

Edgar Filing: SL INDUSTRIES INC - Form 10-K

was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark 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 any amendment to this Form 10-K. X

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [] No [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant based on the closing price of the Common Stock on the last business day of the Registrant's most recently completed second financial quarter, as reported by the American Stock Exchange was approximately \$46,559,000.

The number of shares of common stock outstanding as of March 2, 2005, was 5,486,597.

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 2005 annual meeting of stockholders.

=====

TABLE OF CONTENTS

	PAGE

PART I	
Item 1 Business.....	1
Item 2 Properties.....	13
Item 3 Legal Proceedings.....	13
Item 4 Submission of Matters to a Vote of Security Holders.....	16
PART II	
Item 5 Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.....	16
Item 6 Selected Financial Data.....	18
Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.....	18
Item 7A Quantitative and Qualitative Disclosures about Market Risk.....	33
Item 8 Financial Statements and Supplementary Data.....	33
Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	33
Item 9A Controls and Procedures.....	33
Item 9B Other Information.....	34

Edgar Filing: SL INDUSTRIES INC - Form 10-K

PART III

Item 10	Directors and Executive Officers of the Registrant.....	34
Item 11	Executive Compensation.....	34
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	34
Item 13	Certain Relationships and Related Transactions.....	34
Item 14	Principal Accountant Fees and Services.....	34

PART IV

Item 15	Exhibits and Financial Statement Schedules.....	35
SIGNATURES.....		36
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE.....		F1

PART I

ITEM 1. BUSINESS

(A) GENERAL DEVELOPMENT OF BUSINESS

The Company, through its subsidiaries, designs, manufactures and markets power electronics, power motion, power protection, teleprotection and specialized communication equipment that is used in a variety of medical, aerospace, computer, datacom, industrial, telecom, transportation and electric power utility equipment applications. Its products are generally incorporated into larger systems to increase operating safety, reliability and efficiency. The Company's products are largely sold to Original Equipment Manufacturers ("OEMs"), the electric power utility industry, and to a lesser extent, to commercial distributors. On March 29, 1956, the Company was incorporated as G-L Electronics Company in the state of New Jersey. Its 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.

On September 6, 2001, the Company sold substantially all of the assets of SL Waber, Inc. ("SL Waber") and all the stock of SL Waber's subsidiary, Waber de Mexico S.A. de C.V. The Company received cash of \$1,053,000 at closing. In addition, the purchaser agreed to assume certain liabilities and ongoing obligations of SL Waber. As a result of the transaction, the Company recorded a pre-tax loss from the sale of discontinued operations of approximately \$2,745,000. The results of operations of SL Waber are presented as discontinued operations for all periods presented in the financial statements set forth herein.

In December 2001, the Company surrendered for cash substantially all of its life insurance policies with a total surrender value of \$11,109,000. Additional policies with a cash surrender value of \$447,000 were surrendered in February 2002. These policies insured the lives of former and present executives and key employees and had been maintained as an internal mechanism to fund the Company's obligations under its capital accumulation plan and deferred compensation plan. Aggregate liabilities under those plans, which are owed to former and current executives and key employees, amount to \$4,154,000 as of December 31, 2004. Proceeds from the life insurance policies were received in December 2001, January 2002 and March 2002 and were used to pay down bank debt. Beneficiaries under the capital accumulation plan and deferred compensation plan remain general unsecured creditors of the Company.

Edgar Filing: SL INDUSTRIES INC - Form 10-K

In December 2001, the Company sold back to the purchaser of a former subsidiary a mortgage note in the outstanding principal amount of \$2,200,000. The mortgage note secured the real property of the former subsidiary. In January 2002, the Company received cash proceeds of \$1,600,000 from the sale of the mortgage note, all of which were used to pay down bank debt.

On January 22, 2002, the Company held its annual meeting of shareholders for the 2001 calendar year. At that annual meeting, all eight members of the Board of Directors stood for election. In addition, five nominees from a committee comprised of representatives of two institutional shareholders (the "RORID Committee"), stood for election to the Board of Directors. Upon the certification of the election results on January 24, 2002, the five nominees of the RORID Committee were elected (James Henderson, Glen Kassan, Warren Lichtenstein, Mark Schwarz and Steven Wolosky), and three incumbent directors were

Page 1

reelected (J. Dwane Baumgardner, Charles T. Hopkins and J. Edward Odegaard). Shortly after the annual meeting, Messrs. Hopkins and Odegaard resigned from the Board of Directors. Upon the election of the five RORID Committee nominees, each of the executive officers of the Company, Owen Farren, David Nuzzo, and Jacob Cherian, was entitled to payment under his respective change-in-control agreement. As a result, in January 2002, the Company paid Messrs. Farren, Nuzzo, and Cherian, respectively, \$877,565, \$352,556, and \$250,000 under such agreements.

At the initial meeting of the new Board of Directors on January 24, 2002, Warren Lichtenstein was elected Chairman of the Board. On February 4, 2002, Warren Lichtenstein was elected Chief Executive Officer and Glen Kassan was elected President of the Company. Additionally, David Nuzzo was reelected Vice President-Finance and Administration, Treasurer and Secretary. Owen Farren was terminated as Chairman, Chief Executive Officer and President effective February 4, 2002. All senior management teams are continuing in their positions, other than Jacob Cherian, who resigned, as Controller of the Company, effective April 26, 2002.

On March 8, 2002, Richard Smith was elected to the Board of Directors, filling one of the two vacant directorships. On June 6, 2002, Avrum Gray was elected to the Board of Directors to fill the last vacancy. In May 2003, Richard Smith resigned from the Board of Directors. On May 29, 2003, James Risher was elected to the Board of Directors to fill the vacancy created by the resignation of Mr. Smith.

At the Company's Annual Meeting of Shareholders held on June 9, 2004, Steven Wolosky did not stand for reelection. The Company currently has seven members on its Board of Directors.

On January 6, 2003, the Company sold all of the issued and outstanding shares of capital stock of its indirect subsidiary, Elektro-Metall Export GmbH ("EME"), for a purchase price of \$8,000,000, which consisted of cash and purchaser notes. In addition, a distribution of \$2,000,000 was paid prior to closing by EME to a subsidiary of the Company and the purchaser did not require that the Company pay down EME's bank debt of approximately \$3,600,000 prior to closing. The purchaser notes were a \$3,000,000 secured note that bore interest at the prime rate plus 2%, which was paid on March 14, 2003, and a \$1,000,000 unsecured note that bore interest at an annual rate of 12%, which was paid on April 2, 2004. Cash proceeds of \$4,000,000 received at closing plus the \$2,000,000 distribution and

Edgar Filing: SL INDUSTRIES INC - Form 10-K

the \$3,000,000 secured note paid March 14, 2003 were used to pay down bank debt. All cash proceeds related to the sale of EME have been received. As a result of the transaction, the Company recorded a pre-tax loss from the sale of discontinued operations of approximately \$1,619,000 in 2002. The tax effects were not material to the transaction.

On January 6, 2003, the Company entered into a three-year senior secured credit facility with LaSalle Business Credit LLC. The credit facility provides for a maximum indebtedness of \$20,000,000, with a revolving tranche and a term debt tranche. Outstanding indebtedness under this facility bears interest ranging from the prime rate plus .5% to the prime rate plus 2%. The credit facility is secured by all of the Company's assets and requires that the Company maintain specified financial ratios. Loan proceeds at closing were used to retire the Company's former bank debt, which matured on December 31, 2002, and for working capital purposes.

On April 30, 2003, the Company de-listed its shares on the New York Stock Exchange ("NYSE"), and

Page 2

listed its shares for trading on the American Stock Exchange ("AMEX"). The Company's common stock began trading on the AMEX under the symbol "SLI." Additionally, on April 30, 2003, the Company's symbol on the Philadelphia Stock Exchange was changed from "SL" to "SLI." The Company had received notification from the NYSE that it was below the market capitalization and stockholders' equity requirements of the NYSE's listing standards. After it was unable to make sufficient progress towards meeting the listing standards, management made a determination to transfer the Company's listing to the AMEX.

On November 24, 2003, the Company sold substantially all of the assets of its subsidiary, SL Surface Technologies, Inc. ("SurfTech"). The Company received cash of \$600,000 at closing. In addition, the purchaser assumed certain liabilities and ongoing obligations of SurfTech. As a result of the transaction, the Company recorded an after tax loss from the sale of discontinued operations of approximately \$442,000. The results of operations of SurfTech are presented as discontinued operations for all periods presented in the financial statements.

(B) FINANCIAL INFORMATION ABOUT SEGMENTS

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

(C) NARRATIVE DESCRIPTION OF BUSINESS

SEGMENTS

The Company currently operates under four business segments: Condor DC Power Supplies, Inc. ("Condor"), Teal Electronics Corp. ("Teal"), SL Montevideo Technology, Inc. ("SL-MTI"), and RFL Electronics Inc. ("RFL"). In the second quarter of 2003, management decided to combine Condor and Teal into one business unit classified as the Power Electronics Group. Accordingly, for the years ended December 31, 2004, 2003 and 2002 the Company's reportable segments consisted of Condor, Teal (collectively, The Power Electronics Group), SL-MTI and RFL.

CONDOR - Condor produces a wide range of standard and custom power supply products that convert AC or DC power to direct electrical current to be used in

Edgar Filing: SL INDUSTRIES INC - Form 10-K

customers' end products. Standard and custom AC-DC and DC-DC power supplies in both linear and switching configurations are produced, with ranges in power from 1 to 5000 watts, and are manufactured in either commercial or medical configurations. Power supplies closely regulate and monitor power outputs, using patented filter and other technologies, resulting in little or no electrical interference. Power supplies are also used in drive systems for electric equipment and other motion control systems. For the years ended December 31, 2004, December 31, 2003 and December 31, 2002, net sales of Condor, as a percentage of consolidated net sales from continuing operations, were 35%, 38% and 36%, respectively.

TEAL - Teal designs and manufactures customized power conditioning and power distribution units. Products are developed and manufactured for custom electrical subsystems for OEMs of semiconductor, medical imaging, graphics and telecommunication systems. Outsourcing the AC power system helps OEMs reduce cost and time to market while increasing system performance and customer satisfaction.

Page 3

Customers are also helped by getting necessary agency approvals. Custom products are often called "Power Conditioning and Distribution Units," which provide voltage conversion and stabilization, system control, and power distribution for systems such as CT and MRI scanners, chip testers and industrial systems. For the years ended December 31, 2004, December 31, 2003 and December 31, 2002, net sales of Teal, as a percentage of consolidated net sales from continuing operations, were 25%, 19% and 18%, respectively.

SL-MTI - SL-MTI is a technological leader in the design and manufacture of intelligent, high power density precision motors. Important programs in both traditional and new market areas have been won as a result of new motor and (patented and patent pending) motor control technologies. New motor and motion controls are used in numerous applications, including aerospace, medical and industrial products. Negotiations are continuing with customers on advanced designs for numerous programs, including fuel cell energy storage systems, high performance missile guidance motors, and medical/surgical drills and saws. For the years ended December 31, 2004, December 31, 2003 and December 31, 2002, net sales of SL-MTI, as a percentage of consolidated net sales from continuing operations, were 21% for each period.

RFL - RFL designs and manufactures teleprotection 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 and include a system that is a completely digital, fully-integrated relay/communications terminal, suitable for high-speed protective relaying of overhead or underground high-voltage transmission lines. RFL provides customer service and maintenance for all electric utility equipment protection systems. For the years ended December 31, 2004, December 31, 2003 and December 31, 2002, net sales of RFL, as a percentage of consolidated net sales from continuing operations, were 19%, 22% and 25%, respectively.

THE COMPANY'S DISCONTINUED OPERATIONS CONSIST OF:

SURFTECH - 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. For the years ended December 31, 2003 and December 31, 2002, net sales of SurfTech

Edgar Filing: SL INDUSTRIES INC - Form 10-K

were \$1,840,000 and \$2,237,000, respectively.

EME - EME is based in Ingolstadt, Germany with low cost manufacturing operations in Paks, Hungary. It is a manufacturer of electromechanical actuation systems, power drive units and complex wire harness systems for use in the aerospace and automobile industries. On January 6, 2003, the Company sold all of the issued and outstanding shares of capital stock of EME. As a result, EME is reported as a discontinued operation for all periods presented. For the year ended December 31, 2002, net sales of EME were \$27,658,000.

SL WABER - SL Waber manufactures surge suppressors that protect computers, audiovisual and other electronic equipment from sudden surges in power. These products are sold to OEM customers as well as to distributors and dealers of electronics and electrical supplies and retailers and wholesalers of office,

Page 4

computer, and consumer products. In September 2001, the Company sold substantially all of the assets of SL Waber, including its name and goodwill, as a going concern. As a result, SL Waber is reported as a discontinued operation for all periods presented.

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, in the fourth quarter of 2000, the Company experienced shortages in the supply of certain strategic components for power supplies. During 2004, there were no major disruptions in the supply of raw materials.

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

PATENTS, TRADEMARKS, LICENSES, FRANCHISES, AND CONCESSIONS

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

SEASONALITY

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

SIGNIFICANT CUSTOMERS

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

BACKLOG

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Backlog at March 6, 2005, February 29, 2004, and February 28, 2003 was \$41,607,000, \$42,022,000, and \$41,544,000, respectively. The backlog remained relatively unchanged at March 6, 2005 as compared to February 29, 2004. In 2004 the Company experienced an increase in orders from OEMs in the telecommunications, semiconductor and medical imaging industries, offset in part by a decrease in orders from electric power utility customers.

COMPETITIVE CONDITIONS

The Company's businesses are in active competition with domestic and foreign companies with national and international name recognition that offer similar products or services and with companies producing alternative products appropriate for the same uses. In addition, Condor has experienced significant offshore competition for certain products in certain markets. The uncertain commercial aerospace market has also created more competitive conditions in that industry. Each of the Company's businesses differentiate themselves from their competition by concentrating on customized products based on customer needs. The Company's businesses seek a competitive advantage based on quality, service,

Page 5

innovation, delivery and price.

ENVIRONMENTAL

The Company (together with the industries in which it operates or has operated) is subject to United States and Mexican 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 and the industry are also subject to other federal, state and local environmental laws and regulations, including those that require the Company to remediate or mitigate the effects of the disposal or release of certain chemical substances at various sites, including some where it has ceased operations. It is impossible to predict precisely what effect these laws and regulations will have on the Company in the future.

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

There are two sites on which the Company may incur material environmental costs in the future as a result of past activities of its former SurfTech subsidiary. These sites are the Company's properties located in Pennsauken, New Jersey, and in Camden, New Jersey. With respect to the Pennsauken site, the Company is one of several defendants in two separate lawsuits, in which it is alleged to be responsible for groundwater contamination. The Company believes it has significant defenses against all or any part of the claims in each of these lawsuits and that any material adverse impact is unlikely. Regarding the Camden site, the Company is still in the early stages of evaluating the nature and extent of any contamination, but based on the information so far, the Company believes that the cost to remediate the property should not exceed approximately \$560,000. The Company recorded a provision of \$500,000 for this site during the first quarter of 2002. Anticipated environmental costs have been reclassified in discontinued operations as a result of the sale of SurfTech on November 24, 2003. For additional information related to environmental issues, see "Item 3. Legal Proceedings," and Note 12 to the Notes to Consolidated Financial

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Statements included in Part IV of this Annual Report on Form 10-K.

The Company has reported a soil and ground water contamination on SL-MTI's property in Montevideo, Minnesota. SL-MTI has conducted analysis of the contamination and performed remediation at the site. Further remediation efforts will be required and the Company is engaged in discussions with the Minnesota Pollution Control Agency to develop a remediation plan. Based on the current information, the Company believes it will incur remediation costs at this site of approximately \$268,000, which was accrued during 2004.

Page 6

EMPLOYEES

As of December 31, 2004, the Company had approximately 1,406 employees. Of these employees, 158 were subject to collective bargaining agreements.

FOREIGN OPERATIONS

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

Generally, the Company's sales are priced in United States dollars and its costs and expenses are priced in United States dollars and Mexican pesos. Accordingly, the competitiveness of the Company's products relative to locally produced products may be affected by the performance of the United States dollar compared with that of its foreign customers' and competitors' currencies. Foreign net sales comprised 13%, 12% and 13% of net sales from continuing operations for the years ended December 31, 2004, December 31, 2003 and December 31, 2002, respectively.

Additionally, the Company is exposed to foreign currency exchange rate fluctuations, which might result from adverse fluctuations in the value of the Mexican peso. At December 31, 2004 and December 31, 2003, the Company had net liabilities of \$286,000 and \$233,000, respectively, subject to fluctuations in the value of the Mexican peso. Fluctuations in the value of the foreign currencies were not significant in 2004. There can be no assurance that the value of the Mexican peso will continue to remain stable.

Condor manufactures substantially all of its products in Mexico and incurs its labor costs and supplies in Mexican pesos. Teal has moved a limited amount of its manufacturing to Condor's facility in Mexico. SL-MTI manufactures approximately 60% of its products in Mexico and incurs related labor costs and supplies in Mexican pesos. Condor, Teal and SL-MTI price their sales in United States dollars. The Mexican subsidiaries of Condor and SL-MTI maintain their books and records in Mexican pesos. For additional information related to financial information about foreign operations, see Notes 15 and 16 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

ADDITIONAL INFORMATION

Additional information regarding the development of the Company's businesses during 2004 and 2003 is contained in "Item 7. Management's Discussion and

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Analysis of Financial Condition and Results of Operations" included in Part II and Notes 1 and 2 of the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

RISK FACTORS

THE COMPANY MAY BE ADVERSELY IMPACTED BY FLUCTUATIONS IN CASH FLOWS, LIQUIDITY, AND DEBT LEVELS.

Working capital requirements and cash flows historically have been, and are expected to continue to be,

Page 7

subject to quarterly and yearly fluctuations, depending on such factors as levels of sales, timing and size of capital expenditures, timing of deliveries and collection of receivables, inventory levels, customer payment terms, customer financing obligations, and supplier terms and conditions. The inability to manage adverse cash flow fluctuations resulting from such factors could have a material adverse effect on the Company's business, results of operations, and financial condition. In order to finance the working capital requirements of the Company's business, the Company has entered into a three-year Senior Secured Credit Facility with LaSalle Business Credit LLC and has borrowed funds thereunder. At December 31, 2004, outstanding borrowed funds under the credit facility were \$2,015,000, with total availability thereunder of \$12,273,000. In addition, at December 31, 2004 the Company maintained a cash balance of \$2,659,000. The Company is in discussions with several commercial banks to refinance the Senior Credit Facility on or before its expiration date which is January 6, 2006. If operating cash flows are not sufficient to meet operating expenses, capital expenditures and debt service requirements as they become due, the Company may be required, in order to meet its debt service obligations, to delay or reduce capital expenditures or the introduction of new products, to sell assets, and/or to forego business opportunities, including research and development projects, product design enhancements and/or acquisitions.

THE COMPANY'S OPERATING RESULTS MAY FLUCTUATE, AND THERE MAY BE VOLATILITY IN GENERAL INDUSTRY, ECONOMIC, AND MARKET CONDITIONS.

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

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

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

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Company's business, results of operations, and financial condition.

THE COMPANY'S OPERATING RESULTS AND STOCK PRICE MAY BE ADVERSELY AFFECTED BY FLUCTUATIONS IN CUSTOMERS' BUSINESSES.

Business is dependent upon product sales to telecommunications, semiconductor, medical imaging, aerospace and other businesses, who in turn are dependent for their business upon orders from their customers. Any downturn in the business of any of these parties affects the Company. Moreover, sales often reflect orders shipped in the same quarter in which they are received, which makes sales vulnerable to short-term fluctuations in customer demand and difficult to predict. In general, customer

Page 8

orders may be cancelled, modified or rescheduled after receipt. Consequently, the timing of these orders and any subsequent cancellation, modification or rescheduling of these orders has affected, and will in the future affect, results of operations from quarter to quarter. Also, as some of the Company's customers typically order in large quantities, any subsequent cancellation, modification or rescheduling of an individual large order may affect results of operations.

FAILURE TO REMAIN COMPETITIVE COULD ADVERSELY IMPACT THE COMPANY'S OPERATING RESULTS.

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

CONSOLIDATION IN THE INDUSTRY COULD INCREASE COMPETITIVE PRESSURES ON THE COMPANY.

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

Edgar Filing: SL INDUSTRIES INC - Form 10-K

material adverse effect on the Company's business, results of operations, and financial condition.

THE COMPANY IS DEPENDENT UPON THIRD PARTIES FOR PARTS AND COMPONENTS.

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

THE COMPANY MAY BE SUBJECT TO SIGNIFICANT COSTS IN COMPLYING WITH ENVIRONMENTAL LAWS.

The Company's facilities are subject to a broad array of environmental laws and regulations. The costs

Page 9

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

Further, the Company is the subject of various lawsuits and actions relating to environmental issues, including an administrative action in connection with SurfTech's Pennsauken facility which could subject the Company to, among other things, \$9,266,000 in collective reimbursements (with other parties) to NJDEP (as defined herein). In addition, a class action suit was filed on June 12, 2002 against the Company, SurfTech and 37 other defendants alleging that the plaintiffs suffered personal injuries as a result of consuming contaminated water distributed from the Puchack Wellfield in Pennsauken, New Jersey (which supplies Camden, New Jersey). There can be no assurance that the Company will be able to successfully defend itself against or settle these or any other actions to which it is a party. For additional information related to environmental risks, see "Item 3. Legal Proceedings," and Note 12 to the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

THE COMPANY MAY HAVE TO PAY SIGNIFICANT COSTS FOR REGULATORY COMPLIANCE AND LITIGATION.

Rapid or unforeseen escalation of the cost of regulatory compliance and/or litigation, including but not limited to, environmental compliance, product-related liability, assertions related to intellectual property rights and licenses, adoption of new accounting policies, or changes in current accounting policies and practices and the application of such policies and practices could have a material adverse effect on the Company's business. Additionally, the Company is subject to certain legal actions involving complaints by terminated employees and disputes with customers and suppliers. One such claim was brought against the Company's subsidiary, SL-MTI, by a customer seeking \$3,900,000 in compensatory damages. On November 7, 2002, after a full trial of the facts, a jury awarded this customer damages of \$650,000,

Edgar Filing: SL INDUSTRIES INC - Form 10-K

which, when combined with pre-trial interest, amounts to a total claim of \$780,000. The customer has appealed various aspects of this decision, which appeal, if determined adversely to the Company, could have a material adverse impact upon the Company. In the future there can be no assurance of the outcome in any litigation. An adverse determination in any one or more significant legal actions could have a material adverse effect on the Company's business, results of operations and financial condition. See "Item 3. Legal Proceedings," and Note 12 to the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

THE COMPANY IS DEPENDENT UPON KEY PERSONNEL FOR THE MANAGEMENT OF ITS OPERATIONS.

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

THE COMPANY'S OPERATING RESULTS AND COMMON STOCK ARE SUBJECT TO PRICE FLUCTUATIONS.

Operating results for future periods are never perfectly predictable even in the most certain of economic

Page 10

times, and the Company expects to continue to experience fluctuations in its quarterly results. These fluctuations, which in the future may be significant, could cause substantial variability in the market price of the Company's stock. The market price for the Company's common stock has been, and is likely to continue to be, highly volatile. The market for the Company's common stock is subject to fluctuations as a result of a variety of factors, including factors beyond its control. These include:

- additions or departures of key personnel;
- changes in market valuations of similar companies;
- announcements of new products or services by competitors or new competing technologies;
- conditions or trends in medical equipment, medical imaging, aerospace, and electric utility industries;
- general market and economic conditions; and
- other events or factors that are unforeseen.

OTHER FACTORS MAY AFFECT FUTURE RESULTS.

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

(D) FORWARD-LOOKING INFORMATION

From time to time, information provided by the Company, including written or

Edgar Filing: SL INDUSTRIES INC - Form 10-K

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

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

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

Page 11

assumptions or changes in other factors affecting such forward-looking information.

Future factors include the effectiveness of cost reduction actions undertaken by the Company; the timing and degree of any business recovery in certain of the Company's markets that are currently experiencing economic uncertainty; increasing prices, products and services offered by U.S. and non-U.S. competitors, including new entrants; rapid technological developments and changes and the Company's ability to continue to introduce and develop competitive new products and services on a timely, cost-effective basis; availability of manufacturing capacity, components and materials; credit concerns and the potential for deterioration of the credit quality of customers; customer demand for the Company's products and services; U.S. and non-U.S. governmental and public policy changes that may affect the level of new investments and purchases made by customers; changes in environmental and other U.S. and non-U.S. governmental regulations; protection and validity of patent and other intellectual property rights; compliance with the covenants and restrictions of bank credit facilities; and outcome of pending and future litigation and governmental proceedings. These are representative of the future factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general U.S. and non-U.S. economic conditions, including increased economic uncertainty and instability following the terrorist attacks in the United States on September 11, 2001 and the ongoing hostilities in Iraq, the global economic slowdown and interest rate and currency exchange rate fluctuations and other future factors.

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Page 12

ITEM 2. PROPERTIES

Set forth below are the properties where the Company conducted business as of December 31, 2004.

Location -----	General Character -----	Approx. Square Footage -----	Owned or Lea Expiration -----
Oxnard, CA	Manufacture and distribution of power supply products (Condor)	36,500	Leased - 09
Mexicali, Mexico	Manufacture and distribution of power supply products (Condor)	62,500 14,500	Leased - 04 Leased - 04
San Diego, CA	Manufacture of power distribution and conditioning units (Teal)	45,054	Leased - 03
Montevideo, MN	Manufacture of precision motors and motion control systems (SL-MTI)	30,000	Owned
Matamoros, Mexico	Manufacture of precision motors (SL-MTI)	15,200	Leased - 11
Boonton Twp., NJ	Manufacture of electric utility equipment protection systems (RFL)	78,000	Owned
Camden, NJ	Industrial surface finishing (Other) (1)	15,800	Owned
Pennsauken, NJ	Industrial surface finishing warehouse (Other) (1)	6,000	Owned
Mt. Laurel, NJ	Corporate office (Other)	4,200	Leased - 11

(1) Ownership retained by the Company after the sale of SurfTech on November 24, 2003.

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

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of its business, the Company is subject to loss contingencies pursuant to foreign and federal, state and local governmental laws and regulations and is also party to certain legal actions,

Page 13

Edgar Filing: SL INDUSTRIES INC - Form 10-K

frequently involving complaints by terminated employees and disputes with customers and suppliers. In the opinion of management, such claims are not expected to have a material adverse effect on the financial condition or results of operations of the Company.

In a November 1991 Administrative Directive, the New Jersey Department of Environmental Protection ("NJDEP") alleged that SurfTech, formerly SL Modern Hard Chrome, Inc., and 20 other respondents are responsible for a contamination plume which has affected the Puchack Wellfield in Pennsauken, New Jersey (which supplies Camden, New Jersey). SurfTech is alleged to have contributed to the groundwater contamination through its operations conducted in Pennsauken, New Jersey (the "SurfTech site"). Three other actions have been initiated from the underlying directive. The first is Supplemental Directive No. 1 ("Directive No. 1") issued by the NJDEP to the same parties in May 1992, which seeks a cost reimbursement of \$8,655,000 for the construction of a treatment system at the Puchack site and an annual payment of \$611,000 (a total of \$9,266,000) for ongoing operation and maintenance of the treatment system. The second matter is a lawsuit initiated by one of the parties named in Directive No. 1 seeking to have the remainder of those parties, and more than 600 others, pay some or all of that party's cost of compliance with Directive No. 1 and any other costs associated with its site. This second matter is a claim for indemnification of potential damages. Accordingly, it is unspecified in amount. The third matter is a Spill Act Directive by the NJDEP to SurfTech alone, regarding similar matters at its site and consists of a claim for contribution towards potential damages and is unspecified in amount. Both the second and third matters relate to the payment of a portion of the damages set forth in the discussion of Directive No. 1. The state has not initiated enforcement action regarding any of its three Directives. There also exists an outstanding enforcement issue regarding the Company's compliance with state environmental laws at the same site.

With regard to the \$9,266,000 amount discussed in the preceding paragraph, in the Company's view, it is not appropriate to consider that amount as "potential cost reimbursements." The SurfTech site has undergone remedial activities under NJDEP's supervision since 1983. The Company believes that it has a significant defense against all or any part of the \$9,266,000 claim since technical data generated as part of previous remedial activities indicate that there is no offsite migration of contaminants at the SurfTech site. Based on this and other technical factors, the Company has been advised by its outside technical consultant, with the concurrence of its outside counsel, that it has a significant defense to Directive No. 1 and any material exposure is unlikely.

On June 12, 2002, the Company and SurfTech were served with notice of a class action complaint filed in Superior Court of New Jersey for Camden County. The Company and SurfTech are currently two of approximately 39 defendants in this action. The complaint alleges, among other things, that plaintiffs suffered personal injuries as a result of consuming water distributed from the Puchack Wellfield in Pennsauken, New Jersey (which supplies Camden, New Jersey).

This case arises from the same factual circumstances as the current administrative actions involving the Puchack Wellfield, which are described above. The administrative actions and the class action lawsuit both allege that SurfTech and other defendants contaminated ground water through the disposal of hazardous substances at industrial facilities in the area. As with the administrative actions, the Company believes it has significant defenses against the class action plaintiffs' claims and intends to pursue them vigorously. Technical data generated as part of remedial activities at the SurfTech site have not

Edgar Filing: SL INDUSTRIES INC - Form 10-K

established offsite migration of contaminants. Based on this and other technical factors, the Company has been advised by its outside counsel that it has a strong defense against the claims alleged in the class action plaintiffs' complaint, as well as the environmental administrative actions discussed above.

The Company's subsidiary, SL-MTI, defended a cause of action, brought against it in the fall of 2000 in the Federal District Court for the Western District of Michigan. The lawsuit was filed by Eaton Aerospace LLC ("Eaton"), alleging breach of contract and warranty in the defective design and manufacture of a high precision motor and demanding compensatory damages of approximately \$3,900,000. On November 7, 2002, after a full trial of the facts, a jury awarded Eaton damages of \$650,000, which when combined with pre-trial interest amounts to a total claim of \$780,000, which has been accrued. Eaton has appealed this judgment.

The Company filed claims with several of its insurers seeking reimbursement for past and future environmental costs. In settlement of its claims, the Company received aggregate cash payments of \$2,800,000 prior to fiscal 2001, and commitments from three insurers to pay for a portion of environmental costs associated with the SurfTech site of 15% of costs up to \$300,000, 15% of costs up to \$150,000 and 20% of costs up to \$400,000, respectively. During 2004, the Company billed these three insurers a total of \$654,000 for their contingent commitments through 2004. These billings are recorded in discontinued operations.

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 six sites under these laws and may in the future be involved in additional environmental assessments and cleanups. Based upon investigations completed by the Company and its independent engineering consulting firms to date, management has provided an estimated accrual for all known costs believed to be probable in the amount of \$1,275,000. Of this amount, the Company expects to spend approximately \$286,000 related to environmental matters in 2005. However, it is in the nature of environmental contingencies that other circumstances might arise, the costs of which are indeterminable at this time due to such factors as changing government regulations and stricter standards, the unknown magnitude of defense and cleanup costs, the unknown timing and extent of the remedial actions that may be required, the determination of the Company's liability in proportion to other responsible parties, and the extent, if any, to which such costs are recoverable from other parties or from insurance. Although these contingencies could result in additional expenses or judgments, or off-sets thereto, at present such expenses or judgments are not expected to have a material effect on the consolidated financial position or results of operations of the Company.

It is management's opinion that the impact of legal actions brought against the Company and its operations will not have a material adverse effect on its financial position or results of operations. However, the ultimate outcome of these matters, as with litigation generally, is inherently uncertain, and it is possible that some of these matters may be resolved adversely to the Company. The adverse resolution of any one or more of these matters could have a material adverse effect on the business, operating results, financial condition or cash flows of the Company. Additional information pertaining to legal proceedings is found in Note 12 in the Notes to the Consolidated Financial Statements included

Edgar Filing: SL INDUSTRIES INC - Form 10-K

in Part IV of this Annual Report on Form 10-K.

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

During the fourth quarter of fiscal 2004, no matter was submitted to a vote of the Company's security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OR EQUITY SECURITIES

The Company's common stock is currently registered on both the AMEX and the Philadelphia Stock Exchange under the symbol "SLI." The Company moved from the NYSE to the AMEX on April 30, 2003. 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, 2004		Year Ended December 31, 2003	
	HIGH	LOW	HIGH	LOW
Stock Prices				
1st Quarter	10.00	8.15	6.90	5.29
2nd Quarter	11.24	9.18	7.25	5.35
3rd Quarter	11.50	9.90	8.00	6.08
4th Quarter	14.46	11.07	8.49	7.50

As of March 2, 2005, there were approximately 741 registered shareholders. The Company suspended dividend payments during 2001 and has no present intention of making dividend payments in the foreseeable future. On January 6, 2003, the Company entered into a new senior credit facility, which has a term of three years. This facility restricts the Company from paying dividends. Additional information pertaining to the Company's senior credit facility is found in Note 9 in the Notes to the Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K.

For the "Equity Compensation Plan Information," please refer to the Company's Proxy Statement for the 2005 Annual Meeting of Shareholders, which is incorporated herein by reference.

On December 12, 2003, the Company announced that its Board of Directors had authorized the repurchase of up to 10% of the outstanding shares of the common stock of the Company. Any repurchases would be made in the open market or in negotiated transactions. For the twelve months ended December 31, 2004, the Company purchased 545,900 shares pursuant to its stock repurchase program and 56,500 shares through its deferred compensation plans.

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased under the Plans or Programs
January 2004	20,600 (1)	\$ 9.13	--	593,924
February 2004	4,300 (1)	\$ 9.41	--	593,924
March 2004	4,200 (1)	\$ 9.67	--	593,924
April 2004	80,250 (2)	\$ 9.83	71,650	522,274
May 2004	16,500 (3)	\$ 9.86	11,800	510,474
June 2004	1,700 (1)	\$10.55	--	510,474
July 2004	16,000 (4)	\$10.18	16,000	494,474
August 2004	80,850 (5)	\$11.04	79,650	414,824
September 2004	368,000 (6)	\$11.48	366,800	48,024
October 2004	1,400 (1)	\$11.40	--	48,024
November 2004	7,100 (1)	\$14.02	--	48,024
December 2004	1,500 (1)	\$13.61	--	48,024
Total	602,400 (7)	\$11.05 (8)	545,900	

- (1). The Company purchased these shares other than through a publicly announced plan or program in open market transactions or in negotiated transactions.
- (2). Of the 80,250 shares purchased, 8,600 shares were purchased by the Company other than through a publicly announced plan or program in open market transactions or in negotiated transactions.
- (3). Of the 16,500 shares purchased, 4,700 shares were purchased by the Company other than through a publicly announced plan or program in open market transactions or in negotiated transactions.
- (4). All the 16,000 shares were purchased through a publicly announced plan or program in open market transactions or in negotiated transactions.
- (5). Of the 80,850 shares purchased, 1,200 shares were purchased by the Company other than through a publicly announced plan or program in open market transactions or in negotiated transactions.
- (6). Of the 368,000 shares purchased, 1,200 shares were purchased by the Company other than through a publicly announced plan or program in open market transactions or in negotiated transactions.
- (7). Of the aggregate 602,400 shares purchased, an aggregate of 56,500 shares were purchased through deferred compensation plans.
- (8). The average price per share of the 545,900 shares purchased through a publicly announced plan or program was \$11.13 per share. The total amount paid for the shares was \$6,076,000, exclusive of transaction costs of \$25,000.

Edgar Filing: SL INDUSTRIES INC - Form 10-K

ITEM 6. SELECTED FINANCIAL DATA

Selected consolidated financial data with respect to the calendar years ended December 31, 2004, 2003, 2002, 2001, and 2000 are presented below.

	Twelve Months Ended December 2004	Twelve Months Ended December 2003	Twelve Months Ended December 2002	Twelve Months Ended December 2001	Twelve Months Ended December 2000
	(amounts in thousands except per share data)				
Net sales (1)	\$118,804	\$105,284	\$107,912	\$109,770	\$123,026
Income (loss) from continuing operations	\$ 6,301	\$ 3,742	\$ 801	\$ (8,452)	\$ 5,454
Income (loss) from discontinued operations	\$ 2,371	\$ (2,422)	\$ (1,271)	\$ (2,927)	\$ (3,754)
Net income (loss) (2)	\$ 8,672	\$ 1,320	\$ (470)	\$ (11,379)	\$ 1,700
Diluted net income (loss) per common share	\$ 1.48	\$ 0.22	\$ (0.08)	\$ (2.00)	\$ 0.30
Shares used in computing diluted net income (loss) per common share	5,871	5,956	5,867	5,698	5,757
Cash dividend per common share	\$ --	\$ --	\$ --	\$ --	\$ 0.10
YEAR-END FINANCIAL POSITION					
Working capital	\$ 19,496	\$ 16,612	\$ 10,107	\$ 12,132	\$ 40,506
Current ratio (3)	2.05	1.98	1.03	1.01	2.15
Total assets	\$ 63,084	\$ 58,421	\$ 90,667	\$109,911	\$115,491
Long-term debt	\$ 1,456	\$ 2,015	\$ 0	\$ 0	\$ 35,671
Shareholders' equity	\$ 37,687	\$ 34,581	\$ 32,983	\$ 33,204	\$ 43,350
Book value per share	\$ 6.91	\$ 5.82	\$ 5.59	\$ 5.81	\$ 7.81
OTHER					
Capital expenditures (4)	\$ 1,642	\$ 1,616	\$ 1,466	\$ 1,039	\$ 1,208
Depreciation and amortization	\$ 2,133	\$ 1,851	\$ 2,634	\$ 3,670	\$ 3,550

- (1) On November 24, 2003, the Company sold certain assets of SurfTech. On January 6, 2003, effective for the year ended December 31, 2002, the Company sold EME, and in 2001, the Company sold certain assets of SL Waber. Accordingly, the operations of SurfTech, EME, and SL Waber have been accounted for as discontinued operations in all periods presented.
- (2) Fiscal 2004 includes a settlement fee of \$2,516,000, net of tax, received by SL Waber and the recovery of certain legal fees for environmental matters in the amount of \$392,000, net of tax. Fiscal 2003 includes an asset impairment of \$275,000 recorded against the carrying value of the Company's property located in Camden, New Jersey. Fiscal 2002 includes \$1,834,000 of special charges related to change of control and proxy costs, \$703,000 of impairment charges related to the write-off of goodwill, \$556,000 and \$147,000 of asset impairment charges at SurfTech. Fiscal 2001 includes costs related to inventory write-offs of \$2,890,000, asset impairment charges of \$4,145,000 and restructuring costs of \$3,683,000 related to Condor, and inventory write-offs of \$50,000 and restructuring, and intangible asset impairment charges of \$185,000 and \$125,000, respectively, related to SurfTech. Fiscal 2000 includes income of \$875,000 related to the settlement of a class action suit against one of the Company's insurers, and pre-tax income of \$650,000 related to the reduction of a contingency reserve for environmental costs and restructuring costs of \$790,000 related to SL Waber.

Edgar Filing: SL INDUSTRIES INC - Form 10-K

- (3) The current ratio for 2002 and 2001 includes all debt classified as current, due to the December 31, 2002 maturity date of the former Revolving Credit Facility (see Item 7 - Liquidity and Capital Resources). The current ratio calculations for all years exclude net current assets and liabilities held for sale.
- (4) Excludes assets acquired in business combinations.

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

The Company through its subsidiaries, designs, manufactures and markets power electronics, power motion, power protection, teleprotection and specialized communication equipment that is used in a variety of aerospace, computer, datacom, industrial, medical, telecom, transportation and utility equipment applications. The Company is comprised of four domestic business segments, two of which

Page 18

have significant manufacturing operations in Mexico. Most of the Company's sales are made to customers who are based in the United States. However, over the years the Company has increased its presence in international markets. The Company places an emphasis on high quality, well-built, dependable products and continues its dedication to product enhancement and innovations.

ORGANIZATION OF FINANCIAL INFORMATION

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

SIGNIFICANT TRANSACTIONS AND FINANCIAL TRENDS

Included in the financial sections of this Annual Report on Form 10-K is a description of significant transactions or events that have materially affected earnings, cash flow and business trends. The Company's Management Discussion and Analysis for fiscal 2004 also includes income and charges related to discontinued operations. Significant transactions in 2004 that impacted the Company's financial results included: 1) the expenditure of \$6,076,000 to acquire 545,900 shares of common stock pursuant to the Company's publicly announced repurchase program; 2) the tax benefit of approximately \$1,295,000, or \$0.22 per diluted share, due to research and development tax credits recorded during 2004; and 3) the accrual of \$809,000 in compensation expense related to

Edgar Filing: SL INDUSTRIES INC - Form 10-K

certain stock based compensation arrangements with key executives. The compensation expenses are non-cash charges for the year and are recorded in selling, general and administrative expenses. In addition, the Company recorded income related to a settlement fee received by SL Waber, net of tax, in the amount of \$2,516,000 and net proceeds from insurance companies related to the recovery of certain legal fees for environmental matters in the amount of \$392,000, net of tax. These transactions were reported as part of net income from discontinued operations. Significant transactions discussed in the Company's Management Discussion and Analysis for fiscal 2003 include costs and charges recorded in discontinued operations of (i) \$444,000, net of tax, related to the defense of a class action lawsuit regarding environmental matters resulting from alleged activities of SurfTech; and (ii) \$282,000, net of tax related to certain machinery and equipment that was being utilized by SurfTech. SurfTech was sold in November 2003 and is reported as discontinued operations for all periods presented. Also included in the financial results of 2003 is an asset impairment charge of \$275,000, which was recorded against the carrying value of the Company's property located in Camden, New Jersey. This impairment charge is recorded in continuing operations.

Page 19

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

CRITICAL ACCOUNTING POLICIES

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

The Company's significant accounting policies are described in Note 1 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies are deemed to be critical within the SEC definition.

REVENUE RECOGNITION

Revenue from product sales is recognized at the time the product is shipped, with provisions established for estimated product returns and returns related to one business segment's stock scrap program with distributors. Upon shipment, the Company provides for the estimated cost that may be incurred for product warranties. Rebates and other sales incentives offered by the Company are recorded as a reduction of sales at the time of shipment. Revenue recognition is significant because net sales is a key component of results of operations. In addition, revenue recognition determines the timing of certain expenses, such as commissions and royalties. The Company follows generally accepted guidelines in measuring revenue. Revenue is recorded in accordance with Staff Accounting Bulletin ("SAB") No. 104. However, certain judgments affect the application of its revenue policy. For a discussion of the Company's revenue recognition policies, see Note 1 in the Notes to Consolidated Financial Statements included in Part IV in this Annual Report on Form 10-K. Revenue results are difficult to

Edgar Filing: SL INDUSTRIES INC - Form 10-K

predict, and any shortfall in revenue or delay in recognizing revenue could cause operating results to vary significantly from quarter to quarter and could result in future operating losses.

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 (bankruptcy, etc.). 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 (i.e., 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.

Page 20

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 is 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.

ACCOUNTING FOR INCOME TAXES

The Company's income tax policy records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying consolidated balance sheets, as well as operating loss and tax credit carryforwards. The Company follows the guidelines under Statement of Financial Accounting Standard ("SFAS") No. 109 in determining the recoverability of any tax assets recorded on the balance sheet and provides any necessary allowances as required. As part of the process of preparing its consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. This process involves estimating the actual current tax exposure, together with assessing temporary differences resulting from the differing treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet. Management must then assess the likelihood that deferred tax assets will be

Edgar Filing: SL INDUSTRIES INC - Form 10-K

recovered from future taxable income and to the extent it believes that recovery is not likely, the Company must establish a valuation allowance. To the extent it establishes a valuation allowance or increases or decreases this allowance in a period, it must include expense or income, as the case may be, within the tax provision in the consolidated statement of operations.

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. As of December 31, 2004, the Company had recorded total valuation allowances of \$3,267,000 due to uncertainties related to the utilization of some deferred tax assets, primarily consisting of certain research and development tax credits, loss carryforwards and foreign tax credits, before they expire. The valuation allowance is based on estimates of taxable income by jurisdiction 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.

The net deferred tax assets as of December 31, 2004 were \$6,324,000, net of valuation allowances of

Page 21

\$3,267,000. 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, based on estimates and assumptions. If these estimates and related assumptions change in the future, the Company may be required to record additional valuation allowances against its deferred tax assets resulting in additional income tax expense in the consolidated statement of operations. Management evaluates the reliability of the deferred tax assets and assesses the need for additional valuation allowances quarterly.

Our effective tax rate includes the impact of certain undistributed foreign earnings for which no U.S. taxes have been provided because such earnings are planned to be reinvested indefinitely outside the United States. Our 2004 results do not reflect the impact of the American Jobs Creation Act of 2004 (the "Jobs Act"). We have completed the process of re-evaluating our position with respect to the indefinite reinvestment of foreign earnings to take into account the possible election of the repatriation provisions contained in the Jobs Act and it had no impact on the Company.

LEGAL CONTINGENCIES

The Company is currently involved in certain legal proceedings. As discussed in Note 12 in the Notes to the Consolidated Financial Statements included in Part IV to this Annual Report on Form 10-K, the Company has accrued an estimate of the probable costs for the resolution of these claims. This estimate has been developed after investigation and is based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. Management does not believe these proceedings will have a material adverse effect on the Company's consolidated financial position. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in these assumptions, or the effectiveness of these strategies, related to these proceedings.

IMPAIRMENT OF LONG-LIVED AND INTANGIBLE ASSETS

The Company's long-lived and intangible assets primarily consist of fixed

Edgar Filing: SL INDUSTRIES INC - Form 10-K

assets, goodwill and other intangible assets. Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142") requires that goodwill be tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis and between annual tests in certain circumstances. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Effective January 1, 2002, the Company adopted SFAS 142 and performed a transitional test of its goodwill and intangible assets. No impairment charges were recorded as a result of the initial impairment test. Goodwill was also tested for impairment in the fourth quarter of 2002. Impairment losses recorded in the future could have a material adverse impact on the Company's financial condition and results of operations.

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

Page 22

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.

ENVIRONMENTAL EXPENDITURES

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

Expenditures that relate to current operations are charged to expense or capitalized, as appropriate. Expenditures that relate to an existing condition caused by past operations are expensed and recorded as part of discontinued operations. Expenditures include costs of remediation and legal fees to defend against claims for environmental liability. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated. The liability for remediation expenditures includes, as appropriate, elements of costs such as site investigations, consultants' fees, feasibility studies, outside contractor expenses and monitoring expenses. Estimates are not discounted, and they are not reduced by potential claims for recovery from

Edgar Filing: SL INDUSTRIES INC - Form 10-K

insurance carriers. The liability is periodically reviewed and adjusted to reflect current remediation progress, prospective estimates of required activity and other relevant factors, including changes in technology or regulations.

The 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 generally accepted accounting principles with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternatives would not produce a materially different result. See the Company's audited Consolidated Financial Statements and Notes thereto included in Part IV of this Annual Report on Form 10-K, which contain accounting policies and other disclosures required by generally accepted accounting principles.

LIQUIDITY AND CAPITAL RESOURCES

	December 31, 2004	December 31, 2003	Dollar Variance	Percentage Variance
	-----	-----	-----	-----
	(in thousands)			
Cash and cash equivalents	\$ 2,659	\$ 3,501	\$ (842)	(24%)
Bank debt	\$ 2,015	\$ 2,902	\$ (887)	(31%)
Working capital	\$19,496	\$16,612	\$2,884	17%
Shareholder's equity	\$37,687	\$34,581	\$3,106	9%
	-----	-----	-----	--

Page 23

At December 31, 2004, the Company maintained a cash balance of \$2,659,000, with outstanding bank debt of \$2,015,000. Availability under the Senior Credit Facility was \$12,273,000. During the year ended December 31, 2004 ("2004"), the net cash provided by continuing operating activities was \$4,543,000, as compared to net cash provided by continuing operating activities of \$9,964,000 during the year ended December 31, 2003 ("2003"). The primary sources of cash provided by continuing operating activities for 2004 were net income from continuing operations of \$6,301,000 and an increase in accounts payable in the amount of \$1,921,000. These sources of cash were partially offset by an increase in accounts receivable of \$2,714,000, an increase in inventory in the amount of \$4,830,000 and payments made under the Company's 2003 bonus and incentive programs. The increase in accounts receivable and inventory were primarily related to the Company's sales growth of 13%. The primary sources of cash provided by continuing operating activities for 2003 were net income from continuing operations of \$3,742,000, the reduction of accounts receivable in the amount of \$4,366,000 (primarily related to the receipt of income tax refunds and recoverable income taxes) and the reduction of inventory levels of \$2,711,000. These sources of cash were partially offset by payments made under the Company's 2002 bonus and incentive programs.

During 2004, net cash used in investing activities was \$633,000, primarily related to the purchases of machinery and equipment in the amount of \$1,642,000. This use of cash was partially offset by proceeds of \$1,000,000, representing the final installment on the sale of EME. During 2003, net cash provided by investing activities was \$5,986,000, primarily related to cash proceeds of \$7,000,000 received from the sale of EME and \$600,000 received from the sale of SurfTech, partially offset by \$1,616,000 in capital expenditures.

Edgar Filing: SL INDUSTRIES INC - Form 10-K

During 2004, net cash used in financing activities was \$6,603,000, primarily due to the purchase of common stock. During 2004, the Company expended \$6,233,000 to reacquire its shares, of which \$6,076,000 related to the purchase of 545,900 shares of common stock at an average price of \$11.13 per share. These purchases were made under the Company's repurchase program approved by the Board of Directors on December 12, 2003. Also during this period, the Company made payments of \$887,000 on its two term loans and overadvance under the Senior Credit Facility. These uses of cash were partially offset by proceeds from stock options exercised during the year in the amount of \$517,000. During 2003, net cash used in financing activities was \$14,578,000, primarily due to the payoff of the Company's former revolving credit facility of \$17,557,000, partially offset by \$3,518,000 related to the net proceeds from the Senior Credit Facility. The Company is in discussions with several commercial banks to refinance the Senior Credit Facility on or before its expiration date which is January 6, 2006.

On January 6, 2003, the Company entered into a three-year Senior Secured Credit Facility (the "Senior Credit Facility") with LaSalle Business Credit LLC. The Senior Credit Facility provides for a revolving loan facility and two term loans, up to a maximum indebtedness of \$20,000,000. The revolving loan of up to \$16,810,000 is based upon eligible receivables and inventory, as well as an overadvance amount of \$1,500,000, which was paid in full on April 7, 2004. The two term loans of \$2,350,000 and \$840,000 are amortized over a three-year term. The Senior Credit Facility restricts investments, acquisitions, capital expenditures and dividends. It contains financial covenants relating to minimum levels of net worth, fixed charge coverages, and EBITDA levels, as defined. The Senior Credit Facility bears interest ranging from the prime rate plus .5% to the prime rate plus 2%. The Senior Credit Facility is

Page 24

secured by all of the Company's assets. At December 31, 2004, the outstanding term loan balances were \$1,600,000 and \$415,000, or a total of \$2,015,000. Availability under the Senior Credit Facility at December 31, 2004 was \$12,273,000.

The Company's current ratio was 2.05 to 1 at December 31, 2004 and 1.98 to 1 at December 31, 2003. This ratio has remained relatively constant, although current assets increased by \$4,403,000 and current liabilities increased by \$1,519,000 from the prior year.

As a percentage of total capitalization, consisting of debt and shareholders' equity, total borrowings by the Company were 5% at December 31, 2004 and 8% at December 31, 2003. At December 31, 2004, total borrowings decreased by \$887,000, compared to December 31, 2003.

Capital expenditures of \$1,642,000 were made in 2004, primarily related to machinery and equipment purchases, compared to \$1,616,000 in 2003. The capital expenditures made in 2003 related to equipment purchases, a new management information system and building improvements.

The Company has been able to generate adequate amounts of cash to meet its operating needs.

With the exception of the segment reported as "Other" (which consists primarily of corporate office expenses, financing activities, public reporting costs and accruals not specifically allocated to the reportable business segments) all of

Edgar Filing: SL INDUSTRIES INC - Form 10-K

the Company's operating segments were profitable in 2004.

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations at December 31, 2004 for the periods indicated:

	Less than 1 Year -----	1 to 3 Years -----	3 to 5 years -----	After 5 Years -----	Total -----
	(in thousands)				
Operating Leases	\$1,249	\$ 996	--	--	\$2,245
Debt	559	1,456	--	--	2,015
Capital Leases	80	80	--	--	160
Other Obligations	83	250	167	261	761
	-----	-----	---	---	-----
Total	\$1,971	\$2,782	167	261	\$5,181
	=====	=====	===	===	=====

Contractual obligations with respect to the two term loans under the Senior Credit Facility are \$559,000 due in less than one year and \$1,456,000 due in one to two years.

Other obligations include the Company's withdrawal liability to a union-administered defined benefit multi-employer pension plan to which SurfTech had made contributions (see Note 2 to the Consolidated Financial Statements).

OFF-BALANCE SHEET ARRANGEMENTS

It is not the Company's usual business practice to enter into off-balance sheet arrangements such as

Page 25

guarantees on loans and financial commitments, indemnification arrangements and retained interests in assets transferred to an unconsolidated entity for securitization purposes. Consequently, the Company has no off-balance sheet arrangements, except for operating lease commitments disclosed in the table above, that have, or are reasonably likely to have, a material current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2004 COMPARED WITH YEAR ENDED DECEMBER 31, 2003

Year Ended December 31,			
----- 2004 -----	----- 2003 -----	----- \$ Variance -----	----- % Variance -----
(in thousands)			

Edgar Filing: SL INDUSTRIES INC - Form 10-K

NET SALES

Power Electronics Group:

Condor	\$ 41,457	\$ 39,450	\$ 2,007	5%
Teal	30,265	20,393	9,872	48%
	-----	-----	-----	---
Total	71,722	59,843	11,879	20%
	-----	-----	-----	---
SL-MTI	24,497	22,053	2,444	11%
RFL	22,585	23,388	(803)	(3%)
	-----	-----	-----	---
Consolidated	\$118,804	\$105,284	\$13,520	13%
	=====	=====	=====	===

Year Ended December 31,

	2004	2003	\$ Variance	% Variance
	-----	-----	-----	-----
	(in thousands)			
INCOME FROM CONTINUING OPERATIONS				
Power Electronics Group:				
Condor	\$ 3,789	\$ 3,377	\$ 412	12%
Teal	4,635	2,671	1,964	74%
	-----	-----	-----	---
Total	8,424	6,048	2,376	39%
	-----	-----	-----	---
SL-MTI	2,827	1,957	870	44%
RFL	2,091	2,236	(145)	(6%)
Other expenses and Corporate office	(5,033)	(3,563)	(1,470)	(41%)
	-----	-----	-----	---
Consolidated	\$ 8,309	\$ 6,678	\$ 1,631	24%
	=====	=====	=====	===

Consolidated net sales from continuing operations for 2004, compared to 2003 increased by \$13,520,000, or 13%. This increase is primarily due to a \$9,872,000 net sales increase at Teal, a \$2,444,000 net sales increase at SL-MTI and a \$2,007,000 net sales increase at Condor. Net sales increases from 2003 at Teal, SL-MTI and Condor were 48%, 11% and 5%, respectively.

Page 26

The Company's operating income increased to \$8,309,000 in 2004, compared to \$6,678,000 in 2003. Other than RFL, all of the Company's business segments had increases in operating income in 2004, as compared to 2003. RFL's operating income decreased \$145,000, or 6%.

Income from continuing operations in 2004 was \$6,301,000, or \$1.08 per diluted share, compared to net income from continuing operations in 2003 of \$3,742,000, or \$0.63 per diluted share. Income from continuing operations benefited by approximately \$1,295,000, or \$0.22 per diluted share, due to research and development tax credits recorded during 2004. The Company's business segments and the components of operating expenses are discussed more fully in the following sections.

The Power Electronics Group had an increase in net sales of \$11,879,000, or 20%,

Edgar Filing: SL INDUSTRIES INC - Form 10-K

and an increase in income from operations of \$2,376,000, or 39%, over the prior year. The increase in net sales within the Power Electronics Group is primarily attributable to increased sales at Teal of its medical product line, and to a lesser extent its semiconductor product line. Condor's increase is related to increases in sales to OEMs in the medical and industrial markets. International sales, which represent approximately 12% of Condor's total net sales, decreased 9% from the prior year. Net sales of telecommunications products decreased approximately 35% in 2004, compared to 2003.

SL-MTI's net sales in 2004 increased approximately \$2,444,000, or 11%, while income from operations increased by \$870,000, or 44%, compared to net sales and income from operations in 2003. Contributing to the increase in net sales was significant increases in the windings and DC motor product lines, which increased by 20% and 11%, respectively, compared to 2003. By market segment, the largest contributor to the net sales increases was the military market. In addition to increased net sales, improved gross margins contributed to higher income from operations from the prior year.

RFL's net sales in 2004 decreased approximately \$803,000, or 3%, and income from operations decreased approximately \$145,000, or 6%, compared to net sales and income from operations in 2003. RFL has experienced sales decreases throughout its product line, with the exception of a sales increase of \$632,000, or 7%, in its carrier communications products line. RFL is experiencing weak demand in the U.S. market, as large infrastructure expansion projects by electric power utility companies continued to be deferred in favor of smaller emergency and maintenance projects. RFL maintained its gross margins, compared to 2003, due to certain cost containment programs. Despite lower sales volume, RFL has increased its expenditures for engineering and product development by approximately 7%, compared to 2003.

COST OF PRODUCTS SOLD

As a percentage of net sales, cost of products sold in 2004 was approximately 64%, as compared to approximately 63% in 2003. Although aggregate cost of products sold, as a percentage of net sales, remained relatively constant year-to-year, there were differences among the business segments. The Power Electronics Group cost of products sold percentage increased to 65% in 2004, from 63% in 2003. This increase was due to increases in the cost of raw materials at Teal, and to a lesser extent, product mix. SL-MTI's decreased its cost of products sold percentage by 3%, primarily due to increased sales volume and improved operating efficiencies at its manufacturing facility in Matamoros, Mexico. RFL's cost of products sold percentage remained constant in 2004, compared to 2003, despite a decrease in sales volume, due to product mix and cost containment measures.

Page 27

ENGINEERING AND PRODUCT DEVELOPMENT EXPENSES

Engineering and product development expenses in 2004 were \$8,951,000, an increase of approximately \$1,095,000, or 14%, as compared to 2003. As a percentage of net sales, engineering and product development expenses in 2004 and 2003 were approximately 8%. All of the Company's business segments increased their engineering and product development expenditures in 2004, compared to 2003. Condor and SL-MTI significantly increased engineering and product development expenses, with annual increases of 18% and 24%, respectively.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Selling, general and administrative expenses for 2004 were approximately 20% of net sales, compared to 21% in 2003. These expenses increased by \$1,215,000, or 5%, over the comparative periods. The major reason for the increase was costs related to the increase in sales volume of 13%. Also contributing to the increase was \$809,000 in compensation expense related to certain stock based compensation arrangements with key executives, which were non-cash charges for the period. In addition, the Company named an Executive Vice President and Chief Operating Officer at the beginning of the year, which was a position that did not exist in 2003.

DEPRECIATION AND AMORTIZATION EXPENSES

Depreciation and amortization expenses in 2004 were \$2,133,000, an increase of approximately \$282,000, or 15%, compared to 2003. Depreciation expense for 2004 and 2003 was approximately 2% of sales.

AMORTIZATION OF DEFERRED FINANCING COSTS

In connection with entering into the Senior Credit Facility on January 6, 2003, the Company incurred approximately \$1,342,000 in costs. These costs have been deferred and are being amortized over the three-year term of the Senior Credit Facility. The amortization expense was \$447,000 in each of 2004 and 2003, respectively.

INTEREST INCOME (EXPENSE)

In 2004, interest income was \$102,000, compared to \$172,000 in 2003. Interest expense in 2004 was \$347,000, compared to \$380,000 in 2003. The decrease in interest expense for 2004 is related to significantly reduced debt levels.

TAXES

The effective tax rate for 2004 was approximately 17%, compared to 38% in 2003. The effective tax rate for 2004 is significantly lower than the statutory rate primarily due to research and development tax credits recorded during the year.

DISCONTINUED OPERATIONS

In 2004, the Company recorded income from discontinued operations, net of tax, of \$2,371,000. This amount is primarily related to a settlement fee received by SL Waber, in the amount of \$2,516,000, net of tax, the reversal of certain net tax reserves, related to EME of \$225,000, net of expenses, and insurance proceeds related to environmental matters in the amount of \$392,000, net of tax. These

Page 28

income amounts were partially offset by current environmental, legal and litigation charges related to discontinued operations. In 2003, the Company recorded a loss of \$2,422,000, net of tax, from discontinued operations. This amount consisted primarily of the net loss for Surf Tech, in the amount of \$1,450,000 and after-tax environmental costs of \$682,000.

RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2003 COMPARED WITH YEAR ENDED DECEMBER 31, 2002

Edgar Filing: SL INDUSTRIES INC - Form 10-K

	Year Ended December 31,			
	2003	2002	\$ Variance	% Variance
	(in thousands)			
NET SALES				
Power Electronics Group:				
Condor	\$ 39,450	\$ 38,058	\$ 1,392	4%
Teal	20,393	19,608	785	4%
Total	59,843	57,666	2,177	4%
SL-MTI	22,053	23,007	(954)	(4%)
RFL	23,388	27,239	(3,851)	(14%)
Consolidated	\$105,284	\$107,912	\$(2,628)	(2%)

	Year Ended December 31,			
	2003	2002	\$ Variance	% Variance
	(in thousands)			
INCOME FROM OPERATIONS				
Power Electronics Group:				
Condor	\$ 3,377	\$ 1,457	\$ 1,920	132%
Teal	2,671	1,873	798	43%
Total	6,048	3,330	2,718	82%
SL-MTI	1,957	1,873	84	4%
RFL	2,236	3,435	(1,199)	(35%)
Other expenses and Corporate office	(3,563)	(5,526)	1,963	36%
Consolidated	\$ 6,678	\$ 3,112	\$ 3,566	115%

Consolidated net sales from continuing operations for 2003, decreased by \$2,628,000, or 2%, compared to 2002. This decrease is due to a net sales decrease at RFL of \$3,851,000, or 14%, and a net sales decrease at SL-MTI of \$954,000, or 4%. These decreases were partially offset by an increase in net sales at the Power Electronics Group of \$2,177,000, or 4%. Consolidated net sales for 2002 do not include net sales of \$29,895,000, relating to the combined sales of EME and SurfTech, which are classified as discontinued operations.

Page 29

The Company's income from operations increased to \$6,678,000 in 2003, compared to \$3,112,000 in 2002. Other than RFL, all of the Company's business segments had increases in income from operations in 2003, as compared to 2002. RFL's income from operations decreased \$1,199,000, or 35%.

Income from continuing operations in 2003 was \$3,742,000, or \$0.63 per diluted

Edgar Filing: SL INDUSTRIES INC - Form 10-K

share, compared to income from continuing operations in 2002 of \$801,000, or \$0.14 per diluted share. The net income in 2002 included restructuring costs at Condor of \$230,000 and special charges related to change of control and proxy costs included in Other expenses of \$1,834,000. The Company's business segments and the components of operating expenses are discussed more fully in the following sections.

The Power Electronics Group had an increase in net sales of \$2,177,000, or 4%, and an increase in income from operations of \$2,718,000, or 82%, over the prior year. The increase in net sales within the Power Electronics Group is primarily attributable to an increase in sales at Condor of \$1,392,000, or 4%. Increased net sales to distributors of medical products accounted for the improvement. In addition, there were lower returns from distributors in 2003, as compared to 2002, primarily due to a new distributor scrap program.

SL-MTI's net sales decreased approximately \$954,000, or 4%, while income from operations increased by \$84,000, or 4%, compared to the prior year. Net sales of windings products decreased by \$2,811,000, or 39%. This decrease was partially offset by an increase in net sales of DC brushless motors of \$2,097,000, or 19%. The increase in income from operations was primarily due to an inventory write-off of \$387,000, which was recorded in 2002. Without this \$387,000 charge, income from operations for 2003 would have been less than in 2002, as a result of the decrease in net sales.

RFL's net sales decreased approximately \$3,851,000, or 14%, and income from operations decreased approximately \$1,199,000, or 35%, compared to net sales and income from operations from the prior year. RFL experienced a net sales decrease of \$3,846,000, or 29%, in its teleprotection product line and of \$1,498,000, or 56%, in its protective relaying product line. These decreases were partially offset by a net sales increase of \$1,355,000, or 18%, in its carrier communications product line. In 2003, RFL experienced inconsistent procurement patterns from electric power utility companies, who are the major purchasers of its teleprotection and protective relaying product lines.

COST OF PRODUCTS SOLD

As a percentage of net sales, cost of products sold was approximately 63% in 2003, as compared to approximately 64% in 2002. Although the cost of products sold, as a percentage of sales, remained relatively constant year-to-year, the business segments' product mix changed considerably. The Power Electronics Group cost of products sold percentage improved from 67% in 2002 to 63% in 2003. This was due in part to the increase in sales. In addition, Condor made several productivity improvements at its manufacturing facility in Mexicali, Mexico. In 2002, significant inefficiencies and start-up costs were incurred as Condor transferred its remaining telecommunications product line from its Reynosa, Mexico facility to its current manufacturing location in Mexicali, Mexico. The improvement in SL-MTI's cost of products sold percentage was primarily due to an inventory charge being taken in 2002 and a slight improvement in manufacturing efficiency at its plant in Matamoros, Mexico. RFL's increase in its cost of products sold percentage was due to a significant reduction in sales.

Page 30

ENGINEERING AND PRODUCT DEVELOPMENT EXPENSES

Engineering and product development expenses in 2003 were \$7,856,000, an increase of approximately \$401,000, or 5%, as compared to 2002. As a percentage of net sales, engineering and product development expenses were 7% in each of 2003 and 2002. The increase of \$401,000 was primarily generated by SL-MTI, which

Edgar Filing: SL INDUSTRIES INC - Form 10-K

experienced higher net engineering costs from the prior year.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses in 2003 were \$22,614,000, a decrease of \$662,000, or 3%, compared to 2002. Reduced selling, general and administrative costs was the result of lower sales. As a percentage of net sales, selling, general and administrative expenses were approximately 21% in each of 2003 and 2002.

DEPRECIATION AND AMORTIZATION EXPENSES

Depreciation and amortization expenses in 2003 were \$1,851,000, a decrease of approximately \$783,000, or 30%, compared to 2002. The reduction in 2003 was due to the Company's reduced fixed asset base.

AMORTIZATION OF DEFERRED FINANCING COSTS

In connection with entering into the Senior Credit Facility on January 6, 2003, the Company incurred approximately \$1,342,000 in costs. These costs have been deferred and are being amortized over the three-year term of the Senior Credit Facility. Amortization for 2003 was \$447,000.

INTEREST INCOME (EXPENSE)

In 2003, interest income was \$172,000, compared to \$25,000 in 2002. Interest expense in 2003 was \$380,000, compared to \$2,256,000 in 2002. Included in interest expense in 2002 is the payment of a facility fee of \$780,000, resulting from the Company's inability to pay down in full its former credit facility by October 31, 2002. (See Note 9 in the Notes to Consolidated Financial Statements included in Part IV of this Annual Report on Form 10-K). The decrease in interest expense for 2003 is related to significantly reduced debt levels and lower interest rates.

TAXES

The effective tax rate for 2003 was higher than the statutory rate due primarily to the impact of state income taxes.

NEW ACCOUNTING PRONOUNCEMENTS TO BE ADOPTED

In November 2004, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4" ("SFAS No. 151"). SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and requires these costs be treated as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. These provisions of SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We are currently evaluating the impact of SFAS No. 151 on our financial position and results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29" ("SFAS No. 153"). SFAS No. 153 amends the guidance in APB Opinion No. 29,

Edgar Filing: SL INDUSTRIES INC - Form 10-K

"Accounting for Nonmonetary Transactions", which is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged, with certain exceptions. SFAS No. 153 amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We are currently evaluating the impact of SFAS NO. 153 on our financial position and results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS No. 123R establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS No. 123R are effective for public entities that do not file as small business issuers as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently evaluating the impact of SFAS No. 123R on its financial position and results of operations. The Company may experience a negative impact on its financial position and results of operations by the third quarter of 2005. This negative impact could be the consequence of not recognizing an expense at the time the Company originally issued employee stock options.

ENVIRONMENTAL

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

Page 32

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest and foreign currency exchange rates. Changes in the market interest rate affect both interest paid and earned by the Company. The Company's investments and outstanding debt bear variable interest rates. As of December 31, 2004, debt consists primarily of the Senior Credit Facility, which bears interest at interest rates ranging from prime rate plus .5% to the prime rate plus 2%. The Company manufactures some of its products in Mexico and purchases some components in foreign markets. All other foreign market component purchases are primarily invoiced in U.S. dollars. Changes in interest and foreign currency exchange rates did not have a material impact on earnings for 2004, and are not expected to have a material impact on earnings in 2005.

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

Edgar Filing: SL INDUSTRIES INC - Form 10-K

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES: The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures," as such term is defined in Rules 13a-15e and 15d-15e promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this Annual Report on Form 10-K, and provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

CHANGES IN INTERNAL CONTROLS: There have been no changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

It should be noted that any control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the

Page 33

inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

ITEM 9B. OTHER INFORMATION

On March 21, 2005, a payment of \$250,000 was awarded by the Compensation Committee to Steel Partners, Ltd. ("SPL"), a company controlled by the Chairman of the Board and Chief Executive Officer of the Company, Warren Lichtenstein, on account of SPL's services in 2004 in recognition of SPL's very significant contributions to the Company's success, including the improvement in operating performance and the reduction of indebtedness, as well as the improvement in returns on invested capital and the Company's stock price, among other things. SPL is also party to a management agreement with the Company which provides for payments of \$475,000 per annum by the Company to SPL on account of management and advisory services provided by SPL to the Company. See Note 17, Related Party Transactions, to the Financial Statements.

PART III

Edgar Filing: SL INDUSTRIES INC - Form 10-K

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Apart from certain information concerning the Company's executive officers, which is set forth in Part I of this Annual Report on Form 10-K, the information required under this Item is incorporated herein by reference to the applicable information in the Proxy Statement for the Company's 2005 Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required under this Item is incorporated by reference to the Proxy Statement for the Company's 2005 Annual Meeting of Shareholders.

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

The information required under this Item is incorporated by reference to the Proxy Statement for the Company's 2005 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required under this Item is incorporated by reference to the Proxy Statement for the Company's 2005 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding the Company's independent auditor fees and services and other information required by Item 14 of Part III of this Report is incorporated herein by reference to the Proxy Statement for the Company's 2005 Annual Meeting of Shareholders.

Page 34

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) (1) FINANCIAL STATEMENTS

The information required by this Item is included in Item 8 of Part II of this Annual Report on Form 10-K. Consolidated financial statements and supplementary data, together with the report of Grant Thornton LLP, independent registered public accounting firm, are filed as part of this report. See Index to Financial Statements and Financial Statement Schedule which appears on page F-1 herein.

(A) (2) FINANCIAL STATEMENT SCHEDULES

The following financial statement schedule for the years ended December 31, 2004, December 31, 2003, and December 31, 2002 are submitted herewith:

Schedule II - Valuation and Qualifying Accounts

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

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

Edgar Filing: SL INDUSTRIES INC - Form 10-K

(A) (3) EXHIBITS

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

Page 35

SIGNATURES

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

SL INDUSTRIES, INC.
(Company)

By /s/ Warren Lichtenstein Date March 21, 2005

Warren Lichtenstein

POWER OF ATTORNEY

SL INDUSTRIES, INC. AND EACH OF THE UNDERSIGNED DO HEREBY APPOINT GLEN KASSAN AND WARREN LICHTENSTEIN, AND EACH OF THEM SEVERALLY, ITS OR HIS TRUE AND LAWFUL ATTORNEY TO EXECUTE ON BEHALF OF SL INDUSTRIES, INC. AND THE UNDERSIGNED ANY AND ALL AMENDMENTS TO THIS ANNUAL REPORT ON FORM 10-K AND TO FILE THE SAME WITH ALL EXHIBITS THERETO AND OTHER DOCUMENTS IN CONNECTION THEREWITH, WITH THE SECURITIES AND EXCHANGE COMMISSION; EACH OF SUCH ATTORNEYS SHALL HAVE THE POWER TO ACT HEREUNDER WITH OR WITHOUT THE OTHER.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE COMPANY AND IN THE CAPACITIES AND ON THE DATE INDICATED.

By /s/ Warren Lichtenstein Date March 21, 2005

Warren Lichtenstein - Chairman of the Board
and Chief Executive Officer
(Principal Executive Officer)

By /s/ Glen Kassan Date March 21, 2005

Glen Kassan - President and Director

By /s/ David R. Nuzzo Date March 21, 2005

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

Edgar Filing: SL INDUSTRIES INC - Form 10-K

By /s/ James C. Taylor ----- James C. Taylor - Executive Vice President and Chief Operating Officer	Date March 21, 2005
By /s/ J. Dwane Baumgardner ----- J. Dwane Baumgardner - Director	Date March 21, 2005
By /s/ Avrum Gray ----- Avrum Gray - Director	Date March 21, 2005
By /s/ James R. Henderson ----- James R. Henderson - Director	Date March 21, 2005
By /s/ James A. Risher ----- James A. Risher - Director	Date March 21, 2005
By /s/ Mark E. Schwarz ----- Mark E. Schwarz - Director	Date March 21, 2005

Page 36

INDEX TO EXHIBITS

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

Exhibit # -----	Description -----
2.1	Securities Purchase Agreement by and among SL Industries, Inc., SL Industries Vertrieb GmbH, and DCX-Chol Holding GmbH, DCX-Chol Enterprises, Inc. and Chol Enterprises, Inc. dated as of January 3, 2003. Incorporated by reference to Exhibit 2.1 to the Company's report on Form 8-K filed with the Securities and Exchange Commission on January 17, 2003.
3.1	Restated Articles of Incorporation. Incorporated by reference to Exhibit 3.1 to the Company's report on Form 10-K for the fiscal year ended December 31, 2000.
3.2	Restated By-Laws. Incorporated by reference to Exhibit 3.2 to the Company's report on Form 10-K for the fiscal year ended December 31, 2000.
10.1	Supplemental Compensation Agreement for the Benefit of Byrne

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Litschgi. Incorporated by reference to Exhibit 10.1 to the Company's report on Form 8 dated November 9, 1990.

- 10.2* 1988 Deferred Compensation Agreement with a Certain Officer. Incorporated by reference to Exhibit 10.6 to the Company's report on Form 8 dated November 9, 1990.
- 10.3* 1991 Long Term Incentive Plan of SL Industries, Inc., as amended, is incorporated by reference to Appendix to the Company's Proxy Statement for its 1995 Annual Meeting held November 17, 1995, previously filed with the Securities and Exchange Commission.
- 10.4* Capital Accumulation Plan. Incorporated by reference to the Company's report on Form 10K/A for the fiscal period ended July 31, 1994.
- 10.5* Change-in-Control Agreement dated May 1, 2001 between the Company and James C. Taylor. Incorporated by reference to Exhibit 10.9 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.
- 10.6* Bonus Agreement dated August 5, 2002 between the Company and James C. Taylor. Incorporated by reference to Exhibit 10.10 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.
- 10.7 Loan and Security Agreement dated effective January 6, 2003 among LaSalle Business Credit LLC, the Agent for Lender, Standard Federal National Association, the Lender, SL Industries, Inc. and SL Delaware, Inc., collectively, borrowers and Condor D.C. Power Supplies, Inc., Teal Electronics Corporation, RFL Electronics, Inc., SL Montevideo Technology, Inc., SL Surface Technologies, Inc., SL Delaware Holdings, Inc., SL Auburn, Inc., Waber Power Ltd., SLW Holdings, Inc., Condor Holdings, Inc. and Cedar Corporation, collectively, guarantors. Incorporated by reference to Exhibit 10.31 to the Company's report on Form 10-K for the fiscal year ended December 31, 2002.
- 10.8* Management Agreement dated as of January 23, 2002 between the Company and Steel Partners, Ltd. Incorporated by reference to Exhibit 10.12 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.
- 14 Code of Conduct and Ethics. Incorporated by reference to Exhibit 14 to the Company's report on Form 10-K for the fiscal year ended December 31, 2003.
- 21 Subsidiaries of the Company (transmitted herewith).
- 23 Consent of Independent Registered Public Accounting Firm (transmitted herewith).
- 31.1 Certification by Principal Executive Officer pursuant to Rule

Edgar Filing: SL INDUSTRIES INC - Form 10-K

13a-15(e) or 15(d)-15(e) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (transmitted herewith).

31.2 Certification by Principal Financial Officer pursuant to Rule 13a-15(e) or 15(d)-15(e) of the Securities and Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act (transmitted herewith).

32 Certification by Principal Executive Officer and Principal Financial Officer pursuant to Rule 13a or 15d of the Securities Exchange Act of 1934, as amended, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (transmitted herewith).

* Indicates a management contract or compensatory plan or arrangement.

Page 38

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

	Page number in this report -----
Report of Independent Registered Public Accounting Firm	F2
Consolidated Balance Sheets	F3
Consolidated Statements of Operations	F4
Consolidated Statements of Comprehensive Income (Loss)	F4
Consolidated Statements of Shareholders' Equity	F5
Consolidated Statements of Cash Flows	F6
Notes to Consolidated Financial Statements	F7 to F30
Financial Statement Schedule:	
II. Valuation and Qualifying Accounts	F31

F-1

Report of Independent Registered Public Accounting Firm -----

The Board of Directors and Shareholders
SL Industries, Inc.

We have audited the accompanying consolidated balance sheets of SL Industries, Inc. and its subsidiaries (the Company) as of December 31, 2004 and 2003 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public

Edgar Filing: SL INDUSTRIES INC - Form 10-K

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SL Industries, Inc. and its subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The financial schedule listed in the index to the consolidated financial statements (Schedule II - Valuation and Qualifying Accounts) is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/ GRANT THORNTON LLP
Philadelphia, Pennsylvania
March 11, 2005

F-2

Item 1. Financial Statements

SL INDUSTRIES, INC. CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,659,000	\$ 3,500,000
Receivables, net	15,734,000	13,060,000
Note receivable	--	1,000,000
Inventories, net	15,839,000	11,000,000

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Prepaid expenses	714,000	1,06
Deferred income taxes, net	3,044,000	3,94
	-----	-----
Total current assets	37,990,000	33,58
	-----	-----
Property, plant and equipment, net	8,509,000	9,54
Deferred income taxes, net	3,280,000	2,30
Goodwill, net	10,303,000	10,30
Other intangible assets, net	1,209,000	98
Other assets and deferred charges	1,793,000	1,69
	-----	-----
Total assets	\$ 63,084,000	\$ 58,42
	=====	=====
LIABILITIES		
Current liabilities:		
Debt, current portion	\$ 559,000	\$ 88
Accounts payable	5,626,000	3,81
Accrued income taxes	962,000	1,20
Accrued liabilities:		
Payroll and related costs	6,059,000	5,66
Other	5,288,000	5,40
	-----	-----
Total current liabilities	18,494,000	16,97
	-----	-----
Debt, less current portion	1,456,000	2,01
Deferred compensation and supplemental retirement benefits	3,858,000	3,90
Other liabilities	1,589,000	94
	-----	-----
Total liabilities	\$ 25,397,000	\$ 23,84
	-----	-----
Commitments and contingencies (Note 12)		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; authorized, 6,000,000 shares; none issued	\$ --	\$
Common stock, \$.20 par value; authorized, 25,000,000 shares; issued 8,298,000 shares	1,660,000	1,66
Capital in excess of par value	39,210,000	38,86
Retained earnings	17,690,000	9,01
Treasury stock at cost, 2,844,000 and 2,356,000 shares, respectively	(20,873,000)	(14,96)
	-----	-----
Total shareholders' equity	37,687,000	34,58
	-----	-----
Total liabilities and shareholders' equity	\$ 63,084,000	\$ 58,42
	=====	=====

See accompanying notes to consolidated financial statements.

F-3

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

2004

2003

20

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Net sales	\$118,804,000	\$105,284,000	\$107,9
Cost and expenses:			
Cost of products sold	75,582,000	66,010,000	69,3
Engineering and product development	8,951,000	7,856,000	7,4
Selling, general and administrative	23,829,000	22,614,000	23,2
Depreciation and amortization	2,133,000	1,851,000	2,6
Restructuring costs	--	--	2
Asset impairment	--	275,000	
Special charges	--	--	1,8
Total cost and expenses	110,495,000	98,606,000	104,8
Income from operations	8,309,000	6,678,000	3,1
Other income (expense):			
Amortization of deferred financing costs	(447,000)	(447,000)	
Interest income	102,000	172,000	
Interest expense	(347,000)	(380,000)	(2,2
Income from continuing operations before income taxes	7,617,000	6,023,000	8
Income tax provision	1,316,000	2,281,000	
Income from continuing operations	6,301,000	3,742,000	8
Income (loss) from discontinued operations (net of tax)	2,371,000	(2,422,000)	(1,2
Net income (loss)	\$ 8,672,000	\$ 1,320,000	\$ (4
Basic net income (loss) per common share			
Income from continuing operations	\$ 1.10	\$ 0.63	\$
Income (loss) from discontinued operations (net of tax)	0.41	(0.41)	
Net income (loss)	\$ 1.51	\$ 0.22	\$
Diluted net income (loss) per common share			
Income from continuing operations	\$ 1.08	\$ 0.63	\$
Income (loss) from discontinued operations (net of tax)	0.40	(0.41)	
Net income (loss)	\$ 1.48	\$ 0.22	\$
Shares used in computing basic net income (loss) per common share	5,760,000	5,917,000	5,8
Shares used in computing diluted net income (loss) per common share	5,871,000	5,956,000	5,8

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

	2004	2003	
Net income (loss)	\$8,672,000	\$1,320,000	\$ (4
Other comprehensive income:			
Currency translation adjustment (net of tax)	--	--	

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Comprehensive income (loss)	\$8,672,000	\$1,320,000	\$ (4
	=====	=====	=====

See accompanying notes to consolidated financial statements.

F-4

SL INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock				Capital in Excess of Par Value
	Issued		Held In Treasury		
	Shares	Amount	Shares	Amount	
BALANCE DECEMBER 31, 2001	8,298,000	\$1,660,000	(2,587,000)	\$(16,373,000)	\$39,025,000
Net loss					
Other, including exercise of employee stock options and related income tax benefits			171,000	1,089,000	(221,000)
Treasury stock sold			188,000	1,191,000	16,000
Treasury stock purchased			(170,000)	(1,102,000)	
Reclassification of foreign currency translation gain realized upon the sale of foreign entity					
Current year translation adjustment					
BALANCE DECEMBER 31, 2002	8,298,000	\$1,660,000	(2,398,000)	\$(15,195,000)	\$38,820,000
Net income					
Other, including exercise of employee stock options and related income tax benefits			20,000	143,000	6,000
Treasury stock sold			171,000	1,070,000	37,000
Treasury stock purchased			(149,000)	(978,000)	
BALANCE DECEMBER 31, 2003	8,298,000	\$1,660,000	(2,356,000)	\$(14,960,000)	\$38,863,000
Net income					
Other, including exercise of employee stock options and related income tax benefits			73,000	497,000	170,000
Treasury stock sold			41,000	277,000	177,000
Stock repurchase plan			(546,000)	(6,101,000)	
Treasury stock purchased			(56,000)	(586,000)	
BALANCE DECEMBER 31, 2004	8,298,000	\$1,660,000	(2,844,000)	\$(20,873,000)	\$39,210,000

See accompanying notes to consolidated financial statements.

F-5

Edgar Filing: SL INDUSTRIES INC - Form 10-K

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

	2004	2003 *
	-----	-----
OPERATING ACTIVITIES:		
Income from continuing operations	\$ 6,301,000	\$ 3,742,
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation	1,848,000	1,654,
Amortization	285,000	197,
Amortization of deferred financing costs	447,000	447,
Non-cash restructuring charges	--	
Asset impairment	--	275,
Non-cash compensation expense	959,000	309,
Provisions for losses on accounts receivable	136,000	23,
Other assets	(529,000)	(346,
Cash surrender value of life insurance policies	--	21,
Deferred compensation and supplemental retirement benefits	348,000	458,
Deferred compensation and supplemental retirement benefit payments	(502,000)	(545,
Decrease (increase) in deferred income taxes	(651,000)	2,122,
Loss on sales of equipment	3,000	9,
Changes in operating assets and liabilities, excluding effects of business acquisitions and dispositions:		
Accounts receivable	(2,714,000)	4,366,
Inventories	(4,830,000)	2,711,
Prepaid expenses	353,000	(410,
Accounts payable	1,921,000	(1,508,
Other accrued liabilities	(137,000)	(2,249,
Accrued income taxes	1,305,000	(1,312,
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,543,000	\$ 9,964,
	-----	-----
INVESTING ACTIVITIES:		
Proceeds from sale of net assets of subsidiaries	1,000,000	7,600,
Proceeds from sales of equipment	9,000	
Purchases of property, plant and equipment	(1,642,000)	(1,616,
Decrease in notes receivable	--	2,
Proceeds from cash surrender value of life insurance policies	--	
	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	\$ (633,000)	\$ 5,986,
	-----	-----
FINANCING ACTIVITIES:		
Change in deferred financing charges	--	(201,
Net proceeds from Senior Credit Facility	--	3,518,
Payments to Revolving Credit Facility	--	(17,557,
Payments of term loans	(887,000)	(616,
Proceeds from stock options exercised	517,000	149,
Treasury stock (acquired) sold	(6,233,000)	129,
	-----	-----
NET CASH USED IN FINANCING ACTIVITIES	\$ (6,603,000)	\$ (14,578,
	-----	-----
NET CASH PROVIDED BY (USED IN) DISCONTINUED OPERATIONS	1,851,000	(1,410,
	-----	-----

Edgar Filing: SL INDUSTRIES INC - Form 10-K

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(842,000)	(38,
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,501,000	3,539,
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,659,000	\$ 3,501,
	=====	=====

See accompanying notes to consolidated financial statements.

* Reclassified for comparative purposes.

F-6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF CONSOLIDATION: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

RECLASSIFICATIONS: Reclassifications, when applicable, are made to the prior year consolidated financial statements to conform with the current year presentation.

CASH EQUIVALENTS: The Company considers all highly liquid debt instruments with an original maturity date of three months or less and investments in money market accounts to be cash equivalents. At December 31, 2004 and December 31, 2003, cash and cash equivalents are held principally at one financial institution.

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

ACCOUNTS RECEIVABLE: The Company's accounts receivable primarily consist of trade receivables and are reported net of allowances for doubtful accounts of approximately \$472,000 and \$365,000 for 2004 and 2003, respectively. The Company's estimate for the allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved. First, the Company evaluates specific accounts where it has information that the customer may have

Edgar Filing: SL INDUSTRIES INC - Form 10-K

an inability to meet its financial obligations (bankruptcy, etc.). In these cases, the Company uses its judgment, based on the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. Second, a general reserve is established for all customers based on several factors, including historical write-offs as a percentage of sales and anticipated returns related to customer receivables. If circumstances change (e.g., higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial

F-7

obligation), the Company's estimates of the recoverability of amounts due could be reduced by a material amount.

INVENTORIES: Inventories are valued at the lower of cost or market. Cost is primarily determined using the first-in, first-out ("FIFO") method. Cost for certain inventories is determined using the last-in, first-out ("LIFO") method. The Company ensures inventory is valued 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 set to that value. If a write down to the current market value is necessary, the market value cannot be greater than the net realizable value, defined as selling price less costs to complete and dispose and cannot be lower than the net realizable value less a normal profit margin. The Company also continually evaluates the composition of its inventory and identifies slow-moving and excess inventories. Inventory items identified as slow-moving or excess are evaluated to determine if reserves are required. If the Company is not able to achieve its expectations of the net realizable value of the inventory at current value, it would adjust its reserves accordingly.

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

GOODWILL AND OTHER INTANGIBLES: In June 2001, FASB issued Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), which requires that goodwill and certain other intangible assets having indefinite lives will no longer be amortized to earnings, but instead be subject to periodic testing for impairment. Intangible assets determined to have definitive lives will continue to be amortized over their estimated useful lives. Effective January 1, 2002, the Company adopted SFAS No. 142 and implemented certain provisions, specifically the discontinuation of goodwill amortization, and implemented the remaining provisions during 2002.

LONG-LIVED ASSETS: As of January 1, 2002, the Company adopted Statement of Financial Accounting Standard No. 144 ("SFAS No. 144"), "Accounting for the Impairment or Disposal of Long Lived Assets" ("SFAS No. 144"), which supersedes Statement of Financial Accounting Standard No. 121, "Accounting for the

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of." Accordingly, whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable, the Company assesses the recoverability of the asset either by estimated cash flows or independent appraisals.

ENVIRONMENTAL EXPENDITURES: Environmental expenditures that relate to current operations are charged to expense or capitalized, as appropriate. Environmental expenditures that relate to former business units are reported as part of discontinued operations. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated. The liability for remediation expenditures includes elements of costs such as site investigations, consultants' fees, feasibility studies, outside contractor expenses and monitoring expenses. Estimates are not discounted, nor are they reduced by potential claims for recovery from the Company's insurance carriers. The liability is periodically reviewed and

F-8

adjusted to reflect current remediation progress, prospective estimates of required activity and other relevant factors including changes in technology or regulations.

DEBT ISSUANCE COSTS: Costs incurred in securing long-term debt are deferred and amortized over the term of the related debt.

PRODUCT WARRANTY COSTS: The Company offers various warranties on its products. The Company provides for its estimated future warranty obligations in the period in which the related sale is recognized primarily based on historical experience. For 2004, 2003 and 2002, these costs were \$326,000, \$423,000, and \$605,000, respectively.

ADVERTISING COSTS: Advertising costs are expensed as incurred. For 2004, 2003 and 2002, these costs were \$268,000, \$296,000, and \$310,000, respectively.

RESEARCH AND DEVELOPMENT COSTS: Research and development costs are expensed as incurred. For 2004, 2003 and 2002, these costs were \$3,811,000, \$2,659,000, and \$2,572,000, respectively.

INCOME TAXES: The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. The Company considers the undistributed earnings of its foreign subsidiaries to be permanently reinvested. Accordingly, the Company has not provided for any deferred taxes. As of December 31, 2004, \$80,000 of such undistributed earnings were expected to be permanently reinvested. It is not practicable to estimate the amount of additional tax that might be payable on this undistributed foreign income.

FOREIGN CURRENCY CONVERSION: The Company's Mexican subsidiaries' functional currency is U.S. dollars. Conversion gains or losses resulting from these foreign currency transactions are included in the accompanying consolidated statements of operations.

USE OF ESTIMATES: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the

Edgar Filing: SL INDUSTRIES INC - Form 10-K

reporting period. Actual results could differ from those estimates. The most significant areas which require the use of management estimates relate to product warranty costs, accrued liabilities related to litigation, allowance for doubtful accounts, allowance for inventory obsolescence and environmental costs.

NET INCOME (LOSS) PER COMMON SHARE: The Company has presented net income per common share pursuant to Financial Accounting Standards Board Statement of Financial Accounting Standard No. 128, "Earnings per Share." Basic net income per common share is computed by dividing reported net income available to common shareholders by the weighted average number of shares outstanding for the period. Diluted net income per common share is computed by dividing reported net income available to common shareholders by the weighted average shares outstanding for the period, adjusted for the dilutive effect of common stock equivalents, which consist of stock options, using the treasury stock method.

F-9

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

	Income (loss)	Shares	Per share amount
	-----	-----	-----
For the Year Ended December 31, 2004:			
Basic net income per common share	\$8,672,000	5,760,000	\$ 1.51
Effect of dilutive securities	--	111,000	(0.03)
	-----	-----	-----
Dilutive net income per common share	\$8,672,000	5,871,000	\$ 1.48
For the Year Ended December 31, 2003:			
Basic net income per common share	\$1,320,000	5,917,000	\$ 0.22
Effect of dilutive securities	--	39,000	--
	-----	-----	-----
Dilutive net income per common share	\$1,320,000	5,956,000	\$ 0.22
For the Year Ended December 31, 2002:			
Basic net loss per common share	\$ (470,000)	5,867,000	\$(0.08)
Effect of dilutive securities	--	--	--
	-----	-----	-----
Dilutive net loss per common share	\$ (470,000)	5,867,000	\$(0.08)

For the years ended December 31, 2004 and December 31, 2003, 437,000 and 490,000 stock options were excluded from the dilutive computations because the option exercise prices were greater than the average market price of the Company's common stock. For the year ended December 31, 2002, 533,000 stock options were excluded from the dilutive computations because their effect would have been anti-dilutive.

STOCK BASED COMPENSATION: In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock Based Compensation-Transition and Disclosure" ("SFAS No. 148"), an amendment of SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"). SFAS No. 148 provides alternative methods for a voluntary change to the fair value method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS No. 123. The Company has elected to continue to account for

Edgar Filing: SL INDUSTRIES INC - Form 10-K

its stock-based employee compensation plans under Accounting Principals Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and related interpretations. The following disclosures are provided in accordance with SFAS No. 148.

As permitted by the FASB, the Company has elected to follow APB No. 25 and related interpretations in accounting for its stock option plans. Under APB Opinion No. 25, compensation expense is measured as the excess, if any, of the fair value of the Company's common stock at the date of the grant over the amount a grantee must pay to acquire the stock. The Company's stock option plans enable the Company to grant options with an exercise price not less than the fair value of the Company's common stock at the date of the grant. However, the Company has recognized approximately \$809,000 and \$231,000 in the years ended December 31, 2004 and December 31, 2003, respectively, in compensation expense related to certain stock based compensation arrangements.

The exercise price of all stock options generally equals the market price of the Company's common stock on the date of grant. Compensation cost has been recognized for the Company's stock option plans as noted in the table below. Had compensation cost for the Company's stock option plans been determined based upon the fair value at the grant date for awards under these plans, consistent with the

F-10

methodology prescribed under SFAS No. 123, the Company's net income and net income per common share would have been as follows:

	Year Ended December 31, 2004	Year Ended December 31, 2003 *	Dece
	-----	-----	-----
Net income (loss), as reported	\$8,672,000	\$1,320,000	\$
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	534,000	186,000	
	-----	-----	
	9,206,000	1,506,000	
Deduct: Total stock-based employee compensation expense determined under fair value based method for awards granted, modified, or settled, net of related tax effects	(761,000)	(752,000)	
	-----	-----	
Pro forma net income (loss)	\$8,445,000	\$ 754,000	\$
	=====	=====	=
Earnings (loss) per share:			
Basic - as reported	\$ 1.51	\$ 0.22	\$
Basic - pro forma	\$ 1.47	\$ 0.13	\$
Diluted - as reported	\$ 1.48	\$ 0.22	\$
Diluted - pro forma	\$ 1.44	\$ 0.13	\$
	=====	=====	=

Edgar Filing: SL INDUSTRIES INC - Form 10-K

* Reclassified for comparative purposes.

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

	Year Ended December 31, 2004 -----	Year Ended December 31, 2003 -----	Year December -----
Expected dividend yield	0.0%	0.0%	0
Expected stock price volatility	46.73%	66.18%	62.
Risk-free interest rate	2.81%	2.69%	4.
Expected life of stock option	5 years -----	5 years -----	5 ya -----

The fair value of the above stock-based compensation costs was determined using the Black-Scholes option valuation model. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions, are fully transferable and do not include a discount for large block trades. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility, expected life of the option and other estimates. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes of the subjective input assumptions can materially affect the fair value estimate, in the Company's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

F-11

RECENT ACCOUNTING PRONOUNCEMENTS: In December 2003, the FASB revised Statement No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits." The FASB's revision of Statement No. 132 requires new annual disclosures about the types of plan assets, investment strategy, measurement date, plan obligations and cash flows, as well as the components of the net periodic benefit cost recognized in interim periods. In addition, companies are now required to disclose their estimates of contributions to their plans during the next fiscal year and the components of the fair value of total plan assets by type (i.e., equity securities, debt securities, real estate and other assets). The Company adopted the provisions of Statement No. 132 (revised) during 2004, which did not have an impact on its consolidated financial position or results of operations.

In the first quarter of 2004, the Company adopted FASB Financial Interpretation No. 46-R ("FIN 46-R"), "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51," which replaced FIN 46. FIN 46-R requires a company to consolidate a variable interest entity ("VIE") if it is designated as a primary beneficiary of that entity even if the company does not have a majority voting interest in the entity. A VIE is generally defined as an entity in which equity investors do not have the characteristics of a controlling financial interest, or do not have sufficient equity at risk for the entity to finance its own activities without additional financial support from other parties, or whose owners lack the risks and rewards of

Edgar Filing: SL INDUSTRIES INC - Form 10-K

ownership. The disclosure requirements of FIN 46-R were effective for financial statements issued after December 31, 2003. The initial recognition provisions of FIN 46-R relating to VIE's created or obtained prior to February 2003 were to be implemented no later than the end of the first reporting period that ends after March 15, 2004. Adoption of FIN 46-R had no effect on the Company's consolidated financial position or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and its related implementation guidance. SFAS No. 123R establishes standards for the accounting of transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The provisions of SFAS No. 123R are effective for public entities that do not file as small business issuers as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company is currently evaluating the impact of SFAS No. 123R on its financial position and results of operations. The Company may experience a negative impact on its financial position and results of operations by the third quarter of 2005. This negative impact could be the consequence of not recognizing an expense at the time the Company originally issued employee stock options.

NOTE 2. DISCONTINUED OPERATIONS

SL WABER - DISCONTINUED OPERATIONS

Effective August 27, 2001, substantially all of the assets of SL Waber, Inc. ("SL Waber") and the stock of Waber de Mexico S.A. de C.V. were sold for approximately \$1,053,000. As part of this transaction, the purchaser acquired the rights to the SL Waber name and assumed certain liabilities and obligations of SL Waber. Subsequent to the sale, the Company changed the name of SL Waber to SLW Holdings, Inc. ("SLW Holdings"). The net income or losses of this subsidiary are included in the consolidated statements of operations under discontinued operations for all periods presented. There was no activity from operations of SLW Holdings during the fourth quarter of 2001 and thereafter.

ELEKTRO-METALL EXPORT GMBH - DISCONTINUED OPERATIONS

On January 6, 2003, the Company sold its wholly-owned, indirect German subsidiary, Elektro-Metall Export GmbH ("EME"). EME is a producer of electronic actuation devices and cable harness systems sold to original equipment manufacturers in the aerospace and automotive industries. Its operations are located in Ingolstadt, Germany and Paks, Hungary. In consideration for 100% of the issued and outstanding capital stock of EME, the purchaser paid \$8,000,000, consisting of cash of \$4,000,000 paid at closing and \$4,000,000 of purchaser notes. In addition, EME made a distribution of \$2,000,000 to the Company prior to closing. The purchaser notes were comprised of a \$3,000,000 secured note that bore interest at the prime rate plus 2%, which was paid on March 14, 2003, and a \$1,000,000 unsecured note that bore interest at an annual rate of 12%, which was paid on April 2, 2004.

In December 2002, the Board of Directors authorized the sale of EME, which was a

Edgar Filing: SL INDUSTRIES INC - Form 10-K

separate reportable segment of the Company. EME is distinguishable as a component of the Company and met the criteria as held for sale under SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

F-12

Accordingly, related operating results of EME have been reported as discontinued operations for the year ended December 31, 2002. At December 31, 2002, the Company recorded a provision of \$1,631,000 (\$0.28 per share), net of related income taxes, to reduce the carrying value of EME to its fair value less costs to dispose.

Revenue and net income before income taxes from the discontinued operations of EME (exclusive of the impairment provision) were as follows:

	Year Ended December 31, 2002 ----- (in thousands)
Revenues	\$27,658
Net income before income taxes	\$ 3,049 =====

SL SURFACE TECHNOLOGIES, INC. - DISCONTINUED OPERATIONS

During the third quarter of 2003, the Company completed a strategic review of its subsidiary, SL Surface Technologies, Inc. ("SurfTech"). As a result of that review, an impairment charge of \$703,000 was recorded during the quarter ending September 30, 2003. Included in the \$703,000 is a charge of \$275,000, which was recorded against the carrying value of the real property where SurfTech conducted operations, as determined by an independent third party appraiser. An impairment charge of \$428,000 was also recorded during that quarter against certain machinery and equipment being utilized by SurfTech.

On November 24, 2003, the Company sold the operating assets of SurfTech. The sale included current assets and equipment used by SurfTech. The purchaser paid \$600,000 in cash, plus the assumption of certain liabilities. The Company continues to own the land and building on which SurfTech's operations were conducted, and has entered into a ten-year lease with the buyer. As a result of the sale, the Company recorded an after tax loss of \$442,000, which included severance, closing costs and a required contribution to a union pension plan discussed more fully below. In addition, as a result of the sale, the Company reclassified the \$428,000 asset impairment charge described above as part of discontinued operations.

SurfTech had made contributions, based on rates per hour, as specified in two union agreements, to two union-administered defined benefit multi-employer pension plans. Under the multi-employer Pension Plan Amendments Act of 1980, an employer is liable upon withdrawal from or termination of a multi-employer plan for its proportionate share of the plan's unfunded vested benefits liability. During 2003 the Company withdrew from both plans and recorded a total charge of \$684,000 regarding the Company's withdrawal from the two plans.

F-13

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Revenue and net income before income taxes from the discontinued operations of SurfTech (exclusive of the loss on the sale of net assets) were as follows:

	Years Ended December 31,	
	2003	2002
	-----	-----
	(in thousands)	
Revenues	\$ 1,840	\$ 2,237
Net loss before income taxes	\$(2,941)	\$(1,994)
	=====	=====

NOTE 3. INCOME TAXES

Income tax provision (benefit) for the years ended December 31, 2004, 2003, and 2002 is as follows:

	Years Ended December 31,		
	2004	2003	2002
	-----	-----	-----
	(in thousands)		
Income tax from continuing operations	\$1,316	\$ 2,281	\$ 80
Income tax from discontinued operations	892	(1,097)	113
	-----	-----	-----
	\$2,208	\$ 1,184	\$193
	=====	=====	=====

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

	Years Ended December 31,		
	2004	2003	2002
	-----	-----	-----
	(in thousands)		
U.S.	\$7,504	\$5,724	\$407
Non-U.S.	113	299	474
	-----	-----	-----
	\$7,617	\$6,023	\$881
	=====	=====	=====

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

Edgar Filing: SL INDUSTRIES INC - Form 10-K

	Years Ended December 31,		
	2004	2003	2002
	(in thousands)		
Current:			
Federal	\$1,367	\$ 32	\$(691)
International	110	144	283
State	(24)	158	30
Deferred:			
Federal	(5)	1,576	567
International	--	--	--
State	(132)	371	(109)
	-----	-----	-----
	\$1,316	\$2,281	\$ 80
	=====	=====	=====

The provision for income taxes related to discontinued operations for 2004 was \$892,000. Income tax benefit related to discontinued operations for 2003 was \$1,097,000, and a provision of \$113,000 was recorded for 2002.

F-14

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2004 and December 31, 2003 are as follows:

	December 31, 2004	December 31, 2003 *
	-----	-----
	(in thousands)	
Deferred Tax Assets:		
Deferred compensation	\$ 1,646	\$ 1,836
Inventory valuation	759	925
Tax loss carryforwards	1,837	2,035
Foreign tax credit carryforwards	564	1,167
R&D tax credit carryforwards	2,856	750
Other	1,364	964
	-----	-----
	9,026	7,677
Less valuation allowances	(3,267)	(2,016)
	-----	-----
	5,759	5,661
Deferred Tax Liabilities:		
Accelerated depreciation and amortization	663	803
	-----	-----
	5,096	4,858
	-----	-----
Assets and Liabilities Related to Discontinued Operations, net	1,228	1,397
	-----	-----
	\$ 6,324	\$ 6,255
	=====	=====

Edgar Filing: SL INDUSTRIES INC - Form 10-K

* Reclassified for comparative purposes.

As of December 31, 2004 and December 31, 2003, the Company's gross foreign tax credits totaled approximately \$564,000 and \$1,167,000, respectively. These credits can be carried forward for ten years and expire between 2009 and 2014.

During the year, the Company recorded the benefits from research and development tax credits primarily related to prior years. As of December 31, 2004, the Company's research and development tax credits totaled approximately \$2,856,000. Of these credits approximately \$2,669,000 can be carried forward for fifteen years and expire between 2013 and 2019, while \$187,000 will carry over indefinitely.

The Company has assessed its past earnings history and trends, sales backlog, budgeted sales, and expiration dates of tax carryforwards and has determined that it is more likely than not that the \$6,324,000 of the net deferred tax assets as of December 31, 2004 will be realized. The Company has an allowance of \$3,267,000 provided against the gross deferred tax asset due to uncertainties related to the utilization of some deferred tax assets, primarily consisting of certain research and development tax credits, state tax loss carryforwards and foreign tax credits.

F-15

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

	Years Ended December 31,		
	2004	2003	2002
Statutory rate	34%	34%	34%
Tax rate differential on foreign sales corporation/extraterritorial income exclusion benefit earnings	(2)	(2)	(15)
International rate differences	1	1	8
State income taxes, net of federal income tax	5	5	--
Foreign tax credits	(2)	--	--
Research and development credits	(17)	--	--
Other	(2)	--	(18)
	17%	38%	9%
	===	===	===

NOTE 4. RECEIVABLES

Receivables consist of the following:

December 31, 2004	December 31, 2003
-----	-----

Edgar Filing: SL INDUSTRIES INC - Form 10-K

(in thousands)

Trade receivables	\$15,771	\$12,656
Less allowances for doubtful accounts	(472)	(365)
	-----	-----
	15,299	12,291
Recoverable income taxes	82	406
Other	353	367
	-----	-----
	\$15,734	\$13,064
	=====	=====

NOTE 5. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables. The Company places its temporary cash investments with high credit quality financial institutions. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many industries and geographic regions.

NOTE 6. INVENTORIES

Inventories consist of the following:

	December 31, 2004	December 31, 2003
	-----	-----
	(in thousands)	
Raw materials	\$ 9,669	\$ 8,384
Work in process	5,000	3,769
Finished goods	3,633	1,494
	-----	-----
	18,302	13,647
Less allowances	(2,463)	(2,638)
	-----	-----
	\$15,839	\$11,009
	=====	=====

F-16

The above includes certain inventories, which are valued using the LIFO method, which aggregated \$3,832,000 and \$3,307,000 as of December 31, 2004 and December 31, 2003, respectively. The excess of FIFO cost over LIFO cost as of December 31, 2004 and December 31, 2003 was approximately \$565,000 and \$457,000, respectively.

NOTE 7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

Edgar Filing: SL INDUSTRIES INC - Form 10-K

	December 31, 2004	December 31, 2003
	-----	-----
	(in thousands)	
Land	\$ 1,170	\$ 1,149
Buildings and leasehold improvements	6,834	6,772
Equipment and other property	17,013	15,194
	-----	-----
	25,017	23,115
Less accumulated depreciation	(16,508)	(13,568)
	-----	-----
	\$ 8,509	\$ 9,547
	=====	=====

NOTE 8. GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets consist of the following:

	December 31, 2004			December 31, 2003		
	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
	-----	-----	-----	-----	-----	-----
	(in thousands)					
Goodwill	\$12,167	\$1,864	\$10,303	\$12,167	\$1,864	\$10,303
	-----	-----	-----	-----	-----	-----
Patents	946	666	280	946	594	352
Covenant not to compete	110	110	--	110	110	--
Trademarks	922	350	572	922	319	603
Licensing fees	355	18	337	--	--	--
Other	437	417	20	501	476	25
	-----	-----	-----	-----	-----	-----
Other intangible assets	2,770	1,561	1,209	2,479	1,499	980
	-----	-----	-----	-----	-----	-----
	\$14,937	\$3,425	\$11,512	\$14,646	\$3,363	\$11,283
	=====	=====	=====	=====	=====	=====

The Company conducted its initial test for impairment of goodwill and other intangible assets in the second quarter of 2002. The Company allocated its adjusted goodwill balance to its reporting units and conducted the transitional impairment tests required by SFAS No. 142. The fair values of the reporting units were estimated using a combination of the expected present values of future cash flows and an assessment of comparable market values. No impairment charges were recorded as a result of the initial impairment test. The Company also tested goodwill for impairment in the fourth quarter of 2002 and recorded a charge to reduce goodwill in the amount of \$556,000 related to SurfTech. This charge has been reclassified to discontinued operations for fiscal 2002. There were no impairment charges related to goodwill and intangible assets recorded during 2004 and 2003.

The other intangible assets that have definite lives are all amortizable and have original estimated useful lives as follows: patents are amortized over approximately 13 years and licensing fees over approximately 10 years. Amortization expense for intangible assets subject to amortization in each of

Edgar Filing: SL INDUSTRIES INC - Form 10-K

F-17

the next five fiscal years is estimated to be \$113,000 for the next three years, \$68,000 in the fourth year and \$41,000 in the fifth year.

Amortization expense related to intangible assets for 2004, 2003, and 2002 was \$126,000, \$113,000 and \$431,000, respectively. Intangible assets subject to amortization have a weighted average life of approximately 12 years.

NOTE 9. DEBT

Debt consists of the following:

	December 31, 2004	December 31, 2003
	-----	-----
	(in thousands)	
Revolving line of credit	\$ --	\$ 327
Term Loan A	1,600	1,992
Term Loan B	415	583
	-----	-----
	2,015	2,902
Less current portion	(559)	(887)
	-----	-----
Long term debt	\$1,456	\$2,015
	=====	=====

On January 6, 2003, the Company entered into the Senior Credit Facility with LaSalle Business Credit LLC. The Senior Credit Facility provides for a revolving loan and two term loans, up to a maximum indebtedness of \$20,000,000. The revolving loan of up to \$16,810,000 is based upon eligible receivables and inventory and an original overadvance amount of \$1,500,000. The overadvance amount was fully paid down on April 7, 2004. The two term loans of \$2,350,000 and \$840,000 are paid down over a three-year term. The Senior Credit Facility restricts investments, acquisitions, capital expenditures and dividends. The Senior Credit Facility contains financial covenants relating to minimum levels of net worth, fixed charge coverages, EBITDA levels and maximum levels of capital expenditures, as defined. The Senior Credit Facility bears interest ranging from the prime rate plus .5% to the prime rate plus 2%. The Senior Credit Facility is secured by all of the Company's assets. The Senior Credit Facility also provides for certain reserves for outstanding letters of credit and other contingencies, which have reduced the Company's availability under the revolving loan portion of the Senior Credit Facility. At December 31, 2004, the outstanding term loan balances were \$1,600,000 and \$415,000, or a total of \$2,015,000. Availability under the Senior Credit Facility at December 31, 2004 was \$12,273,000. The Company is in discussions with several commercial banks to refinance the Senior Credit Facility on or before its expiration date which is January 6, 2006.

F-18

Edgar Filing: SL INDUSTRIES INC - Form 10-K

The schedule of payments on long-term debt is as follows:

December 31, 2004	

(in thousands)	
2005	\$ 559
2006	1,456
2007	--

	\$2,015
Less-current portion	559

Total long-term debt	\$1,456
	=====

The weighted average interest rate on borrowings during 2004 and 2003 was 4.99% and 5.09%, respectively.

NOTE 10. ACCRUED LIABILITIES - OTHER

Accrued liabilities - other consist of the following:

	December 31, 2004	December 31, 2003 *
	-----	-----
(in thousands)		
Taxes (other than income) and insurance	\$ 805	\$1,062
Commissions	482	484
Accrued litigation and legal fees	1,190	1,109
Other professional fees	689	269
Environmental	1,275	957
Warranty	921	915
Other	915	1,206
Reclassified to long-term liabilities	(989)	(600)
	-----	-----
	\$5,288	\$5,402
	=====	=====

* Reclassified for comparative purposes.

Included in the environmental accrual are estimates for all known costs believed to be probable for sites, which the Company currently operates or had operated at one time and which are explained more fully under Environmental (Note 12).

A summary of the Company's warranty reserve for 2004 and 2003 are as follows:

	December 31, 2004	December 31, 2003 *
	-----	-----
(in thousands)		
Liability, beginning of year	\$ 915	\$ 897

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Expense for new warranties issued	330	398
Expense related to accrual revisions for prior year warranties	(4)	25
Warranty claims	(320)	(405)
	-----	-----
Liability, end of year	\$ 921	\$ 915
	=====	=====

* Reclassified for comparative purposes.

F-19

NOTE 11. RETIREMENT PLANS AND DEFERRED COMPENSATION

The Company maintains three noncontributory, defined contribution pension plans covering all of its full-time, US employees. The Company's contributions to these plans are based on a percentage of employee contributions and/or plan year gross wages, as defined. Teal, SL-MTI, Condor and the Corporate office provide contributions to their plans based of a percentage of employee contributions. RFL, SL-MTI, Condor and the Corporate office also provide profit sharing contributions annually, based on plan year gross wages. Costs incurred under these plans during 2004, 2003 and 2002 amounted to approximately \$976,000, \$1,131,000 and \$1,232,000, respectively.

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 of 6% to 12%. The amount charged to income in connection with these agreements amounted to \$358,000, \$411,000 and \$334,000, for 2004, 2003 and 2002, respectively.

The Company is the owner and beneficiary of life insurance policies on the lives of some of the participants having a deferred compensation or supplemental retirement agreement. As of December 31, 2004, the aggregate death benefit totaled \$570,000, with the corresponding cash surrender value of all policies totaling \$271,000.

As of December 31, 2001, life insurance policies with a cash surrender value of approximately \$11,109,000 were surrendered to the life insurance company in exchange for the cash proceeds from the build up of cash surrender value in the policies. In December 2001 and January 2002, the Company received approximately \$880,000 and \$10,229,000, respectively, from the surrender of these policies. These funds were used to pay down bank debt.

As of December 31, 2004, certain agreements may restrict the Company from utilizing cash surrender value of certain life insurance policies totaling approximately \$271,000 for purposes other than the satisfaction of the specific underlying deferred compensation agreements, if benefits are not paid by the Company. The Company nets the dividends realized from the life insurance policies with premium expenses. Net expenses recorded in connection with the policies amounted to \$9,000, \$0 and \$18,000 for 2004, 2003 and 2002, respectively.

NOTE 12. COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities, equipment and vehicles from third parties that expire through 2007. The minimum rental commitments as of December 31, 2004 are as follows:

Edgar Filing: SL INDUSTRIES INC - Form 10-K

	Operating -----	Capital -----
	(in thousands)	
2005	\$1,249	\$ 80
2006	802	66
2007	194	14
2008	--	--
2009	--	--
Thereafter	--	--
	-----	-----
Total Minimum Payments	\$2,245	\$160
	-----	-----
Less: Interest		(27)

Total Principal Payable		\$133
		=====

F-20

For 2004, 2003 and 2002, rental expense applicable to continuing operations aggregated approximately \$1,393,000, \$1,394,000, and \$1,027,000, respectively.

LETTERS OF CREDIT: As of December 31, 2004 and 2003, the Company was contingently liable for \$605,000 and \$604,000, respectively, under an outstanding letter of credit issued for casualty insurance requirements.

LITIGATION: In the ordinary course of its business, the Company is subject to loss contingencies pursuant to foreign and domestic federal, state and local governmental laws and regulations and is also party to certain legal actions, which may occur in the normal operations of the Company's business. It is management's opinion that the impact of these legal actions will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

The Company's subsidiary, SL Montevideo Technology, Inc. ("SL-MTI"), defended a cause of action, brought against it in the fall of 2000, in the federal district court for the western district of Michigan. The lawsuit was filed by a customer, Eaton Aerospace, Inc. ("Eaton"), alleging breach of contract and warranty in the defective design and manufacture of a high precision motor and demanding compensatory damages of approximately \$3,900,000. On November 7, 2002, after a full trial of the facts, a jury awarded Eaton damages of \$650,000, which when combined with pre-trial interest brings the total claim to \$780,000 which is fully reserved. Eaton is appealing the decision.

The Company is the subject of certain lawsuits and actions relating to environmental issues, including an administrative action in connection with a chrome plating facility in Pennsauken, New Jersey formerly operated by SurfTech (the "SurfTech Site") which could subject the Company to, among other things, \$9,266,000 in collective reimbursements (with other parties) to the New Jersey Department of Environmental Protection (the "NJDEP"). The Company believes that it has significant defenses against all or any part of the claim and that any material impact is unlikely.

On June 12, 2002, the Company and SurfTech were served with notice of class

Edgar Filing: SL INDUSTRIES INC - Form 10-K

action complaint filed in Superior Court of New Jersey for Camden County. The Company and SurfTech are currently two of approximately 39 defendants in this action. The complaint alleges, among other things, that plaintiffs suffered personal injuries as a result of consuming water distributed from the Puchack Wellfield in Pennsauken, New Jersey (which supplies Camden, New Jersey).

This case arises from the same factual circumstances as current administrative actions involving the Puchack Wellfield, to which the Company is a party. The administrative actions and the class action lawsuit both allege that SurfTech and other defendants contaminated ground water through the disposal of hazardous substances at the SurfTech site.

As with the administrative actions, the Company believes it has significant defenses against the class action plaintiff's claims and intends to pursue them vigorously. Technical data generated as part of remedial activities at the SurfTech Site have not established offsite migration of contaminants. Based on this and other technical factors, the Company has been advised by its outside counsel that it has a strong defense against the claims alleged in the class action plaintiffs' complaint, as well as the environmental administrative actions.

It is management's opinion that the impact of legal actions brought against the Company and its operations will not have a material adverse effect on its financial position or results of operations.

F-21

However, the ultimate outcome of these matters, as with litigation generally, is inherently uncertain, and it is possible that some of these matters may be resolved adversely to the Company. The adverse resolution of any one or more of these matters could have a material adverse effect on the business, operating results, financial condition or cash flows of the Company.

ENVIRONMENTAL: Loss contingencies include potential obligations to investigate and eliminate or mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as Superfund sites and other facilities, whether or not they are currently in operation. The Company is currently participating in environmental assessments and cleanups at a number of sites under these laws and may in the future be involved in additional environmental assessments and cleanups. Based upon investigations completed by the Company and its independent engineering consulting firms to date, management has provided an estimated accrual for all known costs believed to be probable in the amount of \$1,275,000. Of this amount the Company expects to spend approximately \$286,000 related to environmental matters in 2005. However, it is in the nature of environmental contingencies that other circumstances might arise, the costs of which are indeterminable at this time due to such factors as changing government regulations and stricter standards, the unknown magnitude of defense and cleanup costs, the unknown timing and extent of the remedial actions that may be required, the determination of the Company's liability in proportion to other responsible parties, and the extent, if any, to which such costs are recoverable from other parties or from insurance. Although these contingencies could result in additional expenses or judgments, or off-sets thereto, at present such expenses or judgments are not expected to have a material effect on the consolidated financial position or results of operations of the Company. Most of the Company's environmental costs relate to discontinued operations and all such appropriate costs have been recorded in discontinued operations.

The Company has reported a ground water contamination plume on its property in

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Camden, New Jersey. In January 2003, the Company submitted to the NJDEP a plan to remediate the site, which is currently under review. Based upon the preliminary evidence, the Company was advised that the cost to remediate the site could amount to \$500,000. The Company recorded a provision for this amount during the first quarter of 2002, which is now recorded as part of discontinued operations.

The Company has reported soil and groundwater contamination on SL-MTI's property in Montevideo, Minnesota. SL-MTI has conducted analysis of the contamination and performed remediation at the site. Further remediation efforts will be required and the Company is engaged in discussions with the Minnesota Pollution Control Agency to develop a remediation plan. Based on current information, the Company believes it will incur remediation costs at this site of \$268,000, which has been accrued.

The Company filed claims with several of its insurers seeking reimbursement for past and future environmental costs. In settlement of its claims, the Company received aggregate cash payments of \$2,800,000 prior to fiscal 2001, and commitments from three insurers to pay for a portion of environmental costs associated with the SurfTech site of 15% of costs up to \$300,000, 15% of costs up to \$150,000 and 20% of costs up to \$400,000, respectively. During 2004, the Company billed these three insurers a total of \$654,000 for their contingent commitments through 2004. These billings are recorded in discontinued operations. As of December 31, 2004 and 2003, the remaining environmental accruals of \$1,275,000 and \$957,000, respectively, have been included in "Accrued Liabilities - Other" (Note 10).

F-22

EMPLOYMENT AGREEMENTS: Following election of five new directors in 2002, the Company made payments to certain executive officers under change-of-control agreements totaling approximately \$1,480,000, which is reported as a component of special charges in the statement of operations in 2002.

The Company also entered into severance agreements with certain key employees in 2001 that provide for one-time payments in the event of a change in control, as defined, if the employee is terminated within 12 months of any such change of control. These payments range from three to 24 months of the employee's base salary as of the termination date, as defined. If a triggering event had taken place in 2004 and if these employees had been terminated during the year, the payments would have aggregated approximately \$3,400,000 under the change of control agreements.

NOTE 13. STOCK OPTIONS AND CAPITAL STOCK

At the Company's 1993 Annual Meeting, the shareholders approved a Nonemployee Director Nonqualified Stock Option Plan (the "Director Plan"), which was effective June 1, 1993. The Director Plan provides for the granting of nonqualified options to purchase up to 250,000 shares of the Company's common stock to non-employee directors of the Company in lieu of paying quarterly retainer fees and regular quarterly meeting attendance fees, when elected. The Director Plan enables the Company to grant options, with an exercise price per share not less than fair market value of the Company's common stock on the date of grant, which are exercisable at any time. Each option granted under the Director Plan expires no later than ten years from date of grant and no options can be granted under the Director Plan after its May 31, 2003 expiration date. Information for 2004, 2003 and 2002 with respect to the Director Plan is as follows:

Edgar Filing: SL INDUSTRIES INC - Form 10-K

	Shares	Option Price	Weighted Average Exerco Price
	-----	-----	-----
	(in thousands, except for option price)		
Outstanding and exercisable as of December 31, 2001	104	\$3.5625 to \$14.625	\$ 9.98
Granted	5	\$7.15 to \$8.20	\$ 7.70
Cancelled	(42)	\$6.80 to \$14.625	\$12.00
	---	-----	-----
Outstanding and exercisable as of December 31, 2002	67	\$3.5625 to \$14.625	\$ 8.57
Granted	91	\$6.00 to \$6.00	\$ 6.00
Exercised	(18)	\$6.00 to \$6.00	\$ 6.00
	---	-----	-----
Outstanding and exercisable as of December 31, 2003	140	\$3.5625 to \$14.625	\$ 7.23
Exercised	(32)	\$3.5625 to \$6.00	\$ 5.41
Cancelled	(2)	\$7.27 to \$7.31	\$ 7.30
	---	-----	-----
Outstanding and exercisable as of December 31, 2004	106	\$4.75 to \$14.625	\$ 7.31
	===	=====	=====

As of December 31, 2004, there are no shares available for grant.

At the Company's 1991 Annual Meeting, the shareholders approved the adoption of a Long Term Incentive Plan (the "1991 Plan"), which provided for the granting of options to officers and key employees of the Company to purchase up to 500,000 shares of the Company's common stock. At the 1995 Annual Meeting, the shareholders approved an amendment to increase the number of shares subject to options under the 1991 Plan from 500,000 to 922,650. At the 1998 Annual Meeting, the shareholders approved an amendment to increase the number of shares subject to options under the 1991 Plan from 922,650 to 1,522,650. The 1991 Plan enables the Company to grant either nonqualified options, with an exercise price per share established by the Board's Compensation Committee, or incentive stock options, with an exercise price per share not less than the fair market value of the Company's common stock on the date of grant, which are exercisable at any time. Each option granted

F-23

under the 1991 Plan expires no later than ten years from date of grant, and no future options can be granted under the 1991 Plan as a result of its expiration on September 25, 2001.

Information for 2004, 2003, and 2002 with respect to the 1991 Plan is as follows:

	Shares	Option Price	Weighted Average Price
	-----	-----	-----
	(in thousands, except for option price)		
Outstanding as of December 31, 2001	1,056	\$3.25 to \$13.50	\$10.08
Exercised	(63)	\$7.55 to \$7.85	\$ 4.92
Cancelled	(252)	\$3.50 to \$13.50	\$10.39

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Outstanding as of December 31, 2002	741	\$3.25 to \$13.50	\$10.37
Exercised	(10)	\$5.75 to \$5.75	\$ 5.75
Cancelled	(59)	\$3.25 to \$13.50	\$ 8.24
Outstanding as of December 31, 2003	672	\$3.50 to \$13.50	\$10.62
Exercised	(33)	\$5.75 to \$12.175	\$ 7.04
Cancelled	(39)	\$3.50 to \$13.50	\$ 9.66
Outstanding as of December 31, 2004	600	\$5.75 to \$13.50	\$10.84

The number of shares exercisable as of December 31, 2004, was 565,000. There were no shares available for grant as of December 31, 2004.

Transactions from December 31, 2001 through December 31, 2004, under the above plans, were as follows:

	Number of Shares (in thousands)	Option Price per Share	Weighted Average Price	Wei Avera Rem (y
Outstanding as of December 31, 2001	1,268	\$3.25 to \$14.625	\$ 9.56	7
Granted	5	\$7.15 to \$8.20	\$ 7.70	
Exercised	(171)	\$3.25 to \$6.875	\$ 4.42	
Cancelled	(294)	\$3.50 to \$14.625	\$10.519	
Outstanding as of December 31, 2002	808	\$3.25 to \$14.625	\$10.218	7
Granted	91	\$6.00 to \$6.00	\$ 6.00	
Exercised	(28)	\$5.75 to \$6.00	\$ 5.91	
Cancelled	(59)	\$3.25 to \$13.50	\$ 8.24	
Outstanding as of December 31, 2003	812	\$3.50 to \$14.625	\$10.037	6
Exercised	(65)	\$3.5625 to \$12.175	\$ 6.24	
Cancelled	(41)	\$3.50 to \$13.50	\$ 9.57	
Outstanding as of December 31, 2004	706	\$4.75 to 14.625	\$10.154	5
Exercisable as of December 31, 2004	671	\$4.75 to 14.625	\$10.053	

F-24

The following tables segregate the outstanding options and exercisable options as of December 31, 2004, into five ranges:

Options Outstanding (in thousands)	Range of Option Prices per Share	Weighted Average Price	Weighted Average Life Remaining (years)
---------------------------------------	-------------------------------------	---------------------------	--

Edgar Filing: SL INDUSTRIES INC - Form 10-K

173	\$4.75 to \$6.00	\$ 5.837	7.13
183	\$6.80 to \$11.75	\$10.527	3.76
44	\$12.00 to \$12.156	\$12.007	5.52
174	\$12.175 to \$12.175	\$12.175	6.38
132	\$12.25 to \$14.625	\$13.232	4.29

706			
===	=====	=====	=====

Options Exercisable (in thousands)	Range of Option Prices per Share	Weighted Average Price
-----	-----	-----
173	\$4.75 to \$6.00	\$ 5.837
183	\$6.80 to \$11.75	\$10.527
44	\$12.00 to \$12.156	\$12.007
139	\$12.175 to \$12.175	\$12.175
132	\$12.25 to \$14.625	\$13.232

671		
===	=====	=====

NOTE 14. CASH FLOW INFORMATION

Supplemental disclosures of cash flow information:

	Years Ended December 31,		
	2004	2003	2002
	-----	-----	-----
	(in thousands)		
Interest paid	\$ 286	\$321	\$2,640
Income taxes paid	\$2,577	\$407	\$ 379
	=====	=====	=====

On November 24, 2003, the Company sold substantially all the assets of SurfTech. In conjunction with this sale, the Company received \$600,000 in cash and deconsolidated the net book value of assets sold of \$782,000.

On January 6, 2003, the Company sold its wholly owned German subsidiary EME. In conjunction with this sale, the Company received \$7,000,000 in cash in 2003 and deconsolidated the net book value of assets of \$9,686,000. On April 2, 2004 the Company received \$1,000,000 as final cash payment from the sale of EME.

NOTE 15. INDUSTRY SEGMENTS

The Company currently operates under four business segments: Condor, Teal, SL-MTI, and RFL. In the second quarter of 2003, management decided to combine Condor and Teal into one business unit classified as the Power Electronics Group. Accordingly, for the years ended December 31, 2004, 2003 and 2002, the Company's reportable segments consisted of Condor, Teal (The Power Electronics Group), SL-MTI, and RFL.

Edgar Filing: SL INDUSTRIES INC - Form 10-K

At December 31, 2002, the Company was comprised of five operating business units. With the sale of EME on January 6, 2003, the Company has classified this operating segment as discontinued for all periods presented. On November 24, 2003 the Company sold the operating assets of SurfTech,

F-25

accordingly the Company has classified this operating segment as discontinued for all periods presented. Condor produces a wide range of standard and custom power supply products that convert AC or DC power to direct electrical current to be used in customers' end products. Power supplies closely regulate and monitor power outputs, using patented filter and other technologies, resulting in little or no electrical interference. Teal is a leader in the design and manufacture of customized power conditioning and power distribution units. Teal products are developed and manufactured for custom electrical subsystems for original equipment manufacturers of semiconductor, medical imaging, graphics, and telecommunications systems. SL-MTI is a technological leader in the design and manufacture of intelligent, high power density precision motors. New motor and motion controls are used in numerous applications, including aerospace, medical, and industrial products. RFL designs and manufactures teleprotection products/systems that are used to protect utility transmission lines and apparatus by isolating faulty transmission lines from a transmission grid. RFL also provides customer service and maintenance for all electric utility equipment protection systems. The Other segment includes corporate related items, financing activities and other costs not allocated to reportable segments, which includes but not limited to certain legal, litigation and public reporting charges and the results of insignificant operations. The accounting policies of these business units are the same as those described in the summary of significant accounting policies (see Note 1 for additional information).

Business segment operations are conducted through domestic subsidiaries. For all periods presented, sales between business segments were not material. No single customer accounted for more than 10% of consolidated net sales during 2004, 2003 and 2002. Each of the segments has certain major customers, the loss of any of which would have a material adverse effect on such entity.

	Years Ended December 31,		
	2004	2003	2002
	(in thousands)		
NET SALES			
Power Electronics Group:			
Condor	\$ 41,457	\$ 39,450	\$ 38,058
Teal	30,265	20,393	19,608
Total	71,722	59,843	57,666
SL-MTI	24,497	22,053	23,007
RFL	22,585	23,388	27,239
Consolidated	\$118,804	\$105,284	\$107,912

Edgar Filing: SL INDUSTRIES INC - Form 10-K

F-26

	Years Ended December 31,		
	2004	2003	2002
	(in thousands)		
INCOME FROM CONTINUING OPERATIONS			
Power Electronics Group:			
Condor	\$ 3,789	\$ 3,377	\$ 1,687
Teal	4,635	2,671	1,873
	-----	-----	-----
Total	8,424	6,048	3,560
	-----	-----	-----
SL-MTI	2,827	1,957	1,873
RFL	2,091	2,236	3,435
Other expenses and Corporate office	(5,033)	(3,288)	(3,692)
Restructuring charges (a)	--	--	(230)
Impairment of assets (b)	--	(275)	--
Special charges (c)	--	--	(1,834)
	-----	-----	-----
Income from operations	\$ 8,309	6,678	3,112
Deferred financing costs	(447)	(447)	--
Interest income	102	172	25
Interest expense (d)	(347)	(380)	(2,256)
	-----	-----	-----
Income from continuing operations before taxes	\$ 7,617	\$ 6,023	\$ 881
	=====	=====	=====

(a) \$230 related to Condor.

(b) \$275 related to a building owned by the Company which was used by SurfTech.

(c) \$1,834 related to Corporate change-in-control and proxy costs.

(d) A facility fee of \$780 is included in 2002.

	December 31, 2004	December 31, 2003
	-----	-----
	(in thousands)	
TOTAL ASSETS		
Power Electronics Group:		
Condor	\$14,105	\$11,439
Teal	12,742	9,665
	-----	-----
Total	26,847	21,104
	-----	-----
SL-MTI	10,849	9,255
RFL	16,767	16,512
Other including Corporate Office	8,621	11,550
	-----	-----
Consolidated	\$63,084	\$58,421

Edgar Filing: SL INDUSTRIES INC - Form 10-K

	=====	=====
	December 31, 2004	December 31, 2003
	-----	-----
	(in thousands)	
INTANGIBLE ASSETS (NET)		
Teal	\$ 5,906	\$ 6,009
SL-MTI	20	25
RFL	5,586	5,249
	-----	-----
Consolidated	\$11,512	\$11,283
	=====	=====

F-27

	Years Ended December 31,		
	-----	-----	-----
	2004	2003	2002
	-----	-----	-----
	(in thousands)		
CAPITAL EXPENDITURES			
Power Electronics Group:			
Condor	\$ 542	\$ 936	\$ 511
Teal	189	23	143
	-----	-----	-----
Total	731	959	654
	-----	-----	-----
SL-MTI	476	201	206
RFL	410	435	606
Other including Corporate Office	25	21	--
	-----	-----	-----
Consolidated	\$ 1,642	\$ 1,616	\$ 1,466
	=====	=====	=====

	Years Ended December 31,		
	-----	-----	-----
	2004	2003	2002
	-----	-----	-----
	(in thousands)		
DEPRECIATION AND AMORTIZATION			
Power Electronics Group:			
Condor	\$ 978	\$ 704	\$ 1,181
Teal	291	268	474
	-----	-----	-----
Total	1,269	972	1,655
	-----	-----	-----
SL-MTI	289	304	375

Edgar Filing: SL INDUSTRIES INC - Form 10-K

RFL	532	516	562
Other including Corporate Office	43	59	42
	-----	-----	-----
Consolidated	\$ 2,133	\$ 1,851	\$ 2,634
	=====	=====	=====

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

	Years Ended December 31,		
	2004	2003	2002
	-----	-----	-----
	(in thousands)		
NET SALES (1)			
United States	\$103,141	\$ 92,169	\$ 94,112
Foreign	15,663	13,115	13,800
	-----	-----	-----
Consolidated	\$118,804	\$105,284	\$107,912
	-----	-----	-----
LONG-LIVED ASSETS			
United States	\$ 18,637	\$ 19,110	\$ 20,200
Foreign	1,384	1,720	1,301
	-----	-----	-----
Consolidated	\$ 20,021	\$ 20,830	\$ 21,501
	=====	=====	=====

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

NOTE 16. FOREIGN OPERATIONS

In addition to manufacturing operations in California, Minnesota and New Jersey, the Company manufactures substantial quantities of products in leased premises located in Mexicali and Matamoros, Mexico. The Company has outsourced the manufacture of some of its products with contract manufacturers located in Shanghai and Dongguan, China. These sources of supply present risks of interruption for reasons beyond the Company's control, including political and other uncertainties. During 2002, the Company manufactured products in Ingolstadt, Germany and Paks, Hungary. The

F-28

locations in Germany and Hungary were transferred as part of the sale of EME on January 6, 2003. In addition the Condor plant in Reynosa, Mexico, was closed in March 2002.

Condor manufactures substantially all of its products in Mexico and incurs its labor costs and supplies in Mexican pesos. Teal has moved a limited amount of its manufacturing to Condor's facility in Mexico. SL-MTI manufactures approximately 60% of its products in Mexico and incurs related labor costs and supplies in Mexican pesos. Condor, Teal and SL-MTI price their sales in United States dollars. The Mexican subsidiaries of Condor and SL-MTI maintain their books and records in Mexican pesos.

Edgar Filing: SL INDUSTRIES INC - Form 10-K

Generally, the Company's sales from continuing operations are priced in United States dollars and its costs and expenses are priced in United States dollars and Mexican pesos. Foreign sales comprised 13%, 12% and 13% of sales for 2004, 2003 and 2002, respectively. Accordingly, the competitiveness of the Company's products relative to locally produced products may be affected by the performance of the United States dollar compared with that of its foreign customers' currencies. Additionally, the Company is exposed to foreign currency transaction and translation losses which might result from adverse fluctuations in the values of the Mexican peso. As of December 31, 2004 and 2003, the Company had net liabilities of \$286,000 and \$233,000, respectively, subject to fluctuations in the value of the Mexican peso. Fluctuations in the value of the Mexican peso were not significant in 2004. However, there can be no assurance that the value of the Mexican peso will continue to remain stable.

NOTE 17. RELATED PARTY TRANSACTIONS

As discussed in Note 2 the Company sold EME on January 6, 2003. The Company had engaged Imperial Capital, LLC to explore the sale of the Company or one or more of its subsidiaries. Imperial Capital, LLC contacted over four hundred potential buyers with respect to the sale of the Company and its subsidiaries, and in the process received several indications of interest to acquire EME. After negotiations, the Company's Board of Directors determined that in light of the current circumstances including but not limited to the maturity of the Company's Former Credit Facility on December 31, 2002 and its need for additional capital at that time, it was in the best interest of the Company to pursue the offer received for EME from the ultimate purchaser. A principal of the buyer of EME is a limited partner in Steel Partners II, L.P. ("Steel"), an investment partnership. The Company's Chairman of the Board and Chief Executive Officer is the sole executive officer and managing member of Steel.

During the period January 1, 2004 to June 9, 2004, the Company was billed \$81,000 in legal fees for services performed by Olshan Grundman Frome Rosenzweig & Wolosky LLP ("Olshan"), a law firm in which a former director of the Company is a senior partner. This director did not stand for reelection at the Company's Annual Meeting of Shareholders held on June 9, 2004 and therefore is no longer considered a related party. All fees incurred through June 9, 2004 for 2004 services have been paid by the Company as of December 31, 2004. The fees related to general corporate and securities matters.

As a result of certain services being provided to the Company by Steel Partners, Ltd. ("SPL"), a company controlled by the Chairman of the Board and Chief Executive Officer of the Company, Warren Lichtenstein, the Compensation Committee has approved fees for services provided by SPL. These fees are the only consideration for the services of the Chairman of the Board and Chief Executive Officer, Warren Lichtenstein, the Company's President, Glen Kassin, and other assistance from SPL. The services provided include management and advisory services with respect to operations, strategic planning, finance and accounting, merger, sale and acquisition activities and other aspects of the businesses of the Company. Fees of \$475,000 were expensed by the Company for SPL's services in

F-29

2004 and 2003 pursuant to the Management Agreement dated as of January 23, 2002 by and between the Company and SPL. Approximately \$290,000 and \$40,000 were payable at December 31, 2004 and December 31, 2003, respectively. An additional payment of \$250,000 was also awarded to SPL by the Compensation Committee on account of SPL's services in 2004 in recognition of SPL's very significant contributions to the Company's success, including the improvement in operating

Edgar Filing: SL INDUSTRIES INC - Form 10-K

performance and the reduction of indebtedness, as well as the improvement in returns on invested capital and the Company's stock price, among other things.

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 the years ended 2004, 2003 and 2002 were \$1,156,000, \$621,000 and \$978,000, respectively. Accounts receivable due from RFL Communications at December 31, 2004 and 2003 were \$116,000 and \$53,000, respectively.

NOTE 18. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three Months Ended March 31, 2004 -----	Three Months Ended June 30, 2004 -----	Three Months Ended September 30, 2004 -----
	(in thousands, except per share data)		
YEAR ENDED DECEMBER 31, 2004			
Net sales	\$26,641	\$30,508	\$30,910
Gross margin	\$ 9,596	\$11,388	\$11,280
Income from continuing operations before income taxes	\$ 1,036	\$ 2,135	\$ 2,522
Net income (a)	\$ 3,142	\$ 1,579	\$ 2,551
Diluted net income per common share	\$ 0.52	\$ 0.26	\$ 0.43
 (a) Includes income (loss) from discontinued operations net of tax	 \$ 2,457	 \$ 20	 \$ (3)

	Three Months Ended March 31, 2003 -----	Three Months Ended June 30, 2003 -----	Three Months Ended September 30, 2003 -----
	(in thousands, except per share data)		
YEAR ENDED DECEMBER 31, 2003			
Net sales (e)	\$25,710	\$26,927	\$26,243
Gross margin (f)	\$ 8,996	\$10,287	\$ 9,639
Income from continuing operations before income taxes (g)	\$ 818	\$ 1,706	\$ 1,415
Net income (h)	\$ 186	\$ 699	\$ 155
Diluted net income per common share	\$ 0.03	\$ 0.12	\$ 0.03
 (e) Excludes net sales from discontinued operations	 \$ 508	 \$ 517	 \$ 489
(f) Excludes gross margin from discontinued operations	\$ 103	\$ 139	\$ (21)
(g) Excludes loss before income taxes from discontinued operations	\$ (445)	\$ (648)	\$ (1,030)
(h) Includes loss from discontinued operations net of tax	\$ (285)	\$ (428)	\$ (706)

Edgar Filing: SL INDUSTRIES INC - Form 10-K

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at Beginning of Period	Additions		Deductions	Balance End of P
		Charged to Costs and Expenses	Charged to Other Accounts		
			(In thousands)		
YEAR ENDED DECEMBER 31, 2004					
Allowance for:					
Doubtful accounts	\$365	\$136	\$ 3	\$ 32	\$47
YEAR ENDED DECEMBER 31, 2003					
Allowance for:					
Doubtful accounts	\$270	\$ 76	\$102 (a)	\$ 83	\$36
YEAR ENDED DECEMBER 31, 2002					
Allowance for:					
Doubtful accounts	\$538	\$109	\$ --	\$377 (b)	\$27

(a) Due to reclassifications.

(b) Accounts receivable written off, net of recoveries.