

SL INDUSTRIES INC  
Form 10-Q  
November 12, 2008

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

(Mark One)

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

**For the quarterly period ended September 30, 2008  
OR**

**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**

(State or other jurisdiction of incorporation or organization)

**21-0682685**

(I.R.S. Employer Identification No.)

**520 Fellowship Road, Suite A114, Mt. Laurel, NJ**

(Address of principal executive offices)

**08054**

(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  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting Company

(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  No

The number of shares of common stock outstanding as of November 6, 2008 was 5,875,786.

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SL INDUSTRIES, INC.  
CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (Unaudited)	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$	\$ 733,000
Receivables, net	28,215,000	30,068,000
Inventories, net	24,755,000	22,242,000
Prepaid expenses	1,235,000	959,000
Deferred income taxes, net	2,984,000	4,302,000
<b>Total current assets</b>	<b>57,189,000</b>	<b>58,304,000</b>
Property, plant and equipment, net	10,985,000	11,047,000
Deferred income taxes, net	6,286,000	5,148,000
Goodwill	21,980,000	22,006,000
Other intangible assets, net	6,060,000	6,741,000
Other assets and deferred charges	1,231,000	1,427,000
<b>Total assets</b>	<b>\$ 103,731,000</b>	<b>\$ 104,673,000</b>
<b>LIABILITIES</b>		
Current liabilities:		
Debt, current portion	\$	\$
Accounts payable	11,165,000	12,612,000
Accrued income taxes	903,000	495,000
Accrued liabilities:		
Payroll and related costs	6,379,000	7,948,000
Other	7,320,000	6,643,000
<b>Total current liabilities</b>	<b>25,767,000</b>	<b>27,698,000</b>
Debt, less current portion	4,118,000	6,000,000
Deferred compensation and supplemental retirement benefits	2,685,000	2,812,000
Other liabilities	6,545,000	6,534,000
<b>Total liabilities</b>	<b>39,115,000</b>	<b>43,044,000</b>
Commitments and contingencies		
<b>SHAREHOLDERS EQUITY</b>		
Preferred stock, no par value; authorized, 6,000,000 shares; none issued	\$	\$

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Common stock, \$0.20 par value; authorized, 25,000,000 shares; issued, 8,298,000 shares	1,660,000	1,660,000
Capital in excess of par value	43,606,000	42,999,000
Retained earnings	39,369,000	36,801,000
Accumulated other comprehensive (loss)	(305,000)	(70,000)
Treasury stock at cost, 2,424,000 and 2,449,000 shares, respectively	(19,714,000)	(19,761,000)
Total shareholders' equity	64,616,000	61,629,000
Total liabilities and shareholders' equity	\$ 103,731,000	\$ 104,673,000

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	\$ 46,242,000	\$ 50,652,000	\$ 140,338,000	\$ 151,709,000
Cost and expenses:				
Cost of products sold	32,052,000	34,419,000	96,321,000	101,570,000
Engineering and product development	3,456,000	3,193,000	10,454,000	9,606,000
Selling, general and administrative	7,984,000	8,280,000	23,825,000	25,921,000
Depreciation and amortization	924,000	876,000	2,765,000	2,705,000
Restructuring charges	518,000		518,000	
Total cost and expenses	44,934,000	46,768,000	133,883,000	139,802,000
Income from operations	1,308,000	3,884,000	6,455,000	11,907,000
Other income (expense):				
Amortization of deferred financing costs		(22,000)	(44,000)	(66,000)
Interest income	9,000	15,000	24,000	33,000
Interest expense	(42,000)	(130,000)	(211,000)	(710,000)
Income from continuing operations before income taxes	1,275,000	3,747,000	6,224,000	11,164,000
Income tax provision	403,000	1,280,000	2,006,000	3,423,000
Income from continuing operations	872,000	2,467,000	4,218,000	7,741,000
(Loss) from discontinued operations (net of tax)	(1,196,000)	(316,000)	(1,650,000)	(1,104,000)
Net income (loss)	\$ (324,000)	\$ 2,151,000	\$ 2,568,000	\$ 6,637,000
<b>Basic net income (loss) per common share</b>				
Income from continuing operations	\$ 0.15	\$ 0.43	\$ 0.72	\$ 1.37
(Loss) from discontinued operations (net of tax)	(0.20)	(0.06)	(0.28)	(0.19)
Net income (loss)	\$ (0.06)*	\$ 0.38*	\$ 0.44	\$ 1.17*
<b>Diluted net income (loss) per common share</b>				
Income from continuing operations	\$ 0.15	\$ 0.42	\$ 0.71	\$ 1.33
(Loss) from discontinued operations (net of tax)	(0.20)	(0.05)	(0.28)	(0.19)

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Net income (loss)	\$	(0.05)	\$	0.36*	\$	0.43	\$	1.14
Shares used in computing basic net income (loss) per common share		5,871,000		5,730,000		5,862,000		5,669,000
Shares used in computing diluted net income (loss) per common share		5,939,000		5,906,000		5,959,000		5,834,000

SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net income (loss)	\$ (324,000)	\$ 2,151,000	\$ 2,568,000	\$ 6,637,000
Other comprehensive income (net of tax):				
Foreign currency translation	27,000	(41,000)	(235,000)	(9,000)
Unrealized gain on securities		112,000		
Comprehensive income (loss)	\$ (297,000)	\$ 2,222,000	\$ 2,333,000	\$ 6,628,000

\* Earnings per share does not total due to rounding.

See accompanying notes to consolidated financial statements.



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SL INDUSTRIES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30,  
(Unaudited)

	2008	2007
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 2,568,000	\$ 6,637,000
Adjustment for losses from discontinued operations	1,650,000	1,104,000
Income from continuing operations	4,218,000	7,741,000
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation	1,650,000	1,678,000
Amortization	1,115,000	1,027,000
Amortization of deferred financing costs	44,000	66,000
Non-cash restructuring	155,000	
Non-cash compensation (benefit) expense	(482,000)	1,015,000
Stock-based compensation	254,000	
Provisions for (gains) losses on accounts receivable	(2,000)	12,000
Deferred compensation and supplemental retirement benefits	294,000	328,000
Deferred compensation and supplemental retirement benefit payments	(416,000)	(392,000)
Deferred income taxes	245,000	995,000
Loss on sale of equipment	48,000	32,000
Changes in operating assets and liabilities, excluding effects of business acquisition:		
Accounts and note receivable	1,856,000	64,000
Inventories	(2,514,000)	(2,425,000)
Prepaid expenses	(277,000)	(627,000)
Other assets	70,000	(147,000)
Accounts payable	(1,447,000)	826,000
Accrued liabilities	(2,103,000)	(887,000)
Accrued income taxes	1,419,000	12,000
Net cash provided by operating activities from continuing operations	4,127,000	9,318,000
Net cash (used in) operating activities from discontinued operations	(965,000)	(1,709,000)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>3,162,000</b>	<b>7,609,000</b>
<b>INVESTING ACTIVITIES</b>		
Acquisition of a business, net of cash acquired		(65,000)
Purchases of property, plant and equipment	(1,446,000)	(1,170,000)
Purchases of other assets	(743,000)	
<b>NET CASH (USED IN) INVESTING ACTIVITIES</b>	<b>(2,189,000)</b>	<b>(1,235,000)</b>

## FINANCING ACTIVITIES

Proceeds from Revolving Credit Facility	17,828,000	18,570,000
Payments of Revolving Credit Facility	(19,710,000)	(28,370,000)
Proceeds from stock options exercised	54,000	2,530,000
Tax benefit from exercise of stock options	7,000	551,000
Treasury stock sales (purchases)	339,000	(411,000)

NET CASH (USED IN) FINANCING ACTIVITIES	(1,482,000)	(7,130,000)
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Effect of exchange rate changes on cash	(224,000)	14,000
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NET CHANGE IN CASH AND CASH EQUIVALENTS	(733,000)	(742,000)
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CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	733,000	757,000
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	\$ 15,000
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## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period for:

Interest	\$ 313,000	\$ 855,000
Income taxes	\$ 528,000	\$ 2,118,000

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, 2008. These financial statements should be read in conjunction with the Company's audited financial statements and notes thereon included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

**2. Receivables**

Receivables consist of the following:

	September 30, 2008	December 31, 2007
	(in thousands)	
Trade receivables	\$ 27,752	\$ 29,790
Less: allowance for doubtful accounts	(788)	(865)
	26,964	28,925
Recoverable income taxes	143	58
Other	1,108	1,085
	\$ 28,215	\$ 30,068

**3. Inventories**

Inventories consist of the following:

	September 30, 2008	December 31, 2007
	(in thousands)	
Raw materials	\$ 17,638	\$ 15,805
Work in process	5,651	4,849
Finished goods	4,673	4,615
	27,962	25,269
Less: allowances	(3,207)	(3,027)
	\$ 24,755	\$ 22,242

**4. Income (Loss) Per Share**

The Company has presented net income (loss) 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 (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.



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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. In accordance with SFAS 128, the computation for the diluted effect of income from continuing operations and loss from discontinued operations for the three months ended September 30, 2008, includes common stock equivalents because income from continuing operations was dilutive.

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

	Three Months Ended September 30,					
	2008			2007		
	Net (Loss)	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic net income (loss) per common share	\$ (324)	5,871	\$ (0.06)	\$ 2,151	5,730	\$ 0.38
Effect of dilutive securities		68	0.01		176	(0.02)
Diluted net income (loss) per common share	\$ (324)	5,939	\$ (0.05)	\$ 2,151	5,906	\$ 0.36

	Nine Months Ended September 30,					
	2008			2007		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic net income per common share	\$ 2,568	5,862	\$ 0.44	\$ 6,637	5,669	\$ 1.17
Effect of dilutive securities		97	(0.01)		165	(0.03)
Diluted net income per common share	\$ 2,568	5,959	\$ 0.43	\$ 6,637	5,834	\$ 1.14

For the nine-month periods ended September 30, 2008 and September 30, 2007, no stock options were excluded from the dilutive computations because there were no option exercise prices greater than the average market price of the Company's common stock.

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**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.

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 \$254,000 in compensation expense in the consolidated statements of operations for the three and nine month periods ended September 30, 2008. No options were granted; therefore, no compensation expense was recorded during the same periods in 2007.

As of September 30, 2008, there was a total of \$505,000 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 \$124,000 and an expense of \$826,000 in the three-month periods ended September 30, 2008 and September 30, 2007, respectively, and a benefit of \$482,000 and an expense of \$1,015,000 in the nine month periods ended September 30, 2008, and September 30, 2007, respectively, related to certain stock-based compensation arrangements.

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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 significant