

SL INDUSTRIES INC
Form 10-K
April 15, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from _____ to _____

Commission file number 1-4987

SL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

New Jersey

21-0682685

(State of other jurisdiction of incorporation or organization)

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

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

08054

(Address of principal executive offices)

(Zip Code)

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

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, \$.20 par value

NYSE Amex

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

(Title of class)

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant based on the closing price of the Common Stock on the last business day of the Registrant's most recently completed second fiscal quarter, as reported by the NYSE Amex was approximately \$39,123,000.

The number of shares of common stock outstanding as of March 2, 2009, was 5,946,894.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this report (Items 10, 11, 12, 13 and 14) is incorporated by reference from the Company's proxy statement to be filed pursuant to Regulation 14A with respect to the registrant's 2009 annual meeting of stockholders.

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PART I

ITEM 1. BUSINESS

(a) General Development Of Business

The Company, through its subsidiaries, designs, manufactures and markets power electronics, motion control, power protection and specialized communication equipment that is used in a variety of medical, commercial and military aerospace, computer, datacom, industrial, telecom, transportation and electric power utility equipment applications. Its products are generally incorporated into larger systems to increase operating performance, safety, reliability and efficiency. The Company's products are largely sold to Original Equipment Manufacturers (OEMs), the electric power utility industry and, to a lesser extent, to commercial distributors.

On October 23, 2008, the Company entered into an Amended and Restated Revolving Credit Facility (the 2008 Credit Facility) with Bank of America, N.A., a national banking association, individually, as agent, issuer and a lender thereunder, and with two other financial institutions. The 2008 Credit Facility amends and restates the Company's previous Revolving Credit Agreement, dated August 3, 2005, as amended (the 2005 Credit Facility).

The 2008 Credit Facility provides for maximum borrowings of up to \$60,000,000 and includes a standby and commercial letter of credit sub-limit of \$10,000,000. The 2008 Credit Facility is scheduled to expire on October 1, 2011. Borrowings under the 2008 Credit Facility bear interest, at the Company's option, at either (i) the British Bankers Association LIBOR rate plus 1.75% to 3.25%, or (ii) a base rate, which is the higher of (A) the Federal Funds rate plus 0.5% or (B) Bank of America, N.A.'s publicly announced prime rate plus 0% to 1.0%. The margin rates are based on certain leverage ratios. The Company is subject to compliance with certain financial covenants including a maximum ratio of total funded indebtedness to earnings before interest, taxes, depreciation and amortization (EBITDA), minimum levels of interest coverage and net worth and a limitation on capital expenditures, as defined. Availability under the 2008 Credit Facility is based upon the Company's trailing twelve months EBITDA, as defined. At December 31, 2008, the Company had a total availability under the 2008 Credit Facility of \$31,000,000.

The Company's obligations under the 2008 Credit Facility are secured by the grant of security interests in substantially all of its assets.

On October 31, 2006, the Company completed the acquisition of MTE Corporation (MTE) for \$15,671,000, net of cash acquired. The acquisition was financed under the Company's 2005 Credit Facility. MTE designs and manufactures power quality electromagnetic products used to protect equipment from power surges, bring harmonics into compliance and improve the efficiency of variable speed motor drives. MTE's product lines include: three-phase AC reactors, DC link chokes and a series of harmonic, RFI/EMI and motor protection filters. These products are typically used in industrial plants and commercial buildings where non-linear loads and attendant harmonics produced by these loads are present. MTE employs approximately 75 people at its facility in Menomonee Falls, Wisconsin.

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On December 19, 2005, the Company announced that it had signed a definitive agreement to acquire all of the outstanding shares of common stock of Ault Incorporated (Ault) for \$2.90 per share in cash. On January 26, 2006, the Company, through a wholly owned subsidiary, completed a tender offer for Ault. The total purchase price for the common stock of Ault was approximately \$13,986,000, which includes the shares already owned by the Company. The Company also paid approximately \$2,079,000 to acquire all of the outstanding shares of Ault s preferred stock and incurred approximately \$2,604,000 in additional costs directly related to the acquisition. Subsequent to the acquisition, Ault was merged with the Company s wholly-owned subsidiary, Condor D.C. Power Supplies, Inc., and the combined entity was renamed SL Power Electronics Corp. (SLPE). Ault was a leading manufacturer of power conversion products and is a major supplier to OEMs of wireless and wire line communications infrastructure, computer peripherals and handheld devices, medical, industrial, and printing/scanning equipment. With respect to Ault s operations, an engineering and sales office in Canton, Massachusetts and an engineering and sales office and a manufacturing facility in the People s Republic of China have been absorbed into SLPE.

(b) Financial Information About Segments

Financial information about the Company s business segments is incorporated herein by reference to Note 15 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

(c) Narrative Description Of Business

Segments

The Company currently operates under four business segments: SLPE, the High Power Group, SL Montevideo Technology, Inc. (SL-MTI) and RFL Electronics Inc. (RFL). On October 31, 2006, the Company acquired MTE Corporation (MTE). In the period following the acquisition, the operations of MTE and Teal Electronics Corp. (Teal) were consolidated. In accordance with the guidance provided in Statement of Financial Accounting Standard (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, this segment is presented as the High Power Group. Management refers to SLPE and the High Power Group as the Power Electronics Group.

SLPE SL Power Electronics Corp. produces a wide range of custom and standard internal and external AC/DC and DC/DC power supply products to be used in customers end products. The Company s power supplies closely regulate and monitor power outputs, resulting in stable and highly reliable power. SLPE, which sells products under three brand names (SL Power Electronics, Condor and Ault), is a major supplier to the OEMs of medical, wireless and wire line communications infrastructure, computer peripherals, handheld devices and industrial equipment. For the years ended December 31, 2008, December 31, 2007 and December 31, 2006, net sales of SLPE, as a percentage of consolidated net sales from continuing operations, were 39%, 45% and 50%, respectively.

HIGH POWER GROUP The High Power Group sells products under two brand names: Teal and MTE. Teal designs and manufactures custom power conditioning and distribution units, which are developed and manufactured for custom electrical subsystems for OEMs of semiconductor, medical imaging, military and telecommunication systems. MTE designs and manufactures power quality electromagnetic products used to protect equipment from power surges, bring harmonics into compliance and improve the efficiency of variable speed motor drives. MTE s product lines include: three-phase AC reactors, DC link chokes and a series of harmonic, RFI/EMI and motor protection filters. These products are typically used in industrial plants and commercial buildings. MTE s net sales are included in the High Power Group from the date of acquisition, October 31, 2006. For the years ended December 31, 2008, December 31, 2007 and December 31, 2006, net sales of the High Power Group, as a percentage of consolidated net sales from continuing operations, were 33%, 29% and 22%, respectively.

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SL-MTI SL-MTI designs and manufactures high power density precision motors. New motor and motion controls are used in numerous applications, including military and commercial aerospace, medical and industrial products. For the years ended December 31, 2008, December 31, 2007 and December 31, 2006, net sales of SL-MTI, as a percentage of consolidated net sales from continuing operations, were 15%, 14% and 15%, respectively.

RFL RFL designs and manufactures communication and power protection products/systems that are used to protect electric utility transmission lines and apparatus by isolating faulty transmission lines from a transmission grid. These products are sophisticated communication systems that allow electric utilities to manage their high-voltage power lines more efficiently. RFL provides customer service and maintenance for all of its products. For the years ended December 31, 2008, December 31, 2007 and December 31, 2006, net sales of RFL, as a percentage of consolidated net sales from continuing operations, were 13%, 12% and 13%, respectively.

Discontinued Operations

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

EME Elektro-Metall Export GmbH (EME) manufactured electromechanical actuation systems, power drive units and complex wire harness systems for use in the aerospace and automobile industries. EME was based in Ingolstadt, Germany with low cost manufacturing operations in Paks, Hungary. On January 6, 2003, the Company sold all of the issued and outstanding shares of capital stock of EME. As a result, EME is reported as a discontinued operation for all periods presented. The Company is currently involved in tax litigation with the German tax authorities. A liability had been established related to the probable outcome of this litigation.

Raw Materials

Raw material components are supplied by various domestic and international vendors. In general, availability of materials is not a problem for the Company. For additional information regarding raw materials components, see Item 1A. Risk Factors included in Part I of this Annual Report on Form 10-K. In 2008, the Company continued to experience sharp increases in the cost of certain strategic raw materials. In particular, steel increased by approximately 50% in fiscal 2008, compared to fiscal 2007. Also the price of copper experienced significant swings in price from relatively high levels for the first three quarters in 2008, compared to 2007, to a significant reduction in price during the fourth quarter of 2008. During 2008, there were no major disruptions in the supply of raw materials.

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Raw materials are purchased directly from the manufacturer whenever possible to avoid distributor mark-ups. Average lead times generally run from immediate availability to 26 weeks. Lead times can be substantially higher for strategic components subject to industry shortages. In most cases, viable multiple sources are maintained for flexibility and competitive leverage.

Patents, Trademarks, Licenses, Franchises And Concessions

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

Seasonality

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

Significant Customers

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

Backlog

At March 1, 2009, March 2, 2008 and March 4, 2007, backlog was \$54,443,000, \$63,055,000 and \$58,801,000, respectively. The backlog at March 1, 2009 decreased by \$8,612,000, or 14%, compared to March 2, 2008. Each of SLPE, the High Power Group, SL-MTI and RFL recorded a decrease in backlog at March 1, 2009, compared to March 2, 2008.

Competitive Conditions

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

Environmental

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

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

Loss contingencies include potential obligations to investigate and eliminate or mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as 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 under these laws and may in the future be involved in additional environmental assessments and cleanups. Based upon investigations completed to date by the Company and its independent engineering-consulting firms, management has provided an estimated accrual for all known costs believed to be probable in the amount of \$6,926,000, of which \$5,869,000 is included as other long-term liabilities as of December 31, 2008. 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 defense and 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, and the extent, if any, to which such costs are recoverable from other parties or from insurance. These contingencies could result in additional expenses or offsets thereto. At the present time, such expenses are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations, beyond the amount already reserved. Most of the Company's environmental costs relate to discontinued operations and such costs have been recorded in discontinued operations.

There are two sites on which the Company may incur material environmental costs in the future as a result of past activities of its former subsidiary, SurfTech. These sites include the Company's properties located in Pennsauken, New Jersey (the Pennsauken Site), and in Camden, New Jersey (the Camden Site). The Company's environmental contingencies with respect to the Pennsauken Site are fully discussed in Item 3. Legal Proceedings included in Part I of this Annual Report on Form 10-K.

With respect to the Camden Site, the Company has reported soil contamination and a groundwater contamination plume emanating from the site. The Company has been conducting tests and taking other actions to identify and quantify the contamination and to confirm areas of concern. On September 30, 2008, the Company submitted an Interim Response Action (IRA) Workplan to the New Jersey Department of Environmental Protection (the NJDEP) that includes building demolition and removal, excavation of underlying contaminated soil, undertaking treatability studies and installing new monitoring wells. The IRA Workplan, with amendments, was approved by the NJDEP on October 9, 2008. The Company reserved \$1,500,000 in the third quarter and \$750,000 in the fourth quarter to meet the anticipated expenses of implementing the IRA Workplan and field pilot studies and conducting routine groundwater monitoring. At December 31, 2008, the Company accrued \$2,387,000 to remediate the Camden Site.

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The Company has also reported soil and ground water contamination at the facility located on SL-MTI's property in Montevideo, Minnesota. SL-MTI has conducted analysis of the contamination and is performing remediation at the site pursuant to a remedial action workplan approved by the Minnesota Pollution Control Agency. SL-MTI has incurred costs of approximately \$156,000 during fiscal 2008. Implementation of remediation technologies is on track and is expected to be fully implemented by the first half of fiscal 2009. Based on the current information, the Company believes it will incur remediation costs at this site of approximately \$139,000, which has been accrued at December 31, 2008. The accrual for this site was \$284,000 at December 31, 2007.

Employees

As of December 31, 2008, the Company had approximately 1,600 employees. Of these employees, 156 were subject to collective bargaining agreements.

Foreign Operations

In addition to manufacturing operations in California, Minnesota, New Jersey and Wisconsin, the Company manufactures substantial quantities of products in premises leased in Mexicali, Mexico, Matamoros, Mexico and Tecate, Mexico. The Company has also outsourced the manufacture of some of its products with contract manufacturers located in Mexico and China. The Company also manufactures products in owned facilities located in Xianghe, China. These external and foreign sources of supply present risks of interruption for reasons beyond the Company's control, including political or economic instability and other uncertainties.

Generally, the Company's sales are priced in United States dollars and its costs and expenses are priced in United States dollars, Mexican pesos and Chinese yuan. Accordingly, the competitiveness of the Company's products relative to locally produced products may be affected by the performance of the United States dollar compared with that of its foreign customers' and competitors' currencies. Foreign net sales comprised 17%, 16% and 17% of net sales from continuing operations for the years ended December 31, 2008, December 31, 2007 and December 31, 2006, respectively.

Additionally, the Company is exposed to foreign currency exchange rate fluctuations, which might result from adverse fluctuations in the value of the Mexican peso and Chinese yuan. At December 31, 2008, the Company had net assets of \$2,007,000 subject to fluctuations in the value of the Mexican peso and Chinese yuan. At December 31, 2007, the Company had net assets of \$856,000 subject to fluctuations in the value of the Mexican peso and Chinese yuan. Fluctuations in the value of the foreign currencies did have a greater effect on the Company's operations in 2008, compared to 2007, as the Chinese yuan strengthened against the United States dollar by approximately 7%. There can be no assurance that the value of the Mexican peso and Chinese yuan will remain stable relative to the United States dollar.

SLPE manufactures most of its products in Mexico and China and incurs its labor costs and supplies in Mexican pesos and Chinese yuan. Teal has transferred a significant amount of its manufacturing to a wholly-owned subsidiary located in Tecate, Mexico. SL-MTI manufactures a significant portion of its products in Mexico and incurs related labor costs and supplies in Mexican pesos. MTE also has most of its products manufactured in Mexico. SLPE, the High Power Group and SL-MTI price and invoice substantially all of their sales in United States dollars. The Chinese and Mexican subsidiaries of SLPE maintain their books and records in Chinese yuan and Mexican pesos, respectively. The Mexican subsidiaries of SL-MTI and Teal maintain their books and records in Mexican pesos. For additional information related to financial information about foreign operations, see Notes 15 and 16 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

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Additional Information

Additional information regarding the development of the Company's businesses during 2008 and 2007 is contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II and Notes 1 and 2 of the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

The Current Disruption In The Credit Markets, And Its Effects On The Global And Domestic Economies, Could Adversely Affect The Company's Business.

Recent substantial volatility in the global capital markets and widely-documented commercial credit market disruptions have had a significant negative impact on financial markets, as well as the global and domestic economies. The effects of these disruptions are widespread and difficult to quantify, and it is impossible to predict when the global financial markets will improve or when the credit contraction will significantly ease. These conditions and the accompanying uncertainty about current global economic conditions have had, and may continue to have, a material adverse effect on demand for the Company's customers' products and, in turn, on demand for the Company's products, resulting in a reduction in sales and margins. The Company may also experience a slowdown as some customers experience difficulty in obtaining adequate financing due to the continuing disruption in the credit markets. Furthermore, the financial stability of the Company's customers or suppliers may be compromised, which could result in additional bad debts or non-performance by suppliers. The Company's assets may also be impaired or subject to write-down or write-off as a result of the continuing instability in financial markets. These adverse effects would likely be exacerbated if current global economic conditions persist or worsen, resulting in wide-ranging, adverse and prolonged effects on general business conditions, and materially and adversely affect the Company's operations, financial results and liquidity.

The Company Is Subject To Inherent Risks Attributed To Operating In A Global Economy.

The Company is subject to inherent risks attributed to operating in a global economy. Its international sales and operations in foreign countries, principally China and Mexico, render the Company subject to risks associated with fluctuating currency values and exchange rates. Because sales of the Company's products have been denominated to date primarily in United States dollars, increases in the value of the United States dollar could increase the price of its products so that they become relatively more expensive in the local currency of a particular country, leading to a reduction in sales and profitability in that country. As a result of its foreign operations, the Company records revenues, costs, assets and liabilities that are denominated in foreign currencies. Therefore, decreases in the value of the United States dollar could result in significant increases in the Company's manufacturing costs that could have a material adverse effect on its business, financial condition and results of operations. At present, the Company does not purchase financial instruments to hedge foreign exchange risk, but may do so as circumstances warrant.

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The Company May Be Adversely Impacted By Fluctuations In Cash Flows, Liquidity And Debt Levels.

Working capital requirements and cash flows historically have been, and are expected to continue to be, subject to quarterly and yearly fluctuations, depending on such factors as levels of sales, timing and size of capital expenditures, timing of deliveries and collection of receivables, inventory levels, customer payment terms, customer financing obligations and supplier terms and conditions. The inability to manage adverse cash flow fluctuations resulting from such factors could have a material adverse effect on the Company's business, results of operations and financial condition. In order to finance the working capital requirements of the Company's business, the Company entered into the 2008 Credit Facility. At December 31, 2008, the Company had no outstanding borrowings under the 2008 Credit Facility. In addition, at December 31, 2008, the Company maintained a cash balance of \$504,000. At December 31, 2007, the Company had outstanding borrowings under its 2005 Credit Facility of \$6,000,000 with a cash balance of \$733,000. Total capacity under the 2008 Credit Facility is \$60,000,000, less \$670,000 related to an outstanding letter of credit.

The Company's Operating Results May Fluctuate And There May Be Volatility In General Industry, Economic And Market Conditions.

The results of operations for any quarter or year are not necessarily indicative of results to be expected in future periods. Future operating results may be affected by various trends and factors that must be managed in order to achieve favorable operating results. The inability to accurately forecast and manage these trends and factors could have a material adverse effect on the Company's business, results of operations and financial condition.

General economic conditions and specifically market conditions in the medical, telecommunications, semiconductor and electric power utility equipment industries in the United States and globally, affect the Company's business. In addition, reduced capital spending and/or negative economic conditions in the United States, Europe, Asia, Latin America and/or other areas of the world could have a material adverse effect on the Company's business, results of operations and financial condition.

Gross margins may be adversely affected by increased price competition, excess capacity, higher material or labor costs, warranty costs, obsolescence charges, loss of cost savings on future inventory purchases as a result of high inventory levels, introductions of new products, increased levels of customer services, changes in distribution channels and changes in product and geographic mix. Lower than expected gross margins could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company's Operating Results And Stock Price May Be Adversely Affected By Fluctuations In Customers Businesses.

Business is dependent upon product sales to telecommunications, semiconductor, medical imaging, commercial and military aerospace and other businesses, which in turn are dependent for their business upon orders from their customers. Any downturn in the business of any of these parties affects the Company. Moreover, sales often reflect orders shipped in the same quarter that they are received, which makes sales vulnerable to short-term fluctuations in customer demand and difficult to predict. In general, customer orders may be cancelled, modified or rescheduled after receipt. Consequently, the timing of these orders and any subsequent cancellation, modification or rescheduling of these orders has affected, and will in the future affect, results of operations from quarter to quarter. Also, as some of the Company's customers typically order in large quantities, any subsequent cancellation, modification or rescheduling of an individual large order may affect results of operations.

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Failure To Remain Competitive Could Adversely Impact The Company's Operating Results.

The markets in which the Company sells its products are highly competitive and characterized by rapidly changing and converging technologies. The Company faces intense competition from established competitors and the threat of future competition from new and emerging companies in all aspects of business. The Company's future success will depend on its ability to enhance current products and to develop new products that keep pace with technological developments and respond to changes in customer requirements. Among its current competitors are its customers, who are vertically integrated and either manufacture and/or are capable of manufacturing some or all of the Company's products sold to them. In addition to current competitors, new competitors providing niche, and potentially broad, product solutions will likely increase in the future. To remain competitive in both the current and future business climates, the Company must maintain a substantial commitment to focused research and development, improve the efficiency of its manufacturing operations and streamline its marketing and sales efforts and attendant customer service and support. Among other things, the Company may not be able to anticipate shifts in its markets or technologies, may not have sufficient resources to continue to make the investments necessary to remain competitive or may not make the technological advances necessary to remain competitive. In addition, notwithstanding its efforts, technological changes, manufacturing efficiencies or development efforts by competitors may render the Company's products or technologies obsolete or uncompetitive.

Consolidation In The Industries Could Increase Competitive Pressures On The Company.

The industries in which the Company operates are consolidating and will continue to consolidate in the future as companies attempt to strengthen or maintain their market positions. Such consolidations may result in stronger competitors that are better able to compete as sole-source vendors for customers. The Company's relatively small size may increase competitive pressure for customers seeking single vendor solutions. Such increased competition would increase the variability of the Company's operating results and could otherwise have a material adverse effect on the Company's business, results of operations and financial condition.

The Company Is Dependent Upon Third Parties For Parts And Components.

The ability to meet customer demand depends, in part, on the ability of the Company to obtain timely and adequate delivery of parts and components from suppliers and internal manufacturing capacity. The Company has experienced significant shortages in the past, and although it works closely with its suppliers to avoid shortages, there can be no assurance that it will not encounter further shortages in the future. A further reduction or interruption in component supplies or a significant increase in the price of one or more components could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company May Be Subject To Significant Costs In Complying With Environmental Laws.

The Company's facilities are subject to a broad array of environmental laws and regulations. The costs of complying with complex environmental laws and regulations may be significant in the future. Present accruals for such costs and liabilities may not be adequate in the future, as the estimates on which the accruals are based depend on a number of factors, including the nature of the problem, the complexity of the site, the nature of the remedy, the outcome of discussions with regulatory agencies and the number and financial viability of other potentially responsible parties (PRPs) at multiparty sites.

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Further, the Company is the subject of various lawsuits and actions relating to environmental issues, including being named by the United States Environmental Protection Agency as a PRP in a Superfund Site in Pennsauken, New Jersey (as discussed herein). There can be no assurance that the Company will be able to successfully defend itself against, or settle at a reasonable cost, these or any other actions to which it is a party. For additional information related to environmental risks, see Item 3. Legal Proceedings, included in Part I and Note 13 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

The Company May Have To Pay Significant Costs For Regulatory Compliance And Litigation.

Rapid or unforeseen escalation of the cost of regulatory compliance and/or litigation, including but not limited to, environmental compliance, product-related liability, assertions related to intellectual property rights and licenses, adoption of new accounting policies, or changes in current accounting policies and practices and the application of such policies and practices could have a material adverse effect on the Company's business. Additionally, the Company is subject to certain legal actions involving complaints by terminated employees and disputes with customers and suppliers. There can be no assurance of the outcome in any litigation. An adverse determination in any one or more significant legal actions could have a material adverse effect on the Company's business, results of operations and financial condition. See Item 3. Legal Proceedings, included in Part I and Note 13 in the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

The Company Is Dependent Upon Key Personnel For The Management Of Its Operations.

The Company's success depends in part upon the continued services of many of its highly skilled personnel involved in management, engineering and sales, and upon its ability to attract and retain additional highly qualified officers and employees. The loss of service of any of these key personnel could have a material adverse effect on business. In addition, future success will depend on the ability of officers and key employees to manage operations successfully.

The Company's Operating Results And Common Stock Are Subject To Price Fluctuations.

Operating results for future periods are never perfectly predictable even in the most certain of economic times, and the Company expects to continue to experience fluctuations in its quarterly results. These fluctuations, which in the future may be significant, could cause substantial variability in the market price of the Company's stock. The market price for the Company's common stock has been, and is likely to continue to be, highly volatile. The market for the Company's common stock is subject to fluctuations as a result of a variety of factors, including factors beyond its control. These include:

additions or departures of key personnel;

changes in market valuations of similar companies;

announcements of new products or services by competitors or new competing technologies;

conditions or trends in medical equipment, medical imaging, military and commercial aerospace and electric utility industries;

general market and economic conditions; and

other events or factors that are unforeseen.

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Other Factors May Affect Future Results.

The risks and uncertainties described herein are not the only ones facing the Company. Additional risks and uncertainties not presently known, or that may now be deemed immaterial, may also impair business operations.

(d) Forward-Looking Statements

From time to time, information provided by the Company, including written or oral statements made by representatives, may contain forward-looking information as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, contain forward-looking information, particularly statements which address activities, events or developments that the Company expects or anticipates will or may occur in the future, such as expansion and growth of the Company's business, future capital expenditures and the Company's prospects and strategy. In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based on various factors and was derived utilizing numerous assumptions. Many of these factors previously have been identified in filings or statements made by or on behalf of the Company.

Important assumptions and other important factors that could cause actual results to differ materially from those set forth in the forward-looking information include changes in the general economy, changes in capital investment and/or consumer spending, competitive factors and other factors affecting the Company's business in or beyond the Company's control. These factors include a change in the rate of inflation, a change in state or federal legislation or regulations, an adverse determination with respect to a claim in litigation or other claims (including environmental matters), the ability to recruit and develop employees, the ability to successfully implement new technology and the stability of product costs. These factors also include the timing and degree of any business recovery in certain of the Company's markets that are currently experiencing a cyclical economic downturn.

Other factors and assumptions not identified above could also cause actual results to differ materially from those set forth in the forward-looking information. The Company does not undertake to update forward-looking information contained herein or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

Future factors include the effectiveness of cost reduction actions undertaken by the Company; the timing and degree of any business recovery in certain of the Company's markets that are currently experiencing economic uncertainty; increasing prices, products and services offered by U.S. and non-U.S. competitors, including new entrants; rapid technological developments and changes and the Company's ability to continue to introduce and develop competitive new products and services on a timely, cost-effective basis; availability of manufacturing capacity, components and materials; credit concerns and the potential for deterioration of the credit quality of customers; customer demand for the Company's products and services; U.S. and non-U.S. governmental and public policy changes that may affect the level of new investments and purchases made by customers; changes in environmental and other U.S. and non-U.S. governmental regulations; protection and validity of patent and other intellectual property rights; compliance with the covenants and restrictions of bank credit facilities; and outcome of pending and future litigation and governmental proceedings. These are representative of the future factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general U.S. and non-U.S. economic conditions, including economic instability in the event of a future terrorist attack or sharp increases in the cost of energy and interest rate and currency exchange rate fluctuations and other future factors.

Table of Contents**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

ITEM 2. PROPERTIES

Set forth below are the properties where the Company conducted business as of December 31, 2008.

Location	General Character	Approx. Square Footage	Owned or Leased And Expiration Date
Ventura, CA	Administration, design and sales of power supply products (SLPE)	31,200	Leased 4/30/2011
Mexicali, Mexico	Manufacture and distribution of power supply products (SLPE)	62,500	Leased Monthly
Mexicali, Mexico	Manufacture and distribution of power supply products (SLPE)	14,500	Leased 5/1/2009
South Molton, United Kingdom	Sales and distribution of power supply products (SLPE)	2,500	Leased 6/30/2010
Beijing, China	Design of power supply products (SLPE)	1,500	Leased 12/31/2009
Beijing, China	Employee dormitory (SLPE)	800	Leased 10/12/2009
Canton, MA	Design of power supply products (SLPE)	4,800	Leased 8/31/2013
Shanghai, China	Design of power supply products (SLPE)	8,800	Leased 7/31/2010

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Location	General Character	Approx. Square Footage	Owned or Leased And Expiration Date
Shanghai, China	Design of power supply products (SLPE)	600	Leased 6/30/2009
Shanghai, China	Employee dormitory (SLPE)	1,400	Leased 7/31/2010
Xianghe, China	Manufacture and distribution of power supply products and employee dormitory (SLPE)	60,600	Owned
Xianghe, China	Employee dormitory (SLPE)	18,800	Leased 12/31/2009
Xianghe, China	Employee dormitory (SLPE)	2,900	Leased 12/1/2009
San Diego, CA	Administration, sales, design and manufacture of power distribution and conditioning units (High Power Group)	35,500	Leased 12/31/2012
Tecate, Mexico	Manufacture of power distribution and conditioning units (High Power Group)	20,800	Leased 4/30/2009
Menomonee Falls, WI	Design, sales, manufacture and distribution of power quality electromagnetic products (High Power Group)	25,000	Leased 7/31/2010
Juarez, Mexico	Manufacture of power distribution and conditioning units (High Power Group)	12,900	Leased Monthly
Montevideo, MN	Administration, design, sales and manufacture of precision motors and motion control systems (SL-MTI)	30,000	Owned
Matamoros, Mexico	Manufacture of precision motors (SL-MTI)	28,500	Leased 12/31/2009
Boonton Twp., NJ	Administration, design, sales and manufacture of electric utility equipment protection systems (RFL)	78,000	Owned
Camden, NJ	Industrial surface finishing (Other) ⁽¹⁾	15,800	Owned
Pennsauken, NJ	Document warehouse (Other) ⁽²⁾	6,000	Owned
Mt. Laurel, NJ	Corporate office (Other)	4,200	Leased 11/30/2010

⁽¹⁾ Ownership retained by the

Company after
the sale of
SurfTech on
November 24,
2003.

- (2) Formerly used
for industrial
surface finishing
operations.

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

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of its business, the Company is subject to loss contingencies pursuant to foreign and federal, state and local governmental laws and regulations and is also party to certain legal actions, frequently involving complaints by terminated employees and disputes with customers and suppliers. In the opinion of management, such claims are not expected to have a material adverse effect on the financial condition or results of operations of the Company.

On June 12, 2002, the Company and SurfTech were served with a class action complaint by twelve individual plaintiffs (the Complaint) filed in Superior Court of New Jersey for Camden County (the Private Action). The Company and SurfTech are currently two of approximately 28 defendants named in the Private Action. The Complaint alleges, among other things, that the plaintiffs are subject to an increased risk of disease as a result of consuming water distributed from the Puchack Wellfield located in Pennsauken Township, New Jersey (which was one of several water sources that supplied Camden, New Jersey). Medical monitoring of the plaintiff class was sought in the litigation.

The Private Action arises from similar factual circumstances as current environmental administrative actions involving the Pennsauken Landfill and Puchack Wellfield, with respect to which the Company has been alleged to be a PRP. These actions and the Private Action both allege that SurfTech and other defendants contaminated ground water through the disposal of hazardous substances at facilities in the area. SurfTech once operated a chrome-plating facility at the Pennsauken Site. The administrative actions are discussed below.

With respect to the Private Action, the Superior Court denied class certification in June 2006. In 2007, the Superior Court dismissed the claims of all plaintiffs on statute of limitations grounds. The plaintiffs have appealed the Court's decision.

The Company is the subject of other lawsuits and administrative actions which arise from its ownership of the Pennsauken Site. These actions relate to environmental issues concerning the Pennsauken Landfill and the Puchack Wellfield. In 1991 and 1992, the New Jersey Department of Environmental Protection (the NJDEP) served directives that would subject the Company to, among other things, collective reimbursements (with other parties) for the remediation of the Puchack Wellfield. The litigation involving the Pennsauken Landfill involves claims under the Spill Compensation and Control Act (the Spill Act), other statutes and common law against the Company and numerous other defendants alleging that they are liable for contamination at and around a municipal solid waste landfill located in Pennsauken Township, New Jersey. In the first quarter 2009, the Company agreed to terms with the plaintiffs for the settlement of all pending claims in this case. Accordingly, the case was dismissed with prejudice in February 2009.

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In 2006, the United States Environmental Protection Agency (the EPA) named the Company as a PRP in connection with the remediation of the Puchack Wellfield, which it designated a Superfund Site. The Company believes the recent action by the EPA should supersede the NJDEP directives.

With respect to the EPA matter, the EPA notified the Company that it was a PRP, jointly and severally liable, for the investigation and remediation of the Puchack Wellfield Superfund Site under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA). Thereafter, in September 2006, the EPA issued a Record of Decision for the national priority listed Puchack Wellfield Superfund Site and selected a remedy to address the first phase of groundwater contamination that the EPA contemplates being conducted in two phases (known as operable units). The estimated cost of the EPA selected remedy for the first groundwater operable unit, to be conducted over a five to ten year timeframe, is approximately \$17,600,000 (excludes past costs of \$11,500,000 mentioned below). Prior to the issuance of the EPA's Record of Decision, the Company had retained an experienced environmental consulting firm to prepare technical comments on the EPA's proposed remediation of the Puchack Wellfield Superfund Site. In those comments, the Company's consultant, among other things, identified flaws in the EPA's conclusions and the factual predicates for certain of the EPA's decisions and for the proposed selected remedy. Following the issuance of its Record of Decision, in November 2006, the EPA sent another letter to the Company encouraging the Company to either perform or finance the remedial actions for operable unit one identified in the EPA's Record of Decision. In February 2007, the EPA sent another letter to the Company demanding reimbursement for past costs of approximately \$11,500,000, which has been contested by the Company. The Company responded to the EPA that it is willing to investigate the existence of other PRPs and to undertake the activities necessary to design a final remediation for the Superfund Site. In July 2007, the EPA refused the Company's offer to perform the work necessary to design the remediation plan without first agreeing to assume responsibility for the full remediation of the Superfund Site. The EPA did encourage the Company to investigate the existence of other PRPs and to submit evidence thereof, if appropriate. In January 2008, the Company submitted to the EPA evidence demonstrating the existence of several other PRPs.

Notwithstanding the assertions of the EPA, based on discussions with its attorneys and consultants, the Company believes the EPA analytical effort is far from complete. Further, technical data has not established that offsite migration of hazardous substances from the Pennsauken Site caused the contamination of the Puchack Wellfield Superfund Site. In any event, the evidence establishes that hazardous substances from the Pennsauken Site could have, at most, constituted only a portion of the total contamination delineated in the vicinity of the Puchack Wellfield Superfund Site. There are other technical factors and defenses that indicate that the remediation proposed by the EPA is technically flawed. Based on the foregoing, the Company believes that it has significant defenses against all or part of the EPA claim and that other PRPs should be identified to support the ultimate cost of remediation. Nevertheless, the Company's attorneys have advised it that it is likely that it will incur some liability in this matter. Based on the information so far, the Company has estimated remediation liability for this matter of \$4,000,000 (\$2,480,000, net of tax), which was reserved and recorded as part of discontinued operations in the fourth quarter of 2006. This amount is included in the total environmental accrual as mentioned previously. There can be no assurance as to what will be the ultimate resolution or exposure to the Company for this matter.

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It is management's opinion that the impact of litigation and environmental administrative actions and related liabilities brought against the Company and its operations will not have a material adverse effect on its financial position or results of operations beyond the reserves specified above. However, the ultimate outcome of these matters is inherently uncertain, and it is possible that some of these matters may be resolved adversely to the Company. The adverse resolution of any one or more of these matters could have a material adverse effect on the business, operating results, financial condition or cash flows of the Company. Additional information pertaining to legal proceedings is found in Note 13 in the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of fiscal 2008, no matter was submitted to a vote of the Company's security holders.

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

On October 1, 2008, the New York Stock Exchange (NYSE) Euronext acquired the American Stock Exchange (AMEX). As a result, effective December 1, 2008, all AMEX companies were placed in the NYSE Amex listing platform. Until this time, the Company's common stock was traded on both the NYSE Amex (formerly the AMEX) and the NASDAQ OMX PHLX (PHLX) (formerly the Philadelphia Stock Exchange) under the symbol SLI. On December 24, 2008, the Company announced its intentions to voluntarily delist from the PHLX effective January 15, 2009. This action was taken solely as a result of the decision of PHLX to terminate its equity trading platform, which termination was effective October 24, 2008. The delisting from the PHLX will not impact the market for the Company's shares of common stock, which continue to be traded on the NYSE Amex under the ticker symbol SLI. The following table sets forth the high and low closing sales price per share of the Company's common stock on the NYSE Amex for the periods indicated:

	Year		Year	
	Ended December 31,		Ended December 31,	
	2008		2007	
	HIGH	LOW	HIGH	LOW
Stock Prices				
1st Quarter	20.97	16.95	16.42	12.23
2nd Quarter	19.89	12.65	18.00	13.84
3rd Quarter	15.25	11.10	24.00	16.20
4th Quarter	13.25	4.75	24.00	16.35

Table of Contents**PERFORMANCE GRAPH**

The following Performance Graph summarizes the cumulative total shareholder return on an investment of \$100 on December 31, 2003 in the Common Stock for the period from that date to the last trading day of fiscal year ended December 31, 2008, as compared to the cumulative total return on a similar investment of \$100 on that date in stocks comprising the S&P Electrical Components & Equipment Group and the Russell 2000 Stock Index. The graph assumes the reinvestment of all dividends. The Performance Graph is not necessarily indicative of future performance.

	2003	2004	2005	2006	2007	2008
SL INDUSTRIES, INC.	100.00	176.43	200.12	202.62	249.38	109.73
S&P GROUP INDEX	100.00	114.37	126.58	151.44	191.04	118.50
RUSSELL 2000 INDEX	100.00	117.49	121.40	142.12	135.10	88.09

As of March 3, 2009, there were approximately 626 registered shareholders. The Company does not pay dividends and has no present intention of making dividend payments in the foreseeable future. The 2008 Credit Facility restricts the payment of dividends. Additional information pertaining to the 2008 Credit Facility is found in Note 9 in the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

On December 30, 2008, the Board of Directors authorized the repurchase of up to 500,000 shares of the Company's stock. Previously, the Board of Directors had authorized the repurchase of up to 560,000 shares of the Company's common stock. Any repurchases pursuant to the Company's stock repurchase program would be made in the open market or in negotiated transactions. For the twelve months ended December 31, 2008, the Company did not repurchase any shares pursuant to its existing stock repurchase program; however, it did purchase 30,230 shares through its deferred compensation plans. For the twelve months ended December 31, 2007, the Company purchased 11,801 shares pursuant to its repurchase program and 94,709 shares through its deferred compensation plans.

Table of Contents**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased under Publicly Announced Plans or Programs
January 2008	2,160 ⁽¹⁾	\$ 20.25		548,199
February 2008	2,700 ⁽¹⁾	\$ 20.55		548,199
March 2008	2,600 ⁽¹⁾	\$ 19.40		548,199
April 2008	1,500 ⁽¹⁾	\$ 19.75		
May 2008	3,500 ⁽¹⁾	\$ 14.66		
June 2008	2,700 ⁽¹⁾	\$ 14.60		
July 2008				
August 2008	3,230 ⁽¹⁾	\$ 13.56		
September 2008	2,080 ⁽¹⁾	\$ 11.56		
October 2008	3,680 ⁽¹⁾	\$ 11.21		
November 2008	3,180 ⁽¹⁾	\$ 9.75		
December 2008	2,900 ⁽¹⁾	\$ 5.28		500,000
Total	30,230	\$ 14.07		

(1) The Company purchased these shares other than through a publicly announced plan or program.

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Information relating to securities authorized for issuance under equity compensation plans as of December 31, 2008, is as follows:

	Number of securities to be issued upon exercise of outstanding options (a)	Weighted average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans excluding shares reflected in column (a) (c)
Equity compensation plans approved by security holders	405,340	\$ 10.322	160,000
Equity compensation plans not approved by security holders	none		
Total	405,340	\$ 10.322	160,000

ITEM 6. SELECTED FINANCIAL DATA

Selected consolidated financial data with respect to the years ended December 31, 2008, 2007, 2006, 2005 and 2004 are presented below.

	Years Ended December 31,				
	2008	2007	2006 ⁽¹⁾	2005	2004
	(amounts in thousands except per share data)				
Net sales	\$ 185,954	\$ 200,863	\$ 176,773	\$ 126,873	\$ 118,804
Income from continuing operations	\$ 4,636	\$ 10,274	\$ 6,860	\$ 7,620	\$ 6,301
(Loss) income from discontinued operations ⁽²⁾	\$ (2,302)	\$ (1,863)	\$ (3,307)	\$ (473)	\$ 2,371
Net income ⁽³⁾	\$ 2,334	\$ 8,411	\$ 3,553	\$ 7,147	\$ 8,672
Diluted net income per common share	\$ 0.39	\$ 1.43	\$ 0.61	\$ 1.25	\$ 1.48
Shares used in computing diluted net income per common share	5,948	5,876	5,823	5,738	5,871
Cash dividend per common share	\$	\$	\$	\$	\$
Year-end financial position					
Working capital	\$ 27,222	\$ 30,606	\$ 27,511	\$ 25,807	\$ 19,496
Current ratio ⁽⁴⁾	2.03	2.10	1.94	2.40	2.05
Total assets	\$ 101,286	\$ 104,673	\$ 106,543	\$ 70,314	\$ 63,084
Long-term debt	\$	\$ 6,000	\$ 19,800	\$	\$ 1,456
Shareholders' equity	\$ 64,860	\$ 61,629	\$ 50,419	\$ 46,645	\$ 37,687
Book value per share	\$ 10.98	\$ 10.54	\$ 8.94	\$ 8.33	\$ 6.91
Other					
Capital expenditures ⁽⁵⁾	\$ 2,426	\$ 1,742	\$ 3,055	\$ 1,904	\$ 1,642

Depreciation and amortization	\$	3,652	\$	3,600	\$	2,605	\$	1,986	\$	2,133
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(1) On January 26, 2006, the Company completed the acquisition of Ault. On October 31, 2006, the Company completed the acquisition of MTE. Sales and operating results for both entities are included in fiscal year 2006 from the date of acquisition.

(2) On November 24, 2003, the Company sold certain assets of SurfTech. On January 6, 2003, effective for the year ended December 31, 2002, the Company sold EME. Accordingly, the operations of SurfTech, EME, and SL Waber have been accounted for as discontinued operations in all periods presented.

(3) Fiscal 2008 includes a provision for environmental remediation of

\$1,410,000, net of tax. Fiscal 2006 includes a provision for environmental remediation of \$2,480,000, net of tax. Fiscal 2004 includes a settlement fee of \$2,516,000, net of tax, received by SL Waber and the recovery of certain legal fees for environmental matters in the amount of \$392,000, net of tax.

- (4) The current ratio calculations for all years exclude net current assets and liabilities held for sale.
- (5) Excludes assets acquired in business combinations.

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

The Company, through its subsidiaries, designs, manufactures and markets power electronics, motion control, power protection, power quality electromagnetic and specialized communication equipment that is used in a variety of commercial and military aerospace, computer, datacom, industrial, medical, telecom, transportation and utility equipment applications. The Company is comprised of four domestic business segments, three of which have significant manufacturing operations in Mexico. SLPE has manufacturing, engineering and sales capability in China. Most of the Company's sales are made to customers who are based in the United States. Over the last three years the Company's sales to international markets have been 17%, 16% and 17% of consolidated net sales. The Company places an emphasis on highly engineered, well-built, high quality, dependable products and continues its dedication to product enhancement and innovations.

The Company's business strategy has been to enhance the growth and profitability of each of its businesses through the penetration of attractive new market niches, further improvement of operations and expansion of global capabilities. The Company expects to achieve these goals through organic growth and strategic acquisitions. The Company also continues to pursue strategic alternatives to maximize the value of its businesses. Some of these alternatives have included, and will continue to include, selective acquisitions, divestitures and sales of certain assets. The Company has provided, and may from time to time in the future provide, information to interested parties regarding portions of its businesses for such purposes.

Organization Of Financial Information

The Company's Management Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess the Company's financial condition and results of operations. Statements that are not historical are forward-looking and involve risks and uncertainties, as discussed under the caption "Forward-Looking Statements" in Item 1 of this Annual Report on Form 10-K. The consolidated financial statements and notes are presented in Part IV of this Annual Report on Form 10-K. Included in the consolidated financial statements are the Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statements of Shareholders' Equity and Consolidated Statements of Cash Flows. The notes, which are an integral part of the consolidated financial statements, provide additional information required to fully understand the nature of amounts included in the consolidated financial statements. Additionally, in Note 15, the Company provides a summary of net sales, income from continuing operations before income taxes, total assets, intangible assets, capital expenditures, depreciation and amortization by reportable segment. The Company's Management Discussion and Analysis provides a more detailed discussion related to the operations of business segments.

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In the sections that follow, statements with respect to 2008 or fiscal 2008 refer to the twelve month period ending December 31, 2008. Statements with respect to 2007 or fiscal 2007 refer to the twelve month period ending December 31, 2007. Also, the sales and income from operations of Ault and MTE are included for the full years in 2008 and 2007. Ault is included as part of SLPE, while MTE is recorded within the High Power Group. For 2006, the sales and income from operations for Ault and MTE are included from their respective acquisition dates. The Ault acquisition was completed on January 26, 2006 and the MTE acquisition was completed on October 31, 2006.

Significant Transactions And Financial Trends

Included in the financial sections of this Annual Report on Form 10-K is a description of significant transactions or events that have materially affected earnings, cash flow and business trends. The Company's Management Discussion and Analysis for fiscal 2008 also includes income and charges related to discontinued operations. Significant transactions in 2008 that impacted the Company's financial results and cash flows include the paydown of bank debt in the net amount of \$6,000,000 and the establishment of a reserve of \$3,621,000 related to environmental matters. The charge for the environmental reserve amounts to \$2,269,000, net of tax, and is recorded as part of discontinued operations. The Company also established a restructuring charge of \$677,000, of which \$397,000 was recorded at SLPE and \$280,000 was recorded at the High Power Group. Of these charges, \$518,000 was recorded in the third quarter of 2008 and \$159,000 was recorded in the fourth quarter of 2008. Additional information with respect to restructuring charges is found in Note 11 in the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

Significant transactions in 2007 that impacted the Company's financial results and cash flows include the paydown of bank debt in the net amount of \$13,800,000 and the establishment of a reserve of \$2,854,000 related to environmental matters. The charge for the environmental reserve amounts to \$1,751,000, net of tax, and is recorded as part of discontinued operations.

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

Critical Accounting Policies

In December 2001, the Securities and Exchange Commission (the SEC) issued disclosure guidance for critical accounting policies. The SEC defines critical accounting policies as those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

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

Table of Contents**Revenue Recognition**

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the purchase price is fixed or determinable and collectibility is reasonably assured. Revenue is recorded in accordance with Staff Accounting Bulletin (SAB) No. 104 and in certain circumstances in accordance with the guidance provided by the Emerging Issues Task Force (EITF) 00-21 Revenue Arrangements with Multiple Deliverables. The major portion of the Company's revenue is derived from equipment sales. However, RFL has customer service revenue, which accounted for less than one percent of consolidated net revenue for each of 2008, 2007 and 2006. The Company recognizes equipment revenue upon shipment and transfer of title. Provisions are established for product warranties, principally based on historical experience. At times the Company establishes reserves for specific warranty issues known by management. Service and installation revenue is recognized when completed. At SL-MTI, revenue from one particular contract is considered a multiple element arrangement and, in that case, is allocated among the separate accounting units based on relative fair value. In this case the total arrangement consideration is fixed and there is objective and reliable evidence of fair value.

SLPE has two sales programs with distributors, pursuant to which credits are issued to distributors: (1) a scrap program and (2) a competitive discount program. The distributor scrap program allows distributors to scrap and/or rotate up to a pre-determined percentage of their purchases over the previous six month period. SLPE provides for this allowance as a decrease to revenue based upon the amount of sales to each distributor and other historical factors. The competitive discount program allows a distributor to sell a product out of its inventory at less than list price in order to meet certain competitive situations. SLPE records this discount as a reduction to revenue based on the distributor's eligible inventory. The eligible distributor inventory is reviewed at least quarterly. No cash is paid under either distributor program. These programs affected consolidated gross revenue for 2008, 2007 and 2006 by approximately 0.8%, 0.7% and 0.8%, respectively.

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

Allowance For Doubtful Accounts

The Company's estimate for the allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved. First, the Company evaluates specific accounts where it has information that the customer may have an inability to meet its financial obligations (e.g., bankruptcy or insolvency). In these cases, the Company uses its judgment, based on the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. Second, a general reserve is established for all customers based on several factors, including historical write-offs as a percentage of sales. If circumstances change (e.g., higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligation), the Company's estimates of the recoverability of amounts due could be reduced by a material amount. The Company's allowance for doubtful accounts represented 2.5% and 2.9% of gross trade receivables at December 31, 2008 and December 31, 2007, respectively.

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Inventories

The Company values inventory at the lower of cost or market, and continually reviews the book value of discontinued product lines to determine if these items are properly valued. The Company identifies these items and assesses the ability to dispose of them at a price greater than cost. If it is determined that cost is less than market value, then cost is used for inventory valuation. If market value is less than cost, then related inventory is adjusted to market value.

If a write down to the current market value is necessary, the market value cannot be greater than the net realizable value, which is defined as selling price less costs to complete and dispose, and cannot be lower than the net realizable value less a normal profit margin. The Company also continually evaluates the composition of its inventory and identifies slow-moving and excess inventories. Inventory items identified as slow moving or excess are evaluated to determine if reserves are required. If the Company were not able to achieve its expectations of the net realizable value of the inventory at current market value, it would have to adjust its reserves accordingly. Although the Company makes efforts to ensure the accuracy of forecasts of future product demand, and any significant unanticipated changes in demand could have a significant impact on the value of inventory and of operating results.

Accounting For Income Taxes

On January 1, 2007, the Company adopted the provisions of Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48). At the adoption date, the Company applied the provisions of FIN 48 to all tax positions for which the statute of limitations remained open. As required, the cumulative effect of the change from the adoption of FIN 48 was to be recorded in the opening balance of retained earnings. As a result of the implementation of FIN 48, the Company did not recognize any change of its unrecognized tax benefits and did not adjust the January 1, 2007 balance of retained earnings. The amount of unrecognized tax benefits as of December 31, 2008 was \$2,845,000, excluding interest and penalties. This amount represents unrecognized tax benefits, which, if ultimately recognized, will reduce the Company's effective tax rate. As of December 31, 2008, the Company reported accrued interest and penalties related to unrecognized tax benefits of \$437,000. For additional disclosures related to FIN 48, see Note 3 in the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

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Significant management judgment is required in determining the provision for income taxes, the deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. The net deferred tax assets as of December 31, 2008 and December 31, 2007 were \$11,705,000 and \$9,450,000, respectively. The deferred tax assets are net of valuation allowances of \$2,018,000 (\$185,000 for continuing operations and \$1,833,000 for discontinued operations) for fiscal 2008 and \$2,826,000 (\$934,000 for continuing operations and \$1,892,000 for discontinued operations) for 2007. The carrying value of the Company's net deferred tax assets assumes that the Company will be able to generate sufficient future taxable income in certain tax jurisdictions. Valuation allowances are attributable to uncertainties related to the Company's ability to utilize certain deferred tax assets prior to expiration. These deferred tax assets primarily consist of loss carryforwards. The valuation allowance is based on estimates of taxable income, expenses and credits by the jurisdictions in which the Company operates and the period over which deferred tax assets will be recoverable. In the event that actual results differ from these estimates or these estimates are adjusted in future periods, the Company may need to establish an additional valuation allowance that could materially impact its consolidated financial position and results of operations. Each quarter, management evaluates the ability to realize the deferred tax assets and assesses the need for additional valuation allowances.

Legal Contingencies

The Company is currently involved in certain legal proceedings. As discussed in Note 13 in the Notes to the Consolidated Financial Statements included in Part IV to this Annual Report on Form 10-K, the Company has accrued an estimate of the probable costs for the resolution of these claims. This estimate has been developed after investigation and is based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. Management does not believe these proceedings will have a further material adverse effect on the Company's consolidated financial position. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in these assumptions, or the effectiveness of these strategies, related to these proceedings.

Goodwill

The Company has allocated its adjusted goodwill balance to its reporting units. The Company tests goodwill for impairment annually at fiscal year-end and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. The goodwill impairment test is a two-step process. The first step of the impairment analysis compares the fair value to the net book value. In determining fair value, the accounting guidance allows for the use of several valuation methodologies, although it states quoted market prices are the best evidence of fair value. The Company uses a combination of expected present values of future cash flows and comparative market multiples and has performed a review of market capitalization with estimated control premiums. If the fair value of a reporting unit is less than its net book value, the second step of the analysis compares the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, the Company recognizes an impairment loss equal to that excess amount. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates, selecting comparable companies within each reporting unit and market and determining control premiums. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit. There were no impairment charges in 2008, 2007 or 2006. As of December 31, 2008 and December 31, 2007, goodwill totaled \$22,769,000 and \$22,006,000 (representing 22% and 21% of total assets), respectively. For 2008 and 2007, there were four reporting units identified for impairment testing. Those units are SLPE, MTE, Teal and RFL.

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Impairment Of Long-Lived And Intangible Assets

The Company's long-lived and intangible assets primarily consist of fixed assets, goodwill and other intangible assets. The Company periodically reviews the carrying value of its long-lived assets held and used, other than goodwill and intangible assets with indefinite lives, and assets to be disposed of whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. The Company assesses the recoverability of the asset by estimated cash flows and at times by independent appraisals. It compares estimated cash flows expected to be generated from the related assets, or the appraised value of the asset, to the carrying amounts to determine whether impairment has occurred. If the estimate of cash flows expected to be generated changes in the future, the Company may be required to record impairment charges that were not previously recorded for these assets. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Asset impairment evaluations are by nature highly subjective. The Company recorded asset impairment charges of approximately \$77,000, net of tax, related to properties it owns in Camden, New Jersey and Pennsauken, New Jersey. These charges are recorded as part of discontinued operations.

Environmental Expenditures

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

Expenditures that relate to current operations are charged to expense or capitalized, as appropriate. Expenditures that relate to an existing condition caused by formerly owned operations are expensed and recorded as part of discontinued operations. Expenditures include costs of remediation and legal fees to defend against claims for environmental liability. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated. The liability for remediation expenditures includes, as appropriate, elements of costs such as site investigations, consultants' fees, feasibility studies, outside contractor expenses and monitoring expenses. Estimates are not discounted and they are not reduced by potential claims for recovery from insurance carriers. The liability is periodically reviewed and adjusted to reflect current remediation progress, prospective estimates of required activity and other relevant factors, including changes in technology or regulations. The Company recorded charges of \$1,500,000 in the third quarter 2008 and \$750,000 in the fourth quarter 2008 related to environmental matters at its site in Camden, New Jersey. During the fourth quarter of fiscal 2006, the Company recorded a \$4,000,000 charge in response to an EPA letter related to remediation of a designated Superfund Site. Additional information pertaining to environmental matters is found in Note 13 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

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During 2008, net cash used in financing activities was \$5,923,000, primarily due to repayment of debt of \$6,000,000 under the Company's line of credit and payments of financing costs of \$551,000, offset by the proceeds of \$567,000 from the sale of treasury stock. During 2007, net cash used in financing activities was \$10,960,000, primarily due to repayment of debt of \$13,800,000 under the Company's line of credit, partially offset by the proceeds of \$2,654,000 from the exercise of stock options.

On October 23, 2008, the Company entered into an Amended and Restated Revolving Credit Facility, or the 2008 Credit Facility, with Bank of America, N.A., a national banking association, individually, as agent, issuer and a lender thereunder, and the other financial institutions party thereto. The 2008 Credit Facility amends and restates the Company's 2005 Credit Facility. It provides for an increase in the size of the line of credit and certain other changes. Additional information with respect to the 2008 Credit Facility is found in Note 9 in the Notes to the Consolidated Financial Statements included in Part IV to this Annual Report on Form 10-K.

The Company's current ratio was 2.03 to 1 at December 31, 2008 and 2.10 to 1 at December 31, 2007. This ratio decreased mainly due to decreased receivables and only slightly decreased current liabilities as accounts payable and accrued liabilities decreased, but were offset by an increase in accrued income taxes.

As a percentage of total capitalization, consisting of debt and shareholders' equity, total borrowings by the Company were 0% at December 31, 2008 and 9% at December 31, 2007. During 2008, total borrowings decreased by \$6,000,000, compared to a decrease in borrowings of \$13,800,000 during 2007.

The capital expenditures of \$2,426,000 made in 2008 primarily related to machinery and equipment purchases. The Company has been able to generate adequate amounts of cash to meet its operating needs and expects to do so in the future.

With the exception of the segment reported as Other (which consists primarily of corporate office expenses, financing activities, public reporting costs and accruals not specifically allocated to the reportable business segments) all of the Company's operating segments recorded income from operations in 2008 and 2007.

Table of Contents**Contractual Obligations**

The following is a summary of the Company's contractual obligations at December 31, 2008 for the periods indicated:

	Less Than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years	Total
			(in thousands)		
Operating Leases	\$ 1,311	\$ 1,781	\$ 29	\$	\$ 3,121
Debt					
Capital Leases	8	4			12
Other Obligations					
	\$ 1,319	\$ 1,785	\$ 29	\$	\$ 3,133

Off-Balance Sheet Arrangements

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

RESULTS OF OPERATIONS**Year Ended December 31, 2008 Compared With Year Ended December 31, 2007**

	2008	Years Ended December 31,		% Variance
		2007	\$ Variance	
		(in thousands)		
Net sales				
Power Electronics Group:				
SLPE	\$ 72,811	\$ 91,072	\$ (18,261)	(20%)
High Power Group	60,462	58,025	2,437	4%
Total	133,273	149,097	(15,824)	(11%)
SL-MTI	28,647	28,256	391	1%
RFL	24,034	23,510	524	2%
Total	\$ 185,954	\$ 200,863	\$ (14,909)	(7%)

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	2008	Years Ended December 31,		% Variance
		2007	\$ Variance	
		(in thousands)		
Income from operations				
Power Electronics Group:				
SLPE	\$ 315	\$ 8,233	\$ (7,918)	(96%)
High Power Group	4,868	7,810	(2,942)	(38%)
Total	5,183	16,043	(10,860)	(68%)
SL-MTI	3,892	3,469	423	12%
RFL	2,379	2,677	(298)	(11%)
Other	(4,141)	(6,170)	2,029	33%
Total	\$ 7,313	\$ 16,019	\$ (8,706)	(54%)

Consolidated net sales for 2008 decreased by \$14,909,000, or 7%. This decrease was due to a decrease of \$18,261,000, or 20%, recorded by SLPE. The sales decline in the Power Electronics Group was partially offset by an increase of \$2,437,000, or 4%, in the High Power Group. SL-MTI recorded a net sales increase of \$391,000. Net sales at RFL increased by \$524,000. In the fourth quarter of 2008, the High Power Group recorded a sales increase of 18%, while SL-MTI recorded increased sales of less than 1%. SLPE and RFL recorded decreases in net sales of 27% and 3%, respectively, in the fourth quarter of 2008, compared to the fourth quarter of 2007.

In 2008, the Company's income from operations was \$7,313,000, representing a decrease of \$8,706,000, or 54%, compared to \$16,019,000 in 2007. All of the Company's operating business segments recorded income from operations in 2008 and 2007.

Income from continuing operations in 2008 was \$4,636,000, or \$0.78 per diluted share, compared to income from continuing operations in 2007 of \$10,274,000, or \$1.75 per diluted share. In 2008 and 2007, income from continuing operations benefited by approximately \$351,000 and \$756,000, or \$0.06 and \$0.13 per diluted share, respectively, due to research and development tax credits. Also, the restructuring costs recorded by the Company in 2008 of \$677,000 had a negative impact of approximately \$0.08 per diluted share. The Company's business segments and the components of operating expenses are discussed in the following sections.

SLPE recorded net sales of \$72,811,000, or 39% of consolidated net sales, for 2008, compared to \$91,072,000, or 45% of consolidated net sales, in 2007. At SLPE, the net sales of its medical equipment product line decreased by \$13,101,000, or 24%. SLPE's sales of its industrial product line decreased by 21%, while sales of its data communications product line decreased by 10%. The decrease in sales in the medical product line was primarily the result of a sudden and significant reduction of orders from two customers. The decrease in sales of the industrial product line was due to decreased orders from distributors and the decrease in the data communications product line was due to overall weakness in this market segment. Also, affecting net sales was the amount of returns and distributor credits recorded in 2008, which represented approximately 3% of gross sales, compared to 2% in 2007. Domestic sales decreased by approximately 19%, while international sales decreased by approximately 24% in 2008. During 2008, SLPE experienced a significant downturn in orders from two customers, as mentioned previously, in the medical equipment product line, one of which accounted for most of the decrease in international sales. SLPE reported income from operations of \$315,000 in 2008, which represented a decrease of 96% from 2007. SLPE's income from operations was negatively impacted by the 20% reduction in net sales. SLPE's cost of products sold percentage increased to 72% of net sales, compared to 69% in 2007. This increase was due to lower sales volume, which led to lower absorption of overhead costs, unfavorable foreign exchange, and additions to excess and obsolete reserves. In addition, SLPE recorded a reserve of \$492,000 related to a discontinued product. The reserve adjustments were recorded in the fourth quarter of 2008. SLPE also recorded restructuring costs of \$397,000 in the third and fourth

quarters of 2008.

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The High Power Group reported net sales of \$60,462,000, or 33% of consolidated net sales, compared to \$58,025,000, or 29% of consolidated net sales, in 2007. The High Power Group recorded an overall increase in net sales of \$2,437,000, or 4% in 2008. Income from operations was \$4,868,000 compared to \$7,810,000, or a decrease of 38%. Teal, which is part of the High Power Group, recorded a net sales decrease of \$494,000, or 1%, while MTE recorded a sales increase of \$2,931,000, or 15%. Teal's sales decrease is attributable to a decrease in demand from semiconductor manufacturers in the amount of \$3,648,000, or 65%. This decrease was partially offset by increases in the military, aerospace and other product lines, which grew by \$2,166,000, or greater than 300% in 2008. This is a relatively new market for Teal. Teal's sales of medical imaging equipment increased by \$988,000, or 3%, in 2008 compared to 2007. MTE's sales increased by \$2,931,000, or 15%, which was driven by sales to OEMs servicing domestic and international petrochemical, mining, agriculture and waste water pumping industries. Domestic sales increased by 10%, while international sales increased by 39%. Teal's income from operations decreased by \$481,000, or 10%, primarily due to the decrease in sales and higher steel prices. Steel prices increased approximately 50%, compared to 2007. The increase in sales at MTE did not translate to a corresponding increase in income from operations because: (i) the cost of products sold percentage of sales increased by 12% as a result of higher commodity prices (particularly steel and copper), higher freight charges, an inventory adjustment to reflect lower market value and lower labor efficiency and other incremental costs associated with shifting production to lower cost facilities, (ii) the engineering and product development costs increased by \$394,000, or 41%, primarily due to the hiring of additional engineers, increased agency, testing and professional fees; and (iii) the recording of \$280,000 in restructuring costs.

SL-MTI's net sales in 2008 increased approximately \$391,000, or 1%, while income from operations increased by \$423,000, or 12%, compared to 2007. These results were driven by a sales increase of \$1,165,000, or 5%, attributable to customers in the defense and commercial aerospace industries and an increase of \$416,000, or 47%, in its other commercial product line. These increases were partially offset by a decrease in sales of \$1,190,000 to medical equipment manufacturers. The increase in income from operations resulting from an approximate 1% increase in gross margin percentage, was due to higher volume, favorable product mix and lower fixed overhead costs. Also, selling, general and administrative costs decreased by \$134,000, or 6%.

RFL's net sales in 2008 increased approximately \$524,000, or 2%, while income from operations decreased by approximately \$298,000, or 11%, compared to 2007. Sales of RFL's protection products increased by \$1,824,000, or 15%. RFL's customer service sales also increased by \$105,000, or 12%. In 2008, sales of carrier communications products decreased by \$1,405,000, or 13%. Domestic sales decreased by 3% in 2008. Export sales increased by 22%, primarily due to a large international order. Selling, general and administrative costs increased by \$429,000, in 2008. During 2007, RFL realized benefits of \$341,000 due to the sale of securities, the receipt of a death benefit and the reduction of a potential claim pertaining to certain insurance policies carried by RFL. Without these benefits, selling, general and administrative expenses would have increased by \$88,000, or 1%, primarily due to increased sales.

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Cost Of Products Sold

As a percentage of net sales, cost of products sold was approximately 70% in 2008, compared to 67% in 2007. SLPE's cost of products sold percentage increased by approximately 3% in 2008, compared to 2007. The High Power Group recorded an increase in its cost of products sold as a percentage of net sales of 5%. MTI experienced a decrease of approximately 1%, while RFL remained relatively stable in 2008 and 2007.

SLPE's increase was primarily due to lower sales, which led to lower absorption of overhead costs and recording of inventory reserves of \$964,000. The reserve adjustments were recorded in the fourth quarter of 2008 and pertain to a discontinued product and an increase in SLPE's excess and obsolescence reserves. The High Power Group experienced a 5% increase in its cost of products sold as a percentage of net sales. This increase was attributable to MTE, which increased by 12% due to significantly higher commodity prices, freight charges, inventory adjustments and incremental costs associated with moving facilities, as previously mentioned. RFL's cost of products sold as a percentage of net sales increased by approximately 1% due to reduced sales and higher steel prices and lamination charges.

Engineering And Product Development Expenses

As a percentage of net sales, engineering and product development expenses were approximately 8% in 2008 and 6% in 2007. Engineering and product development expenses increased by approximately \$1,181,000, or 9%, in 2008. SLPE increased engineering and product development expenses by \$696,000, or 11%, primarily due to additional engineers hired in both the United States and China, increased agency fees due to new product releases, and increased professional and legal fees. The High Power Group experienced an increase of \$383,000, or 14%, primarily due to additional engineers, increased prototypes and an increase in professional fees at MTE. RFL reported an increase of \$108,000, or 6%, in 2008, while MTI experienced relatively stable engineering and product development costs in 2008 and 2007.

Selling, General And Administrative Expenses

Selling, general and administrative expenses were approximately 17% of net sales for 2008 and 2007. These expenses decreased by \$3,192,000, or 9%, while sales decreased 7% from prior year. SLPE recorded a \$1,363,000, or 11%, decrease in selling, general and administrative costs on a sales decrease of 20%, the decrease is primarily related to reduction in personnel, commissions, bonus expense, reduced travel and advertising cost. Corporate and Other expenses decreased by \$2,029,000, or 33%, due primarily to a decrease in bonus expense of \$761,000, lower stock-based compensation expense of \$818,000 and reduced consulting expense of \$772,000. These decreases were partially offset by receiving less of a benefit in 2008, compared to 2007, related to the Company's insurance programs. RFL recorded a \$429,000, or 7%, increase in selling, general and administrative costs. As mentioned previously, RFL recorded a benefit of \$341,000 in 2007 related to certain insurance policies. Without this benefit, selling, general and administrative costs would have increased by \$88,000 as a result of increased commissions and bonus accruals. The High Power Group and MTI recorded minimal changes in their selling, general and administrative costs in 2008, compared to 2007.

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Depreciation And Amortization Expenses

Depreciation and amortization expenses in 2008 were \$3,652,000, an increase of approximately \$52,000, or 1%. This increase is primarily related to equipment and software additions made in 2008.

Restructuring Costs

The Company recorded restructuring costs of \$677,000 in 2008. Of these charges, \$518,000 was recorded in the third quarter 2008 and \$159,000 was recorded in the fourth quarter 2008. Of the \$677,000, SLPE recorded \$397,000 in restructuring costs primarily related to workforce reductions to align SLPE's cost structure to current and anticipated business levels. The workforce reduction affected SLPE's operations in Mexico, China, the United Kingdom and Minnesota. Additional charges of \$110,000 are expected to be incurred by SLPE in 2009 according to plan. MTE incurred restructuring costs of \$280,000 primarily related to the cost of consolidating facilities. There were no severance costs in MTE's restructuring charges. MTE expects to incur an additional \$60,000 in restructuring costs in 2009. The Company will continue to review its business levels and cost structure and may initiate further cost optimization initiatives.

Amortization Of Deferred Financing Costs

In connection with entering into the 2008 Credit Facility, the Company incurred costs of approximately \$558,000. These costs have been deferred and are being amortized over the term of the 2008 Credit Facility. The amortization costs in 2007 relate to the 2005 Credit Facility, of which approximately \$258,000 was amortized over three years.

Interest Income (Expense)

In 2008, interest income was \$28,000, compared to \$47,000 in 2007. Interest expense in 2008 was \$237,000, compared to \$855,000 in 2007. The decrease in interest expense for 2008 is primarily related to the significant reduction of debt levels in 2008, compared to 2007. The average debt outstanding in 2008 was \$4,050,000, compared to \$13,035,000 in 2007.

Taxes

The effective tax rate for 2008 was approximately 34%. In 2007, the effective tax rate was 32%. The rates for both periods reflect the statutory rate after adjustments for state and international tax provisions, offset by the recording of benefits from research and development tax credits. The benefit rate related to the recording of research and development tax credits was 5% for both 2008 and 2007.

Discontinued Operations

During 2008, the Company recorded a loss from discontinued operations, net of tax, of \$2,302,000. These charges related to ongoing environmental remediation and legal costs. Also in 2008, the Company recorded additional costs of \$1,410,000, net of tax, related to estimated environmental remediation costs at the Camden Site. In addition, the Company wrote-off the net book value of its properties in Camden, New Jersey and Pennsauken, New Jersey in the aggregate amount of \$77,000, net of tax. The Company also recorded a gain of \$59,000, net of tax, for a settlement related to a discontinued operation. In 2007, the Company recorded a loss from discontinued operations, net of tax, of \$1,863,000. These charges related to ongoing environmental remediation and legal costs. For a discussion of potential environmental liabilities, see Item 3. Legal Proceedings included in Part I of this Annual Report on Form 10-K. Other costs are related to ongoing environmental and legal charges incurred during the year.

Table of Contents**Year Ended December 31, 2007 Compared With Year Ended December 31, 2006**

	2007	Years Ended December 31, 2006		\$ Variance	% Variance
		(in thousands)			
Net sales					
Power Electronics Group:					
SLPE	\$ 91,072	\$ 87,949	\$ 3,123		4%
High Power Group	58,025	39,993	18,032		45%
Total	149,097	127,942	21,155		17%
SL-MTI	28,256	25,704	2,552		10%
RFL	23,510	23,127	383		2%
Total	\$ 200,863	\$ 176,773	\$ 24,090		14%

	2007	Years Ended December 31, 2006		\$ Variance	% Variance
		(in thousands)			
Income from operations					
Power Electronics Group:					
SLPE	\$ 8,233	\$ 6,316	\$ 1,917		30%
High Power Group	7,810	5,836	1,974		34%
Total	16,043	12,152	3,891		32%
SL-MTI	3,469	1,555	1,914		123%
RFL	2,677	2,217	460		21%
Other	(6,170)	(4,871)	(1,299)		(27%)
Total	\$ 16,019	\$ 11,053	\$ 4,966		45%

Consolidated net sales for 2007, compared to 2006, increased by \$24,090,000, or 14%. The Power Electronics Group recorded a sales increase of \$21,155,000, or 17%. This increase was primarily due to the acquisition of MTE, which contributed \$17,173,000 of the sales increase in 2007. Without MTE, the sales increase of the Power Electronics Group would have been \$3,982,000, or 3%. SL-MTI recorded a sales increase of \$2,552,000. Net sales at RFL increased by \$383,000 in 2007. In the fourth quarter of 2007, SL-MTI and RFL recorded increased sales of 7% and 6%, respectively, while the High Power Group recorded a sales increase of 4%. The inclusion of MTE for a full quarter in 2007, compared to two months for the fourth quarter of 2006, accounted for the increase. SLPE recorded a 6% decrease in net sales in the fourth quarter of 2007, compared to the 2006 fourth quarter.

The Company's income from operations increased to \$16,019,000, or 45%, in 2007, compared to \$11,053,000 in 2006. All of the Company's operating business segments recorded income from operations in 2007 and 2006.

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Income from continuing operations in 2007 was \$10,274,000, or \$1.75 per diluted share, compared to income from continuing operations in 2006 of \$6,860,000, or \$1.18 per diluted share. In 2007 and 2006, income from continuing operations benefited by approximately \$756,000 and \$513,000, or \$0.13 and \$0.09 per diluted share, respectively, due to research and development tax credits. The Company's business segments and the components of operating expenses are discussed in the following sections.

SLPE recorded net sales of \$91,072,000, or 45% of consolidated net sales, for 2007, compared to \$87,949,000, or 50% of consolidated net sales, in 2006. At SLPE, the net sales of its medical equipment product line increased by approximately 18%, partially offset by decreases in its other product lines. Domestic sales represented 82% of SLPE's net sales in 2007 and 81% of SLPE's net sales in 2006. SLPE reported income from operations of \$8,233,000 in 2007, which represented an increase of 30% from 2006.

The High Power Group reported net sales of \$58,025,000, or 29% of consolidated net sales, compared to \$39,993,000, or 23% of consolidated net sales, in 2006. Teal, which is part of the High Power Group, recorded a net sales increase of \$859,000, or 2%. This increase was attributable to sales of its medical imaging equipment, which increased by \$1,700,000. Sales of Teal's other product lines decreased in 2007. The High Power Group reported income from operations of \$7,810,000 in 2007, which was an increase of 34%. This increase was attributable to MTE, which increased income from operations by \$2,469,000. Income from operations at Teal decreased by \$495,000, primarily due to a combination of higher cost of products sold and operating expenses, partially offset by a 2% increase in sales. SL-MTI's net sales in 2007 increased approximately \$2,552,000, or 10%, while income from operations increased by \$1,914,000, or 123%. These results were driven by a sales increase of \$2,546,000, or 11%, attributable to customers in the defense and commercial aerospace industries, and to a lesser extent, medical equipment manufacturers. The increase in income from operations was primarily due to a 3% increase in gross margin, resulting from higher volume, favorable product mix and greater manufacturing efficiencies. In addition, SL-MTI did not incur material severance costs in 2007, which totaled \$483,000 in 2006. Income from operations also improved as engineering and product development costs decreased \$895,000 from the unusually large product development costs incurred in 2006. In 2007, increased sales volume and bonus accruals caused a 22% increase in selling, general and administrative expenses.

RFL's net sales in 2007 increased approximately \$383,000, or 2%, while income from operations increased by approximately \$460,000, or 21%. Sales of RFL's protection products increased by 34%, aided by sales of a new product. RFL's customer service sales also increased in 2007. In 2007, sales of carrier communications products decreased by 20%. Domestic sales increased by 12% in 2007. Export sales decreased by 25%, primarily due to reduced sales in the Asia Pacific region, which had experienced significant growth in 2006. Income from operations increased primarily as a result of increased sales volume and improved gross margin. Selling, general and administrative costs increased by \$106,000. During the year, RFL realized benefits of \$341,000 due to the sale of securities, the receipt of a death benefit and the reduction of a potential claim pertaining to certain insurance policies carried by RFL. Without these benefits, selling, general and administrative expenses would have increased by \$447,000. These expenses increased due to increased commissions, pension plan matching costs and bonus accruals.

Table of Contents**Cost Of Products Sold**

As a percentage of net sales, cost of products sold was approximately 67% in 2007, compared to 68% in 2006. Without MTE, cost of products sold percentage remained relatively unchanged. SLPE's cost of products sold percentage remained at 69% in 2007. During the fourth quarter of 2007, cost of products sold percentage decreased by approximately 5%, when compared to the fourth quarter of 2006, due primarily to increased labor efficiencies at the plant in Mexicali, Mexico. SLPE also incurred severance costs in 2006, which were not recurring in 2007. The cost of products sold percentage for the High Power Group decreased slightly for the year, primarily due to the inclusion of MTE for a full year in 2007. Product mix, higher raw materials costs and manufacturing inefficiencies at its plant in Tecate, Mexico increased Teal's cost of products sold percentage by approximately 1%. Approximately 70% of Teal products are manufactured at the Tecate facility. SL-MTI experienced a decrease in its cost of products sold percentage to 72% in 2007, from 75% in 2006. This decrease was primarily due to a 10% increase in sales volume, product mix and higher plant productivity. Also SL-MTI incurred approximately \$426,000 in severance costs in 2006, which were not recurring in 2007. RFL's cost of products sold percentage improved by approximately 2%, as a result of product mix and lean manufacturing initiatives implemented in 2007.

Engineering And Product Development Expenses

As a percentage of net sales, engineering and product development expenses were approximately 6% in 2007 and 7% in 2006. Engineering and product development expenses increased by approximately \$491,000, or 4%. Without the inclusion of MTE, engineering and product development expenses would have decreased by \$391,000, or 3%. SL-MTI's engineering and product development costs decreased by 36%, primarily due to higher customer development funding in 2007 and an unusually high level of expenditures in 2006. SLPE experienced an increase in engineering and product development costs of \$509,000, or 8%, partially due to the inclusion of the Ault product line for a full year in 2007, compared to eleven months in 2006. Higher agency approval costs also contributed to higher costs at SLPE. Engineering and product development costs at Teal and RFL remained stable in 2007 and 2006.

Selling, General And Administrative Expenses

Selling, general and administrative expenses were approximately 17% of net sales for 2007 and 2006. These expenses increased by \$3,369,000, or 11%, while sales increased 14% from prior year. Without MTE, selling, general and administrative expenses would have increased by \$879,000, or 3%, on a sales increase of 4%. SLPE recorded a \$1,476,000, or 11%, decrease in selling, general and administrative costs on a sales increase of 4%, primarily related to reduced salaries, reduced travel expenses and the elimination of redundant general and administrative functions. SL-MTI recorded a \$443,000, or 22%, increase in selling, general and administrative costs, due to increased sales volume and bonus accruals. RFL recorded a \$106,000, or 2%, increase in selling, general and administrative costs. As mentioned previously, RFL recorded a benefit of \$341,000 in 2007 related to certain insurance policies. Without this benefit, selling, general and administrative costs would have increased by \$447,000 as a result of increased commissions, pension plan matching costs and bonus accruals. Teal incurred increased costs of \$233,000, or 7%, on a sales increase of 2%. The increase at Teal was primarily due to stock-based compensation arrangements and bonus accruals. The Corporate and Other selling, general and administrative expenses increased by \$1,299,000, which was attributable to stock-based compensation arrangements, bonus expenses, consulting fees and professional services associated with litigation, compliance reviews and international tax and planning advice. These increases were partially offset by a \$224,000 credit related to the Company's insurance programs recorded in the second quarter of 2007.

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Depreciation And Amortization Expenses

Depreciation and amortization expenses in 2007 were \$3,600,000, an increase of approximately \$995,000, or 38%. This increase was primarily related to the increase in amortization expense related to the Ault and MTE acquisitions, which were recorded for a full year in 2007. Amortization expense of intangibles for Ault and MTE amounted to \$413,000 and \$508,000, respectively. Depreciation and amortization expense was approximately 2% of net sales for each of 2007 and 2006.

Amortization Of Deferred Financing Costs

In connection with entering into its 2005 Credit Facility on August 3, 2005, the Company incurred costs of approximately \$258,000. These costs were deferred and amortized over three years.

Interest Income (Expense)

In 2007, interest income was \$47,000, compared to \$35,000 in 2006. Interest expense in 2007 was \$855,000, compared to \$744,000 in 2006. The increase in interest expense for 2007 is related to the increased debt levels incurred to finance the acquisitions of Ault and MTE.

Taxes

The effective tax rate for 2007 was approximately 32%. In 2006, the effective tax rate was 33%. The rates for both periods reflect the statutory rate after adjustments for state and international tax provisions, offset by the recording of benefits from research and development tax credits and foreign tax credits. The benefit rate related to the recording of research and development tax credits was 5% for both 2007 and 2006. The effective tax rate was nominally affected by foreign tax credits in 2007 and 2006.

Discontinued Operations

During 2007, the Company recorded a loss from discontinued operations, net of tax, of \$1,863,000. These charges related to ongoing environmental remediation and legal costs. In 2006, the Company recorded a loss from discontinued operations, net of tax, of \$3,307,000. This amount consisted primarily of estimated environmental remediation liabilities of \$2,480,000, net of tax, related to the Pennsauken Site. For a discussion of potential environmental liabilities, see Item 3. Legal Proceedings included in Part I of this Annual Report on Form 10-K. Other costs are related to ongoing environmental and legal charges incurred during the year.

Inflation

Management does not believe that inflation has had a material effect on the Company's operations and financial condition. Management cannot be sure that operations will not be affected by inflation in the future.

New Accounting Pronouncements To Be Adopted

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

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Environmental

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest and foreign currency exchange rates. Changes in the market interest rate affect both interest paid and earned by the Company. The Company's average debt outstanding in fiscal 2008 was \$4,050,000 with a weighted average interest rate of 4.09%, compared to an average debt outstanding of \$13,035,000 in fiscal 2007 with a weighted average interest rate of 6.38%. Changes in interest rates did not have a material impact on the Company. The Company manufactures a significant portion of its products in Mexico and China and purchases some components in foreign markets. All other foreign market component purchases are primarily invoiced in U.S. dollars. Changes in foreign currency exchange rates did have some impact on earnings for 2008, particularly the appreciation of Chinese yuan strengthened to the U.S. Dollar beginning in the second quarter of fiscal 2008. Borrowings under the 2008 Credit Facility bear interest, at the Company's option, at the British Bankers Association LIBOR rate plus 1.75% to 3.25%, or a base rate, which is the higher of (i) the Federal Funds rate plus 0.5% or (ii) Bank of America, N.A.'s publicly announced prime rate, plus a margin rate ranging from 0% to 1.0%. The margin rates are based on certain leverage ratios, as provided in the facility documents. The Company is subject to compliance with certain financial covenants set forth in the 2008 Credit Facility, including a maximum ratio of total funded indebtedness to EBITDA, minimum levels of interest coverage and net worth and limitation on capital expenditures, as defined. The Company's obligations under the 2008 Credit Facility are secured by the grant of security interests in substantially all of its respective assets. The Company had no outstanding borrowings under the above 2008 Credit Facility at December 31, 2008.

See generally, Item 1A. Business Risk Factors and Item 1. Business Foreign Operations in Part I of this Annual Report on Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

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ITEM 9A. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures

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

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended). The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements for external purposes in accordance with generally accepted accounting principles in the United States (GAAP).

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

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

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

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

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

The Company's management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting, based on the framework and criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management assessed the effectiveness of the Company's internal control over financial reporting for the year ended December 31, 2008 and concluded that such internal control over financial reporting was not effective with respect to the material weakness described below.

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A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. In its assessment of the effectiveness of internal control over financial reporting as of December 31, 2008, management identified the following material weakness:

Inventory Existence and Recording

The Company's management concluded that the controls over inventory tracking and recording at MTE had significant control deficiencies. In particular, errors were detected in the following areas; (i) tracking the movement of inventory from various production and warehouse locations; (ii) recording all required journal entries; (iii) counting of all inventory items; and (iv) reconciling detailed physical inventory reports to the general ledger. Due to the number and magnitude of events in which the Company's internal controls and procedures were not followed at MTE, management concluded that these internal control deficiencies constitute a material weakness in the Company's internal control over financial reporting.

Remediation and Changes in Internal Control

Management commenced a number of efforts to remediate the weaknesses noted above. These efforts will continue throughout fiscal 2009 and include the following:

- re-establish a full cycle count program to be carried out daily by well trained and competent individuals;

- elevate staffing qualifications at MTE;

- hire a Director of Operations with appropriate materials and manufacturing experience;

- review corporate accounting policies and procedures with each member of all accounting staffs at all locations throughout the Company; and

- increase oversight of MTE, including conducting internal audit reviews, by the corporate staff.

During the fiscal quarter ended December 31, 2008, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, such internal control over financial reporting.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that require only management's report in this Annual Report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Apart from certain information concerning the Company's executive officers, which is set forth in Part I of this Annual Report on Form 10-K, the information required under this Item is incorporated herein by reference to the applicable information in the Proxy Statement for the Company's 2009 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this Item is incorporated herein by reference to the applicable information in the Proxy Statement for the Company's 2009 Annual Meeting of Shareholders.

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

The information required under this Item is incorporated herein by reference to the applicable information in the Proxy Statement for the Company's 2009 Annual Meeting of Shareholders.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required under this Item is incorporated herein by reference to the applicable information in the Proxy Statement for the Company's 2009 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required under this Item is incorporated herein by reference to the applicable information in the Proxy Statement for the Company's 2009 Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

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

(a) (2) Financial Statement Schedules

The following financial statement schedule for the years ended December 31, 2008, December 31, 2007 and December 31, 2006 are submitted herewith:

Schedule II Valuation and Qualifying Accounts

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

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

(a) (3) Exhibits

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

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SIGNATURES

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

SL INDUSTRIES, INC.
(Company)

By: /s/ James C. Taylor

Date: April 13, 2009

James C. Taylor

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

By: /s/ Glen M. Kassan

Date: April 13, 2009

Glen M. Kassan Chairman of the Board

By: /s/ James C. Taylor

Date: April 13, 2009

James C. Taylor President and Chief
Executive Officer
(Principal Executive Officer)

By: /s/ David R. Nuzzo

Date: April 13, 2009

David R. Nuzzo Vice President, Chief
Financial Officer,
Treasurer and Secretary
(Principal Financial and Accounting Officer)

By: /s/ J. Dwane Baumgardner

Date: April 13, 2009

J. Dwane Baumgardner Director

By: /s/ Avrum Gray

Date: April 13, 2009

Avrum Gray Director

By: /s/ James R. Henderson

Date: April 13, 2009

James R. Henderson Director

By: /s/ James A. Risher

Date: April 13, 2009

James A. Risher Director

By: /s/ Mark E. Schwarz

Date: April 13, 2009

Mark E. Schwarz Director

By: /s/ John H. McNamara

Date: April 13, 2009

John H. McNamara Director

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INDEX TO EXHIBITS

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

Exhibit #	Description
2.1	Securities Purchase Agreement by and among SL Industries, Inc., SL Industries Vertrieb GmbH, and DCX-Chol Holding GmbH, DCX-Chol Enterprises, Inc. and Chol Enterprises, Inc. dated as of January 3, 2003. Incorporated by reference to Exhibit 2.1 to the Company's report on Form 8-K filed with the Securities and Exchange Commission on January 17, 2003.
2.2	Agreement and Plan of Merger, dated December 16, 2005, by and among SL Industries, Inc., Lakers Acquisition Corp. and Ault Incorporated. Incorporated by reference to Exhibit 2.1 to the Company's report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2005.
2.3	Stock Purchase Agreement, dated October 31, 2006 by and among SL Industries, Inc., Norbert D. Miller, Revocable Living Trust of Fred A. Lewis and Margaret Lange-Lewis U/A dated January 28, 1993, as Amended and Restated as of October 31, 2001 and the Einhorn Family Foundation. Incorporated by reference to Exhibit 10.1 to the Company's report on Form 8-K/A filed with the Securities and Exchange Commission on December 21, 2006.
3.1	Restated Articles of Incorporation. Incorporated by reference to Exhibit 3.1 to the Company's report on Form 10-K for the fiscal year ended December 31, 2000.
3.2	Restated By-Laws. Incorporated by reference to Exhibit 3.2 to the Company's report on Form 10-K for the fiscal year ended December 31, 2000.
10.1*	Supplemental Compensation Agreement for the Benefit of Byrne Litschgi. Incorporated by reference to Exhibit 10.1 to the Company's report on Form 8-K dated November 9, 1990.
10.2*	1988 Deferred Compensation Agreement with a Certain Officer. Incorporated by reference to Exhibit 10.6 to the Company's report on Form 8-K dated November 9, 1990.
10.3*	1991 Long Term Incentive Plan of SL Industries, Inc., as amended, is incorporated by reference to Appendix to the Company's Proxy Statement for its 1995 Annual Meeting held November 17, 1995, previously filed with the Securities and Exchange Commission.
10.4*	Capital Accumulation Plan. Incorporated by reference to the Company's report on Form 10K/A for the fiscal period ended July 31, 1994.
10.5*	Change-in-Control Agreement, dated May 1, 2001, between the Teal Electronics Corporation and James C. Taylor. Incorporated by reference to Exhibit 10.9 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.
10.6*	Amendment to Change-in-Control Agreement, dated December 22, 2008, to the Change-in-Control Agreement, dated May 1, 2001, between the Teal Electronics Corporation and James C. Taylor (transmitted herewith).
10.7*	Bonus Agreement dated August 5, 2002 between the Company and James C. Taylor. Incorporated by reference to Exhibit 10.10 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.

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Exhibit #	Description
10.8*	Management Agreement dated as of January 23, 2002 between the Company and Steel Partners, Ltd. Incorporated by reference to Exhibit 10.12 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.
10.9	Amended And Restated Revolving Credit Agreement dated as of October 23, 2008, among Bank of America, N.A., as Agent, various financial institutions party hereto from time to time, as Lenders, SL Industries, Inc., as the parent borrower and, SL Delaware, Inc., SL Delaware Holdings, Inc., MTE Corporation, RFL Electronics Inc., SL Montevideo Technology, Inc., Cedar Corporation, Teal Electronics Corporation, MEX Holdings LLC, SL Power Electronics Corporation, SLGC Holdings, Inc., SLW Holdings, Inc., SL Auburn, Inc., and SL Surface Technologies, Inc. as subsidiary borrowers. Incorporated by reference to Exhibit 10.1 to the Company's report on Form 10-Q dated November 10, 2008.
14	Code of Conduct and Ethics. Incorporated by reference to Exhibit 14 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.
21	Subsidiaries of the Company (transmitted herewith).
23	Consent of Independent Registered Public Accounting Firm (transmitted herewith).
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (transmitted herewith).
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (transmitted herewith).
32	Certification by Chief Executive Officer and Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (transmitted herewith).

* Indicates a management contract or compensatory plan or arrangement.

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SL Industries, Inc.
Index to Financial Statements and Financial Statement Schedule

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<u>Consolidated Balance Sheets</u>	F3
<u>Consolidated Statements of Income</u>	F4
<u>Consolidated Statements of Comprehensive Income</u>	F4
<u>Consolidated Statements of Shareholders' Equity</u>	F5
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Financial Statement Schedule:	
<u>II. Valuation and Qualifying Accounts</u>	F37

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

SL Industries, Inc.

We have audited the accompanying consolidated balance sheets of SL Industries, Inc. and its subsidiaries (the Company) as of December 31, 2008 and 2007 and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SL Industries, Inc. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. Schedule II, Valuation and Qualifying Accounts, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

/s/ Grant Thornton LLP

Philadelphia, Pennsylvania

April 14, 2009

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Item 1. Financial Statements

SL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 504,000	\$ 733,000
Receivables, net	25,496,000	30,068,000
Inventories, net	21,578,000	22,242,000
Prepaid expenses	1,059,000	959,000
Deferred income taxes, net	5,004,000	4,302,000
Total current assets	53,641,000	58,304,000
Property, plant and equipment, net	10,648,000	11,047,000
Deferred income taxes, net	6,701,000	5,148,000
Goodwill	22,769,000	22,006,000
Other intangible assets, net	5,831,000	6,741,000
Other assets and deferred charges	1,696,000	1,427,000
Total assets	\$ 101,286,000	\$ 104,673,000
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 9,942,000	\$ 12,612,000
Accrued income taxes	3,922,000	495,000
Accrued liabilities		
Payroll and related costs	5,259,000	7,948,000
Other	7,296,000	6,643,000
Total current liabilities	26,419,000	27,698,000
Debt		6,000,000
Deferred compensation and supplemental retirement benefits	2,681,000	2,812,000
Other liabilities	7,326,000	6,534,000
Total liabilities	36,426,000	43,044,000
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, 8,298,000 shares	1,660,000	1,660,000

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Capital in excess of par value	43,651,000	42,999,000
Retained earnings	39,135,000	36,801,000
Accumulated other comprehensive (loss)	(118,000)	(70,000)
Treasury stock at cost, 2,391,000 and 2,449,000 shares, respectively	(19,468,000)	(19,761,000)
Total shareholders' equity	64,860,000	61,629,000
Total liabilities and shareholders' equity	\$ 101,286,000	\$ 104,673,000

See accompanying notes to consolidated financial statements.

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SL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,

	2008	2007	2006
Net sales	\$ 185,954,000	\$ 200,863,000	\$ 176,773,000
Cost and expenses:			
Cost of products sold	129,473,000	134,394,000	120,125,000
Engineering and product development	13,972,000	12,791,000	12,300,000
Selling, general and administrative	30,867,000	34,059,000	30,690,000
Depreciation and amortization	3,652,000	3,600,000	2,605,000
Restructuring costs	677,000		
Total cost and expenses	178,641,000	184,844,000	165,720,000
Income from operations	7,313,000	16,019,000	11,053,000
Other income (expense):			
Amortization of deferred financing costs	(77,000)	(88,000)	(88,000)
Interest income	28,000	47,000	35,000
Interest expense	(237,000)	(855,000)	(744,000)
Income from continuing operations before income taxes	7,027,000	15,123,000	10,256,000
Income tax provision	2,391,000	4,849,000	3,396,000
Income from continuing operations	4,636,000	10,274,000	6,860,000
(Loss) from discontinued operations (net of tax)	(2,302,000)	(1,863,000)	(3,307,000)
Net income	\$ 2,334,000	\$ 8,411,000	\$ 3,553,000
Basic net income (loss) per common share			
Income from continuing operations	\$ 0.79	\$ 1.80	\$ 1.22
(Loss) from discontinued operations (net of tax)	(0.39)	(0.33)	(0.59)
Net income	\$ 0.40	\$ 1.47	\$ 0.63
Diluted net income (loss) per common share			
Income from continuing operations	\$ 0.78	\$ 1.75	\$ 1.18
(Loss) from discontinued operations (net of tax)	(0.39)	(0.32)	(0.57)
Net income	\$ 0.39	\$ 1.43	\$ 0.61
Shares used in computing basic net income (loss) per common share	5,868,000	5,714,000	5,632,000
Shares used in computing diluted net income (loss) per common share	5,948,000	5,876,000	5,823,000

SL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31,

	2008	2007	2006
Net income	\$ 2,334,000	\$ 8,411,000	\$ 3,553,000
Other comprehensive income (net of tax):			
Foreign currency translation	(48,000)	(27,000)	(19,000)
Unrealized (loss) on securities			(67,000)
Comprehensive income	\$ 2,286,000	\$ 8,384,000	\$ 3,467,000

See accompanying notes to consolidated financial statements.

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SL INDUSTRIES, INC.
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2006, 2007 AND 2008

	Common Stock		Capital in		Retained	Accumulated Other Comprehensive Income (Loss)
	Issued	Held In Treasury	Excess of	Par Value		
	Shares	Amount	Shares	Amount	Earnings	
Balance						
December 31, 2005	8,298,000	\$ 1,660,000	(2,701,000)	\$ (20,055,000)	\$ 40,136,000	\$ 24,837,000
Net income					3,553,000	\$ 67,000
Foreign currency translation						(29,000)
Investments available for sale						(67,000)
Other, including exercise of employee stock options and related income tax benefits			92,000	691,000	515,000	
Treasury stock sold			27,000	203,000	238,000	
Treasury stock purchased			(76,000)	(1,330,000)		
Balance						
December 31, 2006	8,298,000	\$ 1,660,000	(2,658,000)	\$ (20,491,000)	\$ 40,889,000	\$ 28,390,000
Net income					8,411,000	
Foreign currency translation						(41,000)
Other, including exercise of employee stock options and related income tax benefits			233,000	1,857,000	1,381,000	
Treasury stock sold			83,000	655,000	729,000	
Stock repurchase plan			(12,000)	(177,000)		
Treasury stock purchased			(95,000)	(1,605,000)		
	8,298,000	\$ 1,660,000	(2,449,000)	\$ (19,761,000)	\$ 42,999,000	\$ 36,801,000
						\$ (70,000)

**Balance
December 31,
2007**

Net income					2,334,000		
Foreign currency translation							(48,000)
Other, including exercise of employee stock options and related income tax benefits	4,000		34,000		27,000		
Stock-based compensation							317,000
Treasury stock sold	84,000		684,000		308,000		
Treasury stock purchased	(30,000)		(425,000)				

**Balance
December 31,
2008**

8,298,000	\$ 1,660,000	(2,391,000)	\$(19,468,000)	\$ 43,651,000	\$ 39,135,000	\$ (118,000)
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See accompanying notes to consolidated financial statements.

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SL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2008	2007	2006
OPERATING ACTIVITIES:			
Net income	\$ 2,334,000	\$ 8,411,000	\$ 3,553,000
Adjustment for losses from discontinued operations	2,302,000	1,863,000	3,307,000
Income from continuing operations	4,636,000	10,274,000	6,860,000
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Depreciation	2,218,000	2,216,000	2,129,000
Amortization	1,434,000	1,384,000	476,000
Amortization of deferred financing costs	77,000	88,000	88,000
Stock-based compensation	317,000		71,000
Non-cash compensation (benefit) expense	(655,000)	638,000	39,000
Non-cash restructuring	170,000		
Provisions for (recoveries of) losses on accounts receivable	(169,000)	35,000	(173,000)
Cash surrender value of life insurance policies	(13,000)	(29,000)	11,000
Deferred compensation and supplemental retirement benefits	431,000	454,000	452,000
Deferred compensation and supplemental retirement benefit payments	(543,000)	(520,000)	(1,397,000)
Deferred income taxes	(3,319,000)	(183,000)	(942,000)
Loss on sales of equipment	159,000	79,000	16,000
Changes in operating assets and liabilities, excluding effects of business combinations and dispositions:			
Accounts receivable	4,809,000	557,000	(5,104,000)
Note receivable		561,000	1,125,000
Inventories	664,000	(1,152,000)	305,000
Prepaid expenses	(100,000)	617,000	(87,000)
Other assets	91,000		451,000
Accounts payable	(2,358,000)	(1,290,000)	(1,320,000)
Other accrued liabilities	(2,645,000)	1,246,000	432,000
Accrued income taxes	4,842,000	257,000	2,895,000
Net cash provided by operating activities from continuing operations	10,046,000	15,232,000	6,327,000
Net cash (used in) operating activities from discontinued operations	(1,680,000)	(2,165,000)	(768,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,366,000	13,067,000	5,559,000
INVESTING ACTIVITIES:			
Acquisition of businesses, net of cash acquired		(65,000)	(31,766,000)
Purchases of property, plant and equipment	(2,426,000)	(1,742,000)	(3,055,000)
Purchases of other assets	(8,000)	(283,000)	
Proceeds from sale of equipment			18,000

NET CASH (USED IN) INVESTING ACTIVITIES	(2,434,000)	(2,090,000)	(34,803,000)
FINANCING ACTIVITIES:			
Proceeds from Revolving Credit Facility	20,440,000	22,570,000	55,163,000
Payments of Revolving Credit Facility	(26,440,000)	(36,370,000)	(35,363,000)
Payments of deferred financing costs	(551,000)		
Proceeds from stock options exercised	54,000	2,654,000	930,000
Tax benefit from exercise of stock options	7,000	584,000	204,000
Treasury stock sales (purchases), net	567,000	(398,000)	(889,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(5,923,000)	(10,960,000)	20,045,000
Effect of exchange rate changes on cash	(238,000)	(41,000)	(29,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(229,000)	(24,000)	(9,228,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	733,000	757,000	9,985,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 504,000	\$ 733,000	\$ 757,000

See accompanying notes to consolidated financial statements.

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Notes To Consolidated Financial Statements

Note 1. Summary Of Significant Accounting Policies

Background: SL Industries, Inc. (the Company), a New Jersey corporation, through its subsidiaries, designs, manufactures and markets power electronics, motion control, power protection, power quality electromagnetic products and specialized communication equipment that is used in a variety of medical, commercial and military aerospace, computer, datacom, industrial, telecom, transportation and utility equipment applications. Its products are incorporated into larger systems to increase operating safety, reliability and efficiency. The Company's products are largely sold to original equipment manufacturers, the electric utility industry, and, to a lesser extent, commercial distributors. The Company's customer base is primarily located in the United States. The Company's operating subsidiaries are described and defined in Notes 15 and 16. The Company's discontinued operations are described and defined in Note 2.

Basis Of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash Equivalents: The Company considers all highly liquid debt instruments with an original maturity date of three months or less and investments in money market accounts to be cash equivalents. At December 31, 2008 and December 31, 2007, cash and cash equivalents held in the United States are held principally at one financial institution.

Revenue Recognition: Revenue is recognized when persuasive evidence of an arrangement exists, when title and risk of ownership passes, the sales price is fixed or determined and collectibility is reasonably assured. Generally, those criteria are met at the time the product is shipped. Provisions are made at the time the related revenue is recognized for product returns, product warranties, rebates, certain stock scrap programs with distributors and other sales incentives offered by the Company to its customers. Freight revenues billed to customers are included in net sales and expenses for shipping products are included in cost of sales.

Accounts Receivable: The Company's accounts receivable primarily consist of trade receivables and are reported net of allowances for doubtful accounts of approximately \$621,000 and \$865,000 as of December 31, 2008 and December 31, 2007, respectively. The Company's estimate for the allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved. First, the Company evaluates specific accounts where it has information that the customer may have an inability to meet its financial obligations (e.g., bankruptcy or insolvency). In these cases, the Company uses its judgment, based on the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. Second, a general reserve is established for all customers based on several factors, including historical write-offs as a percentage of sales and anticipated returns related to customer receivables. If circumstances change (e.g., higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligation), the Company's estimates of the recoverability of amounts due could be reduced by a material amount.

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Inventories: Inventories are valued at the lower of cost or market. Cost is primarily determined using the first-in, first-out (FIFO) method. Cost for certain inventories is determined using the last-in, first-out (LIFO) method. The Company's carrying cost of inventory is valued at the lower of cost or market as the Company continually reviews the book value of discontinued product lines to determine if these items are properly valued. The Company identifies these items and assesses the ability to dispose of them at a price greater than cost. If it is determined that cost is less than market value, then cost is used for inventory valuation. If market value is less than cost, then related inventory is adjusted to that value. If a write down to the current market value is necessary, the market value cannot be greater than the net realizable value, defined as selling price less costs to complete and dispose and cannot be lower than the net realizable value less a normal profit margin. The Company also continually evaluates the composition of its inventory and identifies slow-moving and excess inventories. Inventory items identified as slow-moving or excess are evaluated to determine if reserves are required. If the Company is not able to achieve its expectations of the net realizable value of the inventory at current value, it would adjust its reserves accordingly.

Property, Plant And Equipment: Property, plant and equipment are carried at cost and include expenditures for new facilities and major renewals and betterments. Maintenance, repairs and minor renewals are charged to expense as incurred. When assets are sold or otherwise disposed of, any gain or loss is recognized currently. Depreciation is provided primarily using the straight-line method over the estimated useful lives of the assets, which range from 25 to 40 years for buildings, 3 to 15 years for equipment and other property, and the lesser of the lease term or life of the asset for leasehold improvements.

Goodwill And Other Intangibles: The Company follows Financial Accounting Standards Board (the FASB) Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets (SFAS 142), which requires that goodwill and certain other intangible assets having indefinite lives will no longer be amortized to earnings, but instead be subject to periodic testing for impairment. Intangible assets determined to have definitive lives will continue to be amortized over their estimated useful lives.

Long-Lived Assets: The Company evaluates the recoverability of its long-lived assets in accordance with Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which supersedes Statement of Financial Accounting Standard No. 121, Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of. Accordingly, whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable, the Company assesses the recoverability of the asset either by estimated cash flows or independent appraisals.

Environmental Expenditures: Environmental expenditures that relate to current operations are charged to expense or capitalized, as appropriate. Environmental expenditures that relate to former business units are reported as part of discontinued operations. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated. The liability for remediation expenditures includes elements of costs such as site investigations, consultants fees, feasibility studies, outside contractor expenses and monitoring expenses. Estimates are not discounted, and are not reduced by potential claims for recovery from the Company's insurance carriers. The liability is periodically reviewed and adjusted to reflect current remediation progress, prospective estimates of required activity and other relevant factors including changes in technology or regulations.

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Debt Issuance Costs: Costs incurred in securing long-term debt are deferred and amortized on a straight-line basis over the term of the related debt.

Product Warranty Costs: The Company offers various warranties on its products. The Company provides for its estimated future warranty obligations in the period in which the related sale is recognized primarily based on historical experience. For 2008, 2007 and 2006, these expenses were \$898,000, \$561,000 and \$642,000, respectively.

Advertising Costs: Advertising costs are expensed as incurred. For 2008, 2007 and 2006, these costs were \$245,000, \$496,000 and \$529,000, respectively.

Research And Development Costs: Research and development costs are expensed as incurred. For 2008, 2007 and 2006, these costs were \$3,287,000, \$3,094,000 and \$3,040,000, respectively.

Income Taxes: The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The Company establishes valuation allowances if the Company believes that it is more likely than not that some of the deferred tax assets will not be realized. The Company does not recognize a tax benefit unless it is more likely than not that the benefit will be sustained on audit by the taxing authority based on the merits of the associated tax position. If the recognition threshold is met, the Company recognizes a tax benefit measured at the largest amount of the tax benefit that, based on the Company's judgment, is greater than fifty percent likely to be realized. The Company records interest and penalties related to unrecognized tax benefits as income tax expense.

Foreign Currency Conversion: Assets and liabilities of foreign operations are translated from local currency to U.S. dollars at the exchange rates in effect at the end of the fiscal period. Gains and losses from the translation of foreign operations are included in accumulated other comprehensive (loss) on the Company's Consolidated Balance Sheets. Revenue and expenses are translated at average monthly exchange rates. Transaction gains and losses arising from currency exchange rate fluctuations on transactions denominated in a currency other than the local currency are included in the Company's Consolidated Statements of Income.

Use Of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas that require the use of management estimates relate to product warranty costs, accrued liabilities related to litigation, allowance for doubtful accounts, allowance for inventory obsolescence and environmental costs.

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Net Income Per Common Share: The Company has presented net income per common share pursuant to FASB Statement of Financial Accounting Standard No. 128, 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.

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

	Net Income	Shares	Per Share
	(in thousands, except per share amounts)		
For the Year Ended December 31, 2008:			
Basic net income per common share	\$ 2,334	5,868	\$ 0.40
Effect of dilutive securities		80	(0.01)
Diluted net income per common share	\$ 2,334	5,948	\$ 0.39
For the Year Ended December 31, 2007:			
Basic net income per common share	\$ 8,411	5,714	\$ 1.47
Effect of dilutive securities		162	(0.04)
Diluted net income per common share	\$ 8,411	5,876	\$ 1.43
For the Year Ended December 31, 2006:			
Basic net income per common share	\$ 3,553	5,632	\$ 0.63
Effect of dilutive securities		191	(0.02)
Diluted net income per common share	\$ 3,553	5,823	\$ 0.61

For the years ended December 31, 2008 and December 31, 2007, no stock options were excluded from the dilutive computations because there were no option exercise prices greater than the average market price of the Company's common stock.

Stock Based Compensation: Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123(R), Share-Based Payment (SFAS 123(R)), using the modified prospective application method. Prior to adopting SFAS 123(R), the Company followed the intrinsic value method of accounting for stock-based employee compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, (APB 25) and related interpretations.

The Company maintains two shareholder approved stock option plans that have expired; however, stock options issued under each plan remain outstanding: the Non-Employee Director Nonqualified Stock Option Plan (the Director Plan) and the Long-Term Incentive Plan (the 1991 Incentive Plan).

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The Director Plan provided for the granting of nonqualified options to purchase up to 250,000 shares of the Company's common stock to non-employee directors of the Company in lieu of paying quarterly retainer fees and regular quarterly meeting attendance fees, when elected. The Director Plan enabled the Company to grant options, with an exercise price per share not less than fair market value of the Company's common stock on the date of grant, which are exercisable at any time. Each option granted under the Director Plan expires no later than ten years from date of grant. The expiration date of the Director Plan was May 31, 2003. The 1991 Incentive Plan enabled the Company to grant either nonqualified options, with an exercise price per share established by the Board's Compensation Committee, or incentive stock options, with an exercise price per share not less than the fair market value of the Company's common stock on the date of grant, which are exercisable at any time. Each option granted under the 1991 Incentive Plan expires no later than ten years from date of grant. The Plan expired on September 25, 2001 and no future options can be granted under the Plan.

On May 14, 2008, the shareholders approved the 2008 Incentive Stock Plan (the 2008 Plan). It is intended as an incentive to retain directors, key employees and advisors of the Company. The 2008 Plan provides for up to 315,000 shares of the Company's common stock that may be subject to options and stock appreciation rights. The 2008 Plan enables the Company to grant options with an exercise price per share not less than the fair market value of the Company's common stock on the business day immediately prior to the date of the grant. Options granted under the 2008 Plan are exercisable no later than ten years after the grant date.

On September 29, 2008, the Company granted 155,000 incentive options to select executives and a key employee under the Company's 2008 Plan. The options issued vest in three equal installments, with the first installment vesting on the date of the grant and the remaining two installments each vesting on the second and third anniversary of the grant. Compensation expense is recognized over the vesting period of the options. The Company recorded \$317,000 in compensation expense in the consolidated statements of income for the year ended December 31, 2008. As of December 31, 2008, there was a total of \$442,000 of total unrecognized compensation expense related to the unvested stock options. The cost is expected to be recorded over a period of two years. No options were granted; therefore, no compensation expense was recorded during the same period in 2007.

There were no incentive stock options issued in 2007 and 2006. During 2005, the Company issued, to a newly retained executive, 25,000 incentive stock options in accordance with the rules and regulations of the Securities and Exchange Commission. At December 31, 2006, approximately 12,000 of these options were vested. These options were forfeited, unexercised, in March 2007.

For the twelve months ended December 31, 2008, the Company recognized stock-based employee compensation expense of \$317,000, less a related income tax benefit of approximately \$115,000 under the provisions of SFAS 123(R). Also under the standard, excess income tax benefits related to share-based compensation expense that must be recognized directly in equity are treated as cash flow from financing rather than operating activities. For the twelve months ended December 31, 2007, the Company did not recognize any stock-based employee compensation expense related to stock options under the provisions of SFAS 123(R). However, the Company has recognized a benefit of approximately \$655,000 and an expense of approximately \$638,000 in the years ended December 31, 2008 and December 31, 2007, respectively, in compensation expense related to certain stock-based compensation arrangements which are accounted for on a variable plan basis.

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

	Year Ended December 31, 2008
Expected dividend yield	0%
Expected stock price volatility	42.52%
Risk-free interest rate	3.12%
Expected life of stock option	4.25 years

At December 31, 2008, there was \$442,000 of unrecognized compensation expense associated with unvested stock options. At December 31, 2007, there was no unrecognized compensation expense associated with unvested stock options. During the years ended December 31, 2008 and December 31, 2007, the total intrinsic value of options exercised was \$26,000 and \$2,094,000, respectively, and the actual tax benefit realized for the tax deduction from these option exercises was \$7,000 and \$584,000, respectively.

Stock Options: The following table summarizes the Company's Director Plan for fiscal years 2006 through 2008. As of December 31, 2008, there were no shares available for grant.

	Shares (in thousands)	Option Price	Weighted Average Exercise Price
Outstanding and exercisable as of December 31, 2005	134	\$6.00 to \$14.625	\$ 7.40
Exercised	(11)	\$6.875 to 10.50	\$ 8.26
Outstanding and exercisable as of December 31, 2006	123	\$6.00 to \$14.625	\$ 7.32
Exercised	(5)	\$7.1875 to \$13.6875	\$ 9.53
Outstanding and exercisable as of December 31, 2007	118	\$6.00 to \$14.625	\$ 7.23
Exercised	(3)	\$12.0313 to \$14.625	\$ 13.24
Cancelled	(4)	\$11.1563 to \$14.625	\$ 13.26
Outstanding and exercisable as of December 31, 2008	111	\$6.00 to \$12.9375	\$ 6.86

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The following table summarizes information for fiscal years 2006 through 2008 related to the 1991 Incentive Plan and the options issued in 2005:

	Shares (in thousands)	Option Price	Weighted Average Exercise Price
Outstanding as of December 31, 2005	499	\$5.75 to \$17.01	\$ 11.21
Exercised	(81)	\$5.75 to \$13.50	\$ 10.36
		\$17.01 to	\$ 17.01
Cancelled	(13)	\$17.01	
Outstanding and exercisable as of December 31, 2006	405	\$5.75 to \$17.01	\$ 11.20
Exercised	(228)	\$5.75 to \$13.50	\$ 11.45
Cancelled	(29)	\$5.75 to \$17.01	\$ 13.54
Outstanding and exercisable as of December 31, 2007	148	\$5.75 to \$13.50	\$ 10.37
		\$11.125 to	\$ 11.13
Exercised	(1)	\$11.125	
		\$11.125 to	\$ 11.13
Cancelled	(8)	\$11.125	
Outstanding and exercisable as of December 31, 2008	139	\$5.75 to \$13.50	\$ 10.32

The following table summarizes the Company's 2008 Plan for fiscal year 2008:

	Shares (in thousands)	Option Price	Weighted Average Exercise Price
Outstanding as of December 31, 2007		\$12.80 to	\$ 12.80
Granted	155	\$12.80	
Outstanding as of December 31, 2008	155	\$12.80 to	\$ 12.80
		\$12.80	

The number of shares exercisable as of December 31, 2008 was 52,000.

Transactions from December 31, 2005 through December 31, 2008, under the above plans, were as follows:

	Shares (in thousands)	Option Price	Weighted Average Exercise Price	Weighted Average Life Remaining (years)
Outstanding as of December 31, 2005	633	\$5.75 to \$17.01	\$ 10.406	4.78
Exercised	(92)	\$5.75 to \$13.50	\$ 10.11	
Cancelled	(13)	\$17.01 to \$17.01	\$ 17.01	

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Outstanding as of December 31, 2006	528	\$5.75 to \$17.01	\$	10.302	3.80
Exercised	(233)	\$5.75 to \$13.6875	\$	11.40	
Cancelled	(29)	\$5.75 to \$17.01	\$	13.54	
Outstanding as of December 31, 2007	266	\$5.75 to \$14.625	\$	8.976	3.52
Granted	155	\$12.80 to \$12.80	\$	12.80	
Exercised	(4)	\$11.125 to \$14.625	\$	12.62	
Cancelled	(12)	\$11.125 to \$14.625	\$	11.82	
Outstanding as of December 31, 2008	405	\$5.75 to \$13.50	\$	10.322	4.24
Exercisable as of December 31, 2008	302	\$5.75 to \$13.50	\$	9.474	

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The following tables list the outstanding options and exercisable options as of December 31, 2008, into three ranges:

Options Outstanding (in thousands)	Range of Option Prices per Share	Weighted Average Exercise Price	Weighted Average Life Remaining (years)
132	\$5.75 to \$8.04	\$ 5.968	3.7
52	\$8.10 to \$12.15	\$ 11.064	1.4
221	\$12.1563 to \$13.50	\$ 12.739	5.3
405			
Options Exercisable (in thousands)	Range of Option Prices per Share	Weighted Average Exercise Price	
132	\$5.75 to \$8.04	\$ 5.968	
52	\$8.10 to \$12.15	\$ 11.064	
118	\$12.1563 to \$13.50	\$ 12.685	
302			

New Accounting Standards**Recently Adopted Accounting Pronouncements**

In June 2007, the FASB Emerging Issues Task Force (EITF) published Issue No. 07-3 Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities. The EITF reached a consensus that these payments made by an entity to third parties should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the related services are performed. Entities should report the effects of applying this Issue as a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. EITF Issue No. 07-3 was effective for the Company beginning on January 1, 2008. Earlier application was not permitted. The Company adopted the provisions of EITF Issue No. 07-3, which did not have an impact on the Company's financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). The Statement provides companies an option to report certain financial assets and liabilities at fair value. The intent of SFAS 159 is to reduce the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 was effective for financial statements issued for fiscal years after November 15, 2007; as a result, it was effective for the Company's fiscal year beginning January 1, 2008. The Company decided not to apply the fair value option to any of its outstanding instruments and, therefore, SFAS 159 did not have an impact on its consolidated financial statements.

Table of Contents**New Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141 (Revised 2007) Business Combinations (SFAS 141R). SFAS 141R will significantly change the accounting for business combinations. Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific acquisition related items including (1) earn-outs and other forms of contingent consideration will be recorded at fair value on the acquisition date, (2) acquisition costs will generally be expensed as incurred, (3) restructuring costs will generally be expensed as incurred, (4) in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date, and (5) changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period will impact income tax expense. SFAS 141R also includes a substantial number of new disclosure requirements. SFAS 141R is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (January 1, 2009 for the Company). Early adoption of SFAS 141R is prohibited. The Company expects that SFAS 141R will have an impact on accounting for future business combinations once adopted, but the effect is dependent upon the acquisitions that are made in the future.

In December 2007, the FASB issued SFAS No. 160 Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes new accounting and reporting standards for non-controlling interest, sometimes called a minority interest, in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and separate from the parent company's equity. Among other requirements, this statement requires that consolidated net income (loss) be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest and that they be clearly identified and presented on the face of the consolidated statement of operations. This statement is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 (January 1, 2009 for the Company). Earlier adoption is prohibited. The Company does not expect that adoption of SFAS 160 will have a material impact on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157 Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The statement does not require new fair value measurements, but is applied to the extent that other accounting pronouncements require or permit fair value measurements. The statement emphasizes that fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. Companies will be required to disclose the extent to which fair value is used to measure assets and liabilities, the inputs used to develop the measurements, and the effect of certain of the measurements on earnings (or changes in net assets) for the period. In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-1 and FAS 157-2. FSP 157-1 amends SFAS 157 to exclude SFAS No. 13 Accounting for Leases and other accounting pronouncements that address fair value measurements for purposes of lease classifications or measurement under SFAS 13. FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years for items within its scope. Effective for the first quarter of fiscal 2009, the Company will adopt the provisions of 157-2 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS 157 for financial assets and liabilities did not have a material impact on the Company's financial statements.

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In March 2008, the FASB issued Statement of Financial Accounting Standard No. 161 Disclosures about Derivative Instruments and Hedging Activities an amendment to SFAS No. 133 (SFAS No. 161). This statement changes the disclosure requirements for derivative instruments and hedging instruments. Entities are required to provide enhanced disclosures about (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity s financial performance and cash flows. Also, among other disclosures, this statement requires cross-referencing within footnotes, which should help users of financial statements locate important information about derivate instruments. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. Based on the Company s current operations, adoption of SFAS 161 will not have an impact on the Company s financial position and results of operations but may in the future.

In April 2008, the FASB issued FSP FAS 142-3 Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB 142, Goodwill and Other Intangible Assets. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FASB 142 and the period of expected cash flows to measure the fair value of the assets under FASB 141 (revised 2007), Business Combinations, and other U.S. generally accepted accounting principles (GAAP). FSP 142-3 is effective for financial statements issued for years beginning after December 15, 2008 and for interim periods within those fiscal years. Early adoption is prohibited. Based on the Company s current operations, adoption of FSP 142-3 will not have a material impact on the Company s financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS 162 is effective 60 days following the Securities and Exchange Commission approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The Company currently adheres to the hierarchy of GAAP as presented in SFAS 162, and does not expect its adoption will have a material impact on its consolidated results of operations and financial condition.

Note 2. Discontinued Operations

Elektro-Metall Export GmbH

On January 6, 2003, the Company sold its wholly-owned, indirect German subsidiary, Elektro-Metall Export GmbH (EME). EME was a producer of electronic actuation devices and cable harness systems sold to original equipment manufacturers in the aerospace and automotive industries. Its operations were located in Ingolstadt, Germany and Paks, Hungary. The net income or losses of this subsidiary are included in the consolidated statements of income under discontinued operations for all periods presented.

Table of Contents**SL Surface Technologies, Inc.**

On November 24, 2003, the Company sold the operating assets of SL Surface Technologies, Inc. (SurfTech). SurfTech produced industrial coatings and platings for equipment in the corrugated paper and telecommunications industries. The Company continues to own the land and buildings on which SurfTech s operations were conducted. As a result of the sale, the Company recorded an after tax loss of \$442,000, which included severance, closing costs and a required contribution to a union pension plan discussed more fully below. During the third and fourth quarters of 2008, the Company recorded a \$1,500,000 and \$750,000 reserve related to estimated environmental remediation liabilities associated with the past operations of SurfTech (See Note 13). The losses of this subsidiary, including the reserves noted above, were \$2,411,000 in 2008 and \$1,817,000 in 2007, net of tax, and are included in the consolidated statements of income under discontinued operations.

SurfTech had made contributions, based on rates per hour, as specified in two union agreements, to two union-administered defined benefit multi-employer pension plans. Under the multi-employer Pension Plan Amendments Act of 1980, an employer is liable upon withdrawal from or termination of a multi-employer plan for its proportionate share of the plan s unfunded vested benefits liability. At December 31, 2007, the Company s liability related to withdrawal from this plan was approximately \$411,000. This liability was fully paid and discharged on February 8, 2008.

Note 3. Income Taxes

Income tax provision (benefit) for the fiscal years 2008, 2007 and 2006 is as follows:

	Years Ended December 31,		
	2008	2007	2006
		(in thousands)	
Income tax provision from continuing operations	\$ 2,391	\$ 4,849	\$ 3,396
Income tax (benefit) from discontinued operations	(1,369)	(1,173)	(1,986)
Total	\$ 1,022	\$ 3,676	\$ 1,410

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

	Years Ended December 31,		
	2008	2007	2006
		(in thousands)	
U.S.	\$ 5,251	\$ 14,172	\$ 10,241
Non-U.S.	1,776	951	15
	\$ 7,027	\$ 15,123	\$ 10,256

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

	Years Ended December 31,		
	2008	2007	2006
		(in thousands)	
Current:			
Federal	\$ 3,982	\$ 1,819	\$ 2,455
International	598	697	163
State	(11)	575	212
Deferred:			
Federal	(2,199)	1,794	643
International		(122)	(251)
State	21	86	174
	\$ 2,391	\$ 4,849	\$ 3,396

The benefit for income taxes related to discontinued operations for 2008 was \$1,369,000. The benefit for income taxes related to discontinued operations for 2007 was \$1,173,000.

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Significant components of the Company's deferred tax assets and liabilities as of December 31, 2008 and December 31, 2007 are as follows:

	December 31,	
	2008	2007*
	(in thousands)	
Deferred tax assets:		
Deferred compensation	\$ 1,108	\$ 1,225
Inventory valuation	1,154	862
Tax loss carryforward	3,811	3,806
Foreign tax credit carryforward	1,687	752
R&D tax credit carryforward	2,104	1,924
Accrued expenses	1,438	2,062
Warranty	606	471
Other	912	566
	12,820	11,668
Less valuation allowances	(185)	(934)
	12,635	10,734
Deferred tax liabilities:		
Accelerated depreciation and amortization	3,893	3,822
	8,742	6,912
Assets & liabilities related to discontinued operations, net	2,963	2,538
	\$ 11,705	\$ 9,450

* The balances of the significant components of the Company's deferred tax assets and liabilities as of December 31, 2007 have been reclassified to reflect the tax rates applied to temporary differences on a Company rather

than on a consolidated basis, as well as to more accurately reflect deferred assets and liabilities in continuing operations. The above reclassifications had no effect on the total net deferred tax assets.

As of December 31, 2008 and December 31, 2007, the Company's gross foreign tax credits totaled approximately \$1,687,000 and \$752,000, respectively. These credits can be carried forward for ten years and expire between 2017 and 2018.

As of December 31, 2008 and December 31, 2007, the Company's research and development tax credits totaled approximately \$2,104,000 and \$1,924,000, respectively. Of the December 31, 2008 credits, approximately \$1,558,000 can be carried forward for 15 years and expire between 2020 and 2023, while \$546,000 will carry over indefinitely.

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The Company has assessed its past earnings history and trends, sales backlog, budgeted sales, and expiration dates of tax carryforwards and has determined that it is more likely than not that \$11,705,000 of the net deferred tax assets as of December 31, 2008 will be realized. The Company has an allowance of \$2,018,000 (\$185,000 and \$1,833,000 in continuing and discontinued operations, respectively) provided against the gross deferred tax assets, which relates to the state net operating loss carryforwards. The Company has recorded a liability of \$1,453,000 which was recorded in other long-term liabilities.

The following is a reconciliation of income tax expense (benefit) related to continuing operations at the applicable federal statutory rate and the effective rates from continuing operations:

	Years Ended December 31,		
	2008	2007	2006
Statutory rate	34%	34%	34%
Tax rate differential on extraterritorial income exclusion/ domestic manufacturing deduction benefit	(1)	(1)	(2)
International rate differences		2	(1)
State income taxes, net of federal income tax	2	3	4
Foreign tax credits	1		1
Research and development credits	(5)	(5)	(5)
Other	3	(1)	2
	34%	32%	33%

Effective January 1, 2007, the Company adopted FIN 48, which applies to all tax positions related to income taxes subject to SFAS 109. FIN 48 requires a new evaluation process for all tax positions taken. If the probability for sustaining a tax position is greater than 50%, then the tax position is warranted and recognition should be at the highest amount which would be expected to be realized upon ultimate settlement. The adoption of FIN 48 had no material impact on the Company's financial position.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

Gross unrecognized tax benefits at January 1, 2008	\$ 2,785,000
Increases in tax positions taken in the current year	132,000
Decreases in tax positions taken in prior years	(48,000)
Statute of limitations expired	(24,000)
Gross unrecognized tax benefits at December 31, 2008	\$ 2,845,000

If recognized, all of the net unrecognized tax benefits at December 31, 2008 would impact the effective tax rate. The Company accrues interest and penalties related to unrecognized tax benefits as income tax expense. At December 31, 2008, the Company had accrued interest and penalties related to unrecognized tax benefits of \$437,000.

The Company and its subsidiaries file income tax returns in the United States and in various state, local and foreign jurisdictions. The Company and its subsidiaries are occasionally examined by tax authorities in these jurisdictions. At December 31, 2008, the Company had been examined by the Internal Revenue Service (the IRS) through calendar year 2004. In addition, a foreign tax authority is examining the Company's transfer pricing policies. It is possible that this examination may be resolved within twelve months. In addition, it is reasonably possible that the Company's gross unrecognized tax benefits balance may change within the next twelve months due to the expiration of the statutes of limitation in various states by a range of zero to \$462,000.

Table of Contents**Note 4. Receivables**

Receivables consist of the following:

	December 31,	
	2008	2007
	(in thousands)	
Trade receivables	\$ 25,216	\$ 29,790
Less: allowance for doubtful accounts	(621)	(865)
	24,595	28,925
Recoverable income taxes	16	58
Other	885	1,085
	\$ 25,496	\$ 30,068

Note 5. Concentrations Of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Company places its temporary cash investments with high credit quality financial institutions. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many industries and geographic regions. The Company seeks to limit its exposure to credit risks in any single country or region. The Company performs periodic credit evaluations of its customers' financial condition and generally requires no collateral from its customers. The Company provides an allowance for potential credit losses based upon collectibility of such receivables. Losses have not been significant for any of the periods presented. All financial investments inherently expose holders to market risks, including changes in currency and interest rates. The Company manages its exposure to these market risks through its regular operating and financing activities.

Note 6. Inventories

Inventories consist of the following:

	December 31,	
	2008	2007
	(in thousands)	
Raw materials	\$ 16,197	\$ 15,805
Work in process	3,904	4,849
Finished goods	5,225	4,615
	25,326	25,269
Less: allowances	(3,748)	(3,027)
	\$ 21,578	\$ 22,242

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The above includes certain inventories which are valued using the LIFO method, which aggregated \$4,879,000 and \$4,935,000 as of December 31, 2008 and December 31, 2007, respectively. The excess of FIFO cost over LIFO cost as of December 31, 2008 and December 31, 2007 was approximately \$678,000 and \$711,000, respectively.

Note 7. Property, Plant And Equipment

Property, plant and equipment consist of the following:

	December 31,	
	2008	2007
	(in thousands)	
Land	\$ 1,074	\$ 1,170
Buildings and leasehold improvements	8,272	8,650
Equipment and other property	24,774	25,152
	34,120	34,972
Less: accumulated depreciation	(23,472)	(23,925)
	\$ 10,648	\$ 11,047

Note 8. Goodwill And Intangible Assets

Goodwill and intangible assets consist of the following:

	December 31, 2008			December 31, 2007		
	Gross	Accumulated	Net	Gross	Accumulated	Net
	Value	Amortization	Value	Value	Amortization	Value
	(in thousands)					
Goodwill	\$ 22,769	\$	\$ 22,769	\$ 22,006	\$	\$ 22,006
Other intangible assets:						
Customer relationships	3,700	1,062	2,638	3,700	553	3,147
Patents	1,259	998	261	1,219	924	295
Trademarks	1,672		1,672	1,672		1,672
Developed technology	1,700	636	1,064	1,700	334	1,366
Licensing fees	355	160	195	355	124	231
Covenant-not-to-compete	100	100		100	75	25
Other	51	50	1	51	46	5
Total other intangible assets	8,837	3,006	5,831	8,797	2,056	6,741
	\$ 31,606	\$ 3,006	\$ 28,600	\$ 30,803	\$ 2,056	\$ 28,747

Goodwill is tested at the reporting unit levels annually, and if necessary, whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The fair values of the reporting units were estimated using a combination of the expected present values of future cash flows, an assessment of comparable market multiples and a review of market capitalization with estimated control premiums. There were no impairment charges related to goodwill and intangible assets recorded during 2008, 2007 and 2006.

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The other intangible assets that have definite lives are all amortizable and have original estimated useful lives as follows: customer relationships are amortized over approximately six years and eight years; patents are amortized over approximately 13 years, seven years or five years; developed technology is amortized over approximately five years and six years; licensing fees over approximately 10 years; covenants-not-to-compete are amortized over approximately one and two-thirds years. Trademarks are not amortized. Amortization expense for intangible assets subject to amortization in each of the next five fiscal years is estimated to be: \$899,000 in 2009 and 2010, \$863,000 in 2011, \$713,000 in 2012 and \$384,000 in 2013.

Amortization expense related to intangible assets for 2008, 2007 and 2006 was \$950,000, \$1,031,000 and \$213,000, respectively. Intangible assets subject to amortization have a weighted average life of approximately seven years.

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

	Balance December 31, 2007	Deferred Taxes	Intangible Assets (in thousands)	Foreign Exchange	Balance December 31, 2008
SLPE (Ault)	\$ 3,513	\$ 789	\$	\$ (26)	\$ 4,276
High Power Group (MTE)	8,189				8,189
High Power Group (Teal)	5,055				5,055
RFL	5,249				5,249
Total	\$ 22,006	\$ 789	\$	\$ (26)	\$ 22,769

At SLPE, the Company increased goodwill during the year due to the de-recognition of a previous tax position primarily related to a change in pre-acquisition contingencies.

Table of Contents**Note 9. Debt**

Debt consists of the following:

	December 31,	
	2008	2007
	(in thousands)	
Prime rate loan	\$	\$
LIBOR rate loan		6,000
		6,000
Less: current portion		
Total long-term debt	\$	\$ 6,000

On August 3, 2005, the Company entered into a revolving credit facility (the 2005 Credit Facility) with Bank of America, N.A. (Bank of America) to replace its former senior credit facility. The 2005 Credit Facility (with a standby and commercial letter of credit sub-limit of \$5,000,000) provided for borrowings up to \$30,000,000. The 2005 Credit Facility had an original term of three years and was extended to June 30, 2009. Borrowings under the 2005 Credit Facility bore interest, at the Company's option, at the London interbank offering rate (LIBOR) plus a margin rate ranging from 0.9% to 1.9%, or the higher of a Base Rate plus a margin rate ranging from 0% to 0.5%. The Base Rate is equal to the higher of (i) the Federal Funds Rate plus 0.5%, or (ii) Bank of America's publicly announced prime rate (Prime rate loan). On October 23, 2008, the Company and certain of its subsidiaries entered into an Amended and Restated Revolving Credit Facility (the 2008 Credit Facility) with Bank of America, N.A., a national banking association, individually, as agent, issuer and a lender thereunder, and the other financial institutions party thereto. The 2008 Credit Facility amends and restates the Company's 2005 Credit Facility, dated August 3, 2005, as amended, among Bank of America, N.A., the company and its subsidiaries party thereto, to provide for an increase in the facility size and certain other changes.

The 2008 Credit Facility provides for maximum borrowings of up to \$60,000,000 and includes a standby and commercial letter of credit sub-limit of \$10,000,000. The 2008 Credit Facility is scheduled to expire on October 1, 2011 unless earlier terminated by the agent thereunder following an event of default. Borrowings under the 2008 Credit Facility bear interest, at the Company's option, at the British Bankers Association LIBOR rate plus 1.75% to 3.25%, or a base rate, which is the higher of (i) the Federal Funds rate plus 0.5% or (ii) Bank of America, N.A.'s publicly announced prime rate, plus a margin rate ranging from 0% to 1.0%. The margin rates are based on certain leverage ratios, as provided in the facility documents. The Company is subject to compliance with certain financial covenants set forth in the 2008 Credit Facility, including a maximum ratio of total funded indebtedness to EBITDA, minimum levels of interest coverage and net worth and limitation on capital expenditures, as defined. Availability under the 2008 Credit Facility is based upon the Company's trailing twelve month EBITDA, as defined. At December 31, 2008, the Company had a total availability under the 2008 Credit Facility of \$31,000,000.

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The Company's obligations under the 2008 Credit Facility are secured by the grant of security interests in substantially all of its respective assets.

As of December 31, 2008, the Company had no outstanding balance under the 2008 Credit Facility, which bore interest at the prime rate of 3.25% and at the LIBOR rate of 3.16%. As of December 31, 2007, the Company had an outstanding balance under the 2005 Credit Facility of \$6,000,000 at the LIBOR rate, which bore interest at 6.10%.

The weighted average interest rate on borrowings during 2008 and 2007 was 4.09% and 6.38%, respectively.

Note 10. Accrued Liabilities - Other

Accrued liabilities - other consist of the following:

	December 31,	
	2008	2007
	(in thousands)	
Taxes (other than income) and insurance	\$ 560	\$ 117
Commissions	839	869
Litigation and legal fees	270	927
Other professional fees	596	1,053
Environmental	1,057	514
Warranty	1,325	1,271
Deferred revenue	556	320
Other	2,093	1,572
	\$ 7,296	\$ 6,643

Included in the environmental accrual are estimates for all known costs believed to be probable for sites which the Company currently operates or had operated at one time (see Note 13 for additional information). The change in the recorded balances from December 31, 2007 to December 31, 2008 is primarily due to the reclassifying of certain accrual amounts to other long-term liabilities based upon expected expenditures.

A summary of the Company's warranty reserve is as follows:

	December 31,	
	2008	2007
	(in thousands)	
Liability, beginning of year	\$ 1,271	\$ 1,197
Expense for new warranties issued	893	380
Expense related to accrual revisions for prior year	5	181
Warranty claims paid	(844)	(487)
Liability, end of period	\$ 1,325	\$ 1,271

Table of Contents**Note 11. Restructuring Charges**

In the third and fourth quarters of fiscal 2008, the Company recorded a total restructuring charge of \$677,000, of which \$397,000 was recorded at SL Power Electronics Corp. (SLPE). The restructuring charges related primarily to workforce reduction to align SLPE s cost structure to reduced business levels. The Company anticipates that these actions will result in reduced operating costs in future periods. The Company expects SLPE s total restructuring charges to be approximately \$507,000. Additionally, MTE Corporation (MTE) incurred restructuring charges of \$280,000 primarily related to costs of consolidating facilities. Total MTE restructuring charges are expected to be approximately \$340,000. The liability for the restructuring charges is included in Accrued Liabilities Other in the amount of \$170,000. Details of the restructuring charges for fiscal 2008 are as follows:

	Year Ended December 31, 2008 (in thousands)			
	Severance	Temporary Labor	Other Costs	Total
Beginning balance	\$	\$	\$	\$
Restructuring charges	315	117	245	677
Cash payments	(227)	(117)	(163)	(507)
Ending balance	\$ 88	\$	\$ 82	\$ 170

Note 12. Retirement Plans And Deferred Compensation

During the year ended December 31, 2008, the Company maintained a defined contribution pension plan covering all full-time, U.S. employees of SLPE, Teal Electronics Corporation (Teal), SL Montevideo Technology, Inc. (SL-MTI), MTE, RFL Electronics Inc. (RFL) and the corporate office. The Company s contributions to this plan are based on a percentage of employee contributions and/or plan year gross wages, as defined, and profit sharing contributions annually, based on plan year gross wages.

For the first four months of 2007, the Company also maintained a defined contribution pension plan covering all full-time, U.S. employees of MTE. The Company s contributions to this plan were based on a percentage of employee contributions and/or plan year gross wages, as defined. On May 1, 2007, this plan was merged into the Company s plan covering all the Company s full-time, U.S. employees of SLPE, Teal, SL-MTI, RFL and the corporate office, with the same terms and conditions.

Costs incurred under these plans during 2008, 2007 and 2006 amounted to approximately \$1,298,000, \$1,352,000 and \$960,000, respectively. During 2006, the Company maintained five separate plans, four of which were merged into one plan on January 2, 2007.

The Company has agreements with certain active and retired directors, officers and key employees providing for supplemental retirement benefits. The liability for supplemental retirement benefits is based on the most recent mortality tables available and discount rates ranging from 6% to 12%. The amount charged to income in connection with these agreements amounted to \$360,000, \$415,000 and \$386,000 for 2008, 2007 and 2006, respectively.

The Company is the owner and beneficiary of life insurance policies on the lives of some of the participants having a deferred compensation or supplemental retirement agreement. As of December 31, 2008, the aggregate death benefit totaled \$534,000, with the corresponding cash surrender value of all policies totaling \$293,000.

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As of December 31, 2008, certain agreements restrict the Company from utilizing the cash surrender value of certain life insurance policies totaling approximately \$293,000 for purposes other than the satisfaction of the specific underlying deferred compensation agreements, if benefits are not paid by the Company. The Company offsets the dividends realized from the life insurance policies with premium expenses. Net expenses recorded in connection with these policies amounted to \$13,000, \$15,000 and \$20,000 for 2008, 2007 and 2006, respectively.

Note 13. Commitments And Contingencies

Leases: The Company is a party to certain leases for facilities, equipment and vehicles from third parties, which expire through 2013. The minimum rental commitments as of December 31, 2008 are as follows:

	Operating	Capital
	(in thousands)	
2009	\$ 1,311	\$ 8
2010	828	4
2011	506	
2012	447	
2013	29	
Thereafter		
Total minimum payments	\$ 3,121	\$ 12
Less: interest		
Total principal payable		\$ 12

For 2008, 2007 and 2006, rental expense applicable to continuing operations aggregated approximately \$2,204,000, \$2,173,000 and \$2,386,000, respectively.

Letters Of Credit: As of December 31, 2008 and December 31, 2007, the Company was contingently liable for \$670,000 and \$655,000, respectively, under an outstanding letter of credit issued for casualty insurance requirements.

Litigation: In the ordinary course of its business, the Company is subject to loss contingencies pursuant to foreign and domestic federal, state and local governmental laws and regulations and is also party to certain legal actions, which may occur in the normal operations of the Company's business.

On June 12, 2002, the Company and SurfTech (a wholly owned subsidiary, the operating assets of which were sold in November 2003), were served with a class action complaint by twelve individual plaintiffs (the Complaint) filed in Superior Court of New Jersey for Camden County (the Private Action). The Company and SurfTech are currently two of approximately 28 defendants named in the Private Action. The Complaint alleges, among other things, that the plaintiffs are subject to an increased risk of disease as a result of consuming water distributed from the Puchack Wellfield located in Pennsauken Township, New Jersey (which was one of several water sources that supplied Camden, New Jersey). Medical monitoring of the plaintiff class was sought in the litigation.

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The Private Action arises from similar factual circumstances as current environmental actions involving the Pennsauken Landfill and Puchack Wellfield, with respect to which the Company has been identified as a potentially responsible party (a PRP). These actions and the Private Action both allege that SurfTech and other defendants contaminated ground water through the disposal of hazardous substances at facilities in the area. SurfTech once operated a chrome-plating facility in Pennsauken Township, New Jersey (the Pennsauken Site). These actions are discussed below.

With respect to the Private Action, the Superior Court denied class certification in June 2006. In 2007, the Superior Court dismissed the claims of all plaintiffs on statute of limitations grounds. The plaintiffs have appealed the Court's decision.

The Company is the subject of other lawsuits and administrative actions which arise from its ownership of the Pennsauken Site. These actions relate to environmental issues concerning the Pennsauken Landfill and the Puchack Wellfield. In 1991 and 1992, the New Jersey Department of Environmental Protection (the NJDEP) served directives that would subject the Company to, among other things, collective reimbursements (with other parties) for the remediation of the Puchack Wellfield. The litigation involving the Pennsauken Landfill involves claims under the Spill Compensation and Control Act (the Spill Act), other statutes and common law against the Company and numerous other defendants alleging that they are liable for contamination at and around a municipal solid waste landfill located in Pennsauken Township, New Jersey. In the first quarter 2009, the Company agreed to terms with the plaintiffs for the settlement of all pending claims in this case. Accordingly, the case was dismissed with prejudice in February 2009.

It is management's opinion that the impact of legal actions brought against the Company and its operations will not have a material adverse effect on its consolidated financial position or results of operations. However, the ultimate outcome of these matters, as with litigation generally, is inherently uncertain, and it is possible that some of these matters may be resolved adversely to the Company. The adverse resolution of any one or more of these matters could have a material adverse effect on the business, operating results, financial condition or cash flows of the Company.

Environmental: 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 under these laws and may in the future be involved in additional environmental assessments and cleanups. Based upon investigations completed to date by the Company and its independent engineering-consulting firms, management has provided an estimated accrual for all known costs believed to be probable in the amount of \$6,926,000, of which \$5,869,000 is included as other long-term liabilities. 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 defense and 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, and the extent, if any, to which such costs are recoverable from other parties or from insurance. These contingencies could result in additional expenses or judgments, or offsets thereto. At the present time such expenses or judgments are not expected to have a material adverse effect on the Company's consolidated financial position or results of operations, beyond the amount already reserved. Most of the Company's environmental costs relate to discontinued operations and such costs have been recorded in discontinued operations.

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There are two sites on which the Company may incur material environmental costs in the future as a result of past activities of SurfTech. These properties are the Pennsauken Site and the Company's property in Camden, New Jersey (the Camden Site). Lawsuits and administrative actions concerning the Pennsauken Site are discussed above.

In addition to the lawsuits and administrative actions previously discussed, in 2006 the United States Environmental Protection Agency (the EPA) named the Company as a PRP in connection with the remediation of the Puchack Wellfield, which it designated a Superfund Site. The Company believes the recent action by the EPA should supersede the NJDEP directives.

With respect to the EPA matter, the EPA notified the Company that it was a PRP, jointly and severally liable, for the investigation and remediation of the Puchack Wellfield Superfund Site under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA). Thereafter, in September 2006, the EPA issued a Record of Decision for the national priority listed Puchack Wellfield Superfund Site and selected a remedy to address the first phase of groundwater contamination that the EPA contemplates being conducted in two phases (known as operable units). The estimated cost of the EPA selected remedy for the first groundwater operable unit, to be conducted over a five to ten year timeframe, is approximately \$17,600,000 (excludes past costs of \$11,500,000 mentioned below). Prior to the issuance of the EPA's Record of Decision, the Company had retained an experienced environmental consulting firm to prepare technical comments on the EPA's proposed remediation of the Puchack Wellfield Superfund Site. In those comments, the Company's consultant, among other things, identified flaws in the EPA's conclusions and the factual predicates for certain of the EPA's decisions and for the proposed selected remedy. Following the issuance of its Record of Decision, in early November 2006, the EPA sent another letter to the Company encouraging the Company to either perform or finance the remedial actions for operable unit one identified in the EPA's Record of Decision. In February 2007, the EPA sent another letter to the Company demanding reimbursement for past costs of approximately \$11,500,000, which has been contested by the Company. The Company responded to the EPA that it is willing to investigate the existence of other PRPs and to undertake the activities necessary to design a final remediation for the Superfund Site. In July 2007, the EPA refused the Company's offer to perform the work necessary to design the remediation plan without first agreeing to assume responsibility for the full remediation of the Superfund Site. The EPA did encourage the Company to investigate the existence of other PRPs and to submit evidence thereof, if appropriate. In January 2008, the Company submitted to the EPA evidence demonstrating the existence of several other PRPs.

Notwithstanding these assertions, based on discussions with its attorneys and consultants, the Company believes the EPA analytical effort is far from complete. Further, technical data has not established that offsite migration of hazardous substances from the Pennsauken Site caused the contamination of the Puchack Wellfield Superfund Site. In any event, the evidence establishes that hazardous substances from the Pennsauken Site could have, at most, constituted only a portion of the total contamination delineated in the vicinity of the Puchack Wellfield Superfund Site. There are other technical factors and defenses that indicate that the remediation proposed by the EPA is technically flawed. Based on the foregoing, the Company believes that it has significant defenses against all or part of the EPA claim and that other PRPs should be identified to support the ultimate cost of remediation. Nevertheless, the Company's attorneys have advised that it is likely that it will incur some liability in this matter. Based on the information so far, the Company has estimated remediation liability for this matter of \$4,000,000 (\$2,480,000, net of tax), which was reserved and recorded as part of discontinued operations in the fourth quarter of 2006.

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With respect to the Camden Site, the Company has reported soil contamination and a ground water contamination plume emanating from the site. The Company has been conducting tests and taking other actions to identify and quantify the contamination and to confirm areas of concern. On September 30, 2008, the Company submitted an Interim Response Action (IRA) Workplan to the NJDEP that includes building demolition and removal, excavation of underlying contaminated soil, undertaking treatability studies and installing new monitoring wells. The IRA Workplan, with amendments, was approved by the NJDEP on October 9, 2008. The Company reserved \$1,500,000 in the third quarter and \$750,000 in the fourth quarter to meet the anticipated expenses of implementing the IRA Workplan and field pilot studies and conducting routine groundwater monitoring. At December 31, 2008, the Company has accrued \$2,387,000 to remediate the Camden Site.

The Company has also reported soil and ground water contamination at the facility located on SL-MTI's property in Montevideo, Minnesota. SL-MTI has conducted analysis of the contamination and is performing remediation at the site pursuant to a remedial action workplan approved by the Minnesota Pollution Control Agency. SL-MTI has incurred costs of approximately \$156,000 during fiscal 2008. Implementation of remediation technologies is on track and is expected to be fully implemented by the first half of fiscal 2009. Based on the current information, the Company believes it will incur remediation costs at this site of approximately \$139,000, which has been accrued at December 31, 2008. The accrual for this site was \$284,000 at December 31, 2007.

As of December 31, 2008 and December 31, 2007, environmental accruals of \$6,926,000 and \$5,284,000, respectively, have been recorded by the Company.

Employment Agreements: The Company entered into severance agreements with certain key employees in 2001 that provide for one-time payments in the event the employee is terminated within twelve months of a change-of-control, as defined. These payments range from three to 24 months of the employee's base salary as of the termination date, as defined. If a triggering event had taken place in 2008 and if these employees had been terminated during the year, the payments would have aggregated approximately \$3,219,000 under such change-of-control agreements.

Note 14. Cash Flow Information

Supplemental disclosures of cash flow information:

	Years Ended December 31,		
	2008	2007	2006
	(in thousands)		
Interest paid	\$ 347	\$ 1,001	\$ 604
Income taxes paid	\$ 725	\$ 2,853	\$ 1,671

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Note 15. Industry Segments

The Company currently operates under four business segments: SLPE, the High Power Group, SL-MTI and RFL. Following its acquisition of Ault on January 26, 2006, the Company consolidated the operations of Ault and its subsidiary, Condor D.C. Power Supplies, Inc. (Condor), into SLPE. In accordance with the guidance provided in Statement of Financial Accounting Standard No. 131, Disclosures about Segments of an Enterprise and Related Information, (SFAS 131) this subsidiary is reported as one business segment. Following the acquisition of MTE on October 31, 2006, the Company combined MTE with its subsidiary, Teal, into one business segment, which is reported as the High Power Group. Management has combined SLPE and the High Power Group into one business unit classified as the Power Electronics Group. The Company aggregates operating business subsidiaries into a single segment for financial reporting purposes if aggregation is consistent with the objectives of SFAS 131 and if the segments have similar characteristics in each of the following areas:

- nature of products and services
- nature of production process
- type or class of customer
- methods of distribution

SLPE produces a wide range of custom and standard internal and external AC/DC and DC/DC power supply products to be used in customers' end products. The Company's power supplies closely regulate and monitor power outputs, resulting in stable and highly reliable power. SLPE, which sells products under three brand names (SL Power Electronics, Condor and Ault), is a major supplier to the OEMs of medical, wireless and wire line communications infrastructure, computer peripherals, handheld devices and industrial equipment. The High Power Group sells products under two brand names (Teal and MTE). Teal designs and manufactures custom power conditioning and distribution units. Products are developed and manufactured for custom electrical subsystems for OEMs of semiconductor, medical imaging, military and telecommunication systems. MTE designs and manufactures power quality electromagnetic products used to protect equipment from power surges, bring harmonics into compliance and improve the efficiency of variable speed motor drives. SL-MTI designs and manufactures high power density precision motors. New motor and motion controls are used in numerous applications, including military and commercial aerospace equipment, medical devices and industrial products. RFL designs and manufactures communication and power protection products/systems that are used to protect utility transmission lines and apparatus by isolating faulty transmission lines from a transmission grid. The Other segment includes corporate related items, financing activities and other costs not allocated to reportable segments, which includes but is not limited to certain legal, litigation and public reporting charges and the results of insignificant operations. The accounting policies for the business units are the same as those described in the summary of significant accounting policies (see Note 1 for additional information).

Business segment operations are conducted through domestic subsidiaries. For all periods presented, sales between business segments were not material. No single customer accounted for more than 10% of consolidated net sales during 2008, 2007 and 2006. Each of the segments has certain major customers, the loss of any of which would have a material adverse effect on such segment.

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	Years Ended December 31,		
	2008	2007	2006 *
	(in thousands)		
Net sales			
Power Electronics Group:			
SLPE	\$ 72,811	\$ 91,072	\$ 87,949
High Power Group	60,462	58,025	39,993
Total	133,273	149,097	127,942
SL-MTI	28,647	28,256	25,704
RFL	24,034	23,510	23,127
Consolidated	\$ 185,954	\$ 200,863	\$ 176,773
	Years Ended December 31,		
	2008	2007	2006 *
	(in thousands)		
Income from operations			
Power Electronics Group:			
SLPE	\$ 315	\$ 8,233	\$ 6,316
High Power Group	4,868	7,810	5,836
Total	5,183	16,043	12,152
SL-MTI	3,892	3,469	1,555
RFL	2,379	2,677	2,217
Other	(4,141)	(6,170)	(4,871)
Income from operations	7,313	16,019	11,053
Amortization of deferred financing costs	(77)	(88)	(88)
Interest income	28	47	35
Interest expense	(237)	(855)	(744)
Income from continuing operations before income taxes	\$ 7,027	\$ 15,123	\$ 10,256

* SLPE includes net sales and income from operations of Ault from the acquisition date, January 26, 2006. The High

Power Group includes net sales and income from operations of MTE for two months in 2006, since the acquisition was not completed until October 31, 2006.

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	December 31,	
	2008	2007
	(in thousands)	
Total assets		
Power Electronics Group:		
SLPE	\$ 33,253	\$ 37,940
High Power Group	30,985	29,305
Total	64,238	67,245
SL-MTI	12,479	12,246
RFL	15,480	16,124
Other	9,089	9,058
Consolidated	\$ 101,286	\$ 104,673

	December 31,	
	2008	2007
	(in thousands)	
Intangible assets, net		
Power Electronics Group:		
SLPE	\$ 5,785	\$ 5,399
High Power Group	17,370	17,863
Total	23,155	23,262
SL-MTI	1	5
RFL	5,444	5,480
Consolidated	\$ 28,600	\$ 28,747

	Years Ended December 31,		
	2008	2007	2006
	(in thousands)		
Capital expenditures			
Power Electronics Group:			
SLPE	\$ 1,020	\$ 1,193	\$ 2,207
High Power Group	756	7	113
Total	1,776	1,200	2,320
SL-MTI	432	174	307
RFL	182	294	428

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Other		36		74	
Consolidated		\$ 2,426	\$ 1,742	\$ 3,055	

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	Years Ended December 31,		
	2008	2007	2006
	(in thousands)		
Depreciation and amortization			
Power Electronics Group:			
SLPE	\$ 1,820	\$ 1,730	\$ 1,268
High Power Group	854	845	309
Total	2,674	2,575	1,577
SL-MTI	388	382	382
RFL	550	621	610
Other	40	22	36
Consolidated	\$ 3,652	\$ 3,600	\$ 2,605

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

	Years Ended December 31,		
	2008	2007	2006
	(in thousands)		
Net sales ⁽¹⁾			
United States	\$ 155,002	\$ 168,427	\$ 147,263
Foreign	30,952	32,436	29,510
Consolidated	\$ 185,954	\$ 200,863	\$ 176,773
Long-lived assets ⁽²⁾			
United States	\$ 7,411	\$ 8,117	\$ 9,019
Foreign	3,237	2,930	3,113
Consolidated	\$ 10,648	\$ 11,047	\$ 12,132

(1) Net sales are attributed to countries based on location of customer.

(2) Includes net tangible assets excluding goodwill and intangibles.

Note 16. Foreign Operations

In addition to manufacturing operations in California, Minnesota, New Jersey and Wisconsin, the Company manufactures substantial quantities of products in premises leased in Mexicali, Mexico, Matamoros, Mexico and Tecate, Mexico. The Company also has manufacturing facilities in Xianghe, China. These external and foreign sources of supply present risks of interruption for reasons beyond the Company's control, including political or economic instability and other uncertainties.

Generally, the Company's sales are priced in U.S. dollars and its costs and expenses are priced in U.S. dollars, Mexican pesos and Chinese yuan. Accordingly, the competitiveness of the Company's products relative to locally produced products may be affected by the performance of the U.S. dollar compared with that of its foreign customers and competitors' currencies. Foreign net sales comprised 17%, 16% and 17% of net sales from continuing operations for 2008, 2007 and 2006, respectively.

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Additionally, the Company is exposed to foreign currency exchange rate fluctuations, which might result from fluctuations in the value of the Mexican peso and Chinese yuan versus the U.S. dollar. At December 31, 2008, the Company had net assets of \$2,007,000 subject to fluctuations in the value of the Mexican peso and Chinese yuan. At December 31, 2007, the Company had net assets of \$856,000 subject to fluctuations in the value of the Mexican peso and Chinese yuan. During 2008, the U.S. dollar declined in value by approximately 7%, relative to the Chinese yuan. During 2007, the U.S. dollar declined in value by approximately 6%, relative to the Chinese yuan.

SLPE manufactures most of its products in Mexico and China. Teal has transferred a significant portion of its manufacturing to a wholly-owned subsidiary located in Mexico. SL-MTI manufactures a significant portion of its products in Mexico. SLPE, the High Power Group and SL-MTI price and invoice their sales in U.S. dollars. The Mexican subsidiaries of SLPE, SL-MTI and Teal maintain their books and records in Mexican pesos. SLPE's subsidiaries in China maintain their books and records in Chinese yuan, however, most of their sales are invoiced in U.S. dollars. Business operations conducted in Mexico or China incur their respective labor costs and supply expenses in Mexican pesos and Chinese yuan, as the case may be (see Note 15 for additional information).

Note 17. Related Party Transactions

RFL has an investment of \$15,000 in RFL Communications PLC, (RFL Communications), representing 4.5% of the outstanding equity thereof. RFL Communications is a distributor of teleprotection and communication equipment located in the United Kingdom. It is authorized to sell RFL products in accordance with an international sales agreement. Sales to RFL Communications for 2008, 2007 and 2006 were \$1,187,000, \$1,122,000 and \$767,000, respectively. Accounts receivable due from RFL Communications at December 31, 2008 and December 31, 2007 were \$125,000 and \$167,000, respectively.

As a result of certain services being provided to the Company by Steel Partners, Ltd. (SPL), a company controlled by Warren Lichtenstein, the former Chairman of the Board of the Company (as previously announced, Mr. Lichtenstein had declined to stand for re-election at the Company's annual meeting of shareholders held May 14, 2008), the Compensation Committee has approved fees for services provided by SPL. These fees are the only consideration for the services of Mr. Lichtenstein and the Company's former Vice Chairman and current Chairman, Glen Kassan, and other assistance from SPL. The services provided include management and advisory services with respect to operations, strategic planning, finance and accounting, merger, sale and acquisition activities and other aspects of the businesses of the Company. Fees of \$475,000 were expensed by the Company for SPL's services in 2008. Fees of \$975,000 were expensed by the Company for SPL's services in 2007, which included a bonus payment of \$500,000 in recognition of SPL's contributions to the Company's success during the year. In 2006, the Company expended \$475,000 in management service fees to SPL pursuant to the Management Agreement dated as of January 23, 2002 by and between the Company and SPL. Approximately \$40,000 and \$500,000 were payable at December 31, 2008 and December 31, 2007, respectively.

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	Three Months Ended March 31, 2008	Three Months Ended June 30, 2008	Three Months Ended September 30, 2008	Three Months Ended December 31, 2008
	(in thousands, except per share data)			
Net sales	\$ 45,361	\$ 48,734	\$ 46,242	\$ 45,617
Gross margin	\$ 14,789	\$ 15,037	\$ 14,190	\$ 12,465
Income from continuing operations before income taxes	\$ 2,028	\$ 2,921	\$ 1,275	\$ 803
Net income (loss) ^(a)	\$ 1,134	\$ 1,758	\$ (324)	\$ (234)
Diluted net income (loss) per common share	\$ 0.19	\$ 0.30	\$ (0.05)	\$ (0.04)
^(a) Includes (loss) from discontinued operations, net of tax	\$ (212)	\$ (241)	\$ (1,196) ^(b)	\$ (653)

^(b) The Company recorded an additional loss of approximately \$919,000, net of tax, pertaining to estimated environmental remediation costs related to the Company's Camden site.

	Three Months Ended March 31, 2007	Three Months Ended June 30, 2007	Three Months Ended September 30, 2007	Three Months Ended December 31, 2007
	(in thousands, except per share data)			
Net sales	\$ 48,327	\$ 52,730	\$ 50,652	\$ 49,154

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Gross margin	\$	15,955	\$	17,947	\$	16,232	\$	16,335
Income from continuing operations before income taxes	\$	2,983	\$	4,435	\$	3,747	\$	3,958
Net income ^(a)	\$	1,667	\$	2,818	\$	2,151	\$	1,775
Diluted net income per common share	\$	0.29	\$	0.49	\$	0.36	\$	0.30
^(a) Includes (loss) from discontinued operations, net of tax	\$	(370)	\$	(418)	\$	(316)	\$	(759)

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SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Additions Charged to Other Accounts (in thousands)	Deductions	Balance at End of Period
YEAR ENDED DECEMBER 31, 2008					
Allowance for: Doubtful accounts	\$ 865	\$ (57)	\$ 0	\$ 187	\$ 621
YEAR ENDED DECEMBER 31, 2007					
Allowance for: Doubtful accounts	\$ 830	\$ 81	\$ 1	\$ 46	\$ 865
YEAR ENDED DECEMBER 31, 2006					
Allowance for: Doubtful accounts	\$ 569	\$ 96	\$ 853	\$ 688	\$ 830

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Table of Contents**INDEX TO EXHIBITS**

Exhibit #	Description
2.1	Securities Purchase Agreement by and among SL Industries, Inc., SL Industries Vertrieb GmbH, and DCX-Chol Holding GmbH, DCX-Chol Enterprises, Inc. and Chol Enterprises, Inc. dated as of January 3, 2003. Incorporated by reference to Exhibit 2.1 to the Company's report on Form 8-K filed with the Securities and Exchange Commission on January 17, 2003.
2.2	Agreement and Plan of Merger, dated December 16, 2005, by and among SL Industries, Inc., Lakers Acquisition Corp. and Ault Incorporated. Incorporated by reference to Exhibit 2.1 to the Company's report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2005.
2.3	Stock Purchase Agreement, dated October 31, 2006 by and among SL Industries, Inc., Norbert D. Miller, Revocable Living Trust of Fred A. Lewis and Margaret Lange-Lewis U/A dated January 28, 1993, as Amended and Restated as of October 31, 2001 and the Einhorn Family Foundation. Incorporated by reference to Exhibit 10.1 to the Company's report on Form 8-K/A filed with the Securities and Exchange Commission on December 21, 2006.
3.1	Restated Articles of Incorporation. Incorporated by reference to Exhibit 3.1 to the Company's report on Form 10-K for the fiscal year ended December 31, 2000.
3.2	Restated By-Laws. Incorporated by reference to Exhibit 3.2 to the Company's report on Form 10-K for the fiscal year ended December 31, 2000.
10.1*	Supplemental Compensation Agreement for the Benefit of Byrne Litschgi. Incorporated by reference to Exhibit 10.1 to the Company's report on Form 8-K dated November 9, 1990.
10.2*	1988 Deferred Compensation Agreement with a Certain Officer. Incorporated by reference to Exhibit 10.6 to the Company's report on Form 8-K dated November 9, 1990.
10.3*	1991 Long Term Incentive Plan of SL Industries, Inc., as amended, is incorporated by reference to Appendix to the Company's Proxy Statement for its 1995 Annual Meeting held November 17, 1995, previously filed with the Securities and Exchange Commission.
10.4*	Capital Accumulation Plan. Incorporated by reference to the Company's report on Form 10K/A for the fiscal period ended July 31, 1994.
10.5*	Change-in-Control Agreement, dated May 1, 2001, between the Teal Electronics Corporation and James C. Taylor. Incorporated by reference to Exhibit 10.9 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.
10.6*	Amendment to Change-in-Control Agreement, dated December 22, 2008, to the Change-in-Control Agreement, dated May 1, 2001, between the Teal Electronics Corporation and James C. Taylor (transmitted herewith).
10.7*	Bonus Agreement dated August 5, 2002 between the Company and James C. Taylor. Incorporated by reference to Exhibit 10.10 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.
10.8*	Management Agreement dated as of January 23, 2002 between the Company and Steel Partners, Ltd. Incorporated by reference to Exhibit 10.12 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.

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Exhibit #	Description
10.9	Amended And Restated Revolving Credit Agreement dated as of October 23, 2008, among Bank of America, N.A., as Agent, various financial institutions party hereto from time to time, as Lenders, SL Industries, Inc., as the parent borrower and, SL Delaware, Inc., SL Delaware Holdings, Inc., MTE Corporation, RFL Electronics Inc., SL Montevideo Technology, Inc., Cedar Corporation, Teal Electronics Corporation, MEX Holdings LLC, SL Power Electronics Corporation, SLGC Holdings, Inc., SLW Holdings, Inc., SL Auburn, Inc., and SL Surface Technologies, Inc. as subsidiary borrowers. Incorporated by reference to Exhibit 10.1 to the Company's report on Form 10-Q dated November 10, 2008.
14	Code of Conduct and Ethics. Incorporated by reference to Exhibit 14 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.
21	Subsidiaries of the Company (transmitted herewith).
23	Consent of Independent Registered Public Accounting Firm (transmitted herewith).
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (transmitted herewith).
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (transmitted herewith).
32	Certification by Chief Executive Officer and Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (transmitted herewith).

* Indicates a management contract or compensatory plan or arrangement.