SL INDUSTRIES INC
Form 10-Q
May 14, 2009

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

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

Commission file number 1-4987

SL INDUSTRIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

N/A

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

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

Indicate by check mark whether the registrant 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 o No o

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

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

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

The number of shares of common stock outstanding as of May 5, 2009 was 6,002,246.

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Item 1. Financial Statements

SL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 319,000	$ 504,000
Receivables, net	23,059,000	25,496,000
Inventories, net	20,895,000	21,578,000
Prepaid expenses	1,378,000	1,059,000
Deferred income taxes, net	5,187,000	5,004,000
Total current assets	50,838,000	53,641,000
Property, plant and equipment, net	10,307,000	10,648,000
Deferred income taxes, net	6,630,000	6,701,000
Goodwill	22,769,000	22,769,000
Other intangible assets, net	5,608,000	5,831,000
Other assets and deferred charges	1,524,000	1,696,000
Total assets	$ 97,676,000	$ 101,286,000
LIABILITIES		
Current liabilities:		
Accounts payable	$ 7,840,000	$ 9,942,000
Accrued income taxes	3,947,000	3,922,000
Accrued liabilities:		
Payroll and related costs	3,844,000	5,259,000
Other	6,766,000	7,296,000
Total current liabilities	22,397,000	26,419,000
Debt, less current portion		
Deferred compensation and supplemental retirement benefits	2,654,000	2,681,000
Other liabilities	7,355,000	7,326,000
Total liabilities	32,406,000	36,426,000
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Preferred stock, no par value; authorized, 6,000,000 shares; none issued	$	$
	1,660,000	1,660,000

Common stock, $0.20 par value; authorized, 25,000,000 shares; issued, 8,298,000 shares		
Capital in excess of par value	43,347,000	43,651,000
Retained earnings	39,184,000	39,135,000
Accumulated other comprehensive (loss)	(126,000)	(118,000)
Treasury stock at cost, 2,311,000 and 2,391,000 shares, respectively	(18,795,000)	(19,468,000)
Total shareholders equity	65,270,000	64,860,000
Total liabilities and shareholders equity	$ 97,676,000	$ 101,286,000

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net sales	$ 36,232,000	$ 45,361,000
Cost and expenses:		
Cost of products sold	24,345,000	30,572,000
Engineering and product development	3,251,000	3,462,000
Selling, general and administrative	7,357,000	8,248,000
Depreciation and amortization	899,000	916,000
Total cost and expenses	35,852,000	43,198,000
Income from operations	380,000	2,163,000
Other income (expense):		
Amortization of deferred financing costs	(48,000)	(22,000)
Interest income	5,000	10,000
Interest expense	(33,000)	(123,000)
Income from continuing operations before income taxes	304,000	2,028,000
Income tax provision	59,000	682,000
Income from continuing operations	245,000	1,346,000
(Loss) from discontinued operations (net of tax)	(196,000)	(212,000)
Net income	$ 49,000	$ 1,134,000
Basic net income (loss) per common share		
Income from continuing operations	$ 0.04	$ 0.23
(Loss) from discontinued operations (net of tax)	(0.03)	(0.04)
Net income	$ 0.01	$ 0.19
Diluted net income (loss) per common share		
Income from continuing operations	$ 0.04	$ 0.23
(Loss) from discontinued operations (net of tax)	(0.03)	(0.04)
Net income	$ 0.01	$ 0.19
Shares used in computing basic net income (loss) per common share	5,933,000	5,853,000
Shares used in computing diluted net income (loss) per common share	5,933,000	5,972,000

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net income	$ 49,000	$ 1,134,000
Other comprehensive (loss), net of tax:		
Foreign currency translation	(8,000)	(42,000)
Comprehensive income	$ 41,000	$ 1,092,000

See accompanying notes to consolidated financial statements.

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

	2009	2008
OPERATING ACTIVITIES		
Net income	$ 49,000	$ 1,134,000
Adjustment for losses from discontinued operations	196,000	212,000
Income from continuing operations	245,000	1,346,000
Adjustments to reconcile income from continuing operations to net cash (used in) operating activities:		
Depreciation	544,000	541,000
Amortization	355,000	375,000
Amortization of deferred financing costs	48,000	22,000
Non-cash compensation (benefit)	(145,000)	(8,000)
Stock-based compensation	61,000	
Provisions for losses on accounts receivable	8,000	88,000
Deferred compensation and supplemental retirement benefits	101,000	105,000
Deferred compensation and supplemental retirement benefit payments	(126,000)	(127,000)
Deferred income taxes	21,000	378,000
Changes in operating assets and liabilities, excluding effects of business acquisition:		
Accounts receivable	2,429,000	(280,000)
Inventories	682,000	(738,000)
Prepaid expenses	(319,000)	(421,000)
Other assets	2,000	
Accounts payable	(2,101,000)	(666,000)
Accrued liabilities	(1,664,000)	(2,852,000)
Accrued income taxes	48,000	104,000
Net cash provided by (used in) operating activities from continuing operations	189,000	(2,133,000)
Net cash (used in) operating activities from discontinued operations	(457,000)	(901,000)
NET CASH (USED IN) OPERATING ACTIVITIES	(268,000)	(3,034,000)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(213,000)	(447,000)
Purchases of other assets		(172,000)
NET CASH (USED IN) INVESTING ACTIVITIES	(213,000)	(619,000)
FINANCING ACTIVITIES		
Payments of deferred financing costs	(7,000)	
Proceeds from Revolving Credit Facility		5,047,000

Payments of Revolving Credit Facility		(2,210,000)
Proceeds from stock options exercised		19,000
Tax benefit from exercise of stock options		4,000
Treasury stock sales	308,000	124,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	301,000	2,984,000
Effect of exchange rate changes on cash	(5,000)	(64,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(185,000)	(733,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	504,000	733,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 319,000	$
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 34,000	$ 113,000
Income taxes	$ 18,000	$ 239,000

See accompanying notes to consolidated financial statements.

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SL INDUSTRIES, INC.
Notes to Consolidated Financial Statements (Unaudited)

1. Basis Of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These financial statements should be read in conjunction with the Company s audited financial statements and notes thereon included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

2. Receivables

Receivables consist of the following:

	March 31, 2009	December 31, 2008
	(in thousands)	
Trade receivables	$ 23,428	$ 25,216
Less: allowance for doubtful accounts	(629)	(621)
	22,799	24,595
Recoverable income taxes		16
Other	260	885
	$ 23,059	$ 25,496

3. Inventories

Inventories consist of the following:

	March 31, 2009	December 31, 2008
	(in thousands)	
Raw materials	$ 15,534	$ 16,197
Work in process	4,570	3,904
Finished goods	4,752	5,225
	24,856	25,326
Less: allowances	(3,961)	(3,748)
	$ 20,895	$ 21,578

4. Income Per Share

The Company has presented net income per common share pursuant to the Financial Accounting Standards Board Statement of Financial Accounting Standard No. 128, Earnings per Share (SFAS 128). Basic net income per common share is computed by dividing reported net income available to common shareholders by the weighted average number of shares outstanding for the period.

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Diluted net income per common share is computed by dividing reported net income available to common shareholders by the weighted average shares outstanding for the period, adjusted for the dilutive effect of common stock equivalents, which consist of stock options, using the treasury stock method. For the three months ended March 31, 2009, there was no dilutive effect for common stock equivalents since the exercise price of stock options outstanding was greater than the Company s share price.

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

	Three Months Ended March 31,					
	2009			2008		
	(in thousands, except per share amounts)					
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic net income per common share	$ 49	5,933	$ 0.01	$ 1,134	5,853	$ 0.19
Effect of dilutive securities					119	
Diluted net income per common share	$ 49	5,933	$ 0.01	$ 1,134	5,972	$ 0.19

For the three-month periods ended March 31, 2009 and March 31, 2008, approximately 404,000 and zero stock options, respectively, were excluded from the dilutive computations because the option exercise prices were greater than the average market price of the Company s common stock.

Stock-Based Compensation

The Company maintains two shareholder approved stock option plans that have expired; however, stock options issued under each plan remain outstanding: the Non-Employee Director Nonqualified Stock Option Plan (the Director Plan) and the Long-Term Incentive Plan (the 1991 Incentive 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, when elected. The Director Plan enabled the Company to grant options, with an exercise price per share not less than fair market value of the Company s common stock on the date of grant, which are exercisable at any time. Each option granted under the Director Plan expires no later than ten years from date of grant. The expiration date of the Director Plan was May 31, 2003. The 1991 Incentive Plan enabled the Company to grant either nonqualified options, with an exercise price per share established by the Board s Compensation Committee, or incentive stock options, with an exercise price per share not less than the fair market value of the Company s common stock on the date of grant, which are exercisable at any time. Each option granted under the 1991 Incentive Plan expires no later than ten years from date of grant. The Plan expired on September 25, 2001 and no future options can be granted under the Plan.

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On May 14, 2008, the shareholders approved the 2008 Incentive Stock Plan (the 2008 Plan). It is intended as an incentive to retain directors, key employees and advisors of the Company. The 2008 Plan provides for up to 315,000 shares of the Company s common stock that may be subject to options and stock appreciation rights. The 2008 Plan enables the Company to grant options with an exercise price per share 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.

On September 29, 2008, the Company granted 155,000 incentive options to select executives and a key employee under the Company s 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. Compensation expense is recognized over the vesting period of the options. The Company recorded $61,000 in compensation expense in the consolidated statements of income for the three-month period ended March 31, 2009. No options were granted; therefore, no compensation expense was recorded during the same period in 2008.

As of March 31, 2009, there was a total of $381,000 of total unrecognized compensation expense related to the unvested stock options. The cost is expected to be recorded over a period of two years. Also, the Company has recognized a benefit of approximately $145,000 and a benefit of approximately $8,000 in the three-month periods ended March 31, 2009 and March 31, 2008, respectively, related to certain stock-based compensation arrangements.

The estimated fair value of the options granted was calculated using the Black-Scholes Merton option pricing model (Black Scholes). The Black Scholes model incorporates assumptions to value stock-based awards. The risk-free rate of interest for periods within the estimated life of the options is based on U.S. Government Securities Treasury Constant Maturities over the contractual term of the options. Expected volatility is based on the historical volatility of the Company s stock. The Company uses the simplified method described in Staff Accounting Bulletin No. 110 to determine the expected life assumptions, since the Company s historical data about its employees exercise behavior does not provide a reasonable basis for estimating the expected life of the options. The Company had two stock option plans that have now expired. Market conditions and the Company structure have changed significantly since options were issued under those plans.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions.

	Three Months Ended March 31, 2009
Risk-free interest rate	3.12%
Expected dividend yield	0.0%
Expected stock price volatility	42.52%
Expected life of stock option	4.25 years

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The following table summarizes stock option activity for all plans:

	Outstanding Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2008	405	$ 10.32	4.24	
Granted				
Exercised				
Forfeited				
Expired	(1)	$ 12.84		
Outstanding as of March 31, 2009	404	$ 10.31	4.02	N/M
Exercisable as of March 31, 2009	301	$ 9.46	3.16	N/M

During the three-month periods ended March 31, 2009 and March 31, 2008, the total intrinsic value of options exercised was zero and $11,000, respectively, and the actual tax benefit realized for the tax deduction from these option exercises was zero and $4,000, respectively. During the three-month period ended March 31, 2009, no options to purchase common stock were exercised by option holders. During the three-month period ended March 31, 2008, options to purchase approximately 2,000 shares of common stock with an aggregate exercise price of $19,000 were exercised by option holders.

5. Income Tax

The Company has recorded gross unrecognized tax benefits, excluding interest and penalties, as of March 31, 2009 and December 31, 2008 of $2,899,000 and $2,845,000, respectively. Tax benefits are recorded pursuant to the provisions of the Financial Accounting Standards Board (the FASB) Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48). If recognized, all of the net unrecognized tax benefits would impact the Company s effective tax rate.

The Company is subject to federal and state income taxes in the United States, as well as income taxes in certain foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is not subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2004.

The Company has been examined by the Internal Revenue Service (the IRS) for periods up to and including the calendar year 2004. In addition, a foreign tax authority is examining the Company s transfer pricing policies. It is possible that this examination may be resolved within twelve months. However, it is not possible to estimate the range of any changes to the gross unrecognized tax benefits. In addition, it is reasonably possible that the Company s gross unrecognized tax benefits balance may change within the next twelve months due to the expiration of the statutes of limitation in various states by a range of zero to $430,000. At March 31, 2009, the Company has recorded a liability for unrecognized benefits of $1,909,000, $902,000 and $88,000 for federal, foreign and state taxes, respectively, primarily related to expenses in those jurisdictions.

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The Company classifies interest and penalties related to unrecognized tax benefits as income tax expense. The Company has accrued approximately $475,000 for the payment of interest and penalties at March 31, 2009.
The following is a reconciliation of income tax expense at the applicable federal statutory rate and the effective rates from continuing operations:

	Three Months Ended March 31,	
	2009	2008
Statutory rate	34%	34%
Tax rate differential on domestic manufacturing deduction	(5)	(1)
State income taxes, net of federal income tax	5	4
Research and development credits	(32)	(5)
Foreign tax credits	(1)	2
Permanent adjustments	5	
FIN 48 interest and penalty	13	
	19%	34%

During the three months ended March 31, 2009, the Company recorded additional benefits from research and development tax credits of $97,000. As of March 31, 2009, the Company s gross research and development tax credit carryforwards totaled approximately $2,179,000. Of these credits, approximately $1,537,000 can be carried forward for 15 years and will expire between 2013 and 2024, while $642,000 can be carried forward indefinitely.
As of March 31, 2009, the Company s gross foreign tax credits totaled approximately $1,534,000. These credits can be carried forward for ten years and will expire between 2017 and 2019.

6. New and Proposed Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (Revised 2007) Business Combinations (SFAS 141R). SFAS 141R significantly changes the accounting for business combinations. Under SFAS 141R, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R changes the accounting treatment for certain specific acquisition related items, as follows: (1) earn-outs and other forms of contingent c