VERIZON COMMUNICATIONS INC
Form 424B3
July 24, 2015
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-205570

PROSPECTUS

Verizon Communications Inc.

Offer to Exchange

$2,868,704,000 aggregate principal amount of 4.272% notes due 2036

for

$2,868,704,000 aggregate principal amount of 4.272% notes due 2036

that have been registered under the Securities Act of 1933, as amended (the Securities Act)

Offer to Exchange

$5,000,000,000 aggregate principal amount of 4.522% notes due 2048

for

$5,000,000,000 aggregate principal amount of 4.522% notes due 2048

that have been registered under the Securities Act

Offer to Exchange

$5,499,999,000 aggregate principal amount of 4.672% notes due 2055

for

$5,499,999,000 aggregate principal amount of 4.672% notes due 2055

that have been registered under the Securities Act

The Exchange Offers will expire at 11:59 p.m.,

New York City time, on August 20, 2015, unless extended with respect to any or all series.

We hereby offer, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, to exchange (i) up to $2,868,704,000 aggregate principal amount of our outstanding 4.272% notes due 2036 (CUSIP Nos. 92343V CU6 and U9221A AK4) (the Original Notes due 2036) for a like principal amount of our 4.272% notes due 2036 that have been registered under the Securities Act (CUSIP No. 92343V CV4) (the Exchange Notes due 2036), (ii) up to $5,000,000,000 aggregate principal amount of our outstanding 4.522% notes due 2048 (CUSIP Nos. 92343V CW2 and U9221A AL2) (the Original Notes due 2048) for a like principal amount of our 4.522% notes due 2048 that have been registered under the Securities Act (CUSIP No. 92343V CX0) (the Exchange Notes due 2048) and (iii) up to $5,499,999,000 aggregate principal amount of our outstanding 4.672% notes due 2055 (CUSIP Nos. 92343V CY8 and U9221A AM0) (the Original Notes due 2055 and, together with the Original Notes due 2036 and the Original Notes due 2048, the Original Notes) for a like principal amount of our 4.672% notes due 2055 that have been registered under the Securities Act (CUSIP No. 92343V CZ5) (the Exchange Notes due 2055 and, together with the Exchange Notes due 2036 and the Exchange Notes due 2048, the Exchange Notes). We refer to these offers as the Exchange Offers . When we use the term Notes in this prospectus, the term includes the Original Notes and the Exchange Notes unless otherwise indicated or the context otherwise requires. The terms of the Exchange Offers are summarized below and are more fully described in this prospectus.

The terms of each series of Exchange Notes are identical to the terms of the corresponding series of Original Notes, except that the transfer restrictions, registration rights and additional interest provisions applicable to the Original Notes do not apply to the Exchange Notes.

We will accept for exchange any and all Original Notes of each series validly tendered prior to 11:59 p.m., New York City time, on August 20, 2015, unless extended (the expiration date) and not validly withdrawn.

You may withdraw tenders of Original Notes of each series at any time before 5:00 p.m., New York City time, on the applicable expiration date.

We will not receive any cash proceeds from the issuance of the Exchange Notes in the Exchange Offers. The Original Notes surrendered and exchanged for the Exchange Notes will be retired and canceled. Accordingly, issuance of the Exchange Notes will not result in any increase in our outstanding indebtedness.

The exchange of Original Notes of each series for the corresponding series of Exchange Notes should not be a taxable event for U.S. federal income tax purposes.

No public market currently exists for any series of Original Notes. We do not intend to list any series of Exchange Notes on any securities exchange and, therefore, no active public market is anticipated.

Each broker-dealer that receives Exchange Notes for its own account pursuant to the Exchange Offers must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of Exchange Notes received in exchange for Original Notes where such Original Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, starting on the date the registration statement, of which this prospectus forms a part, is declared effective and ending on the close of business 90 days after such date, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

See Risk Factors beginning on page 9 to read about important factors you should consider before tendering your Original Notes.

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 24, 2015

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ABOUT THIS PROSPECTUS

You should read this prospectus carefully before you invest. This prospectus contains important information you should consider when making your investment decision. You should rely only on the information provided or incorporated by reference in this prospectus and the documents incorporated by reference herein, which are accurate as of their respective dates. We have not authorized anyone else to provide you with different information, and we take no responsibility for any information that others may give you.

If any statement in this prospectus conflicts with any statement in a document that we have incorporated by reference, then you should consider only the statement in the more recent document. The information on our website is not incorporated by reference into this document.

In this prospectus, we, our, us, Verizon and Verizon Communications refer to Verizon Communications Inc. and consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

This prospectus, including the documents that we incorporate by reference, contains both historical and forward-looking statements within the meaning of Section 27A of the Securities Act, as amended, and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). These forward-looking statements are not historical facts, but only predictions and generally can be identified by use of statements that include phrases such as will, may, should, continue, anticipate, believe, expect, plan, appear, project, estimate, intend, or other word similar import. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. These forward-looking statements are subject to risks and uncertainties which could cause actual results to differ

materially from those currently anticipated. Factors that could materially affect these forward-looking statements can be found in our periodic reports filed with the SEC.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward- looking statements and are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this prospectus are made only as of the date of this prospectus, and we

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undertake no obligation to update publicly these forward-looking statements to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events might or might not occur. We cannot assure you that projected results or events will be achieved.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any of these documents at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings are also available to the public on the SEC s website at http://www.sec.gov.

We have filed with the SEC a registration statement on Form S-4 relating to the securities covered by this prospectus. This prospectus is a part of the registration statement and does not contain all of the information in the registration statement. Whenever a reference is made in this prospectus to a contract or other document of ours, please be aware that the reference is only a summary and that you should refer to the exhibits that are a part of the registration statement for a copy of the contract or other document. You may review a copy of the registration statement at the SEC s public reference room in Washington, D.C., as well as through the SEC s website.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the following documents we have filed with the SEC and the future filings we make with the SEC until the date we consummate the Exchange Offers under Section 13(a), 13(c), 14, or 15(d) of the Exchange Act (excluding any information furnished pursuant to Item 2.02 or Item 7.01 on any Current Report on Form 8-K):

- our Annual Report on Form 10-K for the year ended December 31, 2014;
- our Quarterly Report on Form 10-Q for the quarter ended March 31, 2015; and
- our Current Reports on Form 8-K filed on February 25, 2015, February 26, 2015, March 12, 2015, May 12, 2015, May 13, 2015 and June 8, 2015.

You may request a copy of these filings, at no cost, by contacting us at:

Investor Relations

Verizon Communications Inc.

One Verizon Way

Basking Ridge, New Jersey 07920

Telephone: (212) 395-1525

Internet Site: www.verizon.com/investor

In order to obtain timely delivery of such materials, you must request information from us no later than five business days prior to the expiration of the relevant Exchange Offer.

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SUMMARY

This summary highlights selected information appearing elsewhere, or incorporated by reference, in this prospectus and is, therefore, qualified in its entirety by the more detailed information appearing elsewhere, or incorporated by reference, in this prospectus. It may not contain all the information that is important to you. We urge you to read carefully this entire prospectus and the other documents to which it refers to understand fully the terms of the Exchange Notes and the Exchange Offers. You should pay special attention to Risk Factors and Forward-Looking Statements.

Verizon Communications

We are a global leader in delivering broadband and other wireless and wireline communications services to consumer, business, government and wholesale customers. Our wireless business, operating as Verizon Wireless, provides voice and data services and equipment sales across the United States using one of the most extensive and reliable wireless networks, with 108.6 million retail connections as of March 31, 2015. We also provide converged communications, information and entertainment services over America s most advanced fiber-optic network, and deliver integrated business solutions to customers around the world. A Dow 30 company, we employed a diverse workforce of approximately 176,200 employees as of March 31, 2015, and generated consolidated revenues of $127.1 billion for the year ended December 31, 2014.

Our principal executive offices are located at 1095 Avenue of the Americas, New York, New York 10036, and our telephone number is (212) 395-1000.

The Exchange Offers

On March 13, 2015, in connection with private exchange offers, we issued $2,868,704,000 aggregate principal amount of Original Notes due 2036, $5,000,000,000 aggregate principal amount of Original Notes due 2048 and $5,499,999,000 aggregate principal amount of Original Notes due 2055. As part of those issuances, we entered into a registration rights agreement, dated as of March 13, 2015 (the Registration Rights Agreement), with respect to each series of Original Notes with the dealer managers of the private exchange offers, in which we agreed, among other things, to deliver this prospectus to you and to use our reasonable best efforts to complete an exchange offer for each series of Original Notes. Below is a summary of the Exchange Offers.

The Exchange Offers

We are offering to exchange up to $2,868,704,000 aggregate principal amount of the outstanding Original Notes due 2036, up to $5,000,000,000 aggregate principal amount of the outstanding Original Notes due 2048 and up to $5,499,999,000 aggregate principal amount of the outstanding Original Notes due 2055 for like principal amounts of Exchange Notes due 2036, Exchange Notes due 2048 and Exchange Notes due 2055, respectively. You may tender Original Notes only in denominations of $2,000 and any integral multiple of $1,000 in excess of $2,000. We will issue each series of Exchange Notes promptly after the expiration of the applicable Exchange Offer. In order to be exchanged, an Original Note must be validly tendered, not validly withdrawn and accepted by us. Subject to the satisfaction or waiver of the conditions of the Exchange Offers, all Original Notes that are validly tendered and not

validly withdrawn will be accepted by us and exchanged. As of the date of this prospectus, $2,868,704,000 aggregate principal amount of Original Notes due 2036 is outstanding, $5,000,000,000 aggregate principal

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amount of Original Notes due 2048 is outstanding and $5,499,999,000 aggregate principal amount of Original Notes due 2055 is outstanding. The Original Notes were issued under our Indenture, dated as of December 1, 2000 (as amended or supplemented, the Indenture), between us and U.S. Bank National Association (as successor to Wachovia Bank, National Association, formerly known as First Union National Bank), as trustee (the Trustee). If all outstanding Original Notes are tendered for exchange, there will be $2,868,704,000 aggregate principal amount of Exchange Notes due 2036, $5,000,000,000 aggregate principal amount of Exchange Notes due 2048 and $5,499,999,000 aggregate principal amount of Exchange Notes due 2055 outstanding after the Exchange Offers.

Purpose of the Exchange Offers

The purpose of the Exchange Offers is to satisfy our obligations under the Registration Rights Agreement.

Expiration Date; Tenders

The Exchange Offers will expire at 11:59 p.m., New York City time, on August 20, unless we extend the period of time during which any or all of the Exchange Offers is open. In the event of any material change to any of the Exchange Offers, we will extend the period of time during which the relevant Exchange Offer is open as necessary so that at least five business days remain in the relevant Exchange Offer period following notice of such material change. By signing or agreeing to be bound by the letter of transmittal, you will represent, among other things, that:

- you are not an affiliate of ours;
- you are acquiring the Exchange Notes in the ordinary course of your business;
- you are not participating, do not intend to participate, and have no arrangement or understanding with anyone to participate, in the distribution (within the meaning of the Securities Act) of the Exchange Notes; and
- if you are a broker-dealer that will receive Exchange Notes for your own account in exchange for Original Notes that were acquired as a result of market-making activities or other trading activities, you will deliver a prospectus (or to the extent permitted by law, make available a prospectus to purchasers) in connection with any resale of such Exchange Notes. For further information regarding resales

of the Exchange Notes by broker-dealers, see the discussion under the caption Plan of Distribution.

Accrued Interest on the Exchange Notes and Original Notes	The Exchange Notes due 2036 will bear interest from July 15, 2015, which will be the most recent date to which interest on the Original Notes due 2036 will have been paid prior to the issuance of the Exchange Notes due 2036. The Exchange Notes due 2048 and the Exchange Notes due 2055 will bear interest from March 13, 2015. If your Original Notes are accepted for exchange, you will receive

interest on the corresponding Exchange Notes and not on such Original Notes. Any Original Notes not tendered will remain outstanding and continue to accrue interest according to their terms.

Conditions to the Exchange Offers Our obligation to accept Original Notes tendered in the Exchange Offers is subject to the satisfaction of certain customary conditions. See The Exchange Offers Conditions to the Exchange Offers.

Procedures for Tendering Original Notes A tendering holder must, at or prior to the applicable expiration date:

- transmit a properly completed and duly executed letter of transmittal, including all other documents required by the letter of transmittal, to the Exchange Agent (as defined herein) at the address listed in this prospectus; or

- if Original Notes are tendered in accordance with the book-entry procedures described in this prospectus, the tendering holder must transmit an agent s message (as defined herein) to the Exchange Agent at the address listed in this prospectus.

See The Exchange Offers Procedures for Tendering.

Special Procedures for Beneficial Holders If you are a beneficial holder of Original Notes that are registered in the name of your broker, dealer, commercial bank, trust company or other nominee, and you wish to tender in any of the Exchange Offers, you should promptly contact the person in whose name your Original Notes are registered and instruct that nominee to tender on your behalf. See The Exchange Offers Procedures for Tendering.

Withdrawal Rights Tenders may be withdrawn at any time before 5:00 p.m., New York City time, on the applicable expiration date. See The Exchange Offers Withdrawal Rights.

Acceptance of Original Notes and Delivery of Exchange Notes Subject to the conditions stated in the section The Exchange Offers Conditions to the Exchange Offers of this prospectus, we will accept for exchange any and all Original Notes of each series that are properly tendered in the Exchange Offers and not validly withdrawn. The corresponding Exchange Notes will be delivered promptly after the applicable expiration date. See The Exchange Offers Terms of the Exchange Offers.

Absence of Dissenters Rights of Appraisal	You do not have dissenters rights of appraisal with respect to the Exchange Offers. See The Exchange Offers Absence of Dissenters Rights of Appraisal.
Material U.S. Federal Tax Consequences	Your exchange of Original Notes for Exchange Notes pursuant to any of the Exchange Offers should not be a taxable event for U.S. federal income tax purposes. See Material U.S. Federal Income Tax Consequences.

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Exchange Agent	U.S. Bank National Association is serving as the exchange agent (the Exchange Agent) in connection with the Exchange Offers. The address and telephone number of the Exchange Agent are listed under the heading The Exchange Offers Exchange Agent.
Use of Proceeds	We will not receive any cash proceeds from the issuance of the Exchange Notes in the Exchange Offers. The Original Notes surrendered and exchanged for the Exchange Notes will be retired and canceled. Accordingly, issuance of the Exchange Notes will not result in any increase in our outstanding indebtedness.
Resales	Based on existing interpretations of the Securities Act by the SEC staff set forth in several no-action letters to third parties and subject to the immediately following sentence, we believe Exchange Notes issued under these Exchange Offers in exchange for Original Notes may be offered for resale, resold and otherwise transferred by the holders thereof (other than holders that are broker-dealers) without further compliance with the registration and prospectus delivery provisions of the Securities Act. However, any holder of Original Notes that is an affiliate of ours or that intends to participate in the Exchange Offers for the purpose of distributing any of the Exchange Notes, or any broker-dealer that purchased any of the Original Notes from us for resale pursuant to Rule 144A or any other available exemption under the Securities Act, (i) will not be able to rely on the interpretations of the SEC staff set forth in the above mentioned no-action letters, (ii) will not be entitled to tender its Original Notes in the Exchange Offers and (iii) must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or transfer of the Original Notes unless such sale or transfer is made pursuant to an exemption from such requirements.
	Any broker-dealer that will receive Exchange Notes for its own account in exchange for Original Notes that were acquired as a result of market-making activities or other trading activities must deliver a prospectus (or to the extent permitted by law, make available a prospectus to purchasers) in connection with any resale of such Exchange Notes.
Consequences Of Not Exchanging Original Notes	If you do not exchange your Original Notes in the Exchange Offers, you will continue to be subject to the restrictions on transfer described in the legend on your Original Notes. In general, you may offer or sell your Original Notes only:

if they are registered under the Securities Act and applicable state securities laws;

if they are offered or sold under an exemption from registration under the Securities Act and applicable state securities laws; or

if they are offered or sold in a transaction not subject to the Securities Act and applicable state securities laws.

	Although your Original Notes will continue to accrue interest, they will generally retain no rights under the Registration Rights Agreement. We currently do not intend to register any series of Original Notes under the Securities Act. Under some circumstances, holders of the Original Notes, including holders that are not permitted to participate in the Exchange Offers or that may not freely sell Exchange Notes received in the Exchange Offers, may require us to file, and to cause to become effective, a shelf registration statement covering resales of Original Notes by these holders. For more information regarding the consequences of not tendering your Original Notes and our obligations to file a shelf registration statement, see The Exchange Offers Consequences of Exchanging or Failing to Exchange the Original Notes and The Exchange Offers Registration Rights.
Risk Factors	For a discussion of risk factors you should consider carefully before deciding to participate in the Exchange Offers, see Risk Factors beginning on page 9 of this prospectus.

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The Exchange Notes

Issuer Verizon Communications Inc.

Securities Offered Up to $2,868,704,000 aggregate principal amount of Exchange Notes due 2036, up to $5,000,000,000 aggregate principal amount of Exchange Notes due 2048 and up to $5,499,999,000 aggregate principal amount of Exchange Notes due 2055.

The terms of each series of Exchange Notes are identical to the terms of the corresponding series of Original Notes, except that the transfer restrictions, registration rights and additional interest provisions applicable to the Original Notes do not apply to the Exchange Notes.

Maturity Dates Exchange Notes due 2036: January 15, 2036.
Exchange Notes due 2048: September 15, 2048.
Exchange Notes due 2055: March 15, 2055.

Interest Rates Exchange Notes due 2036: 4.272%.
Exchange Notes due 2048: 4.522%.
Exchange Notes due 2055: 4.672%.

The Exchange Notes due 2036 will bear interest from July 15, 2015, which will be the most recent date to which interest on the Original Notes due 2036 will have been paid prior to the issuance of the Exchange Notes due 2036. The Exchange Notes due 2048 and the Exchange Notes due 2055 will bear interest from March 13, 2015.

Interest Payment Dates Exchange Notes due 2036: January 15 and July 15 of each year, commencing on January 15, 2016.
Exchange Notes due 2048: March 15 and September 15 of each year, commencing on September 15, 2015.

Exchange Notes due 2055: March 15 and September 15 of each year, commencing on September 15, 2015.

Optional Redemption We may redeem any series of the Exchange Notes at our option, in whole, or from time to time in part, at any time prior to maturity, at the applicable redemption price to be determined using the procedure described in this prospectus under Description of the Exchange Notes Redemption.

Ranking	Each series of Exchange Notes will be unsecured and will rank equally with all of our senior unsecured debt.
Book Entry; Form and Denominations	Each series of Exchange Notes will be represented by one or more fully registered global notes, which we refer to as the Global Notes. The Global Notes will be registered in the name of Cede & Co. as nominee for The Depository Trust Company, or DTC. Beneficial interests in the Exchange Notes will be represented through book-

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entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Clearstream Banking, *société anonyme*, and Euroclear Bank, S.A./N.V., as operator of the Euroclear System, will hold interests on behalf of their participants through their respective U.S. depositaries, which in turn will hold such interests in accounts as participants of DTC. Except in limited circumstances described in this prospectus, owners of beneficial interests in the Exchange Notes will not be entitled to have Exchange Notes registered in their names, will not receive or be entitled to receive Exchange Notes in definitive form and will not be considered holders of Exchange Notes under the Indenture. The Exchange Notes will be issued in minimum denominations of $2,000 and integral multiples of $1,000 in excess of $2,000.

No Public Market

The Exchange Notes will be new securities for which there is currently no market. A market for any or all series of Exchange Notes may not develop, or if a market does develop, it may not provide adequate liquidity.

Governing Law

The Indenture is, and the Exchange Notes will be, governed by the laws of the State of New York.

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RECENT DEVELOPMENTS

On July 21, 2015, we announced our unaudited preliminary results for the second quarter 2015 and the six months ended June 30, 2015. For the second quarter 2015, we reported net income attributable to Verizon of $4.2 billion, or $1.04 per diluted share, compared with $4.2 billion, or $1.01 per diluted share, in the second quarter 2014. Reported earnings in the second quarter 2014 included a gain on spectrum license transactions of $0.7 billion. For the six months ended June 30, 2015, we reported net income attributable to Verizon of $8.5 billion, or $2.06 per diluted share, compared with $8.2 billion, or $2.15 per diluted share, for the six months ended June 30, 2014.

During the second quarter 2015, consolidated operating revenues of $32.2 billion increased 2.4% from $31.5 billion in the second quarter 2014. Consolidated operating revenues for the six months ended June 30, 2015 were $64.2 billion, an increase of 3.1% compared to $62.3 billion for the corresponding period in 2014.

Total operating expenses were $24.4 billion in the second quarter 2015 and $48.4 billion for the six months ended June 30, 2015, an increase of 2.5% and 2.0%, respectively, from the corresponding periods in 2014.

Total operating revenues from our Wireless segment were $22.6 billion for the second quarter 2015 and $44.9 billion for the six months ended June 30, 2015, an increase of 5.3% and 6.1%, respectively, from the corresponding periods in 2014. Wireless total operating expenses were $14.9 billion for the second quarter 2015 and $29.4 billion for the six months ended June 30, 2015, an increase of 2.9% and 4.9%, respectively, from the corresponding periods in 2014. Total operating revenues from our Wireline segment were $9.4 billion for the second quarter 2015 and $18.9 billion for the six months ended June 30, 2015, a decrease of 2.2% and 2.1%, respectively, from the corresponding periods in 2014. Wireline total operating expenses were $8.9 billion for the second quarter 2015 and $18.0 billion for the six months ended June 30, 2015, a decrease of 4.9% and 4.8%, respectively, from the corresponding periods in 2014.

Net cash flows provided by operating activities were $18.9 billion for the six months ended June 30, 2015, compared with $14.8 billion for the six months ended June 30, 2014. For the six months ended June 30, 2015, net cash used in investing activities was $20.2 billion, including $8.2 billion in capital expenditures. Net cash used in financing activities was $6.3 billion for the six months ended June 30, 2015. Our total debt increased by $3.7 billion compared with June 30, 2014, to $113.7 billion at June 30, 2015.

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RISK FACTORS

An investment in the Exchange Notes involves risks. Before making a decision whether to participate in the Exchange Offers, you should carefully consider the risks and uncertainties described in this prospectus, including the risk factors set forth in the documents and reports filed with the SEC that are incorporated by reference herein. Our business, financial condition, operating results and cash flows can be impacted by these factors, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

Uncertainty as to the trading market for Original Notes not exchanged

To the extent tenders of Original Notes for exchange in the Exchange Offers are accepted by us and the Exchange Offers are completed, the trading market for the Original Notes that remain outstanding following such completion may be significantly more limited. The remaining Original Notes may command a lower price than a comparable issue of securities with greater market liquidity. A reduced market value and reduced liquidity may also make the trading price of the remaining Original Notes more volatile. As a result, the Exchange Offers may cause the market price for the Original Notes that remain outstanding after the completion of the Exchange Offers to be adversely affected. Neither we nor the Exchange Agent has any duty to make a market in any remaining Original Notes.

Uncertainty as to the trading market for the Exchange Notes

We cannot make any assurance as to:

- the development of an active trading market for the Exchange Notes;
- the liquidity of any trading market that may develop for the Exchange Notes;
- the ability of holders to sell their Exchange Notes; or
- the price at which the holders would be able to sell their Exchange Notes.

We do not intend to apply for listing of the Exchange Notes on any securities exchange or for quotation through any automated dealer quotation system. Any trading market that may develop for the Exchange Notes may be adversely affected by changes in the overall market for investment-grade securities, changes in our financial performance or prospects, a change in our credit rating, the prospects for companies in our industry generally, any acquisitions or business combinations proposed or consummated by us, the interest of securities dealers in making a market for the Exchange Notes and prevailing interest rates, financial markets and general economic conditions. A market for the Exchange Notes may be subject to volatility.

Resale of the Original Notes is restricted

Each series of Exchange Notes will be issued pursuant to a registration statement filed with the SEC of which this prospectus forms a part. On the other hand, we have not registered the Original Notes under the Securities Act or for public offerings outside the United States. Consequently, the Original Notes may not be offered or sold in the United States, unless they are registered under the Securities Act, transferred pursuant to an exemption from registration

under the Securities Act and applicable state securities laws or transferred in a transaction not subject to the Securities Act and applicable state securities laws. As a result, holders of Original Notes who do not participate in the Exchange Offers will face restrictions on the resale of their Original Notes, and such holders may not be able to sell their Original Notes at the time they wish or at prices acceptable to them. In addition, we do not anticipate that we will register the Original Notes under the Securities Act and, if you are eligible to exchange your Original Notes in the Exchange Offers and do not exchange your Original Notes in the Exchange Offers, you will no longer be entitled to have those Original Notes registered under the Securities Act.

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Treatment of the Original Notes not exchanged

Original Notes not exchanged in the Exchange Offers will remain outstanding. The terms and conditions governing the Original Notes will remain unchanged. No amendments to these terms and conditions are being sought.

From time to time after the expiration date, we or our affiliates may acquire Original Notes that are not exchanged in the Exchange Offers through open market purchases, privately negotiated transactions, tender offers, exchange offers, redemptions or otherwise, upon such terms and at such prices as we or our affiliates may determine or as may be provided for in the Indenture or other documents governing the Original Notes (which may be on terms more or less favorable from those contemplated in the Exchange Offers and, in either case, could be for cash or other consideration).

Responsibility for complying with the procedures of the Exchange Offers

Holders of Original Notes are responsible for complying with all of the procedures for tendering Original Notes for exchange in a timely manner. Therefore, holders of Original Notes that wish to exchange them for Exchange Notes should allow sufficient time for timely completion of the exchange procedures. If the instructions are not strictly complied with, the letter of transmittal or the agent s message, as the case may be, may be rejected. Neither we nor the Exchange Agent assumes any responsibility for informing any holder of Original Notes of irregularities with respect to such holder s participation in the Exchange Offers.

Consummation of the Exchange Offers may not occur

The Exchange Offers are subject to the satisfaction of certain conditions. See The Exchange Offers Conditions to the Exchange Offers. Even if the Exchange Offers are completed, they may not be completed on the schedule described in this prospectus. Accordingly, holders participating in the Exchange Offers may have to wait longer than expected to receive their Exchange Notes, during which time such holders will not be able to effect transfers of their Original Notes tendered in the Exchange Offers.

Completion, termination, waiver and amendment

Until we announce whether we have accepted valid tenders of Original Notes for exchange pursuant to the Exchange Offers, no assurance can be given that the Exchange Offers will be completed. In addition, subject to applicable law and as provided in this prospectus, we may, in our sole discretion, extend, re-open, amend, waive any condition of or terminate any or all of the Exchange Offers at any time before our announcement of whether we will accept valid tenders of Original Notes for exchange pursuant to the Exchange Offers, which we expect to make as soon as reasonably practicable after the applicable expiration date.

Responsibility to consult advisers

Holders should consult their own tax, accounting, financial and legal advisers regarding the suitability to themselves of the tax or accounting consequences of participating in the Exchange Offers and an investment in the Exchange Notes.

Neither we nor the Exchange Agent, nor our or its directors, employees or affiliates, is acting for any holder of Original Notes or will be responsible to any holder of Original Notes for providing advice in relation to the Exchange Offers, and accordingly neither we nor the Exchange Agent, nor our or its directors, employees and affiliates, makes any recommendation whatsoever regarding the Exchange Offers or any recommendation as to whether you should

tender your Original Notes for exchange pursuant to the Exchange Offers.

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Registration and prospectus delivery requirements of the Securities Act

If you exchange your Original Notes in the Exchange Offers for the purpose of participating in a distribution of the Exchange Notes, you may be deemed to have received restricted securities and, if so, you will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction. In addition, a broker-dealer that purchased Original Notes for its own account as part of market-making activities or trading activities must deliver a prospectus when it sells the Exchange Notes it receives in exchange for Original Notes in the Exchange Offers. Our obligation to keep the registration statement of which this prospectus forms a part effective is limited. Accordingly, we cannot guarantee that a current prospectus will be available at all times to broker-dealers wishing to resell their Exchange Notes.

USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the Exchange Notes in the Exchange Offers. The Original Notes surrendered and exchanged for the Exchange Notes will be retired and canceled.

RATIO OF EARNINGS TO FIXED CHARGES

The following table shows our ratios of earnings to fixed charges for the periods indicated:

Three Months Ended	Year Ended December 31,				
March 31, 2015	2014	2013	2012	2011	2010
5.11	3.15	7.69	3.55	3.50	3.74

For these ratios, earnings have been calculated by adding fixed charges to income before provision for income taxes, discontinued operations, extraordinary items and cumulative effect of accounting change, and before noncontrolling interests and income (loss) of equity investees. Fixed charges include interest expense, preferred stock dividend requirements of consolidated subsidiaries, capitalized interest and the portion of rent expense representing interest.

THE EXCHANGE OFFERS

Purpose of the Exchange Offers

When we completed the issuance of the Original Notes in connection with private exchange offers on March 13, 2015, we entered into the Registration Rights Agreement with the dealer managers of the private exchange offers. Under the Registration Rights Agreement, we agreed to file a registration statement with the SEC relating to the Exchange Offers within 120 days of the settlement date of each series of Original Notes. We also agreed to use our commercially reasonable efforts to cause the registration statement to become effective with the SEC within 210 days of the settlement date of each series of Original Notes and to complete the Exchange Offers within 250 days of the settlement date of each series of Original Notes. The Registration Rights Agreement provides that we will be required to pay additional interest to the holders of the Original Notes of the applicable series if we fail to comply with such filing, effectiveness and exchange offer consummation requirements.

The Exchange Offers are not being made to holders of Original Notes in any jurisdiction where the exchange would not comply with the securities or blue sky laws of such jurisdiction. A copy of the Registration Rights Agreement has been filed as an exhibit to the registration statement of which this prospectus forms a part, and it is available from us upon request. See Where You Can Find More Information.

Each broker-dealer that receives Exchange Notes for its own account in exchange for Original Notes, where such Original Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes. See Plan of Distribution.

Terms of the Exchange Offers

Upon the terms and subject to the conditions described in this prospectus and in the accompanying letter of transmittal, we will accept for exchange Original Notes that are properly tendered before 11:59 p.m., New York City time, on the applicable expiration date and not validly withdrawn as permitted below. We will issue a like principal

amount of Exchange Notes in exchange for the principal amount of the corresponding Original Notes

tendered under the respective Exchange Offers. As used in this prospectus, the term expiration date means August 20, 2015. However, if we have extended the period of time for which the Exchange Offers are open with respect to any or all series of Notes, the term expiration date means the latest date to which we extend the relevant Exchange Offer.

As of the date of this prospectus, $2,868,704,000 aggregate principal amount of Original Notes due 2036 is outstanding, $5,000,000,000 aggregate principal amount of Original Notes due 2048 is outstanding and $5,499,999,000 aggregate principal amount of Original Notes due 2055 is outstanding. The Original Notes of each series were issued under the Indenture. Our obligation to accept Original Notes of each series for exchange in the Exchange Offers is subject to the conditions described below under Conditions to the Exchange Offers. We reserve the right to extend the period of time during which any or all of the Exchange Offers is open. We may, subject to applicable law, elect to extend the relevant Exchange Offer period if less than 100% of the Original Notes of the relevant series are tendered or if any condition to consummation of the relevant Exchange Offer has not been satisfied as of the relevant expiration date and it is likely that such condition will be satisfied after such date. In addition, in the event of any material change to any or all of the Exchange Offers, we will extend the period of time during which the relevant Exchange Offer is open as necessary so that at least five business days remain in the relevant Exchange Offer period following notice of such material change. In the event of such extension, and only in such event, we may delay acceptance for exchange of any Original Notes of the relevant series by giving written notice of the extension to the holders of Original Notes of such series as described below. During any extension period, all Original Notes of such series previously tendered will remain subject to the Exchange Offers and may be accepted for exchange by us. Any Original Notes not accepted for exchange will be returned to the tendering holder promptly after the expiration or termination of the Exchange Offers.

Original Notes of each series tendered in the Exchange Offers must be in denominations of $2,000 and any integral multiple of $1,000 in excess of $2,000.

Subject to applicable law, we reserve the right to amend or terminate any or all of the Exchange Offers, and not to accept for exchange any Original Notes of the relevant series not previously accepted for exchange, upon the occurrence of any of the conditions of the relevant Exchange Offer specified below under Conditions to the Exchange Offers. We will give written notice of any extension, amendment, non-acceptance or termination to the holders of the Original Notes of the relevant series as promptly as practicable. Such notice, in the case of any extension, will be issued by means of a press release or other public announcement no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date for such series.

Our acceptance of the tender of Original Notes by a tendering holder will form a binding agreement upon the terms and subject to the conditions provided in this prospectus and the accompanying letter of transmittal.

Absence of Dissenters Rights of Appraisal

Holders of the Original Notes do not have any dissenters rights of appraisal in connection with the Exchange Offers.

Procedures for Tendering

Except as described below, a tendering holder must, at or prior to 11:59 p.m., New York City time, on the applicable expiration date:

transmit a properly completed and duly executed letter of transmittal, including all other documents required by the letter of transmittal, to the Exchange Agent, at the address listed below under the heading Exchange Agent; or

if Original Notes are tendered in accordance with the book-entry procedures described below, the tendering holder must transmit an agent s message to the Exchange Agent at the address listed below under the heading Exchange Agent.

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In addition:

- the Exchange Agent must receive, at or before 11:59 p.m., New York City time, on the applicable expiration date, certificates for the Original Notes, if any; or
- the Exchange Agent must receive a timely confirmation of book-entry transfer of the Original Notes into the Exchange Agent s account at DTC, the book-entry transfer facility.

The term agent s message means a message, transmitted by DTC to, and received by, the Exchange Agent and forming a part of a book-entry confirmation, which states that DTC has received an express acknowledgment from the tendering participant that such participant has received and agrees to be bound by, and makes the representations and warranties contained in, the letter of transmittal and that we may enforce the letter of transmittal against such participant.

The method of delivery of Original Notes, letters of transmittal and all other required documents is at your election and risk. If the delivery is by mail, we recommend that you use registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. You should not send letters of transmittal or Original Notes to anyone other than the Exchange Agent.

If you are a beneficial owner whose Original Notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, and wish to tender, you should promptly instruct the registered holder to tender on your behalf. Any registered holder that is a participant in DTC s book-entry transfer facility system may make book-entry delivery of the Original Notes by causing DTC to transfer the Original Notes into the Exchange Agent s account.

Signatures on a letter of transmittal or a notice of withdrawal must be guaranteed unless the Original Notes surrendered for exchange are tendered:

- by a registered holder of the Original Notes that has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal; or
- for the account of an eligible institution.

If signatures on a letter of transmittal or a notice of withdrawal are required to be guaranteed, the guarantees must be by an eligible institution. An eligible institution is a financial institution, including most banks, savings and loan associations and brokerage houses, that is a participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Program or the Stock Exchanges Medallion Program.

We will reasonably determine all questions as to the validity, form and eligibility of Original Notes tendered for exchange and all questions concerning the timing of receipts and acceptance of tenders. These determinations will be final and binding.

We reserve the right to reject any particular Original Note not properly tendered, or any acceptance that might, in our judgment, be unlawful. We also reserve the right to waive any defects or irregularities with respect to the form or

procedures applicable to the tender of any particular Original Note prior to the applicable expiration date. Unless waived, any defects or irregularities in connection with tenders of Original Notes must be cured prior to the applicable expiration date of the Exchange Offers. Neither we, the Exchange Agent nor any other person will be under any duty to give notification of any defect or irregularity in any tender of Original Notes. Nor will we, the Exchange Agent or any other person incur any liability for failing to give notification of any defect or irregularity.

If the letter of transmittal is signed by a person other than the registered holder of Original Notes, the letter of transmittal must be accompanied by a certificate of the Original Notes endorsed by the registered holder or

written instrument of transfer or exchange in satisfactory form, duly executed by the registered holder, in either case with the signature guaranteed by an eligible institution. In addition, in either case, the original endorsement or the instrument of transfer must be signed exactly as the name of any registered holder appears on the Original Notes.

If the letter of transmittal or any Original Notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, these persons should so indicate when signing. Unless waived by us, proper evidence satisfactory to us of their authority to so act must be submitted.

By signing or agreeing to be bound by the letter of transmittal, each tendering holder of Original Notes will represent, among other things:

- that it is not an affiliate of ours;
- the Exchange Notes will be acquired in the ordinary course of its business;
- that it is not participating, does not intend to participate, and has no arrangement or understanding with anyone to participate, in the distribution (within the meaning of the Securities Act) of the Exchange Notes; and
- if such holder is a broker-dealer that will receive Exchange Notes for its own account in exchange for Original Notes that were acquired as a result of market-making activities or other trading activities, that it will deliver a prospectus (or to the extent permitted by law, make available a prospectus to purchasers) in connection with any resale of such Exchange Notes.

Each broker-dealer that receives Exchange Notes for its own account in exchange for Original Notes, where such Original Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes. See Plan of Distribution.

Acceptance of Original Notes for Exchange; Delivery of Exchange Notes

Upon satisfaction of all of the conditions to an Exchange Offer, we will accept, promptly after the applicable expiration date, all Original Notes of the relevant series properly tendered. We will issue the applicable Exchange Notes promptly after the expiration of the relevant Exchange Offer and acceptance of the corresponding Original Notes. See Conditions to the Exchange Offers below. For purposes of the Exchange Offers, we will be deemed to have accepted properly tendered Original Notes for exchange when, as and if we have given written notice of such acceptance to the Exchange Agent.

For each Original Note accepted for exchange, the holder of the Original Note will receive an Exchange Note of the corresponding series having a principal amount equal to that of the surrendered Original Note. The Exchange Notes due 2036 will bear interest from July 15, 2015, which will be the most recent date to which interest on the Original Notes due 2036 will have been paid prior to the issuance of the Exchange Notes due 2036. The Exchange Notes due 2048 and the Exchange Notes due 2055 will bear interest from March 13, 2015. Original Notes accepted for exchange

will cease to accrue interest from and after the date of completion of the relevant Exchange Offer. Holders of Original Notes whose Original Notes are accepted for exchange will not receive any payment for accrued interest on the Original Notes otherwise payable on any interest payment date, the record date for which occurs on or after completion of the relevant Exchange Offer and will be deemed to have waived their rights to receive the accrued interest on the Original Notes.

In all cases, issuance of Exchange Notes for Original Notes will be made only after timely receipt by the Exchange Agent of:

certificates for the Original Notes, or a timely book-entry confirmation of the Original Notes into the Exchange Agent s account at the book-entry transfer facility;

a properly completed and duly executed letter of transmittal or a transmitted agent s message; and

all other required documents.

Unaccepted or non-exchanged Original Notes will be returned without expense to the tendering holder of the Original Notes promptly after the expiration of the relevant Exchange Offer. In the case of Original Notes tendered by book-entry transfer in accordance with the book-entry procedures described below, the non-exchanged Original Notes will be returned or recredited promptly after the expiration of the relevant Exchange Offer.

Book-Entry Transfer

The Exchange Agent will make a request to establish an account for the Original Notes at DTC for purposes of the Exchange Offers within two business days after the date of this prospectus. Any financial institution that is a participant in DTC s systems must make book-entry delivery of Original Notes by causing DTC to transfer those Original Notes into the Exchange Agent s account at DTC in accordance with DTC s procedure for transfer. This participant should transmit its acceptance to DTC at or prior to 11:59 p.m., New York City time, on the applicable expiration date. DTC will verify this acceptance, execute a book-entry transfer of the tendered Original Notes into the Exchange Agent s account at DTC and then send to the Exchange Agent confirmation of this book-entry transfer. The confirmation of this book-entry transfer will include an agent s message confirming that DTC has received an express acknowledgment from this participant that this participant has received and agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against this participant. Delivery of Exchange Notes issued in the Exchange Offers may be effected through book-entry transfer at DTC. However, the letter of transmittal or an agent s message, with any required signature guarantees and any other required documents, must be transmitted to, and received by, the Exchange Agent at the address listed below under Exchange Agent at or prior to 11:59 p.m., New York City time, on the applicable expiration date.

Exchanging Book-Entry Notes

The Exchange Agent and the book-entry transfer facility have confirmed that any financial institution that is a participant in the book-entry transfer facility may utilize the book-entry transfer facility s Automated Tender Offer Program, or ATOP, procedures to tender Original Notes. Any participant in the book-entry transfer facility may make book-entry delivery of Original Notes by causing the book-entry transfer facility to transfer such Original Notes into the Exchange Agent s account in accordance with the book-entry transfer facility s ATOP procedures for transfer. However, the exchange for the Original Notes so tendered will only be made after a book-entry confirmation of the book-entry transfer of Original Notes into the Exchange Agent s account, and timely receipt by the Exchange Agent of an agent s message and any other documents required by the letter of transmittal.

Withdrawal Rights

For a withdrawal to be effective, the Exchange Agent must receive a written notice of withdrawal at the address indicated below under Exchange Agent before 5:00 p.m., New York City time, on the applicable expiration date. Any notice of withdrawal must:

specify the name of the person, referred to as the depositor, having tendered the Original Notes to be withdrawn;

identify the Original Notes to be withdrawn, including the relevant series, certificate number or numbers and principal amount of the Original Notes;

in the case of Original Notes tendered by book-entry transfer, specify the number of the account at the book-entry transfer facility from which the Original Notes were tendered and specify the name and number of the account at the book-entry transfer facility to be credited with the withdrawn Original Notes and otherwise comply with the procedures of such facility;

contain a statement that the holder is withdrawing his election to have the Original Notes exchanged;

be signed by the holder in the same manner as the original signature on the letter of transmittal by which the Original Notes were tendered, including any required signature guarantees, or be accompanied by documents of transfer to have the Trustee with respect to the Original Notes register the transfer of the Original Notes in the name of the person withdrawing the tender; and

specify the name in which the Original Notes are registered, if different from that of the depositor.

If certificates for Original Notes have been delivered or otherwise identified to the Exchange Agent, then, prior to the release of these certificates, the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and signed notice of withdrawal with signatures guaranteed by an eligible institution unless this holder is an eligible institution. We will determine all questions as to the validity, form and eligibility, including time of receipt, of notices of withdrawal. Properly withdrawn Original Notes may be re-tendered by following the procedures described under Procedures for Tendering above at any time on or before 11:59 p.m., New York City time, on the applicable expiration date.

Conditions to the Exchange Offers

Notwithstanding any other provision of this prospectus, with respect to each Exchange Offer, we will not be obligated to (i) accept for exchange any validly tendered Original Notes or (ii) issue any Exchange Notes in exchange for validly tendered Original Notes or complete such Exchange Offer, if at or prior to the applicable expiration date:

(1) there is threatened, instituted or pending any action or proceeding before, or any injunction, order or decree issued by, any court or governmental agency or other governmental regulatory or administrative agency or commission that might materially impair our ability to proceed with the applicable exchange offer; or

(2) the applicable exchange offer or the making of any exchange by a holder of Original Notes of the relevant series would violate applicable law or any applicable interpretation of the SEC staff.

In addition, we will not accept for exchange any Original Notes tendered, and no Exchange Notes will be issued in exchange for any Original Notes, if any stop order is threatened by the SEC or in effect relating to the registration statement of which this prospectus constitutes a part or the qualification of the Indenture under the Trust Indenture Act of 1939, as amended. We are required to use our commercially reasonable efforts to obtain the withdrawal of any stop order suspending the effectiveness of a registration statement at the earliest possible moment.

No Exchange Offer is conditioned upon any minimum amount of Original Notes being tendered or the consummation of any other Exchange Offer and each Exchange Offer may be amended, extended or terminated individually.

Exchange Agent

We have appointed U.S. Bank National Association as the Exchange Agent for the Exchange Offers. You should direct all executed letters of transmittal to the Exchange Agent at the address indicated below. You should direct questions and requests for assistance, requests for additional copies of this prospectus or of the letter of transmittal to the Exchange Agent addressed as follows:

By Mail:

U.S. Bank National Association

Attn: Specialized Finance

60 Livingston Ave   EP-MN-WS2N

St. Paul, MN 55107-2292

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By Hand or Overnight Courier:

U.S. Bank National Association

Attn: Specialized Finance

111 Fillmore Ave E

St. Paul, MN 55107-1402

For information or confirmation by email or

telephone:

651-466-7150

cts.specfinance@usbank.com

All other questions should be addressed to Verizon Communications Inc., One Verizon Way, Basking Ridge, New Jersey 07920, Attention: Fixed Income Investor Relations. If you deliver the letter of transmittal to an address other than any address for the Exchange Agent indicated above, then your delivery or transmission will not constitute a valid delivery of the letter of transmittal.

Fees and Expenses

We will not make any payment to brokers, dealers or others soliciting acceptances of the Exchange Offers. We have agreed to pay all expenses incident to the Exchange Offers other than commissions or concessions of any brokers or dealers and will indemnify the holders of the Original Notes and the Exchange Notes (including any broker-dealers) against certain liabilities, including liabilities under the Securities Act. The cash expenses to be incurred in connection with the Exchange Offers, including out-of-pocket expenses for the Exchange Agent, will be paid by us.

Transfer Taxes

3,245

Gross inventory

26,830 25,686

Less: allowances

(2,460) (1,964)

Inventories, net

$24,370 $23,722

4. Other Current Assets

Other current assets consist of the following:

	March 31, 2016	December 31, 2015
	(in thousands)	
Prepaid insurance	$ 1,219	$ 628
Taxes receivable	2,977	2,932
RFL escrow	1,000	1,000
Other	1,619	1,386
Other current assets	$ 6,815	$ 5,946

Taxes Receivable

Taxes receivable is primarily attributable to the Company s MTE segment, which recorded a $2,670,000 and $2,648,000 value-added tax receivable related to import/export activities in Mexico as of March 31, 2016 and December 31, 2015, respectively. During April 2016, MTE collected $1,570,000 of the outstanding value-added tax receivable.

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RFL Escrow

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) to Hubbell for aggregate cash consideration of $20,000,000, subject to a post-closing working capital adjustment which amounted to $299,000 and was received in February 2015.

A portion of the cash consideration was held in escrow to secure the indemnification obligations of SL Delaware Holdings. The Company was eligible to receive 50% of the total $2,000,000 escrow, or $1,000,000, subject to certain adjustments, after the first nine months from the date of sale, and the remainder after eighteen months from the date of sale. As of March 31, 2016 and December 31, 2015, $1,000,000 of the cash consideration remained in 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 months ended March 31, 2016 and March 31, 2015.

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

	Three Months Ended March 31, 2016	2015
	(in thousands, except per share amounts)	
Net income (loss) available to common shareholders:		
Basic net income available to common shareholders from continuing operations	$ 2,107	$ 2,708
Basic net (loss) income available to common shareholders from discontinued operations	$ (511)	$ (162)
Diluted net income available to common shareholders from continuing operations	$ 2,107	$ 2,708
Diluted net (loss) income available to common shareholders from discontinued operations	$ (511)	$ (162)
Shares:		
Basic weighted average number of common shares outstanding	3,963	4,093
Common shares assumed upon exercise of stock options	26	67
Diluted weighted average number of common shares outstanding	3,989	4,160
Basic net income (loss) per common share:		
Income from continuing operations	$ 0.53	$ 0.66
(Loss) from discontinued operations, net of tax	(0.13)	(0.04)
Net income	$ 0.40	$ 0.62
Diluted net income (loss) per common share:		
Income from continuing operations	$ 0.53	$ 0.65
(Loss) from discontinued operations, net of tax	(0.13)	(0.04)
Net income	$ 0.40	$ 0.61

6. Stock-Based Compensation

At March 31, 2016, the Company had stock-based employee compensation plans as described below. For the three months ended March 31, 2016 and March 31, 2015, the total compensation expense (included in selling, general and administrative expense) related to these plans was $239,000 and $249,000 ($157,000 and $163,000 net of tax), respectively.

During the first quarter of 2016, the Company implemented a Long-Term Incentive Plan (the 2016 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 2016 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 2016 to December 2018 performance period. Earned RSUs, if any, cliff vest at the end of fiscal 2018 (100% of earned RSUs vest at December 31, 2018). 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 $33.15 per share based on the grant date of March 11, 2016. During the three months ended March 31, 2016, $6,000 was charged to compensation expense. As of March 31, 2016, total unamortized compensation expense for this grant was $265,000. As of March 31, 2016, the maximum number of achievable RSUs under the 2016 LTIP was 13,000 RSUs.

During the first quarter of 2013, the Company implemented a Long-Term Incentive Plan (the 2013 LTIP) pursuant to the 2008 Plan which awarded RSUs to eligible executives. The weighted-average price for these RSUs was $19.17 per share based on the grant date of March 5, 2013. Under the terms of the 2013 LTIP, 9,000 RSUs were earned and issued on March 11, 2016.

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 $146,000 of stock compensation expense during the three months ended March 31, 2016. As of March 31, 2016, total unamortized compensation expense for this grant was $85,000. The weighted-average price of these restricted stock grants was $38.00 per share based on the grant date of May 28, 2015. No shares were granted under this award during the three month period ended March 31, 2016.

Stock Options

Option activity under the principal option plans as of March 31, 2016 and changes during the three months ended March 31, 2016 were as follows:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2015	126	$ 23.23	3.24	$ 1,088
Granted				
Exercised				
Forfeited				
Expired				
Outstanding as of March 31, 2016	126	$ 23.23	2.98	$ 1,255
Exercisable as of March 31, 2016	77	$ 21.42	2.81	$ 907

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 first quarter of fiscal 2016 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 March 31, 2016. This amount changes based on the fair market value of the Company s stock. During the three months ended March 31, 2016 and March 31, 2015, no options to purchase common stock were exercised by option holders.

As of March 31, 2016, $276,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 0.9 years.

Tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options are classified as financing cash flows. No options were exercised during the three months ended March 31, 2016 and March 31, 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.

For the three months ended March 31, 2016 and March 31, 2015, the estimated income tax rate from continuing operations were 34% and 35%, respectively. The decrease in the effective tax rate was primarily due to an increase in the federal research and development tax credits and foreign tax credits available in 2016 as compared to 2015, which were partially offset by certain taxes payable adjustments.

During the three months ended March 31, 2016, the Company recorded additional benefits from federal and state research and development tax credits of $38,000 and $45,000, respectively. During the three months ended March 31, 2015, the Company recorded additional benefits from state research and development tax credits of $47,000.

As of March 31, 2016, the Company s gross research and development tax credit carryforwards totaled approximately $2,198,000. Of these credits, approximately $977,000 can be carried forward for 15 years and will expire between 2016 and 2031, and approximately $1,221,000 of state credits can be carried forward indefinitely.

The Company has recorded gross unrecognized tax benefits, excluding interest and penalties, as of March 31, 2016 and December 31, 2015 of $440,000 and $560,000, 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 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 March 31, 2016 and December 31, 2015, the Company reclassified $376,000 and $366,000 of its uncertain tax positions against its related deferred tax assets.

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 $212,000. The Company records such unrecognized tax benefits upon the expiration of the applicable statute of limitations or the settlement with tax authorities. As of March 31, 2016, the Company has a liability for unrecognized benefits of $237,000, $203,000, and $376,000 for federal, international, and state taxes, respectively. As of December 31, 2015, the Company has a liability for unrecognized benefits of $357,000, $203,000, and $366,000 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 March 31, 2016, and December 31, 2015, the Company has accrued approximately $107,000 and $118,000 for the payment of interest and penalties, respectively.

The Company and its subsidiaries file income tax returns in the United States and in various state, local and foreign jurisdictions. The Company and its subsidiaries are occasionally examined by tax authorities in these jurisdictions. The Company has been audited by the Internal Revenue Service (the IRS) through 2013. State income tax statutes are generally open for periods back to and including the calendar year 2011. In addition, the Company reached a settlement with the U.S. Treasury department regarding the Company s transfer pricing policies in China. As a result of the settlement, the Company received a refund of $584,000 during the first quarter of 2016.

8. Recently Adopted and Issued Accounting Pronouncements

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. In March and April 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) and ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing which provide supplemental adoption guidance and clarification to ASU 2014-09. ASU 2016-08 and ASU 2016-10 must be adopted concurrently with the adoption of ASU 2014-09. 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 standards 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 did not have a material impact on the Company s consolidated financial statements.

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 2015-03 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 did not 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 did not 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.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Acquirers must now recognize measurement-period adjustments during the period in which they determine the amount of the adjustment. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015 and should be applied prospectively to adjustments for provisional amounts that occur after the effective date. Early adoption is permitted for financial statements that have not been issued. The implementation of this guidance did not have a material impact on the Company s consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. ASU 2015-17 is effective in fiscal years beginning after December 15, 2016, including interim periods within those years. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. ASU 2015-17 may be applied either prospectively, for all deferred tax assets and liabilities, or retrospectively. The implementation of this guidance is not expected to have a material impact on the Company s consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability, measured on a discounted basis, on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. A modified retrospective transition approach is required for capital and operating leases existing at the date of adoption, with certain practical expedients available. The Company is currently evaluating the potential impact of this new guidance, which is effective for the Company s 2019 fiscal year.

In March 2016, the FASB issued ASU No. 2016-09 Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which relates to the accounting for employee share-based payments. This standard addresses several aspects of the accounting for share-based payment award transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This standard will be effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently evaluating the impact of the implementation of this guidance on the Company s consolidated financial statements.

9. Acquisitions

Acquisitions 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 of $169,000 (the Torque Systems Acquisition). The transaction was paid in cash on May 22, 2015 while the working capital adjustment was paid during the fourth quarter of 2015. Torque Systems designs and manufactures engineered motion control products, including brush servo motors, brushless servo motors, incremental encoders, and linear actuators. SLMTI DS LLC (SLMTI DS), a subsidiary of SL-MTI, holds the assets acquired in the Torque Systems Acquisition.

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At December 31, 2015, the financial statements reflect the final 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 $1,344,000, which is deductible for tax purposes. The results from the acquisition date through March 31, 2016 are included in the SL-MTI segment.

On July 27, 2015, the Company acquired all of the issued and outstanding stock of Davall Gears, LTD. (Davall) pursuant to a Share Purchase Agreement for the Sale and Purchase of Davall Gears LTD. (SPA) for a purchase price of £13,035,000, plus a Completion Statement adjustment of £814,000, which was approximately $20,207,000 and $1,232,000 at the exchange rates then in effect (the Davall Acquisition). The transaction was paid for primarily from borrowings under the Company s 2012 Credit Facility with the remainder in cash. Davall, headquartered in Welham Green, Hatfield, Hertfordshire, United Kingdom, is a manufacturer of custom gears, gearboxes, and assemblies primarily for the military and aerospace markets. Davall specializes in the design and manufacture of high precision, special form geometry gearing, and Spiradrive gear systems. SL-MTI holds the assets acquired and liabilities assumed in the Davall Acquisition.

At March 31, 2016, the financial statements reflect the preliminary purchase price allocation based on estimated fair values at the date of acquisition. As of the acquisition date, the acquisition resulted in intangible assets of $10,891,000 and goodwill of $4,674,000, which consists largely of new product offerings and new sales channels expected from combining the operations of SL-MTI and Davall. None of the goodwill recognized is expected to be deductible for income tax purposes.

The following table summarizes the Davall assets acquired and liabilities assumed as of the acquisition date on a preliminary basis:

	Preliminary Purchase Price (1)	Cumulative Adjustments (2)	Adjusted Preliminary Purchase Price
		(in thousands)	
Receivables	$ 2,726	$	$ 2,726
Inventories	1,354	329	1,683
Other assets	267		267
Property, plant and equipment	5,796	653	6,449
Identifiable intangible assets	11,044	(153)	10,891
Accounts payable	(834)		(834)
Warranty	(165)		(165)
Accrued liabilities	(2,963)	1,197	(1,766)
Deferred income taxes		(2,486)	(2,486)
Goodwill	2,982	1,692	4,674
Total consideration transferred	$ 20,207	$ 1,232	$ 21,439

(1) As reported in the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015.
(2) As reported in the Company s Annual Report on Form 10-K, as amended, for the year ended December 31, 2015. No adjustments were recorded during the quarter ended March 31, 2016.

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The results from the acquisition date through March 31, 2016 are included in the SL-MTI segment.

The Company continues to evaluate certain accrued liabilities related to the Davall 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 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 2016.

Unaudited proforma financial information has not been presented for any of these acquisitions since the effects of the acquisitions were not material individually or in the aggregate in 2015.

10. Goodwill And Intangible Assets

Intangible assets consist of the following:

		March 31, 2016			December 31, 2015		
	Amortizable Life (years)	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
				(in thousands)			
Finite-lived intangible assets:							
Customer relationships	5 to 10	$ 11,395	$ 4,651	$ 6,744	$ 11,535	$ 4,420	$ 7,115
Patents	5 to 20	645	375	270	651	371	280
Developed technology	5 to 10	6,413	2,115	4,298	6,517	1,990	4,527
License	10	395	26	369	408	17	391
Trademarks	2	60	50	10	60	43	17
Backlog	1 to 2	490	288	202	498	190	308
Non-compete agreements	5	11	5	6	11	3	8
Total amortized finite-lived intangible assets		19,409	7,510	11,899	19,680	7,034	12,646
Indefinite-lived intangible assets:							
Trademarks		3,776		3,776	3,827		3,827
Other intangible assets, net		$ 23,185	$ 7,510	$ 15,675	$ 23,507	$ 7,034	$ 16,473

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, 2015.

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

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, 2016, unless management identifies a triggering event in the interim.

Management has not identified any triggering events, as defined by ASC 350, during the three months ended March 31, 2016. 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 [1] (in thousands)
2016	$ 1,788
2017	$ 1,534
2018	$ 1,484
2019	$ 1,483
2020	$ 1,282

(1) These estimates do not reflect the impact of future foreign exchange rate changes.

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 March 31, 2016 and March 31, 2015 was $477,000 and $52,000 respectively. Amortization expense related to software for the three months ended March 31, 2016 and March 31, 2015 was $78,000 and $58,000, respectively.

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

	Balance December 31, 2015	Foreign Exchange	Balance March 31, 2016
		(in thousands)	
SL Power Electronics Corp.	$ 4,254	$ (3)	$ 4,251
MTE	8,189		8,189
SL-MTI	6,561	(230)	6,331

Goodwill	$ 19,004	$ (233)	$ 18,771

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The following table reflects the components of goodwill by segment as of March 31, 2016, and December 31, 2015 (see Note 15 for additional information on segments):

	March 31, 2016			December 31, 2015		
	Gross Amount	Accumulated Impairment Losses	Goodwill, Net	Gross Amount	Accumulated Impairment Losses	Goodwill, Net
	(in thousands)					
SL Power Electronics Corp.	$ 4,251	$	$ 4,251	$ 4,254	$	$ 4,254
MTE	13,244	5,055	8,189	13,244	5,055	8,189
SL-MTI	6,331		6,331	6,561		6,561
Goodwill	$ 23,826	$ 5,055	$ 18,771	$ 24,059	$ 5,055	$ 19,004

11. Debt

Debt as of March 31, 2016 and December 31, 2015 consisted of the following:

	March 31, 2016	December 31, 2015
	(in thousands)	
2012 Credit Facility:		
$40 million variable interest rate senior revolving credit facility maturing in August 2016	$ 11,500	$ 13,500
Total debt	11,500	13,500
Less current portion	(11,500)	(13,500)
Total long-term portion	$	$

On August 9, 2012, the Company entered into a Credit Agreement with PNC Bank, National Association, as administrative agent and lender (PNC Bank), and the lenders from time to time party thereto, as amended (the 2012 Credit Facility). The 2012 Credit Facility provides for borrowings up to $40,000,000 and under certain conditions maximum borrowings up to $70,000,000. The 2012 Credit Facility includes a sublimit for letters of credit and provides for a separate $10,700,000 letter of credit which expires one year from the date of closing, with annual extensions. The sublimit for letters of credit equals the lesser of (i) an amount equal to $5,000,000 plus the aggregate amount of Designated Usage LC issued and outstanding under the Designated Usage LC sublimit or (ii) $25,000,000. The 2012 Credit Facility expires on August 9, 2016.

Borrowings under the 2012 Credit Facility bear interest, at the Company s option, at the London interbank offering rate (LIBOR) plus a margin rate ranging from 1.25% to 2.0%, or the higher of a Base Rate plus a margin rate ranging from 0.25% to 1.0%. The Base Rate is equal to the highest of (i) the Federal Funds Open Rate plus 0.5% and (ii) the Prime Rate and (iii) the Daily Libor Rate plus 1%. The margin rates are based on certain leverage ratios, as defined. As of March 31, 2016, the interest rate under the 2012 Credit Facility equaled 1.69%. The Company is subject to

compliance with certain financial covenants set forth in the 2012 Credit Facility, including, but not limited to, indebtedness to EBITDA, as defined, minimum levels of fixed charges and limitations on capital expenditures, as defined. Availability under the 2012 Credit Facility is based upon the Company s trailing twelve month EBITDA, as defined.

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The Company s obligations under the 2012 Credit Facility are secured by the grant of security interests in substantially all of its assets.

On May 28, 2013 a letter of credit in the amount of $8,564,000 was issued in favor of the Environmental Protection Agency (EPA) to provide financial assurance related to the Company s annual environmental payments in accordance with the terms of the Consent Decree reached with the United States Department of Justice (DOJ) and EPA related to its liability for both the first operable unit (OU-1) and the second operable unit (OU-2) (see Note 14 for additional information). The letter of credit requires an annual commitment fee of 0.125% and standby commission of 1%, and does not reduce amounts available under the 2012 Credit Facility. As of March 31, 2016, the total liability under the letter of credit equaled $4,282,000. The letter of credit expires on June 10, 2016, and is renewed annually.

The Company had an outstanding balance of $11,500,000 under the 2012 Credit Facility as of March 31, 2016. The Company had an outstanding balance of $13,500,000 under the 2012 Credit Facility as of December 31, 2015. At March 31, 2016, and December 31, 2015, the Company had total availability under the 2012 Credit Facility of $28,069,000 and $26,044,000, respectively.

12. Accrued Liabilities Other

Accrued liabilities other consist of the following:

	March 31, 2016	December 31, 2015
	(in thousands)	
Environmental	$ 4,672	$ 5,036
Warranty	907	908
Taxes (other than income) and insurance	881	805
Other professional fees	572	1,030
Commissions	466	510
Accrued customer incentive plans	379	392
Deferred revenue	312	199
Deferred compensation - current	229	229
Litigation and legal fees	245	112
Foreign currency forward contracts	46	534
Acquisition earn-out, current	97	
Other	1,648	1,897
Accrued liabilities - other	$ 10,454	$ 11,652

Included in the environmental accrual are estimates for all known costs believed to be probable and reasonably estimable for sites that the Company currently operates or operated at one time (see Note 14 for additional information).

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

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

	March 31, 2016 (in thousands)
Liability, beginning of year	$ 908
Expense for new warranties issued	107
Warranty claims paid	(108)
Liability, end of period	$ 907

13. Other Long-Term Liabilities

Other long-term liabilities consist of the following:

	March 31, 2016	December 31, 2015
	(in thousands)	
Environmental	$ 3,600	$ 3,600
Unrecognized tax benefits, interest and penalties	547	678
Long-term incentive plan	291	596
Acquisition earn-out, long-term	119	216
Other long-term liabilities	$ 4,557	$ 5,090

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, 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.

As of March 31, 2016, the total liability for the estimated earn-out was $216,000, of which $97,000 is recorded in Accrued Liabilities Other and $119,000 is recorded in Other Long-Term Liabilities. Currently, the accrual is established for the annual 2016 and 2017 earn-out targets. The Dynetic results from the date of acquisition through March 31, 2016 are included in the SL-MTI segment.

14. Commitments and Contingencies

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

Letters Of Credit: As of March 31, 2016 and December 31, 2015, the Company was contingently liable for $431,000 and $456,000, respectively, under an outstanding letter of credit issued for casualty insurance requirements.

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As of both March 31, 2016 and December 31, 2015, the Company was contingently liable for $4,282,000, under an outstanding letter of credit issued to provide financial assurance related to the Company s environmental payments in accordance with the terms of the Consent Decree reached with the DOJ and EPA related to its liability for both OU-1 and OU-2.

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

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

The Company has reached an agreement with both the DOJ and EPA effective April 30, 2013 related to its liability for both OU-1 and OU-2 pursuant to the terms of a Consent Decree which governs the agreement. Specifically, the Company has agreed to perform the remediation for OU-2 and pay a fixed sum for the EPA s past cost for OU-2 and a portion of the EPA s past cost for OU-1. The payments are to be made in five equal payments of $2,141,000, for a total $10,705,000, plus interest. The Company has also agreed to pay the EPA s costs for oversight of the OU-2 remediation. The United States District Court judge signed the Consent Decree effective April 30, 2013, thereby triggering the Company s obligation under the Consent Decree. The Company has made three payments totaling $6,569,000 which includes interest, related to its obligation under the Consent Decree with the last payment being made on June 1, 2015. The fourth and fifth payments will be made on the anniversary of the prior year s payment plus ten days in the amount of $2,141,000, plus interest. In 2013, the Company had obtained financial assurances for the OU-2 remediation and the fixed payments as required by the terms of the Consent Decree. The financial assurance is reduced annually as the fixed payments are made. Also, the financial instruments did not affect the Company s availability under its Credit facility (see Note 11 Debt).

The Company s consultants performed a significant amount of work at the Pennsauken Site during 2015, which included demolition of the Company s former facility and a building on an adjacent property, shoring, equipment mobilization and have been excavating and treating the impacted soils as required. Treatment of impacted soils at the site and adjacent property is complete. The remaining work at the site primarily relates to site restoration, final site survey and reporting. The Company s consultants anticipate that the remaining work will be completed during the second quarter of 2016 and that will essentially fulfill the remediation activities required by the Consent Decree for OU-2. An additional accrual was recorded during the quarter to provide a reserve for the cost arising from the work beyond the scope of the original Remediation Design primarily due to additional remediation activities required on an adjacent property and installation of monitoring wells on the site. The Company s consultants have been providing the EPA with progress reports on a monthly basis. The Company has incurred significant remediation costs in the first quarter of 2016.

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During the third quarter of 2012, the Company s legal counsel was notified by the Assistant Attorney General of the State of New Jersey that they may file a claim for certain costs. On December 3, 2012, the Company received a demand letter from the State of New Jersey. The demand was for $1,300,000 for past and future cleanup costs and $500,000 for natural resource damages (NRD) for a total of $1,800,000. Although the Company and its counsel believe that it has meritorious defenses to any claim for reimbursement of past cost and NRD damages, the Company has offered to pay $250,000, which has been accrued, to fully resolve the claim presented by the State of New Jersey for past costs, future costs and NRD at the Puchack Well Field Superfund site. On June 29, 2015, the Company s legal counsel received a letter from New Jersey s Deputy Attorney General rejecting the Company s counter offer, but stated that the matter was open for further negotiations. On July 21, 2015, the Company s legal counsel responded to the June letter stating that the Company is standing by its original defenses but is open to establishing a dialogue with the New Jersey Deputy Attorney General. No further communication has been received from the New Jersey Deputy Attorney General regarding this matter since the June letter.

Other

On March 10, 2015, Compass Directional Guidance, Inc. (Compass) filed a complaint (the Complaint) against SL-MTI in the District Court in Harris County, Texas. The Complaint seeks damages in excess of $18 million arising from the SL-MTI s sale of certain brushless motors to Compass. Compass asserts that SL-MTI breached express and implied warranties, violated the Texas Deceptive Trade Practices Act, and negligently misrepresented the quality, specification and uses of its motors to Compass. SL-MTI has been vigorously defending the claims asserted in the Complaint which it believes are limited by the contractual terms between the parties as well as the applicable statute of limitations, and are substantially without merit. A hearing was held before a judge on April 15, 2016 to have Compass comply and provide the requested information for discovery. The judge ordered Compass to provide the requested documents within 30 days from the hearing date. The court has entered a trial date of October 17, 2016.

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

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Environmental Matters: Loss contingencies include potential obligations to investigate and eliminate or mitigate the effects on the environment of the disposal or release of certain chemical substances at various sites, such as Superfund sites and other facilities, whether or not they are currently in operation. The Company is currently participating in environmental assessments and cleanups at a number of sites and in the future may be involved in additional environmental assessments and cleanups. Based upon investigations completed to date by the Company and its independent engineering-consulting firms, management has provided an estimated accrual for all known costs believed to be probable and costs that can be reasonably estimated in the amount of $8,272,000, of which $3,600,000 is included as other long-term liabilities, with the remainder recorded as other short-term accrued liabilities, as of March 31, 2016. However, it is the nature of environmental contingencies that other circumstances might arise, the costs of which are indeterminable at this time due to such factors as changing government regulations and stricter standards, the unknown magnitude of cleanup costs, and the unknown timing and extent of the remedial actions that may be required. These other circumstances could result in additional expenses or judgments, or offsets thereto. The adverse resolution of any one or more of these other circumstances could have a material adverse effect on the business, operating results, financial condition or cash flows of the Company.

The Company s environmental costs primarily relate to discontinued operations and such costs have been recorded in discontinued operations, net of tax.

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

With respect to the Camden Site, the Company has reported soil contamination and a groundwater contamination plume emanating from the site. The New Jersey Department of Environmental Protection (NJDEP) approved, and the Company implemented in 2010, an interim remedial action pilot study to inject neutralizing chemicals into the unsaturated soil. Based on an assessment of post-injection data, our consultants believe the pilot study can be implemented as a full scale soil remedy to treat unsaturated contaminated soil. A Remedial Action Workplan (RAWP) for soils is being developed. The RAWP will select the injection remedy for the site wide remedy for unsaturated soils, along with demolition and proper disposal of the former concrete building slab and targeted excavation and disposal of impacted soil immediately underlying the slab. Additionally, the RAWP will address a small area of impacted soil off the property. The RAWP for soils is expected to be submitted to the NJDEP in the second quarter of 2016, by the Licensed Site Remediation Professional (LSRP) for the site. The RAWP for treatment of unsaturated soils is scheduled to be implemented during the third quarter of 2016 with post-remediation rebound testing and slab removal to be conducted in the second quarter of 2017. The Company s environmental consultants also implemented an interim remedial action pilot study to treat on-site contaminated groundwater, which consisted of injecting food-grade product, into the groundwater at the down gradient property boundary, to create a bio-barrier. Post-injection groundwater monitoring to assess the bio-barrier s effectiveness was completed. Consistent decreases in target contaminants concentrations in groundwater were observed. In December 2014, a report was submitted to the NJDEP stating sufficient information was obtained from the pilot study to complete the full scale groundwater remedy design. A full scale groundwater bioremediation will be implemented during the fourth quarter of 2017 following the soil remediation mentioned above. Costs incurred for this site were minimal during the first quarter of 2016. Increased expenditures are expected to be incurred during the third quarter of 2016 as the treatment for unsaturated soils is implemented.

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As previously reported, the Company is currently participating in environmental assessments and cleanups at a number of sites. One of these sites is a commercial facility, located in Wayne, New Jersey. Contaminated soil and groundwater has undergone remediation with NJDEP and LSRP oversight, but contaminants of concern (COCs) in groundwater and surface water, which extend off-site, still remain above applicable NJDEP remediation standards. A soil remedial action plan has been developed to remove the new soil source contamination that continues to impact groundwater. Our LSRP completed a supplemental groundwater remedial action, pursuant to a RAWP filed with, and permit approved by, the NJDEP. The remedial action consisted of additional in-situ injections of food grade product into on-site groundwater and post-performance groundwater monitoring. The in-situ injections are completed, and remedial action performance monitoring for groundwater was performed in the fourth quarter of 2015. Enhancements to the existing vapor intrusion system were completed in the fourth quarter 2014. No site constituents of concern were detected at concentrations exceeding applicable NJDEP indoor air screening levels. A report was filed with the NJDEP on March 23, 2015. The Company s consultants have developed cost estimates for supplemental remedial injections, soil excavation and additional tests and remedial activities. Costs incurred for this site were minimal during the first quarter of 2016 and are recorded as part of discontinued operations, net of tax. The Remedial Investigation deadline for this site has been extended to May 7, 2016.

The Company s sale of RFL triggered certain requirements of the Industrial Site Recovery Act (ISRA), which applies to New Jersey statutorily, defined transactions involving industrial establishments. Under the stock purchase agreement pursuant to which RFL was sold (the RFL-SPA), the Company agreed to undertake, or cause to undertake, all actions necessary to comply with ISRA arising from the RFL-SPA. The Company hired an LSRP to complete a Preliminary Assessment. Based on the Preliminary Assessment, the LSRP recommended the completion of a site investigation (the Site Investigation) for certain areas of concern, including the sampling of on-site soils and installation and sampling of groundwater wells, which will continue through the second quarter of 2016. A Preliminary Assessment Report and Site Investigation Report with an ecological evaluation are scheduled to be filed with the NJDEP by November 17, 2016 under a one-year filing extension with the NJDEP. Based on the outcome of the Preliminary assessment and Site Investigation, the Company may be obligated to perform additional investigation or remediation.

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The Company has reported soil and groundwater contamination at the facility of SL-MTI located on its property in Montevideo, Minnesota. An analysis of the contamination has been completed and a remediation plan has been implemented at the site pursuant to the remedial action plan approved by the Minnesota Pollution Control Agency (MPCA). A soil vapor extraction system has been operating at the site since October 2008. In 2013 the regulatory and screening levels for soil vapor and groundwater were lowered for some of the contaminants at the site. In response to this regulatory change, SL-MTI s consultants are conducting additional testing to delineate site impacts and update the site conceptual model. A work plan was submitted to MPCA and approved on September 22, 2014. An Investigation Report and Monitoring Well Work Plan (WP) was submitted to the MPCA during the third quarter of 2015. No site work has been completed during 2015 as the MPCA did not respond to the WP until December 11, 2015. MPCA comments are being addressed pending the approval of the final WP. Additional investigations, monitoring wells or remedial actions will be required in the future. Costs related to this site are recorded as a component of continuing operations.

As of March 31, 2016 and December 31, 2015, environmental accruals of $8,272,000 and $8,636,000, respectively, have been recorded by the Company in accrued liabilities other and in other long-term liabilities, as appropriate (see Notes 12 and 13 for additional information).

15. Segment Information

The Company has historically operated under three business segments: SL Power Electronics Corp. (SLPE), the High Power Group, and SL-MTI. MTE Corporation (MTE) and TEAL Electronics Corp. (TEAL) were combined into one business segment, which was reported as the High Power Group. During 2016, the Company changed the name of the High Power Group segment to MTE. There is no change to the composition of MTE segment from what the Company previously reported as the High Power Group segment. Management is in the process of merging MTE and TEAL into one legal entity with the surviving name of MTE. As of March 31, 2016, the Company currently operates under three business segments: SLPE, MTE, and SL-MTI.

The Company aggregates operating business subsidiaries into a single segment for financial reporting purposes if aggregation is consistent with the objectives of ASC 280 Segment Reporting. Business units are also combined if they have similar characteristics in each of the following areas:

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

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SLPE designs, manufactures and markets high-reliability power conversion products in internal and external footprints. The Company s power supplies provide a reliable and safe power source for the customer s specific equipment needs. SLPE, which sells products under three brand names (SL Power Electronics, Condor and Ault), is a major supplier to the original equipment manufacturers (OEMs) of medical, industrial/instrumentation, military, information technology equipment, and architectural and entertainment lighting markets. MTE sells products under two brand names (MTE and TEAL). MTE designs and manufactures power quality products used to protect equipment from power surges, bring harmonics into compliance, and improve the efficiency of variable speed motor drive systems, which are marketed under the MTE brand name. MTE also designs and manufactures custom power conditioning and distribution units for OEMs of medical imaging, medical treatment, military aerospace, semiconductor, solar, and advanced simulation systems, which are marketed under the TEAL brand name. SL-MTI designs and manufactures high power density precision motors that are used in numerous applications, including military and commercial aerospace, oil and gas, and medical and industrial products. With the acquisition of Torque Systems in May 2015, SL-MTI s product portfolio has expanded to include engineered motion control products, including brush servo motors, brushless servo motors, incremental encoders, and linear actuators. SL-MTI s product portfolio was further expanded by the Davall acquisition in July 2015, which includes custom gears, gearboxes, and assemblies primarily for the military and aerospace markets. The Unallocated Corporate Expenses segment includes corporate related items, financing activities and other costs not allocated to reportable segments, which includes but is not limited to certain treasury, risk management, legal, litigation and public reporting charges, strategic costs, and certain legacy costs. The accounting policies for the business units are the same as those described in the summary of significant accounting policies. For additional information, see Note 1 of the Notes to the Consolidated Financial Statements included in Part IV of the Company s Annual Report on Form 10-K, as amended, for the year ended December 31, 2015.

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

The unaudited comparative results for the three month periods ended March 31, 2016 and March 31, 2015 are as follows:

	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Net sales		
SLPE	$ 16,036	$ 16,148
MTE	15,916	18,993
SL-MTI	17,543	11,543
Net sales	$ 49,495	$ 46,684

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	Three Months Ended March 31,	
	2016	2015
	(in thousands)	
Income from operations		
SLPE	$ 1,797	$ 1,701
MTE	1,248	2,450
SL-MTI	2,546	1,854
Unallocated Corporate Expenses [1]	(2,358)	(1,968)
Income from operations	$ 3,233	$ 4,037

[1] Unallocated Corporate Expenses includes corporate related items, financing activities and other costs not allocated to reportable segments, which includes but is not limited to certain legal, litigation and public reporting charges, strategic costs, and certain legacy costs.

Total assets as of March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016	December 31, 2015
	(in thousands)	
Total assets		
SLPE	$ 29,968	$ 32,899
MTE	31,756	30,430
SL-MTI	57,712	57,337
Unallocated Corporate Assets	10,833	13,254
Total assets	$ 130,269	$ 133,920

Goodwill and other intangible assets, net, as of March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016	December 31, 2015
	(in thousands)	
Goodwill and other intangible assets, net		
SLPE	$ 4,551	$ 4,554
MTE	9,831	9,841
SL-MTI	20,064	21,082
Goodwill and other intangible assets, net	$ 34,446	$ 35,477

16. Retirement Plans and Deferred Compensation

During the three months ended March 31, 2016 and March 31, 2015, the Company maintained a defined contribution pension plan covering all full-time, U.S. employees of SLPE, MTE, SL-MTI, and the corporate office. The Company s contributions to this plan are based on a percentage of employee contributions and/or plan year gross wages, as defined. Costs incurred under these plans amounted to $184,000 during the three months ended March 31, 2016 compared to $139,000 during the three months ended March 31, 2015.

The Company has agreements with certain retired directors, officers and key employees providing for supplemental retirement benefits. The liability for supplemental retirement benefits is based on the most recent mortality tables available and discount rates ranging from 8% to 12%. The amount charged to expense in connection with these agreements amounted to $93,000 for the three months ended March 31, 2016 compared to $113,000 for the three months ended March 31, 2015.

17. Discontinued Operations

For the three months ended March 31, 2016, total loss from discontinued operations before income taxes was $839,000 ($511,000 net of tax). For the three months ended March 31, 2015, total loss from discontinued operations before income taxes was $266,000 ($162,000 net of tax). The loss from discontinued operations during 2016 relates to environmental remediation costs, consulting fees, and legal expenses primarily related to the Company s Pennsauken site and, to a lesser extent, costs associated with the past operations of the Company s four other environmental sites. The loss from discontinued operations during 2015 relates to environmental remediation costs, consulting fees, and legal expenses associated with the past operations of the Company s five environmental sites (See Note 14 Commitments and Contingencies for further information concerning the environmental sites).

18. Fair Value Measurement and Financial Instruments

ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. ASC 820 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which is typically based on an entity s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Currently, the Company uses foreign currency forward contracts to hedge its foreign currency risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including spot rates and market forward points. The fair value of the foreign currency forward contracts is based on interest differentials between the currencies being traded, spot rates and market forward points.

To comply with the provisions of ASC 820, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees, where applicable.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of March 31, 2016, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

In conjunction with its implementation of updates to the fair value measurements guidance, the Company made an accounting policy election to measure derivative financial instruments subject to master netting agreements on a net basis.

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The following table presents the Company s assets and liabilities measured at fair value on a recurring basis as of March 31, 2016 and December 31, 2015, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at March 31, 2016
		(in thousands)		
Liabilities				
Derivative financial instruments		$ 46		$ 46

	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
		(in thousands)		
Liabilities				
Derivative financial instruments		$ 534		$ 534

The Company believes that the fair values of its current assets and current liabilities (cash and cash equivalents, receivables, net, short-term borrowings and current portion of long-term debt, accounts payable, and accrued liabilities) and the fair value of its long-term debt, less current maturities, approximate their reported carrying amounts.

The Company does not have any fair value measurements using significant unobservable inputs (Level 3) as of March 31, 2016 and December 31, 2015.

Credit Risk Contingent Features

The Company has agreements with its derivative counterparties that contain a provision where if the Company defaults or is capable of being declared in default on any of its indebtedness, then the Company could also be declared in default on its derivative obligations.

19. Derivative Instruments and Hedging Activities

ASC Topic 815, as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As

required by ASC Topic 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to variability in expected future cash flows related to forecasted foreign exchange-based risk are considered economic hedges of the Company s forecasted cash flows.

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Risk Management Objective of Using Derivatives

The Company is a USD functional currency entity that manufactures products in the USA, Mexico, China and the United Kingdom. The Company s sales are primarily priced and invoiced in USD and its costs and expenses are priced in USD, MXN, CNH, and GBP. As a result, the Company has exposure to changes in exchange rates between the time when expenses in the non-functional currencies are initially incurred and the time when the expenses are ultimately paid. The Company s objective in using derivatives is to add stability and to manage its exposure to foreign exchange risks. To accomplish this objective, the Company uses foreign currency forward contracts to manage its exposure to fluctuations in the exchange rates. Foreign currency forward contracts involve fixing the USD-MXN and USD-CNH exchange rates for delivery of a specified amount of foreign currency on a specified date.

During 2015, the Company entered into a series of foreign currency forward contracts to hedge its exposure to foreign exchange rate movements in its forecasted expenses in China and Mexico. The foreign currency forwards are not speculative and are being used to manage the Company s exposure to foreign exchange rate movements. Foreign currency forward contracts involve fixing the USD-MXN and USD-CNH exchange rates for delivery of a specified amount of foreign currency on a specified date. The Company has elected not to apply hedge accounting to these derivatives and they are marked to market through earnings. Therefore, gains and losses resulting from changes in the fair value of these contracts are recognized at the end of each reporting period directly in earnings. The gains and losses associated with the foreign currency forward contracts are included in other gain (loss), net on the Consolidated Statements of Income. As of March 31, 2016, the fair value of the foreign currency forward contracts was recorded as a $46,000 liability in other current liabilities on the Consolidated Balance Sheets. As of December 31, 2015, the fair value of the foreign currency forward contracts was recorded as a $534,000 liability in other current liabilities on the Consolidated Balance Sheets. The decrease in the liability during 2016 was primarily due to the settlement of certain forward currency forward contracts (see Note 20 for additional information).

Non-designated Hedges of Foreign Exchange Risk

The notional amounts are used to measure the volume of foreign currency forward contracts and do not represent exposure to foreign currency losses. The following table summarizes the notional values of the Company s derivative financial instruments as of March 31, 2016.

Product	Number of Instruments	Notional (in thousands)
Mexican Peso (MXN) Forward Contracts	1	MXN 12,110
Chinese Yuan (CNH) Forward Contracts	1	CNH 4,028

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The following table details the location in the financial statements of the gain or loss recognized on foreign currency forward contracts that are marked to market for the three months ended March 31, 2016 and March 31, 2015:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative Three Months Ended March 31, 2016 [1] (in thousands)	Three Months Ended March 31, 2015 (in thousands)
Foreign Exchange Contracts	Other gain (loss), net	$ (13)	$ 131

(1) The $13,000 loss on foreign currency forward contracts was comprised of a $501,000 realized loss on the settlement of certain forward contracts, which was partially offset by a $488,000 unrealized gain on the remaining outstanding forward contracts.

20. Other Gain (Loss), net

Other gain (loss), net in 2016 was a net gain of $105,000 compared to net gain of $131,000 in 2015. Other gain (loss), net in 2016 included a $118,000 of net foreign currency transaction gains and a $13,000 loss on foreign currency forward contracts. The primary driver of the net foreign currency transaction gains were the fluctuations in the value of the USD to CNH and fluctuations in the value of the USD to MXN during 2016. The $13,000 loss on foreign currency forward contracts was comprised of a $501,000 realized loss on the settlement of certain forward contracts, which was partially offset by a $488,000 unrealized gain on the remaining outstanding forward contracts. Other gain (loss), net in 2015 included a $131,000 gain on foreign currency forward contracts.

During 2015, the Company entered into a series of foreign currency forward contracts to hedge its exposure to foreign exchange rate movements in its forecasted expenses in China and Mexico. The unrealized gains recognized in 2016 and 2015 represent the change in fair value of foreign currency forward contracts that are marked to market at quarter end.

21. Shareholders Equity

On March 27, 2015, the Company announced a modified Dutch Auction Tender Offer to purchase up to $20 million of its common shares (the Tender Offer). The Tender Offer expired at the end of the day on April 23, 2015. Under the terms of the Tender Offer, the Company s shareholders had the option of tendering all or a portion of the Company s common stock that they owned (1) at a price of not less than $39.00 and not greater than $42.00, in increments of $0.25 per share, or (2) without specifying a purchase price, in which case the common stock that they owned would have been purchased at the purchase price determined in accordance with the Tender Offer. All common stock purchased by the Company in the Tender Offer were purchased at the same price.

The Company accepted for purchase approximately 160,000 shares of its common stock at a purchase price of $42.00 per share. These shares represented approximately 3.9% of the total common stock outstanding as of April 24, 2015 prior to the purchase of shares pursuant to the Tender Offer. Upon completion of the Tender Offer, the Company had approximately 3,934,000 shares of common stock outstanding at that time. The aggregate purchase price paid by the Company in connection with the Tender Offer was $6,734,000 excluding transaction costs. On April 27, 2015, the Company paid for the Tender Offer with available cash on hand.

22. Related Party Transactions

On May 1, 2014, the Company renewed its Management Services Agreement (Management Services Agreement) with SP Corporate Services LLC (SP Corporate). On March 25, 2015, the Company and SP Corporate entered into an amendment to the Management Services Agreement (the Amendment) in order to, among other things, extend the term of the Management Services Agreement until May 1, 2016. SP Corporate is an affiliate of SPHG Holdings. A member of the Board of Directors of the Company (the Board), Warren G. Lichtenstein, is affiliated with SPHG Holdings. Also, the Company s Chairman of the Board, Glen M. Kassan was formerly affiliated with SPHG Holdings. Pursuant to the Management Services Agreement, SP Corporate agreed to provide, at the direction of the Company s Chief Executive Officer, non-exclusive services to support the Company s growth strategy, business development, planning, execution assistance and related support services. The monthly fee for these services is $10,400 paid in advance. The Management Services Agreement has been approved by the Audit Committee of the Board and a majority of the disinterested directors of the Company. On February 18, 2016, the Company consented to the transfer of the Company Management Services Agreement to SPH Services, Inc., which is an affiliate of SPHG Holdings.

23. Definitive Merger Agreement to Acquire SL Industries

On April 6, 2016, the Company and Handy & Harman Ltd. (HNH), Handy & Harman Group Ltd., a wholly owned subsidiary of HNH (AcquisitionCo), and SLI Acquisition Co., a wholly owned subsidiary of AcquisitionCo (Merger Sub) entered into an Agreement and Plan of Merger (the Merger Agreement) pursuant to which Merger Sub will acquire and then merge with and into the Company, with the Company continuing as the surviving corporation and as a wholly owned indirect subsidiary of HNH (the HNH Merger). Pursuant to the Merger Agreement, the acquisition of the Company will be completed through a cash tender offer to purchase all of the outstanding shares of the Company s common stock at a purchase price of $40.00 per share (the Tender Offer). The Tender Offer commenced on April 21, 2016 and, unless extended, the Tender Offer will expire at 12:00 midnight, New York City time, on May 18, 2016. The completion of the Merger and HNH s obligations under the Tender Offer are conditioned upon certain conditions, and if such conditions are not met, the Merger will not be consummated.

The Company s Board, upon the recommendation of a special committee of the Board consisting of independent directors (the Special Committee), has unanimously (a) approved and declared advisable the Merger Agreement, the Tender Offer, the HNH Merger and the other transactions contemplated by the Merger Agreement, (b) determined that it is fair to and in the best interests of the Company and the stockholders of the Company that the Company enter into the Merger Agreement and consummate the transactions contemplated thereby on the terms and subject to the conditions set forth in the Merger Agreement, (c) resolved that the Merger shall be effected under Section 251(h) of the General Corporation Law of the State of Delaware (the DGCL) and that the Merger shall be consummated as soon as practicable following the acceptance for payment of Shares pursuant to the Offer and (d) resolved to recommend to the stockholders of the Company that they accept the Offer and tender their Shares pursuant to the Offer.

Merger Sub s obligation to accept for payment and pay for shares pursuant to the Tender Offer is subject to certain conditions, including that there be validly tendered and not withdrawn prior to the expiration of the Tender Offer that number of shares that, when added to the shares, if any, already owned by HNH and its subsidiaries, would represent at least a majority of all then outstanding shares, a nonwaivable condition that there be validly tendered and not withdrawn prior to the expiration of the Tender Offer that number of shares that would represent at least sixty percent (60%) of all then outstanding shares not owned by HNH or any of its affiliates, shares held by stockholders that have properly exercised appraisal rights under Delaware law do not exceed ten percent (10%) of the shares outstanding immediately prior to the expiration of the Offer, and other customary conditions.

The Tender Offer is not subject to any financing contingencies. DGT Holdings Corp., an affiliate of HNH which owns approximately 25.1% of the outstanding shares of the Company s common stock, has agreed to tender those shares in the offer.

No assurances can be given that any of the transactions contemplated by the Merger Agreement will be completed or that the conditions to the Tender Offer will be satisfied (See Item 1A - Risk Factors, included in Part II of this Quarterly Report on Form 10-Q, for further information regarding the proposed HNH Merger).

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

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

Forward-Looking Statements

In addition to other information in this Quarterly Report on Form 10-Q, this Management s Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and the current economic environment. These statements are not guarantees of future performance. They involve a number of risks and uncertainties that are difficult to predict, including, but not limited to, the Company s ability to implement its business plan, retain key management, anticipate industry and competitive conditions, realize operating efficiencies, secure necessary capital facilities and obtain favorable determinations in various legal and regulatory matters. Actual results could differ materially from those expressed or implied in the forward-looking statements. Some important assumptions and other critical factors that could cause actual results to differ materially from those in the forward-looking statements are specified in the Company s filings with the Securities and Exchange Commission (the SEC), including the Company s Annual Report on Form 10-K, as amended, for the year ended December 31, 2015, and Current Reports on Form 8-K.

Overview

SL Industries, Inc., through its subsidiaries, designs, manufactures and markets power electronics, motion control, power protection, power quality electromagnetic equipment, and custom gears and gearboxes that are used in a variety of medical, commercial and military aerospace, computer, datacom, industrial, architectural and entertainment lighting, and telecom applications. Its products are generally incorporated into larger systems to improve operating performance, safety, reliability and efficiency. The Company s products are largely sold to OEMs and, to a lesser extent, to commercial distributors. The Company is comprised of three domestic business segments, all of which have significant manufacturing operations in Mexico. SLPE has manufacturing, engineering and sales capability in China. SL-MTI has manufacturing, engineering and sales capability in the UK due to the Davall Acquisition, which was completed on July 27, 2015. Most of the Company s sales are made to customers who are based in the United States. The Company places an emphasis on highly engineered, well-built, high quality, dependable products and is dedicated to continued product enhancement and innovation.

The Company s business strategy has been to enhance the growth and profitability of each of its businesses through the penetration of attractive new market niches, further improvement of operations through the implementation of lean manufacturing principles, expansion of lean principles into the transactional side of the business, and expansion of global capabilities. The Company intends to focus on improving efficiencies that better leverage the Company s resources. Lean initiatives, both on the factory floor and throughout the organization, are ongoing. The Company expects to pursue its goals during the next twelve months principally through organic growth and other strategic alternatives. Some of these alternatives have included, and could continue to include, selective acquisitions, divestitures and the sale of certain assets. The Company has provided, and may from time to time in the future provide, information to interested parties.

The Company has historically operated under three business segments: SL Power Electronics Corp. (SLPE), the High Power Group, and Montevideo Technology, Inc. (SL-MTI). MTE Corporation (MTE) and TEAL Electronics Corp. (TEAL) were combined into one business segment, which was reported as the High Power Group. During 2016, the Company changed the name of the High Power Group segment to MTE. There is no change to the composition of MTE segment from what the Company previously reported as the High Power Group segment. Management is in the process of merging MTE and TEAL into one legal entity with the surviving name of MTE. As of March 31, 2016, the Company currently operates under three business segments: SLPE, MTE, and SL-MTI.

Definitive Merger Agreement to Acquire SL Industries

On April 6, 2016, the Company and Handy & Harman Ltd. (HNH), Handy & Harman Group Ltd., a wholly owned subsidiary of HNH (AcquisitionCo), and SLI Acquisition Co., a wholly owned subsidiary of AcquisitionCo (Merger Sub) entered into an Agreement and Plan of Merger (the Merger Agreement) pursuant to which Merger Sub will acquire and then merge with and into the Company, with the Company continuing as the surviving corporation and as a wholly owned indirect subsidiary of HNH (the HNH Merger). Pursuant to the Merger Agreement, the acquisition of the Company will be completed through a cash tender offer to purchase all of the outstanding shares of the Company s common stock at a purchase price of $40.00 per share (the Tender Offer). The Tender Offer commenced on April 21, 2016 and, unless extended, the Tender Offer will expire at 12:00 midnight, New York City time, on May 18, 2016. The completion of the Merger and HNH s obligations under the Tender Offer are conditioned upon certain conditions, and if such conditions are not met, the Merger will not be consummated.

The Company s Board, upon the recommendation of a special committee of the Board consisting of independent directors (the Special Committee), has unanimously (a) approved and declared advisable the Merger Agreement, the Tender Offer, the HNH Merger and the other transactions contemplated by the Merger Agreement, (b) determined that it is fair to and in the best interests of the Company and the stockholders of the Company that the Company enter into the Merger Agreement and consummate the transactions contemplated thereby on the terms and subject to the conditions set forth in the Merger Agreement, (c) resolved that the Merger shall be effected under Section 251(h) of the General Corporation Law of the State of Delaware (the DGCL) and that the Merger shall be consummated as soon as practicable following the acceptance for payment of Shares pursuant to the Offer and (d) resolved to recommend to the stockholders of the Company that they accept the Offer and tender their Shares pursuant to the Offer.

Merger Sub s obligation to accept for payment and pay for shares pursuant to the Tender Offer is subject to certain conditions, including that there be validly tendered and not withdrawn prior to the expiration of the Tender Offer that number of shares that, when added to the shares, if any, already owned by HNH and its subsidiaries, would represent at least a majority of all then outstanding shares, a nonwaivable condition that there be validly tendered and not withdrawn prior to the expiration of the Tender Offer that number of shares that would represent at least sixty percent (60%) of all then outstanding shares not owned by HNH or any of its affiliates, shares held by stockholders that have properly exercised appraisal rights under Delaware law do not exceed ten percent (10%) of the shares outstanding immediately prior to the expiration of the Offer, and other customary conditions.

The Tender Offer is not subject to any financing contingencies. DGT Holdings Corp., an affiliate of HNH which owns approximately 25.1% of the outstanding shares of the Company s common stock, has agreed to tender those shares in the offer.

No assurances can be given that any of the transactions contemplated by the Merger Agreement will be completed or that the conditions to the Tender Offer will be satisfied (See Item 1A - Risk Factors, included in Part II of this Quarterly Report on Form 10-Q, for further information regarding the proposed HNH Merger).

In the sections that follow, statements with respect to 2016 or fiscal 2016 refer to the three month period ending March 31, 2016. Statements with respect to 2015 or fiscal 2015 refer to the three month period ending March 31, 2015.

Business Trends

Sales for the three months ended March 31, 2016, increased by $2,811,000, or 6%, while income from operations decreased by $804,000, or 20%. Demand for the Company s products and services increased during 2016 compared to 2015, which was primarily due to $5,140,000 of non-comparable sales in 2016 related to the recently acquired Davall and Torque Systems businesses. Income from operations decreased during 2016, which was primarily due to $562,000 of strategic costs related to the proposed HNH Merger and the pursuit of other strategic alternatives and $41,000 of direct acquisition costs. The decrease in income from operations during 2016 was also partially due to a decrease at MTE. The decrease at MTE was primarily attributable to a decrease in filter sales due to the decline in the oil and gas market.

During the three months ended March 31, 2016, the Company s backlog increased to $78,969,000 from $75,468,000 for the same period in the prior year, for a change of 5% on a comparative basis. The increase in backlog in 2016 was attributable to SL-MTI, who recorded a 19% increase, which was primarily due to the recently acquired Davall and Torque Systems businesses. The increase in backlog was partially offset by decreases at SLPE and MTE of 10% and 9%, respectively. The Company s net new orders for the three months ended March 31, 2016 decreased by 1%, compared to the three months ended March 31, 2015.

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The Company s management is taking numerous actions to improve sales through the deployment of growth tools aimed at identifying attractive market segments and penetrating those markets through aggressive new product introduction. The Company is also identifying and penetrating selected geographic opportunities and continues to pursue strategic alternatives, including selective acquisitions. The Company emphasizes lean initiatives at all of its facilities in manufacturing as well as in finance and administration.

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

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

The SEC has issued disclosure guidance for critical accounting policies. The SEC defines critical accounting policies as those that are most important to the portrayal of the Company s financial condition and results, and that require application of management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

The Company s significant accounting policies are described in Note 1 in the Notes to Consolidated Financial Statements included in Part IV of the Company s Annual Report on Form 10-K, as amended, for the year ended December 31, 2015. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following policies are deemed to be critical within the SEC definition. The Company s senior management has reviewed these critical accounting policies and estimates and the related Management s Discussion and Analysis of Financial Condition and Results of Operations with the Audit Committee of the Board of Directors.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the purchase price is fixed or determinable and collectability is reasonably assured. Revenue is recorded in accordance with Staff Accounting Bulletin (SAB) No. 104. The major portion of the Company s revenue is derived from equipment sales. The Company recognizes equipment revenue upon shipment or delivery, depending upon the terms of the order, and transfer of title. Generally, the revenue recognition criteria are met at the time the product is shipped. The Company does not currently have any multiple-element arrangements.

Provisions are established for product warranties, principally based on historical experience. At times the Company establishes reserves for specific warranty issues known by management. Customer service and installation revenue is recognized when completed.

SLPE has two sales programs with distributors, pursuant to which credits are issued to distributors: (1) a re-stocking program and (2) a competitive discount program. The distributor re-stocking program allows distributors to rotate up to a pre-determined percentage of their purchases over the previous six month period. SLPE provides for this allowance as a decrease to revenue based upon the amount of sales to each distributor and other historical factors. The competitive discount program allows a distributor to sell a product out of its inventory at a negotiated price in order to meet certain competitive situations. SLPE records this discount as a reduction to revenue based on the distributor s eligible inventory. The eligible distributor inventory is reviewed at least quarterly. No cash is paid under either distributor program. These programs affected consolidated gross revenue for each of the three month periods ended 2016 and 2015 by approximately 0.3% and 0.4%, respectively.

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

Allowance For Doubtful Accounts

The Company s estimate for the allowance for doubtful accounts related to trade receivables is based on two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved. First, the Company evaluates specific accounts where it has information that the customer may have an inability to meet its financial obligations (e.g., bankruptcy or insolvency). In these cases, the Company uses its judgment, based on the best available facts and circumstances, and records a specific reserve for that customer against amounts due to reduce the receivable to the amount that is expected to be collected. These specific reserves are reevaluated and adjusted as additional information is received that impacts the amount reserved. Second, a general reserve is established for all customers based on several factors, including historical write-offs as a percentage of sales. If circumstances change (e.g., higher than expected defaults or an unexpected material adverse change in a major customer s ability to meet its financial obligation), the Company s estimates of the recoverability of amounts due could be reduced by a material amount. Receivables are charged off against the reserve when they are deemed uncollectible. The Company s allowance for doubtful accounts equaled 0.9% of gross trade receivables as of March 31, 2016 and December 31, 2015, respectively.

Inventories

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

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

Derivative Instruments and Hedging Activities

FASB ASC 815, Derivatives and Hedging (ASC 815), provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments, (b) how the entity accounts for derivative instruments and related hedged items, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Company s objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. Certain of the Company s foreign operations expose the Company to fluctuations of foreign interest rates and exchange rates. These fluctuations may impact the value of the Company s revenues, expenses, cash receipts and payments in terms of the Company s functional currency. The Company enters into derivative financial instruments to protect the value or fix the amount of certain cash flows in terms of the functional currency of the business unit with that exposure.

As required by ASC 815, the Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. The Company enters into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting. Currently, the Company does not apply hedge accounting to any of its foreign currency derivatives.

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Accounting For Income Taxes

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. Net deferred tax assets as of March 31, 2016 and December 31, 2015 were $6,255,000 and $6,094,000, respectively, net of valuation allowances of $3,992,000 and $3,594,000 as of March 31, 2016 and December 31, 2015, respectively. The 2016 and 2015 valuation allowances were primarily related to discontinued operations. The carrying value of the Company s net deferred tax assets assumes that the Company will be able to generate sufficient future taxable income in certain tax jurisdictions. Valuation allowances are attributable to uncertainties related to the Company s ability to utilize certain deferred tax assets prior to expiration. These deferred tax assets primarily consist of the state tax expense on certain expenses and loss carryforwards. The valuation allowance is based on estimates of taxable income, expenses and credits by the jurisdictions in which the Company operates and the period over which deferred tax assets will be recoverable. In the event that actual results differ from these estimates or these estimates are adjusted in future periods, the Company may need to establish an additional valuation allowance that could materially impact its consolidated financial position and results of operations. Each quarter, management evaluates the ability to realize the deferred tax assets and assesses the need for additional valuation allowances.

The Company applies the provisions of ASC 740-10-55 to all tax positions for which the statute of limitations remain open. The amount of unrecognized tax benefits, excluding interest and penalties, as of March 31, 2016 and December 31, 2015 was $440,000 and $560,000, respectively This amount represents unrecognized tax benefits, which, if ultimately recognized, will reduce the Company s effective tax rate. As of March 31, 2016 and December 31, 2015, the Company reported accrued interest and penalties related to unrecognized tax benefits of $107,000 and $118,000, respectively. For additional disclosures related to accounting for income taxes, see Note 13 in the Notes to the Consolidated Financial Statements included in Part IV of the Company s Annual Report on Form 10-K, as amended, for the year ended December 31, 2015.

Legal Contingencies

The Company is currently involved in certain legal proceedings. As discussed in Note 14 of the Notes to the Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q, the Company has accrued an estimate of the probable costs for the resolution of these claims. This estimate has been developed based on the current stage of negotiations and data from the Company s environmental engineering consultants and legal counsel. Management does not believe these proceedings will have a further material adverse effect on the Company s consolidated financial position, except as discussed in Note 14. As with litigation, generally the outcome is inherently uncertain. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in these assumptions, or the effectiveness of these strategies, related to these proceedings.

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Business Combinations

The Company accounts for business combinations in accordance with the guidance under ASC 805, Business Combinations. Acquisitions of assets or entities that include inputs and processes and have the ability to create outputs are accounted for as business combinations. The purchase price is recorded for assets acquired and liabilities assumed based on fair value. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired is recorded as goodwill. The income statement includes the results of operations for each acquisition from their respective date of acquisition.

Goodwill

The Company has allocated its adjusted goodwill balance to its reporting units. The Company tests goodwill for impairment annually at fiscal year-end and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired, such as a significant adverse change in business climate, an adverse action or assessment by a regulator or the decision to sell a business, that would make it more likely than not that an impairment may have occurred. The goodwill impairment test is a two-step process. The first step of the impairment analysis compares the fair value to the net book value. In determining fair value, the accounting guidance allows for the use of several valuation methodologies, although it indicates that quoted market prices are the best evidence of fair value. The Company uses a combination of expected present values of future cash flows and comparative market multiples. It has also performed a review of market capitalization with estimated control premiums at December 31, 2015. If the fair value of a reporting unit is less than its net book value, the Company would perform a second step in its analysis, which compares the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, the Company recognizes an impairment loss equal to that excess amount. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units and determining the fair value of each reporting unit. Significant judgments required to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount and growth rates, operating margins and working capital requirements, selecting comparable companies within each reporting unit and market and determining control premiums. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

The assumptions about future cash flows and growth rates are based on the budget and long-term business plans of each reporting unit. Such assumptions take into account numerous factors including but not limited to historical experience, anticipated economic conditions, new product introductions, product cost and cost structure of each reporting unit. The growth rates assumptions were generally consistent with those utilized in prior year forecasted periods, except in certain circumstances where operational strategies support otherwise.

There were no impairment charges for the three months ended 2016 and 2015. As of March 31, 2016 and December 31, 2015, goodwill totaled $18,771,000 and $19,004,000, representing 14% of total assets, respectively.

There can be no assurance that the economic conditions currently affecting the world economy or other events may not have a negative material impact on the long-term business prospects of any of the Company s reporting units. In such case, the Company may need to record an impairment loss, as stated above. The next annual impairment test will be conducted as of December 31, 2016, unless management identifies a triggering event in the interim.

Management has not identified any triggering events, as defined by ASC 350 Intangibles Goodwill and Other, during 2016. Accordingly, no interim impairment test has been performed.

Impairment Of Long-Lived And Intangible Assets

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

Environmental Expenditures

Expenditures that relate to current operations are charged to expense or capitalized, as appropriate. Expenditures that relate to an existing condition caused by formerly owned operations are expensed and recorded as part of discontinued operations, net of tax. Expenditures include costs of remediation, consulting, legal fees to defend against claims for environmental liability and certain costs to assist the Company with compliance matters and administrative tasks. Liabilities are recorded when remedial efforts are probable and the costs can be reasonably estimated. The liability for remediation expenditures includes, as appropriate, elements of costs such as site investigations, consultants fees, feasibility studies, outside contractor expenses and monitoring expenses. Estimates are not discounted and they are not reduced by potential claims for recovery from insurance carriers. The Company does not currently have any outstanding claims against insurance carriers related to remediation expenditures. The liability is periodically reviewed and adjusted to reflect current remediation progress, prospective estimates of required activity and other relevant factors, including changes in technology or regulations. For additional information related to environmental matters, see Note 14 of the Notes to the Consolidated Financial Statements.

The above listing is not intended to be a comprehensive list of all of the Company s accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP with no need for management s judgment in its application. There are also areas in which management s judgment in selecting any available alternatives would not produce a materially different result. For a discussion of accounting policies and other disclosures required by GAAP, see the Company s audited Consolidated Financial Statements and Notes thereto included in Part IV of the Company s Annual Report on Form 10-K, as amended, for the year ended December 31, 2015 and Part 1 to this Quarterly Report.

Liquidity And Capital Resources

	March 31, 2016	December 31, 2015	$ Variance	% Variance
		(in thousands)		
Cash and cash equivalents	$ 5,289	$ 10,977	$ (5,688)	(52%)
Bank debt	$ 11,500	$ 13,500	$ (2,000)	(15%)
Working capital	$ 28,237	$ 26,613	$ 1,624	6%
Shareholders equity	$ 78,232	$ 77,003	$ 1,229	2%

The Company s liquidity needs have related to, and are expected to continue to relate to, capital investments, product development costs, acquisitions, working capital requirements, and certain environmental and legal remediation costs. The Company has met its liquidity needs primarily through cash generated from operations and through bank borrowings. The Company believes that cash provided by operating activities from continuing operations and funding available under a credit facility will be adequate to service debt and meet working capital needs, capital investment, and product development requirements for the next twelve months. The Company expects to negotiate a new long-term debt agreement before the expiration of the 2012 Credit Facility on August 9, 2016.

At March 31, 2016, the Company reported $5,289,000 of cash, compared to $10,977,000 of cash and cash equivalents as of December 31, 2015. Cash and cash equivalents decreased in 2016 primarily due to $2,000,000 of cash used in financing activities, $1,430,000 of cash used in operating activities from continuing operations, $1,176,000 of cash used in operating activities from discontinued operations, and $1,008,000 of cash used in investing activities.

Net cash used in operating activities from continuing operations during the three month period ended March 31, 2016 was $1,430,000 as compared to net cash used in operating activities from continuing operations of $4,530,000 during the three month period ended March 31, 2015. The primary uses of cash from operating activities from continuing operations for the three month period ended March 31, 2016 were an increase in accounts receivable of $1,534,000, decrease in other accrued liabilities of $1,377,000, an increase in other assets of $1,122,000, an increase in inventories of $670,000, and a decrease in accounts payable of $643,000. The increase in accounts receivable in 2016 was primarily due to the timing of sales to a large international customer at MTE and an increase in cash collections in December 2015 as compared to March 2016 at SL-MTI. The decrease in other accrued liabilities was primarily due the payment of 2015 bonuses during March 2016. The decrease in other accrued liabilities was also due to the settlement of certain foreign currency forward contracts, which reduced the related liability by approximately $501,000 during 2016. The increase in other assets was primarily due to the renewal of certain insurance policies during the first quarter of 2016. The increase in inventories was primarily the result of increased inventory purchases to meet anticipated customer demand in 2016. The decrease in accounts payable was primarily due to the extending of 2015 payments until the first quarter of 2016. These uses of cash from operating activities were partially offset by a $2,107,000 of net income from continuing operations. In addition, depreciation and amortization expense of $1,280,000 and non-cash stock based compensation of $239,000 were added to income from continuing operations.

Net cash used in operating activities from continuing operations during the three month period ended March 31, 2015 was $4,530,000. The primary uses of cash from operating activities from continuing operations for the three month period ended March 31, 2015 were a decrease in accrued income taxes of $2,083,000, a decrease in accounts payable of $2,031,000, an increase in accounts receivable of $992,000, an increase in inventories of $870,000, and a decrease in other accrued liabilities of $852,000. The decrease in accrued income taxes during 2015 was primarily due to a tax payment related to the gain from the sale of the company s RFL Electronics Inc. (RFL) subsidiary, which was recognized during the fourth quarter of 2014. The largest decrease in accounts payable occurred at SLPE, which was primarily due to large inventory purchases during December 2014 to meet customer demand, which were paid during the first quarter of 2015. MTE and SL-MTI recorded increases in accounts receivable, which were partially offset by a large decrease at SLPE. The increase at MTE was primarily due to a large outstanding customer balance as of March 31, 2015, which was received during April 2015. The increase at SL-MTI was primarily due to large shipments at the end of the first quarter of 2015. The decrease at SLPE was primarily due to a large shipment at the end of 2014, which was collected during the first quarter of 2015. The increase in inventories was primarily due to a large increase at SLPE. The increase at SLPE was primarily the result of increased inventory purchases to meet anticipated customer demand in 2015 coupled with a large customer shipment at the end of 2014. The decrease in other accrued liabilities was primarily due to the payment of 2014 bonuses during March 2015. The decrease in other accrued liabilities was also due to a decrease in the liability on foreign currency forward contracts due to a $131,000 gain recognized during the first quarter of 2015. These uses of cash from operating activities were partially offset by a $2,708,000 of net income from continuing operations.

Net cash used in operating activities from discontinued operations was $1,176,000 during the first quarter of 2016 as compared to $579,000 during the first quarter of 2015. The primary uses of cash from operating activities from discontinued operations during 2016 were related to environmental remediation costs for the Pennsauken site. Cash used in operating activities from discontinued operations during 2015 was primarily related to environmental remediation costs, consulting fees, and legal expenses associated with the past operations of the Company s five environmental sites.

Net cash used in investing activities during the three month period ended March 31, 2016 was $1,008,000 as compared to net cash used in investing activities of $617,000 during the three month period ended March 31, 2015. Cash used in investing activities during 2016 was for the purchases of property, plant and equipment of $989,000 and for the purchase of other assets of $19,000. Purchases of property, plant and equipment were primarily used to upgrade production capabilities and technology. Cash used in investing activities during 2015 was for the purchases of property, plant and equipment of $452,000 and for the purchase of other assets of $165,000. Purchases of property, plant and equipment were primarily used to upgrade production capabilities and technology. Purchases of other assets were primarily related to the purchase of software.

Net cash used in financing activities during the three month period ended March 31, 2016 was $2,000,000 as compared to net cash used in financing activities of $3,530,000 during the three month period ended March 31, 2015. Net cash used in financing activities during 2016 was related to $2,000,000 of net payments under the 2012 Credit Facility. Net cash used in financing activities during 2015 was primarily related to $3,511,000 of payments made for the purchase of Company stock pursuant to the Company s 2014 Repurchase Plan.

The Company had an outstanding balance of $11,500,000 under the 2012 Credit Facility as of March 31, 2016. The Company had an outstanding balance of $13,500,000 under the 2012 Credit Facility as of December 31, 2015. At March 31, 2016, and December 31, 2015, the Company had total availability under the 2012 Credit Facility of $28,069,000 and $26,044,000, respectively. The Company s percentage of total debt to total shareholders equity was 14.7% and 17.5% as of March 31, 2016 and December 31, 2015, respectively. The Company s current ratio was 1.61 to 1 at March 31, 2016 and 1.53 to 1 at December 31, 2015.

Capital expenditures from continuing operations were $989,000 in 2016, which represented an increase of $537,000 from the capital expenditure levels of 2015. The Company anticipates spending approximately $2,800,000 on property, plant and equipment, used primarily to upgrade production capabilities and upgrade technology during the remainder of 2016. The 2016 capital additions are expected to be funded primarily through cash from operating activities.

With the exception of the segment reported as Unallocated Corporate Expenses (which consists primarily of corporate office expenses, financing activities, certain treasury costs, risk management costs, legal costs, litigation costs, public reporting costs, certain strategic costs, legacy costs and costs not specifically allocated to the reportable business segments), all of the Company s operating segments recorded income from operations during 2016 and 2015.

2012 Credit Facility

On August 9, 2012, the Company entered into a Credit Agreement with PNC Bank, National Association, as administrative agent and lender (PNC Bank), and the lenders from time to time party thereto, as amended (the 2012 Credit Facility). The 2012 Credit Facility was amended on March 11, 2013, June 20, 2013, September 15, 2014, March 25, 2015, May 5, 2015, and July 24, 2015.

The 2012 Credit Facility provides for borrowings up to $40,000,000 and under certain conditions maximum borrowings up to $70,000,000. The 2012 Credit Facility includes a sublimit for letters of credit and provides for a separate $10,700,000 letter of credit which expires one year from the date of closing, with annual extensions. The sublimit for letters of credit equals the lesser of (i) an amount equal to $5,000,000 plus the aggregate amount of Designated Usage Letter of Credit (LC) issued and outstanding under the Designated Usage LC sublimit or (ii) $25,000,000. The 2012 Credit Facility expires on August 9, 2016.

Borrowings under the 2012 Credit Facility bear interest, at the Company s option, at the London Interbank Offering Rate (LIBOR) plus a margin rate ranging from 1.25% to 2.0%, or the higher of a Base Rate plus a margin rate ranging from 0.25% to 1.0%. The Base Rate is equal to the highest of (i) the Federal Funds Open Rate plus 0.5% and (ii) the Prime Rate and (iii) the Daily Libor Rate plus 1%. The margin rates are based on certain leverage ratios, as defined. As of March 31, 2016, the interest rate under the 2012 Credit Facility equaled 1.69%. The Company is subject to compliance with certain financial covenants set forth in the 2012 Credit Facility, including, but not limited to, indebtedness to EBITDA, as defined, minimum levels of fixed charges and limitations on capital expenditures, as defined. Availability under the 2012 Credit Facility is based upon the Company s trailing twelve month EBITDA, as defined. As of March 31, 2016, the Company was in compliance with all of our covenants under the 2012 Credit Facility.

The Company s obligations under the 2012 Credit Facility are secured by the grant of security interests in substantially all of its assets.

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Contractual Obligations

The following is a summary of the Company s contractual obligations at March 31, 2016 for the periods indicated:

	Less Than 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years	Total
			(in thousands)		
Long-term debt [1]	$ 11,592	$	$	$	$ 11,592
Operating leases	1,321	2,655	1,154		5,130
Payments to EPA[2]	2,170	2,155			4,325
Letters of credit [3]	431				431
	$ 15,514	$ 4,810	$ 1,154	$	$ 21,478

(1) Includes the 2012 Credit Facility and related interest payments through maturity of $92,000.

(2) On May 28, 2013 a letter of credit was issued in favor of the EPA to provide financial assurance related to the Company s environmental payments in accordance with the terms of the Consent Decree reached with the DOJ and EPA related to its liability for both OU-1 and OU-2. In accordance with the Consent Decree, the Company has agreed to pay a fixed sum for the EPA s past cost for OU-2 and a portion of the EPA s past cost for OU-1. The payments are to be made in five equal payments of $2,141,000, for a total $10,705,000, plus interest. On June 1, 2015, the Company made the third payment related to its obligation under the Consent Decree in the amount of $2,173,000, which included interest. The remaining two payments will be made on the anniversary of the prior year s payment plus ten days in the same amount of $2,141,000, plus interest (See Note 14 Commitments and Contingencies for the terms and conditions of the Consent Decree).

(3) As of March 31, 2016, the Company was contingently liable for an outstanding letter of credit issued for casualty insurance requirements. The letter of credit has a maximum maturity of twelve months from the date of issuance.

The table above excludes the Company s gross liability for uncertain tax positions of $440,000 including accrued interest and penalties, which totaled $107,000 as of March 31, 2016, since the Company cannot predict with reasonable reliability the timing or certainty of cash settlements to the respective taxing authorities.

Off-Balance Sheet Arrangements

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

In an attempt to limit the volatility of copper costs, the Company has in the past, and may in the future, enter into purchase agreements for copper. As of March 31, 2016, inventory purchase commitments for copper totaled $106,000. As of March 31, 2016, no purchase commitments for copper were greater than two months.

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Results of Operations

Three months ended March 31, 2016 compared with three months ended March 31, 2015

The tables below show the comparisons of net sales and income from operations for the quarter ended March 31, 2016 (2016) and the quarter ended March 31, 2015 (2015):

	Net Sales			
	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	$ Variance From Same Quarter Last Year	% Variance From Same Quarter Last Year
	(in thousands)			
SLPE	$ 16,036	$ 16,148	$ (112)	(1%)
MTE	15,916	18,993	(3,077)	(16)
SL-MTI	17,543	11,543	6,000	52
Net Sales	$ 49,495	$ 46,684	$ 2,811	6%

	Income from Operations			
	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	$ Variance From Same Quarter Last Year	% Variance From Same Quarter Last Year
	(in thousands)			
SLPE	$ 1,797	$ 1,701	$ 96	6%
MTE	1,248	2,450	(1,202)	(49)
SL-MTI	2,546	1,854	692	37
Unallocated Corporate Expenses	(2,358)	(1,968)	(390)	(20)
Income from Operations	$ 3,233	$ 4,037	$ (804)	(20%)

During 2016, consolidated net sales increased by $2,811,000 or 6%, compared to net sales during the first quarter of 2015. When compared to 2015, net sales of SLPE decreased by $112,000, or 1%; net sales of MTE decreased by $3,077,000, or 16%; and net sales of SL-MTI increased by $6,000,000, or 52%. During 2016, SL-MTI benefited from $3,023,000 of sales from the Davall Acquisition, which was completed on July 27, 2015, and $2,117,000 of sales from the Torque Systems Acquisition, which was completed on May 22, 2015.

In 2016, the Company s income from operations decreased by $804,000, or 20%, when compared to 2015. Income from operations was 7% of net sales in 2016 compared to 9% of net sales in 2015. All of the Company s operating entities recorded income from operations in 2016 and 2015. Unallocated Corporate Expenses increased by $390,000, or 20%, in 2016 compared to 2015. In addition, income from operations was negatively impacted in 2016 by $562,000 of strategic costs related to the proposed HNH Merger and the pursuit of other strategic alternatives, and $41,000 of

direct acquisition costs associated with Davall Acquisition.

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Income from continuing operations in 2016 was $2,107,000, or $0.53 per diluted share, compared to income from continuing operations in 2015 was $2,708,000, or $0.65 per diluted share. Income from continuing operations was approximately 4% of net sales in 2016 and 6% of net sales in 2015.

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

SLPE

SLPE recorded net sales of $16,036,000 or 32% of consolidated net sales in 2016, compared to $16,148,000 or 34% of consolidated net sales in 2015. Net sales at SLPE were relatively flat during 2016, primarily due to a decrease in domestic distributor sales in the industrial product line, which was partially offset by an increase in sales to a large domestic distributor in the data communications product line and an increase in new product sales to the architectural and entertainment lighting market. Domestic sales increased by 5% while international sales decreased by 10% during 2016. Returns and distributor credits, which represented approximately 1% of SLPE gross sales in 2016 and 2015, also negatively affected net sales.

SLPE reported income from operations of $1,797,000 in 2016, compared to $1,701,000 in 2015. Income from operations increased in 2016 primarily due to a 3% decrease in cost of products sold as a percentage of net sales, which was partially offset by a 10% increase in operating costs. Operating costs increased primarily due to an increase in selling, general and administrative expenses of $388,000, or 15%.

MTE

MTE reported net sales of $15,916,000, or 32% of consolidated net sales in 2015, compared to $18,993,000, or 41% of consolidated net sales in 2015. The decrease in sales during 2016 was primarily attributable to a decrease in filter sales, which was primarily due to the decline of the oil and gas market. The decrease in net sales was also due to a decrease in sales to a large international customer in the medical equipment imaging market. Domestic sales decreased by 10% and international sales decreased by 26% during 2015.

MTE reported income from operations of $1,248,000 in 2016, compared to $2,450,000 in 2015. Income from operations decreased in 2016 primarily due to a 16% decrease in sales, a 1% improvement in cost of products sold as a percentage of net sales, and a 10% increase in operating costs. Operating costs increased by $348,000 during 2016 primarily due a $149,000 increase in engineering and product development costs, a $139,000 increase in selling, general and administrative expenses, and a $60,000 increase in depreciation and amortization expense.

SL-MTI

SL-MTI recorded net sales of $17,543,000, or 36% of consolidated net sales in 2016, compared to $11,543,000, or 25% of consolidated net sales in 2015. During 2016, SL-MTI benefited from $3,023,000 of sales from the Davall Acquisition, which was completed on July 27, 2015, and $2,117,000 of sales from the Torque Systems Acquisition, which was completed on May 22, 2015. As a result, comparable sales, net of the acquisition, increased by $860,000, or 7%, during 2016 as compared to 2015. Excluding the acquisitions, the increase in net sales was primarily due to several large domestic customer orders in the commercial aerospace industry. Excluding the acquisitions, domestic sales increased by 7% and international sales increased 8% during 2016.

SL-MTI reported income from operations of $2,546,000 in 2016, compared to $1,854,000 in 2015. Income from operations increased by $692,000 in 2016 primarily due to a 52% increase in sales, which was partially offset by a 63% increase in operating costs. Cost of products sold as a percentage of net sales was relatively flat during 2016. Operating costs increased by $1,215,000 during 2016 due to an increase selling, general and administrative expenses of $765,000, or 83%, and an increase in depreciation and amortization expenses of $636,000, or 301%. The increases in selling, general and administrative expenses and depreciation and amortization expenses were primarily due to non-comparable Davall and Torque Systems operating costs. The increase in operating costs was partially offset by a decrease in engineering and product development costs of $186,000, or 23%.

Cost of Products Sold

Cost of products sold was approximately 66% of net sales in 2016, compared to 67% of net sales in 2015. Cost of products sold as a percentage of net sales decreased 1% while net sales increased 6% during 2016.

SLPE and MTE recorded improvements in cost of products sold as a percentage of net sales during 2016. SLPE s cost of products sold as a percentage of net sales improved by approximately 3% during 2016 primarily due to an improved product mix as the result of the introduction of new products into the market. MTE s cost of products sold as a percentage of net sales improved by approximately 1% during 2016 primarily due to decreased material costs and an improved product mix, which were partially offset by a 16% decline in sales. Cost of products sold as a percentage of net sales at SL-MTI was relatively flat during 2016. Excluding Davall and Torque Systems, SL-MTI s cost of products sold as a percentage of net sales would have increased due to an increase in labor and overhead costs. All operating entities are at various stages of emphasizing lean initiatives throughout the factory floor to reduce costs of products sold.

Engineering and Product Development Expenses

Engineering and product development expenses were approximately 6% of net sales in 2016 and 2015. Engineering and product development expenses decreased by $12,000, or less than 1%, during the first quarter of 2016 primarily due to a decrease of $186,000 at SL-MTI, which was partially offset by an increase of $149,000 at MTE. The decrease in engineering and product development costs at SL-MTI was primarily due to a shift of prototype jobs into production during 2016. MTE recognized an increase in engineering and product development costs primarily due to an increase in prototype materials expense. Engineering and product development costs at SLPE were relatively flat during 2016.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses were approximately 20% of net sales for 2016, compared to 17% for 2015. During 2016, selling, general and administrative expenses increased by $1,682,000, or 21%, while sales increased by 6%.

Selling, general and administrative expenses at SLPE increased by $388,000 primarily due to increased compensation costs as a result of higher staffing levels and increased selling expenses. MTE recorded an increase in selling, general and administrative expenses of $139,000 primarily due to increased compensation costs. Selling, general and administrative expenses at SL-MTI increased by $765,000 primarily due to non-comparable Davall and Torque Systems costs. Unallocated Corporate Expenses increased by $390,000 primarily due to $562,000 of strategic costs related to the proposed HNH Merger and the pursuit of other strategic alternatives, and $41,000 of direct acquisition costs associated with Davall Acquisition.

Depreciation And Amortization Expenses

Depreciation and amortization expenses in 2016 were $1,280,000, an increase of $691,000, or 117%, compared to depreciation and amortization expenses in 2015. The increase was primarily due to a $636,000 increase at SL-MTI. The increase at SL-MTI was due to depreciation and amortization expenses recorded by Davall and the Torque Systems, which were acquired during 2015.

Amortization of Deferred Financing Costs

In connection with entering into the 2012 Credit Facility and related amendments, the Company incurred deferred financing costs which are amortized over the term of the 2012 Credit Facility. During 2016 and 2015, the amortization of deferred financing costs equaled $71,000 and $27,000, respectively.

Interest Expense

Interest expense was $57,000 in 2016 and $6,000 in 2015. The Company had an outstanding balance of $11,500,000 related to borrowings under the Company s 2012 Credit Facility of as of March 31, 2016. The Company had no outstanding balance related to borrowings under the Company s 2012 Credit Facility of as of March 31, 2015.

Other Gain (Loss), net

Other gain (loss), net in 2016 was a net gain of $105,000 compared to net gain of $131,000 in 2015. Other gain (loss), net in 2016 included an $118,000 of net foreign currency transaction gains and a $13,000 loss on foreign currency forward contracts. The primary driver of the net foreign currency transaction gains were the fluctuations in the value of the USD to CNH and fluctuations in the value of the USD to MXN during 2016. The $13,000 loss on foreign currency forward contracts was comprised of a $501,000 realized loss on the settlement of certain forward contracts, which was partially offset by a $488,000 unrealized gain on the remaining outstanding forward contracts. Other gain (loss), net in 2015 included a $131,000 gain on foreign currency forward contracts.

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During 2015, the Company entered into a series of foreign currency forward contracts to hedge its exposure to foreign exchange rate movements in its forecasted expenses in China and Mexico. The unrealized gains recognized in 2016 and 2015 represent the change in fair value of foreign currency forward contracts that are marked to market at quarter end.

Taxes (Continuing Operations)

The effective tax rate from continuing operations during 2016 and 2015 was approximately 34% and 35%, respectively. The decrease in the effective tax rate was primarily due to an increase in the federal research and development tax credits and foreign tax credits available in 2016 as compared to 2015, which were partially offset by certain taxes payable adjustments.

Discontinued Operations

Net loss from discontinued operations was $511,000 in 2016 compared to $162,000 in 2015. The loss from discontinued operations during 2016 relates to environmental remediation costs, consulting fees, and legal expenses primarily related to the Company s Pennsauken site and, to a lesser extent, costs associated with the past operations of the Company s four other environmental sites (see Note 14 Commitments and Contingencies for further information concerning the environmental sites). The loss from discontinued operations during 2015 relates to environmental remediation costs, consulting fees, and legal expenses associated with the past operations of the Company s five environmental sites.

Net Income

Net income was $1,596,000, or $0.40 per diluted share, for 2016 compared to $2,546,000, or $0.61 per diluted share, for 2015. The weighted average number of shares used in the diluted earnings per share computation was 3,989,000 and 4,160,000 for 2016 and 2015, respectively.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices. The Company s significant market risks are primarily associated with commodity prices, interest rates, and foreign currency exchange rates. The Company s quantitative and qualitative disclosures about market risk include forward-looking statements. These statements are based on certain assumptions with respect to market prices, interest rates and other industry-specific risk factors. To the extent these assumptions prove to be inaccurate, future outcomes may differ materially from those discussed herein.

Commodity Prices:

In the normal course of business, the Company is exposed to market risk or price fluctuations related to the purchase of certain raw materials, including copper, steel and certain other non-ferrous metals used as raw materials. These raw materials are subject to price volatility caused by changes in global supply and demand and governmental controls. The Company s market risk strategy has generally been to obtain competitive prices for its products and services, sourced from more than one vendor, and to allow operating results to reflect market price movements dictated by supply and demand. Also, in certain instances the Company has aligned the volatility of copper prices with sale prices.

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In an attempt to limit the volatility of copper costs, the Company has in the past, and may in the future, enter into purchase agreements for copper or other raw materials. As of March 31, 2016, inventory purchase commitments for copper totaled $106,000. As of March 31, 2016, no purchase commitments for copper were greater than two months.

To the extent that the Company has not mitigated our exposure to changing raw material prices, we may not be able to increase our prices to our customers to offset such potential raw material price fluctuations, which could have a material adverse effect on our results of operations and operating cash flows.

Interest Rates:

The fair value of the Company s cash and cash equivalents, trade and other receivables, trade payables and short-term borrowings approximate their carrying values and are relatively insensitive to changes in interest rates due to the short-term maturities of these instruments or the variable nature of the associated interest rates.

At March 31, 2016, the Company s debt was comprised of our 2012 Credit Facility. Accordingly, our 2012 Credit Facility may be relatively sensitive to the effects of interest rate fluctuations. A one percentage point change in our average interest rate would impact annual interest expense by an aggregate of approximately $115,000 based on total debt outstanding at March 31, 2016.

Foreign Currency Exchange Rates:

The Company is a USD functional currency entity that manufactures products in the USA, Mexico, China, and the United Kingdom. The Company s sales are primarily priced and invoiced in U.S. dollars and its costs and expenses are priced in U.S. dollars, Mexican peso (MXN), Chinese yuan (CNH), and the United Kingdom pound (GBP). As a result, the Company has exposure to changes in exchange rates between the time when expenses in the non-functional currencies are initially incurred and the time when the expenses are ultimately paid. The Company s objective in using derivatives is to add stability and to manage its exposure to foreign exchange risks. To accomplish this objective, the Company uses foreign currency forward contracts to manage its exposure to fluctuations in the exchange rates. Foreign currency forward contracts involve fixing the USD-MXN and USD-CNH exchange rates for delivery of a specified amount of foreign currency on a specified date.

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During 2015, the Company entered into a series of foreign currency forward contracts to hedge its exposure to foreign exchange rate movements in its forecasted expenses in China and Mexico. The foreign currency forwards are not speculative and are being used to manage the Company s exposure to foreign exchange rate movements. Foreign currency forward contracts involve fixing the USD-MXN and USD-CNH exchange rates for delivery of a specified amount of foreign currency on a specified date. The Company has elected not to apply hedge accounting to these derivatives and they are marked to market through earnings. Therefore, gains and losses resulting from changes in the fair value of these contracts are recognized at the end of each reporting period directly in earnings. The gains and losses associated with the foreign currency forward contracts are included in other gain (loss), net on the Consolidated Statements of Income. As of March 31, 2016, the fair value of the foreign currency forward contracts was recorded as a $46,000 liability in other current liabilities on the Consolidated Balance Sheets. As of December 31, 2015, the fair value of the foreign currency forward contracts was recorded as a $534,000 liability in other current liabilities on the Consolidated Balance Sheets. The decrease in the liability during 2016 was primarily due to the settlement of certain forward currency forward contracts.

During the three months ended March 31, 2016, the Company recognized a $13,000 loss on foreign currency forward contracts, which was comprised of a $501,000 realized loss on the settlement of certain forward contracts, partially offset by a $488,000 unrealized gain on the remaining outstanding forward contracts. During the three months ended March 31, 2015, the Company recognized a $131,000 gain on foreign currency forward contracts. During the three months ended March 31, 2016 and March 31, 2015, Company also recognized a gain from foreign currency fluctuations totaling $118,000 and $119,000, respectively.

ITEM 4. CONTROLS AND PROCEDURES
Evaluation of Disclosure Controls and Procedures

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures, as such term is defined in Rules 13a-15e and 15d-15e promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act).

Conclusion of Evaluation

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

Inherent Limitations on Effectiveness of Controls and Procedures

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

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Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the first quarter of 2016 that have materially affected or are reasonably likely to materially affect its internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 14 of the Notes to the Consolidated Financial Statements included in Part I to this Quarterly Report on Form 10-Q. Also, see Note 18 of the Notes to the Consolidated Financial Statements of the Company s Annual Report on Form 10-K, as amended, for the year ended December 31, 2015, for additional disclosure related to the Company s legal proceedings.

ITEM 1A. RISK FACTORS

In evaluating us and our common stock, we urge you to carefully consider the risks and other information in this Quarterly Report on Form 10-Q, as well as the risk factors disclosed in Item 1A to Part I of our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2015, which we filed with the SEC on March 15, 2016, and as amended by Amendment No. 1 on Form 10-K/A, which we filed with the SEC on April 28, 2016. Beyond what is described below, the risks and uncertainties described in Item 1A Risk Factors of our Annual Report on Form 10-K, as amended, have not materially changed. Any of the risks discussed in this Quarterly Report on Form 10-Q or any of the risks disclosed in Item 1A to Part I of our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2015, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations or financial condition.

The Company has entered into an Agreement and Plan of Merger pursuant to which an indirect wholly owned subsidiary of Handy & Harman Ltd. will acquire and then merge with and into the Company, with the Company continuing as the surviving corporation and as a wholly owned indirect subsidiary of HNH.

On April 6, 2016, the Company and Handy & Harman Ltd. (HNH), Handy & Harman Group Ltd., a wholly owned subsidiary of HNH (AcquisitionCo), and SLI Acquisition Co., a wholly owned subsidiary of AcquisitionCo (Merger Sub) entered into an Agreement and Plan of Merger (the Merger Agreement) pursuant to which Merger Sub will acquire and then merge with and into the Company, with the Company continuing as the surviving corporation and as a wholly owned indirect subsidiary of HNH (the Merger). Pursuant to the Merger Agreement, the acquisition of the Company will be completed through a cash tender offer to purchase all of the outstanding shares of our common stock at a purchase price of $40.00 per share (the Tender Offer). The Tender Offer commenced on April 21, 2016 and, unless extended, the Tender Offer will expire at 12:00 midnight, New York City time, on May 18, 2016. The completion of the Merger and HNH s obligations under the Tender Offer are conditioned upon certain conditions, and if such conditions are not met, the Merger will not be consummated. No assurances can be given that any of the transactions contemplated by the Merger Agreement will be completed or that the conditions to the Tender Offer will be satisfied. If the Tender Offer or Merger are not successfully completed, we may be subject to the following material risks, among others:

- the Company may not be able to find a party willing to pay an equivalent or more attractive consideration for our common stock than the consideration offered by HNH;

- the price of the Company s common stock may decline to the extent that the current market price of our common stock reflects a higher price than it otherwise would have based on the assumption, among others, that the Tender Offer will be successful or that the Merger will be completed;

- certain of the Company s costs related to the Merger, such as legal, accounting and certain advisory fees, must be paid even if the Merger is not completed;

- the Company would not realize the benefits it expects from the Merger;

- the diversion of management attention from our day-to-day business and the unavoidable disruption to its employees and its relationships with clients as a result of efforts and uncertainties relating to the Tender Offer and the Merger may detract from our ability to grow revenues and minimize costs, which, in turn may lead to a loss of market position that we could be unable to regain if the Tender Offer is not successful or if Merger does not occur; and

- under the Merger Agreement, the Company is subject to certain restrictions on the conduct of our business prior to completing the Merger, which may affect our ability to execute certain of our business strategies.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

2.1	Agreement and Plan of Merger dated as of April 6, 2016 by and among SL Industries, Inc., Handy & Harman Ltd., Handy & Harman Group Ltd. and SLI Acquisition Co. Incorporated by reference to Exhibit 2.1 Company s Current Report on Form 8-K filed April 7, 2016.
3.1	Amendment to By-Laws of SL Industries, Inc. Incorporated by reference to Exhibit 3.1 Company s Current Report on Form 8-K filed April 7, 2016.
10.1	Restricted Stock Unit Grant Letter and Agreement between the Company and each of William Fejes, Jr. and Louis J. Belardi, dated March 11, 2016. Incorporated by reference to form of Grant Letter and Agreement filed as Exhibit 4.2 to the Company s Registration Statement on Form S-8, filed with the Securities and Exchange Commission on July 29, 2011. +
10.2	Tender Agreement dated as of April 6, 2016 between SL Industries, Inc., Handy & Harman Ltd., Handy & Harman Group Ltd., SLI Acquisition Co. and DGT Holdings Corp. Incorporated by reference to Exhibit 10.1 Company s Current Report on Form 8-K filed April 7, 2016.
31.1	Certification by Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification by Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification by Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. *
101.INS	XBRL Instance Document. *
101.SCH	XBRL Taxonomy Extension Schema Document. *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. *

* Filed herewith.
\+ Indicates a management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 3, 2016

SL INDUSTRIES, INC.
(Registrant)

By: /s/ William T. Fejes
William T. Fejes
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Louis J. Belardi
Louis J. Belardi
Chief Financial Officer
(Principal Accounting Officer)

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