AAON INC
Form 10-Q
May 02, 2019

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

FORM 10-Q

[a] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019
or

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

For the transition period from ____________________ to ____________________

Commission file number: 0-18953
AAON, INC.
(Exact name of registrant as specified in its charter)

Nevada	87-0448736
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2425 South Yukon, Tulsa, Oklahoma 74107
(Address of principal executive offices) (Zip Code)
(918) 583-2266
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [ü] No [ ]

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

Large accelerated filer [ü]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]
	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.[ ]

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	AAON	NASDAQ

As of April 30, 2019, registrant had outstanding a total of 52,115,261 shares of its $.004 par value Common Stock.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.
AAON, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	March 31, 2019	December 31, 2018
Assets	(in thousands, except share and per share data)	
Current assets:		
Cash and cash equivalents	$7,143	$ 1,994
Accounts receivable, net	58,688	54,078
Income tax receivable	4,756	6,104
Note receivable	27	27
Inventories, net	74,577	77,612
Prepaid expenses and other	1,607	1,046
Total current assets	146,798	140,861
Property, plant and equipment:		
Land	3,114	3,114
Buildings	98,394	97,393
Machinery and equipment	215,928	212,779
Furniture and fixtures	17,079	16,597
Total property, plant and equipment	334,515	329,883
Less: Accumulated depreciation	167,863	166,880
Property, plant and equipment, net	166,652	163,003
Intangible assets, net	447	506
Goodwill	3,229	3,229
Right of use assets	1,796	—
Note receivable	603	598
Total assets	$319,525	$ 308,197
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit facility	$—	$ —
Accounts payable	5,947	10,616
Accrued liabilities	38,053	37,455
Total current liabilities	44,000	48,071
Deferred tax liabilities	12,713	10,826
Other long-term liabilities	3,442	1,801
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value, 5,000,000 shares authorized, no shares issued	—	—
Common stock, $.004 par value, 100,000,000 shares authorized, 52,099,274 and 51,991,242 issued and outstanding at March 31, 2019 and December 31, 2018, respectively	208	208
Additional paid-in capital	969	—
Retained earnings	258,193	247,291
Total stockholders' equity	259,370	247,499

Total liabilities and stockholders' equity	$319,525	$ 308,197

The accompanying notes are an integral part of these consolidated financial statements.

AAON, Inc. and Subsidiaries
Consolidated Statements of Income
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
	(in thousands, except share and per share data)	
Net sales	$113,822	$ 99,082
Cost of sales	88,029	83,692
Gross profit	25,793	15,390
Selling, general and administrative expenses	11,001	10,219
Loss (gain) on disposal of assets	284	(7)
Income from operations	14,508	5,178
Interest income, net	9	68
Other expense, net	(26)	(6)
Income before taxes	14,491	5,240
Income tax provision	3,589	980
Net income	$10,902	$ 4,260
Earnings per share:		
Basic	$0.21	$ 0.08
Diluted	$0.21	$ 0.08
Weighted average shares outstanding:		
Basic	51,992,150	52,433,902
Diluted	52,369,660	52,910,223

The accompanying notes are an integral part of these consolidated financial statements.

AAON, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(Unaudited)

	Common Stock		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
	(in thousands)				
Balances at December 31, 2018	51,991	$ 208	$ —	$ 247,291	$ 247,499
Net income	—	—	—	10,902	10,902
Stock options exercised and restricted stock awards granted	237	1	4,009	—	4,010
Share-based compensation	—	—	2,030	—	2,030
Stock repurchased and retired	(129)	(1)	(5,070)	—	(5,071)
Balances at March 31, 2019	52,099	$ 208	$ 969	$ 258,193	$ 259,370

The accompanying notes are an integral part of these consolidated financial statements.

AAON, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Operating Activities	(in thousands)	
Net income	$10,902	$4,260
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,914	4,129
Amortization of bond premiums	—	5
Provision for losses on accounts receivable, net of adjustments	115	(11)
Provision for excess and obsolete inventories	357	101
Share-based compensation	2,030	1,724
Loss (gain) on disposition of assets	284	(7)
Foreign currency transaction gain	(16)	3
Interest income on note receivable	(6)	9
Deferred income taxes	1,887	420
Changes in assets and liabilities:		
Accounts receivable	(4,725)	(2,897)
Income taxes	1,348	(5,673)
Inventories	2,678	3,447
Prepaid expenses and other	(561)	(712)
Accounts payable	(5,730)	9,833
Deferred revenue	25	37
Accrued liabilities and donations	411	(3,924)
Net cash provided by operating activities	14,913	10,744
Investing Activities		
Capital expenditures	(8,772)	(8,451)
Cash paid in business combination	—	(6,000)
Proceeds from sale of property, plant and equipment	52	6
Investment in certificates of deposits	—	(4,320)
Maturities of certificates of deposits	—	1,200
Purchases of investments held to maturity	—	(7,495)
Maturities of investments	—	4,230
Proceeds from called investments	—	395
Principal payments from note receivable	17	14
Net cash used in investing activities	(8,703)	(20,421)
Financing Activities		
Stock options exercised	4,010	1,340
Repurchase of stock	(4,483)	(4,379)
Employee taxes paid by withholding shares	(588)	(568)
Net cash used in financing activities	(1,061)	(3,607)
Net increase (decrease) in cash and cash equivalents	5,149	(13,284)
Cash and cash equivalents, beginning of period	1,994	21,457
Cash and cash equivalents, end of period	$7,143	$8,173

The accompanying notes are an integral part of these consolidated financial statements.

AAON, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements
(Unaudited)

1. General

Basis of Presentation

The accompanying unaudited consolidated financial statements of AAON, Inc., a Nevada corporation, and our operating subsidiaries, all of which are wholly-owned, (collectively, the “Company”) have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the rules and regulations of the Securities and Exchange Commission (“SEC”). These financial statements have not been audited by the Company's independent registered public accounting firm, except that the consolidated balance sheet at December 31, 2018 is derived from audited consolidated financial statements. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The financial statements reflect all adjustments (all of which are of a normal recurring nature) which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Interim results are not necessarily indicative of the results that may be expected for a full year. Certain disclosures have been condensed in or omitted from these consolidated financial statements. The accompanying unaudited financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018. All intercompany balances and transactions have been eliminated in consolidation.

We are engaged in the engineering, manufacturing, marketing and sale of air conditioning and heating equipment consisting of standard, semi-custom and custom rooftop units, chillers, packaged outdoor mechanical rooms, air handling units, makeup air units, energy recovery units, condensing units, geothermal/water-source heat pumps, coils and controls.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because these estimates and assumptions require significant judgment, actual results could differ from those estimates and could have a significant impact on our results of operations, financial position and cash flows. We reevaluate our estimates and assumptions as needed, but at a minimum on a quarterly basis. The most significant estimates include, but are not limited to, the fair-value of acquisitions, inventory reserves, warranty accrual, worker's compensation accrual, medical insurance accrual, income taxes and share-based compensation. Actual results could differ materially from those estimates.

Accounting Policies

A comprehensive discussion of our critical accounting policies and management estimates is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2018.

Business Combinations

We record the assets acquired and liabilities assumed in a business combination at their acquisition date fair values.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value is based upon assumptions that market participants would use when pricing an asset or liability. We use the following fair value hierarchy, which prioritizes valuation technique inputs used to measure fair value into three broad levels:

- Level 1: Quoted prices in active markets for identical assets and liabilities that we have the ability to access at the measurement date.
- Level 2: Inputs (other than quoted prices included within Level 1) that are either directly or indirectly observable for the asset or liability, including (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in inactive markets, (iii) inputs other than quoted prices that are observable for the asset or liability, and (iv) inputs that are derived from observable market data by correlation or other means.

Level 3: Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability. Items categorized in Level 3 include the estimated business combination fair values of property, plant and equipment, intangible assets and goodwill.

The fair value hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value might fall into different levels of the fair value hierarchy. The lowest level input that is significant to a fair value measurement determines the applicable level in the fair value hierarchy. Assessing the significance of a particular input to a fair value measurement requires judgment, considering factors specific to the asset or liability.

Intangible Assets

Our intangible assets include various trademarks, service marks and technical knowledge acquired in our February 2018 business combination (see Note 3). We amortize our intangible assets on a straight-line basis over the estimated useful lives of the assets. We evaluate the carrying value of our amortizable intangible assets for potential impairment when events and circumstances warrant such a review.

Goodwill

Goodwill represents the excess of the consideration paid for the acquired businesses over the fair value of the individual assets acquired, net of liabilities assumed. Goodwill at March 31, 2019 is deductible for income tax purposes. Goodwill is not amortized, but instead is evaluated for impairment at least annually. We perform our annual assessment of impairment during the fourth quarter of our fiscal year, and more frequently if circumstances warrant.

Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of Accounting Standards Updates ("ASUs") to the FASB's Accounting Standards Codification ("ASC").

We consider the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial statements and notes thereto.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurements: Changes to the Disclosure Requirement for Fair Value Measurements. The ASU includes additional disclosure requirements for unrealized gains and losses for Level 3 fair value measurement and significant observable inputs used to develop Level 3 fair value measurements. The ASU is effective for the Company beginning after December 15, 2019. We do not expect ASU 2018-13 will have a material effect on our consolidated financial statements and notes thereto.

2. Revenue Recognition

On January 1, 2018, we adopted the new accounting standard FASB ASC 606, Revenue from Contracts with Customers, and all the related amendments to all contracts using the retrospective method. The impact at adoption was not material to the consolidated financial statements. The new accounting policy provides results substantially consistent with prior revenue recognition policies.

Disaggregated net sales by major source:

	Three months ended March 31,	
	2019	2018
Rooftop Units	$88,343	$74,815
Condensing Units	4,050	4,281
Air Handlers	5,594	5,240
Outdoor Mechanical Rooms	482	973
Water Source Heat Pumps	5,844	4,387
Part Sales	6,490	5,960
Other	3,019	3,426
Net Sales	$113,822	$99,082

Disaggregated units sold by major source:

	Three months ended March 31,	
	2019	2018
Rooftop Units	3,762	3,468
Condensing Units	394	411
Air Handlers	580	536
Outdoor Mechanical Rooms	11	14
Water Source Heat Pumps	2,289	1,614
Total Units	7,036	6,043

The Company recognizes revenue when it satisfies the performance obligation in its contracts. Most of the Company's products are highly customized, cannot be resold to other customers and the cost of rework to be resold is not economical. The Company has a formal cancellation policy and generally does not accept returns on these units. As a result, many of the Company's products do not have an alternative use and therefore, for these products we recognize revenue over the time it takes to produce the unit. For all other products that are part sales or standardized units, we satisfy the performance obligation when the title and risk of ownership pass to the customer, generally at time of shipment. Final sales prices are fixed based on purchase orders. Sales allowances and customer incentives are treated as reductions to sales and are provided for based on historical experiences and current estimates. Sales of our products are moderately seasonal with the peak period being July - November of each year.

In addition, the Company presents revenues net of sales tax and net of certain payments to our independent manufacturer representatives ("Representatives"). Representatives are national companies that are in the business of providing HVAC units and other related products and services to customers. The end user customer orders a bundled group of products and services from the Representative and expects the Representative to fulfill the order. Only after the specifications are agreed to by the Representative and the customer, and the decision is made to use an AAON HVAC unit, will we receive notice of the order. We establish the amount we must receive for our HVAC unit ("minimum sales price"), but do not control the total order price that is negotiated by the Representative with the end user customer.

We are responsible for billings and collections resulting from all sales transactions, including those initiated by our Representatives. The Representatives submit the total order price to us for invoicing and collection. The total order price includes our minimum sales price and an additional amount which may include both the Representatives' fee and amounts due for additional products and services required by the customer. These additional products and services may include controls purchased from another manufacturer to operate the unit, start-up services, and curbs for supporting the unit ("Third Party Products"). All are associated with the purchase of a HVAC unit but may be provided by the Representative or another third party. The Company is under no obligation related to Third Party Products.

The Representatives' fee and Third Party Products amounts ("Due to Representatives") are paid only after all amounts associated with the order are collected from the customer. The amount of payments to our Representatives were $11.5 million and $11.6 million for the three months ended March 31, 2019 and 2018, respectively.

The Company also sells extended warranties on parts for various lengths of time ranging from six months to 10 years. Revenue for these separately priced warranties is deferred and recognized on a straight-line basis over the separately priced warranty period.

3. Business Combination

On February 28, 2018, we closed on the purchase of substantially all of the assets of WattMaster Controls, Inc., ("WattMaster"). The assets acquired consisted primarily of intellectual property, receivables, inventory and fixed assets. The Company also hired substantially all of the WattMaster employees. These assets and workforce have allowed us to accelerate the development of our own electronic controllers for air distribution systems. We funded the business combination with available cash of $6.0 million. We paid the final working capital settlement of $0.4 million with available cash in May 2018. We have included the results of WattMaster's operations in our consolidated financial statements beginning March 1, 2018.

The following table presents the allocation of the consideration paid to the assets acquired and liabilities assumed, based on their fair values, in the acquisition of WattMaster described above:

	(in thousands)
Accounts receivable	$ 1,082
Inventories	1,380
Property, plant and equipment	340
Intellectual property	700
Goodwill	3,229
Assumed current liabilities	(354)
Consideration paid	$ 6,377

Goodwill represents the excess of the consideration paid for the acquired businesses over the fair value of the individual assets acquired, net of liabilities assumed. Goodwill represents a premium paid to acquire the skilled workforce of the business acquired and is deductible for federal income tax purposes.

4. Leases

We adopted ASU No. 2016-02, Leases (Topic 842), as amended, as of January 1, 2019, using the transition method, which becomes effective upon the date of adoption. The transition method allows entities to initially apply the new leases standard at the adoption date (January 1, 2019) and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification. We have also elected the short-term lease measurement and recognition exemption which does not require balance sheet presentation for short-term leases. The Company historically does not enter into numerous or material lease agreements to support its manufacturing operations. Furthermore, any lease agreements entered into are usually less than a year and for leases on non material assets such as warehouse vehicles and office equipment.

Adoption of the new standard resulted in the recording of additional lease right of use assets and lease liabilities of approximately $1.8 million, respectively, as of January 1, 2019, which mostly relates to the multi-year facility lease assumed in the 2018 WattMaster acquisition. The cumulative-effect adjustments to the opening balance was immaterial to the consolidated financial statements as a whole. The standard did not materially impact our consolidated net earnings or cash flows.

5. Accounts Receivable

Accounts receivable and the related allowance for doubtful accounts are as follows:

	March 31, 2019	December 31, 2018
	(in thousands)	
Accounts receivable	$59,067	$ 54,342
Less: Allowance for doubtful accounts	(379)	(264)
Total, net	$58,688	$ 54,078

	Three months ended March 31, 2019	March 31, 2018
Allowance for doubtful accounts:	(in thousands)	
Balance, beginning of period	$264	$ 119
Provisions for losses on accounts receivables, net of adjustments	115	(11)
Balance, end of period	$379	$ 108

6. Inventories

Inventories are valued at the lower of cost or net realizable value. Cost is determined by the first-in, first-out ("FIFO") method. We establish an allowance for excess and obsolete inventories based on product line changes, the feasibility of substituting parts and the need for supply and replacement parts.

The components of inventories are as follows:

	March 31, 2019	December 31, 2018
	(in thousands)	
Raw materials	$67,519	$ 67,995
Work in process	3,131	4,060
Finished goods	5,494	6,767
	76,144	78,822
Less: Allowance for excess and obsolete inventories	(1,567)	(1,210)
Total, net	$74,577	$ 77,612

The related changes in the allowance for excess and obsolete inventories account are as follows:

	Three months ended March 31, 2019	March 31, 2018
Allowance for excess and obsolete inventories:	(in thousands)	
Balance, beginning of period	$1,210	$ 1,118
Provisions for excess and obsolete inventories	357	101
Inventories written off	—	(10)
Balance, end of period	$1,567	$ 1,209

7. Intangible Assets

Our intangible assets consist of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Intellectual property	$700	$ 700
Less: Accumulated amortization	(253)	(194)
Total, net	$447	$ 506

Amortization expense recorded in cost of sales is as follows:

	Three months ended	
	March 31, 2019	March 31, 2018
	(in thousands)	
Amortization expense	$ 59	$ —

8. Supplemental Cash Flow Information

	Three months ended	
	March 31, 2019	March 31, 2018
Supplemental disclosures:	(in thousands)	
Interest paid	$—	$ 5
Income taxes paid	$353	$ 6,232
Non-cash investing and financing activities:		
Non-cash capital expenditures	$1,068	$ 733

9. Warranties

The Company has warranties with various terms ranging from 18 months for parts to 25 years for certain heat exchangers. The Company has an obligation to replace parts if conditions under the warranty are met. A provision is made for estimated warranty costs at the time the related products are sold based upon the warranty period, historical trends, new products and any known identifiable warranty issues.

Changes in the warranty accrual are as follows:

	Three months ended	
	March 31, 2019	March 31, 2018
Warranty accrual:	(in thousands)	
Balance, beginning of period	$11,421	$10,483
Payments made	(1,106)	(1,222)
Provisions	1,109	1,527
Balance, end of period	$11,424	$10,788
Warranty expense:	$1,109	$1,527

10. Accrued Liabilities

Accrued liabilities were comprised of the following:

	March 31, 2019	December 31, 2018
	(in thousands)	
Warranty	$11,424	$ 11,421
Due to representatives	11,154	11,024
Payroll	4,659	4,182
Profit sharing	1,644	1,835
Worker's compensation	504	567
Medical self-insurance	1,010	1,207
Customer prepayments	1,725	2,367
Employee vacation time	3,563	3,173
Other	2,370	1,679
Total	$38,053	$ 37,455

11. Revolving Credit Facility

Our revolving credit facility, as amended, provides for maximum borrowings of $30.0 million, which is provided by BOKF, NA dba Bank of Oklahoma ("Bank of Oklahoma"). Under the line of credit, there is one standby letter of credit totaling $1.3 million. Borrowings available under the revolving credit facility at March 31, 2019 were $28.7 million. Interest on borrowings is payable monthly at LIBOR plus 2.0%. No fees are associated with the unused portion of the committed amount. We had no outstanding balance under the revolving credit facility at March 31, 2019 and December 31, 2018. The revolving credit facility expires on July 26, 2021.

As of March 31, 2019, we were in compliance with our financial covenants. These covenants require that we meet certain parameters related to our tangible net worth and total liabilities to tangible net worth ratio. At March 31, 2019, our tangible net worth was $259.4 million and met the requirement of being at or above $175.0 million. Our total liabilities to tangible net worth ratio was 0.2 to 1, and met the requirement of not being above 2 to 1.

12. Income Taxes

The provision (benefit) for income taxes consists of the following:

	Three months ended	
	March 31, 2019	March 31, 2018
	(in thousands)	
Current	$1,702	$ 560
Deferred	1,887	420
	$3,589	$ 980

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate before the provision for income taxes.

The reconciliation of the Federal statutory income tax rate to the effective income tax rate is as follows:

	Three months ended	
	March 31, 2019	March 31, 2018
Federal statutory rate	21.0 %	21.0 %
State income taxes, net of Federal benefit	6.1	6.8
Excess tax benefits	(2.7)	(8.9)
Other	0.4	(0.2)
Effective tax rate	24.8 %	18.7 %

The Company's estimated annual 2019 effective tax rate, excluding discrete events, is approximately 27%. We file income tax returns in the U.S., state and foreign income tax returns jurisdictions. We are subject to U.S. examinations for tax years 2014 to present, and to non-U.S. income tax examinations for the tax years of 2014 to present. In addition, we are subject to state and local income tax examinations for the tax years 2014 to present. The Company continues to evaluate its need to file returns in various state jurisdictions. Any interest or penalties would be recognized as a component of income tax expense.

13. Share-Based Compensation

On May 22, 2007, our stockholders adopted a Long-Term Incentive Plan (“LTIP”) which provided an additional 3.3 million shares that could be granted in the form of stock options, stock appreciation rights, restricted stock awards, performance units and performance awards, in addition to the shares from the previous plan, the 1992 Plan. Since inception of the LTIP, non-qualified stock options and restricted stock awards have been granted with a five year vesting schedule. Under the LTIP, the exercise price of shares granted could not be less than 100% of the fair market value at the date of the grant.

On May 24, 2016, our stockholders adopted the 2016 Long-Term Incentive Plan ("2016 Plan") which provides for approximately 6.4 million shares, comprised of 3.4 million new shares provided for under the 2016 Plan, approximately 0.4 million shares that were available for issuance under the previous LTIP that are now authorized for issuance under the 2016 Plan, and an additional 2.6 million shares that were approved by the stockholders on May 15, 2018. Under the 2016 Plan, shares can be granted in the form of stock options, stock appreciation rights, restricted stock awards, performance awards, dividend equivalent rights, and other awards. Under the 2016 Plan, the exercise price of shares granted may not be less than 100% of the fair market value at the date of the grant. The 2016 Plan will be administered by the Compensation Committee of the Board of Directors or such other committee of the Board of Directors as is designated by the Board of Directors (the “Committee”). Membership on the Committee shall be limited to independent directors. The Committee may delegate certain duties to one or more officers of the Company as provided in the 2016 Plan. The Committee will determine the persons to whom awards are to be made, determine the type, size and terms of awards, interpret the 2016 Plan, establish and revise rules and regulations relating to the 2016 Plan and make any other determinations that it believes necessary for the administration of the 2016 Plan.

Options - The total pre-tax compensation cost related to unvested stock options not yet recognized as of March 31, 2019 is $32.6 million and is expected to be recognized over a weighted average period of 4.23 years.

The following weighted average assumptions were used to determine the fair value of the stock options granted on the original grant date for expense recognition purposes for options granted during the three months ended March 31, 2019 and 2018 using a Black Scholes-Merton Model:

	Three months ended	
	March 31, 2019	March 31, 2018
Directors and Officers:		
Expected dividend rate	$0.32	$ 0.26
Expected volatility	29.54 %	29.73 %
Risk-free interest rate	2.40 %	2.20 %
Expected life (in years)	5.0	5.0
Employees:		
Expected dividend rate	$0.32	$ 0.26
Expected volatility	29.54 %	29.82