SL INDUSTRIES INC
Form 10-Q
August 04, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

Commission file number 1-4987

SL INDUSTRIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

N/A

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

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

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

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting Company x

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

The number of shares of common stock outstanding as of July 24, 2015 was 3,960,000.

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Item 1. Financial Statements

SL INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,979,000	$ 31,950,000
Receivables, net	35,080,000	33,966,000
Inventories, net	25,168,000	23,597,000
Other current assets	5,997,000	4,751,000
Deferred income taxes, net	5,334,000	6,105,000
Total current assets	79,558,000	100,369,000
Property, plant and equipment, net	11,160,000	8,070,000
Deferred income taxes, net	5,570,000	5,496,000
Goodwill	14,244,000	13,072,000
Other intangible assets, net	7,039,000	3,788,000
Other assets and deferred charges, net	988,000	981,000
Total assets	$ 118,559,000	$ 131,776,000
LIABILITIES		
Current liabilities:		
Accounts payable	$ 17,947,000	$ 19,285,000
Accrued income taxes	327,000	3,618,000
Accrued liabilities:		
Payroll and related costs	5,036,000	4,880,000
Other	15,121,000	16,466,000
Total current liabilities	38,431,000	44,249,000
Deferred compensation and supplemental retirement benefits	1,131,000	1,427,000
Other long-term liabilities	5,055,000	8,779,000
Total liabilities	44,617,000	54,455,000
Commitments and contingencies		
SHAREHOLDERS EQUITY		

Preferred stock, no par value; authorized, 6,000,000 shares; none issued		
Common stock, $.20 par value; authorized, 25,000,000 shares; issued, 6,496,000 and 6,656,000 shares, respectively	1,299,000	1,331,000
Capital in excess of par value	16,828,000	22,747,000
Retained earnings	85,528,000	79,415,000
Accumulated other comprehensive (loss), net of tax	(995,000)	(638,000)
Treasury stock at cost, 2,535,000 and 2,512,000 shares, respectively	(28,718,000)	(25,534,000)
Total shareholders equity	73,942,000	77,321,000
Total liabilities and shareholders equity	$ 118,559,000	$ 131,776,000

See accompanying notes to consolidated financial statements.

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SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net sales	$ 50,719,000	$ 51,669,000	$ 97,403,000	$ 100,415,000
Cost and expenses:				
Cost of products sold	33,926,000	34,156,000	65,186,000	67,370,000
Engineering and product development	2,386,000	2,671,000	5,170,000	5,534,000
Selling, general and administrative	8,639,000	8,021,000	16,653,000	15,275,000
Depreciation and amortization	629,000	525,000	1,218,000	1,029,000
Restructuring charges				463,000
Total cost and expenses	45,580,000	45,373,000	88,227,000	89,671,000
Income from operations	5,139,000	6,296,000	9,176,000	10,744,000
Other income (expense):				
Amortization of deferred financing costs	(33,000)	(22,000)	(60,000)	(43,000)
Interest income	8,000	1,000	21,000	3,000
Interest expense	(5,000)	(6,000)	(11,000)	(14,000)
Other gain (loss), net	515,000	1,729,000	646,000	1,479,000
Income from continuing operations before income taxes	5,624,000	7,998,000	9,772,000	12,169,000
Income tax provision	1,914,000	2,653,000	3,354,000	4,116,000
Income from continuing operations	3,710,000	5,345,000	6,418,000	8,053,000
(Loss) income from discontinued operations, net of tax	(143,000)	183,000	(305,000)	2,000
Net income	$ 3,567,000	$ 5,528,000	$ 6,113,000	$ 8,055,000
Basic net income (loss) per common share				
Income from continuing operations	$ 0.93	$ 1.29	$ 1.59	$ 1.95
(Loss) income from discontinued operations, net of tax	(0.04)	0.05	(0.08)	
Net income	$ 0.89	$ 1.34	$ 1.51	$ 1.95
Diluted net income (loss) per common share				

Income from continuing operations	$ 0.92	$ 1.28	$ 1.57	$ 1.93
(Loss) income from discontinued operations, net of tax	(0.04)	0.05	(0.08)	
Net income	$ 0.88	$ 1.33	$ 1.49	$ 1.93
Shares used in computing basic net income (loss) per common share	3,994,000	4,138,000	4,043,000	4,133,000
Shares used in computing diluted net income (loss) per common share	4,033,000	4,168,000	4,095,000	4,163,000

SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income	$ 3,567,000	$ 5,528,000	$ 6,113,000	$ 8,055,000
Other comprehensive income, net of tax:				
Foreign currency translation	(225,000)	152,000	(357,000)	118,000
Net unrealized gain on available-for-sale securities		130,000		
Net unrealized gain reclassified into income on sale of available-for-sale securities		(1,028,000)		(1,094,000)
Comprehensive income	$ 3,342,000	$ 4,782,000	$ 5,756,000	$ 7,079,000

See accompanying notes to consolidated financial statements.

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SL INDUSTRIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30,

(Unaudited)

	2015	2014
OPERATING ACTIVITIES:		
Net income	$ 6,113,000	$ 8,055,000
Adjustment for loss (income) from discontinued operations	305,000	(2,000)
Income from continuing operations	6,418,000	8,053,000
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation	995,000	746,000
Amortization	223,000	283,000
Amortization of deferred financing costs	60,000	43,000
Stock-based compensation	490,000	334,000
Excess tax benefit on stock compensation	(573,000)	
(Gain) loss on foreign exchange contracts	(476,000)	221,000
Provisions for (recoveries of) losses on accounts receivable	34,000	(141,000)
Deferred compensation and supplemental retirement benefits	(84,000)	151,000
Deferred compensation and supplemental retirement benefit payments	(213,000)	(224,000)
Deferred income taxes	698,000	533,000
(Gain) on sale of available-for-sale securities		(1,691,000)
Changes in operating assets and liabilities, excluding the effect of business combinations and dispositions:		
Accounts receivable	(117,000)	(3,802,000)
Inventories	(557,000)	199,000
Other assets	(1,281,000)	1,723,000
Accounts payable	(1,787,000)	2,547,000
Other accrued liabilities	(550,000)	(884,000)
Accrued income taxes	(2,576,000)	1,474,000
Net cash provided by operating activities from continuing operations	704,000	9,565,000
Net cash (used in) operating activities from discontinued operations	(4,780,000)	(2,636,000)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(4,076,000)	6,929,000
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,096,000)	(836,000)
Proceeds from sale of available-for-sale securities		4,054,000
Acquisition of a business	(9,000,000)	

Purchases of other assets	(177,000)	(264,000)
Net cash (used in) provided by investing activities from continuing operations	(10,273,000)	2,954,000
Net cash (used in) investing activities from discontinued operations		(104,000)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(10,273,000)	2,850,000
FINANCING ACTIVITIES:		
Payments of Senior Revolving Credit Facility		(1,000,000)
Payments of deferred financing costs	(36,000)	
Repurchase and retirement of common stock	(6,796,000)	
Treasury stock purchases	(3,511,000)	(106,000)
Proceeds from stock options exercised	140,000	
Excess tax benefit on stock compensation	574,000	
Net cash (used in) financing activities from continuing operations	(9,629,000)	(1,106,000)
Net cash (used in) financing activities from discontinued operations		(24,000)
NET CASH (USED IN) FINANCING ACTIVITIES	(9,629,000)	(1,130,000)
Effect of exchange rate changes on cash	7,000	(22,000)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(23,971,000)	8,627,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	31,950,000	7,163,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,979,000	$ 15,790,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	$ 12,000	$ 44,000
Income taxes	$ 5,312,000	$ 1,754,000

See accompanying notes to consolidated financial statements.

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SL INDUSTRIES, INC.

Notes to Consolidated Financial Statements (Unaudited)

1. Basis Of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These financial statements should be read in conjunction with the Company s audited financial statements and notes thereon included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014. Unless the context requires otherwise, the terms the Company, SL Industries, we, us and our mean SL Industries, Inc., a Delaware Corporat and its consolidated subsidiaries.

On November 17, 2014, SL Delaware Holdings, Inc. (SL Delaware Holdings), a wholly-owned subsidiary of the Company, entered into a definitive Stock Purchase Agreement (the Purchase Agreement) with Hubbell Power Systems, Inc. (Hubbell), a subsidiary of Hubbell Incorporated, pursuant to which SL Delaware Holdings sold all of the issued and outstanding capital stock of RFL Electronics Inc. (RFL). The Company concluded that the accounting requirements for reporting the results of operations and cash flows of the divested business as discontinued operations were met at November 17, 2014. As a result, the accompanying consolidated statements of income for 2014, the consolidated statements of cash flows for 2014, and certain amounts in these notes to the consolidated financial statements related to 2014 have been recast to reflect the presentation of the results of operations and cash flows of the formerly owned RFL businesses as discontinued operations. Refer to Note 18, Discontinued Operations , for additional information regarding this transaction.

2. Receivables

Receivables consist of the following:

	June 30, 2015	December 31, 2014
	(in thousands)	
Trade receivables	$ 34,427	$ 34,025
Less: allowance for doubtful accounts	(316)	(281)
Trade receivables, net	34,111	33,744
Recoverable income taxes	22	81
Other	947	141
Receivables, net	$ 35,080	$ 33,966

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3. Inventories

Inventories consist of the following:

	June 30, 2015	December 31, 2014
	(in thousands)	
Raw materials	$ 19,701	$ 16,865
Work in process	4,478	4,584
Finished goods	3,468	4,232
Gross inventory	27,647	25,681
Less: allowances	(2,479)	(2,084)
Inventories, net	$ 25,168	$ 23,597

4. Other Current Assets

Other current assets consist of the following:

	June 30, 2015	December 31, 2014
	(in thousands)	
Prepaid insurance	$ 649	$ 228
Taxes receivable (1)	1,887	299
RFL escrow (2)	2,000	2,000
Other	1,461	2,224
Other current assets	$ 5,997	$ 4,751

(1) The increase in taxes receivable in 2015 was primarily due to an increase in TEAL Electronics Corp. s (TEAL) value-added tax receivable related to activities in Mexico.
(2) See Note 18 Discontinued Operations for further information concerning the RFL escrow.

5. Income Per Share

The Company has presented net income (loss) per common share pursuant to Accounting Standards Codification (ASC) 260 Earnings Per Share. Basic net income (loss) per common share is computed by dividing reported net income (loss) 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.

There were no anti-dilutive options for the three and six months ended June 30, 2015. For the three and six months ended June 30, 2014, 13,000 and 11,000 stock options were excluded from the dilutive computation, respectively, as the assumed shares repurchased under the treasury method would have been anti-dilutive.

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

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
	(in thousands, except per share amounts)			
Net income (loss) available to common shareholders:				
Basic net income available to common shareholders from continuing operations	$ 3,710	$ 5,345	$ 6,418	$ 8,053
Basic net (loss) income available to common shareholders from discontinued operations	$ (143)	$ 183	$ (305)	$ 2
Diluted net income available to common shareholders from continuing operations	$ 3,710	$ 5,345	$ 6,418	$ 8,053
Diluted net (loss) income available to common shareholders from discontinued operations	$ (143)	$ 183	$ (305)	$ 2
Shares:				
Basic weighted average number of common shares outstanding	3,994	4,138	4,043	4,133
Common shares assumed upon exercise of stock options	39	30	52	30
Diluted weighted average number of common shares outstanding	4,033	4,168	4,095	4,163
Basic net income (loss) per common share:				
Income from continuing operations	$ 0.93	$ 1.29	$ 1.59	$ 1.95
(Loss) income from discontinued operations, net of tax	(0.04)	0.05	(0.08)	
Net income	$ 0.89	$ 1.34	$ 1.51	$ 1.95
Diluted net income (loss) per common share:				
Income from continuing operations	$ 0.92	$ 1.28	$ 1.57	$ 1.93
(Loss) income from discontinued operations (net of tax)	(0.04)	0.05	(0.08)	
Net income	$ 0.88	$ 1.33	$ 1.49	$ 1.93

6. Stock-Based Compensation

At June 30, 2015, the Company had stock-based employee compensation plans as described below. For the three and six months ended June 30, 2015, the total compensation expense (included in selling, general and administrative expense) related to these plans was $241,000 and $490,000 ($159,000 and $322,000 net of tax), respectively. For the three and six months ended June 30, 2014, the total compensation expense was $225,000 and $334,000 ($150,000 and $221,000, net of tax), respectively.

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During the first quarter of 2015, the Company implemented a Long-Term Incentive Plan (the 2015 LTIP) pursuant to the 2008 Incentive Stock Plan (the 2008 Plan) which awarded restricted stock units (RSUs) to eligible executives. Under the terms of the 2015 LTIP, the number of RSUs that may vest, if any, will be based on, among other things, the Company achieving certain sales and return on invested capital (ROIC), as defined, targets during the January 2015 to December 2017 performance period. Earned RSUs, if any, cliff vest at the end of fiscal 2017 (100% of earned RSUs vest at December 31, 2017). The final value of these RSUs will be determined by the number of shares earned. The value of these RSUs is charged to compensation expense on a straight-line basis over the three year vesting period with periodic adjustments to account for changes in anticipated award amounts. The weighted-average price for these RSUs was $39.17 per share based on the grant date of February 13, 2015. During the three and six months ended June 30, 2015, $20,000 and $34,000 was charged to compensation expense. As of June 30, 2015, total unamortized compensation expense for this grant was $231,000. As of June 30, 2015, the maximum number of achievable RSUs under the 2015 LTIP was 11,000 RSUs.

During the first quarter of 2012, the Company implemented a Long-Term Incentive Plan (the 2012 LTIP) pursuant to the 2008 Plan which awarded RSUs to eligible executives. The weighted-average price for these RSUs was $18.00 per share based on the grant date of February 17, 2012. Under the terms of the 2012 LTIP, 6,000 RSUs were earned and issued on February 27, 2015.

On May 12, 2014, the Company granted each Director 3,000 restricted shares pursuant to the 2008 Plan. The shares vest upon the first anniversary of the grant date. All shares vested and were granted under this award on May 12, 2015.

On May 28, 2015, the Company granted each Director 3,000 restricted shares pursuant to the 2008 Plan. The shares vest upon the first anniversary of the grant date. Based on the terms of the awards the value of these restricted shares is charged to compensation expense on a straight-line basis over the one year vesting period. As a result, the Company recognized $50,000 of stock compensation expense during the second quarter of 2015. As of June 30, 2015, total unamortized compensation expense for this grant was $520,000. The weighted-average price of these restricted stock grants was $38.00 per share based on the grant date of May 28, 2015. As of June 30, 2015, no shares were granted under this award.

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Stock Options

Option activity under the principal option plans as of June 30, 2015 and changes during the six months ended June 30, 2015 were as follows:

	Outstanding Options (in thousands)	Weighted Average Exercise Price		Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)	
Outstanding as of December 31, 2014	184	$	19.71	3.59	$	3,540
Granted						
Exercised	(58)		12.02			
Forfeited						
Expired						
Outstanding as of June 30, 2015	126	$	23.23	3.75	$	2,111
Exercisable as of June 30, 2015	28	$	13.36	2.82	$	752

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company s closing stock price on the last trading day of the second quarter of fiscal 2015 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2015. This amount changes based on the fair market value of the Company s stock. The total intrinsic value of options exercised for the six months ended June 30, 2015 was $1,731,000. No options were exercised during the six months ended June 30, 2014.

As of June 30, 2015, $508,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 1.7 years.

During 2015, 58,000 stock options were exercised at a gross exercise value of $692,000, of which 13,000 shares of common stock were delivered by the option holders as payment for the exercise price of stock options exercised. As a result, net cash received from option exercises for the six months ended June 30, 2015 was $140,000. No options were exercised during the six months ended June 30, 2014. Tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as financing cash flows. The actual tax benefit realized for the tax deduction from option exercises of share-based payment arrangements totaled $616,000 for the six months ended June 30, 2015. The Company has applied the Short-cut method in calculating the historical windfall tax benefits. All tax shortfalls will be applied against this windfall before being charged to earnings.

7. Income Tax

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

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For the six months ended June 30, 2015 and June 30, 2014, the estimated income tax rate from continuing operations was 34%.

During the three and six months ended June 30, 2015, the Company recorded additional benefits from state research and development tax credits of $47,000 and $94,000 respectively. During the three and six months ended June 30, 2014, the Company recorded additional benefits from state research and development tax credits of $61,000 and $122,000, respectively.

As of June 30, 2015, the Company s gross research and development tax credit carryforwards totaled approximately $1,728,000. Of these credits, approximately $707,000 can be carried forward for 15 years and will expire between 2015 and 2030, and approximately $1,021,000 of state credits can be carried forward indefinitely.

The Company has recorded gross unrecognized tax benefits, excluding interest and penalties, as of June 30, 2015 and December 31, 2014 of $887,000 and $865,000, respectively. Tax benefits are recorded pursuant to the provisions of ASC 740 Income Taxes. If such unrecognized tax benefits are ultimately recorded in any period, the Company s effective tax rate would be reduced accordingly for such period.

The Company adopted FASB Accounting Standard 2013-11 effective during the first quarter of 2014. The pronouncement requires the Company to offset its uncertain tax positions against certain deferred tax assets in the same jurisdiction. As of June 30 2015, the Company reclassified $419,000 of its uncertain tax positions against its related deferred tax assets.

The Company has been examined by the Internal Revenue Service (the IRS) through the calendar year 2010. The federal and state income tax statutes are generally open for periods back to and including the calendar years 2011 and 2010, respectively. During the first quarter of 2015 the Company was contacted by the IRS to examine the calendar year 2013. The examination began in May 2015 and is expected to conclude during the second half of 2016.

It is reasonably possible that the Company s gross unrecognized tax benefits, including interest, may change within the next twelve months due to the expiration of the statutes of limitation of the federal government and various state governments by a range of zero to $255,000. The Company records such unrecognized tax benefits upon the expiration of the applicable statute of limitations or the settlement with tax authorities. As of June 30, 2015, the Company has a liability for unrecognized benefits of $265,000, $203,000, and $419,000 for federal, international, and state taxes, respectively. Such benefits relate primarily to expenses incurred in those jurisdictions.

The Company classifies interest and penalties related to unrecognized tax benefits as income tax expense. At June 30, 2015, and December 31, 2014, the Company has accrued approximately $101,000 and $81,000 for the payment of interest and penalties, respectively.

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8. Recently Adopted and Issued Accounting Pronouncements

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of an Entity, which amends the guidance for reporting discontinued operations and disposals of components of an entity. The amended guidance requires that a disposal representing a strategic shift that has (or will have) a major effect on an entity s financial results or a business activity classified as sale should be reported as discontinued operations. The amendments also expand the disclosure requirements for discontinued operations and add new disclosures for individually significant dispositions that do not qualify as discontinued operations. ASU 2014-08 is effective prospectively for fiscal periods beginning after December 15, 2014 (early adoption is permitted only for disposals that have not been previously reported). The implementation of this guidance did not have a material impact on the Company s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which provides guidance that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal periods beginning after December 15, 2017 and may be applied either (i) retrospectively to each prior reporting period presented with an election for certain specified practical expedients, or (ii) retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application, with additional disclosure requirements. Early application is not permitted. The Company is currently evaluating the impact of the implementation of this guidance on the Company s consolidated financial statements. The Company s management has not yet determined the method by which it will adopt the standard in 2018.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which removes the concept of extraordinary items from U.S. GAAP. Companies are no longer required to assess whether an event or transaction is both unusual in nature and infrequent in occurrence and to separately present any such items on the statement of operations after income from continuing operations. Such items will either be presented as a separate component of income from continuing operations or disclosed in the notes to the financial statements. ASU 2015-01 is effective for fiscal periods beginning after December 15, 2015. The implementation of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. ASU 2014-15 is effective on for fiscal years beginning after December 15, 2015. Early adoption is permitted. Upon adoption, an entity must apply the new guidance retrospectively to all prior periods presented in the financial statements, and must provide certain disclosures about the change in accounting principle, including the nature of and reason for the change, the transition method, a description of the prior-period information that has been retrospectively adjusted and the effect of the change on the financial statement line items (that is, debt issuance cost asset and the debt liability). The implementation of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement, which clarifies that if a cloud computing arrangement includes a software license, the customer should account for the license in a manner consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 is effective for fiscal years beginning after December 15, 2015. The implementation of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

In June 2015, the FASB issued ASU No. 2015-10, Technical Corrections and Improvements, which amends a number of Topics in the FASB Accounting Standards Codification, which updates the Codification for non-substantive technical corrections, clarifications, and improvements that are not expected to have a significant effect on accounting practice or create a significant administrative cost to most entities. The amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those years, beginning after December 15, 2015. All other amendments were effective immediately. The implementation of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory, which requires entities to measure inventory, excluding inventory measured using last-in, first out or the retail inventory method, at the lower of cost and net realizable value. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. The Company is currently evaluating the impact of the implementation of this guidance on the Company s consolidated financial statements.

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9. Acquisitions

Acquisition in Fiscal 2015

On May 22, 2015, the Company acquired certain assets and assumed certain liabilities of ITT Torque Systems, Inc. (Torque Systems), pursuant to an Asset Purchase Agreement for an initial purchase price of $9,000,000, plus a working capital adjustment (the Torque Systems Acquisition). The transaction was paid in cash. Torque Systems designs and manufactures engineered motion control products, including brush servo motors, brushless servo motors, incremental encoders, and linear actuators. In connection with the Torque Systems Acquisition, SL Montevideo Technology, Inc. (SL-MTI) recorded direct acquisition costs of approximately $172,000 during the first six months of 2015, which are recorded within selling, general and administrative expenses in the Consolidated Statements of Income. SLMTI DS LLC (SLMTI DS), a subsidiary of SL-MTI, holds the assets acquired in the Torque Systems Acquisition.

At June 30, 2015, the financial statements reflect the preliminary purchase price allocation based on estimated fair values at the date of acquisition. The acquisition resulted in intangible assets of $3,343,000 and goodwill of $1,176,000, which is deductible for tax purposes (see Note 10 for additional information).

The Company continues to evaluate certain assets and liabilities related to the Torque Systems Acquisition. Additional information, which existed as of the acquisition date but was at that time unknown to the Company, may become known during the remainder of the measurement period. Changes to amounts recorded as assets or liabilities may result in a corresponding adjustment to goodwill. The determination of the estimated fair values of all assets and liabilities acquired is expected to be completed during fiscal year 2015. The results from the acquisition date through June 30, 2015 are included in the SL-MTI segment.

Acquisition in Fiscal 2014

On July 25, 2014, the Company acquired certain assets and assumed certain liabilities of Dynetic Systems, Inc. (Dynetic), pursuant to an Asset Purchase Agreement for an initial purchase price of $4,000,000 less a working capital adjustment of $27,000 (the Dynetic Acquisition). The transaction was paid in cash. The Asset Purchase Agreement also includes a possible earn-out, initially estimated at $310,000, which is comprised of annual payments based on sales of Dynetic products and sales to Dynetic customers over the period immediately following the date of the Dynetic Acquisition through December 31, 2017. Dynetic designed, developed and manufactured precision quality, instrument grade motion control products, and provided custom motor and motion control solutions to the aerospace, defense, medical, commercial and industrial markets. SLMTI DS holds the assets acquired in the Dynetic Acquisition.

As of June 30, 2015, the total liability for the estimated earn-out was $216,000. During the second quarter of 2015, the Company reversed $72,000 of previously recorded expense associated with the fiscal 2015 earn-out provision since it was deemed that the annual target would not be achieved. The Company has an accrual established for the annual 2016 and 2017 earn-out targets. The Dynetic results from the date of acquisition through June 30, 2015 are included in the SL-MTI segment.

Unaudited proforma financial information has not been presented for any of these acquisitions since the effects of the acquisitions were not material.

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10. Goodwill And Intangible Assets

Intangible assets consist of the following:

		June 30, 2015			December 31, 2014		
	Amortizable Life (years)	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
				(in thousands)			
Finite-lived intangible assets:							
Customer relationships [1]	5 to 10	$ 6,913	$ 3,927	$ 2,986	$ 5,378	$ 3,858	$ 1,520
Patents [2]	5 to 20	1,514	1,231	283	1,501	1,223	278
Developed technology [1]	5 to 8	3,104	1,736	1,368	1,980	1,719	261
Trademarks	2	60	23	37	60	13	47
Backlog [1]	2	211		211			
Non-compete agreements	5	11	2	9	11	1	10
Total amortized finite-lived intangible assets		11,813	6,919	4,894	8,930	6,814	2,116
Indefinite-lived intangible assets:							
Trademarks [1]		2,145		2,145	1,672		1,672
Other intangible assets, net		$ 13,958	$ 6,919	$ 7,039	$ 10,602	$ 6,814	$ 3,788

(1) On May 22, 2015, the Company acquired certain assets and assumed certain liabilities of Torque Systems. Included in the purchase price allocation are customer relationships valued at $1,535,000 with an estimated useful life of 5 years, developed technology valued at $1,124,000 with an estimated useful of 8 years, backlog valued at $211,000 with an estimated life of 2 years, and an indefinite-lived trademark valued at $473,000. The total weighted-average amortization period of the Torque Systems intangible assets, excluding the indefinite-lived trademark, is approximately 6 years.

(2) During 2015, MTE Corporation (MTE) capitalized $13,000 of legal fees related to a new patent application. The estimated useful life of the asset is 20 years.

In accordance with ASC 350 Intangibles Goodwill and Other, goodwill and other indefinite-lived intangible assets are not amortized, but are tested for impairment. Such impairment testing is undertaken annually, or more frequently upon the occurrence of some indication that an impairment has taken place. The Company conducted an annual impairment test as of December 31, 2014.

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

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Going forward there can be no assurance that economic conditions or other events may not have a negative material impact on the long-term business prospects of any of the Company s reporting units. In such case, the Company may need to record an impairment loss, as stated above. The next annual impairment test will be conducted as of December 31, 2015, unless management identifies a triggering event in the interim.

Management has not identified any triggering events, as defined by ASC 350, during the six months ended June 30, 2015. Accordingly, no interim impairment test has been performed.

Estimated future amortization expense for intangible assets subject to amortization in each of the next five fiscal years is as follows:

	Amortization Expense (in thousands)
2015	$ 604
2016	$ 820
2017	$ 733
2018	$ 665
2019	$ 664

Total amortization expense, excluding the amortization of deferred financing costs, consists of amortization expense related to intangible assets and software. Amortization expense related to intangible assets for the three months ended June 30, 2015 and June 30, 2014 was $53,000 and $92,000 respectively. Amortization expense related to intangible assets for the six months ended June 30, 2015 and June 30, 2014 was $105,000 and $183,000, respectively. Amortization expense related to software for the three months ended June 30, 2015 and June 30, 2014 was $60,000 and $51,000, respectively. Amortization expense related to software for the six months ended June 30, 2015 and June 30, 2014 was $118,000 and $100,000, respectively.

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

	Balance December 31, 2014	Acquisitions	Foreign Exchange	Balance June 30, 2015
		(in thousands)		
SL Power Electronics Corp.	$ 4,230	$	$ (4)	$ 4,226
High Power Group:				
MTE Corporation	8,189			8,189
TEAL Electronics Corp.				
SL-MTI	653	1,176		1,829
Goodwill	$ 13,072	$ 1,176	$ (4)	$ 14,244

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The following table reflects the components of goodwill as of June 30, 2015, and December 31, 2014:

	June 30, 2015			December 31, 2014		
	Gross Amount	Accumulated Impairment Losses	Goodwill, Net	Gross Amount	Accumulated Impairment Losses	Goodwill, Net
			(in thousands)			
SL Power Electronics Corp.	$ 4,226		$ 4,226	$ 4,230		$ 4,230
High Power Group:						
MTE Corporation	8,189		8,189	&nb		