

SL INDUSTRIES INC
Form 10-Q
August 01, 2013
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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 June 30, 2013

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)

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Delaware
(State or other jurisdiction of

21-0682685
(I.R.S. Employer

incorporation or organization)

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 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 ☒ 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ 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 July 25, 2013 was 4,138,000.

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SL INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 974,000	\$ 3,196,000
Receivables, net	32,145,000	30,306,000
Inventories, net	24,675,000	22,102,000
Other current assets	3,152,000	2,098,000
Deferred income taxes, net	3,362,000	3,415,000
Total current assets	64,308,000	61,117,000
Property, plant and equipment, net	10,483,000	9,593,000
Deferred income taxes, net	9,700,000	9,719,000
Goodwill	22,726,000	22,735,000
Other intangible assets, net	2,450,000	2,670,000
Other assets and deferred charges, net	1,281,000	1,303,000
Total assets	\$ 110,948,000	\$ 107,137,000
LIABILITIES		
Current liabilities:		
Debt, current portion	\$ 2,490,000	\$
Accounts payable	17,884,000	18,838,000
Accrued income taxes		429,000
Accrued liabilities:		
Payroll and related costs	4,685,000	4,955,000
Other	10,671,000	10,586,000
Total current liabilities	35,730,000	34,808,000
Deferred compensation and supplemental retirement benefits	1,796,000	1,930,000
Other long-term liabilities	18,284,000	19,967,000
Total liabilities	55,810,000	56,705,000
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 6,656,000 shares, respectively	1,331,000	1,331,000
Capital in excess of par value	21,814,000	21,578,000
Retained earnings	57,061,000	52,280,000
Accumulated other comprehensive (loss)	(359,000)	(452,000)

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Treasury stock at cost, 2,510,000 and 2,517,000 shares, respectively	(24,709,000)	(24,305,000)
Total shareholders' equity	55,138,000	50,432,000
Total liabilities and shareholders' equity	\$ 110,948,000	\$ 107,137,000

See accompanying notes to consolidated financial statements.

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SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales	\$ 49,786,000	\$ 48,899,000	\$ 98,881,000	\$ 98,239,000
Cost and expenses:				
Cost of products sold	32,764,000	32,756,000	64,963,000	66,527,000
Engineering and product development	3,672,000	2,954,000	7,175,000	5,975,000
Selling, general and administrative	9,104,000	10,137,000	17,911,000	19,648,000
Depreciation and amortization	615,000	707,000	1,215,000	1,372,000
Total cost and expenses	46,155,000	46,554,000	91,264,000	93,522,000
Income from operations	3,631,000	2,345,000	7,617,000	4,717,000
Other income (expense):				
Amortization of deferred financing costs	(20,000)	(39,000)	(39,000)	(72,000)
Interest income	2,000	2,000	3,000	3,000
Interest expense	(15,000)	(9,000)	(50,000)	(31,000)
Other gain (loss), net	(301,000)	(162,000)	(327,000)	(170,000)
Income from continuing operations before income taxes	3,297,000	2,137,000	7,204,000	4,447,000
Income tax provision	1,045,000	727,000	1,968,000	1,593,000
Income from continuing operations	2,252,000	1,410,000	5,236,000	2,854,000
(Loss) from discontinued operations, net of tax	(237,000)	(244,000)	(455,000)	(438,000)
Net income	\$ 2,015,000	\$ 1,166,000	\$ 4,781,000	\$ 2,416,000
Basic net income (loss) per common share				
Income from continuing operations	\$ 0.54	\$ 0.32	\$ 1.26	\$ 0.64
(Loss) from discontinued operations, net of tax	(0.06)	(0.06)	(0.11)	(0.10)
Net income	\$ 0.48	\$ 0.26	\$ 1.15	\$ 0.54
Diluted net income (loss) per common share				
Income from continuing operations	\$ 0.54	\$ 0.32	\$ 1.25	\$ 0.63
(Loss) from discontinued operations, net of tax	(0.06)	(0.06)	(0.11)	(0.10)
Net income	\$ 0.48	\$ 0.26	\$ 1.14	\$ 0.53
Shares used in computing basic net income (loss) per common share	4,157,000	4,444,000	4,148,000	4,501,000
Shares used in computing diluted net income (loss) per common share	4,204,000	4,457,000	4,189,000	4,518,000

SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 2,015,000	\$ 1,166,000	\$ 4,781,000	\$ 2,416,000
Other comprehensive income, net of tax:				
Foreign currency translation	17,000	(113,000)	93,000	(94,000)
Comprehensive income	\$ 2,032,000	\$ 1,053,000	\$ 4,874,000	\$ 2,322,000

See accompanying notes to consolidated financial statements.

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SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30,

(Unaudited)

	2013	2012
OPERATING ACTIVITIES:		
Net income	\$ 4,781,000	\$ 2,416,000
Adjustment for losses from discontinued operations	455,000	438,000
Income from continuing operations	5,236,000	2,854,000
Adjustments to reconcile income from continuing operations to net cash (used in) provided by operating activities:		
Depreciation	918,000	892,000
Amortization	297,000	480,000
Amortization of deferred financing costs	39,000	72,000
Stock-based compensation	332,000	744,000
Excess tax benefit on stock compensation	(35,000)	
Loss on foreign exchange contracts	327,000	170,000
Provisions for losses on accounts receivable	34,000	40,000
Deferred compensation and supplemental retirement benefits	132,000	201,000
Deferred compensation and supplemental retirement benefit payments	(260,000)	(269,000)
Deferred income taxes	70,000	(293,000)
Loss on sale of equipment		11,000
Changes in operating assets and liabilities, excluding effects of business combinations:		
Accounts receivable	(1,820,000)	3,297,000
Inventories	(2,507,000)	(503,000)
Other assets	(1,049,000)	(1,004,000)
Accounts payable	(1,045,000)	1,216,000
Other accrued liabilities	335,000	3,333,000
Accrued income taxes	(383,000)	10,000
Net cash provided by operating activities from continuing operations	621,000	11,251,000
Net cash (used in) operating activities from discontinued operations	(2,934,000)	(513,000)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(2,313,000)	10,738,000
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,801,000)	(879,000)
Acquisition of a business, net of cash acquired		(756,000)
Purchases of other assets	(62,000)	(155,000)
NET CASH (USED IN) INVESTING ACTIVITIES	(1,863,000)	(1,790,000)
FINANCING ACTIVITIES:		
Proceeds from Senior Revolving Credit Facility	13,550,000	
Payments of Senior Revolving Credit Facility	(11,060,000)	
Proceeds from Revolving Credit Facility		3,900,000

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Payments of Revolving Credit Facility		(3,900,000)
Payments of deferred financing costs	(30,000)	(43,000)
Repurchase and retirement of common stock		(4,177,000)
Treasury stock purchases	(792,000)	(2,468,000)
Proceeds from stock options exercised	227,000	
Excess tax benefit on stock compensation	35,000	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,930,000	(6,688,000)
Effect of exchange rate changes on cash	24,000	(1,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,222,000)	2,259,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,196,000	5,632,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 974,000	\$ 7,891,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 49,000	\$ 32,000
Income taxes	\$ 2,445,000	\$ 1,622,000
See accompanying notes to consolidated financial statements.		

Table of Contents**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, 2013. 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, 2012. Unless the context requires otherwise, the terms the Company, SL Industries, we, us and our mean SL Industries, Inc., a Delaware corporation, and its consolidated subsidiaries after Reincorporation (defined and described below) and SL Industries, Inc., a New Jersey corporation prior to Reincorporation. In the context of describing the Reincorporation, SL-NJ means SL Industries, Inc., a New Jersey corporation, and SL-DE means SL Industries, Inc., a Delaware corporation and wholly owned subsidiary of SL-NJ.

On May 9, 2013, the Company's shareholders voted to approve a proposal to change the state of incorporation of SL Industries from the State of New Jersey to the State of Delaware by merging SL-NJ with and into SL-DE (the Reincorporation). On June 20, 2013 (the Effective Date), the Reincorporation was effected by merging SL-NJ with and into SL-DE pursuant to an Agreement and Plan of Merger, dated June 3, 2012, between SL-NJ and SL-DE. SL-DE survived the merger and SL-NJ ceased to exist. The principal reason for the Reincorporation was to give the Company a greater measure of flexibility and simplicity in corporate governance and provide greater clarity and predictability with respect to the Company's corporate legal affairs. The Reincorporation did not result in any change in the name, business, management, fiscal year, accounting, location of the principal executive officers, assets or liabilities or net worth (other than the costs of reincorporation which were immaterial) of the Company.

2. Receivables

Receivables consist of the following:

	June 30, 2013	December 31, 2012
	(in thousands)	
Trade receivables	\$ 29,907	\$ 29,284
Less: allowance for doubtful accounts	(625)	(591)
Trade receivables, net	29,282	28,693
Other	2,863	1,613
Receivables, net	\$ 32,145	\$ 30,306

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Inventories consist of the following:

	June 30, 2013	December 31, 2012
	(in thousands)	
Raw materials	\$ 17,510	\$ 15,726
Work in process	5,989	4,623
Finished goods	4,143	4,819
Gross inventory	27,642	25,168
Less: allowances	(2,967)	(3,066)
Inventories, net	\$ 24,675	\$ 22,102

4. Income Per Share

The Company has presented net income per common share pursuant to Accounting Standards Codification (ASC) 260 Earnings Per Share. Basic net income per common share is computed by dividing reported net income available to common shareholders by the weighted average number of shares outstanding for the period.

Diluted net income per common share is computed by dividing reported net income available to common shareholders by the weighted average shares outstanding for the period, adjusted for the dilutive effect of common stock equivalents, which consist of stock options, using the treasury stock method.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except per share amounts)			
Basic net income available to common shareholders:				
Net income available to common shareholders from continuing operations	\$ 2,252	\$ 1,410	\$ 5,236	\$ 2,854
Diluted net income available to common shareholders from continuing operations	\$ 2,252	\$ 1,410	\$ 5,236	\$ 2,854
Shares:				
Basic weighted average number of common shares outstanding	4,157	4,444	4,148	4,501
Common shares assumed upon exercise of stock options	47	13	41	17
Diluted weighted average number of common shares outstanding	4,204	4,457	4,189	4,518
Basic net income (loss) per common share:				
Income from continuing operations	\$ 0.54	\$ 0.32	\$ 1.26	\$ 0.64
(Loss) from discontinued operations (net of tax)	(0.06)	(0.06)	(0.11)	(0.10)
Net income	\$ 0.48	\$ 0.26	\$ 1.15	\$ 0.54
Diluted net income (loss) per common share:				
Income from continuing operations	\$ 0.54	\$ 0.32	\$ 1.25	\$ 0.63
(Loss) from discontinued operations (net of tax)	(0.06)	(0.06)	(0.11)	(0.10)
Net income	\$ 0.48	\$ 0.26	\$ 1.14	\$ 0.53

For the three and six months ended June 30, 2013, no stock options were excluded from the dilutive computation because the option exercise prices were not greater than the average market price of the Company's common stock.

For the three and six months ended June 30, 2012, 7,000 and 6,000 stock options were excluded from the dilutive computation, respectively, because the option exercise prices were greater than the average market price of the Company's common stock.

5. Stock-Based Compensation

At June 30, 2013, the Company had stock-based employee compensation plans as described below. The total compensation expense (included in selling, general and administrative expense) related to these plans for the three and six months ended June 30, 2013 was \$210,000 and \$332,000 (\$148,000 and \$241,000, net of tax), respectively. For the three and six months ended June 30, 2012, the total compensation expense was \$595,000 and \$744,000 (\$385,000 and \$477,000, net of tax), respectively.

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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.

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 the six months ended June 30, 2013. As of June 30, 2013, there were 117,000 options outstanding under the 2008 Plan. As of June 30, 2013, there were 116,000 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 three months ended and six months ended June 30, 2013, \$32,000 and \$52,000 was charged to compensation expense, respectively. As of June 30, 2013, total unamortized compensation expense for this grant was \$48,000. As of June 30, 2013, the maximum number of achievable RSUs under the 2011 LTIP is 36,000 RSUs.

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 the three months ended and six months ended June 30, 2013, \$19,000 and \$29,000 was charged to compensation expense, respectively. As of June 30, 2013, total unamortized compensation expense for this grant was \$84,000. As of June 30, 2013, the maximum number of achievable RSUs under the 2012 LTIP was 54,000 RSUs.

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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 to occur of the first anniversary of the grant date or at the discretion of the Compensation Committee, upon the Director ending his continuous service as a director of the Company. 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. All shares vested and were granted under this award on April 2, 2013.

During the first quarter of 2013, the Company implemented a Long-Term Incentive Plan (the 2013 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 \$19.17 per share based on the grant date of March 5, 2013. During the three and six months ended June 30, 2013, \$33,000 and \$43,000 was charged to compensation expense, respectively. As of June 30, 2013, total unamortized compensation expense for this grant was \$336,000. As of June 30, 2013, the maximum number of achievable RSUs under the 2013 LTIP was 28,000 RSUs.

On May 9, 2013, the Company granted each Director 3,000 restricted shares pursuant to the 2008 Plan. The shares vest upon the first anniversary of the grant date. Based on the terms of the awards the value of these restricted shares is charged to compensation expense on a straight-line basis over the one year vesting period. As a result, the Company recognized \$45,000 of stock compensation expense during the second quarter of 2013. As of June 30, 2013, total unamortized compensation expense for this grant was \$264,000. The weighted-average price of these restricted stock grants was \$20.60 per share based on the grant date of May 9, 2013. As of June 30, 2013, no shares were granted under this award.

Stock Options

Option activity under the principal option plans as of June 30, 2013 and changes during the six months ended June 30, 2013 were as follows:

	Outstanding Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2012	135	\$ 12.79	4.33	\$ 670
Granted				
Exercised	(18)	12.65		
Forfeited				
Expired				
Outstanding as of June 30, 2013	117	\$ 12.81	3.93	\$ 1,436
Exercisable as of June 30, 2013	102	\$ 12.57	3.88	\$ 1,276

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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 the second quarter of fiscal 2013 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 June 30, 2013. This amount changes based on the fair market value of the Company's stock. The total intrinsic value of options exercised for the six months ended June 30, 2013 was \$185,000. No options were exercised during the six months ended June 30, 2012.

As of June 30, 2013, \$34,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 0.4 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 six months ended June 30, 2013 was \$227,000. The actual tax benefit realized for the tax deduction from option exercises of share-based payment arrangements totaled \$70,000 for the six months ended June 30, 2013. No options were exercised during the six months ended June 30, 2012. 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.

6. Income Tax

The Company calculates its interim tax provision in accordance with the provisions of ASC 740-270 Income Taxes Interim Reporting. For each interim period the Company estimates its annual effective income tax rate and applies the estimated rate to its year-to-date income or loss before income taxes. The Company also computes the tax provision or benefit related to items separately reported, such as discontinued operations, and recognizes the items net of their related tax effect in the interim periods in which they occur. The Company also recognizes the effect of changes in enacted tax laws or rates in the interim periods in which the changes occur.

For the six months ended June 30, 2013 and June 30, 2012, the estimated income tax rate from continuing operations was 27% and 36%, respectively. The decrease in the effective tax rate was due to an increase in international rate differences and foreign tax credits, which were partially offset by certain permanent adjustments. The effective tax rate also decreased due to the recording of a research and development tax benefit of \$594,000 in 2013, which was primarily related to the retroactive reinstatement of the federal research and development tax credits from the enactment of the American Tax Relief Act of 2012. These credits were not available to the Company in 2012.

During the three months ended June 30, 2013, the Company recorded additional benefits from federal and state research and development tax credits of \$196,000 and \$65,000, respectively. During the six months ended June 30, 2013, the Company recorded additional benefits from federal and state research and development tax credits of \$496,000 and \$98,000, respectively. The Company did not record additional benefits from federal research and development tax credits during the three and six months ended June 30, 2012.

As of June 30, 2013, the Company's gross research and development tax credit carryforwards totaled approximately \$1,294,000. Of these credits, approximately \$610,000 (\$200,000 federal and \$410,000 state) can be carried forward for 15 years and will expire between 2014 and 2028, and approximately \$685,000 of state credits can be carried forward indefinitely.

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The Company has recorded gross unrecognized tax benefits, excluding interest and penalties, as of June 30, 2013 and December 31, 2012 of \$710,000 and \$595,000, respectively. Tax benefits are recorded pursuant to the provisions of ASC 740 Income Taxes. If such unrecognized tax benefits are ultimately recorded in any period, the Company's effective tax rate would be reduced accordingly for such period.

The Company has been examined by the Internal Revenue Service (the IRS) through the calendar year 2010. State income tax statutes are generally open for periods back to and including the calendar year 2008.

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 \$38,000. The Company records such unrecognized tax benefits upon the expiration of the applicable statute of limitations or the settlement with tax authorities. As of June 30, 2013, the Company has a liability for unrecognized benefits of \$433,000 for federal taxes and \$277,000 for state taxes. Such benefits relate primarily to expenses incurred in those jurisdictions.

The Company classifies interest and penalties related to unrecognized tax benefits as income tax expense. At June 30, 2013, and December 31, 2012, the Company has accrued approximately \$82,000 and \$62,000 for the payment of interest and penalties, respectively.

7. Recently Adopted and Issued Accounting Pronouncements

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 did not 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 did not have a material impact on the Company's consolidated financial statements.

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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 did not have a material impact on the Company's consolidated financial statements.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matter (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity a consensus of the FASB Emerging Issues Task Force, which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. ASU 2013-05 is effective for fiscal periods beginning after December 15, 2013. The implementation of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force), which provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 is effective for fiscal periods beginning after December 15, 2013. The implementation of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

8. Goodwill And Intangible Assets

Acquisition 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. SL Montevideo Technology, Inc. (SL-MTI) recorded direct acquisition costs of approximately \$422,000 and \$434,000 during the six months ended June 30, 2012 and during the twelve months ended December 31, 2012, respectively. Direct acquisition costs were recorded within selling, general and administrative expenses in the Consolidated Statements of Income.

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At December 31, 2012, the financial statements reflected 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 included \$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. The total liability for the earn-out as of June 30, 2013 and December 31, 2012 was \$158,000 and \$221,000, respectively. During 2013, \$88,000 was paid related to the earn-out. The results from the acquisition date through June 30, 2013 are included in the SL-MTI segment.

Goodwill And Intangible Assets

Intangible assets consist of the following:

	Amortizable		June 30, 2013		December 31, 2012		
	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	\$ 3,257	\$ 611	\$ 3,868	\$ 3,078	\$ 790
Patents ⁽²⁾	5 to 20	1,287	1,203	84	1,285	1,187	98
Developed technology	5 to 6	1,700	1,700		1,700	1,700	
Licensing fees	5 to 10	450	367	83	450	340	110
Total amortized finite-lived intangible assets		7,305	6,527	778	7,303	6,305	998
Indefinite-lived intangible assets:							
Trademarks		1,672		1,672	1,672		1,672
Other intangible assets, net		\$ 8,977	\$ 6,527	\$ 2,450	\$ 8,975	\$ 6,305	\$ 2,670

(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 2013 and 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.

In accordance with ASC 350 Intangibles—Goodwill and Other, goodwill and other indefinite-lived intangible assets are not amortized, but are tested for impairment. Such impairment testing is undertaken annually, or more frequently upon the occurrence of some indication that an impairment has taken place. The Company conducted an 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 performs 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.

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For the testing conducted as of December 31, 2012, the Company concluded that no impairment charge was warranted. Going forward there can be no assurance that economic conditions 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. The next annual impairment test will be conducted as of December 31, 2013, unless management identifies a triggering event in the interim.

Management has not identified any triggering events, as defined by ASC 350, during 2013. Accordingly, no interim impairment test has been performed.

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, consists of amortization expense related to intangible assets and software. Amortization expense related to intangible assets for the three months ended June 30, 2013 and June 30, 2012 was \$113,000 and \$206,000 respectively. Amortization expense related to intangible assets for the six months ended June 30, 2013 and June 30, 2012 was \$224,000 and \$401,000, respectively. Amortization expense related to software for the three months ended June 30, 2013 and June 30, 2012 was \$37,000 and \$41,000, respectively. Amortization expense related to software for the six months ended June 30, 2013 and June 30, 2012 was \$73,000 and \$79,000, respectively.

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

	Balance December 31, 2012	Translation Adjustment (in thousands)	Balance June 30, 2013
SL Power Electronics Corp.	\$ 4,242	\$ (9)	\$ 4,233
High Power Group:			
MTE Corporation	8,189		8,189
Teal Electronics Corp.	5,055		5,055
RFL Electronics Inc.	5,249		5,249
Goodwill	\$ 22,735	\$ (9)	\$ 22,726

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Debt as of June 30, 2013 consisted of the following:

	June 30, 2013 (in thousands)
2012 Credit Facility:	
\$40 million variable interest rate revolving credit facility maturing in 2016	\$ 2,490
Total debt	2,490
Less: current portion	(2,490)
Total long-term debt	\$

The Company had no debt outstanding as of December 31, 2012.

On August 9, 2012, the Company entered into a Credit Agreement with PNC Bank, National Association, as administrative agent and lender (PNC Bank), and the lenders from time to time party thereto, as amended (the 2012 Credit Facility), to replace its Amended and Restated Revolving Credit Agreement with Bank of America, N.A, 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, as described below) 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.

On March 11, 2013, the Company entered into a First Amendment (the First Amendment) to the 2012 Credit Facility. The First Amendment, among other things, (a) amends the Letter of Credit (LC) sublimit amount to the lesser of (i) an amount equal to \$5,000,000 plus the aggregate amount of Designated Usage LC issued and outstanding under the Designated Usage LC sublimit or (ii) \$25,000,000 and (b) allows the Company to enter into foreign currency exchange services with Loan Parties on an unsecured basis and that such obligations shall not exceed at any time an aggregate amount equal to \$3,500,000. In consideration for this amendment, the Company incurred \$14,000 in fees and expenses, which are amortized over the remaining life of the 2012 Credit Facility.

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On May 28, 2013 a letter of credit in the amount of \$8,564,000 was issued in favor of the Environmental Protection Agency (EPA) to provide financial assurance related to the Company's environmental payments in accordance with the terms of the Consent Decree reached with the United States Department of Justice (DOJ) and EPA related to its liability for both OU-1 and OU-2 (see note 12 for additional information). The letter of credit expires on May 28, 2014 and requires an annual commitment fee of 0.125% and standby commission of 1%, and does not reduce amounts available under the 2012 Credit Facility.

On June 20, 2013, the Company entered into a Second Amendment and Joinder to Credit Agreement and to Security Agreement (the Second Amendment), which amends the 2012 Credit Facility in order to reflect the Reincorporation of the Company. The Second Amendment, among other things, joins the Company as a Borrower under the Credit Agreement and a Debtor under the Security Agreement entered into by SL-NJ in connection with the 2012 Credit Facility. In consideration for the Second Amendment, the Company incurred \$16,000 in fees and expenses, which are amortized over the remaining life of the 2012 Credit Facility.

As of June 30, 2013, the Company had an outstanding balance of \$2,490,000 under the 2012 Credit Facility. As of December 31, 2012 the Company had no outstanding balance under the 2012 Credit Facility. At June 30, 2013 and December 31, 2012, the Company had total availability under the 2012 Credit Facility of \$37,026,000 and \$39,510,000, respectively.

10. Accrued Liabilities - Other

Accrued liabilities - other consist of the following:

	June 30, 2013	December 31, 2012
	(in thousands)	
Taxes (other than income) and insurance	\$ 500	\$ 602
Commissions	637	680
Litigation and legal fees	119	138
Other professional fees	374	418
Environmental	5,051	5,334
Warranty	1,380	1,102
Deferred revenue	76	56
Acquisition earn-out, current	121	164
Other	2,413	2,092
Accrued liabilities - other	\$ 10,671	\$ 10,586

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 12 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.

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

	Six Months Ended June 30, 2013 (in thousands)
Liability, beginning of year	\$ 1,102
Expense for new warranties issued	683
Warranty claims	(405)
Liability, end of period	\$ 1,380

11. Other Long Term Liabilities

Other long-term liabilities consist of the following:

	June 30, 2013	December 31, 2012 (in thousands)
Environmental	\$ 17,200	\$ 19,033
Unrecognized tax benefits, interest and penalties	792	657
Long-term incentive plan	255	220
Acquisition earn-out, long-term	37	57
Other long-term liabilities	\$ 18,284	\$ 19,967

12. Commitments and Contingencies

The Company is involved in certain legal and regulatory actions. Management believes that the ultimate resolution of such matters is unlikely to have a material adverse effect on the Company's financial condition or results of operations, except as described below.

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 (OU-1) consists of an area of chromium groundwater contamination in three aquifers that exceeds the selected cleanup standard. 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.

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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. On September 26, 2011 the EPA issued a Record of Decision (ROD) selecting the Geochemical Fixation remedy.

The Company has reached an agreement with both the 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 terms of which are described below. The Company has agreed to perform the remediation for OU-2. 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 Company has also agreed to pay the EPA's costs for oversight of the OU-2 remediation. The United States District Court judge signed the Consent Decree effective April 30, 2013, thereby triggering the Company's obligation under the Consent Decree. On May 10, 2013 the Company made the first payment related to its obligation under the Consent Decree in the amount of \$2,185,000, which included interest. 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. On May 28, 2013, a letter of credit in the amount of \$8,564,000 was issued in favor of the EPA to provide financial assurance related to the Company's remaining obligation to pay for the EPA's past cost as mentioned above. Also, on July 19, 2013 the Company obtained financial assurance as required by the terms of the Consent Decree.

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 (the New Jersey Claim). Although the Company and its counsel believe that it has meritorious defenses to any claim for reimbursement, the Company has offered to pay \$250,000 to fully resolve the claim 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 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 New Jersey Claim to be in the range of \$18,169,000 to \$29,550,000. The Company has recorded an accrual of \$18,169,000 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 the Company's environmental engineering consultants. The liability for OU-1 and OU-2 is based upon the current terms of the Consent Decree.

Other

During 2012, 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 we believe 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.

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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 hired outside consultants to provide assistance in implementing a mandatory FCPA compliance program for all of its employees which was completed in December 2012. Also, during the first and second quarters of 2013 the Company engaged outside consultants to perform FCPA compliance tests at its operations in China and Mexico. 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 \$22,251,000, of which \$17,200,000 is included as other long-term liabilities, with the remainder recorded as other short-term accrued liabilities, as of June 30, 2013. 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.

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There are three sites on which the Company may incur material environmental costs in the future as a result of past activities of its former subsidiary, SurfTech. There are two Company owned sites related to its former subsidiary, SurfTech. These sites are located in Pennsauken, New Jersey (the Pennsauken Site) and in Camden, New Jersey (the Camden Site). There is also a third site, which is not owned by the Company, referred to as the Puchack Well Field Site. The Puchack Well Field Site and the Pennsauken Site are part of the Puchack Well Field Superfund Site.

With respect to the Camden Site, the Company has reported soil contamination and a groundwater contamination plume emanating from the site. The 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 2014. 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. Implementation of the groundwater pilot study is currently underway with post-injection effectiveness monitoring expected to occur in 2014.

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. A soil remedial action plan will be required in order to remove the new soil source contamination by a 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. Costs related to this site are recorded as part of discontinued operations, net of tax.

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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. Costs related to this site are recorded as a component of continuing operations.

As of June 30, 2013 and December 31, 2012, environmental accruals of \$22,251,000 and \$24,367,000, respectively, have been recorded by the Company in accrued liabilities other and in other long-term liabilities, as appropriate (see Notes 10 and 11 for additional information).

13. Segment Information

The Company currently operates under four business segments: SL Power Electronics Corp. (SLPE), the High Power Group, 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. Business units are also combined if they 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. For additional information, see Note 1 of the Notes to the Consolidated Financial Statements included in Part IV of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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Business segment operations are conducted through domestic subsidiaries. For all periods presented, sales between business segments were not material. Each of the segments has certain major customers, the loss of any of which would have a material adverse effect on such segment.

The unaudited comparative results for the three and six month periods ended June 30, 2013 and June 30, 2012 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Net sales				
SLPE	\$ 18,386	\$ 18,824	\$ 35,980	\$ 37,167
High Power Group	17,607	15,896	34,700	31,471
SL-MTI	9,060	9,077	18,154	18,676
RFL	4,733	5,102	10,047	10,925
Net sales	\$ 49,786	\$ 48,899	\$ 98,881	\$ 98,239

Three
Months
Ended
June 30,
Six Months
Ended