

RNS Number:

Press Announcement
For immediate release
04 September 2019

Somero® Enterprises, Inc.

("Somero" or "the Company" or "the Group")

Interim Results for the six months ended June 30, 2019

Flexibility of operating model demonstrated, enabling increased dividend

Somero Enterprises, Inc. is pleased to report its interim results for the six months ended June 30, 2019.

Financial Highlights

- Financials are tracking broadly in line with the guidance provided by management in its 7 June 2019 trading update, with full year revenue expectations of between US\$ 83.0m - 87.0m
- H1 2019 results highlight the flexibility of the Company's operating model that allows for rapid adjustment of costs to align with product demand
- The Company is proceeding with long-term growth investments made possible by a strong balance sheet and positive cash flows
- In line with the Board's outlook for the remainder of the financial year, the Board has declared a US\$ 0.0575 per share interim dividend representing a 4.5% increase compared to H1 2018

	H1 2019	H1 2018	% Change
	US\$	US\$	
Revenue	\$ 39.0m	\$ 45.0m	-13.3%
Adjusted EBITDA ^(1,2)	\$ 11.2m	\$ 14.5m	-22.8%
Adjusted EBITDA margin ^(1,2)	29%	32%	-300bps
Profits before tax	\$ 10.5m	\$ 13.6m	-22.8%
Adjusted net income ^(1,3)	\$ 8.0m	\$ 10.4m	-23.1%
Diluted adjusted net income per share ^(1,3)	\$ 0.14	\$ 0.18	-22.2%
Cash flow from operations	\$ 4.4m	\$ 12.3m	-64.2%
Net cash position ⁽⁴⁾	\$ 15.1m	\$ 20.7m	-27.1%
Interim dividend per share	\$ 0.0575	\$ 0.055	4.5%

Operational Highlights

- SkyScreed® 25 gaining traction in the currently unaddressed high-rise structural market segment with the first sale completed in H1 2019 and a full pipeline of sales opportunities
- Completed acquisition of Line Dragon® to augment Somero's SP-16 Line Pulling & Placing System product offering
- Expansion of the Houghton Michigan Operations and Support Offices to accommodate growth from new products is underway and tracking with the previously reported project cost of US\$ 3.5m
- Expansion of Fort Myers Training Facility to support future expansion of training classes and product demonstration events continues

Notes:

1. The Company uses non-US GAAP financial measures in order to provide supplemental information regarding the Company's operating performance. See further information regarding non-GAAP measures below.

2. Adjusted EBITDA as used herein is a calculation of the Company's net income plus tax provision, interest expense, interest income, foreign exchange gain/(loss), other expense, depreciation, amortization, and stock-based compensation.

3. *Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and restricted stock units ("RSU") settlements and other special items.*

4. *Net cash is defined as cash and cash equivalents less borrowings under bank obligations.*

Jack Cooney, CEO of Somero, said:

"As announced in June, our first six months of 2019 fell short of our full year expectations at the beginning of the year, primarily due to extraordinarily heavy rainfall during H1 2019 in the US that depressed sales in our largest market. The US non-residential construction market remains very healthy, and we are pleased to note that as the weather improves, we expect to see improvement in H2.

Whilst towards the end of the period, trading in Europe and the Middle East fell below the prior year in part due to the timing of certain contracts, we remain confident to deliver improved H2 2019 results, broadly in line with guidance for the full year, notwithstanding the wider macro pressures in Europe, particularly Germany, the Middle East and Australia. Pleasingly, a number of our other markets delivered growth, alongside growth from new products.

Despite our disappointment with H1 2019 trading, we do not see a fundamental change in our end-markets and maintain a positive outlook for the remainder of 2019 particularly as our customers in the US return to more typical levels of productivity. Our confidence is based on our close customer contacts through which we can assess customer workloads, backlogs and business outlook.

We continued to make long-term investments and to add key talent to the organization, striking the right balance of leveraging our flexible operating model to control costs and protect profits with making strategically important investments to grow the business over the long-term. With this operating flexibility and confident outlook in hand, we remain committed to continued sales execution in our core markets, progressing on our new product initiatives, and making sound strategic investments for medium to long-term growth, to deliver strong profits and healthy cash flows to our shareholders."

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This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 ("MAR").

Notes to Editors:

Somero Enterprises provides industry-leading concrete-levelling equipment, training, education and support to customers in over 90 countries. The Company's cutting-edge technology allows its customers to install high-quality horizontal concrete floors faster, flatter and with fewer people. Somero equipment that incorporates laser-technology and wide-placement methods is used to place and screed the concrete slab in all building types and has been specified for use in a wide range of commercial construction projects for numerous global blue-chip companies.

Somero pioneered the Laser Screed market in 1986 and has maintained its market-leading position by continuing to focus on bringing new products to market and developing patent-protected proprietary designs. In addition to its products, Somero offers customers unparalleled global service, technical support, training and education, reflecting the Company's emphasis on helping its customers achieve their business and profitability goals, a key differentiator to its peers.

For more information, visit www.somero.com

Chairman's and Chief Executive Officer's Statement

Overview

Revenues for the first six months of 2019 totaled US\$ 39.0m, a 13% decline compared to H1 2018. As described in the trading update in June, the revenue shortfall was due mainly to a decline in North American trading due to extraordinarily poor weather leading to delays. The US non-residential construction market remains very healthy, and we are pleased to note that as the weather improves, we expect to see improvement in H2. At the end of the period, revenue generated in the Middle East and Europe fell below the comparative period in the prior year, in part due to the timing of certain contracts. The Company's remaining three markets, including China, all reported revenues equal to or increased from H1 2018.

Most importantly, despite the region specific considerations in H1 2019 that contributed to trading falling short of expectations, we do not see a broad fundamental change in our markets, and we continue to have a positive outlook for the remainder of 2019 with an improved H2 2019. Our positive view continues to be based on the health of the underlying non-residential construction market and customers' continued confidence in their project workloads.

Pleasingly, new products continue to contribute positively. Sales of the SP-16 product family have increased to US\$ 1.1m in the period, reflecting the positive impact of the January 2019 Line Dragon® acquisition, and SkyScreed® 25 contributed US\$ 0.2m to H1 2019 revenues which reflects the first sale of this new product.

Despite being against the impact of reduced volume and increases in material costs, gross margin remains broadly in line with the prior period, at 56.0% compared to 57.5% in H1 2018. Partially offsetting the volume and gross margin impact, cost management efforts led to a US\$ 0.7m decrease in operating costs compared to H1 2018 resulting in H1 2019 adjusted EBITDA of US\$ 11.2m, or a 29% margin, compared to adjusted EBITDA of US\$ 14.5m, or a 32% margin, in H1 2018.

Region Reviews

During the first half of 2019, as described in our trading update in June, the extraordinary level of rainfall in the US hampered non-residential construction activity, resulting in project delays that in turn slowed the pace of equipment purchases. North American sales declined 11%, compared to H1 2018. In the US, while there are multiple variables contributing to longer term economic uncertainty, the non-residential construction industry is healthy and contractors and builders remain busy with backlogs filled well into 2020. Our positive outlook for the remainder of 2019 in the US is based on the health of this underlying market as well as the expectation that as the weather improves in the US, our customers are projected to return to more typical levels of productivity.

Our European market reported sales of US\$ 5.5m for H1 2019, a US\$ 1.9m decline in sales compared to H1 2018. While our activity level in Europe was positive in H1 2019, this activity did not convert to our targeted level of sales at the end of the period, attributable in part to the timing of project starts. While we have not observed a fundamental change in non-residential construction activity in the European market and anticipate continued positive activity in this region for the remainder of the year, we note an increasing level of concern driven by longer term economic uncertainty in Europe, with the German market particularly illustrating this. We will closely monitor the impact of this on our H2 trading. We look forward to the positive contributions from our newly hired UK-based Vice President of European Sales, an individual who brings extensive industry experience and critical local leadership to the European sales organization.

China reported H1 2019 sales of US\$ 2.5m, flat against H1 2018. Trading throughout the first half of the year was consistent, and we exited the first half with positive momentum. The H1 2019 performance reflects the stabilizing impact of the local leadership provided by our Shanghai-based China National Sales Director who joined the organization in H2 2018. Whilst the H1 2019 result indicates that the US-China tariff disputes did not directly impact our trading volume in the period, newly imposed tariffs and competition in the low-end productivity segment of the market are resulting in margin pressure and will be monitored closely going forward. Capturing the long-term opportunity in China remains dependent on growth in demand for quality concrete floors by building owners and end-users, which has been meaningfully slower to take hold than initially expected.

Our other regions reported H1 2019 sales that were equal to or increased from the prior year, with the exception of the Middle East. In the Middle East, as with all our non-core markets, the level of non-residential construction activity is subject to a certain amount of volatility which, coupled with having relatively small revenue bases, makes for challenging year-on-year comparisons, particularly during interim periods. The Middle East reported a sales decline of US\$ 1.0m to US\$ 0.2m compared to H1 2018, primarily a result of timing of projects which are impacted by a variety of factors including the perpetual geopolitical uncertainty in the region. We expect to see meaningful opportunities in the Middle East in H2 2019 but we continue to expect the uncertainty in the region will impact H2 trading and therefore do not anticipate recapturing the H1 2019 shortfall as compared to prior year by year-end. In India, a market included with our Rest of World territories, we have observed increasing demand for quality and are pleased with the trajectory of growth as this market reached nearly US\$ 1.0m in H1 2019 sales, up from US\$ 0.5m in H1 2018. In our remaining regions, we continue to see signs of increasing demand for quality concrete floors and we intend to continue to make investments in order to best position ourselves in these markets for long-term growth.

Strategic Progress

At the core of our growth strategy is innovation. Our latest product, the SkyScreed® 25 is the most recent example of the innovations Somero brings to market to help our customers build successful, profitable businesses. The SkyScreed® 25 launch has progressed at an intentionally measured pace and has met our expectations, with our first sale in H1 2019 and a full pipeline of opportunities to follow. While the disruptive nature of this product requires meaningful changes to structural high-rise jobsite workflows that have been in place for years, we are encouraged by significant customer interest in adopting this product and adjusting their practices to make it work. Also, as we expected, we have dramatically advanced our knowledge of the structural high-rise market segment as a result of all our efforts in H1 2019 and have been able to make minor design modifications as a result of these learnings that have strengthened the performance of the machine and value proposition of the offering. As we enter H2 2019, we are confident in the meaningful growth opportunity this product and the broader market segment represents.

The integration of Line Dragon® has also progressed well, though sales of the SP-16 and Line Dragon® product family have also been impacted by poor weather in the US. We are completing the design of the next generation product in this family that combines the best features of the Line Dragon® and SP-16 designs and anticipate its launch in H2 2019. We are optimistic of the growth opportunity presented by this product category, particularly as the next generation model gains traction in the market.

Expansion Update

The expansion project for the Houghton, Michigan Operations and Support Offices is strategically important to support our longer-term plans. Future operational capacity requirements, with new products in mind, necessitated commencing a project to add 35,000 square feet to our Houghton facility at an estimated all-in US\$ 3.5m project cost. This project is underway, with the majority of construction anticipated to occur in H2 2019 and with targeted completion in early 2020.

The US\$ 0.5m expansion to the Global Headquarters and Training Facilities in Fort Myers, Florida continues, to increase our classroom capacity to accommodate future training and product demonstration events and increase the overall utilization of our world-class training facility. This project is expected to be completed by early 2020.

Our People

On behalf of the Board, we would like to thank all our global employees for their continued dedication and passion for our customers' success. The start of 2019 presented new challenges as our organization was forced to adjust to extraordinary conditions, but our employees once again rose to the challenge and delivered positive results and returns for our shareholders. The Board and management team remain as committed as ever to providing our employees opportunities to grow, the training to support that growth, and to maintaining a rewarding and challenging working environment that is full of opportunity.

Current Trading and Outlook

Exiting a disappointing period of trading in North America in H1 2019 due to the extraordinary poor weather conditions, we carry a confident, positive outlook for the remainder of the year in the region into H2 2019 and expect to deliver full year results broadly in line with market expectations. Our outlook is based on the healthy, active non-residential

construction market, the high-level of confidence displayed by our customers, and the expectation that as the weather improves in the US our customers are anticipated to return to more typical levels of productivity. We are also encouraged by interest in our new products, which we anticipate will be a positive contributor to H2 2019 trading.

In Europe, we anticipate solid interest across the region, driven by demand for replacement equipment and technology upgrades, as well as interest in new products. However, we expect H2 2019 trading in the region will fall modestly below the comparable prior year period due to concerns over longer-term economic uncertainty in the region that we believe may impact purchasing decisions by our customers. We will continue to closely and cautiously monitor the impact of these economic conditions on our markets across Europe.

In China, we are pleased with the solid performance in H1 2019 that we are carrying into H2 2019, reflecting the stabilizing impact of local leadership of the China business. The long-term opportunity in China hinges on the acceptance of and demand for quality by the market that has progressed at a slower pace than we initially expected. We will continue to closely monitor the impacts of US-China tariff disputes and activity in the low-end productivity segment of the market going forward.

In the Middle East and in Latin America, we anticipate meaningful opportunities and solid performance in H2 2019, though in the Middle East we expect continued uncertainty in the region and do not anticipate fully recovering the H1 2019 shortfall before the end of the year. In our Rest of World territories, we also look for the solid H1 2019 performance to continue through the remainder of the year and are pleased with the traction we continue to gain in India.

We look forward to the period ahead and are confident in our ability to deliver strong profits and healthy cash flows to our shareholders.

Larry Horsch

Non-Executive Chairman

Jack Cooney

President and Chief Executive Officer

September 4, 2019

FINANCIAL REVIEW

Summary of financial results

* *unaudited*

For the six months ended June 30

	2019	2018
	US\$ 000's	US\$ 000's
	Except per share data	Except per share data
Revenue	39,012	44,974
Cost of sales	17,160	19,114
Gross profit	21,852	25,860
Operating expenses		
Sales, marketing and customer support	5,419	5,770
Engineering and product development	1,046	928
General and administrative	5,240	5,714
Total operating expenses	11,705	12,412
Operating income	10,147	13,448
Other income (expense)		
Interest expense	(21)	(18)
Interest income	116	76
Foreign exchange impact	(54)	(7)
Other	266	127
Income before income taxes	10,454	13,626
Provision for income taxes	2,401	3,048
Net income	8,053	10,578
	Per Share	Per Share
	US\$	US\$
Basic earnings per share	0.14	0.19
Diluted earnings per share	0.14	0.19
Basic adjusted net income per share ^{(1), (2), (4)}	0.14	0.19
Diluted adjusted net income per share ^{(1), (2), (4)}	0.14	0.18
Other data		
Adjusted EBITDA ^{(1), (2), (4)}	11,180	14,512
Adjusted net income ^{(1), (3), (4)}	7,986	10,447
Depreciation expense	480	566
Amortization of intangibles	69	-
Capital expenditures	587	568

Notes:

1. Adjusted EBITDA and Adjusted net income are not measurements of the Company's financial performance under US GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to US GAAP cash flow from operating activities as a measure of profitability or liquidity. Adjusted EBITDA and Adjusted net income are presented herein because management believes they are useful analytical tools for measuring the profitability and cash generation of the business. Adjusted EBITDA is also used to determine pricing and covenant compliance under the Company's credit facility and as a measurement for calculation of management incentive compensation. The Company understands that although Adjusted EBITDA is frequently used by securities analysts, lenders, and others in their evaluation of companies, its calculation of Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.

2. Adjusted EBITDA as used herein is a calculation of net income plus tax provision, interest expense, interest income, foreign exchange gain (loss), other expense, depreciation, amortization, and stock-based compensation.

3. Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.

4. The Company uses non-US GAAP financial measures to provide supplemental information regarding the Company's operating performance. The non-US GAAP financial measures presented herein should not be considered in isolation from, or as a substitute to, financial measures calculated in accordance with US GAAP. Investors are cautioned that there are inherent limitations associated with the use of each non-US GAAP financial measure. In particular, non-US GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and many of the adjustments to the US GAAP financial measures reflect the exclusion of items that may have a material effect on the Company's financial results calculated in accordance with US GAAP.

Net income to adjusted EBITDA reconciliation and Adjusted net income reconciliation

* unaudited

	Six months ended June 30	
	2019 US\$ 000's	2018 US\$ 000's
Adjusted EBITDA reconciliation		
Net income	8,053	10,578
Tax provision	2,401	3,048
Interest expense	21	18
Interest income	(116)	(76)
Foreign exchange (gain) loss	54	7
Other	(266)	(127)
Depreciation	480	566
Amortization	69	-
Non-cash lease expense	123	-
Stock based compensation	361	498
Adjusted EBITDA	11,180	14,512
Adjusted net income reconciliation		
Net income	8,053	10,578
Amortization	69	-
Tax impact of stock option & RSU settlements	(136)	(131)
Adjusted net income reconciliation	7,986	10,447

Notes:

1. Adjusted EBITDA and Adjusted net income are not measurements of the Company's financial performance under US GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to US GAAP cash flow from operating activities as a measure of profitability or liquidity. Adjusted EBITDA and Adjusted net income are presented herein because management believes they are useful analytical tools for measuring the profitability and cash generation of the business. Adjusted EBITDA is also used to determine pricing and covenant compliance under the Company's credit facility and as a measurement for calculation of management incentive compensation. The Company understands that although Adjusted EBITDA is frequently used by securities analysts, lenders, and others in their evaluation of companies, its calculation of Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.

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Revenues

The Company's consolidated revenues decreased by 13% to US\$ 39.0m (H1 2018: US\$ 45.0m). The Company's revenues consist primarily of sales from Boomed Screed products, which include the S22-EZ, S-15R and S-10A Laser Screed machines, sales from Ride-on Screed products, which are drive through the concrete machines that include the S-840, S-485, S-940 and S-158C Laser Screed machines, remanufactured machines sales, 3-D Profiler Systems, SP-16 Concrete Line Pulling and Placing System, SkyScreed and Other revenues which consist of revenue from sales of parts and accessories, sales of other equipment, service, training and shipping charges. The overall increase for the period was driven by sales of Boomed screeds, Ride-on screeds and Other revenues.

Boomed Screed sales decreased to US\$ 16.2m (H1 2018: US\$ 18.5m) as unit volume decreased to 56 units (H1 2018: 60 units), Ride-on screed sales decreased to US\$ 7.8m (H1 2018: US\$ 11.4m) primarily due to an decrease in volume to 75 units (H1 2018: 118), remanufactured machine sales decreased to US\$ 1.9m (H1 2018: US\$ 2.1m) as unit volume decreased to 12 units (H1 2018: 13), 3-D Profiler System sales decreased to US\$ 2.4m (H1 2018: US\$ 2.9m) as unit volume decreased to 22 units (H1 2018: 29), SP-16 Concrete Line Pulling and Placing System sales increased to US\$ 1.1m (H1 2018: US\$ 0.7m), the first SkyScreed sold in H1 2019, and Other revenues remained steady at US\$ 9.4m (H1 2018: US\$ 9.4m). The following table shows the breakdown during the six months ended June 30, 2019 and 2018:

Revenue breakdown by geography		North America US\$ in millions		EMEA ⁽¹⁾ US\$ in millions		ROW ⁽²⁾ US\$ in millions		Total US\$ in millions			
		2019	2018	2019	2018	2019	2018	2019 Net sales	2019 % of Net sales	2018 Net sales	2018 % of Net sales
Boomed screeds ⁽³⁾		11.0	12.2	2.8	4.9	2.4	1.4	16.2	41.5%	18.5	41.2%
Ride-on screeds ⁽⁴⁾		5.8	8.0	1.5	2.7	0.5	0.7	7.8	20.0%	11.4	25.3%
Remanufactured machines		1.1	1.1	0.6	-	0.2	1.0	1.9	4.9%	2.1	4.5%
3D Profiler System		2.1	2.6	0.2	-	0.1	0.3	2.4	6.2%	2.9	6.7%
SP-16		0.9	0.6	0.1	0.1	0.1	-	1.1	2.8%	0.7	1.5%
SkyScreed		0.2	-	-	-	-	-	0.2	0.5%	-	-
Other ⁽⁵⁾		6.1	6.0	1.5	1.5	1.8	1.9	9.4	24.1%	9.4	20.8%
Total		27.2	30.5	6.7	9.2	5.1	5.3	39.0	100.0%	45.0	100.0%

Notes:

1. EMEA includes the Europe, India, Middle East, Scandinavia and Russia markets.

2. ROW includes the China, Australia, Latin America, Korea, and Southeast Asia markets.

3. Boomed Screeds include the S-22E, S-22EZ, S-15R, and S-10A.

4. Ride-On Screeds include the S-840, S-940, S-485, and S-158C.

5. Other includes parts, accessories, services and freight, as well as other equipment such as the STS-11M Topping Spreader, Copperhead, and Mini Screed C.

Units by product line	H1 2019	H1 2018
Boomed screeds	56	60
Ride-on screeds	75	118
Remanufactured machines	12	13
3-D Profiler System	22	29
SP-16	36	22
SkyScreed	1	-
Total	202	242

Sales to customers located in North America contributed 70% of total revenue (H1 2018: 68%), sales to customers in EMEA (Europe, India, Middle East, Scandinavia, and Russia) contributed 17% (H1 2018: 20%) and sales to customers in ROW (China, Southeast Asia, Australia, Korea and Latin America) contributed 13% (H1 2018: 12%).

Sales in North America totaled US\$ 27.2m (H1 2018: US\$ 30.5m) down 11%, driven by decreased sales of Boomed screeds, Ride-on screeds and 3-D Profiler Systems. Sales to customers in EMEA were US\$ 6.7m (H1 2018: US\$ 9.2m) which declined

27% driven by declines in sales of Boomed screeds and Ride-on screeds. Sales to customers in ROW were US\$ 5.1m (H1 2018: US\$ 5.4m) decreasing by 6% driven by declines in sales of Ride-on screeds, Remanufactured machines and Other revenues.

Regional sales	US\$ in millions	
	H1 2019	H1 2018
North America	27.2	30.5
Europe	5.5	7.4
China	2.5	2.5
Middle East	0.2	1.2
Latin America	0.7	0.5
Other ⁽¹⁾	2.9	2.9
Total	39.0	45.0

Notes:

(1) Includes Australia, India, Southeast Asia, Korea and Russia. Scandinavia has been reclassified to be included in Europe for 2018.

Gross profit

Gross profit percentage slipped to 56.0% compared to 57.5% in H1 2018 primarily due to decreased efficiency due to a lower volume of production along with increases in material costs.

Operating expenses

Operating expenses excluding depreciation, amortization and stock-based compensation for H1 2019 were US\$ 10.8m (H1 2018: US\$ 11.3m).

Debt

There were no changes to the Company's US\$ 10.0m secured revolving line of credit which will mature in February 2021.

Other income (expense)

Other income (expense) was US\$ 0.3m of other expense, compared to other income of US\$ 0.2m in 2018, due to a gain on an exchange of assets.

Provision for income taxes

The provision for income taxes decreased to US\$ 2.4m, at an effective tax rate of 23%, compared to a provision of US\$ 3.0m in H1 2018, at an effective tax rate of 22%.

Earnings per share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock units. Earnings per common share has been computed based on the following:

	Six months ended June 30	
	2019 US\$ 000's	2018 US\$ 000's
Income available to stockholders	8,053	10,578
Basic weighted shares outstanding	56,317,130	56,263,757
Net dilutive effect of stock options and restricted stock units	487,306	448,690
Diluted weighted average shares outstanding	56,804,436	56,712,447
	Per Share US\$	Per Share US\$
Basic earnings per share	0.14	0.19
Diluted earnings per share	0.14	0.19
Basic adjusted net income per share	0.14	0.19
Diluted adjusted net income per share	0.14	0.18

Somero Enterprises, Inc.**Condensed Consolidated Balance Sheets**

As of June 30, 2019 and December 31, 2018

* *unaudited*

	As of June 30, 2019 US\$ 000's	As of December 31, 2018 US\$ 000's
Assets		
Current assets:		
Cash and cash equivalents	15,143	28,233
Accounts receivable – net	12,006	10,231
Inventories – net	12,885	10,813
Prepaid expenses and other assets	1,513	1,501
Total current assets	41,547	50,778
Accounts receivable, non-current – net	946	346
Property, plant, and equipment – net	11,782	12,001
Financing lease right-of-use assets-net	542	-
Operating lease right-of-use assets-net	1,328	-
Intangible assets – net	1,774	-
Goodwill	3,229	2,878
Deferred tax asset	1,066	850
Other assets	248	226
Total assets	62,462	67,079
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	3,039	2,146
Accrued expenses	4,877	6,391
Financing lease liability – current	137	-
Operating lease liability – current	247	-
Income tax payable	3,774	3,012
Total current liabilities	12,074	11,549
Financing lease liability – long-term	238	-
Operating lease liability – long-term	1,090	-
Other liabilities	229	430
Total liabilities	13,631	11,979
Stockholders' equity		
Preferred stock, US\$.001 par value, 50,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, US\$.001 par value, 80,000,000 shares authorized, 56,425,598 and 56,425,598 shares issued and 56,338,342 and 56,288,329 shares outstanding at June 30, 2019 and December 31, 2018, respectively	26	26
Less: treasury stock, 87,256 shares as of June 30, 2019 and 137,269 shares as of December 31, 2018 at cost	(213)	(326)
Additional paid in capital	16,624	16,969
Retained earnings	35,110	41,255
Other comprehensive loss	(2,716)	(2,824)
Total stockholders' equity	48,831	55,100
Total liabilities and stockholders' equity	62,462	67,079

See notes to unaudited consolidated financial statements.

Somero Enterprises, Inc.**Consolidated Statements of Comprehensive Income**

For the six months ended June 30, 2019 and 2018

** unaudited*

	Six months ended June 30	
	2019	2018
	US\$ 000's	US\$ 000's
	<i>Except per</i>	<i>Except per</i>
	<i>share data</i>	<i>share data</i>
Revenue	39,012	44,974
Cost of sales	17,160	19,114
Gross profit	21,852	25,860
Operating expenses		
Sales, marketing and customer support	5,419	5,770
Engineering and product development	1,046	928
General and administrative	5,240	5,714
Total operating expenses	11,705	12,412
Operating income	10,147	13,448
Other income (expense)		
Interest expense	(21)	(18)
Interest income	116	76
Foreign exchange impact	(54)	(7)
Other	266	127
Income before income taxes	10,454	13,626
Provision for income taxes	2,401	3,048
Net income	8,053	10,578
Other comprehensive income		
Cumulative translation adjustment	108	(303)
Change in fair value of derivative instruments - net of income taxes	-	1
Comprehensive income	8,161	10,276
Earnings per common share		
Earnings per share – basic	0.14	0.19
Earnings per share – diluted	0.14	0.19
Weighted average number of common shares outstanding		
Basic	56,317,130	56,263,757
Diluted	56,804,436	56,712,447

See notes to unaudited consolidated financial statements.

Somero Enterprises, Inc.

Consolidated Statements of Changes in Stockholders' Equity

For the six months ended June 30, 2019

** unaudited*

	<u>Common stock</u>			<u>Treasury stock</u>			<u>Other</u>	<u>Total</u>
	Shares	Amount US\$ 000	Additional Paid-in Capital US\$ 000	Shares	Amount US\$ 000	Retained earnings US\$ 000	Comprehensive income (loss) US\$ 000	Stockholders' Equity US\$ 000
Balance - December 31, 2018	56,425,598	26	16,969	137,269	(326)	41,255	(2,824)	55,100
Cumulative translation adjustment	-	-	-	-	-	-	108	108
Net income	-	-	-	-	-	8,053	-	8,053
Stock based compensation	-	-	361	-	-	-	-	361
Dividend	-	-	-	-	-	(14,198)	-	(14,198)
Treasury stock	-	-	(113)	(50,013)	113	-	-	-
RSUs settled for cash	-	-	(593)	-	-	-	-	(593)
Balance - June 30, 2019	56,425,598	26	16,624	87,256	(213)	35,110	(2,716)	48,831

See notes to unaudited consolidated financial statements.

Somero Enterprises, Inc.**Consolidated Statements of Cash Flows**

For the six months ended June 30, 2019 and 2018

**unaudited*

	Six months ended June 30	
	2019	2018
	US\$ 000's	US\$ 000's
Cash flows from operating activities:		
Net income	8,053	10,578
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	(216)	141
Depreciation and amortization	549	566
Non-cash lease expense	123	-
Bad debt	60	88
Stock based compensation	361	498
Gain on non-cash payment for intangible asset	(171)	-
Loss on disposal of property and equipment	16	-
Working capital changes:		
Accounts receivable	(2,435)	2,082
Inventories	(1,971)	(1,591)
Prepaid expenses and other assets	(12)	424
Other assets	(22)	2
Accounts payable, accrued expenses and other liabilities	(697)	(757)
Income taxes payable	762	283
Net cash provided by operating activities	4,400	12,314
Cash flows from investing activities:		
Proceeds from sale of property and equipment	-	15
Property and equipment purchases	(587)	(568)
Payment for intangible asset	(138)	-
Business acquisition, net of cash acquired	(2,000)	-
Net cash used in investing activities	(2,725)	(553)
Cash flows from financing activities:		
Payment of dividend	(14,198)	(9,200)
RSUs settled for cash	(593)	(541)
Purchase of treasury stock	-	(22)
Stock options settled for cash	-	(83)
Payments under financing leases	(82)	-
Net cash used in financing activities	(14,873)	(9,846)
Effect of exchange rates on cash and cash equivalents	108	(303)
Net increase (decrease) in cash and cash equivalents	(13,090)	1,612
Cash and cash equivalents:		
Beginning of period	28,233	19,038
End of period	15,143	20,650

See notes to unaudited consolidated financial statements.

Notes to the Consolidated Financial Statements

As of June 30, 2019 and December 31, 2018

1. Organization and description of business

Nature of business

Somero Enterprises, Inc. (the “Company” or “Somero”) designs, assembles, remanufactures, sells and distributes concrete levelling, contouring and placing equipment, related parts and accessories, and training services worldwide. Somero’s Operations and Support Offices are located in Michigan, USA with Global Headquarters and Training Facilities in Florida, USA. Sales and service offices are located in Chesterfield, England; Shanghai, China; and New Delhi, India.

2. Summary of significant accounting policies

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America.

Principles of consolidation

The consolidated financial statements include the accounts of Somero Enterprises, Inc. and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Cash and cash equivalents

Cash includes cash on hand, cash in banks, and temporary investments with a maturity of three months or less when purchased. The Company maintains deposits primarily in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (“FDIC”). The Company has not experienced any losses related to amounts in excess of FDIC limits.

Accounts receivable and allowances for doubtful accounts

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company’s accounts receivable are derived from revenue earned from a diverse group of customers. The Company performs credit evaluations of its commercial customers and maintains an allowance for doubtful accounts receivable based upon the expected ability to collect accounts receivable. Allowances, if necessary, are established for amounts determined to be uncollectible based on specific identification and historical experience. As of June 30, 2019 and December 31, 2018, the allowance for doubtful accounts was approximately US\$ 835,000 and US\$ 785,000, respectively. Bad debt expense for the six months ended June 30, 2019 and 2018, was US\$ 60,000 and US\$ 88,000, respectively.

Inventories

Inventories are stated using the first in, first out (“FIFO”) method, at the lower of cost or net realizable value (“NRV”). Provision for potentially obsolete or slow-moving inventory is made based on management’s analysis of inventory levels and future sales forecasts. As of June 30, 2019 and December 31, 2018, the provision for obsolete and slow moving inventory was US\$ 344,000 and US\$ 343,000, respectively.

Business combinations and purchase accounting

The Company includes the results of operations of the businesses that it acquires as of the applicable acquisition date. The purchase price of the acquisition is allocated to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Intangible assets and goodwill

Intangible assets consist primarily of customer relationships, trademarks and patents, and are carried at their fair value when acquired, less accumulated amortization. Intangible assets are amortized using the straight-line method over a period of three to twelve years, which is their estimated period of economic benefit.

Goodwill is not amortized but is subject to impairment tests on an annual basis, and the Company has chosen December 31 as its periodic assessment date. Goodwill represents the excess cost of the business combination over the Group's interest in the fair value of the identifiable assets and liabilities. Goodwill arose from the Company's prior sale from Dover Corporation to The Gores Group in 2005 and the purchase of the Line Dragon, LLC business assets in January 2019. The Company did not incur a goodwill impairment loss for the periods ended June 30, 2019 nor December 31, 2018.

Revenue recognition

The Company adopted ASC 606 "Revenue from contracts with customers" on January 1, 2018. The new revenue recognition standard requires revenue recognition based on a five-step model that includes: identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price and recognizing the revenue. The standard results in the recognition of revenue depicting the transfer of promised goods or services to customers in an amount reflecting the expected consideration to be received from the customer for such goods and services, based on the satisfaction of performance obligations, occurring when the control of the goods or services transfer to the customer. The Company's contracts and customer orders originate with fixed determinable unit prices for each deliverable quantity of goods defined by the customer order line item (performance obligation) and include the specific due date for the transfer of control and title of each of those deliverables to the customer at pre-established payment terms. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods.

The Company generates revenue by selling equipment, parts, accessories, service agreements and training. The Company recognizes revenue for equipment, parts and accessories when it satisfies the performance obligation of transferring the control to the customer. For product sales where shipping terms are FOB shipping point, revenue is recognized upon shipment. For arrangements which include FOB destination shipping terms, revenue is recognized upon delivery to the customer. The Company recognizes the revenue for service agreements and training once the service or training has occurred.

The change in accounting principle from ASC 605 to ASC 606 did not materially impact the amount of revenue recognized in the Company's financial statements.

Prior to the adoption of this standard the Company recognized revenue in accordance with ASC 605-10, "Revenue Recognition in Financial Statements". Revenue was recognized when persuasive evidence of an arrangement existed, delivery or service had occurred, the sale price was fixed or determinable and receipt of payment was probable.

The Company believes its previous recognition policy as related to the sale of equipment and training are consistent with the new revenue recognition standard defined within FASB ASC 606 which requires unique performance obligations be recognized upon satisfaction of the performance obligation at the point in time when the control of goods is transferred to the customer (sale of equipment) or services are performed (training).

During the six months ended June 30, 2019 and 2018, there was US\$ 177,000 and US\$ 334,000, respectively, of revenue recognized during the period from customer deposit liabilities (deferred contract revenue).

As of June 30, 2019 and December 31, 2018 there are US\$ 238,000 and US\$ 315,000, respectively, in customer deposit liabilities for advance payments received during the period for contracts expected to ship following the end of the period. As of June 30, 2019 and December 31, 2018, there are no significant contract costs such as sales commissions or costs deferred. Interest income on financing arrangements is recognized as interest accrues, using the effective interest method.

Leases

The Company adopted ASU 2016-02-Leases (Topic 842), as of January 1, 2019 and elected to use ASU 2018-11-Leases (Topic 842), Targeted Improvements, issued by the FASB in July 2018. ASU 2018-11 provides that adopters may take a prospective approach when transitioning to ASU 2016-02. Effectively, an entity would be permitted to change its date of initial application to the beginning of the period of adoption. As such, an entity is not required to adjust comparative period financial information or disclosures for the impacts of ASC 842. ASC 840 presentation and disclosures would be carried forward for comparative periods presented in which ASC 840 was utilized. Additionally, the entity would recognize the effects of applying ASC 842 as a cumulative-effect adjustment to retained earnings as of the effective date. Applying ASU 2018-11, the Company elected to present results for the period beginning January 1, 2019 using ASC 842 and comparative periods presented will use presentation and disclosures in accordance with ASC 840.

Warranty liability

The Company provides warranties on all equipment sales ranging from 60 days to three years, depending on the product. Warranty liabilities are estimated net of the warranty passed through to the Company from vendors, based on specific identification of issues and historical experience.

	US\$ 000
Balance, January 1, 2018	(551)
Warranty charges	475
Accruals	(537)
Balance, December 31, 2018	(613)
Balance, January 1, 2019	(613)
Warranty charges	203
Accruals	(304)
Balance, June 30, 2019	(714)

Property, plant, and equipment

Property, plant and equipment is stated at estimated market value based on an independent appraisal at the acquisition date or at cost for subsequent acquisitions, net of accumulated depreciation and amortization. Land is not depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is 31.5 to 40 years for buildings (depending on the nature of the building), 15 years for improvements, and 3 to 10 years for machinery and equipment.

Income taxes

The Company determines income taxes using the asset and liability approach. Tax laws require items to be included in tax filings at different times than the items reflected in the financial statements. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance, if necessary, to the extent that it appears more likely than not, that such assets will be unrecoverable.

The Company evaluates tax positions that have been taken or are expected to be taken in its tax returns and records a liability for uncertain tax positions. This involves a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Stock based compensation

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The Company measures the cost of employee services in exchange for an award based on the grant-date fair value of the award. Compensation expense related to stock-based payments was US\$ 361,000 and US\$ 498,000 for the six months ended June 30, 2019 and 2018, respectively. The Company settled US\$ 0 and US\$ 83,000 in stock options for cash during the six months ended June 30, 2019 and 2018, respectively. In addition, the Company settled US\$ 593,000 and US\$ 541,000 in restricted stock units for cash and conversion to common shares during the six months ended June 30, 2019 and 2018, respectively.

Transactions in and translation of foreign currency

The functional currency for the Company's subsidiaries outside the United States is the applicable local currency. The preparation of the consolidated financial statements requires the translation of these financial statements to USD. Balance sheet amounts are translated at period-end exchange rates and the statement of comprehensive income accounts are translated at average rates. The resulting gains or losses are charged directly to accumulated other comprehensive income. The Company is also exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and some assets and liabilities of its foreign subsidiaries, are denominated in foreign currencies other than the designated functional currency. Gains and losses from transactions are included as foreign exchange gain (loss) in the accompanying consolidated statements of comprehensive income.

Comprehensive income

Comprehensive income is the combination of reported net income and other comprehensive income ("OCI"). OCI is changes in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources not included in net income.

Earnings per share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued using the treasury stock method. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock units. Earnings per common share have been computed based on the following:

	Six months ended June 30	
	2019	2018
	US\$ 000's	US\$ 000's
Net income	8,053	10,578
Basic weighted shares outstanding	56,317,130	56,263,757
Net dilutive effect of stock options and restricted stock units	487,306	448,690
Diluted weighted average shares outstanding	56,804,436	56,712,447

Fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short-term nature of these instruments. The carrying value of our long-term debt approximates fair value due to the variable nature of the interest rates under our Credit Facility.

The FASB has issued accounting guidance on fair value measurements. This guidance provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it.

This guidance also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. These valuation techniques may be based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy.

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- Level 3 – Unobservable inputs for the asset or liability which are supported by little or no market activity and reflect the Company's assumptions that a market participant would use in pricing the asset or liability.

		Quoted prices in active markets identical assets <i>Level 1</i>	Significant other observable inputs <i>Level 2</i>	Significant other unobservable inputs <i>Level 3</i>
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
<i>Year ended December 31, 2018</i>				
Asset: Non-recurring				
Goodwill	2,878			2,878
<i>Period ended June 30, 2019</i>				
Asset: Non-recurring				
Goodwill	3,229			3,229

New accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under US GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing US GAAP. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The company adopted the new standard using the full retrospective approach.

In February 2016, the FASB released Accounting Standard Update 2016-02, Leases. The new guidance requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. Lessees are required to recognize a single lease cost, amortized on a straight-line basis over the lease term for operating leases. All cash payments are to be classified as operating activities on the cash flow statement. The update is effective for fiscal years beginning after December 15, 2018, and interim periods therein. The Company has implemented the new guidance under ASC 842, using the Targeted Improvements, ASU 2018-11, as of January 1, 2019.

3. Inventories

Inventories consisted of the following:

	June 30, 2019 US\$ 000's	December 31, 2018 US\$ 000's
Raw material, net	4,589	3,617
Finished goods and work in process, net	4,293	3,634
Remanufactured	4,003	3,562
Total	12,885	10,813

4. Acquisition

On January 15, 2019, the Company concurrently executed a settlement agreement and mutual release with Daniel R. Stolfus and Line Dragon, LLC (collectively "Line Dragon"), including an asset purchase agreement whereby the Company acquired substantially all of the business assets of Line Dragon (collectively the "Agreements"). The purchase price consists of US\$ 2,000,000 in cash and additional consideration (the "Performance Payments") during the period beginning on the day immediately following the close date and ending on May 29, 2031 (the "Performance Period"). The Performance Payments are calculated 3% of gross revenues from the sale of SP-16 or Line Dragon concrete puller or placer equipment. The Performance Payments for any full calendar year during the Performance Period shall not be less than \$30,000 and the Purchase Price, including the Performance Payments, is subject to a cap.

The purchase was treated as a business combination as it met certain criteria stipulated in ASC 805 - Business Combinations. The Company expects the acquisition of the Line Dragon assets will complement its SP-16 Line Pulling & Placing System product offering. The acquisition of Line Dragon is strategically significant in revenue for the Company, however at the time of the acquisition and June 30, 2019, the Company concluded that historical results of the acquisition was not material to the Company's consolidated financial results and therefore additional pro-forma disclosures are not presented.

The Company completed the Line Dragon purchase price allocation. Of the total purchase price, approximately US\$ 187,000 was attributed to inventory, US\$ 25,000 was attributed to property and equipment, US\$ 1,048,000 was attributed to specifically identified intangible assets, including patents, trademarks, and customer relations, US\$ 400,000 in other intangible assets and US\$ 351,000 was attributed to goodwill. The Company also assumed US\$ 11,000 of warranty liability.

5. Goodwill and intangible assets

Goodwill represents the excess of the cost of business combinations over the fair value of the net assets acquired. The Company is required to test goodwill for impairment, at the reporting unit level, annually and when events or circumstances indicate the fair value of a unit may be below its carrying value. The following table reflects other intangible assets:

		Weighted average Amortization Period	June 30, 2019 US\$ 000's	December 31, 2018 US\$ 000's
<i>Capitalized cost</i>	Patents	12 years	19,247	18,538
	Intangible Assets		7,434	6,300
			26,681	24,838
<i>Accumulated amortization</i>	Patents	12 years	18,567	18,538
	Intangible Assets		6,340	6,300
			24,907	24,838
<i>Net carrying costs</i>	Patents	12 years	680	-
	Intangible Assets		1,094	-
			1,774	-

Amortization expense associated with the intangible assets in each of the six months ended June 30, 2019 and 2018 was approximately US\$ 69,000 and US\$ 0, respectively.

6. Property, plant, and equipment

Property, plant, and equipment consist of the following:

	June 30, 2019 US\$ 000's	December 31, 2018 US\$ 000's
Land	864	864
Building and improvements	10,706	11,128
Machinery and equipment	5,424	5,022
Sub-total	16,994	17,014
Less: accumulated depreciation and amortization	(5,212)	(5,013)
Total	11,782	12,001

Depreciation expense for the six months ended June 30, 2019 and 2018 was approximately US\$ 480,000 and US\$ 566,000, respectively.

7. Line of credit and interest

In February 2016, the Company entered into an amended credit facility which consists of a US\$ 10.0m secured revolving line of credit that will mature in February 2021. The interest rate on the revolving credit line is based on the one-month LIBOR rate plus 1.25%. The Company's credit facility is secured by substantially all its business assets. No amounts are outstanding under the secured revolving credit line as of June 30, 2019 and December 31, 2018.

Interest expense for the six months ended June 30, 2019 and 2018 was approximately US\$ 20,600 and US\$ 17,500, respectively, and relates primarily to interest costs on leased vehicles.

8. Retirement program

The Company has a savings and retirement plan for its employees, which is intended to qualify under Section 401(k) of the Internal Revenue Code ("IRC"). This savings and retirement plan provides for voluntary contributions by participating employees, not to exceed maximum limits set forth by the IRC. The Company's matching contributions vest immediately. The Company contributed approximately US\$ 348,000 to the savings and retirement plan during the six months ended June 30, 2019 and contributed US\$ 291,000 during the six months ended 2018.

9. Leases

The Company leases property, vehicles, and equipment under leases accounted for as operating and finance leases. The leases have remaining lease terms of less than 1 year to 13 years, some of which include options for renewal. The exercise of these renewal options is at the sole discretion of the Company. The right-of-use assets and related liabilities presented on the Consolidated Balance Sheet, reflect Management's current expectations regarding the exercise of renewal options.

The components for lease expense were as follows:

	Six Months Ended June 30, 2019 US\$ 000's
Operating lease cost	153
Finance lease cost:	
Amortization of right-of-use assets	123
Interest on lease liabilities	7
Total finance lease cost	130

As of June 30, 2019, the weighted average remaining lease term for finance and operating leases was 3.0 years and 10.5 years, respectively and the weighted average discount rate was 4.7% and 4.4%, respectively.

Maturities of lease liabilities represent the remaining six months for 2019 and the full 12 months of each successive period as follows:

	Operating Leases US\$ 000's	Finance Leases US\$ 000's
2019	142	81
2020	304	138
2021	156	112
2022	103	60
2023	98	12
Thereafter	883	-
Total	1,686	403
Less imputed interest	(349)	(28)
Total	1,337	375

10. Supplemental cash flow and non-cash financing disclosures

	Six months ended June 30	
	2019	2018
	US\$ 000's	US\$ 000's
Cash paid for interest	20	17
Cash paid for taxes	1,890	2,857
Non-cash financing activities - change in fair value of derivative instruments	-	1

11. Business and credit concentration

The Company's line of business could be significantly impacted by, among other things, the state of the general economy, the Company's ability to continue to protect its intellectual property rights, and the potential future growth of competitors. Any of the foregoing may significantly affect management's estimates and the Company's performance. At June 30, 2019 and December 31, 2018, the Company had two customers which represented 18% and 23% of total accounts receivable, respectively.

12. Commitments and contingencies

The Company has entered into employment agreements with certain members of senior management. The terms of these are for renewable one-year periods and include non-compete and nondisclosure provisions as well as provide for defined severance payments in the event of termination or change in control.

The Company is subject to various unresolved legal actions which arise in the normal course of its business. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible losses, the Company believes these unresolved legal actions will not have a material effect on its consolidated financial statements.

13. Income taxes

The Company's effective tax rate for the six months ended June 30, 2019 was 23% compared to the federal statutory rate of 21%. The Company is subject to US federal income tax as well as income tax of multiple state and foreign jurisdictions. The Company was formed in 2005. The statute of limitations for all federal, foreign and state income tax matters for tax years from 2014 forward is still open. The Company has no federal, foreign or state income tax returns currently under examination.

At June 30, 2019, the Company had US\$ 1.1m in non-current net deferred tax assets recorded on its balance sheet. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

14. Subsequent events

Dividend

The Board declared an interim dividend for the six months ended June 30, 2019 of 5.75 US cents per share. This dividend will be payable on October 17, 2019 to shareholders on the register at September 27, 2019.