SL INDUSTRIES INC
Form 10-Q
October 29, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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)

Delaware	**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 x No ¨

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

Indicate by check mark 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 x

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

The number of shares of common stock outstanding as of October 22, 2013 was 4,122,000.

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Item 1. Financial Statements

SL INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,032,000	$ 3,196,000
Receivables, net	33,671,000	30,306,000
Inventories, net	25,756,000	22,102,000
Other current assets	5,498,000	2,098,000
Deferred income taxes, net	3,704,000	3,415,000
Total current assets	70,661,000	61,117,000
Property, plant and equipment, net	10,830,000	9,593,000
Deferred income taxes, net	9,238,000	9,719,000
Goodwill	22,723,000	22,735,000
Other intangible assets, net	2,342,000	2,670,000
Other assets and deferred charges, net	1,399,000	1,303,000
Total assets	$ 117,193,000	$ 107,137,000
LIABILITIES		
Current liabilities:		
Debt, current portion	$ 3,500,000	$
Accounts payable	18,592,000	18,838,000
Accrued income taxes	94,000	429,000
Accrued liabilities:		
Payroll and related costs	5,420,000	4,955,000
Other	11,386,000	10,586,000
Total current liabilities	38,992,000	34,808,000
Deferred compensation and supplemental retirement benefits	1,755,000	1,930,000
Other long-term liabilities	18,470,000	19,967,000
Total liabilities	59,217,000	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	22,007,000	21,578,000
Retained earnings	60,213,000	52,280,000
Accumulated other comprehensive (loss)	(132,000)	(452,000)
Treasury stock at cost, 2,525,000 and 2,517,000 shares, respectively	(25,443,000)	(24,305,000)
Total shareholders equity	57,976,000	50,432,000
Total liabilities and shareholders equity	$ 117,193,000	$ 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales	$ 52,999,000	$ 50,886,000	$ 151,880,000	$ 149,125,000
Cost and expenses:				
Cost of products sold	35,772,000	34,572,000	100,735,000	101,099,000
Engineering and product development	3,187,000	3,182,000	10,362,000	9,157,000
Selling, general and administrative	8,757,000	8,081,000	26,668,000	27,729,000
Depreciation and amortization	578,000	666,000	1,793,000	2,038,000
Restructuring charges		852,000		852,000
Total cost and expenses	48,294,000	47,353,000	139,558,000	140,875,000
Income from operations	4,705,000	3,533,000	12,322,000	8,250,000
Other income (expense):				
Amortization of deferred financing costs	(21,000)	(46,000)	(60,000)	(118,000)
Interest income	8,000	1,000	11,000	4,000
Interest expense	(21,000)	(8,000)	(71,000)	(39,000)
Other gain (loss), net	(21,000)	312,000	(348,000)	142,000
Income from continuing operations before income taxes	4,650,000	3,792,000	11,854,000	8,239,000
Income tax provision	1,216,000	927,000	3,184,000	2,520,000
Income from continuing operations	3,434,000	2,865,000	8,670,000	5,719,000
(Loss) from discontinued operations, net of tax	(282,000)	(464,000)	(737,000)	(902,000)
Net income	$ 3,152,000	$ 2,401,000	$ 7,933,000	$ 4,817,000
Basic net income (loss) per common share				
Income from continuing operations	$ 0.83	$ 0.69	$ 2.09	$ 1.31
(Loss) from discontinued operations, net of tax	(0.07)	(0.11)	(0.18)	(0.21)
Net income	$ 0.76	$ 0.58	$ 1.91	$ 1.10
Diluted net income (loss) per common share				
Income from continuing operations	$ 0.82	$ 0.69	$ 2.07	$ 1.30
(Loss) from discontinued operations, net of tax	(0.07)	(0.11)	(0.18)	(0.20)

Net income	$ 0.75	$ 0.58	$ 1.89	$ 1.10
Shares used in computing basic net income (loss) per common share	4,134,000	4,121,000	4,144,000	4,375,000
Shares used in computing diluted net income (loss) per common share	4,184,000	4,133,000	4,190,000	4,390,000

SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$ 3,152,000	$ 2,401,000	$ 7,933,000	$ 4,817,000
Other comprehensive income, net of tax:				
Foreign currency translation	22,000	28,000	115,000	(66,000)
Net unrealized gain on available-for-sale securities	205,000		205,000	
Comprehensive income	$ 3,379,000	$ 2,429,000	$ 8,253,000	$ 4,751,000

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)

	2013	2012
OPERATING ACTIVITIES:		
Net income	$ 7,933,000	$ 4,817,000
Adjustment for losses from discontinued operations	737,000	902,000
Income from continuing operations	8,670,000	5,719,000
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation	1,345,000	1,316,000
Amortization	448,000	722,000
Amortization of deferred financing costs	60,000	118,000
Stock-based compensation	446,000	909,000
Excess tax benefit on stock compensation	(120,000)	
Loss (gain) on foreign exchange contracts	348,000	(142,000)
Provisions for losses on accounts receivable	38,000	54,000
Deferred compensation and supplemental retirement benefits	223,000	265,000
Deferred compensation and supplemental retirement benefit payments	(388,000)	(404,000)
Deferred income taxes	191,000	(412,000)
Loss on sale of equipment		21,000
Changes in operating assets and liabilities, excluding effects of business combinations:		
Accounts receivable	(3,339,000)	(1,237,000)
Inventories	(3,568,000)	133,000
Other assets	(823,000)	(542,000)
Accounts payable	(389,000)	(154,000)
Other accrued liabilities	2,343,000	(249,000)
Accrued income taxes	(349,000)	234,000
Net cash provided by operating activities from continuing operations	5,136,000	6,351,000
Net cash (used in) operating activities from discontinued operations	(3,607,000)	(780,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,529,000	5,571,000
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(2,541,000)	(1,432,000)
Purchases of available-for-sale securities	(2,362,000)	
Acquisition of a business, net of cash acquired		(756,000)

Purchases of other assets	(223,000)	(202,000)
NET CASH (USED IN) INVESTING ACTIVITIES	(5,126,000)	(2,390,000)
FINANCING ACTIVITIES:		
Proceeds from Senior Revolving Credit Facility	25,090,000	
Payments of Senior Revolving Credit Facility	(21,590,000)	
Proceeds from Revolving Credit Facility		4,100,000
Payments of Revolving Credit Facility		(4,100,000)
Payments of deferred financing costs	(42,000)	(316,000)
Repurchase and retirement of common stock		(4,262,000)
Treasury stock purchases	(1,803,000)	(2,468,000)
Proceeds from stock options exercised	631,000	
Excess tax benefit on stock compensation	120,000	
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,406,000	(7,046,000)
Effect of exchange rate changes on cash	27,000	16,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,164,000)	(3,849,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,196,000	5,632,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,032,000	$ 1,783,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 66,000	$ 39,000
Income taxes	$ 2,765,000	$ 2,256,000

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, 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 corporati 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:

	September 30, 2013	December 31, 2012
	(in thousands)	
Trade receivables	$ 32,392	$ 29,284
Less: allowance for doubtful accounts	(626)	(591)
Trade receivables, net	31,766	28,693
Other	1,905	1,613
Receivables, net	$ 33,671	$ 30,306

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3. Inventories

Inventories consist of the following:

	September 30, 2013	December 31, 2012
	(in thousands)	
Raw materials	$ 18,499	$ 15,726
Work in process	5,566	4,623
Finished goods	4,374	4,819
Gross inventory	28,439	25,168
Less: allowances	(2,683)	(3,066)
Inventories, net	$ 25,756	$ 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 September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	(in thousands, except per share amounts)			
Basic net income available to common shareholders:				
Net income available to common shareholders from continuing operations	$ 3,434	$ 2,865	$ 8,670	$ 5,719
Diluted net income available to common shareholders from continuing operations	$ 3,434	$ 2,865	$ 8,670	$ 5,719
Shares:				
Basic weighted average number of common shares outstanding	4,134	4,121	4,144	4,375
Common shares assumed upon exercise of stock options	50	12	46	15
Diluted weighted average number of common shares outstanding	4,184	4,133	4,190	4,390
Basic net income (loss) per common share:				
Income from continuing operations	$ 0.83	$ 0.69	$ 2.09	$ 1.31
(Loss) from discontinued operations (net of tax)	(0.07)	(0.11)	(0.18)	(0.21)
Net income	$ 0.76	$ 0.58	$ 1.91	$ 1.10
Diluted net income (loss) per common share:				
Income from continuing operations	$ 0.82	$ 0.69	$ 2.07	$ 1.30
(Loss) from discontinued operations (net of tax)	(0.07)	(0.11)	(0.18)	(0.20)
Net income	$ 0.75	$ 0.58	$ 1.89	$ 1.10

For the three and nine months ended September 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 nine months ended September 30, 2012, 9,000 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 September 30, 2013, total compensation expense (included in selling, general and administrative expense) related to stock-based compensation plans for the three and nine months ended September 30, 2013 was $114,000 and $446,000 ($85,000 and $326,000 net of tax), respectively. For the three and nine months ended September 30, 2012, total compensation expense was $165,000 and $909,000 ($154,000 and $631,000, net of tax), respectively.

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During the first quarter of 2013, the Company implemented a Long-Term Incentive Plan (the 2013 LTIP) pursuant to the 2008 Incentive Stock Plan (the 2008 Plan) which awarded restricted stock units (RSUs) to eligible executives. Under the terms of the 2013 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 2013 to December 2015 performance period. Earned RSUs, if any, cliff vest at the end of fiscal 2015 (100% of earned RSUs vest at December 31, 2015). 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 $19.17 per share based on the grant date of March 5, 2013. During the three and nine months ended September 30, 2013, $31,000 and $74,000 was charged to compensation expense, respectively. As of September 30, 2013, total unamortized compensation expense for this grant was $292,000. As of September 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 $77,000 and $122,000 of stock compensation expense during the three and nine months ended September 30, 2013, respectively. As of September 30, 2013, total unamortized compensation expense for this grant was $187,000. 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 September 30, 2013, no shares were granted under this award.

Stock Options

Option activity under the principal option plans as of September 30, 2013 and changes during the nine months ended September 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	(46)	13.64		
Forfeited				
Expired				
Outstanding as of September 30, 2013	89	$ 12.35	3.58	$ 1,129
Exercisable as of September 30, 2013	83	$ 11.99	3.54	$ 1,074

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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 third 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 September 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 nine months ended September 30, 2013 was $563,000. No options were exercised during the nine months ended September 30, 2012.

As of September 30, 2013, $10,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 0.2 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 nine months ended September 30, 2013 was $631,000. The actual tax benefit realized for the tax deduction from option exercises of share-based payment arrangements totaled $203,000 for the nine months ended September 30, 2013. No options were exercised during the nine months ended September 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 nine months ended September 30, 2013 and September 30, 2012, the estimated income tax rate from continuing operations was 27% and 31%, respectively. The decrease in the effective tax rate was primarily due to the recording of a research and development tax benefit of $906,000 in 2013, of which $431,000 was 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 September 30, 2013, the Company recorded additional benefits from federal and state research and development tax credits of $245,000 and $67,000 respectively. During the nine months ended September 30, 2013, the Company recorded additional benefits from federal and state research and development tax credits of $741,000 and $165,000 respectively. The Company did not record additional benefits from federal and state research and development tax credits during the three and nine months ended September 30, 2012.

As of September 30, 2013, the Company s gross research and development tax credit carryforwards totaled approximately $1,120,000. Of these credits, approximately $453,000 can be carried forward for 15 years and will expire between 2015 and 2028, and approximately $667,000 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 September 30, 2013 and December 31, 2012 of $819,000 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 September 30, 2013, the Company has a liability for unrecognized benefits of $529,000 for federal taxes and $290,000 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 September 30, 2013, and December 31, 2012, the Company has accrued approximately $97,000 and $62,000 for the payment of interest and penalties, respectively.

The final regulations regarding the deduction and capitalization of expenditures related to tangible property were issued during the third quarter of 2013 by the IRS. The Company has reviewed these regulations and does not intend to early adopt or amend any previously filed returns. The implementation of these regulations did not have a material impact on the Company s consolidated financial statements for the year ending December 31, 2013.

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 $10,000 and $432,000 during the three and nine months ended September 30, 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 September 30, 2013 and December 31, 2012 was $130,000 and $221,000, respectively. During 2013, $119,000 was paid related to the earn-out. The results from the acquisition date through September 30, 2013 are included in the SL-MTI segment.

Goodwill And Intangible Assets

Intangible assets consist of the following:

		September 30, 2013			December 31, 2012		
	Amortizable Life (years)	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
				(in thousands)			
Finite-lived intangible assets:							
Customer relationships (1)	5 to 8	$ 3,868	$ 3,347	$ 521	$ 3,868	$ 3,078	$ 790
Patents (2)	5 to 20	1,291	1,211	80	1,285	1,187	98
Developed technology	5 to 6	1,700	1,700		1,700	1,700	
Licensing fees	5 to 10	450	381	69	450	340	110
Total amortized finite-lived intangible assets		7,309	6,639	670	7,303	6,305	998
Indefinite-lived intangible assets:							
Trademarks		1,672		1,672	1,672		1,672
Other intangible assets, net		$ 8,981	$ 6,639	$ 2,342	$ 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	$ 59
2016	$ 40
2017	$ 11

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 September 30, 2013 and September 30, 2012 was $110,000 and $202,000 respectively. Amortization expense related to intangible assets for the nine months ended September 30, 2013 and September 30, 2012 was $334,000 and $603,000, respectively. Amortization expense related to software for the three months ended September 30, 2013 and September 30, 2012 was $41,000 and $40,000, respectively. Amortization expense related to software for the nine months ended September 30, 2013 and September 30, 2012 was $114,000 and $119,000, respectively.

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

	Balance December 31, 2012	Translation Adjustment	Balance September 30, 2013
		(in thousands)	
SL Power Electronics Corp.	$ 4,242	$ (12)	$ 4,230
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	$ (12)	$ 22,723

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9. Investments

Investments in publicly traded equity securities (which include equity interests of less than 20%) are classified as available-for-sale securities. These investments are carried at fair value using quoted market prices and are included in other current assets in the Company s Consolidated Balance Sheets. Unrealized gains and losses, net of tax, are included in the determination of comprehensive income and reported in shareholders equity.

Available-for-sale securities consist of the following:

	September 30, 2013 (in thousands)		
	Amortized Cost	Gains in Accumulated Other Comprehensive Income	Estimated Fair Value
Common stock	$ 2,362	$ 326	$ 2,688

The Company had no available-for-sale securities as of December 31, 2012.

No available-for-sale securities were sold during the nine months ended September 30, 2013. Gross unrealized holding gains on available-for-sale securities for the three and nine months ended September 30, 2013 were $326,000 ($205,000 net of tax), have been included in accumulated other comprehensive income.

10. Debt

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

	September 30, 2013 (in thousands)
2012 Credit Facility:	
$40 million variable interest rate revolving credit facility maturing in 2016	$ 3,500
Total debt	3,500
Less: current portion	(3,500)
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.

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 13 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 $28,000 in fees and expenses, which are amortized over the remaining life of the 2012 Credit Facility.

As of September 30, 2013, the Company had an outstanding balance of $3,500,000 under the 2012 Credit Facility. As of December 31, 2012 the Company had no outstanding balance under the 2012 Credit Facility. At September 30, 2013 and December 31, 2012, the Company had total availability under the 2012 Credit Facility of $36,026,000 and $39,510,000, respectively.

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11. Accrued Liabilities Other

Accrued liabilities other consist of the following:

	September 30, 2013	December 31, 2012
	(in thousands)	
Taxes (other than income) and insurance	$ 667	$ 602
Commissions	634	