

SL INDUSTRIES INC
Form 10-K
March 19, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

TRANSITION REPORT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-4987

SL INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of other jurisdiction of
incorporation or organization)

21-0682685
(I.R.S. Employer
Identification No.)

520 Fellowship Road, Suite A114, Mt. Laurel, NJ
(Address of principal executive offices)

08054
(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.20 par value	NYSE MKT
Securities registered pursuant to Section 12(g) of the Act: None	

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities

Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

As of the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant was \$54,655,000 based on the closing price of the Registrant's common stock on the NYSE MKT on that date. Shares of the Registrant's common stock beneficially owned by each executive officer and director of the Registrant and by each person known by the Registrant to beneficially own 10% or more of its outstanding common stock have been excluded, in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of common stock outstanding as of February 28, 2014 was 4,125,000.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this report (Items 10, 11, 12, 13 and 14) is incorporated by reference from the Company's proxy statement to be filed pursuant to Regulation 14A with respect to the registrant's 2014 annual meeting of stockholders.

Table of Contents**TABLE OF CONTENTS**

	Page
<u>Part I</u>	
Item 1 <u>Business</u>	1
Item 1A <u>Risk Factors</u>	8
Item 1B <u>Unresolved Staff Comments</u>	8
Item 2 <u>Properties</u>	9
Item 3 <u>Legal Proceedings</u>	10
Item 4 <u>Mine Safety Disclosures</u>	11
<u>Part II</u>	
Item 5 <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	12
Item 6 <u>Selected Financial Data</u>	15
Item 7 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 7A <u>Quantitative and Qualitative Disclosures about Market Risk</u>	44
Item 8 <u>Financial Statements and Supplementary Data</u>	44
Item 9 <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	45
Item 9A <u>Controls and Procedures</u>	45
Item 9B <u>Other Information</u>	46
<u>Part III</u>	
Item 10 <u>Directors, Executive Officers and Corporate Governance</u>	46
Item 11 <u>Executive Compensation</u>	46
Item 12 <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	46
Item 13 <u>Certain Relationships and Related Transactions and Director Independence</u>	47
Item 14 <u>Principal Accounting Fees and Services</u>	47
<u>Part IV</u>	
Item 15 <u>Exhibits and Financial Statement Schedules</u>	47
<u>Signatures</u>	48
<u>Index to Financial Statements and Financial Statement Schedule</u>	F-1

Table of Contents

PART I

ITEM 1. BUSINESS

(a) General Development Of Business

SL Industries, Inc., through its subsidiaries, designs, manufactures and markets power electronics, motion control, power protection, power quality, and specialized communication equipment that is used in a variety of medical, commercial and military aerospace, solar, computer, datacom, industrial, telecom, transportation, utility, rail and highway equipment applications. Its products are generally incorporated into larger systems to improve operating performance, safety, reliability and efficiency. The Company's products are largely sold to Original Equipment Manufacturers (OEMs), the utility industry and, to a lesser extent, to commercial distributors. The Company was incorporated as G-L Electronics Company in the state of New Jersey on March 29, 1956. The Company's name was changed to G-L Industries, Inc. in November 1963; SGL Industries, Inc. in November 1970; and then to the present name of SL Industries, Inc. in September 1984. Unless the context requires otherwise, the terms the Company, SL Industries, we, us and our mean SL Industries, Inc., a Delaware corporation, and its consolidated subsidiaries after Reincorporation (defined and described below) and SL Industries, Inc., a New Jersey corporation prior to Reincorporation. In the context of describing the Reincorporation, SL-NJ means SL Industries, Inc., a New Jersey corporation, and SL-DE means SL Industries, Inc., a Delaware corporation and wholly owned subsidiary of SL-NJ.

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

On August 9, 2012, the Company entered into a Credit Agreement with PNC Bank, National Association, as administrative agent and lender (PNC Bank), and the lenders from time to time party thereto, as amended (the 2012 Credit Facility), to replace its 2008 Credit Facility. The 2012 Credit Facility provides for borrowings up to \$40,000,000 and under certain conditions maximum borrowings up to \$70,000,000. The 2012 Credit Facility included a \$5,000,000 sublimit for letters of credit (subsequently amended on March 11, 2013, as described below) and provides for a separate \$10,700,000 letter of credit which expires one year from the date of closing, with annual extensions. The 2012 Credit Facility expires on August 9, 2016.

Table of Contents

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

On May 28, 2013 a letter of credit in the amount of \$8,564,000 was issued in favor of the Environmental Protection Agency ("EPA") to provide financial assurance related to the Company's environmental payments in accordance with the terms of the Consent Decree reached with the United States Department of Justice ("DOJ") and EPA related to its liability for both OU-1 and OU-2 (see Note 16 for additional information). The letter of credit expires on May 28, 2014 and requires an annual commitment fee of 0.125% and standby commission of 1%, and does not reduce amounts available under the 2012 Credit Facility.

On June 20, 2013, the Company entered into a Second Amendment and Joinder to Credit Agreement and to Security Agreement (the "Second Amendment"), which amends the 2012 Credit Facility in order to reflect the Reincorporation of the Company. The Second Amendment, among other things, joins the Company as a "Borrower" under the Credit Agreement and a "Debtor" under the Security Agreement entered into by SL-NJ in connection with the 2012 Credit Facility.

On November 16, 2010, the Board of Directors authorized a plan that allows for the repurchase up to an aggregate of 470,000 shares of the Company's outstanding common stock (the "2010 Repurchase Plan"). Any repurchases pursuant to the 2010 Repurchase Plan would be made in the open market or in negotiated transactions. During 2013, the Company purchased approximately 87,000 shares of Company stock at an average price of \$23.99 a share through the 2010 Repurchase Plan. As of December 31, 2013, approximately 243,000 shares remained available for purchase under the 2010 Repurchase Plan. Currently the 2010 Repurchase Plan has no expiration date.

(b) Financial Information About Segments

Financial information about the Company's business segments is incorporated herein by reference to Note 23 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

(c) Narrative Description Of Business

Segments

The Company currently operates under four business segments: 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. 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.

Table of Contents

SLPE SL Power Electronics Corp. designs, manufactures and markets high-reliability power conversion products in internal and external footprints. The Company's power supplies provide a reliable and safe power source for the customer's specific equipment needs. SLPE, which sells products under three brand names (SL Power Electronics, Condor and Ault), is a major supplier to the OEMs of medical, industrial/instrumentation, LED, and information technology equipment. For the years ended December 31, 2013, December 31, 2012 and December 31, 2011, net sales of SLPE, as a percentage of consolidated net sales from continuing operations, were 38%, 39% and 43%, respectively.

HIGH POWER GROUP The High Power Group sells products under two brand names: TEAL and MTE. TEAL designs and manufactures power quality products that include noise suppression isolation transformers, power conditioned distribution systems, voltage regulators, and high level integrated cabinets with preinstalled prewired power quality and distribution components. TEAL primarily sells to OEMs of medical imaging, medical treatment, military aerospace, semiconductor, solar, and advanced simulation systems. MTE designs and manufactures power quality solutions used to protect electrical equipment, bring harmonics into compliance, and improve the efficiency of variable speed motor drive systems. MTE's standard product lines include: harmonic filters, three-phase AC reactors, DC link chokes, and motor protection filters. TEAL and MTE also design and build customer specific and custom products for special applications. These products are typically used in industrial plants, renewable energy facilities, and commercial buildings. For the years ended December 31, 2013, December 31, 2012 and December 31, 2011, net sales of the High Power Group, as a percentage of consolidated net sales from continuing operations, were 34%, 32% and 30%, respectively.

SL-MTI SL-MTI designs and manufactures high power density precision motors that are used in numerous mission critical applications, including military and commercial aerospace, oil and gas, medical, and industrial products. For the years ended December 31, 2013, December 31, 2012 and December 31, 2011, net sales of SL-MTI, as a percentage of consolidated net sales from continuing operations, were 18%, 18% and 16%, respectively.

RFL RFL designs and manufactures communication and power protection products/systems that are used to protect electric utility transmission lines and apparatus by isolating faulty transmission lines from a transmission grid. These products are sophisticated communication systems that allow electric utilities to manage their high-voltage power lines more efficiently. RFL also provides products and systems used by rail and highway industries. RFL provides systems design, commissioning, training, customer service, and maintenance for all of its products. For the years ended December 31, 2013, December 31, 2012 and December 31, 2011, net sales of RFL, as a percentage of consolidated net sales from continuing operations, were 10%, 11% and 11%, respectively.

Discontinued Operations

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

Table of Contents

Raw Materials

Raw material components are supplied by various domestic and international vendors. In general, availability of materials is not a problem for the Company; however, at times the Company has had to locate alternate suppliers for certain key components. Raw materials are purchased directly from the manufacturer whenever possible to avoid distributor mark-ups. Average lead times generally run from immediate availability to 22 weeks. Lead times can be substantially higher for strategic components subject to industry shortages. In most cases, viable multiple sources are maintained for flexibility and competitive leverage.

Copper is used primarily by the High Power Group in its transformers and reactors. In an attempt to limit the volatility of copper costs, the High Power Group entered into forward purchase agreements during 2013 in the aggregate amount of approximately \$2,420,000. As of December 31, 2013, forward purchase agreements in the aggregate amount of approximately \$2,300,000 were entered into for 2014. As of December 31, 2013, no copper purchase commitments were greater than nine months.

Patents, Trademarks, Licenses, Franchises And Concessions

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

Seasonality

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

Significant Customers

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

Backlog

At March 2, 2014, March 1, 2013 and March 2, 2012, backlog was \$70,163,000, \$65,200,000, and \$65,415,000, respectively. The backlog at March 2, 2014 increased by \$4,963,000, or 8%, compared to March 1, 2013. The High Power Group and SL-MTI each recorded an increase in backlog, while SLPE and RFL each recorded a decrease in backlog at March 2, 2014, compared to March 1, 2013.

Competitive Conditions

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

Table of Contents

Environmental

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

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

Loss contingencies include potential obligations to investigate and eliminate or mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as Superfund sites and other facilities, whether or not they are currently in operation. The Company is currently participating in environmental assessments and cleanups at a number of sites and in the future may be involved in additional environmental assessments and cleanups. Based upon investigations completed to date by the Company and its independent engineering-consulting firms, management has provided an estimated accrual for all known costs believed to be probable and costs that can be reasonably estimated in the amount of \$21,789,000, of which \$17,200,000 is included as other long-term liabilities, with the remainder recorded as other short-term accrued liabilities, as of December 31, 2013. However, it is the nature of environmental contingencies that other circumstances might arise, the costs of which are indeterminable at this time due to such factors as changing government regulations and stricter standards, the unknown magnitude of cleanup costs, and the unknown timing and extent of the remedial actions that may be required. These other circumstances could result in additional expenses or judgments, or offsets thereto. The adverse resolution of any one or more of these other circumstances could have a material adverse effect on the business, operating results, financial condition or cash flows of the Company. The Company's environmental costs primarily relate to discontinued operations and such costs have been recorded in discontinued operations, net of tax.

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. The Company's environmental contingencies with respect to the Pennsauken Site are fully discussed in Item 3. Legal Proceedings included in Part I of this Annual Report on Form 10-K.

With respect to the Camden Site, the Company has reported soil contamination and a groundwater contamination plume emanating from the site. The New Jersey Department of Environmental Protection (NJDEP) approved, and the Company implemented in 2010, an interim remedial action pilot study to inject neutralizing chemicals into the unsaturated soil. Based on an assessment of post-injection data, our consultants believe the pilot study can be implemented as a full scale soil remedy to treat unsaturated contaminated soil.

Table of Contents

A Remedial Action Workplan for soils (RAWP) is being developed. The RAWP will select the injection remedy as the site wide remedy for unsaturated soils, along with demolition and proper disposal of the former concrete building slab and targeted excavation and disposal of impacted soil immediately underlying the slab. Additionally, the RAWP will address a small area of impacted soil off the property. The RAWP for soils will be submitted to the NJDEP in the second quarter of 2014, by the Licensed Site Remediation Professional (LSRP) for the site. The RAWP is scheduled to be implemented in the fourth quarter of 2014. Also, the Company s environmental consultants finalized an interim remedial action pilot study to treat on-site contaminated groundwater, consisting of injecting food-grade product, into the groundwater at the down gradient property boundary, to create a bio-barrier. The pilot study includes post-injection monitoring to assess the bio-barrier s ability to treat contaminated groundwater. Implementation of the groundwater pilot study is currently underway with post-injection effectiveness monitoring expected to continue through the third quarter of 2015.

As previously reported, the Company is currently participating in environmental assessments and cleanups at a number of sites. One of these sites is a commercial facility, located in Wayne, New Jersey. Contaminated soil and groundwater has undergone remediation with NJDEP oversight, but contaminants of concern (COCs) in groundwater and surface water, which extend off-site, still remain above applicable NJDEP remediation standards. A soil remedial action plan will be required in order to remove the new soil source contamination that continues to impact groundwater. Our consultants have reviewed data to determine what supplemental remedial action is necessary for soils, and whether to modify or expand the groundwater remedy that will likely consist of additional in-situ injections of food grade product into the groundwater. Estimates have been developed by the Company s consultants, which includes costs to enhance the existing vapor intrusion system, remedial injections, soil excavation and additional tests and remedial activities. Costs related to this site are recorded as part of discontinued operations, net of tax.

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. A soil vapor extraction system has been operating at the site since October 2008. In 2013 the regulatory and screening levels for soil vapor and groundwater were lowered by the state for some of the contaminants at the site. In response to this regulatory change SL-MTI s consultants will conduct additional testing to delineate site impacts and update the site conceptual model. SL-MTI increased its reserve related to this regulatory change by approximately \$97,000 during the fourth quarter of 2013. Costs related to this site are recorded as a component of continuing operations.

Employees

As of December 31, 2013, the Company had approximately 1,400 employees. Of these employees, 150, or approximately 11%, were subject to collective bargaining agreements in Mexico.

Table of Contents

Foreign Operations

In addition to manufacturing operations in California, Minnesota, New Jersey and Wisconsin, the Company manufactures substantial quantities of products in premises leased in Mexicali, Mexico, Matamoros, Mexico, Tecate, Mexico, and Xianghe, China. SLPE manufactures most of its products in Mexico and China. TEAL, which is part of the High Power Group, has transferred the majority of its manufacturing to a wholly-owned subsidiary located in Mexico. SL-MTI manufactures a significant portion of its products in Mexico. These external and foreign sources of supply present risks of interruption for reasons beyond the Company's control, including political or economic instability and other uncertainties.

Generally, the Company's sales are priced in U.S. dollars (USD) and its costs and expenses are priced in U.S. dollars, Mexican pesos (MXN) and Chinese yuan (CNH). SLPE, the High Power Group and SL-MTI price and invoice their sales primarily in U.S. dollars. The Mexican subsidiaries of SLPE, the High Power Group and SL-MTI maintain their books and records in Mexican pesos. SLPE's subsidiaries in China maintain their books and records in Chinese yuan; however, most of their sales are invoiced in U.S. dollars. Business operations conducted in Mexico or China incur their respective labor costs and supply expenses in Mexican pesos and Chinese yuan, as the case may be. RFL sales, costs, and expenses are priced in U.S. dollars.

The competitiveness of the Company's products relative to locally produced products may be affected by the performance of the U.S. dollar compared with that of its foreign customers' and competitors' currencies. Foreign net sales comprised 21%, 20% and 21% of net sales from continuing operations for fiscal 2013, 2012 and 2011, respectively. Additionally, the Company is exposed to foreign currency exchange rate fluctuations, which may result from fluctuations in the value of the Mexican peso and Chinese yuan versus the U.S. dollar.

During 2013 and 2012, the Company entered into a series of foreign currency forward contracts to hedge its exposure to foreign exchange rate movements in its forecasted expenses in China and Mexico. The foreign currency forwards are not speculative and are being used to manage the Company's exposure to foreign exchange rate movements. Foreign currency forward agreements involve fixing the USD-MXN and USD-CNH exchange rates for delivery of a specified amount of foreign currency on a specified date. The Company has elected not to apply hedge accounting to these derivatives and they are marked to market through earnings. Therefore, gains and losses resulting from changes in the fair value of these contracts are recognized at the end of each reporting period directly in earnings in other gain, net on the Consolidated Statements of Income.

For additional information related to financial information about foreign operations, see Notes 17 and 23 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

Additional Information

Additional information regarding the development of the Company's businesses during 2013 and 2012 is contained in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II and Notes 1 and 4 of the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

Table of Contents

The Company's Current Reports on Form 8-K, Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K are electronically filed with or furnished to Securities and Exchange Commission (the "SEC"), and all such reports and amendments to such reports filed have been and will be made available, free of charge, through the Company's website (<http://www.slindustries.com>) as soon as reasonably practicable after such filing. Such reports will remain available on the Company's website for at least 12 months. The contents of the Company's website are not incorporated by reference into this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents**ITEM 2. PROPERTIES**

Set forth below are the properties where the Company conducted business as of December 31, 2013.

Location	General Character	Owned or Leased		
		Approx. Square Footage		And Expiration Date
Ventura, CA	Administration, design and sales of power supply products (SLPE)	31,200	Leased	1/31/2016
Canton, MA	Design of power supply products (SLPE)	2,560	Leased	8/31/2016
Mexicali, Mexico	Manufacture and distribution of power supply products (SLPE)	82,400	Leased	12/15/2020
Shanghai, China	Design of power supply products (SLPE)	8,800	Leased	7/31/2016
Shanghai, China	Design of power supply products (SLPE)	600	Leased	7/31/2014
Xianghe, China	Manufacture and distribution of power supply products and employee dormitory (SLPE)	60,600	Leased	month to month
Xianghe, China	Manufacture and distribution of power supply products and employee dormitory (SLPE)	43,300	Owned	
San Diego, CA	Administration, sales, design and manufacture of power distribution and conditioning units (High Power Group)	35,500	Leased	12/31/2017
Tecate, Mexico	Manufacture of power distribution and conditioning units (High Power Group)	20,800	Leased	3/31/2015
Tecate, Mexico	Manufacture of power distribution and conditioning units (High Power Group)	8,900	Leased	11/30/2014
Menomonee Falls, WI	Design, sales, manufacture and distribution of power quality products (High Power Group)	38,500	Leased	7/31/2015
Montevideo, MN	Administration, design, sales and manufacture of precision motors and motion control systems (SL-MTI)	30,000	Owned	
Matamoros, Mexico	Manufacture of precision motors (SL-MTI)	28,300	Leased	12/31/2014
Eden Prairie, MN	Administration and design of precision motors and motion control systems (SL-MTI)	1,950	Leased	3/31/2018
Boonton Twp., NJ	Administration, design, sales and manufacture of electric utility equipment protection systems (RFL)	78,000	Owned	
Pennsauken, NJ	Land (Unallocated Corporate Assets) ⁽¹⁾	6,000	Owned	
Mt. Laurel, NJ	Corporate office (Unallocated Corporate Assets)	4,200	Leased	11/30/2015

⁽¹⁾ Formerly a document warehouse, which was demolished during December 2013. The property was originally used for industrial surface finishing operations.

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

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

Environmental Matters

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

In 2006 the United States Environmental Protection Agency (the EPA) named the Company as a potential responsible party (a PRP) in connection with the remediation of the Puchack Well Field, which has been designated as a Superfund Site. The EPA is remediating the Puchack Well Field Superfund Site in two separate operable units. The first operable unit (OU-1) consists of an area of chromium groundwater contamination in three aquifers that exceeds the selected cleanup standard. The second operable unit (OU-2) pertains to sites that are allegedly the sources of contamination for the first operable unit. The EPA advised the Company in October 2010 that OU-2 includes soil contamination in the immediate vicinity of the Company s Pennsauken Site.

The Company has reached an agreement with both the DOJ and EPA effective April 30, 2013 related to its liability for both OU-1 and OU-2 and has entered into a Consent Decree which governs the agreement, the terms of which are as follows. The Company has agreed to perform the remediation for OU-2. Also, the Company has agreed to pay a fixed sum for the EPA s past cost for OU-2 and a portion of the EPA s past cost for OU-1. The payments are to be made in five equal payments of \$2,141,000, for a total \$10,705,000, plus interest. The Company has also agreed to pay the EPA s costs for oversight of the OU-2 remediation. The United States District Court judge signed the Consent Decree effective April 30, 2013, thereby triggering the Company s obligation under the Consent Decree. On May 10, 2013 the Company made the first payment related to its obligation under the Consent Decree in the amount of \$2,185,000, which included interest. The next four payments will be made on the anniversary of the first payment plus ten days in the same amount of \$2,141,000, plus interest. On May 28, 2013, a letter of credit in the amount of \$8,564,000 was issued in favor of the EPA to provide financial assurance related to the Company s remaining obligation to pay for the EPA s past cost as mentioned above. Also, on July 19, 2013 the Company obtained financial assurance as required by the terms of the Consent Decree related to its obligations to remediate OU-2. The financial instruments mentioned above did not affect the Company s availability under its Credit facility (see Note 12 in the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K).

On December 3, 2012, the Company received a demand letter from the State of New Jersey. The demand is for \$1,300,000 for past and future cleanup costs and \$500,000 for natural resource damages (NRD) for a total of \$1,800,000 (the New Jersey Claim). Although the Company and its counsel believe that it has meritorious defenses to any claim for reimbursement, on February 13, 2013 the Company offered to pay \$250,000 to fully resolve the claim presented by the State of New Jersey for past costs, future costs and NRD at the Puchack Well Field Superfund site. The State of New Jersey has not responded to the Company s counter-offer. Based on the current available information, the Company has estimated a total combined potential liability for OU-1 and OU-2 and the New Jersey Claim to be \$17,587,000 related to its combined liability related to this site.

Table of Contents

The estimated OU-2 remediation liability is based upon the EPA's plan for remediation as provided in the Record of Decision for OU-2, which was issued by the EPA in September 2011, and the evaluation of data by the Company's environmental engineering consultants. The liability for OU-1 and OU-2 is based upon the current terms of the Consent Decree.

Other

During 2012, the Company conducted an investigation to determine whether certain employees of SL Xianghe Power Electronics Corporation, SL Shanghai Power Electronics Corporation and SL Shanghai International Trading Corporation, three of the Company's indirect wholly-owned subsidiaries incorporated and operating exclusively in China, may have improperly provided gifts and entertainment to government officials (the China Investigation). The Company had retained outside counsel and forensic accountants to assist in the China Investigation. Based upon the China Investigation, the estimated amounts of such gifts and entertainment were not material to the Company's financial statements. Such estimates did not take into account the costs to the Company of the China Investigation itself, or any other additional costs.

The China Investigation included determining whether there were any violations of laws, including the U.S. Foreign Corrupt Practices Act (FCPA). The Company's outside counsel contacted the DOJ and the Securities and Exchange Commission (the SEC) voluntarily to disclose that the Company was conducting an internal investigation, and agreed to cooperate fully. Additionally, the Company hired outside consultants to provide assistance in implementing a mandatory FCPA compliance program for all of its employees which is now completed by such employees annually. Also, during the first and second quarters of 2013 the Company engaged outside consultants to perform FCPA compliance tests at its operations in China and Mexico, which, going forward, will be performed by the Company annually. On September 26, 2013, the DOJ notified the Company that it had closed its inquiry into this matter without filing criminal charges. The Company has not received an update from the SEC regarding the status of its inquiry. The Company cannot predict at this time whether any action may be taken by the SEC.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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

The Company's common stock is currently listed on the NYSE MKT under the ticker symbol SLI. The following table sets forth the high and low closing sales price per share of the Company's common stock for the periods indicated:

	Year Ended December 31, 2013		Year Ended December 31, 2012	
	HIGH	LOW	HIGH	LOW
Stock Prices				
1st Quarter	\$ 19.65	\$ 16.60	\$ 20.00	\$ 16.48
2nd Quarter	\$ 26.04	\$ 18.35	\$ 19.91	\$ 11.30
3rd Quarter	\$ 31.00	\$ 22.14	\$ 16.75	\$ 13.00
4th Quarter	\$ 30.50	\$ 24.58	\$ 20.75	\$ 11.83

 Holders of Record

As of February 28, 2014, there were approximately 443 holders of record of the Company's common stock.

Dividends

On November 26, 2012, the board of directors of the Company declared a one-time special cash dividend of \$2.00 per common share (the Dividend) for an aggregate dividend of approximately \$8,322,000. The Dividend was payable on December 17, 2012 to shareholders of record at the close of business on December 6, 2012. The Dividend was funded primarily from available cash on hand with the remainder from borrowings under the 2012 Credit Facility. No dividends were declared during fiscal 2013.

The declaration and payment of dividends in the future, if any, and their amounts, will be determined by the Board of Directors in light of conditions then existing, including the Company's earnings, financial condition and business requirements (including working capital needs), and other factors. On August 9, 2012, the Company entered into the 2012 Credit Facility with PNC Bank to replace its 2008 Credit Facility. The 2012 Credit Facility imposes restrictions on our ability to pay dividends, and thus the Company's ability to pay dividends on our common stock will depend upon, among other things, the Company's level of indebtedness at the time of the proposed dividend and whether the Company is in default under any of our debt obligations. The Company's ability to pay dividends will also depend on the requirements of any future financing agreements to which we may be a party.

Table of Contents**Issuer Purchases of Equity Securities**

On November 16, 2010, the Board of Directors authorized a plan that allows for the repurchase up to an aggregate of 470,000 shares of the Company's outstanding common stock (the 2010 Repurchase Plan). Any repurchases pursuant to the 2010 Repurchase Plan would be made in the open market or in negotiated transactions. During 2013, the Company purchased approximately 87,000 shares of Company stock at an average price of \$23.99 a share through the 2010 Repurchase Plan. As of December 31, 2013, approximately 243,000 shares remained available for purchase under the 2010 Repurchase Plan. Currently the 2010 Repurchase Plan has no expiration date.

The following table presents information related to the repurchase of common stock that the Company made during the twelve months ended December 31, 2013:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased under Publicly Announced Plans or Programs
January 2013				330,000
February 2013				330,000
March 2013				330,000
April 2013				330,000
May 2013	19,000	\$ 23.02	19,000	311,000
June 2013	14,000	\$ 24.82	14,000	297,000
July 2013	8,000	\$ 24.83	8,000	289,000
August 2013	31,000	\$ 23.68	31,000	258,000
September 2013	4,000	\$ 24.62	4,000	254,000
October 2013	9,000	\$ 24.60	9,000	245,000
November 2013	1,000	\$ 24.95	1,000	244,000
December 2013	1,000	\$ 24.93	1,000	243,000
Total	87,000	\$ 23.99	87,000	243,000

⁽¹⁾ The number of shares purchased pursuant to the 2010 Repurchase Plan.

Table of Contents**Equity Compensation Plan Information**

Information relating to securities authorized for issuance under equity compensation plans as of December 31, 2013, is as follows:

	Number of securities to be issued upon exercise of outstanding options, warranty and rights (a)	Weighted-average exercise price of outstanding options, warranty and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by security holders	153,000 ⁽¹⁾	\$ 11.99 ⁽²⁾	163,000 ⁽³⁾
Equity compensation plans not approved by security holders	none		
Total	153,000	\$ 11.99	163,000

(1) This amount includes the following:

83,000 shares issuable upon the exercise of outstanding stock options under the 2008 Incentive Stock Plan (the 2008 Plan) with a weighted-average price of \$11.99.

7,000 restricted stock units (RSUs) earned under the Company s 2011 Long-term Incentive Plan (the 2011 LTIP) pursuant to the 2008 Plan.

43,000 RSUs issuable under the Company s 2012 Long-term Incentive Plan (the 2012 LTIP) pursuant to the 2008 Plan. Assumes that outstanding performance-based RSUs will vest at target.

20,000 RSUs issuable under the Company s 2013 Long-term Incentive Plan (the 2013 LTIP) pursuant to the 2008 Plan. Assumes that outstanding performance-based RSUs will vest at target.

- (2) The 2013 LTIP, 2012 LTIP and 2011 LTIP RSUs have been excluded from the computation of the weighted-average exercise price since these awards have no exercise price.
- (3) This amount represents the number of shares available for issuance pursuant to stock options and awards that could be granted in the future under the Company's active shareholder approved stock plan, the 2008 Plan. The 2008 Plan allows for the issuance of up to 450,000 shares.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

Selected consolidated financial data with respect to the years ended December 31, 2013, 2012, 2011, 2010, and 2009, are presented below.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(amounts in thousands except per share data)				
Net sales	\$ 204,688	\$ 200,577	\$ 212,331	\$ 189,768	\$ 147,551
Income from continuing operations ⁽¹⁾	\$ 9,332	\$ 9,357	\$ 12,835	\$ 9,782	\$ 3,564
(Loss) from discontinued operations ⁽²⁾	\$ (1,092)	\$ (1,580)	\$ (4,637)	\$ (7,226)	\$ (628)
Net income ⁽³⁾	\$ 8,240	\$ 7,777	\$ 8,198	\$ 2,556	\$ 2,936
Diluted net income per common share	\$ 1.97	\$ 1.80	\$ 1.79	\$ 0.44	\$ 0.49
Shares used in computing diluted net income per common shares ⁽⁴⁾	4,184	4,330	4,573	5,811	6,015
Year-end financial position					
Working capital ⁽⁵⁾	\$ 37,051	\$ 26,309	\$ 34,404	\$ 21,029	