SL INDUSTRIES INC
Form 10-Q
August 03, 2011

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

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2011
OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number 1-4987
SL INDUSTRIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

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

N/A

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

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

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

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

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

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

The number of shares of common stock outstanding as of July 27, 2011 was 4,538,173.

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Item 1. Financial Statements

SL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,613,000	$ 1,374,000
Receivables, net	32,889,000	30,753,000
Inventories, net	24,119,000	22,225,000
Other current assets	3,272,000	1,994,000
Deferred income taxes, net	3,954,000	4,743,000
Total current assets	67,847,000	61,089,000
Property, plant and equipment, net	9,913,000	8,921,000
Deferred income taxes, net	7,189,000	6,984,000
Goodwill	22,746,000	22,756,000
Other intangible assets, net	3,653,000	4,012,000
Other assets and deferred charges, net	1,153,000	1,137,000
Total assets	$ 112,501,000	$ 104,899,000
LIABILITIES		
Current liabilities:		
Debt, current portion	$ 9,000,000	$ 9,800,000
Accounts payable	17,469,000	14,894,000
Accrued income taxes	488,000	1,400,000
Accrued liabilities:		
Payroll and related costs	6,061,000	6,260,000
Other	7,721,000	8,614,000
Total current liabilities	40,739,000	40,968,000
Deferred compensation and supplemental retirement benefits	2,170,000	2,244,000
Other long-term liabilities	13,782,000	14,438,000
Total liabilities	56,691,000	57,650,000
Commitments and contingencies		
SHAREHOLDERS EQUITY		
Preferred stock, no par value; authorized, 6,000,000 shares; none issued	1,393,000	1,393,000

Common stock, $.20 par value; authorized, 25,000,000 shares; issued, 6,963,000 and 6,963,000 shares, respectively		
Capital in excess of par value	24,443,000	24,085,000
Retained earnings	52,248,000	44,627,000
Accumulated other comprehensive income (loss)	15,000	(87,000)
Treasury stock at cost, 2,425,000 and 2,477,000 shares, respectively	(22,289,000)	(22,769,000)
Total shareholders equity	55,810,000	47,249,000
Total liabilities and shareholders equity	$ 112,501,000	$ 104,899,000

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales	$ 56,266,000	$ 47,790,000	$ 108,860,000	$ 89,923,000
Cost and expenses:				
Cost of products sold	37,890,000	32,579,000	72,709,000	60,722,000
Engineering and product development	3,180,000	3,201,000	6,486,000	6,181,000
Selling, general and administrative	8,807,000	7,881,000	17,468,000	15,941,000
Depreciation and amortization	775,000	798,000	1,544,000	1,572,000
Total cost and expenses	50,652,000	44,459,000	98,207,000	84,416,000
Income from operations	5,614,000	3,331,000	10,653,000	5,507,000
Other income (expense):				
Amortization of deferred financing costs	(77,000)	(60,000)	(153,000)	(121,000)
Fire related gain (loss), net	277,000	(70,000)	277,000	(108,000)
Interest income		1,000	1,000	1,000
Interest expense	(56,000)	(9,000)	(138,000)	(42,000)
Income from continuing operations before income taxes	5,758,000	3,193,000	10,640,000	5,237,000
Income tax provision	2,142,000	1,130,000	3,422,000	1,898,000
Income from continuing operations	3,616,000	2,063,000	7,218,000	3,339,000
Income (loss) from discontinued operations, net of tax	593,000	(1,049,000)	403,000	(1,199,000)
Net income	$ 4,209,000	$ 1,014,000	$ 7,621,000	$ 2,140,000
Basic net income (loss) per common share				
Income from continuing operations	$ 0.80	$ 0.34	$ 1.60	$ 0.55
Income (loss) from discontinued operations, net of tax	0.13	(0.17)	0.09	(0.20)
Net income	$ 0.93	$ 0.17	$ 1.69	$ 0.35
Diluted net income (loss) per common share				
Income from continuing operations	$ 0.79	$ 0.34	$ 1.58	$ 0.55
Income (loss) from discontinued operations, net of tax	0.13	(0.17)	0.09	(0.20)
Net income	$ 0.92	$ 0.17	$ 1.67	$ 0.35

Shares used in computing basic net income (loss) per common share	4,523,000	6,027,000	4,507,000	6,076,000
Shares used in computing diluted net income (loss) per common share	4,576,000	6,066,000	4,558,000	6,111,000

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	$ 4,209,000	$ 1,014,000	$ 7,621,000	$ 2,140,000
Other comprehensive income, net of tax:				
Foreign currency translation	93,000	30,000	102,000	(9,000)
Comprehensive income	$ 4,302,000	$ 1,044,000	$ 7,723,000	$ 2,131,000

See accompanying notes to consolidated financial statements.

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

	2011	2010
OPERATING ACTIVITIES:		
Net income	$ 7,621,000	$ 2,140,000
Adjustment for (income) loss from discontinued operations	(403,000)	1,199,000
Income from continuing operations	7,218,000	3,339,000
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation	1,007,000	949,000
Amortization	537,000	623,000
Amortization of deferred financing costs	153,000	121,000
Stock-based compensation	173,000	180,000
Tax benefit from exercise of stock options	(200,000)	(147,000)
Non-cash compensation expense		157,000
Fire related (gain) loss	(277,000)	108,000
(Recoveries of) provisions for losses on accounts receivable	(13,000)	64,000
Deferred compensation and supplemental retirement benefits	199,000	196,000
Deferred compensation and supplemental retirement benefit payments	(270,000)	(269,000)
Deferred income taxes	584,000	46,000
Loss on sale of equipment	12,000	2,000
Changes in operating assets and liabilities:		
Accounts receivable	(2,136,000)	(7,705,000)
Inventories	(1,894,000)	(1,405,000)
Other current assets	(1,555,000)	(1,550,000)
Other assets	(116,000)	6,000
Accounts payable	2,575,000	2,568,000
Other accrued liabilities	(703,000)	1,024,000
Accrued income taxes	155,000	803,000
Net cash provided by (used in) operating activities from continuing operations	5,449,000	(890,000)
Net cash (used in) operating activities from discontinued operations	(823,000)	(589,000)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	4,626,000	(1,479,000)
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,934,000)	(635,000)
Purchases of other assets	(301,000)	(152,000)
NET CASH USED IN INVESTING ACTIVITIES	(2,235,000)	(787,000)
FINANCING ACTIVITIES:		

Proceeds from Revolving Credit Facility	10,300,000	
Payments of Revolving Credit Facility	(11,100,000)	
Payments of deferred financing costs	(1,000)	
Treasury stock purchases		(1,993,000)
Treasury stock sales		337,000
Proceeds from stock options exercised	465,000	429,000
Tax benefit from exercise of stock options	200,000	147,000
NET CASH USED IN FINANCING ACTIVITIES	(136,000)	(1,080,000)
Effect of exchange rate changes on cash	(16,000)	58,000
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,239,000	(3,288,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,374,000	9,967,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,613,000	$ 6,679,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 140,000	$ 42,000
Income taxes	$ 3,356,000	$ 845,000

See accompanying notes to consolidated financial statements.

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

1. Basis Of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. These financial statements should be read in conjunction with the Company s audited financial statements and notes thereon included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Certain reclassifications have been made to the prior period Consolidated Statement of Cash Flows to conform to the current year presentation.

2. Receivables

Receivables consist of the following:

	June 30, 2011	December 31, 2010
	(in thousands)	
Trade receivables	$ 32,681	$ 30,728
Less: allowance for doubtful accounts	(572)	(585)
	32,109	30,143
Recoverable income taxes	50	68
Other	730	542
	$ 32,889	$ 30,753

3. Inventories

Inventories consist of the following:

	June 30, 2011	December 31, 2010
	(in thousands)	
Raw materials	$ 16,955	$ 15,636
Work in process	4,784	4,137
Finished goods	4,347	4,814
	26,086	24,587
Less: allowances	(1,967)	(2,362)
	$ 24,119	$ 22,225

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4. Income Per Share

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands, except per share amounts)			
Net income available to common shareholders:				
Net income available to common shareholders from continuing operations	$ 3,616	$ 2,063	$ 7,218	$ 3,339
Shares:				
Basic weighted average number of common shares outstanding	4,523	6,027	4,507	6,076
Common shares assumed upon exercise of stock options	53	39	51	35
Diluted weighted average number of common shares outstanding	4,576	6,066	4,558	6,111
Basic net income (loss) per common share:				
Income from continuing operations	$ 0.80	$ 0.34	$ 1.60	$ 0.55
Income (loss) from discontinued operations (net of tax)	0.13	(0.17)	0.09	(0.20)
Net income	$ 0.93	$ 0.17	$ 1.69	$ 0.35
Diluted net income (loss) per common share:				
Income from continuing operations	$ 0.79	$ 0.34	$ 1.58	$ 0.55
Income (loss) from discontinued operations (net of tax)	0.13	(0.17)	0.09	(0.20)
Net income	$ 0.92	$ 0.17	$ 1.67	$ 0.35

No stock options were excluded from the dilutive computation for the six-months ended June 30, 2011, since all option exercise prices were less than the average market price of the Company s common stock. For the six-months ended June 30, 2010, approximately 328,000 stock options were excluded from the dilutive computation because the option exercise prices were greater than the average market price of the Company s common stock.

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5. Stock-Based Compensation

At June 30, 2011, the Company had stock-based employee compensation plans as described below. Stock-based compensation cost (included in selling, general, and administrative expenses) for the three and six months ended June 30, 2011 was $99,000 and $173,000 ($61,000 and $106,000, net of tax), respectively. For the three and six months ended June 30, 2010, the total compensation expense was $115,000 and $180,000 ($70,000 and $110,000, net of tax), respectively. The associated actual tax benefits realized for the tax deduction from option exercises of share-based payment units equaled $200,000 and $147,000 for the six months ended June 30, 2011 and June 30, 2010, respectively.

The Company maintains two shareholder approved stock option plans that have expired: the Non-Employee Director Nonqualified Stock Option Plan (the Director Plan) and the Long-Term Incentive Plan (the 1991 Incentive Plan). Stock options issued under each plan remain outstanding. As of June 30, 2011, 13,000 options were outstanding under the Director Plan and 5,000 options were outstanding under the 1991 Incentive Plan.

On May 14, 2008, the shareholders approved the 2008 Incentive Stock Plan (the 2008 Plan). The 2008 Plan was proposed to create an additional incentive to retain directors, key employees and advisors of the Company. Prior to the amendment of the 2008 Plan on June 8, 2011, as described below, up to 315,000 shares of the Company s common stock were subject to the 2008 Plan. Options granted under the 2008 Plan are required to stipulate an exercise price per share of not less than the fair market value of the Company s common stock on the business day immediately prior to the date of the grant. Options granted under the 2008 Plan are exercisable no later than ten years after the grant date. During 2008, the Company granted 155,000 incentive options to select executives and a key employee under the 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. During 2010, 135,000 of these options were cancelled.

During 2010, the Company granted 160,000 stock options to select executives and key employees under the 2008 Plan. All stock options that were issued vest over a three year period except for one grant of 15,000 shares, in which 7,500 shares vested on the date of grant and the remainder vests on the first anniversary of the grant date. Compensation expense is recognized over the vesting period of the options. During the first quarter of 2011, 5,000 of these options were forfeited in connection with the departure of a certain executive in February 2011.

On June 8, 2011, the shareholders approved amendments to the Company s 2008 Plan to (a) increase the number of shares of the Company s common stock subject to the 2008 Plan from 315,000 shares to 450,000 shares, and (b) require shareholder approval prior to the reduction of the exercise price of any outstanding options or stock appreciation rights, any repricing through cancellations and re-grants of new options or stock appreciation rights, or any cancellation of outstanding options or stock appreciation rights with an exercise price above the current stock price in exchange for cash or other securities.

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No stock options were granted to select executives and key employees under the 2008 Plan during the six months ended June 30, 2011. There were 115,000 options granted to select executives and key employees under the 2008 Plan during the six months ended June 30, 2010. As of June 30, 2011, 165,000 options were outstanding under the 2008 Plan.

During the second quarter of 2011, the Company implemented a Long-Term Incentive Plan (the 2011 LTIP) pursuant to which the Company awarded restricted stock units (RSUs) to eligible executives. Under the terms of the 2011 LTIP, the number of RSUs that may vest, if any, will be based on, among other things, the Company achieving certain sales and return on invested capital (ROIC) targets during the January 2011 to December 2013 performance period. Earned RSUs, if any, cliff vest at the end of fiscal 2013 (100% of earned RSUs vest at December 31, 2013). The final value of these RSUs will be determined by the number of shares earned. The value of these RSUs is charged to compensation expense on a straight-line basis over the three year vesting period with periodic adjustments to account for changes in anticipated award amounts. The weighted average price for these RSUs was $23.00 per share based on the grant date of June 9, 2011. During the first six months of 2011, $16,000 was charged to compensation expense. As of June 30, 2011, total unamortized compensation expense for this grant was $566,000. As of June 30, 2011, the maximum number of achievable RSUs under the 2011 LTIP is 40,582 RSUs. These RSUs reduce the number of shares available to grant under the 2008 Plan.

Stock Options

Option activity under the principal option plans as of June 30, 2011 and changes during the six months ended June 30, 2011 were as follows:

	Outstanding Options (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2010	253	$ 11.34	4.93	$ 1,554
Granted				
Exercised	(52)	8.92		
Forfeited	(5)	12.80		
Expired	(13)	12.18		
Outstanding as of June 30, 2011	183	$ 11.93	5.40	$ 2,160
Exercisable as of June 30, 2011	72	$ 10.57	4.32	$ 950

During the six-month period ended June 30, 2011, options to purchase approximately 52,000 shares of common stock with an aggregate exercise price of $465,000 were exercised by option holders. During the six-month period ended June 30, 2010, options to purchase approximately 67,000 shares of common stock with an aggregate exercise price of $429,000 were exercised by option holders.

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The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company s closing stock price on the last trading day of the second quarter of fiscal 2011 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2011. This amount changes based on the fair market value of the Company s stock. The total intrinsic value of options exercised for the six months ended June 30, 2011 was $647,000. As of June 30, 2011, $690,000 of total unrecognized compensation cost related to stock options, which excludes RSUs previously mentioned, is expected to be recognized over a weighted-average period of 2.1 years.

The fair value of share-based payment units was estimated using the Black Scholes option pricing model. The table below presents the weighted-average expected life in years. The expected life computation is based on historical exercise patterns and post-vesting termination behavior. Volatility is determined using changes in historical stock prices. The interest rate for periods within the expected life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

The following assumptions and weighted-average fair value were as follows:

	Six Months Ended June 30, 2010
Weighted average fair value of grants	$ 6.42
Valuation assumptions:	
Expected dividend yield	0.00%
Expected volatility	68.77
Expected life (in years)	4.38
Risk-free interest rate	1.82%

No stock options were granted during the first six months ended June 30, 2011.

6. Income Tax

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

For the six-months ended June 30, 2011 and June 30, 2010, the effective income tax rate from continuing operations was 32% and 36%, respectively. Effective January 1, 2011, the Company s statutory federal income tax rate increased from 34% to 35%. The impact of the rate change on deferred taxes decreased income tax expense and the effective income tax rate.

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The Company has recorded gross unrecognized tax benefits, excluding interest and penalties, as of June 30, 2011 and December 31, 2010 of $1,845,000 and $2,358,000, respectively. Tax benefits are recorded pursuant to the provisions of ASC 740 Income Taxes. If such unrecognized tax benefits are ultimately recorded in any period, the Company s effective tax rate would be reduced accordingly for such period.

The Company has been examined by the Internal Revenue Service (the IRS) for periods up to and including the calendar year 2004. It is reasonably possible that the Company s gross unrecognized tax benefits balance may change within the next twelve months due to the expiration of the statutes of limitation of the federal government and various state governments by a range of zero to $439,000. The Company records such unrecognized tax benefits upon the expiration of the applicable statute of limitations. As of June 30, 2011, the Company has a liability for unrecognized benefits of $1,204,000 and $641,000 for federal and state taxes, respectively. Such benefits relate primarily to expenses incurred in those jurisdictions.

The Company classifies interest and penalties related to unrecognized tax benefits as income tax expense. At June 30, 2011, the Company has accrued approximately $158,000 for the payment of interest and penalties.

During the six-months ended June 30, 2011, the Company recorded additional benefits from research and development tax credits of $157,000. As of June 30, 2011, the Company s gross research and development tax credit carryforwards totaled approximately $1,332,000. Of these credits, approximately $628,000 can be carried forward for 15 years and will expire between 2013 and 2026, and approximately $704,000 can be carried forward indefinitely. As of June 30, 2011, the Company s gross foreign tax credits totaled approximately $539,000. These credits can be carried forward for ten years and will expire between 2020 and 2021.

During the second quarter of 2011 the Company reached a settlement with a foreign tax authority which was recorded as part of discontinued operations. The settlement was associated with the Company s Elektro-Metall Export GmbH subsidiary, which was sold in January 2003. As a result, during the second quarter of 2011, the Company recognized income of $787,000 ($619,000 tax and $168,000 interest) from a previously unrecognized tax position related to the settlement.

7. Recently Adopted and Issued Accounting Pronouncements

In April 2010, the Financial Accounting Standard Board (FASB) issued ASU No. 2010-13 Compensation Stock Compensation Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades. ASU No. 2010-13 provides amendments to ASC 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in ASU No. 2010-13 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The adoption of the provisions of ASU No. 2010-13 did not have an impact on the Company s consolidated financial statements.

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In December 2010, the FASB issued ASU No. 2010-28 Intangibles Goodwill and Other. ASC 350 is amended to clarify the requirement to test for impairment of goodwill. ASC 350 has required that goodwill be tested for impairment if the carrying amount of a reporting unit exceeds its fair value. Under ASU No. 2010-28, when the carrying amount of a reporting unit is zero or negative an entity must assume that it is more likely than not that a goodwill impairment exists, perform an additional test to determine whether goodwill has been impaired and calculate the amount of that impairment. The modifications to ASC 350 resulting from the issuance of ASU No. 2010-28 are effective for fiscal years beginning after December 15, 2010 and interim periods within those years. The adoption of the provisions of ASU No. 2010-28 did not have an impact on the Company s consolidated financial statements.

In December 2010, the FASB issued ASU No. 2010-29 Business Combinations Disclosure of Supplementary Pro Forma Information for Business Combinations. This standard update clarifies that, when presenting comparative financial statements, SEC registrants should disclose revenue and earnings of the combined entity as though the current period business combinations had occurred as of the beginning of the comparable prior annual reporting period only. The update also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU No. 2010-29 is effective prospectively for material (either on an individual or aggregate basis) business combinations entered into in fiscal years beginning on or after December 15, 2010 with early adoption permitted. The adoption of the provisions of ASU No. 2010-29 did not have an impact on the Company s consolidated financial statements but will affect the Company s pro forma disclosures if a material business combination is consummated.

In January 2011, the FASB issued ASU No. 2011-01 Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20. This standard update defers the effective date of new disclosure requirements for troubled debt restructurings prescribed by ASU No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU No. 2011-01 will be effective for interim and annual periods ending after June 15, 2011. The Company believes that adopting the provisions of ASU No. 2011-01 will not have an impact on its consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-02 A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. The amendments to Topic 310 (Receivables) clarify the guidance on a creditor s evaluation of whether a debtor is experiencing financial difficulties and when a loan modification or restructuring is considered a troubled debt restructuring. In determining whether a loan modification represents a troubled debt restructuring, an entity should consider whether the debtor is experiencing financial difficulty and the lender has granted a concession to the borrower. ASU No. 2011-02 is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of the provisions of ASU No. 2011-02 did not have an impact on the Company s consolidated financial statements.

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In May 2011, the FASB issued ASU 2011-04 Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and International Financial Reporting Standards (IFRS), and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 is effective for the first interim or annual period beginning after December 15, 2011. The Company believes that adopting the provision of ASU 2011-04 will not have a material impact on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 is effective for the first interim or annual period beginning after December 15, 2011. The Company believes that adopting the provision of ASU 2011-05 will not have a material impact on its consolidated financial statements.

8. Goodwill And Intangible Assets

Goodwill and intangible assets consist of the following:

	June 30, 2011			December 31, 2010		
	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
	(in thousands)					
Goodwill	$ 22,746	$	$ 22,746	$ 22,756	$	$ 22,756
Other intangible assets:						
Customer relationships	3,700	2,333	1,367	3,700	2,079	1,621
Patents	1,250	1,133	117	1,245	1,107	138
Trademarks	1,672		1,672	1,672		1,672
Developed technology	1,700	1,395	305	1,700	1,243	457
Licensing fees [1]	450	258	192	355	231	124
Total other intangible assets	8,772	5,119	3,653	8,672	4,660	4,012
	$ 31,518	$ 5,119	$ 26,399	$ 31,428	$ 4,660	$ 26,768

[1] During January 2011, the Company s RFL division purchased licensing fees for $95,000. The estimated useful life of the asset is five years.

In accordance with ASC 350 Intangibles Goodwill and Other, goodwill and other indefinite-lived intangible assets are not amortized, but are tested for impairment. Such impairment testing is undertaken annually, or more frequently upon the occurrence of some indication that an impairment has taken place. The Company conducted an annual impairment test as of December 31, 2010.

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A two-step process is utilized to determine if goodwill has been impaired. In the first step, the fair value of each reporting unit is compared to the net asset value recorded for such unit. If the fair value exceeds the net asset value, the goodwill of the reporting unit is not adjusted. However, if the recorded net asset value exceeds the fair value, the Company performs a second step to measure the amount of impairment loss, if any. In the second step, the implied fair value of the reporting unit s goodwill is compared with the goodwill recorded for such unit. If the recorded amount of goodwill exceeds the implied fair value, an impairment loss is recognized in the amount of the excess.

For the testing conducted as of December 31, 2010, the Company concluded that no impairment charge was warranted. Going forward there can be no assurance that economic conditions or other events may not have a negative material impact on the long-term business prospects of any of the Company s reporting units. In such case, the Company may need to record an impairment loss, as stated above. The next annual impairment test will be conducted as of December 31, 2011, unless management identifies a triggering event in the interim.

Management has not identified any triggering events, as defined by ASC 350, during 2011. Accordingly, no interim impairment test has been performed.

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 a range from five to twenty years; developed technology is amortized over approximately five years and six years; and licensing fees are amortized over approximately five years and ten years. Trademarks are not amortized.

Amortization expense for intangible assets for each of the three-month periods ended June 30, 2011 and June 30, 2010 was $229,000 and $226,000, respectively. Amortization expense for intangible assets for each of the six-month periods ended June 30, 2011 and June 30, 2010 was $459,000 and $451,000, respectively. Amortization expense for intangible assets subject to amortization in each of the next five fiscal years is estimated to be: $884,000 in 2011, $734,000 in 2012, $405,000 in 2013, $366,000 in 2014 and $23,000 in 2015.

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

	Balance December 31, 2010	Foreign Exchange	Balance June 30, 2011
		(in thousands)	
SL Power Electronics Corp.	$ 4,263	$ (10)	$ 4,253
High Power Group:			
MTE Corporation	8,189		8,189
Teal Electronics Corp.	5,055		5,055
RFL Electronics Inc.	5,249		5,249
Total	$ 22,756	$ (10)	$ 22,746

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9. Debt

Debt consists of the following:

	June 30, 2011	December 31, 2010
	(in thousands)	
2008 Credit Facility:		
$40 million variable interest rate revolving credit facility maturing in 2011	$ 9,000	$ 9,800
Total	9,000	9,800
Less: current portion	(9,000)	(9,800)
Total long-term debt	$	$

On October 23, 2008, the Company and certain of its subsidiaries entered into an Amended and Restated Revolving Credit Agreement (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 was reset and amended on August 12, 2009, November 19, 2010, March 28, 2011, and July 20, 2011 (see Note 18 for additional information).

The 2008 Credit Facility, as amended, provides for maximum borrowings of up to $40,000,000 and includes a standby and commercial letter of credit sub-limit of $10,000,000. The 2008 Credit Facility was 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 an alternative 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 (as defined), minimum levels of interest coverage and net worth and limitations on capital expenditures, as defined. Availability under the 2008 Credit Facility is based upon the Company s trailing twelve month EBITDA, as defined.

On November 19, 2010, the Company entered into a Second Amendment to the Credit Agreement with Bank of America, as administrative agent and lender, and a syndicate of other lenders party thereto (the Second Amendment), further amending the 2008 Credit Facility among the Company, subsidiaries of the Company party thereto, Bank of America, as administrative agent and lender, and a syndicate of other lenders party thereto.

The Second Amendment, among other things, (a) amends certain terms of the 2008 Credit Facility in order to permit the Company to issue one or more dividends and/or purchase its registered capital stock then issued and outstanding in an amount not in excess, in the aggregate, of Thirteen Million Dollars ($13,000,000) prior to the maturity date of the 2008 Credit Facility; (b) removes the Ten Million Dollar ($10,000,000) maximum for environmental liabilities; and (c) amends the definitions of EBIT and EBITDA to include the add-back of non-cash charges with respect to liabilities arising under Environmental Laws and to reduce EBIT and EBITDA by the amount of the related cash payments related thereto. In consideration for these amendments, the Company agreed to pay the lenders $50,000, which was remitted in the fourth quarter of 2010 and is being amortized over the remaining life of the 2008 Credit Facility.

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On March 28, 2011, the Company entered into a Third Amendment to the Credit Agreement with Bank of America, as administrative agent and lender, and a syndicate of other lenders party thereto (the Third Amendment). The Third Amendment permits the Company to extend the maturity date of the letters of credit issued under the 2008 Credit Facility. The letters of credit issued under 2008 Credit Facility are now scheduled to expire on September 25, 2012.

As of the date hereof, June 30, 2011, and December 31, 2010, the Company had a balance of $9,000,000 and $9,800,000, respectively, under the 2008 Credit Facility. At June 30, 2011, the Company had a total availability thereunder of $30,527,000.

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

10. Accrued Liabilities Other

Accrued liabilities other consist of the following:

	June 30, 2011	December 31, 2010
	(in thousands)	
Taxes (other than income) and insurance	$ 387	$ 556
Commissions	628	707
Litigation and legal fees	173	151
Other professional fees	535	659
Environmental	2,816	3,132
Warranty	1,399	1,553
Deferred revenue	138	78
Other	1,645	1,778
	$ 7,721	$ 8,614

A liability is established for estimated future warranty and service claims that relate to current and prior period sales. The Company estimates warranty costs based on historical claim experience and other factors including evaluating specific product warranty issues.

Included in the environmental accrual are estimates for all known costs believed to be probable and reasonably estimable for sites that the Company currently operates or operated at one time (see Note 12 for additional information).

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

	Six Months Ended June 30, 2011 (in thousands)
Liability, beginning of year	$ 1,553
Expense for new warranties issued	323
Warranty claims	(477)
Liability, end of period	$ 1,399

11. Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	June 30, 2011	December 31, 2010
	(in thousands)	
Environmental	$ 11,779	$ 11,779
Unrecognized tax benefits, interest and penalties	2,003	2,659
	$ 13,782	$ 14,438

12. Commitments And Contingencies

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

Litigation: The Company is and has been the subject of administrative actions that arise from its ownership of SL Surface Technologies, Inc. (SurfTech), a wholly-owned subsidiary, the assets of which were sold in November 2003. SurfTech formerly operated chrome-plating facilities in Pennsauken Township, New Jersey (the Pennsauken Site) and Camden, New Jersey (the Camden Site).

In 2006 the United States Environmental Protection Agency (the EPA) named the Company as a potential responsible party (a PRP) in connection with the remediation of the Puchack Well Field, which has been designated as a Superfund Site. The EPA has alleged that hazardous substances generated at the Company s Pennsauken Site contaminated the Puchack Well Field. As a PRP, the Company is potentially liable, jointly and severally, for the investigation and remediation of the Puchack Well Field Superfund Site under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA).

The EPA is remediating the Puchack Well Field Superfund Site in two separate operable units. The first operable unit consists of an area of chromium groundwater contamination that exceeds the selected cleanup standard (OU-1). The second operable unit (OU-2) pertains to sites that are allegedly the sources of contamination for the first operable unit. The EPA advised the Company that OU-2 includes soil contamination in the immediate vicinity of the Company s Pennsauken Site.

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In September 2006, the EPA issued a Record of Decision that selected a remedy for OU-1 to address the groundwater contamination. The estimated cost of the EPA selected remedy for OU-1, to be conducted over a five to ten year timeframe, was approximately $17,600,000, as stated in the Record of Decision. In an October 2010 meeting with the EPA, the EPA informed the Company that the OU-1 remedy would be implemented in two phases. 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 Well Field 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 for OU-1, in November 2006, the EPA sent another letter to the Company encouraging the Company to either perform or finance the remedial actions for OU-1 identified in the EPA s Record of Decision. In addition to paying for the OU-1 remediation, the EPA has sought payment of the past costs that the EPA has allegedly incurred. The Company responded to the EPA that it was 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.

In subsequent meetings and discussions with the U.S. Department of Justice (DOJ) and the EPA, the Company was informed that estimated OU-1 remediation costs are now in the range of $30,000,000 to $40,000,000 with additional past costs incurred by the EPA related to OU-1 of approximately $17,000,000. These costs are estimates provided to the Company by the EPA and DOJ as of year-end December 31, 2010. The Company has asked the DOJ/EPA for, but has not been furnished, support for these estimates and costs.

Notwithstanding the assertions of the DOJ and the EPA, based on discussions with its attorneys and environmental engineering consultants, the Company believes the EPA s analytical effort is far from complete for OU-1. Further, technical data has not established that offsite migration of hazardous substances from the Company s Pennsauken Site (OU-2) caused the contamination of OU-1 of the Puchack Well Field Superfund Site. In any event, the Company believes the evidence establishes that hazardous substances from the Company s Pennsauken Site could have, at most, constituted only a small portion of the total contamination delineated in the vicinity of OU-1 of the Puchack Well Field Superfund Site. Based on the foregoing, the Company believes that it has significant defenses against the EPA claims and that other PRPs should be identified and brought into the legal proceedings by the DOJ to support the ultimate cost of remediation.

In June 2011, the EPA announced a proposed plan for cleaning up the soil at OU-2. The remedy proposed by the EPA is Geochemical Fixation. This remedy involves applying a chemical reductant to the contaminated soil to reduce hexavalent chromium by converting it to immobilized trivalent chromium. The EPA s estimated cost for this remedy is $20,700,000 over seven years. The public comment period for the proposed plan expired on July 27, 2011. On behalf of the Company, the Company s environmental consultants provided comments to the EPA plan on July 22, 2011. The comments included the belief that: (a) there are other PRPs responsible for chromium ground water contamination, (b) building demolition for an estimated cost of $2,300,000 is not necessary for this remedy, (c) the extent and depth of the hexavalent chromium exceeds cleanup criteria, (d) the estimate for oversight costs are excessive, and (e) that significant testing be performed prior to implementing the Geochemical Fixation remedy to ensure that the remedy will satisfy all requirements with respect to ground water quality. The Company understands that the EPA expects to issue a Record of Decision (ROD) for OU-2 in the third or fourth quarter of 2011 which will outline the remedy. The Company intends to have its environmental consultants play an active role in the remediation design after the ROD is issued.

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The Company is currently in settlement discussions with the EPA and the DOJ regarding the remediation and past costs for both OU-1 and OU-2. This settlement may, among other things, consist of a limited ability to pay component, which will be provided by the EPA and the DOJ and will be negotiated by the Company. While the EPA and the DOJ are viewing the OU-1 and OU-2 costs in a single ability to pay analysis, the Company is considering treating OU-1 and OU-2 as two separate and distinct items. Based on the current available information, the Company has estimated a total liability for OU-1 and OU-2 combined of $11,776,000, all of which was recorded in prior years. The Company s estimate of its OU-1 liability is based upon the government s OU-1 Record of Decision, the government s estimates of the costs, and the Company s estimated portion of the liability based upon data from our environmental engineering consultants. The estimated OU-2 liability is based upon the EPA s proposed plan for remediation, and data from our environmental engineering consultants. The above liability is included in the total environmental accrual.

It is management s opinion taking into account the information available to the Company as well as the significant defenses against the EPA claims and other PRPs potential responsibility that the impact of litigation and environmental administrative actions and related liabilities brought against the Company and its operations should 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 relative to the current reserves. 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.

Other

In the ordinary course of its business the Company is subject to other loss contingencies pursuant to foreign and domestic 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, any such other loss contingencies are not expected to have a material adverse effect on the financial condition or results of operations of the Company.

Environmental Matters: Loss contingencies include potential obligations to investigate and eliminate or mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as Superfund sites and other facilities, whether or not they are currently in operation. The Company is currently participating in environmental assessments and cleanups at a number of sites and 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 and costs that can be reasonably estimated in the amount of $14,595,000, of which $11,779,000 is included as other long-term liabilities as of June 30, 2011. However, it is the nature of environmental contingencies that other circumstances might arise, the costs of which are indeterminable at this time due to such factors as changing government regulations and stricter standards, the unknown magnitude of cleanup costs, the unknown timing and extent of the remedial actions that may be required, the determination of the Company s liability in proportion to other responsible parties, the divisibility of costs, and the extent, if any, to which such costs are recoverable from other parties. These other circumstances could result in additional expenses or judgments, or offsets thereto. The adverse resolution of any one or more of these other circumstances could have a material adverse effect on the business, operating results, financial condition or cash flows of the Company. Most of the Company s environmental costs relate to discontinued operations and such costs have been recorded in discontinued operations, net of tax.

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

With respect to the Camden Site, the Company has reported soil contamination and a groundwater contamination plume emanating from the site. Delineation of the soil and groundwater contamination is substantially complete. In the third quarter of 2009, pursuant to an Interim Response Action (IRA) Work plan approved by the New Jersey Department of Environmental Protection (NJDEP), the Company completed building demolition and excavated and disposed of some of the contaminated soil underlying the building s foundation. Treatability studies for in-situ remediation of the remaining unsaturated contaminated soil were conducted in 2009. Based upon the treatability study results, our environmental consultants prepared an IRA Work plan Addendum (IRAWA) to implement a Phase I Pilot Study (PIPS), which involved injecting neutralizing chemicals into the saturated soil. The NJDEP approved the IRAWA, and the PIPS were implemented in November 2010. These injections have now been completed. As required by the IRAWA, our consultants have collected post-injection data for assessment of the overall success of the PIPS. Our consultants are now in the process of assessing whether the PIPS should be implemented as a full scale soil remedy. Also, the Company s environmental consultants finalized an IRA Work plan Addendum II to implement a Phase II Pilot Study to treat on-site contaminated groundwater. This plan was submitted to the NJDEP in May 2011. It proposed multiple sub-surface injections of a food-grade product, into the groundwater at the down gradient property boundary, to create a bio-barrier. The Phase II Pilot Study would assess the ability to treat contaminated groundwater as it moves through the bio-barrier. This plan also required the collection of groundwater samples to assess the performance of the Phase II Pilot Study. To date, the Company s consultants have not received any comments from NJDEP regarding the IRA Work plan Addendum II and permit applications necessary to implement the Phase II Pilot Study. Implementation of the Phase II Pilot Study is scheduled to commence in December 2011, depending upon approval of the plan and related permits from the NJDEP. At June 30, 2011, the Company had an accrual of $1,942,000 to remediate the Camden Site. Of this amount, the Company anticipates expenditures of approximately $ 755,000 for the remainder of 2011.

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The Company has reported soil and groundwater contamination at the facility of SL-MTI located on its property in Montevideo, Minnesota. An analysis of the contamination has been completed and a remediation plan has been implemented at the site pursuant to the remedial action plan approved by the Minnesota Pollution Control Agency. The remaining steps under this plan are the monitoring of samples. Based on the current information, the Company believes it will incur remediation costs at this site of approximately $44,000, which has been accrued for at June 30, 2011. These costs are recorded as a component of continuing operations.

As of June 30, 2011 and December 31, 2010, environmental accruals of $14,595,000 and $14,911,000, respectively, have been recorded by the Company in accrued liabilities other and in other long-term liabilities, as appropriate (see Notes 10 and 11).

13. Segment Information

The Company currently operates under four business segments: SL Power Electronics Corp. (SLPE), the High Power Group, SL Montevideo Technology, Inc. (SL-MTI) and RFL Electronics Inc. (RFL). Teal Electronics Corp. (Teal and MTE Corporation (MTE) are combined into one business segment, which is reported as the High Power Group. 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 ASC 280 Segment Reporting. Business units are also combined if they have similar characteristics in each of the following areas:

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

SLPE 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 original equipment manufacturers (OEMs) of medical, wireless and wire line communications infrastructure, computer peripherals, military, 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 certain legacy costs. The accounting policies for the business units are the same as those described in the summary of significant accounting policies. For additional information, see Note 1 of the Notes to the Consolidated Financial Statements included in Part IV of the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

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

The unaudited comparative results for the three-month periods and six-month periods ended June 30, 2011 and June 30, 2010 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands)			
Net sales				
Power Electronics Group:				
SLPE	$ 22,581	$ 21,100	$ 44,306	$ 37,433
High Power Group	18,151	13,225	34,886	26,335
Total	40,732	34,325	79,192	63,768
SL-MTI	9,310	7,859	18,418	14,869
RFL	6,224	5,606	11,250	11,286
Consolidated	$ 56,266	$ 47,790	$ 108,860	$ 89,923

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands)			
Income (loss) from operations				
Power Electronics Group:				
SLPE	$ 2,055	$ 1,557	$ 4,370	$ 2,374
High Power Group	2,393	1,135	4,498	2,243
Total	4,448	2,692	8,868	4,617
SL-MTI	1,641	1,232	3,251	2,030
RFL	895	776	1,333	1,717
Other	(1,370)	(1,369)	(2,799)	(2,857)
Consolidated	$ 5,614	$ 3,331	$ 10,653	$ 5,507

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Total assets as of June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
	(in thousands)	
Total assets		
Power Electronics Group:		
SLPE	$ 40,460	$ 37,155
High Power Group	33,471	31,539
Total	73,931	68,694
SL-MTI	12,091	11,262
RFL	14,118	14,525
Other	12,361	10,418
Consolidated	$ 112,501	$ 104,899

Goodwill and intangible assets, net, as of June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
	(in thousands)	
Goodwill and intangible assets, net		
Power Electronics Group:		
SLPE	$ 4,882	$ 5,067
High Power Group	16,076	16,328
Total	20,958	21,395
SL-MTI		
RFL	5,441	5,373
Consolidated	$ 26,399	$ 26,768

14. Retirement Plans And Deferred Compensation

During the six-month periods ended June 30, 2011 and June 30, 2010, the Company maintained a defined contribution pension plan covering all full-time, U.S. employees of SLPE, Teal, MTE, SL-MTI, 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. Costs incurred under these plans amounted to $303,000 and $691,000 during the three and six-month periods ended June 30, 2011. Costs incurred under these plans amounted to $340,000 and $624,000 during the three and six-month periods ended June 30, 2010.

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 expense in connection with these agreements amounted to $97,000 and $193,000 during the three and six-month periods ended June 30, 2011. The amount charged to expense in connection with these agreements amounted to $95,000 and $189,000 during the three and six-month periods ended June 30, 2010.

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15. Fire Related Gain (Loss) And Insurance Recovery

On March 24, 2010, the Company sustained fire damage at its then leased manufacturing facility in Mexicali, Mexico. This facility manufactured products for both SLPE and MTE. The fire was contained to an area that manufactured MTE products. The Company was fully insured for the replacement of the assets damaged in the fire and for the loss of profits due to the business interruption and changed conditions caused by the fire. Details of the net fire related gain (loss) are as follows:

	Six Months Ended June 30,	
	2011	2010
	(in thousands)	
Fire related loss	$	$ (663)
Insurance recovery	277	555
Net fire related gain (loss)	$ 277	$ (108)

The Company s fire related loss includes the destruction of property and equipment, damaged inventory, cleanup costs and increased operating expenses incurred as a result of the fire. The Company s insurance recovery represents the replacement cost of property and equipment damaged as a result of the fire, the fair market value of inventory damaged in the fire, cleanup costs and increased business expenses, net of applicable adjustments and deductibles. As of December 31, 2010, the Company s estimated insurance recoveries equaled $533,000.

During June 2011, the Company settled the fire damage claims with its insurance carriers for $810,000 and as a result the Company recorded a gain related to the fire of $277,000. As of June 30, 2011, the Company s receivable related to the fire damages equaled $610,000 since the Company received a $200,000 advance from its carrier related to the fire loss in July 2010. The Company received the outstanding $610,000 from its insurance carriers on July 15, 2011. No additional material gains, losses or recoveries are expected to be recognized in subsequent periods related to the fire loss.

16. Discontinued Operations

For the six months ended June 30, 2011, discontinued operations before income taxes was a loss of $591,000 while net income from discontinued operations equaled $403,000. Discontinued operations before income taxes relates to $591,000 ($384,000 net of tax) of legal and environmental charges primarily associated with the past operations of SL Surface Technologies, Inc. (SurfTech). Net income from discontinued operations relates to a settlement with a foreign tax authority which was recorded as part of discontinued operations. The settlement was associated with the Company s Elektro-Metall Export GmbH subsidiary, which was sold in January 2003. As a result, during the second quarter of 2011, the Company recognized a previously unrecognized tax position related to the settlement in the amount of $787,000 ($619,000 tax and $168,000 interest).

For the six months ended June 30, 2010, total loss from discontinued operations was $1,946,000 ($1,199,000 net of tax). Loss from discontinued operations in 2010 relates to legal and environmental charges primarily associated with the past operations of SurfTech. During the second quarter of 2010, the Company increased the reserves at its Camden site by $1,273,000 ($784,000 net of tax) to provide for additional anticipated cost to remediate.

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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 each of the three month periods ended June 30, 2011 and June 30, 2010 were $109,000 and $147,000, respectively. Sales to RFL Communications for each of the six month periods ended June 30, 2011 and June 30, 2010 were $393,000 and $329,000, respectively. Accounts receivable due from RFL Communications at June 30, 2011 and December 31, 2010 were $65,000 and $100,000, respectively.

The Company was a party to a Management Agreement (the Agreement) dated April 1, 2002 with Steel Partners Ltd. (Steel Partners). Steel Partners is a management company controlled by Warren G. Lichtenstein. Glen M. Kassan and John H. McNamara are employed by Steel Partners. Messrs. Lichtenstein and Kassan are directors of the Company. Mr. McNamara was a director of the Company from May 14, 2008 until June 8, 2011. As previously reported, Mr. Lichtenstein was elected to the Board on March 30, 2010 to fill the vacancy created by the resignation of James R. Henderson. On May 18, 2010, the parties terminated the Agreement. Under the Agreement, Steel Partners provided certain management services to the Company in consideration for an annual fee of $475,000, paid monthly. The Agreement was terminated, effective January 31, 2010, for a one-time payment of $150,000. Fees of approximately $150,000 and $190,000 were expensed for the three and six month periods ended June 30, 2010.

18. Subsequent Events

On July 20, 2011, the Company entered into a Fourth Amendment to the Credit Agreement with Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto (the Fourth Amendment). The Fourth Amendment, among other things, (a) amends the definition of maturity date to extend the maturity date of the 2008 Credit Facility to July 1, 2012, (b) amends the definition of applicable margin to lower the applicable margin, and (c) amends the definition of commitment fee margin to lower the commitment fee margin. In consideration for these amendments, the Company agreed to pay the lenders $44,000, which was remitted in July 2011 and will be amortized over the remaining life of the 2008 Credit Facility.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following section highlights significant factors impacting the consolidated operations and financial condition of the Company and its subsidiaries. The following discussion should be read in conjunction with the Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q.

Forward-Looking Statements

In addition to other information in this Quarterly Report on Form 10-Q, this Management s Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and the current economic environment. These statements are not guarantees of future performance. They involve a number of risks and uncertainties that are difficult to predict, including, but not limited to, the Company s ability to implement its business plan, retain key management, anticipate industry and competitive conditions, realize operating efficiencies, secure necessary capital facilities and obtain favorable determinations in various legal and regulatory matters. Actual results could differ materially from those expressed or implied in the forward-looking statements. Some important assumptions and other critical factors that could cause actual results to differ materially from those in the forward-looking statements are specified in the Company s filings with the SEC, including the Company s Annual Report on Form 10-K for the year ended December 31, 2010, and Current Reports on Form 8-K.

Overview

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, utility equipment, transportation and wind power 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. The Company places an emphasis on highly engineered, well-built, high quality, dependable products and is dedicated to continued product enhancement and innovation.

The Company s strategy is customer-focused and aims to increase shareholder value by providing products and solutions to its customers that create value for them with responsive, high-quality and affordable products and solutions. Also, the Company s 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 through the implementation of lean manufacturing principles and the expansion of global capabilities. The Company expects to pursue its goals in the next twelve months principally through organic growth. The Company has a renewed emphasis on lean manufacturing principles. Lean initiatives, both on the factory floor and throughout the rest of the organization, are ongoing. The Company also continues to pursue strategic alternatives to maximize shareholder value. Some of these alternatives have included, and could continue to include, selective acquisitions, divestitures and the sale of certain assets. The Company has provided, and may from time to time in the future provide, information to interested parties.

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In the sections that follow, statements with respect to the quarter ended 2011 or six months ended 2011 refer to the three-month and six-month periods ended June 30, 2011. Statements with respect to the quarter ended 2010 or six months ended 2010 refer to the three-month and six- month periods ended June 30, 2010. Also, statements with respect to operating costs refer to engineering and product development costs, selling, general and administrative costs and depreciation and amortization (operating costs).

Significant Transactions and Financial Trends

Significant transactions during the first six months of 2011 that impacted the Company s financial results and cash flows include income from discontinued operations of $403,000. Income from discontinued operations was comprised of a favorable settlement with a foreign tax authority of $787,000 which was partially offset by charges related to environmental matters and legal expenses of $384,000, net of tax. The tax settlement had no impact on the Company s cash flows. The Company recorded cash flow from continuing operations of $5,449,000 during the first six months of 2011.

On March 24, 2010, the Company sustained fire damage at its then leased manufacturing facility in Mexicali, Mexico. The Company was fully insured for the replacement of the assets damaged in the fire and for the loss of profits due to the business interruption and changed conditions caused by the fire. During June 2011, the Company settled the fire damage claims with its insurance carriers for a total of $810,000 and as a result recorded a gain related to the fire of $277,000. As of June 30, 2011, the Company s receivable related to the fire damages equaled $610,000, which was paid by the insurance carriers on July 15, 2011. No additional material gains, losses or recoveries are expected to be recognized in subsequent periods related to the fire loss.

Business Trends

With the gradual improvement in global economic conditions, demand for the Company s products and services increased during the first six months of 2011, compared to the same period the prior year. Sales for the six months ended June 30, 2011, increased by $18,937,000, or 21%, while income from operations increased by $5,146,000, or 93%. All operating entities experienced increases in sales and income from operations during the first six months of 2011 as compared to the same period the prior year, except RFL.

During the first six months of 2011, the Company s backlog decreased to $71,499,000, from $73,976,000 for the same period the prior year, for a decrease of 3% on a comparative basis. All of the Company s operating entities recorded decreases in backlog ranging from 1% to 26%, except for MTE, which recorded an increase in backlog of 20%. The Company s net new orders for the second quarter of 2011 decreased by 3% compared to the second quarter of 2010.

The Company s management is taking numerous actions to continue to improve sales and income from continuing operations with an emphasis on lean initiatives at all facilities. The Company also expects to expand product portfolios, enter new market segments and penetrate selected geographic markets.

While these items are important in understanding and evaluating financial results and trends, other transactions or events, which are disclosed in this Management s 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.

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Critical Accounting Policies

The Company s consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States (GAAP). GAAP requires management to make estimates and assumptions that affect the amounts of reported and contingent assets and liabilities at the date of the consolidated financial statements and the amounts of reported net sales and expenses during the reporting period.

The Securities and Exchange Commission (the SEC) has issued disclosure guidance for critical accounting policies. The SEC defines critical accounting policies as those that are most important to the portrayal of the Company s financial condition and results, and 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 of the Notes to Consolidated Financial Statements included in Part IV of the Company s Annual Report on Form 10-K for the year ended December 31, 2010. 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.

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 collectability 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 ASC 605-25 Revenue Recognition Multiple-Element Arrangements. 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 the quarters ended 2011 and 2010. The Company recognizes equipment revenue upon shipment or delivery, 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 was 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 was fixed and there was objective and reliable evidence of fair value. This contract was completed during 2010.

SLPE has two sales programs with distributors, pursuant to which credits are issued to distributors: (1) a re-stocking program and (2) a competitive discount program. The distributor re-stocking program allows distributors to 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 purchase a product out of its inventory below standard net distribution 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 each of the six-month periods ended 2011 and 2010 by approximately 0.5% and 0.6%, respectively.

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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. Receivables are charged off against the reserve when they are deemed uncollectible. The Company s allowance for doubtful accounts equaled 1.8% and 1.9% of gross trade receivables as of June 30, 2011 and December 31, 2010, respectively.

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. The Company attempts to accurately estimate future product demand to properly adjust inventory levels. However, significant unanticipated changes in demand could have a significant impact on the value of inventory and of operating results.

Accounting For Income Taxes

The Company has reported gross unrecognized tax benefits, excluding interest and penalties, of $1,845,000 and $2,358,000 as of June 30, 2011 and December 31, 2010, respectively. These amounts represent unrecognized tax benefits, which, if ultimately recognized, will reduce the Company s effective tax rate. The Company reported accrued interest and penalties related to unrecognized tax benefits of $158,000 as of June 30, 2011, and $301,000 as of December 31, 2010. For additional disclosures related to ASC 740, see Note 3 of the Notes to the Consolidated Financial Statements included in Part IV of the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

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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 June 30, 2011 and December 31, 2010 were $11,143,000 and $11,727,000, respectively, net of valuation allowances of $967,000 and $937,000, respectively. 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 12 of the Notes to the Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q, 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, including 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. As with litigation, generally the outcome is inherently uncertain. 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, such as a significant adverse change in business climate, an adverse action or assessment by a regulator or the decision to sell a business, that would make it more likely than not that an impairment may have occurred. 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 indicates that 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. It has also performed a review of market capitalization with estimated control premiums at December 31, 2010. If the fair value of a reporting unit is less than its net book value, the Company would perform a second step in its analysis, which 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 and growth rates, operating margins and working capital requirements, 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 for the quarters ended 2011 and 2010. As of June 30, 2011 and December 31, 2010, goodwill totaled $22,746,000 and $22,756,000 (representing 20% and 22% of total assets), respectively.

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As of the testing conducted as of December 31, 2010, the Company concluded that no impairment charge was warranted. However, there can be no assurance that the economic conditions currently affecting the world economy or other events may not have a negative material impact on the long-term business prospects of any of the Company s reporting units. In such case, the Company may need to record an impairment loss, as stated above. The next annual impairment test will be conducted as of December 31, 2011, unless management identifies a triggering event in the interim.

Management has not identified any triggering events, as defined by ASC 350 Intangibles Goodwill and Other, during 2011. Accordingly, no interim impairment test has been performed.

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.

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.

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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, net of tax. 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 Company does not currently have any outstanding claims against insurance carriers related to remediation expenditures. 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. During fiscal 2010, the Company recorded additional reserves of $7,776,000 and $1,273,000 related to environmental matters at its Pennsauken, New Jersey and Camden, New Jersey sites, respectively. No additional reserves were recorded during the first six months of 2011 for the Pennsauken, New Jersey and Camden, New Jersey sites. For additional information related to environmental matters, see Note 13 of the Notes to the Consolidated Financial Statements included in Part IV of the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

The above listing is not intended to be a comprehensive list of all of the Company s accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP with no need for management s judgment in its application. There are also areas in which management s judgment in selecting any available alternatives would not produce a materially different result. For a discussion of accounting policies and other disclosures required by GAAP, see the Company s audited Consolidated Financial Statements and Notes thereto included in Part IV of the Company s Annual Report on Form 10-K for the year ended December 31, 2010 and Note 12 to this Quarterly Report.

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Liquidity And Capital Resources

	June 30, 2011	December 31, 2010	$ Variance	% Variance
		(in thousands)		
Cash and cash equivalents	$ 3,613	$ 1,374	$ 2,239	163%
Bank debt	$ 9,000	$ 9,800	$ (800)	(8%)
Working capital	$ 27,108	$ 20,121	$ 6,987	35%
Shareholders equity	$ 55,810	$ 47,249	$ 8,561	18%

The Company s liquidity needs have related to, and are expected to continue to relate to, capital investments, product development costs, acquisitions, working capital requirements, and certain environmental and legal remediation costs. The Company has met its liquidity needs primarily through cash generated from operations and, to a lesser extent, through bank borrowings. The Company believes that cash provided from operating activities from continuing operations and funding available under a credit facility will be adequate to service debt and meet working capital needs, capital investment requirements, and product development requirements for the next twelve months. On July 20, 2011, the Company s 2008 Credit Facility was extended to July 1, 2012.

At June 30, 2011, the Company reported $3,613,000 of cash and cash equivalents, compared to $1,374,000 of cash and cash equivalents as of December 31, 2010. Cash and cash equivalents increased in 2011 primarily due to $5,449,000 of cash provided by operating activities from continuing operations, which was partially offset by $2,235,000 of cash used in investing activities and $136,000 of cash used in financing activities. The increase in cash in 2011 was also offset by $823,000 of cash used in operating activities from discontinued operations.

Net cash provided by operating activities from continuing operations during the six-month period ended June 30, 2011 was $5,449,000, as compared to net cash used in operating activities from continuing operations during the six-month period ended June 30, 2010 of $890,000. The sources of cash from operating activities for the six-month period ended June 30, 2011 were income from continuing operations of $7,218,000, an increase in accounts payable of $2,575,000, and the add-back of depreciation and amortization expense of $1,697,000. All operating entities experienced increases in accounts payable, except for RFL, due primarily to increased inventory purchases to meet customer demand and extended payment terms from suppliers. These sources and add-backs were partially offset by an increase in accounts receivable of $2,136,000, an increase in inventories of $1,894,000, and an increase in other current assets of $1,555,000. The largest increases in accounts receivable occurred at SL-MTI and MTE primarily due to increased sales during the second quarter of 2011. The increase in accounts receivable at SL-MTI was also due to significant collections during December 2010. The increase in inventory was due to increases in inventory at SLPE and Teal in order to meet the increase in demand from customers, partially offset by decreases in inventory at MTE and SL-MTI due to lean initiatives to reduce inventory levels. The increase in other current assets was due to a $610,000 receivable related to the settlement of a fire loss insurance claim for the Company s former leased manufacturing facility in Mexicali, Mexico, which was received on July 15, 2011. The Company received a $200,000 advance from its carrier related to the fire loss in July 2010. The increase in other current assets was also due to the renewal of certain insurance policies during the first half of 2011.

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The uses of cash from operating activities for the six-month period ended June 30, 2010 were an increase in accounts receivable of $7,705,000 and an increase in inventories of $1,405,000. The increase in accounts receivable and inventories was primarily related to increases in sales at all business segments. Accounts receivable increased by $5,543,000 at SLPE, $1,791,000 at MTE and $620,000 at SL-MTI. These uses of cash were partially offset by income from continuing operations of $3,339,000, an increase in accounts payable of $2,568,000, and the add-back of depreciation and amortization expense of $1,693,000. The increase in accounts payable was primarily attributable to SLPE.

During the six-month period ended June 30, 2011, net cash used in investing activities was $2,235,000, as compared to net cash used in investing activities of $787,000 during the six-month period ended June 30, 2010. Cash used in investing activities during 2011 was for the purchases of property, plant and equipment and tenant improvements of $1,934,000 and the purchases of other assets of $301,000. During the first half of 2011, SLPE incurred approximately $1,121,000 in tenant improvements related to its relocation to a more modern facility in Mexicali, Mexico. The remaining cash used in investing activities was primarily used to upgrade production capabilities and upgrade technology. Purchases of other assets were primarily related to the purchase of software and other intangible assets. During 2010, the use of cash in investing activities was primarily related to a down payment on land rights in China and the purchases of machinery, computer hardware and demonstration equipment.

During the six-month period ended June 30, 2011, net cash used in financing activities was $136,000, as compared to net cash used in financing activities of $1,080,000 during the six-month period ended June 30, 2010. Cash used in financing activities during 2011 was primarily related to $800,000 in net payments to the 2008 Credit Facility, which was partially offset by $465,000 of proceeds from stock option exercises and $200,000 from the tax benefit on the exercise of stock options. During the six-month period ended June 30, 2010, net cash used in financing activities was $1,080,000, which was primarily related to the purchase of shares of the Company s treasury stock.

On November 19, 2010, the Company entered into the Second Amendment to the 2008 Credit Facility. The Second Amendment, among other things, (a) amends certain terms of the 2008 Credit Facility in order to permit the Company to issue one or more dividends and/or purchase its registered capital stock then issued and outstanding in an amount not in excess, in the aggregate, of Thirteen Million Dollars ($13,000,000) prior to the maturity date of the 2008 Credit Facility; (b) removes the Ten Million Dollar ($10,000,000) maximum for environmental liabilities; and (c) amends the definitions of EBIT and EBITDA to include the add-back of non-cash charges with respect to liabilities arising under Environmental Laws and to reduce EBIT and EBITDA by the amount of the related cash payments related thereto. In consideration for these amendments, the Company agreed to pay the lenders $50,000, which was remitted in the fourth quarter of 2010 and is being amortized over the remaining life of the 2008 Credit Facility. As of June 30, 2011 and December 31, 2010, the Company had a balance of $9,000,000 and $9,800,000, respectively, under the 2008 Credit Facility. At June 30, 2011, the Company had total availability thereunder of $30,527,000.

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On March 28, 2011, the Company entered into a Third Amendment to the Credit Agreement with Bank of America, as administrative agent and lender, and a syndicate of other lenders party thereto. The Third Amendment permits the Company to extend the maturity date of the letters of credit issued under the 2008 Credit Facility. The letters of credit issued under 2008 Credit Facility are now scheduled to expire on September 25, 2012.

On July 20, 2011, the Company entered into a Fourth Amendment to the Credit Agreement with Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto. The Fourth Amendment, among other things, (a) amends the definition of maturity date to extend the maturity date of the 2008 Credit Facility to July 1, 2012, (b) amends the definition of applicable margin to lower the applicable margin, and (c) amends the definition of commitment fee margin to lower the commitment fee margin. In consideration for these amendments, the Company agreed to pay the lenders $44,000, which was remitted in July 2011 and will be amortized over the remaining life of the 2008 Credit Facility.

The Company s current ratio was 1.67 to 1 at June 30, 2011 and 1.49 to 1 at December 31, 2010. Current assets increased by $6,758,000 from December 31, 2010, while current liabilities decreased by $229,000 during the same period.

Capital expenditures were $1,934,000 in 2011, which represented an increase of $1,299,000 from the capital expenditure levels of 2010. Capital expenditures in 2011 were primarily attributable to tenant improvements on the previously mentioned new leased manufacturing facility in Mexicali, Mexico, and to a lesser extent purchases of machinery, computer hardware, and demonstration equipment. During the remainder of 2011, the Company anticipates spending approximately $3,057,000 on property, plant and equipment, used primarily to upgrade production capabilities, upgrade technology, and complete the relocation of a manufacturing facility.

With the exception of the segment reported as Other (which consists primarily of corporate office expenses, financing activities, certain legal, litigation, public reporting costs, legacy costs and costs not specifically allocated to the reportable business segments), all of the Company s operating segments recorded income from operations for the six-month period ended June 30, 2011.

Contractual Obligations

The following is a summary of the Company s contractual obligations at June 30, 2011 for the periods indicated:

	Less Than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years	Total
			(in thousands)		
Operating Leases	$ 1,659	$ 2,674	$ 819	$ 1,177	$ 6,329
Debt [1]	9,087				9,087
	$ 10,746	$ 2,674	$ 819	$ 1,177	$ 15,416

[1] Includes interest payments through maturity of $87,000.

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The table above excludes the Company s gross liability for uncertain tax positions, including accrued interest and penalties, which totaled $158,000 as of June 30, 2011, since the Company cannot predict with reasonable reliability the timing or certainty of cash settlements to the respective taxing authorities.

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 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, except for operating lease commitments disclosed in the table above and inventory purchase commitments. In an attempt to stabilize copper costs, the Company entered into purchase agreements for copper during 2010 and again during the first six months of 2011. As of June 30, 2011, inventory purchase agreements for copper totaled $2,861,000. No purchase commitments for copper were greater than six months.

Results of Operations

Three months ended June 30, 2011, compared with three months ended June 30, 2010

The tables below show the comparisons of net sales and income (loss) from operations for the quarter ended June 30, 2011 (2011) and the quarter ended June 30, 2010 (2010):

	Net Sales			
	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	$ Variance From Same Quarter Last Year	% Variance From Same Quarter Last Year
	(in thousands)			
Power Electronics Group:				
SLPE	$ 22,581	$ 21,100	$ 1,481	7%
High Power Group	18,151	13,225	4,926	37
Total	40,732	34,325	6,407	19
SL-MTI	9,310	7,859	1,451	18
RFL	6,224	5,606	618	11
Total	$ 56,266	$ 47,790	$ 8,476	18%

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	Income (Loss) from Operations			
	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	$ Variance From Same Quarter Last Year	% Variance From Same Quarter Last Year
	(in thousands)			
Power Electronics Group:				
SLPE	$ 2,055	$ 1,557	$ 498	32%
High Power Group	2,393	1,135	1,258	111
Total	4,448	2,692	1,756	65
SL-MTI	1,641	1,232	409	33
RFL	895	776	119	15
Other	(1,370)	(1,369)	(1)	0
Total	$ 5,614	$ 3,331	$ 2,283	69%

During 2011, consolidated net sales increased by $8,476,000, or 18%. When compared to 2010, net sales of the Power Electronics Group increased by $6,407,000, or 19%, and net sales of SL-MTI increased by $1,451,000, or 18%. Net sales at RFL increased by $618,000, or 11%.

In 2011, the Company s income from operations was $5,614,000, compared to $3,331,000 in 2010, representing an increase of $2,283,000, or 69%. Income from operations was 10% of net sales in 2011, compared to income from operations of 7% of net sales in 2010. All of the Company s operating entities recorded income from operations in 2011 and 2010.

Income from continuing operations in 2011 was $3,616,000, or $0.79 per diluted share, compared to income from continuing operations in 2010 of $2,063,000, or $0.34 per diluted share. Income from continuing operations was approximately 6% of net sales in 2011, compared to income from continuing operations of 4% of net sales in 2010.

The Company s business segments and the components of operating expenses are discussed in the following sections.

SLPE

SLPE recorded net sales of $22,581,000, or 40% of consolidated net sales in 2011, compared to $21,100,000, or 44% of consolidated net sales in 2010. At SLPE, the net sales of its medical equipment product line increased by $1,504,000, or 12%. Sales of the industrial product line increased by $1,010,000, or 32%, while sales of the data communications product line decreased by $1,167,000, or 25%. The increase in sales of the medical equipment product line was due to increased sales volumes during 2011 primarily related to two new large international customer orders in 2011. The increase in sales of the industrial product line was primarily due to a large international customer order in 2011. The decrease in sales of the data communications product line was due primarily to a decrease in volumes to a large international customer in 2011. Returns and distributor credits also affected net sales, which represented approximately 1% and 1% of gross sales in 2011 and 2010, respectively. Domestic sales increased by 5% and international sales increased by 13% during 2011.

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SLPE reported income from operations of $2,055,000 in 2011, compared to income from operations of $1,557,000 in 2010. Income from operations increased in 2011 due to an increase in sales of 7% and an increase in gross profit as a percentage of net sales. Gross profit percentage increased by approximately 2% as a percentage of net sales during 2011. Operating costs as a percentage of sales remained flat with decreases in engineering and product development costs offset by increases in SG&A as a percentage of net sales.

High Power Group

The High Power Group reported net sales of $18,151,000, or 32% of consolidated net sales in 2011, compared to $13,225,000, or 28% of consolidated net sales in 2010. The increase in net sales during 2011 was due to an increase in net sales at Teal of 3,529,000, or 52%, and an increase in net sales at MTE of $1,397,000, or 22%.

Teal s sales increase is attributable to an increase in sales to medical imaging equipment manufacturers of $2,570,000, the military and aerospace industries of $705,000, and the semi-conductor market of $269,000. Sales to medical imaging equipment market and semi-conductor market increased during 2011 due to increased volumes to several large customers. The increase in the semi-conductor market is almost entirely driven by international sales. Sales to military and aerospace customers increased during 2011 primarily due to increased volumes to a large domestic customer. Domestic sales increased by 51% and international sales increased by 64% during 2011.

MTE s sales increase is primarily attributable to an increase in sales to OEMs, distributors, and the oil and gas industry during 2011. Domestic sales increased by 30%, while international sales increased by 1%. The increase in domestic sales is due to an across the board increase in all of MTE s markets, especially in the industrial automation market and the natural resource market.

The High Power Group reported income from operations of $2,393,000 in 2011, which represented an increase of 111% from 2010. The increase in income from operations during 2011 was due to an increase at Teal of $954,000 and an increase at MTE of $304,000. The increase in the High Power Group s income from operations is due to an increase in sales, an increase in gross profit as a percentage of net sales, and a decrease in operating expenses as a percentage of net sales. Gross profit increased by approximately 2% as a percentage of net sales during 2011. Operating costs decreased by approximately 3% as a percentage of net sales during 2011 due primarily to decreases in engineering and product development costs and SG&A as a percentage of net sales.

SL-MTI

SL-MTI recorded net sales of $9,310,000, or 17% of consolidated net sales in 2011, compared to $7,859,000, or 16% of consolidated net sales in 2010. Sales to customers in the commercial aerospace industries increased by $671,000, or 26%, sales to customers in the defense industry increased by $467,000, or 10%, and sales of commercial products increased by $256,000, or 69%. Sales in the medical equipment product line were relatively flat during 2011 and 2010. Domestic sales increased by 28% and international sales decreased by 19% during 2011. The increase in domestic sales is due to large military customer orders in 2011. The decrease in international sales was primarily related to a decrease in volumes to a customer located in Canada.

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SL-MTI reported income from operations of $1,641,000 in 2011, or an increase of 33% from 2010. The increase in income from operations during 2011 was due to an increase in sales, an increase in gross profit as a percentage of net sales, and a decrease in operating expenses as a percentage of net sales. Gross profit increased by approximately 1% as a percentage of net sales during 2011. Operating costs decreased by approximately 1% as a percentage of net sales during 2011 due primarily to a decrease in SG&A as a percentage of net sales.

RFL

RFL recorded net sales of $6,224,000, or 11% of consolidated net sales in 2011, compared to $5,606,000, or 12% of consolidated net sales in 2010. Sales of RFL s protection products increased by $504,000, or 18%, and sales of communications products increased by $95,000, or 4%. The increase in protection products is primarily related to a new large international customer project without a comparable project during the second quarter of 2010. The increase in the communications product line was primarily due to increased volumes related to the introduction of a new product offset by decreased Legacy product sales. Customer service sales remained relatively flat. Domestic sales were relatively flat, while international sales increased by $641,000, or 69%, primarily related to increased sales to customers located in Canada and Venezuela.

RFL reported income from operations of $895,000 in 2011, which represented an increase of 15% from 2010. Income from operations increased in 2011 due to an increase in sales and a decrease in operating expenses as a percentage of net sales, which was partially offset by a decrease in gross profit as a percentage of net sales. Gross profit decreased by approximately 4% as a percentage of net sales during 2011 primarily due to the mix of international sales. Operating expenses as a percentage of net sales decreased by approximately 5% due to a decrease in SG&A and engineering and product development costs as a percentage of net sales.

Gross Profit

During the second quarter of 2011, gross profit increased by $3,165,000, or 21%, from $15,211,000 to $18,376,000. As a percentage of consolidated net sales, gross profit was approximately 33% for the quarter ended 2011, compared to 32% for the quarter ended 2010.

SLPE and the High Power Group recorded increases in their gross profit as a percentage of net sales of approximately 2%, while SL-MTI recorded an increase in gross profit as a percentage of net sales of approximately 1%. The increases in gross profit as a percentage of net sales at SLPE, the High Power Group, and SL-MTI was partially offset by RFL, which recorded a decrease in gross profit as a percentage of net sales of approximately 4%. SLPE s increase in its gross profit as a percentage of net sales was due primarily to an increase in sales volumes coupled with a more favorable sales mix. The High Power Group s increase in its gross profit as a percentage of net sales was due primarily to high sales volumes, improved sales mix, and lean initiatives. SL-MTI s increase in its gross profit percentage of net sales was due to the relatively high volume of sales, lean initiatives implemented primarily at its manufacturing facility in Matamoros, Mexico, and improved product mix. RFL s decrease in the percentage of gross profit was due to an unfavorable change in product and customer mix. All operating entities are at various stages of implementing lean initiatives throughout the factory floor in an attempt to improve future margins. These initiatives are ongoing.

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Engineering and Product Development Expenses

Engineering and product development expenses were flat during the second quarter of 2011 as compared to the second quarter of 2010, decreasing by only $21,000, or 1%. Engineering and product development expenses were approximately 6% of net sales in 2011, compared to 7% in 2010. The decrease in engineering and product development costs as a percentage of sales is primarily due to an 18% increase in net sales while product development costs have remained relatively consistent between periods.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $926,000, or 12%, on an 18% increase in net sales. Selling, general and administrative expenses were approximately 16% of net sales for 2011 and 2010. SLPE s expenses increased by $485,000 in 2011 due to an increase in sales related costs and compensation expense. The High Power Group recorded an increase in selling, general and administrative expenses of $446,000, due to the addition of employees and increased commission and compensation expense due to higher sales levels in 2011. SL-MTI s expenses increased by $56,000 in 2011 due primarily to increased compensation expense. The increases at SLPE, the High Power Group, and SL-MTI were partially offset by a $65,000 decrease in selling, general and administrative expenses at RFL. The decrease at RFL was primarily due to decreased sales and commissions expenses during 2011. Corporate and Other expenses were relatively flat during 2011 and 2010.

Depreciation and Amortization Expenses

Depreciation and amortization expenses were relatively flat in 2011 and in 2010, respectively.

Amortization of Deferred Financing Costs

In connection with entering into the 2008 Credit Facility and related waivers and amendments, the Company incurred costs of $77,000 in 2011 and $60,000 in 2010. These costs have been deferred and are being amortized over the term of the 2008 Credit Facility in accordance with the guidance provided by ASC 470-50 Debt-Modification and Extinguishments.

Fire Related Gain (Loss), Net

On March 24, 2010, the Company sustained fire damage at its then leased manufacturing facility in Mexicali, Mexico. This facility manufactured products for both SLPE and MTE. The fire was contained to an area that manufactured MTE products. The Company was fully insured for the replacement of the assets damaged in the fire and for the loss of profits due to business interruption and changed conditions caused by the fire. The Company s fire related loss includes the destruction of property and equipment, damaged inventory, cleanup costs and increased operating expenses incurred as a result of the fire. The Company s insurance recovery represents indemnification for these costs, net of applicable adjustments and deductibles. As of December 31, 2010, the Company s estimated insurance recoveries equaled $533,000.

During June 2011, the Company settled the fire damage claims with its insurance carriers for $810,000 and as a result the Company recorded a gain related to the fire of $277,000. As of June 30, 2011, the Company s receivable related to the fire damages equaled $610,000 since the Company received a $200,000 advance from its carrier related to the fire loss in July 2010. The Company received the outstanding $610,000 from its insurance carriers on July 15, 2011. No additional material gains, losses or recoveries are expected to be recognized in subsequent periods related to the fire loss.

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During 2010, the Company recorded $663,000 of estimated fire related losses and $555,000 of estimated insurance recoveries, for an estimated net loss of $108,000. In July 2010, the Company received a $200,000 advance from its carrier related to the fire loss.

Interest Expense

Interest expense in 2011 was $56,000, compared to $9,000 in 2010. The increase in interest expense was primarily due to increased borrowings under the Company s 2008 Credit Facility. The Company had $9,000,000 in outstanding debt as of June 30, 2011. The Company maintained no outstanding bank debt as of June 30, 2010.

Taxes (Continuing Operations)

The effective tax rate for continuing operations for the quarter ended 2011 was approximately 37%. For the quarter ended 2010, the effective tax rate was approximately 35%. Effective January 1, 2011, the Company s statutory federal income tax rate increased from 34% to 35%. The impact of the rate change on deferred taxes decreased income tax expense and the estimated income tax rate.

The effective tax rate reflects the statutory rate after an adjustment for the state tax provision and offset by the recording of benefits related to the research and development and foreign tax credits as well as the effect of applying a higher statutory tax rate to deferred taxes that existed as of the first day of the year. The effective tax rate in 2010 reflects the statutory rate after adjustments for state and international tax provisions and the recording of benefits primarily related to research and development tax credits.

Discontinued Operations

During 2011, the Company recorded income from discontinued operations, net of tax, of $593,000, compared to a loss of $1,049,000, net of tax, in 2010. Income from discontinued operations in 2011 primarily relates to the $787,000 favorable settlement with a foreign tax authority, partially offset by charges related to ongoing environmental remediation and legal costs. The loss from discontinued operations in 2010 consists primarily of charges related to ongoing environmental remediation and legal costs primarily related to the Pennsauken Site and Camden Site. During the second quarter of 2010, the Company increased the reserves at its Camden Site by $784,000, net of tax, to provide for additional anticipated costs to remediate.

Net Income

Net income was $4,209,000, or $0.92 per diluted share, for 2011 compared to $1,014,000, or $0.17 per diluted share, for 2010. The weighted average number of shares used in the diluted earnings per share computation was 4,576,000 and 6,066,000 for 2011 and 2010, respectively. The decrease in the average number of shares used in the diluted earnings per share computation was primarily due to 1,334,824 shares purchased during the Company s Tender Offer during the fourth quarter of 2010 and 252,064 shares purchased from the Company s defined contribution plan during the fourth quarter of 2010.

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Results of Operations

Six months ended June 30, 2011, compared with six months ended June 30, 2010

The tables below show the comparisons of net sales and income (loss) from operations for the six months ended June 30, 2011 (2011) and the six months ended June 30, 2010 (2010):

	Net Sales			
	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	$ Variance From Same Period Last Year	% Variance From Same Period Last Year
	(in thousands)			
Power Electronics Group:				
SLPE	$ 44,306	$ 37,433	$ 6,873	18%
High Power Group	34,886	26,335	8,551	32
Total	79,192	63,768	15,424	24
SL-MTI	18,418	14,869	3,549	24
RFL	11,250	11,286	(36)	0
Total	$ 108,860	$ 89,923	$ 18,937	21%

	Income from Operations			
	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	$ Variance From Same Period Last Year	% Variance From Same Period Last Year
	(in thousands)			
Power Electronics Group:				
SLPE	$ 4,370	$ 2,374	$ 1,996	84%
High Power Group	4,498	2,243	2,255	101
Total	8,868	4,617	4,251	92
SL-MTI	3,251	2,030	1,221	60
RFL	1,333	1,717	(384)	(22)
Other	(2,799)	(2,857)	58	2
Total	$ 10,653	$ 5,507	$ 5,146	93%

During 2011, consolidated net sales increased by $18,937,000, or 21%. When compared to 2010, net sales of the Power Electronics Group increased by $15,424,000, or 24%, and net sales of SL-MTI increased by $3,549,000, or 24%. Net sales at RFL decreased by $36,000, or less than 1%.

In 2011, the Company s income from operations was $10,653,000, compared to $5,507,000 in 2010, representing an increase of $5,146,000, or 93%. Income from operations was 10% of net sales in 2011, compared to income from operations of 6% of net sales in 2010. All of the Company s operating entities recorded income from operations in

2011 and 2010.

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Income from continuing operations in 2011 was $7,218,000, or $1.58 per diluted share, compared to income from continuing operations in 2010 of $3,339,000, or $0.55 per diluted share. Income from continuing operations was approximately 7% of net sales in 2011, compared to income from continuing operations of 4% of net sales in 2010.

The Company s business segments and the components of operating expenses are discussed in the following sections.

SLPE

SLPE recorded net sales of $44,306,000, or 41% of consolidated net sales in 2011, compared to $37,433,000, or 42% of consolidated net sales in 2010. At SLPE, the net sales of its medical equipment product line increased by $6,439,000, or 28%. Sales of the industrial product line increased by $2,076,000, or 36%, while sales of the data communications product line decreased by $1,598,000, or 19%. The increase in sales of the medical equipment product line was due to increased sales volumes during 2011 primarily related to two new large international customer orders in 2011. The increase in sales of the industrial product line was primarily due to a large international customer order in 2011. The decrease in sales of the data communications product line was due primarily to a decrease in volumes to a large international customer in 2011. Returns and distributor credits also affected net sales, which represented approximately 1% and 2% of gross sales in 2011 and 2010, respectively. Domestic sales increased by 18% and international sales increased by 19% during 2011.

SLPE reported income from operations of $4,370,000 in 2011, compared to income from operations of $2,374,000 in 2010. Income from operations increased in 2011 due to a significant increase in sales of 18%, an increase in gross profit as a percentage of net sales, and a decrease in operating expenses as a percentage of net sales. Gross profit percentage increased by approximately 2% as a percentage of net sales during 2011. Operating costs decreased by approximately 1% as a percentage of net sales during 2011 due primarily to decreases in engineering and product development costs as a percentage of net sales.

High Power Group

The High Power Group reported net sales of $34,886,000, or 32% of consolidated net sales in 2011, compared to $26,335,000, or 29% of consolidated net sales in 2010. The increase in net sales during 2011 was due to an increase in net sales at Teal of $4,351,000, or 30%, and an increase in net sales at MTE of $4,200,000, or 36%.

Teal s sales increase is attributable to increases in sales to medical imaging equipment manufacturers of $2,712,000, or 23%, the semi-conductor market of $907,000, or 82%, and military and aerospace industries of $826,000, of 55%. These increases are offset by a decrease in sales of other product lines of $94,000, or 38%. Sales to medical imaging equipment market and semi-conductor market increased during 2011 due to increased volumes to several large customers. The increase in the semi-conductor market is almost entirely driven by international sales. Sales to military and aerospace customers increased during 2011 primarily due to increased volumes to a large domestic customer. Other product lines net sales decreased in 2011 primarily due to a decrease in repair and maintenance activities. Domestic sales increased by 28% and international sales increased by 41% during 2011.

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MTE s sales increase is primarily attributable to increases in sales to OEMs and distributors and to the oil and gas industry during 2011. Domestic sales increased 32%, while international sales increased 48%. The increase in domestic sales is due to an across the board increase in all of MTE s markets, especially in the industrial automation market and the natural resource market. The increase in international sales is due to an increase in project based sales to South America in the oil and gas markets.

The High Power Group reported income from operations of $4,498,000 in 2011, which represented an increase of 101% from 2010. The increase in income from operations during 2011 was due to an increase at Teal of $1,245,000 and an increase at MTE of $1,010,000. The increase in the High Power Group s income from operations is due to an increase in sales, an increase in gross profit as a percentage of net sales, and a decrease in operating expenses as a percentage of net sales. Gross profit increased by approximately 2% as a percentage of net sales during 2011. Operating costs decreased by approximately 2% as a percentage of net sales during 2011 due to decreases in engineering and product development costs and SG&A.

SL-MTI

SL-MTI recorded net sales of $18,418,000, or 17% of consolidated net sales in 2011, compared to $14,869,000, or 17% of consolidated net sales in 2010. Sales to customers in the defense industry increased by $2,129,000, or 24%, and sales to customers in the commercial aerospace industry increased by $938,000, or 19%. Sales of commercial products increased by $448,000, or 70%, while sales in the medical equipment product line were relatively flat during 2011 and 2010. Domestic and international sales increased by 27% and 8%, respectively, during 2011. The increase in domestic sales was due to large military customer orders and strengthening of the economy. The increase in international sales was primarily related to higher volumes to a customer located in Europe and a customer located in Canada.

SL-MTI reported income from operations of $3,251,000 in 2011, which represented an increase of 60% from 2010. The increase in income from operations during 2011 was due to an increase in sales, an increase in gross profit as a percentage of net sales, and a decrease in operating expenses as a percentage of net sales. Gross profit increased by approximately 1% as a percentage of net sales during 2011. Operating costs decreased by approximately 3% as a percentage of net sales during 2011 due primarily to decreases in SG&A and engineering and product development costs as a percentage of net sales.

RFL

RFL recorded net sales of $11,250,000, or 10% of consolidated net sales in 2011, compared to $11,286,000, or 13% of consolidated net sales in 2010. Sales of RFL s communications products decreased by $120,000, or 2%, which was partially offset by increases in protection products sales of $56,000, or 1%, and customer service sales of $28,000, or 6%. The decrease in communications products sales was primarily due to decreased sales to the rail industry and decreased Legacy product sales, which was partially offset by large volumes of a new product. Domestic sales decreased by $341,000, or 4%, while international sales increased by $305,000, or 14%, primarily related to increased sales to customers located in Canada and Venezuela.

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RFL reported income from operations of $1,333,000 in 2011, which represented a decrease of 22% from 2010. Income from operations decreased in 2011 due to a decrease in sales and a decrease in gross profit, partially offset by a decrease in operating expenses as a percentage of net sales. Gross profit as a percentage of net sales decreased by approximately 4% in 2011. Operating expenses as a percentage of net sales decreased by approximately 1% due to a decrease in SG&A as a percentage of net sales.

Gross Profit

During 2011, gross profit increased by $6,950,000, or 24%, from $29,201,000 to $36,151,000. As a percentage of consolidated net sales, gross profit was approximately 33% for 2011, compared to 32% for 2010.

SLPE and the High Power Group recorded increases in their gross profit as a percentage of net sales of approximately 2%, while SL-MTI recorded an increase in gross profit as a percentage of net sales of approximately 1%. The increases in gross profit as a percentage of net sales at SLPE, the High Power Group, and SL-MTI was partially offset by RFL, which recorded a decrease in gross profit as a percentage of net sales of approximately 4%. SLPE s increase in its gross profit as a percentage of net sales was due primarily to an increase in sales volumes coupled with a more favorable sales mix. The High Power Group s increase in its gross profit as a percentage of net sales was due primarily to high sales volumes, improved sales mix, and lean initiatives. SL-MTI s increase in its gross profit percentage of net sales was due to the relatively high volume of sales, lean initiatives implemented primarily at its manufacturing facility in Matamoros, Mexico, and improved product mix. RFL s decrease in the percentage of gross profit was due to an unfavorable change in customer and product mix. All operating entities are at various stages of emphasizing lean initiatives throughout the factory floor in an attempt to improve future margins.

Engineering and Product Development Expenses

Engineering and product development expenses increased by $305,000, or 5%. Engineering and product development expenses were approximately 6% of net sales in 2011, compared to 7% in 2010. SLPE, the High Power Group, and SL-MTI each recorded a 1% decrease in engineering and product development expenses as a percentage of net sales during 2011. The decrease in engineering and product development costs as a percentage of net sales at SLPE was primarily due to increased sales volumes coupled with a shift of engineering and product development costs to lower cost locations. The decrease in engineering and product development costs as a percentage of net sales at the High Power Group and SL-MTI was primarily due to an increase in funding of customer projects during 2011 while maintaining a consistent employee headcount between periods. The decrease as a percentage of net sales was also due to a 21% increase in net sales while product development costs net of customer funding increased by 5% during 2011. Engineering and product development expenses as a percentage of net sales were relatively flat at RFL during 2011 and 2010.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $1,527,000, or 10%, on a 21% increase in sales. Selling, general and administrative expenses were approximately 16% of net sales for 2011 and 18% of net sales for 2010. SLPE s expenses increased by $949,000 in 2011 due to an increase in sales related costs, compensation expenses, and severance paid to the former president of SLPE. The High Power Group recorded an increase in selling, general and administrative expenses of $730,000, due to the addition of employees and increased commissions and compensation expense due to higher sales levels. The increases at SLPE and the High Power Group were partially offset by a $169,000 decrease in selling, general and administrative expenses at RFL. The decrease at RFL was primarily due to decreased sales and commissions expenses during 2011. Corporate and Other expenses decreased by $58,000, or 2%, primarily related to decreased professional fees. Selling, general and administrative expenses were relatively flat at SL-MTI during 2011 and 2010.

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Depreciation and Amortization Expenses

Depreciation and amortization expenses were relatively flat in 2011 and in 2010, respectively.

Amortization of Deferred Financing Costs

In connection with entering into the 2008 Credit Facility and related waivers and amendments, the Company incurred costs of $153,000 in 2011 and $121,000 in 2010. These costs have been deferred and are being amortized over the term of the 2008 Credit Facility in accordance with the guidance provided by ASC 470-50 Debt-Modification and Extinguishments.

Fire Related Gain (Loss), Net

On March 24, 2010, the Company sustained fire damage at its then leased manufacturing facility in Mexicali, Mexico. This facility manufactured products for both SLPE and MTE. The fire was contained to an area that manufactured MTE products. The Company was fully insured for the replacement of the assets damaged in the fire and for the loss of profits due to business interruption and changed conditions caused by the fire. The Company s fire related loss includes the destruction of property and equipment, damaged inventory, cleanup costs and increased operating expenses incurred as a result of the fire. The Company s insurance recovery represents indemnification for these costs, net of applicable adjustments and deductibles. As of December 31, 2010, the Company s estimated insurance recoveries equaled $533,000.

During June 2011, the Company settled the fire damage claims with its insurance carriers for $810,000 and as a result the Company recorded a gain related to the fire of $277,000. As of June 30, 2011, the Company s receivable related to the fire damages equaled $610,000 since the Company received a $200,000 advance from its carrier related to the fire loss in July 2010. The Company received the outstanding $610,000 from its insurance carriers on July 15, 2011. No additional material gains, losses or recoveries are expected to be recognized in subsequent periods related to the fire loss.

During 2010, the Company recorded $663,000 of estimated fire related losses and $555,000 of estimated insurance recoveries, for an estimated net loss of $108,000. In July 2010, the Company received a $200,000 advance from its carrier related to the fire loss.

Interest Expense

Interest expense in 2011 was $138,000, compared to $42,000 in 2010. The increase in interest expense was primarily due to increased borrowings under the Company s 2008 Credit Facility. The Company had $9,000,000 in outstanding debt as of June 30, 2011. The Company maintained no outstanding bank debt as of June 30, 2010.

Taxes (Continuing Operations)

The effective tax rate for continuing operations for 2011 was approximately 32%. For 2010, the effective tax rate was approximately 36%. Effective January 1, 2011, the Company s statutory federal income tax rate increased from 34% to 35%. The impact of the rate change on deferred taxes decreased income tax expense and the estimated income tax rate.

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The effective tax rate reflects the statutory rate after an adjustment for the state tax provision and offset by the recording of benefits related to the research and development and foreign tax credits as well as the effect of applying a higher statutory tax rate to deferred taxes that existed as of the first day of the year. The effective tax rate in 2010 reflects the statutory rate after adjustments for state and international tax provisions and the recording of benefits primarily related to research and development tax credits.

Discontinued Operations

During 2011, the Company recorded income from discontinued operations, net of tax, of $403,000 compared to a loss from discontinued operations of $1,199,000, net of tax, in 2010. Income from discontinued operations in 2011 relates to the $787,000 favorable settlement with a foreign tax authority, primarily offset by environmental and legal expenses. The loss from discontinued operations in 2010 consists primarily of charges related to ongoing environmental remediation and legal costs primarily related to the Pennsauken Site and Camden Site. During the second quarter of 2010, the Company increased the reserves at its Camden Site by $784,000, net of tax, to provide for additional anticipated costs to remediate.

Net Income

Net income was $7,621,000 or $1.67 per diluted share, for 2011 compared to $2,140,000, or $0.35 per diluted share, for 2010. The weighted average number of shares used in the diluted earnings per share computation were 4,558,000 and 6,111,000 for 2011 and 2010, respectively. The decrease in the average number of shares used in the diluted earnings per share computation was primarily due to 1,334,824 shares purchased during the Company s Tender Offer during the fourth quarter of 2010 and 252,064 shares purchased from the Company s defined contribution plan during the fourth quarter of 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. 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).

Conclusion of Evaluation

Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

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Inherent Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the Company s disclosure controls and procedures, management recognizes that any control, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the second quarter of 2011 that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 12 of the Notes to the Consolidated Financial Statements included in Part I to this Quarterly Report on Form 10-Q. Also, see Note 13 of the Notes to the Consolidated Financial Statements of the Company s Annual Report on Form 10-K for the year ended December 31, 2010, for additional disclosure related to the Company s legal proceedings.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

Pursuant to Section 10A(i)(2) of the Exchange Act, the Company is responsible for listing the non-audit services performed by Grant Thornton, the Company s external auditor, in the first six months of 2011, as approved by its Audit Committee. During the six months ended June 30, 2011, there were no non-audit services performed by Grant Thornton.

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ITEM 6. EXHIBITS

10.1	Third Amendment to Credit Agreement, dated March 28, 2011, by and among the Company, Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto, further amending that certain Amended and Restated Revolving Credit Agreement entered into as of October 23, 2008 among the Company, subsidiaries of the Company party thereto, Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto (transmitted herewith).
10.2	Fourth Amendment to Credit Agreement, dated July 20, 2011, by and among the Company, Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto, further amending that certain Amended and Restated Revolving Credit Agreement entered into as of October 23, 2008 among the Company, subsidiaries of the Company party thereto, Bank of America, N.A., as administrative agent and lender, and a syndicate of other lenders party thereto. (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on July 22, 2011).
31.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (transmitted herewith).
31.2	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (transmitted herewith).
32.1	Certification by Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (transmitted herewith).
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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SIGNATURES

Pursuant to the requirements 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.

Date: August 3, 2011

SL INDUSTRIES, INC.
(Registrant)

By: /s/ William T. Fejes

William T. Fejes
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Louis J. Belardi

Louis J. Belardi
Chief Financial Officer
(Principal Accounting Officer)