from a transmission grid. The Unallocated Corporate Expenses segment includes corporate related items, financing activities and other costs not allocated to reportable segments, which includes but is not limited to certain treasury, risk management, 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 2012, 2011 or 2010. Each of the segments has certain major customers, the loss of any of which would have a material adverse effect on such segment.

Table of Contents

	Years Ended December 31, 2012	2011	2010
		(in thousands)	
Net sales			
SLPE	$ 77,869	$ 91,066	$ 79,615
High Power Group	65,283	63,027	56,494
SL-MTI	36,223	35,413	31,261
RFL	21,202	22,825	22,398
Net sales	$ 200,577	$ 212,331	$ 189,768

	Years Ended December 31, 2012	2011	2010
		(in thousands)	
Income from operations			
SLPE	$ 2,487	$ 7,825	$ 6,389
High Power Group	6,822	6,940	5,418
SL-MTI	6,292	6,219	4,801
RFL	2,763	3,189	2,990
Unallocated Corporate Expenses [1]	(5,463)	(5,639)	(6,350)
Income from operations	12,901	18,534	13,248
Amortization of deferred financing costs	(138)	(218)	(252)
Interest income	5	3	2
Interest expense	(48)	(179)	(86)
Fire related gain (loss), net		277	(109)
Other gain (loss), net	302		
Income from continuing operations before income taxes	$ 13,022	$ 18,417	$ 12,803

(1) Unallocated Corporate Expenses 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.

	December 31, 2012	2011
	(in thousands)	
Total assets		
SLPE	$ 36,419	$ 39,205
High Power Group	31,296	29,639
SL-MTI	12,012	11,505
RFL	13,744	13,973
Unallocated Corporate Assets	13,666	16,904
Total assets	$ 107,137	$ 111,226

Table of Contents

	December 31, 2012	December 31, 2011
	(in thousands)	
Goodwill and other intangible assets, net		
SLPE	$ 4,563	$ 4,733
High Power Group	15,343	15,820
SL-MTI	140	
RFL	5,359	5,414
Goodwill and other intangible assets, net	$ 25,405	$ 25,967

	Years Ended December 31, 2012	2011	2010
	(in thousands)		
Capital expenditures			
SLPE	$ 386	$ 1,660	$492
High Power Group	613	275	440
SL-MTI	549	512	258
RFL	251	224	226
Unallocated Corporate Expenses	5	19	
Capital expenditures	$ 1,804	$ 2,690	$1,416

	Years Ended December 31, 2012	2011	2010
	(in thousands)		
Depreciation and amortization [(1)]			
SLPE	$ 926	$ 1,207	$ 1,381
High Power Group	926	856	831
SL-MTI	431	309	302
RFL	415	473	465
Unallocated Corporate Expenses	13	25	47
Depreciation and amortization	$ 2,711	$ 2,870	$ 3,026

(1) Excludes amortization of deferred financing costs.

Table of Contents

Financial information relating to the Company s segments by geographic area is as follows:

	Years Ended December 31, 2012	2011 (in thousands)	2010
Net sales [(1)]			
United States	$ 160,059	$ 167,677	$ 148,361
Foreign	40,518	44,654	41,407
Consolidated net sales	$ 200,577	$ 212,331	$ 189,768
Long-lived assets [(2)]			
United States	$ 6,318	$ 5,829	$ 5,978
Foreign	3,275	3,587	2,943
Consolidated long-lived assets	$ 9,593	$ 9,416	$ 8,921

(1) Net sales are attributed to countries based on location of customer.
(2) Includes net tangible assets excluding goodwill and intangibles.

Note 23. Restructuring Costs

Restructuring activity for the period ended December 31, 2012 was as follows:

	Accrual at Beginning of the Year	Charged to Earnings	Cash Payments (in thousands)	Accrual at December 31, 2012
2012 Plan				
Severance and other employee-related charges	$	$ 857	$ 857	$
2011 Plan				
Severance and other employee-related charges	56		56	
Total restructuring reserve	$ 56	$ 857	$ 913	$

2012 Restructuring Plan

During the third quarter of 2012, the Company announced to its employees a restructuring plan (2012 Plan) to align its costs with current and projected sales activity. The costs reductions were primarily direct labor employees and engineering, selling and administration employees at SLPE, RFL, and TEAL, which is part of the High Power Group. As of December 31, 2012, there was a consolidated charge to earnings of $857,000, which was comprised of a $732,000 charge at SLPE, a $67,000 charge at RFL, and a $58,000 charge at TEAL. The charges are composed of severance and other employee related charges. The total number of employees affected by the restructuring plan was 67, all of which had been terminated as of December 31, 2012.

Table of Contents

2011 Restructuring Plan

During the fourth quarter of 2011, the Company announced a restructuring plan (2011 Plan) to reduce certain costs of sales and certain operating expenses, including engineering, selling and administration at SLPE and TEAL, which is part of the High Power Group. For the year ended December 31, 2011, there was a consolidated charge to earnings of $261,000 which was comprised of a $207,000 charge at SLPE and a $54,000 charge at TEAL. The charges are composed of severance and other employee related charges. The total number of employees affected by the restructuring plan was 47, all of which had been terminated as of December 31, 2011. The remaining unpaid termination benefits associated with the plan were paid during January 2012.

Note 24. Fire Related Gain (Loss) And Insurance Recovery

On March 24, 2010, the Company sustained fire damage at its then leased manufacturing facility in Mexicali, Mexico. This facility manufactured products for both SLPE and MTE. The fire was contained to an area that manufactured MTE products. The Company was 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 gain (loss) are as follows:

	Years Ended December 31,	
	2011	2010
	(in thousands)	
Fire related loss	$	$ (642)
Insurance recovery	277	533
Net fire related gain (loss)	$ 277	$ (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.

During June 2011, the Company settled the fire damage claims with its insurance carriers for $810,000 and as a result the Company recorded a gain related to the fire of $277,000. The Company had recorded estimated insurance recoveries of $533,000 as of December 31, 2010. The Company received $610,000 from its insurance carriers on July 15, 2011 since the Company received a $200,000 advance from its carrier related to the fire loss in July 2010. No additional material gains, losses or recoveries are expected to be recognized in subsequent periods related to the fire loss.

Note 25. Related Party Transactions

On December 17, 2012, the Company sold its investment in RFL Communications for $81,000 and recognized a gain on sale of $59,000. Prior to the sale, RFL had an investment of $22,000 in RFL Communications, representing 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.

Table of Contents

Sales to RFL Communications for 2012, 2011 and 2010 were $927,000, $626,000 and $655,000, respectively. Accounts receivable due from RFL Communications at December 31, 2012 and December 31, 2011 were $285,000 and $35,000, respectively.

Note 26. Selected Quarterly Financial Data (Unaudited)

	Three Months Ended March 31, 2012	Three Months Ended June 30, 2012	Three Months Ended September 30, 2012	Three Months Ended December 31, 2012	Twelve Months Ended December 31, 2012
	(in thousands, except per share data)				
Net sales	$ 49,340	$ 48,899	$ 50,886	$ 51,452	$ 200,577
Cost of products sold	$ 33,771	$ 32,756	$ 34,572	$ 35,443	$ 136,542
Income from continuing operations before income taxes	$ 2,310	$ 2,137	$ 3,792	$ 4,783	$ 13,022
Net income [a]	$ 1,250	$ 1,166	$ 2,401	$ 2,960	$ 7,777
Basic net income per common share	$ 0.27	$ 0.26	$ 0.58	$ 0.72	$ 1.80
Diluted net income per common share	$ 0.27	$ 0.26	$ 0.58	$ 0.71	$ 1.80
[a] Includes (loss) from discontinued operations, net of tax	$ (194)	$ (244)	$ (464)	$ (678)	$ (1,580)

	Three Months Ended March 31, 2011	Three Months Ended June 30, 2011	Three Months Ended September 30, 2011	Three Months Ended December 31, 2011	Twelve Months Ended December 31, 2011
	(in thousands, except per share data)				
Net sales	$ 52,594	$ 56,266	$ 52,092	$ 51,379	$ 212,331
Cost of products sold	$ 34,819	$ 37,890	$ 36,011	$ 34,700	$ 143,420
Income from continuing operations before income taxes	$ 4,882	$ 5,758	$ 3,473	$ 4,304	$ 18,417
Net income (loss) [a]	$ 3,412	$ 4,209	$ 2,276	$ (1,699)	$ 8,198
Basic net income (loss) per common share	$ 0.76	$ 0.93	$ 0.50	$ (0.37)	$ 1.81
Diluted net income (loss) per common share	$ 0.75	$ 0.92	$ 0.50	$ (0.37)	$ 1.79
[a] Includes (loss) income from discontinued operations, net of tax	$ (190)	$ 593[b]	$ (261)	$ (4,779)[c]	$ (4,637)

[b] Income from discontinued operations, net of tax, includes a favorable settlement with a foreign tax authority which was recorded as part of discontinued operations. The settlement was associated with the Company s Elektro-Metall Export GmbH subsidiary, which was sold in January 2003. As a result, during the second quarter of 2011, the Company recognized income of $787,000 ($619,000 tax and $168,000 interest) from a previously unrecognized tax position related to the settlement.

[c] Loss from discontinued operations, net of tax, includes a $5,151,000, net of tax, charge related to estimated environmental remediation liabilities associated with the Pennsauken Site.

Note 27. Subsequent Events

As a result of a work stoppage at the Company s Xianghe manufacturing capabilities from March 7, 2013 through March 20, 2013, revenues for the quarter ended March 31, 2013 were adversely impacted by approximately $1,300,000. The Company will realize those sales during the second quarter of 2013. Additionally, certain incremental costs were incurred during the first quarter of 2013 related to the work stoppage including employee, travel, consulting and legal costs of approximately $700,000.

Table of Contents

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
		(in thousands)			
YEAR ENDED DECEMBER 31, 2012					
Allowance for:					
Doubtful accounts	$ 603	$ 20	$	$ 32	$ 591
YEAR ENDED DECEMBER 31, 2011					
Allowance for:					
Doubtful accounts	$ 585	$ 18	$	$	$ 603
YEAR ENDED DECEMBER 31, 2010					
Allowance for:					
Doubtful accounts	$ 651	$ (48)	$ (4)	$ 14	$ 585

Description	Balance at Beginning of Period	Allowance Recorded on Current Year Losses	Release of Allowance on Current Year Utilization	Release of Allowance on Losses Expired or Revalued	Balance at End of Period
		(in thousands)			
YEAR ENDED DECEMBER 31, 2012					
Allowance for:					
Deferred tax valuation	$ 1,926	$ 64	$	$ (3)	$ 1,987
YEAR ENDED DECEMBER 31, 2011					
Allowance for:					
Deferred tax valuation	$ 937	$ 338	$	$ 651	$ 1,926
YEAR ENDED DECEMBER 31, 2010					
Allowance for:					
Deferred tax valuation	$ 560	$ 696	$	$ (319)	$ 937