PREFORMED LINE PRODUCTS CO
Form 10-Q
November 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

Commission file number: 0-31164

Preformed Line Products Company

(Exact Name of Registrant as Specified in Its Charter)

Ohio (State or Other Jurisdiction of Incorporation or Organization)	34-0676895 (I.R.S. Employer Identification No.)
660 Beta Drive	
Mayfield Village, Ohio (Address of Principal Executive Office)	44143 (Zip Code)

(440) 461-5200

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	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

The number of common shares outstanding as of October 30, 2017: 5,091,381.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PREFORMED LINE PRODUCTS COMPANY

CONSOLIDATED BALANCE SHEETS

(Thousands of dollars, except share and per share data)	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 39,163	$ 30,737
Accounts receivable, less allowances of $3,440 ($3,210 in 2016)	80,370	63,415
Inventories - net	75,675	74,484
Prepaids	4,814	3,353
Prepaid taxes	4,889	8,682
Other current assets	1,861	8,436
TOTAL CURRENT ASSETS	206,772	189,107
Property, plant and equipment - net	108,307	105,104
Intangibles - net	10,404	10,475
Goodwill	16,689	15,769
Deferred income taxes	10,321	10,208
Other assets	10,132	10,274
TOTAL ASSETS	$ 362,625	$ 340,937
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	$ 24,725	$ 21,978
Notes payable to banks	562	1,315
Current portion of long-term debt	1,448	1,448
Accrued compensation and amounts withheld from employees	13,849	10,040
Accrued expenses and other liabilities	17,199	12,331
Accrued profit-sharing and other benefits	5,578	6,251
Dividends payable	1,050	1,037
Income taxes payable	1,157	1,055
TOTAL CURRENT LIABILITIES	65,568	55,455
Long-term debt, less current portion	32,828	42,943
Unfunded pension obligation	10,058	10,423
Deferred income taxes	2,244	2,078
Other noncurrent liabilities	7,275	6,495
SHAREHOLDERS' EQUITY		
Shareholders' equity:		
Common shares - $2 par value per share, 15,000,000 shares authorized, 5,091,381 and 5,117,753 issued and outstanding, at September 30, 2017 and December 31, 2016,	12,514	12,508

respectively		
Common shares issued to rabbi trust, 298,160 and 297,281 shares at September 30, 2017 and December 31, 2016, respectively	(12,109)	(12,054)
Deferred compensation liability	12,109	12,054
Paid-in capital	26,983	24,629
Retained earnings	312,206	303,415
Treasury shares, at cost, 1,165,736 and 1,136,443 shares at September 30, 2017 and December 31, 2016, respectively	(61,129)	(59,640)
Accumulated other comprehensive loss	(45,922)	(57,369)
TOTAL SHAREHOLDERS' EQUITY	244,652	223,543
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 362,625	$ 340,937

See notes to consolidated financial statements (unaudited).

PREFORMED LINE PRODUCTS COMPANY

STATEMENTS OF CONSOLIDATED INCOME

(UNAUDITED)

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
(Thousands of dollars, except per share data)				
Net sales	$99,239	$88,299	$281,320	$250,202
Cost of products sold	65,704	59,444	193,446	170,252
GROSS PROFIT	33,535	28,855	87,874	79,950
Costs and expenses				
Selling	8,957	8,022	25,867	23,836
General and administrative	11,042	10,579	32,143	31,628
Research and engineering	3,520	3,433	10,821	10,778
Other operating (income) expense - net	206	196	681	(683)
	23,725	22,230	69,512	65,559
OPERATING INCOME	9,810	6,625	18,362	14,391
Other income (expense)				
Interest income	62	63	325	206
Interest expense	(255)	(264)	(831)	(588)
Other income (expense) - net	122	110	259	(46)
	(71)	(91)	(247)	(428)
INCOME BEFORE INCOME TAXES	9,739	6,534	18,115	13,963
Income taxes	3,461	1,792	6,163	3,809
NET INCOME	$6,278	$4,742	$11,952	$10,154
BASIC EARNINGS PER SHARE				
Net income	$1.23	$0.92	$2.34	$1.96
DILUTED EARNINGS PER SHARE				
Net income	$1.23	$0.92	$2.33	$1.95
Cash dividends declared per share	$0.20	$0.20	$0.60	$0.60
Weighted-average number of shares outstanding - basic	5,104	5,146	5,113	5,180
Weighted-average number of shares outstanding - diluted	5,120	5,169	5,129	5,200

See notes to consolidated financial statements (unaudited).

PREFORMED LINE PRODUCTS COMPANY

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
(Thousands of dollars)				
Net income	$6,278	$4,742	$11,952	$10,154
Other comprehensive income, net of tax				
Foreign currency translation adjustment	2,960	1,286	11,242	3,298
Recognized net actuarial gain (net of tax provision of $30 and $55 for the three months ended September 30, 2017 and 2016, respectively, and net of tax provision of $119 and $147 for the nine months ended September 30, 2017 and 2016, respectively.)	50	91	205	244
Other comprehensive income, net of tax	3,010	1,377	11,447	3,542
Comprehensive income	$9,288	$6,119	$23,399	$13,696

See notes to consolidated financial statements (unaudited).

PREFORMED LINE PRODUCTS COMPANY

STATEMENTS OF CONSOLIDATED CASH FLOWS

(UNAUDITED)

	Nine Months Ended September 30	
(Thousands of dollars)	2017	2016
OPERATING ACTIVITIES		
Net income	$11,952	$10,154
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation and amortization	9,108	8,602
Provision for accounts receivable allowances	926	698
Provision for inventory reserves	1,246	1,306
Deferred income taxes	(143)	(1,144)
Share-based compensation expense	2,187	927
Loss on sale of property and equipment	22	2
Other - net	344	411
Changes in operating assets and liabilities		
Accounts receivable	(15,244)	(4,743)
Inventories	589	(2,851)
Trade accounts payable and accrued liabilities	8,847	9,561
Income taxes - net	3,324	(335)
Other - net	(1,445)	(1,552)
NET CASH PROVIDED BY OPERATING ACTIVITIES	21,713	21,036
INVESTING ACTIVITIES		
Capital expenditures	(7,832)	(21,697)
Proceeds from the sale of property and equipment	52	61
Restricted cash and maturity (purchase) of fixed-term deposits - net	7,812	(1,314)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	32	(22,950)
FINANCING ACTIVITIES		
Decrease in notes payable to banks	(826)	(172)
Proceeds from the issuance of long-term debt	38,557	56,513
Payments of long-term debt	(48,752)	(42,650)
Dividends paid	(3,149)	(3,131)
Excess tax expenses from share-based awards	0	(2)
Proceeds from issuance of common shares	0	378
Purchase of common shares for treasury	(2)	(2,915)
Purchase of common shares for treasury from related parties	(1,488)	(1,488)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(15,660)	6,533
Effects of exchange rate changes on cash and cash equivalents	2,341	(2,072)
Net increase in cash and cash equivalents	8,426	2,547
Cash and cash equivalents at beginning of year	30,737	30,393
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$39,163	$32,940

See notes to consolidated financial statements (unaudited).

PREFORMED LINE PRODUCTS COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In thousands, except share and per share data, unless specifically noted)

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Preformed Line Products Company and subsidiaries (the “Company” or “PLPC”) have been prepared in accordance with United States of America (U.S.) generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X.

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ from these estimates. In the opinion of management, these consolidated financial statements contain all estimates and adjustments, consisting of normal recurring accruals, required to fairly present the financial position, results of operations, and cash flows for the interim periods. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full-year ending December 31, 2017.

The Consolidated Balance Sheet at December 31, 2016 has been derived from the audited consolidated financial statements, but does not include all of the information and notes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes to consolidated financial statements included in the Company’s 2016 Annual Report on Form 10-K filed on March 10, 2017 with the Securities and Exchange Commission.

NOTE B – OTHER FINANCIAL STATEMENT INFORMATION

Inventories – net

	September 30, 2017	December 31, 2016
Raw materials	$ 41,354	$ 37,535
Work-in-process	9,781	9,057
Finished Goods	32,889	35,629
	84,024	82,221
Excess of current cost over LIFO cost	(2,964)	(2,784)
Noncurrent portion of inventory	(5,385)	(4,953)
	$ 75,675	$ 74,484

Cost of inventories for certain material is determined using the last-in-first-out (LIFO) method and totaled approximately $26.2 million at September 30, 2017 and $28.6 million at December 31, 2016. An actual valuation of inventories under the LIFO method can be made only at the end of the year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Because these estimates are subject to change and may be different than the actual inventory levels and costs at the end of the year, interim results are subject to the final year-end LIFO inventory valuation. During the three and nine-month periods ended September 30, 2017, the net change in LIFO inventories resulted in $.1 million of expense and $.2 million of expense, respectively, to Income before income taxes. During the three and nine months ended September 30, 2016, the net change in LIFO inventories resulted in a $.2 million and $.3 million benefit to Income before income taxes, respectively.

Noncurrent inventory is included in Other assets on the Consolidated Balance Sheets.

Property, plant and equipment—net

Major classes of Property, plant and equipment are stated at cost and were as follows:

	September 30, 2017	December 31, 2016
Land and improvements	$ 13,287	$ 12,584
Buildings and improvements	75,652	72,662
Machinery, equipment and aircraft	169,916	158,078
Construction in progress	4,020	3,877
	262,875	247,201
Less accumulated depreciation	154,568	142,097
	$ 108,307	$ 105,104

Legal proceedings

The Company and its subsidiaries Helix Uniformed Ltd. ("Helix") and Preformed Line Products (Canada) Limited ("PLPC Canada"), were each named, jointly and severally, with each of SNC-Lavalin ATP, Inc. ("SNC ATP"), HD Supply Canada Inc., by its trade names HD Supply Power Solutions and HD Supply Utilities ("HD Supply"), and Anixter Power Solutions Canada Inc. (the corporate successor to HD Supply, "Anixter" and, together with the Company, PLPC Canada, Helix, SNC ATP and HD Supply, the "Defendants") in a complaint filed by Altalink, L.P. (the "Plaintiff") in the Court of Queen's Bench of Alberta in Alberta, Canada in November 2016 (the "Complaint").

The Complaint states that Plaintiff engaged SNC ATP to design, engineer, procure and construct numerous power distribution and transmission facilities in Alberta (the "Projects") and that through SNC ATP and HD Supply (now Anixter), spacer dampers manufactured by Helix were procured and installed in the Projects. The Complaint alleges that the spacer dampers have and may continue to become loose, open and detach from the conductors, resulting in damage and potential injury and a failure to perform the intended function of providing spacing and damping to the Project. The Plaintiffs are seeking an estimated $56 million in damages jointly and severally from the Defendants, representing the costs of monitoring and replacing the spacer dampers and remediating property damage, due to alleged defects in the design and construction of, and supply of materials for, the Projects by SNC ATP and HD Supply/Anixter and in the design of the spacer dampers by Helix.

The lawsuit is in its very early stages, but the Company believes the claims against it are without merit and intends to vigorously defend against such claims. However, the Company is unable to predict the outcome of this case and, if determined adversely to the Company, it could have a material effect on the Company's financial results.

The Company is not a party to any other pending legal proceedings that the Company believes would, individually or in the aggregate, have a material adverse effect on its financial condition, results of operations or cash flows.

NOTE C – PENSION PLANS

The Company uses a December 31 measurement date for the Preformed Line Products Company Employees' Retirement Plan (the "Plan"). Net periodic pension cost for this plan included the following components:

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Service cost	$65	$42	$192	$152
Interest cost	363	370	1,092	1,099
Expected return on plan assets	(476)	(470)	(1,427)	(1,369)
Recognized net actuarial loss	80	146	324	392
Net periodic pension cost	$32	$88	$181	$274

The Company made $.2 million in contributions to the Plan during the nine months ended September 30, 2017. The Company does not anticipate contributing additional funding to the Plan during the remainder of 2017.

NOTE D – ACCUMULATED OTHER COMPREHENSIVE INCOME (“AOCI”)

The following tables set forth the total changes in AOCI by component, net of tax:

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Defined benefit pension plan activity	Currency Translation Adjustment	Total	Defined benefit pension plan activity	Currency Translation Adjustment	Total
Balance at July 1	$(5,719)	$ (43,213)	$(48,932)	$(6,082)	$ (45,904)	$(51,986)
Other comprehensive income before reclassifications:						
Gain on foreign currency translation adjustment	0	2,960	2,960	0	1,286	1,286
Amounts reclassified from AOCI:						
Amortization of defined benefit pension actuarial gain (a)	50	0	50	91	0	91
Net current period other comprehensive income	50	2,960	3,010	91	1,286	1,377
Balance at September 30	$(5,669)	$ (40,253)	$(45,922)	$(5,991)	$ (44,618)	$(50,609)

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Defined benefit pension plan activity	Currency Translation Adjustment	Total	Defined benefit pension plan activity	Currency Translation Adjustment	Total
Balance at January 1	$(5,874)	$ (51,495)	$(57,369)	$(6,235)	$ (47,916)	$(54,151)
Other comprehensive income before reclassifications:						
Gain on foreign currency translation adjustment	0	11,242	11,242	0	3,298	3,298
Amounts reclassified from AOCI:						
Amortization of defined benefit pension actuarial loss (a)	205	0	205	244	0	244
Net current period other comprehensive income	205	11,242	11,447	244	3,298	3,542
Balance at September 30	$(5,669)	$ (40,253)	$(45,922)	$(5,991)	$ (44,618)	$(50,609)

(a) This AOCI component is included in the computation of net periodic pension costs.

NOTE E – COMPUTATION OF EARNINGS PER SHARE

Basic earnings per share were computed by dividing Net income by the weighted-average number of common shares outstanding for each respective period. Diluted earnings per share were calculated by dividing Net income by the weighted-average of all potentially dilutive common stock that was outstanding during the periods presented.

The calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2017 and 2016 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2017	2016	2017	2016
Numerator				
Net income	$6,278	$4,742	$11,952	$10,154
Denominator				
Determination of shares				
Weighted-average common shares outstanding	5,104	5,146	5,113	5,180
Dilutive effect - share-based awards	16	23	16	20
Diluted weighted-average common shares outstanding	5,120	5,169	5,129	5,200
Earnings per common share				
Basic	$1.23	$0.92	$2.34	$1.96
Diluted	$1.23	$0.92	$2.33	$1.95

For the three and nine-month periods ended September 30, 2017, 27,000 and 35,584 stock options, respectively, were excluded from the calculation of diluted earnings per share as the effect would have been anti-dilutive. For the three and nine-month periods ended September 30, 2016, 47,850 and 55,350, respectively, stock options were excluded from the calculation of diluted earnings per share as the effect would have been anti-dilutive.

Note F – GOODWILL AND OTHER INTANGIBLES

The Company's finite and indefinite-lived intangible assets consist of the following:

	September 30, 2017		December 31, 2016	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived intangible assets				
Patents	$4,808	$ (4,791)	$4,816	$ (4,799)
Land use rights	1,173	(199)	1,070	(180)
Trademarks	1,798	(1,146)	1,725	(1,039)
Technology	3,211	(1,201)	3,057	(1,031)
Customer relationships	12,525	(5,774)	12,073	(5,217)
	$23,515	$ (13,111)	$22,741	$ (12,266)
Indefinite-lived intangible assets				
Goodwill	$16,689		$15,769	

The aggregate amortization expense for other intangibles with finite lives for the three and nine months ended September 30, 2017 was $.3 million and $.8 million, respectively. The aggregate amortization expense for other intangibles with finite lives for each of the three and nine months ended September 30, 2016 was $.3 million and $.8 million, respectively. Amortization expense is estimated to be $.3 million for the remaining period of 2017, $1.0 million annually for 2018 and 2019, and $.9 million for both 2020 and 2021. The weighted-average remaining amortization period is approximately 16.7 years. The weighted-average remaining amortization period by intangible asset class is as follows: patents, 8.3 years; land use rights, 58.3 years; trademarks, 9.3 years; technology, 14.2 years; and customer relationships, 12.5 years.

The Company's measurement date for its annual impairment test for goodwill is October 1st of each year. The Company performs its annual impairment test for goodwill utilizing a discounted cash flow methodology, market comparables, and an overall market capitalization reasonableness test in computing fair value by reporting unit. The Company then compares the fair value of the reporting unit with its carrying value to assess if goodwill has been impaired. Based on the assumptions as to growth, discount rates and the weighting used for each respective valuation methodology, results of the valuations could be significantly different. However, the Company believes that the methodologies and weightings used are reasonable and result in appropriate fair values of the reporting units. The Company's valuation method uses Level 3 inputs under the fair value hierarchy.

The Company's only intangible asset with an indefinite life is goodwill. The changes in the carrying amount of goodwill, by segment, for the nine months ended September 30, 2017 are as follows:

	USA	The Americas	EMEA	Asia-Pacific	Total
Balance at January 1, 2017	$3,078	$ 4,017	$1,287	$ 7,387	$15,769
Currency translation	0	364	129	427	920
Balance at September 30, 2017	$3,078	$ 4,381	$1,416	$ 7,814	$16,689

NOTE G – SHARE-BASED COMPENSATION

The 1999 Stock Option Plan

Activity in the Company’s 1999 Stock Option Plan for the nine months ended September 30, 2017 as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (000's)
Outstanding at January 1, 2017	5,550	$ 48.35		
Granted	0	$ 0.00		
Exercised	0	$ 0.00		
Forfeited	0	$ 0.00		
Outstanding (exercisable and vested) at September 30, 2017	5,550	$ 48.35	1.1	$ 41

There were 0 and 6,450 stock options exercised during the nine months ended September 30, 2017 or 2016, respectively. The toal intrinsic value of stock options exercised during the nine months ended September 30, 2016 was less than $.1 million. Cash received for the exercise of stock options during the nine months ended September 30, 2016 was $.2 million.

As all stock options from the 1999 Stock Option Plan are fully vested, the Company recorded no compensation expense related to stock options for the nine months ended September 30, 2017 and 2016. The total intrinsic value of stock options exercised during the nine months ended September 30, 2016 was less than $.1 million. Cash received for the exercise of stock options during the nine months ended September 30, 2016 was $.2 million.

Long Term Incentive Plan of 2008 and 2016 Incentive Plan

The Company maintains an equity award program to give the Company a competitive advantage in attracting, retaining, and motivating officers, employees and directors and to provide an incentive to those individuals to increase shareholder value through long-term incentives directly linked to the Company’s performance. Under the Preformed Line Products Company Long Term Incentive Plan of 2008 (the “LTIP”), certain employees, officers, and directors were eligible to receive awards of options, restricted shares and restricted share units (RSUs). The total number of Company common shares reserved for awards under the LTIP was 900,000, of which 800,000 common shares were reserved for RSUs and 100,000 common shares have been reserved for share options. The LTIP was terminated and replaced with the Preformed Line Products Company 2016 Incentive Plan (the “Incentive Plan”) in May 2016 upon approval by the Company’s Shareholders at the 2016 Annual Meeting of Shareholders on May 10, 2016. No further awards will be made under the LTIP and previously granted awards remain outstanding in accordance with their terms. Under the Incentive Plan, certain employees, officers, and directors will be eligible to receive awards of options, restricted shares and RSUs. The total number of Company common shares reserved for awards under the

Incentive Plan is 1,000,000 of which 900,000 common shares have been reserved for restricted share awards and 100,000 common shares have been reserved for share options. The Incentive Plan expires on May 10, 2026.

Restricted Share Units

For the regular annual grants, a portion of the RSUs is subject to time-based cliff vesting and a portion is subject to vesting based upon the Company's performance over a set period for all participants except the CEO. All of the CEO's regular annual RSUs are subject to vesting based upon the Company's performance over a set-year period.

The RSUs are offered at no cost to the employees. The fair value of RSUs is based on the market price of a common share on the grant date and the shares are restricted until they vest. The portion of the RSU's granted to the Company's former Chief Financial Officer in 2015, 2016 and 2017 that had not yet vested as of his retirement date of May 31, 2017 were forfeited. Dividends declared are accrued in cash.

A summary of the RSUs outstanding under the LTIP for the nine months ended September 30, 2017 is as follows:

	Restricted Share Units			
	Performance and Service Required (1)	Service Required	Total Restricted Share Units	Weighted-Average Grant-Date Fair Value
Nonvested as of January 1, 2017	130,168	15,974	146,142	$ 38.46
Granted	80,247	10,560	90,807	54.60
Vested	0	0	0	0.00
Forfeited	(9,843)	(2,461)	(12,304)	46.86
Nonvested as of September 30, 2017	200,572	24,073	224,645	$ 44.53

(1) Nonvested performance-based RSUs are reflected at the maximum performance achievement level.

For time-based RSUs, the Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period of the award in General and administrative expense in the accompanying Statements of Consolidated Income. Compensation expense related to the time-based RSUs for the three and nine-month periods ended September 30, 2017 was $.1 million and $.3 million, respectively. Compensation expense related to the time-based RSU's for the three and nine months ended September 30, 2016 was $.1 million and $.3 million, respectively. As of September 30, 2017, there was $.5 million of total unrecognized compensation cost related to time-based RSUs that is expected to be recognized over the weighted-average remaining period of approximately 2.0 years.

For the performance-based RSUs, the number of RSUs in which the participants will vest depends on the Company's level of performance measured by growth in either operating or pre-tax income and sales growth over a requisite performance period. Depending on the extent to which the performance criterions are satisfied under the LTIP, the participants are eligible to earn common shares over the vesting period. Performance-based compensation expense for the three and nine months ended September 30, 2017 was $.9 million and $1.8 million, respectively. Performance-based compensation expense for the three and nine months ended September 30, 2016 was $.3 million and $.6 million, respectively. As of September 30, 2017, the remaining compensation expense of $4.2 million for outstanding performance-based RSU's is expected to be recognized over a period of approximately 2.0 years.

In the event of a Change in Control (as defined in the LTIP), vesting of the RSUs will be accelerated and all restrictions will lapse. Unvested performance-based awards are based on a target potential payout. Actual shares awarded at the end of the performance period may be less than the target potential payout level depending on achievement of performance-based award objectives.

To satisfy the vesting of its RSU awards, the Company has reserved new shares from its authorized but unissued shares. Any additional awards granted will also be issued from the Company's authorized but unissued shares.

Share Option Awards

The LTIP permitted and now the Incentive Plan permits the grant of 100,000 options to buy common shares of the Company to certain employees at not less than fair market value of the shares on the date of grant. Options issued to date under the LTIP vest 50% after one year following the date of the grant, 75% after two years, and 100% after three years, and expire from five to ten years from the date of grant. Shares issued as a result of stock option exercises will be funded with the issuance of new shares.

The Company utilizes the Black-Scholes option pricing model for estimating fair values of options. The Black-Scholes model requires assumptions regarding the volatility of the Company's stock, the expected life of the stock award and the Company's dividend yield. The Company utilizes historical data in determining these assumptions. The risk-free rate for periods within the contractual life of the option is based on the U.S. zero coupon Treasury yield in effect at the time of grant.

There were 5,000 options granted for the nine months ended September 30, 2017 and 1,000 options granted for the nine months ended September 30, 2016.

Stock option activity under the Company’s LTIP for nine months ended September 30, 2017 was as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (000's)
Outstanding at January 1, 2017	52,750	$ 54.54		
Granted	5,000	$		