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 June 30, 2023

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 Ave., Tulsa, Oklahoma 74107
(Address of principal executive offices) (Zip Code)

(918) 583-2266
(Registrant's telephone number, including area code)

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, $.004 par value per share	AAON	NASDAQ

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 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 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	☑	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 ☑

As of August 1, 2023, registrant had outstanding a total of 54,406,322 shares of its $.004 par value Common Stock.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

AAON, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	June 30, 2023	December 31, 2022
Assets	*(in thousands, except share and per share data)*	
Current assets:		
Cash and cash equivalents	$ 5,237	$ 5,451
Restricted cash	22,428	498
Accounts receivable, net of allowance for credit losses of $306 and $477, respectively	154,111	127,158
Income tax receivable	2,699	—
Inventories, net	215,408	198,939
Contract assets	19,862	15,151
Prepaid expenses and other	4,466	1,919
Total current assets	424,211	349,116
Property, plant and equipment:		
Land	15,291	8,537
Buildings	187,237	169,156
Machinery and equipment	370,414	342,045
Furniture and fixtures	38,344	30,033
Total property, plant and equipment	611,286	549,771
Less: Accumulated depreciation	263,890	245,026
Property, plant and equipment, net	347,396	304,745
Intangible assets, net	62,803	64,606
Goodwill	81,892	81,892
Right of use assets	7,378	7,123
Other long-term assets	6,371	6,421
Total assets	$ 930,051	$ 813,903
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 32,210	$ 45,513
Accrued liabilities	101,201	78,630
Contract liabilities	20,262	21,424
Total current liabilities	153,673	145,567
Revolving credit facility, long-term	78,536	71,004
Deferred tax liabilities	14,223	18,661
Other long-term liabilities	11,364	11,508
New market tax credit obligation[1]	12,144	6,449
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, 54,379,324 and 53,425,184 issued and outstanding at June 30, 2023 and December 31, 2022, respectively	218	214
Additional paid-in capital	128,636	98,735
Retained earnings	531,257	461,765
Total stockholders' equity	660,111	560,714
Total liabilities and stockholders' equity	$ 930,051	$ 813,903

[1] Held by variable interest entities (Note 16)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(in thousands, except share and per share data)			
Net sales	$ 283,957	$ 208,814	$ 549,910	$ 391,585
Cost of sales	189,939	161,438	378,738	298,145
Gross profit	94,018	47,376	171,172	93,440
Selling, general and administrative expenses	39,272	26,933	72,214	49,989
Loss (gain) on disposal of assets	6	(10)	12	(12)
Income from operations	54,740	20,453	98,946	43,463
Interest expense, net	(1,543)	(550)	(2,693)	(740)
Other income, net	163	220	277	241
Income before taxes	53,360	20,123	96,530	42,964
Income tax provision	7,678	4,177	14,034	8,959
Net income	$ 45,682	$ 15,946	$ 82,496	$ 34,005
Earnings per share:				
Basic	$ 0.84	$ 0.30	$ 1.52	$ 0.64
Diluted	$ 0.82	$ 0.30	$ 1.48	$ 0.63
Cash dividends declared per common share:	$ 0.12	$ 0.19	$ 0.24	$ 0.19
Weighted average shares outstanding:				
Basic	54,293,127	53,095,286	54,175,682	52,992,439
Diluted	55,646,387	53,661,876	55,652,332	53,944,616

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

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

	Six Months Ended June 30, 2023								
	Common Stock			Paid-in		Retained			
	Shares		Amount		Capital		Earnings		Total
					(in thousands)				
Balances at December 31, 2022	53,425	$	214	$	98,735	$	461,765	$	560,714
Net income	—		—		—		82,496		82,496
Stock options exercised, restricted stock awards granted, and contingent shares issued (Note 15)	967		4		23,240		—		23,244
Share-based compensation	—		—		7,823		—		7,823
Stock repurchased and retired	(13)		—		(1,162)		—		(1,162)
Dividends	—		—		—		(13,004)		(13,004)
Balances at June 30, 2023	54,379	$	218	$	128,636	$	531,257	$	660,111

	Three Months Ended June 30, 2023								
	Common Stock			Paid-in		Retained			
	Shares		Amount		Capital		Earnings		Total
					(in thousands)				
Balances at March 31, 2023	54,202	$	217	$	117,077	$	492,120	$	609,414
Net income	—		—		—		45,682		45,682
Stock options exercised and restricted stock awards granted	178		1		7,387		—		7,388
Share-based compensation	—		—		4,304		—		4,304
Stock repurchased and retired	(1)		—		(132)		—		(132)
Dividends	—		—		—		(6,545)		(6,545)
Balances at June 30, 2023	54,379	$	218	$	128,636	$	531,257	$	660,111

	Six Months Ended June 30, 2022								
	Common Stock			Paid-in		Retained			
	Shares		Amount		Capital		Earnings		Total
					(in thousands)				
Balances at December 31, 2021	52,528	$	210	$	81,654	$	384,306		466,170
Net income	—		—		—		34,005		34,005
Stock options exercised, restricted stock awards granted, and contingent shares issued (Note 15)	719		3		6,382		—		6,385
Share-based compensation	—		—		6,908		—		6,908
Stock repurchased and retired	(120)		—		(6,866)		—		(6,866)
Contingent consideration	—		—		(6,000)		—		(6,000)
Dividends	—		—		—		(10,096)		(10,096)
Balances at June 30, 2022	53,127	$	213	$	82,078	$	408,215	$	490,506

	Three Months Ended June 30, 2022								
	Common Stock			Paid-in		Retained			
	Shares		Amount		Capital		Earnings		Total
					(in thousands)				
Balances at March 31, 2022	53,065	$	212	$	77,574	$	402,370	$	480,156
Net income	—		—		—		15,946		15,946
Stock options exercised and restricted stock awards granted	114		1		3,492		—		3,493
Share-based compensation	—		—		3,796		—		3,796
Stock repurchased and retired	(52)		—		(2,784)		—		(2,784)
Dividends	—		—		—		(10,101)		(10,101)
Balances at June 30, 2022	53,127	$	213	$	82,078	$	408,215	$	490,506

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

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

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Operating Activities	*(in thousands)*	
Net income	$ 82,496	$ 34,005
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,236	16,300
Amortization of debt issuance cost	32	21
Amortization of right of use assets	67	143
(Recoveries of) provision for credit losses on accounts receivable, net of adjustments	(171)	181
Provision for excess and obsolete inventories, net of write-offs	1,458	148
Share-based compensation	7,823	6,908
Loss (gain) on disposition of assets	12	(12)
Foreign currency transaction (gain) loss	(13)	9
Interest income on note receivable	(10)	(11)
Deferred income taxes	(4,438)	(127)
Changes in assets and liabilities:		
Accounts receivable	(26,782)	(53,736)
Income taxes	(15,171)	(1,895)
Inventories	(17,927)	(33,879)
Contract assets	(4,711)	(2,820)
Prepaid expenses and other long-term assets	(2,502)	(3,066)
Accounts payable	(14,874)	6,490
Contract liabilities	(1,162)	22,217
Extended warranties	1,526	421
Accrued liabilities and other long-term liabilities	33,051	7,123
Net cash provided by (used in) operating activities	59,940	(1,580)
Investing Activities		
Capital expenditures	(60,629)	(27,227)
Cash paid for building (Note 18)	—	(22,000)
Cash paid in business combination, net of cash acquired	—	(249)
Proceeds from sale of property, plant and equipment	104	12
Principal payments from note receivable	28	27
Net cash used in investing activities	(60,497)	(49,437)
Financing Activities		
Proceeds from financing obligation, net of issuance costs	6,061	—
Payment related to financing costs	(398)	—
Borrowings under revolving credit facility	279,961	94,900
Payments under revolving credit facility	(272,429)	(28,651)
Principal payments on financing lease	—	(28)
Stock options exercised	23,244	6,385
Repurchase of stock	—	(5,912)
Employee taxes paid by withholding shares	(1,162)	(954)
Cash dividends paid to stockholders	(13,004)	—
Net cash provided by financing activities	22,273	65,740
Net increase in cash, cash equivalents and restricted cash	21,716	14,723
Cash, cash equivalents and restricted cash, beginning of period	5,949	3,487
Cash, cash equivalents and restricted cash, end of period	$ 27,665	$ 18,210

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

AAON, Inc. is a Nevada corporation which was incorporated on August 18, 1987. Our operating subsidiaries include AAON, Inc. ("AAON Oklahoma"), an Oklahoma corporation, AAON Coil Products, Inc. ("AAON Coil Products"), a Texas corporation, and BasX, Inc. ("BASX"), an Oregon corporation (collectively, the "Company"). The accompanying unaudited consolidated financial statements of AAON, Inc. and our operating subsidiaries, all of which are wholly-owned, 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").

Our financial statements consolidate all of our affiliated entities in which we have a controlling financial interest. Because we hold certain rights that give us the power to direct the activities of two variable interest entities ("VIEs") (Note 16) that most significantly impact the VIEs economic performance, combined with a variable interest that gives us the right to receive potentially significant benefits or the obligation to absorb potentially significant losses, we have a controlling financial interest in those VIEs.

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, 2022 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, 2022. All intercompany balances and transactions have been eliminated in consolidation.

We are engaged in the engineering, manufacturing, marketing, and sale of premium air conditioning and heating equipment consisting of standard, semi-custom, and custom rooftop units, data center cooling solutions, cleanroom systems, 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, inventory valuation, inventory reserves, warranty accrual, medical insurance accrual, income taxes, useful lives of property, plant, and equipment, estimated future use of leased property, share-based compensation, business combinations, revenue percentage of completion and estimated costs to complete. Actual results could differ materially from those estimates.

Inflation and Labor Market

In 2022 and continuing into 2023, we have witnessed increases in our raw material and component prices. Due to our favorable liquidity position, we continue to make strategic purchases of materials when we see opportunities. We continue to manage the increase in the cost of raw materials through price increases for our products. We have also experienced supply chain challenges related to specific manufacturing parts, which we have managed through our strong vendor relationships as well as expanding our list of vendors.

Additionally, we continue to experience challenges in a tight labor market, especially the hiring of both skilled and unskilled production labor. We have implemented the following wage increases to remain competitive and to attract and retain employees:

- In March 2022, we awarded annual merit raises for an overall 3.0% increase to wages.
- In October 2022, we implemented a cost of living increase of 3.5% in place for all employees below the Senior Leadership Team ("SLT") level.
- In March 2023, we awarded annual merit raises for an overall 3.9% increase to wages.

We will continue to implement human resource initiatives to retain and attract labor to further increase production capacity. Beginning in 2023, initiatives included changing our employee paid time off policy, historically awarded in arrears at the beginning of each quarter, to accrue ratably over each pay period. Additionally, we enhanced our benefits for short-term disability, life insurance, paid parental leave, and paid military leave.

Despite efforts to mitigate the impact of inflation, supply chain issues and the tight labor market, future disruptions, while temporary, could negatively impact our consolidated financial position, results of operations and cash flows.

Change in Estimate

During the first quarter of 2022, a review of the Company’s useful lives for certain sheet metal manufacturing equipment at our Longview, Texas location resulted in a change in estimate that increased the useful lives from between ten and twelve years to fifteen years. This determination was based on recent and estimated future production levels as well as management’s knowledge of the equipment and historical and future use of the equipment. The change in estimate was made prospectively and resulted in a decrease to depreciation expense within cost of sales on our consolidated statements of income of $1.8 million during the six months ended June 30, 2022.

WH Series and WV Series Water Source Heat Pump Units

As part of the normal course of business, management continually monitors the profitability of the Company's various product series offerings. During the third quarter of 2022, management made the decision to no longer produce our small packaged geothermal/water-source heat pump units consisting of the WH Series horizontal configuration and WV Series vertical configuration, from one-half to 12 1/2 tons ("WH/WV"). These WH/WV units were produced solely out of the AAON Oklahoma facility. Production of the remaining WH/WV backlog was completed during the second quarter 2023.

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, 2022.

Fair Value Measurements

The carrying amounts of cash and cash equivalents, receivables, accounts payable, and accrued liabilities approximate fair value because of the short-term maturity of the items. The carrying amount of the Company’s revolving line of credit, and other payables, approximate their fair values either due to their short term nature, the variable rates associated with the debt or based on current rates offered to the Company for debt with similar characteristics.

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 fair values of property, plant and equipment, intangible assets, contingent consideration, and goodwill acquired in a business combination.

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.

Definite-Lived Intangible Assets

Our definite-lived intangible assets include various trademarks, service marks, and technical knowledge acquired in business combinations. We amortize our definite-lived 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.

Amortization is computed using the straight-line method over the following estimated useful lives:

Intellectual property	30 years
Customer relationships	14 years

Goodwill and Indefinite-Lived Intangible Assets

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 and indefinite-lived intangible assets are not amortized, but instead are 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.

The changes in the carrying amount of goodwill were as follows:

	Six Months Ended June 30,	
	2023	**2022**
	(in thousands)	
Balance, beginning of period	$ 81,892	$ 85,727
Additions due to acquisitions	—	—
Decreases due to business combination revisions[1]	—	(3,835)
Balance, end of period	$ 81,892	$ 81,892

[1] Revisions related to the December 2021 acquisition of BASX.

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 or included within the Company's Annual Report on Form 10-K for the year ended December 31, 2022, were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial statements and notes thereto.

2. Revenue Recognition

The following tables show disaggregated net sales by reportable segment (Note 19) by major source, net of intercompany sales eliminations.

	Three Months Ended June 30, 2023			
	AAON Oklahoma	AAON Coil Products	BASX	Total
	(in thousands)			
Rooftop units	$ 196,065	$ —	$ —	$ 196,065
Condensing units	61	11,329	—	11,390
Air handlers	—	12,610	2,600	15,210
Outdoor mechanical rooms	—	61	—	61
Cleanroom systems	—	—	17,086	17,086
Data center cooling solutions	—	1,794	15,877	17,671
Water-source heat pumps	398	3,086	—	3,484
Part sales	15,963	—	243	16,206
Other[1]	5,727	1,201	(144)	6,784
	$ 218,214	$ 30,081	$ 35,662	$ 283,957

	Three Months Ended June 30, 2022			
	AAON Oklahoma	AAON Coil Products	BASX	Total
	(in thousands)			
Rooftop units	$ 138,616	$ —	$ —	$ 138,616
Condensing units	—	11,949	—	11,949
Air handlers	—	11,540	2,945	14,485
Outdoor mechanical rooms	—	260	—	260
Cleanroom systems	—	—	8,246	8,246
Data center cooling solutions	—	—	12,837	12,837
Water-source heat pumps	1,876	1,798	—	3,674
Part sales	13,857	—	331	14,188
Other[1]	3,132	1,207	220	4,559
	$ 157,481	$ 26,754	$ 24,579	$ 208,814

[1] Other sales include freight, extended warranties and miscellaneous revenue.

	Six Months Ended June 30, 2023			
	AAON Oklahoma	**AAON Coil Products**	**BASX**	**Total**
	(in thousands)			
Rooftop units	$ 376,091	$ —	$ —	$ 376,091
Condensing units	61	26,607	—	26,668
Air handlers	—	24,831	5,638	30,469
Outdoor mechanical rooms	208	212	—	420
Cleanroom systems	—	—	29,708	29,708
Data center cooling solutions	—	3,240	30,353	33,593
Water-source heat pumps	3,128	6,166	—	9,294
Part sales	29,867	1	491	30,359
Other[1]	10,861	2,436	11	13,308
	$ 420,216	$ 63,493	$ 66,201	$ 549,910

	Six Months Ended June 30, 2022			
	AAON Oklahoma	**AAON Coil Products**	**BASX**	**Total**
	(in thousands)			
Rooftop units	$ 260,322	$ —	$ —	$ 260,322
Condensing units	242	20,925	—	21,167
Air handlers	—	20,978	4,284	25,262
Outdoor mechanical rooms	554	370	—	924
Cleanroom systems	—	—	16,285	16,285
Data center cooling solutions	—	—	23,705	23,705
Water-source heat pumps	4,862	4,151	—	9,013
Part sales	24,073	—	331	24,404
Other[1]	7,295	2,265	943	10,503
	$ 297,348	$ 48,689	$ 45,548	$ 391,585

[1] Other sales include freight, extended warranties and miscellaneous revenue.

Due to the highly customized nature of many of the Company's products and each product not having an alternative use to the Company without significant costs to the Company, the Company recognizes revenue over time as progress is made toward satisfying the performance obligations of each contract. The Company has formal cancellation policies 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.

Contract costs include direct materials, direct labor, installation, freight and delivery, commissions and royalties. Other costs not related to contract performance, such as indirect labor and materials, small tools and supplies, operating expenses, field rework and back charges are charged to expense as incurred. Provisions for estimated losses on contracts in progress are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income, and are estimated and recognized by the Company throughout the life of the contract. The aggregate of costs incurred and income recognized on uncompleted contracts in excess of billings is shown as a contract asset within our consolidated balance sheets, and the aggregate of billings on uncompleted contracts in excess of related costs incurred and income recognized is shown as a contract liability within our consolidated balance sheets.

For all other products that are part sales or standardized units, the Company recognizes revenue, presented net of sales tax, when it satisfies the performance obligation in its contracts. As the primary performance obligation in such a contract is delivery of the requested manufactured equipment, we satisfy the performance obligation when the control is passed 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.

Historically, sales of our products were moderately seasonal with the peak period being May-October of each year due to timing of construction projects being directly related to warmer weather. However, in recent years, given the increases in demand of our product and increases in our backlog, sales have become more constant throughout the year.

Product Warranties

A provision is made for the estimated cost of maintaining product warranties to customers at the time the product is sold based upon historical claims experience by product line. The Company records a liability and an expense for estimated future warranty claims based upon historical experience and management's estimate of the level of future claims. Changes in the estimated amounts recognized in prior years are recorded as an adjustment to the liability and expense in the current year.

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.

Representatives and Third Party Products

We are responsible for billings and collections resulting from all sales transactions, including those initiated by 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. 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. 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. 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. The Company is considered the principal for the equipment we design and manufacture and records that revenue. The Company has no control over the Third Party Products to the end customer and the Company is under no obligation related to the Third Party Products. Amounts related to Third Party Products are not recognized as revenue but are recorded as a liability and are included in accrued liabilities on the consolidated balance sheets.

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 \$13.0 million and \$11.4 million for the three months ended June 30, 2023 and 2022, respectively, and \$26.3 million and \$17.9 million for the six months ended June 30, 2023 and 2022, respectively.

3. Leases

The Company has various lease arrangements for certain manufacturing and warehousing facilities, equipment rental, as well as administrative facilities. Currently, all leases are classified as operating leases.

The following table presents the balances by lease type:

	Balance Sheet Classification	June 30, 2023	December 31, 2022
Operating Leases			
Right of use assets	Right of use assets	$ 7,378	$ 7,123
Lease liability, short-term	Accrued liabilities	$ 1,607	$ 1,254
Lease liability, long-term	Other long-term liabilities	$ 5,962	$ 5,993

Since 2018, the Company has leased the manufacturing, engineering and office space used by our operations in Parkville, Missouri, which is classified as an operating lease. In October 2022, the Parkville, Missouri lease was amended to expand our manufacturing and office space from 51,000 square feet to 86,000 square feet. The amended lease provides for approximately 31,000 square feet of additional manufacturing and engineering space and approximately 4,000 square feet of additional office space. The amended lease extends the lease term through December 31, 2032.

In November 2022, the Company entered into a lease agreement for land and facilities in Tulsa, Oklahoma which provides an additional 198,000 square feet to support our operations. The lease term will expire October 31, 2025.

On July 28, 2023, the Company entered into a lease agreement with a start date of September 1, 2023, for land and approximately 72,000 square feet of facilities in Redmond, Oregon to support our manufacturing operations. The lease term is approximately five years with additional renewal options. This lease will be classified as an operating lease starting in third quarter of 2023.

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4. Accounts Receivable

Accounts receivable and the related allowance for credit losses are as follows:

	June 30, 2023	December 31, 2022
	(in thousands)	
Accounts receivable	$ 154,417	$ 127,635
Less: Allowance for credit losses	(306)	(477)
Total, net	$ 154,111	$ 127,158

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Allowance for credit losses:	*(in thousands)*			
Balance, beginning of period	$ 421	$ 837	$ 477	$ 549
(Recoveries of) provisions for expected credit losses, net of adjustments	(115)	(107)	(171)	181
Accounts receivable written off, net of recoveries	—	(167)	—	(167)
Balance, end of period	$ 306	$ 563	$ 306	$ 563

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

	June 30, 2023	December 31, 2022
	(in thousands)	
Raw materials	$ 210,937	$ 194,159
Work in process	4,087	3,501
Finished goods	5,665	5,806
Total, gross	220,689	203,466
Less: Allowance for excess and obsolete inventories	(5,281)	(4,527)
Total, net	$ 215,408	$ 198,939

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Allowance for excess and obsolete inventories:		*(in thousands)*		
Balance, beginning of period	$ 4,748	$ 2,007	$ 4,527	$ 1,787
Provision for (recoveries of) excess and obsolete inventories	794	(72)	1,458	148
Inventories written off	(261)	(64)	(704)	(64)
Balance, end of period	$ 5,281	$ 1,871	$ 5,281	$ 1,871

6. Intangible assets

Our intangible assets consist of the following:

	June 30, 2023	December 31, 2022
	(in thousands)	
Definite-lived intangible assets		
Intellectual property	$ 6,295	$ 6,295
Customer relationships	47,547	47,547
Less: Accumulated amortization	(5,610)	(3,807)
Total, net	48,232	50,035
Indefinite-lived intangible assets		
Trademarks	14,571	14,571
Total intangible assets, net	$ 62,803	$ 64,606

Amortization expense recorded in cost of sales is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	(in thousands)			
Amortization expense	$ 901	$ 901	$ 1,803	$ 1,796

Excluding the impact of any future acquisitions, the Company anticipates amortization expense to be $3.6 million for each of the years ending 2023 through 2027.

7. Supplemental Cash Flow Information

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Supplemental disclosures:	*(in thousands)*			
Interest paid	$ 1,506	$ 418	$ 2,627	$ 533
Income taxes paid	$ 33,471	$ 10,805	$ 33,643	$ 10,981
Non-cash investing and financing activities:				
Non-cash capital expenditures	$ 1,205	$ 221	$ 1,571	$ 679
Dividends declared	$ —	$ 10,096	$ —	$ 10,096

8. Warranties

The Company has product warranties with various terms from one year from the date of first use or 18 months for parts, data center cooling solutions, and cleanroom systems 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		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Warranty accrual:	*(in thousands)*			
Balance, beginning of period	$ 16,209	$ 13,707	$ 15,682	$ 13,769
Payments made	(2,435)	(1,679)	(4,316)	(2,898)
Warranty expense	3,126	2,353	5,534	3,510
Balance, end of period	$ 16,900	$ 14,381	$ 16,900	$ 14,381

9. Accrued Liabilities and Other Long-Term Liabilities

Accrued liabilities were comprised of the following:

	June 30, 2023	December 31, 2022
	(in thousands)	
Warranty	$ 16,900	$ 15,682
Due to representatives	17,282	15,545
Payroll	15,190	11,901
Profit sharing	6,087	5,451
Workers' compensation	399	367
Medical self-insurance	1,536	1,178
Customer prepayments	24,510	3,750
Donations, short-term	390	637
Accrued income taxes	—	12,472
Employee vacation time	9,726	6,329
Lease liability, short-term	1,607	1,254
Property taxes	1,722	—
Extended warranties, short-term	2,589	1,330
Other	3,263	2,734
Total	$ 101,201	$ 78,630

Other long-term liabilities were comprised of the following:

	June 30, 2023	December 31, 2022
	(in thousands)	
Lease liability	$ 5,962	$ 5,993
Extended warranties	4,806	4,539
Donations and other	596	976
Total	$ 11,364	$ 11,508

10. Revolving Credit Facility

On May 27, 2022, we amended our $100.0 million Amended and Restated Loan Agreement dated November 24, 2021 (as amended, "Revolver"), to provide for maximum borrowings of $200.0 million. As of June 30, 2023 and December 31, 2022, we had $78.5 million and $71.0 million outstanding under the Revolver, respectively. We have one standby letter of credit totaling $0.3 million as of June 30, 2023. Borrowings available under the Revolver at June 30, 2023 were $121.2 million. The Revolver expires on May 27, 2027. On April 20, 2023, we amended the Revolver to allow for the occurrence of transactions associated with the New Markets Tax Credit executed on April 25, 2023 (Note 16).

Any outstanding loans under the Revolver bear interest at the daily compounded secured overnight financing rate ("SOFR") plus the applicable margin. Applicable margin, ranging from 1.25% - 1.75%, is determined quarterly based on the Company's leverage ratio. The Company is also subject to letter of credit fees, ranging from 1.25% - 1.75%, and a commitment fee, ranging from 0.10% - 0.20%. The applicable fee percentage is determined quarterly based on the Company's leverage ratio. The weighted average interest rate on borrowings outstanding on the Revolver was 6.3% and 6.2% for the three and six months ended June 30, 2023, respectively, as compared to 1.9% and 1.7% for the three and six months ended June 30, 2022, respectively. Fees associated with the unused portion of the committed amount are included in interest expense on our consolidated statements of income for the three and six months ended June 30, 2023 and 2022.

If SOFR cannot be determined pursuant to the definition, as defined by the Revolver agreement, any outstanding affected loans will be deemed to have been converted into alternative base rate ("ABR") loans. ABR loans would bear interest at a rate per annum equal to the highest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Rate in effect on such day plus 0.50%, or (c) daily simple SOFR for a one-month tenor in effect on such day plus 1.00%.

At June 30, 2023, we were in compliance with our covenants, as defined by the Revolver. Our financial covenants require that we meet certain parameters related to our leverage ratio. At June 30, 2023, our leverage ratio was 0.37 to 1.0, which meets the requirement of not being above 3 to 1.

11. Income Taxes

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

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	(in thousands)			
Current	$ 13,037	$ 5,277	$ 18,472	$ 9,086
Deferred	(5,359)	(1,100)	(4,438)	(127)
Income tax provision	$ 7,678	$ 4,177	$ 14,034	$ 8,959

The provision for income taxes differs from the amount computed by applying the Federal statutory 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		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Federal statutory rate	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes, net of Federal benefit	4.6	6.3	4.4	4.5
Excess tax benefits related to share-based compensation (Note 12)	(3.8)	(1.0)	(6.0)	(1.7)
Return to provision	—	(1.2)	(0.1)	(0.6)
Research and development credits	(1.2)	(1.5)	(1.3)	(1.2)
Change in valuation allowance (Oklahoma Investment Credit)	(5.8)	—	(3.2)	—
Other	(0.4)	(2.8)	(0.3)	(1.1)
Effective tax rate	14.4 %	20.8 %	14.5 %	20.9 %

We have historically earned investment tax credits from the state of Oklahoma's manufacturing property investment program. We use the flow-through method to account for investment tax credits earned on eligible tangible asset expenditures. Under this method, the investment tax credits are recognized as a reduction to our Oklahoma income tax expense in the year they are used. As part of our expansion projects in Oklahoma, we identified a separate, more advantageous Oklahoma credit program (non income tax related) which will cause us to discontinue our accumulation of credits for Oklahoma's manufacturing property investment program after the 2022 tax year.

The Company had investment tax credit carryforwards with a valuation allowance reserved against them as we did not have sufficient taxable income to utilize the carryforwards, in part because we generated more credit each year than we were able to utilize. Because the Company will not generate additional excess credits after our 2022 tax year, we will be able to use our credit carryforwards against future taxable income and the related valuation allowance was reversed resulting in a one-time benefit of $3.1 million to the income tax provision for the three and six months ended June 30, 2023. As of June 30, 2023, we have investment tax credit carryforwards of approximately $4.9 million. These credits have estimated expirations from the year 2039 through 2043.

The Company's estimated annual 2023 effective tax rate, excluding discrete events, is approximately 24.1%. We file income tax returns in the U.S., state and foreign income tax returns jurisdictions. We are subject to U.S. income tax examinations for tax years 2019 to present, and to non-U.S. income tax examinations for the tax years 2018 to present. In addition, we are subject to state and local income tax examinations for the tax years 2018 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.

12. 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. 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 8.9 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, approximately 2.6 million shares that were approved by the stockholders on May 15, 2018, and an additional 2.5 million shares that were approved by the stockholders on May 12, 2020.

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 is 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 is 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 determines the persons to whom awards are to be made, determines the type, size and terms of awards, interprets the 2016 Plan, establishes and revises rules and regulations relating to the 2016 Plan and makes any other determinations that it believes necessary for the administration of the 2016 Plan.

Options

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 six months ended June 30, 2023 and 2022 using a Black Scholes-Merton Model:

	Six months ended	
	June 30, 2023	**June 30, 2022**
Directors and SLT[1]:		
Expected (annual) dividend rate	$0.48	$0.38
Expected volatility	37.89%	35.95%
Risk-free interest rate	4.39%	2.17%
Expected life (in years)	4.0	4.0
Employees:		
Expected (annual) dividend rate	$0.48	$0.38
Expected volatility	38.52%	37.29%
Risk-free interest rate	4.40%	2.11%
Expected life (in years)	3.0	3.0

[1] SLT consists of officers and key members of management.

The expected term of the options is based on evaluations of historical and expected future employee exercise behavior. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at the grant date. Volatility is based on historical volatility of our stock over time periods equal to the expected life at grant date.

The following is a summary of stock options vested and exercisable as of June 30, 2023:

Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life *(in years)*	Weighted Average Exercise Price	Intrinsic Value (*in thousands*)
$ 20.92 - $ 41.37	1,048,962	4.79	$ 37.06	$ 60,579
$ 42.42 - $ 55.30	364,787	6.99	46.34	17,682
$ 55.50 - $ 97.89	137,879	7.66	72.62	3,060
Total	1,551,628	5.56	$ 42.40	$ 81,321

A summary of stock option activity under the plans is as follows:

Stock Options	**Shares**	**Weighted Average Exercise Price**
Outstanding at December 31, 2022	3,040,347	$ 45.20
Granted	213,164	91.49
Exercised	(532,830)	43.62
Forfeited or Expired	(38,727)	51.88
Outstanding at June 30, 2023	2,681,954	$ 49.09
Exercisable at June 30, 2023	1,551,628	$ 42.40

The total pre-tax compensation cost related to unvested stock options not yet recognized as of June 30, 2023 is $13.1 million and is expected to be recognized over a weighted average period of approximately 1.6 years.

The total intrinsic value of options exercised during the six months ended June 30, 2023 and 2022 was $25.3 million and $3.5 million, respectively. The cash received from options exercised during the six months ended June 30, 2023 and 2022 was $23.2 million and $6.4 million, respectively. The impact of these cash receipts is included in financing activities in the accompanying consolidated statements of cash flows.

Restricted Stock

The fair value of restricted stock awards is based on the fair market value of AAON, Inc. common stock on the respective grant dates, reduced for the present value of dividends. At June 30, 2023, unrecognized compensation cost related to unvested restricted stock awards was approximately $6.6 million, which is expected to be recognized over a weighted average period of approximately 1.8 years.

A summary of the unvested restricted stock awards is as follows:

	Shares	**Weighted Average Grant Date Fair Value**
Unvested at December 31, 2022	144,826	$ 50.00
Granted	46,492	89.26
Vested	(60,373)	48.67
Forfeited	(1,112)	56.35
Unvested at June 30, 2023	129,833	$ 64.62

PSUs

We have awarded performance restricted stock units ("PSUs") to certain officers and employees under our 2016 Plan. Unlike our restricted stock awards, these PSUs are not considered legally outstanding and do not accrue dividends during the vesting period. These PSUs vest based on the level of achievement with respect to the Company's total shareholder return ("TSR") benchmarked against similar companies included in the capital goods sector of the S&P SmallCap 600 Index. The TSR measurement period is three years. At the end of the measurement period, each award will be converted into common stock at 0% to 200% of the PSUs held, depending on overall TSR as compared to the S&P SmallCap 600 Index benchmark companies.

The total pre-tax compensation cost related to unvested PSUs not yet recognized as of June 30, 2023 is $5.7 million and is expected to be recognized over a weighted average period of approximately 2.0 years.

The following weighted average assumptions were used to determine the fair value of the PSUs granted on the original grant date for expense recognition purposes for PSUs granted during the six months ended June 30, 2023 and 2022 using a Monte Carlo Model:

	Six months ended	
	June 30, 2023	**June 30, 2022**
Expected (annual) dividend rate	$0.48	$0.38
Expected volatility	32.71%	37.60%
Risk-free interest rate	4.66%	2.00%
Expected life (in years)	2.8	2.8

The expected term of the PSUs is based on their remaining performance period. The risk-free interest rate is based on the U.S. Treasury rates at the date of grant with maturity dates approximately equal to the expected life at the grant date. Volatility is based on historical volatility of our stock over time periods equal to the expected life at grant date.

A summary of the unvested PSUs is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2022	62,659	$ 54.92
Granted	38,759	126.61
Vested	—	—
Forfeited	—	—
Unvested at June 30, 2023[1]	101,418	$ 82.32

[1]Consists of 14,817 PSUs cliff vesting December 31, 2023, 47,842 PSUs cliff vesting December 31, 2024, and 38,759 PSUs cliff vesting December 31, 2025.

Key Employee Awards

As part of the December 2021 acquisition of BASX, the Company granted awards to key employees of BASX ("Key Employee Awards"). Unlike our restricted stock awards under the 2016 Plan, the Key Employee Awards are not considered legally outstanding and do not accrue dividends during the vesting period. The potential future issuance of the Key Employee Awards is contingent upon BASX meeting certain post-closing earn-out milestones during each of the years ending 2021, 2022 and 2023 as defined by the BASX acquisition membership interest purchase agreement ("MIPA Agreement") and continued employment with the Company. At the end of the earn-out period, ending December 31, 2023, each eligible Key Employee Award will vest and be converted into common stock. The fair value of Key Employee Awards is based on the fair market value of AAON common stock on the grant date.

The total pre-tax compensation cost related to unvested Key Employee Awards not yet recognized as of June 30, 2023 is $0.5 million and is expected to be recognized over a weighted average period of approximately 0.5 years.

A summary of the unvested Key Employee Awards is as follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2022	26,599	$ 80.18
Granted	—	—
Vested	—	—
Forfeited	—	—
Unvested at June 30, 2023	26,599	$ 80.18

Share-Based Compensation

A summary of share-based compensation is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	(in thousands)			
Grant date fair value of awards during the period:				
Options	$ 445	$ 650	$ 5,118	$ 5,499
PSUs	1,666	219	4,907	2,081
Restricted stock	1,244	1,018	4,150	3,155
Total	$ 3,355	$ 1,887	$ 14,175	$ 10,735
Share-based compensation expense:				
Options	$ 2,311	$ 2,339	$ 4,376	$ 4,379
PSUs	716	292	1,083	477
Restricted stock	1,024	843	1,850	1,522
Key employee awards	253	322	514	530
Total	$ 4,304	$ 3,796	$ 7,823	$ 6,908
Income tax benefit related to share-based compensation:				
Options	$ 1,840	$ 198	$ 5,161	$ 491
Restricted stock	199	9	664	228
Total	$ 2,039	$ 207	$ 5,825	$ 719

Share-based compensation expense is recognized on a straight-line basis over the service period of the related share-based compensation award. Historically, stock options and restricted stock awards, granted to employees, vested at a rate of 20% per year. Restricted stock awards granted to directors historically vested one-third each year or, if granted on or after May 2019, vest over the shorter of directors' remaining elected term or one-third each year. As of March 2021, all new grants of stock options and restricted stock awards, granted to employees, vest at a rate of 33.3% per year. Forfeitures are accounted for as they occur.

Historically, if the employee or director is retirement eligible (as defined by the applicable LTIP or 2016 Plan) or becomes retirement eligible during the service period of the related share-based compensation award, the service period (and compensation expense recognition) is the lesser of 1) the grant date, if retirement eligible on grant date, or 2) the period between grant date and retirement eligible date. All stock options and restricted stock awards granted on or after March 1, 2020 to retirement eligible employees or directors contain a one-year employment requirement (minimum service period) or the entire award is forfeited. Forfeitures are accounted for as they occur.

The PSUs cliff vest on December 31, at the end of the third year from the date of grant. Share-based compensation expense is recognized on a straight-line basis over the service period of PSUs. The PSUs are subject to several service and market conditions, as defined by the PSU agreement, which allows the holder to retain a pro-rata amount of awards as a result of certain termination conditions, retirement, change in common control, or death. Forfeitures are accounted for as they occur.

The Key Employee Awards cliff vest on December 31, 2023. Share-based compensation expense is recognized on a straight-line basis over the service period of the Key Employee Awards when it is probable that the performance conditions will be satisfied. The Key Employee Awards are subject to several service and performance conditions, as defined by the Key Employee Award agreement, which allows the holder to retain an amount of the awards as a result of certain termination conditions or change in common control. Forfeitures are accounted for as they occur.

13. Employee Benefits

Defined Contribution Plan - 401(k)

We sponsor a defined contribution plan (the "Plan"). Eligible employees may make contributions in accordance with the Plan and IRS guidelines. In addition to the traditional 401(k), eligible employees are given the option of making an after-tax contribution to a Roth 401(k) or a combination of both. The Plan provides for automatic enrollment and for an automatic increase to the deferral percentage at January 1st of each year and each year thereafter. Eligible employees are automatically enrolled in the Plan at a 6% deferral rate and currently contributing employees deferral rates will be increased to 6% unless their current rate is at or above 6% or the employee elects to decline the automatic enrollment or increase. Administrative expenses are paid for by Plan participants. The Company paid no administrative expenses during the six months ended June 30, 2023 and 2022.

The Company matches 175% up to 6% of employee contributions of eligible compensation. Additionally, Plan participant forfeitures are used to reduce the cost of the Company contributions.

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	(in thousands)			
Contributions, net of forfeitures, made to the defined contribution plan	$ 3,408	$ 3,273	$ 8,667	$ 6,579

Profit Sharing Bonus Plans

We maintain a discretionary profit sharing bonus plan under which approximately 10% of pre-tax profit from AAON Oklahoma and AAON Coil Products is paid to eligible employees on a quarterly basis in order to reward employee productivity. Eligible employees are regular full-time employees of AAON Oklahoma or AAON Coil Products who are actively employed and working on the first and last days of the calendar quarter and who were employed full-time for at least three full months prior to the beginning of the calendar quarter, excluding the Company's senior leadership team.

BASX has a separate employee incentive program (EIP) under which 5% of BASX's pre-tax profit, plus certain add backs, is paid ratably to eligible employees based on days-of-pay during the fiscal year. Eligible employees are regular full-time and part-time employees who have worked during the year and are still employed when the EIP payment is made following the end of the fiscal year, excluding members of BASX's senior leadership team and any employee paid commissions or royalties.

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	(in thousands)			
Profit sharing bonus plan and employee incentive plan expense	$ 5,952	$ 2,146	$ 10,818	$ 4,815

Employee Medical Plan

At AAON Oklahoma and AAON Coil Products, we self-insure for our employees' health insurance, and make medical claim payments up to certain stop-loss amounts. We estimate our self-insurance liabilities using an analysis provided by our claims administrator and our historical claims experience. Eligible employees are regular full-time employees who are actively employed and working. Participants are expected to pay a portion of the premium costs for coverage of the benefits provided under the Plans. In addition, the Company matches 175% of a participating AAON Oklahoma and AAON Coil Products employee's allowed contributions to a qualified health saving account to assist employees with health insurance plan deductibles.

BASX is insured for healthcare coverage through a third party. Eligible employees are regular full-time employees who are actively employed and working. Participants are expected to pay a portion of the premium costs for coverage of the benefits provided under the Plans. In addition, the Company contributes certain amounts for BASX's employees enrolled in a high deductible plan to a qualified health savings account to assist employees with health insurance plan deductibles.

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	(in thousands)			
Medical premium payments	$ 4,132	$ 2,043	$ 6,800	$ 3,989
Health saving account contributions	1,198	964	2,258	1,903

14. Earnings Per Share

Basic net income per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share assumes the conversion of all potentially dilutive securities and is calculated by dividing net income by the sum of the weighted average number of shares of common stock outstanding plus all potentially dilutive securities. Dilutive common shares consist primarily of stock options and restricted stock awards.

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	(in thousands, except share and per share data)			
Numerator:				
Net income	$ 45,682	$ 15,946	$ 82,496	$ 34,005
Denominator:				
Basic weighted average shares	54,293,127	53,095,286	54,175,682	52,992,439
Effect of dilutive shares related to stock based compensation[1]	1,353,260	566,590	1,334,800	747,998
Effect of dilutive shares related to contingent consideration[2]	—	—	141,850	204,179
Diluted weighted average shares	55,646,387	53,661,876	55,652,332	53,944,616
Earnings per share:				
Basic	$ 0.84	$ 0.30	$ 1.52	$ 0.64
Dilutive	$ 0.82	$ 0.30	$ 1.48	$ 0.63
Anti-dilutive shares:				
Shares	231,579	879,554	175,936	658,595

[1] Dilutive shares related to stock options, restricted stock, PSUs and Key Employee Awards (Note 12)

[2] Dilutive shares related to contingent shares issued to the former owners of BASX (Note 15)

15. Stockholders' Equity

Stock Repurchases

The Board has authorized one active stock repurchase program for the Company. The Company may purchase shares on the open market from time to time. The Board must authorize the timing and amount of these purchases and all repurchases are in accordance with the rules and regulations of the SEC allowing the Company to repurchase shares from the open market.

Our open market repurchase programs are as follows:

Effective Date	Authorized Repurchase $	Expiration Date
March 13, 2020	$20 million	November 9, 2022
November 3, 2022	$50 million	** [1]

[1] Expiration Date is at Board's discretion. The Company is authorized to effectuate repurchases of the Company's common stock on terms and conditions approved in advance by the Board.

The Company repurchases shares of AAON, Inc. stock from employees for payment of statutory tax withholdings on stock transactions. All other repurchases from directors or employees are contingent upon Board approval. All repurchases are done at current market prices.

Lastly, the Company also had a stock repurchase arrangement by which employee-participants in our 401(k) savings and investment plan were entitled to have shares in AAON, Inc. stock in their accounts sold to the Company. The 401(k) Plan was amended in June 2022 to discontinue this program. No additional shares have been purchased by the Company under this arrangement since June 2022.

Our repurchase activity is as follows:

	Six Months Ended					
	June 30, 2023			June 30, 2022		
	(in thousands, except share and per share data)					
Program	**Shares**	**Total $**	**$ per share**	**Shares**	**Total $**	**$ per share**
Open market	—	$ —	$ —	—	$ —	$ —
401(k)	—	—	—	103,936	5,913	56.89
Employees	13,083	1,162	88.82	16,183	953	58.89
Total	13,083	$ 1,162	$ 88.82	120,119	$ 6,866	$ 57.16

Our repurchase activity since Company inception, including our current authorized stock repurchase programs, are as follows:

	Inception to June 30, 2023		
	(in thousands, except share and per share data)		
Program	**Shares**	**Total $**	**$ per share**
Open market	4,327,367	$ 81,616	$ 18.86
401(k)	8,308,368	171,789	20.68
Directors and employees	2,058,038	24,522	11.92
Total	14,693,773	$ 277,927	$ 18.91

Cash Dividends

At the discretion of the Board, we pay cash dividends. Board approval is required to determine the date of declaration and amount for each cash dividend payment.

Our recent cash dividends are as follows:

Declaration Date[1]	Record Date	Payment Date	Dividend per Share	Annualized Dividend per Share
May 18, 2022	June 3, 2022	July 1, 2022	$0.19	$0.38
November 8, 2022	November 28, 2022	December 16, 2022	$0.24	$0.48
March 1, 2023	March 13, 2023	March 31, 2023	$0.12	$0.48
May 18, 2023	June 9, 2023	June 30, 2023	$0.12	$0.48

[1] Effective with the cash dividend declared on March 1, 2023 (paid on March 31, 2023), the Company moved from semi-annual cash dividends to quarterly cash dividends.

Stock Split

On July 7, 2023, the Board of Directors declared a three-for-two stock split of the Company's common stock to be paid in the form of a stock dividend. Stockholders of record at the close of business on July 28, 2023 will receive one additional share for every two shares they hold as of that date on August 16, 2023 (ex-dividend date August 17, 2023).

Pro Forma Results of Stock Split

The retroactive effect of the stock split, which will occur in the third quarter of 2023, will result in an insignificant (less than $0.1 million) reclass between common stock and retained earnings within stockholders' equity on the consolidated balance sheet. The following table sets forth the pro forma computation of basic and diluted earnings per share for the three and six months ended June 30, 2023 and 2022:

	(unaudited)			
	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Numerator:	*(in thousands, except share and per share data)*			
Net income	$ 45,682	$ 15,946	$ 82,496	$ 34,005
Denominator:				
Basic weighted average shares	81,439,691	79,642,930	81,263,523	79,488,659
Effect of dilutive shares related to stock based compensation[1]	2,029,890	849,885	2,002,199	1,121,997
Effect of dilutive shares related to contingent consideration[2]	—	—	212,776	306,269
Diluted weighted average shares	83,469,581	80,492,815	83,478,498	80,916,925
Earnings per share:				
Basic	$ 0.56	$ 0.20	$ 1.02	$ 0.43
Dilutive	$ 0.55	$ 0.20	$ 0.99	$ 0.42
Anti-dilutive shares:				
Shares	347,368	1,319,331	263,905	987,893

[1] Dilutive shares related to stock options, restricted stock, PSUs and Key Employee Awards (Note 12)

[2] Dilutive shares related to contingent shares issued to the former owners of BASX (Note 15)

The unaudited pro forma financial information was prepared in accordance with GAAP and is not necessarily indicative of the results of operations that would have occurred if the stock split had been effective before the date indicated above, nor is it indicative of the future operating results of the Company.

Contingent Shares Issued in BASX Acquisition

In December 2021, we closed on the acquisition of BASX. Under the MIPA Agreement, we committed to $78.0 million in the aggregate of contingent consideration to the former owners of BASX, which is payable in approximately 1.04 million shares of the Company's common stock, par value $0.004 per share. The shares do not accrue dividends.

Under the MIPA Agreement, the potential future issuance of the shares is contingent upon BASX meeting certain post-closing earn-out milestones during each of the years ended 2021, 2022, and 2023. Based on the final allocation of the consideration paid, we estimated the fair value of contingent consideration related to these shares to be approximately $60.0 million, which is included in additional paid-in capital on the consolidated balance sheets. As of June 30, 2023, 0.39 million shares and 0.49 million shares related to the earn-out milestones for the years ended 2022 and 2021, respectively, have been issued to the former owners of BASX as private placements exempt from registration with the SEC under Rule 506(b), which are included in common stock on the consolidated statements of stockholders' equity.

16. New Markets Tax Credit

2019 New Markets Tax Credit

On October 24, 2019, the Company entered into a transaction with a subsidiary of an unrelated third-party financial institution (the "2019 Investor") and a certified Community Development Entity under a qualified New Markets Tax Credit ("2019 NMTC") program pursuant to Section 45D of the Internal Revenue Code of 1986, as amended, related to an investment in plant and equipment to facilitate the expansion of our Longview, Texas manufacturing operations (the "2019 Project"). In connection with the 2019 NMTC transaction, the Company received a $23.0 million NMTC allocation for the Project and secured low interest financing and the potential for future debt forgiveness related to the 2019 Project.

Upon closing of the 2019 NMTC transaction, the Company provided an aggregate of approximately $15.9 million to the 2019 Investor, in the form of a loan receivable, with a term of twenty-five years, bearing an interest rate of 1.0%. This $15.9 million in proceeds plus capital contributed from the 2019 Investor was used to make an aggregate $22.5 million loan to a subsidiary of the Company. This financing arrangement is secured by equipment at the Company's Longview, Texas facilities and a guarantee from the Company, including an unconditional guarantee of the NMTCs.

This transaction also includes a put/call feature either of which can be exercised at the end of the seven-year compliance period. The 2019 Investor may exercise its put option or the Company can exercise the call, both of which could serve to trigger forgiveness of a portion of the debt. The 2019 Investor's interest of $6.5 million is recorded in New market tax credit obligation on the consolidated balance sheets. The Company incurred approximately $0.3 million of debt issuance costs related to the above transactions, which are being amortized over the life of the transaction.

2023 New Markets Tax Credit

On April 25, 2023, the Company entered into a transaction with a subsidiary of an unrelated third-party financial institution (the "2023 Investor") and a certified Community Development Entity under a qualified New Markets Tax Credit ("2023 NMTC") program pursuant to Section 45D of the Internal Revenue Code of 1986, as amended, related to an investment in plant and equipment to facilitate the expansion of our Longview, Texas manufacturing operations (the "2023 Project"). In connection with the 2023 NMTC transaction, the Company received a $23.0 million NMTC allocation for the 2023 Project and secured low interest financing and the potential for future debt forgiveness related to the expansion of its Longview, Texas facilities.

Upon closing of the 2023 NMTC transaction, the Company provided an aggregate of approximately $16.7 million to the Investor, in the form of a loan receivable, with a term of twenty-five years, bearing an interest rate of 1.0%. This $16.7 million in proceeds plus capital contributed from the 2023 Investor was used to make an aggregate $23.8 million loan to a subsidiary of the Company. This financing arrangement is secured by a guarantee from the Company, including an unconditional guarantee of the NMTCs. The net proceeds from the closing of the 2023 NMTC is included in restricted cash on our consolidated balance sheets required to be used for the 2023 Project.

This transaction also includes a put/call feature either of which can be exercised at the end of the seven-year compliance period. The 2023 Investor may exercise its put option or the Company can exercise the call, both of which could serve to trigger forgiveness of a portion of the debt. The 2023 Investor's interest of $5.7 million is recorded in New market tax credit obligation on the consolidated balance sheets. The Company incurred approximately $0.4 million of debt issuance costs related to the above transactions, which are being amortized over the life of the transaction.

The 2019 Investor and 2023 Investor are each subject to 100 percent recapture of the 2019 and 2023 NMTC, respectively, it receives for a period of seven years, as provided in the Internal Revenue Code and applicable U.S. Treasury regulations in the event that the financing facility of the Borrower under the transaction (AAON Coil Products, Inc.) becomes ineligible for NMTC treatment per the Internal Revenue Code requirements. The Company is required to be in compliance with various regulations and contractual provisions that apply to the 2019 NMTC arrangements and 2023 NMTC arrangements, respectively.

Noncompliance with applicable requirements could result in the 2019 and/or 2023 Investors' projected tax benefits not being realized and, therefore, require the Company to indemnify the 2019 Investor and 2023 Investor for any loss or recapture of the 2019 NMTC and 2023 NMTC, respectively, related to the financing until such time as the recapture provisions have expired under the applicable statute of limitations. The Company does not anticipate any credit recapture will be required in connection with either of these financing arrangements.

The 2019 Investor and 2023 Investor and its majority owned community development entity are considered VIEs and the Company is the primary beneficiary of the VIEs. Because the Company is the primary beneficiary of the VIEs, they have been included in the consolidated financial statements. There are no other assets, liabilities or transactions in these VIEs outside of the financing transactions executed as part of the 2019 NMTC or 2023 NMTC arrangements, respectively.

17. Commitments and Contingencies

Havtech Litigation

On January 24, 2022, one of the Company’s former independent sales representative firms, Havtech, LLC (and its affiliate, Havtech Parts Division, LLC, collectively “Plaintiffs”), filed a complaint (the “Complaint”) in the Circuit Court for Howard County, Maryland (*Havtech, LLC, et al., v. AAON, Inc., et al.*). The Complaint challenged the Company’s termination of its business relationship with Plaintiffs. The Company removed the action to the United States District Court for the District of Maryland (Northern Division) and moved to dismiss the Complaint. Plaintiffs’ First Amended Complaint (“First Amended Complaint”) was entered by the court on July 28, 2022. The First Amended Complaint asserts that the Company improperly terminated Plaintiffs and seeks damages alleged to be no less than $48.6 million, plus fees and costs. The Company filed its Answer to First Amended Complaint on January 31, 2023. The Company believes that Plaintiffs’ claims are without merit and intends to vigorously defend itself.

Other Matters

The Company is involved from time to time in claims and lawsuits incidental to our business arising from various matters, including alleged violations of contract, product liability, warranty, environmental, regulatory, personal injury, intellectual property, employment, tax and other laws. We closely monitor these claims and legal actions and frequently consult with our legal counsel to determine whether they may, when resolved, have a material adverse effect on our financial position, results of operations or cash flows and we accrue and/or disclose loss contingencies as appropriate. We do not believe these matters will have a material adverse effect on our business, financial position, results of operations or cash flows.

We are occasionally party to short-term and long-term, cancellable and occasionally non-cancellable, contracts with major suppliers for the purchase of raw material and component parts. We expect to receive delivery of raw material and component parts for use in our manufacturing operations. These contracts are not accounted for as derivative instruments because they meet the normal purchase and normal sales exemption. We had no material contractual purchase obligations as of June 30, 2023, except as noted below.

On April 27, 2022, the Company entered into a purchase and sale agreement with a third-party manufacturer to purchase certain assets to design and manufacture fan wheels for the purchase price of $6.5 million. As of June 30, 2023, we have paid approximately $3.5 million related to this agreement, which is included in other long-term assets and property, plant and equipment, with the remaining $3.0 million included in accounts payable and other long-term assets on our consolidated balance sheets. The final payment is expected to be made in 2023.

18. Related Parties

The following is a summary of transactions and balances with related parties:

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	(in thousands)			
Sales to affiliates	$ 2,619	$ 2,327	$ 3,764	$ 3,079
Payments to affiliates	390	639	782	1,003

	June 30, 2023	December 31, 2022
	(in thousands)	
Due from affiliates	$ 559	$ 432
Due to affiliates	319	—

The nature of our related party transactions is as follows:

- The Company sells units to an entity owned by a member of the CEO/President's immediate family. This entity is also one of the Company's Representatives and as such, the Company makes payments to the entity for third party products.
- The Company purchases some supplies from entities controlled by two of the Company's board members and a member of the Company's executive management team.
- The Company periodically makes part sales and makes payments to a board member related to a consulting agreement.
- The Company periodically rents space partially owned by the CEO/President for various Company meetings.
- From December 10, 2021 through May 31, 2022, the Company leased a manufacturing and office facility in Redmond, Oregon from an entity in which certain members of BASX management have an ownership interest. This facility was purchased 100% by the Company on May 31, 2022.

19. Segments

The Company has determined that it has three reportable segments for financial reporting purposes. Management evaluates the performance of its business segments primarily on gross profit. The Company's chief operating decision maker ("CODM"), our CEO, allocates resources and assesses the performance of each operating segment using information about the operating segment's net sales and income from operations. The CODM does not evaluate operating segments using asset or liability information.

AAON Oklahoma: AAON Oklahoma designs, manufactures, sells and services standard, semi-custom and custom heating, ventilation and air conditioning ("HVAC") systems, designs and produces controls solutions for all of our HVAC units and sells retail parts to customers through our two retail part stores in Tulsa, Oklahoma as well as online. Through our Norman Asbjornson Innovation Center ("NAIC") research and development laboratory facility in Tulsa, Oklahoma, the Company is able to test units under various environmental conditions. AAON Oklahoma includes the operations of our Tulsa, Oklahoma and Parkville, Missouri facilities, our NAIC research and development laboratory facility and two retail parts locations.

AAON Coil Products: AAON Coil Products designs and manufactures a selection of our standard, semi-custom and custom HVAC systems. AAON Coil Products also designs and manufactures various heating and cooling coils to be used in HVAC systems, mostly for the benefit of AAON Oklahoma and AAON Coil Products. AAON Coil Products consists of operations at our Longview, Texas facilities.

BASX: BASX provides product development design and manufacturing of custom engineered air handling systems including high efficiency data center cooling solutions, cleanroom HVAC systems, commercial/industrial HVAC systems and modular solutions. Additionally, BASX designs and manufactures cleanroom environmental control systems to support hospital surgical suites, pharmaceutical process facilities, semiconductor and electronics manufacturing, laboratory and isolation modular cleanrooms for facility flexibility. BASX consists of operations at our Redmond, Oregon facility.

The following table summarizes certain financial data related to our segments. Transactions between segments are recorded based on prices negotiated between the segments. The Gross Profit amounts shown below are presented after elimination entries.

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Net Sales			*(in thousands)*	
AAON Oklahoma				
External sales	$ 218,214	$ 157,481	$ 420,216	$ 297,348
Inter-segment sales	1,205	770	2,699	1,159
AAON Coil Products				
External sales	30,081	26,754	63,493	48,689
Inter-segment sales	9,499	8,093	16,816	16,010
BASX				
External sales	35,662	24,579	66,201	45,548
Inter-segment sales	1,130	—	1,500	—
Eliminations	(11,834)	(8,863)	(21,015)	(17,169)
Net sales	$ 283,957	$ 208,814	$ 549,910	$ 391,585
Gross Profit				
AAON Oklahoma	$ 75,379	$ 31,737	$ 137,229	$ 65,573
AAON Coil Products	7,483	8,474	14,641	15,780
BASX	11,156	7,165	19,302	12,087
Gross profit	$ 94,018	$ 47,376	$ 171,172	$ 93,440

	June 30, 2023	December 31, 2022
Long-lived assets	*(in thousands)*	
AAON Oklahoma	$ 244,762	$ 213,731
AAON Coil Products	75,422	68,013
BASX	40,045	35,578
Total long-lived assets	$ 360,229	$ 317,322
Intangible assets and goodwill		
AAON Oklahoma	$ 3,229	$ 3,229
AAON Coil Products	—	—
BASX	141,466	143,269
Total intangible assets and goodwill	$ 144,695	$ 146,498

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes thereto, which are included in this report, and our audited consolidated financial statements and the notes thereto, which are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

This discussion contains or incorporates by reference “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts, but rather are based on expectations, estimates, assumptions and projections about our industry, business and future financial results, based on information available at the time this report is filed with the SEC or, with respect to any document incorporated by reference, available at the time that such document was prepared. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those identified in the section entitled “Forward-Looking Statements” in this Item 2 of this Quarterly Report on Form 10-Q and in the section entitled “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. We do not assume any obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or circumstances or otherwise, except as required by law.

Overview

We engineer, manufacture, market, and sell premium air conditioning and heating equipment consisting of standard, semi-custom, and custom rooftop units, data center cooling solutions, cleanroom systems, packaged outdoor mechanical rooms, air handling units, makeup air units, energy recovery units, condensing units, geothermal/water-source heat pumps, coils, and controls. These products are marketed and sold to retail, manufacturing, educational, lodging, supermarket, data centers, medical and pharmaceutical, and other commercial industries. We market our products to all 50 states in the United States and certain provinces in Canada. Foreign sales were approximately $20.3 million of our total net sales for the six months ended June 30, 2023 and $10.2 million of our sales during the same period of 2022.

Our business can be affected by a number of economic factors, including the level of economic activity in the markets in which we operate. Both the new construction and replacement markets are cyclical. If the domestic economy were to slow or enter a recession, this could result in a decrease in our sales volume and profitability. Sales in the commercial and industrial new construction markets generally lag the housing market, which in turn is influenced by cyclical factors such as interest rates, inflation, consumer spending habits, employment rates, the state of the economy and other macroeconomic factors over which we have no control. Sales in the replacement markets are driven by various factors, including general economic growth, the Company’s new product introductions, fluctuations in the average age of existing equipment in the market, government regulations and stimulus, changes in market demand between more customized higher performing HVAC equipment and lower priced standard equipment, as well as many other factors.

We sell our products to property owners and contractors mainly through a network of independent manufacturers’ Representatives. This go-to-market strategy is unique compared to most of our larger competitors in that most control their sales channel. We value the independent sales channel as we think it is a more effective way of increasing market share. Although we concede full control of the sales process with this strategy, the entrepreneurial aspect of the independent sales channel attracts the most talent and provides greater financial incentives for its salespeople. Furthermore, the independent sales channel sells different types of equipment from various manufacturers, allowing it to operate with more of a solutions-based mindset, as opposed to an internal sales department of a manufacturing company that is incentivized to only sell its equipment regardless if it is the best solution for the end customer. We also have a small internal sales force that supports the relationships between the Company and our sales channel partners. BASX sells highly customized products for unique applications to a more concentrated customer base. A combination of our internal sales force and select group of independent sales representatives is most effective for BASX's products.

The principal components of cost of goods sold are labor, raw materials, component costs, factory overhead, freight and engineering expense. The principal high volume raw materials used in our manufacturing processes are steel, copper and aluminum, and are obtained from domestic suppliers. We also purchase from domestic manufacturers certain components, including coils, compressors, motors, and electrical controls.

The price levels of our raw materials fluctuate given that the market continues to be volatile and unpredictable as a result of the uncertainty related to the U.S. economy and global economy. At June 30, 2023, the price (year to date average) for copper, stainless steel and aluminum increased 5.8%, 1.8%, and 25.8%, respectively, as compared to the price (year to date average) at June 30, 2022, while the price (year to date average) for galvanized steel decreased 30.8% as compared to the price (year to date average) at June 30, 2022.

We attempt to limit the impact of price fluctuations on these materials by entering into cancellable and non-cancellable contracts with our major suppliers for periods of six to 18 months. We expect to receive delivery of raw materials from our contracts for use in our manufacturing operations.

We occasionally increase the price of our products to help offset any inflationary headwinds. In 2022, we implemented two significant price increases as well as a recurring 1% monthly price increase effective June 1, 2022 through April 1, 2023.

Backlog

The following table shows our historical backlog levels:

June 30, 2023	December 31, 2022	June 30, 2022
	(in thousands)	
$ 526,209	$ 548,022	$ 464,025

During the three months ended June 30, 2023, our production began to finally outpace bookings, allowing the size of our backlog to begin to normalize relative to production output. We have made significant investments in facilities, hiring additional workforce and training our workforce which is increasing our capacity and production rates. This has allowed our lead times to start and come down to more normal levels and put our backlog at a more manageable level.

Results of Operations

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
		(in thousands)		
Net Sales	$ 283,957	$ 208,814	$ 549,910	$ 391,585
Cost of Sales	189,939	161,438	378,738	298,145
Gross Profit	94,018	47,376	171,172	93,440
Selling, general and administrative expenses	39,272	26,933	72,214	49,989
Loss (gain) on disposal of assets	6	(10)	12	(12)
Income from operations	$ 54,740	$ 20,453	$ 98,946	$ 43,463

The following are recent highlights and items that impacted our results of operations, cash flows and financial condition:

- We continue to have a strong backlog despite our record sales for the three and six months ended June 30, 2023. Total backlog decreased only 4.0% from December 31, 2022 and increased 13.4% from June 30, 2022.

- Sales for the three and six months ended June 30, 2023 grew 36.0% and 40.4%, respectively, due to record production rates and price increases realized during the period as compared to the quarter ended June 30, 2022.

- Our gross profit margin for the quarter ended June 30, 2023 of 33.1% increased 1,040 basis points from the quarter ended June 30, 2022.

We report our financial results based on three reportable segments: AAON Oklahoma, AAON Coil Products, and BASX, which are further described in "Segments" (Note 19) within our notes to the consolidated financial statements. The Company's chief operating decision maker ("CODM"), our CEO, allocates resources and assesses the performance of each operating segment using information about the operating segment's net sales and income from operations. The CODM does not evaluate operating segments using asset or liability information.

Segment Operating Results for Three Months Ended June 30, 2023 and Three Months Ended June 30, 2022

	Three Months Ended					
	June 30, 2023	Percent of Sales[1]	June 30, 2022	Percent of Sales[1]	$ Change	% Change
			(in thousands)			
Net Sales[2]						
AAON Oklahoma	$ 218,214	76.8 %	$ 157,481	75.4 %	$ 60,733	38.6 %
AAON Coil Products	30,081	10.6 %	26,754	12.8 %	3,327	12.4 %
BASX	35,662	12.6 %	24,579	11.8 %	11,083	45.1 %
Net sales	$ 283,957		$ 208,814		$ 75,143	36.0 %
Cost of Sales[2]						
AAON Oklahoma	$ 142,835	65.5 %	125,744	79.8 %	$ 17,091	13.6 %
AAON Coil Products	22,598	75.1 %	18,280	68.3 %	4,318	23.6 %
BASX	24,506	68.7 %	17,414	70.8 %	7,092	40.7 %
Cost of sales	$ 189,939	66.9 %	$ 161,438	77.3 %	$ 28,501	17.7 %
Gross Profit[2]						
AAON Oklahoma	$ 75,379	34.5 %	$ 31,737	20.2 %	$ 43,642	137.5 %
AAON Coil Products	7,483	24.9 %	8,474	31.7 %	(991)	(11.7)%
BASX	11,156	31.3 %	7,165	29.2 %	3,991	55.7 %
Gross profit	$ 94,018	33.1 %	$ 47,376	22.7 %	$ 46,642	98.5 %

[1] Cost of sales and gross profit for each segment are calculated as a percentage of the respective segment's net sales. Total cost of sales and total gross profit are calculated as a percentage of total net sales.

[2] Presented after intercompany eliminations.

For the three months ended June 30, 2023 total net sales increased $75.1 million or 36.0%, with 20.0% of the increase coming from realization of price increases and the remaining 16.0% coming from increases in organic volume. Revenue synergies and lessening supply chain constraints contributed to the increase in net sales of 45.1% at BASX.

Gross profit as a percent of sales increased to 33.1% for the three months ended June 30, 2023 as compared to 22.7% for the three months ended June 30, 2022. As noted above, realization of price increases has improved our margin profile along with the slowing of inflation. AAON Coil Products gross profit as a percent of sales decreased to 24.9% for the three months ended June 30, 2023 as compared to 31.7% for the three months ended June 30, 2022. The decrease in gross margin at AAON Coil Products is a result of less than optimal overhead absorption from weather related production disruption. Additionally, AAON Coil Products is more sensitive to changes in the cost of copper, which increased during the quarter.

As shown in the table below, we've experienced year over year increases in the cost of several raw materials. We implemented multiple price increases during 2022 and 2023 to counteract the increased cost of material. Some of the price increases have yet to be realized. Additionally, in order to retain our existing employees, we continue to award periodic raises in addition to our annual merit raises to our employees.

Raw Material Costs

Three-month average raw material cost per pound as of June 30:

	2023	2022	% Change
Copper	$ 5.91	$ 5.62	5.2 %
Galvanized steel	$ 0.64	$ 0.92	(30.4)%
Stainless steel	$ 3.34	$ 3.38	(1.2)%
Aluminum	$ 2.58	$ 1.88	37.2 %

Selling, General and Administrative Expenses

	Three Months Ended		Percent of Sales	
	June 30, 2023	June 30, 2022	2023	2022
	(in thousands)			
Warranty	$ 3,126	$ 2,353	1.1 %	1.1 %
Profit sharing	5,952	2,146	2.1 %	1.0 %
Salaries & benefits	13,390	10,383	4.7 %	5.0 %
Stock compensation	2,476	2,014	0.9 %	1.0 %
Advertising	1,013	1,290	0.4 %	0.6 %
Depreciation & amortization	3,224	2,062	1.1 %	1.0 %
Insurance	1,198	866	0.4 %	0.4 %
Professional fees	876	900	0.3 %	0.4 %
Donations	429	136	0.2 %	0.1 %
Other	7,588	4,783	2.7 %	2.3 %
Total SG&A	$ 39,272	$ 26,933	13.8 %	12.9 %

Selling, general and administrative expenses increased $12.3 million for the three months ended June 30, 2023 from the prior year period. Profit sharing increased $3.8 million or 177.4% due to our increased operating results. Salaries and benefits increased $3.0 million or 29.0% which is primarily attributable to overall increased headcount as well as the impact of employee pay increases and benefit improvements made in the first quarter of 2023. Other expenses increased $2.8 million or 58.6% during the three months ended June 30, 2023 due mostly to increased travel and consulting expenses.

Income Taxes

	Three Months Ended		Effective Tax Rate	
	June 30, 2023	June 30, 2022	2023	2022
	(in thousands)			
Income tax provision	$ 7,678	$ 4,177	14.4 %	20.8 %

The Company's estimated annual 2023 effective tax rate, excluding discrete events, is expected to be approximately 24.1%.

The decrease in the overall effective tax rate was primarily due to the change in our valuation allowance from the discontinuation of our participation in the state of Oklahoma's manufacturing property investment program. This change will allow the Company to utilize existing credit carryforwards in future tax years, eliminating the need for a valuation allowance against this deferred tax asset. The related valuation allowance was reversed resulting in a one-time benefit of $3.1 million to the estimated income tax provision for the three months ended June 30, 2023.

Segment Operating Results for Six Months Ended June 30, 2023 and Six Months Ended June 30, 2022

	Six Months Ended					
	June 30, 2023	**Percent of Sales[1]**	**June 30, 2022**	**Percent of Sales[1]**	**$ Change**	**% Change**
	(in thousands)					
Net Sales[2]						
AAON Oklahoma	$ 420,216	76.4 %	$ 297,348	75.9 %	$ 122,868	41.3 %
AAON Coil Products	63,493	11.5 %	48,689	12.4 %	14,804	30.4 %
BASX	66,201	12.0 %	45,548	11.6 %	20,653	45.3 %
Net sales	$ 549,910		$ 391,585		$ 158,325	40.4 %
Cost of Sales[2]						
AAON Oklahoma	$ 282,987	67.3 %	231,775	77.9 %	$ 51,212	22.1 %
AAON Coil Products	48,852	76.9 %	32,909	67.6 %	15,943	48.4 %
BASX	46,899	70.8 %	33,461	73.5 %	13,438	40.2 %
Cost of sales	$ 378,738	68.9 %	$ 298,145	76.1 %	$ 80,593	27.0 %
Gross Profit[2]						
AAON Oklahoma	$ 137,229	32.7 %	$ 65,573	22.1 %	$ 71,656	109.3 %
AAON Coil Products	14,641	23.1 %	15,780	32.4 %	(1,139)	(7.2)%
BASX	19,302	29.2 %	12,087	26.5 %	7,215	59.7 %
Gross profit	$ 171,172	31.1 %	$ 93,440	23.9 %	$ 77,732	83.2 %

[1] Cost of sales and gross profit for each segment are calculated as a percentage of the respective segment's net sales. Total cost of sales and total gross profit are calculated as a percentage of total net sales.

[2] Presented after intercompany eliminations.

For the six months ended June 30, 2023 total net sales increased $158.3 million or 40.4%, with approximately half of this increase coming from realization of price increase and half coming from increases in volume. Gross profit as a percent of sales increased to 31.1% for the six months ended June 30, 2023 as compared to 23.9% for the six months ended June 30, 2022. Total gross profit increased mostly due to the multiple price increases realized for the six months ended June 30, 2023 counteracting the increasing cost of materials and labor. The increase in overall unit production volume, resulted in favorable labor and overhead efficiencies, improving absorption of fixed costs.

AAON Coil Products' gross profit as a percent of sales decreased to 23.1% for the six months ended June 30, 2023 as compared to 32.4% for the six months ended June 30, 2022 mostly due to less than optimal overhead absorption as discussed above. Start-up of production related to BASX units being built at AAON Coil Products was slower than anticipated and resulted in lower volumes.

The cost of our material fluctuates month-to-month. We implemented multiple price increases during 2022 and 2023 to counteract the increased cost of material. Some of the price increases have yet to be realized. Additionally, in order to retain our existing employees, we continue to award periodic raises in addition to our annual merit raises to our employees. During the six months ended June 30, 2023, our gross profit decreased by approximately $3.7 million for changes in our paid time off policies and for payroll taxes and 401(k) matching contributions related to profit sharing payments and stock transactions as our stock reached record highs consistently during the first quarter.

Raw Material Costs

Six-month average raw material cost per pound as of June 30:

	2023	2022	% Change
Copper	$ 5.82	$ 5.50	5.8 %
Galvanized steel	$ 0.72	$ 1.04	(30.8)%
Stainless steel	$ 3.34	$ 3.28	1.8 %
Aluminum	$ 2.44	$ 1.94	25.8 %

Selling, General and Administrative Expenses

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	Percent of Sales 2023	Percent of Sales 2022
	(in thousands)			
Warranty	$ 5,534	$ 3,510	1.0 %	0.9 %
Profit sharing	10,818	4,815	2.0 %	1.2 %
Salaries & benefits	26,123	19,775	4.8 %	5.0 %
Stock compensation	4,349	3,683	0.8 %	0.9 %
Advertising	1,859	1,631	0.3 %	0.4 %
Depreciation & amortization	5,869	3,753	1.1 %	1.0 %
Insurance	2,431	1,575	0.4 %	0.4 %
Professional fees	1,981	2,382	0.4 %	0.6 %
Donations	554	325	0.1 %	0.1 %
Other	12,696	8,540	2.3 %	2.2 %
Total SG&A	$ 72,214	$ 49,989	13.1 %	12.8 %

Overall, selling, general and administrative expenses increased $22.2 million for the six months ended June 30, 2023 from the prior year period. Warranty expense increased consistent with our increase in net sales as we continue to focus on our commitment to reliability and quality. Profit sharing increased $6.0 million or 124.7% due to our increased operating results. Salaries and benefits increased $6.3 million or 32.1% which is primarily attributable to overall increases in our workforce as well as the the impact of employee pay increases and benefit improvements. Other expenses increased $4.2 million or 48.7% during the six months ended June 30, 2023 due mostly to increased travel and closing costs related to the 2023 New Market Tax Credit (Note 16).

Income Taxes

	Six months ended June 30, 2023	Six months ended June 30, 2022	Effective Tax Rate 2023	Effective Tax Rate 2022
	(in thousands)			
Income tax provision	$ 14,034	$ 8,959	14.5 %	20.9 %

The Company's estimated annual 2023 effective tax rate, excluding discrete events, is expected to be approximately 24.1%.

The decrease in the overall effective tax rate was primarily due to the change in our valuation allowance from the discontinuation of our participation in the state of Oklahoma's manufacturing property investment program. This change will allow the Company to utilize existing credit carryforwards in future tax years, eliminating the need for a valuation allowance against this deferred tax asset. The related valuation allowance was reversed resulting in a one-time benefit of $3.1 million to the estimated income tax provision for the three months ended June 30, 2023.

Additionally during the six months ended June 30, 2023, the Company recorded an excess tax benefit of $5.8 million as compared to $0.7 million during the same period in 2022. The increase was primarily due to timing of stock option exercises as a result of our high stock price during the six months ended June 30, 2023.

Liquidity and Capital Resources

Our working capital and capital expenditure requirements are generally met through net cash provided by operations and the use of the revolving bank line of credit based on our current liquidity at the time.

Working Capital - Our unrestricted cash decreased $0.2 million from December 31, 2022 to June 30, 2023 and totaled $5.2 million at June 30, 2023. Our restricted cash increased $21.9 million from the closing of our recent New Markets Tax Credit related to our Longview, Texas Expansion. We expect most funds will be released from this account by the end of 2023 and used to pay down our revolving line of credit. We have also seen increases in our current income tax payable due to the tax law changes surrounding the capitalization of research and development costs. This has increased our cash paid for income taxes.

Revolving Line of Credit - Our revolving credit facility (as amended, "Revolver"), provides for maximum borrowings of $200.0 million. As of June 30, 2023 and December 31, 2022, we had $78.5 million and $71.0 million, respectively, outstanding under the Revolver. We had one standby letter of credit totaling $0.3 million as of June 30, 2023. At June 30, 2023, we have $121.2 million of borrowings available under the Revolver. The Revolver expires May 27, 2027. On April 20, 2023 we amended the Revolver to allow for the occurrence of transactions associated with the New Markets Tax Credit executed on April 25, 2023 (Note 16).

Any outstanding loans under the Revolver bear interest at the daily compounded secured overnight financing rate ("SOFR") plus the applicable margin. Applicable margin, ranging from 1.25% - 1.75%, is determined quarterly based on the Company's leverage ratio. The Company is also subject to letter of credit fees, ranging from 1.25% - 1.75%, and a commitment fee, ranging from 0.10% - 0.20%. The applicable fee percentage is determined quarterly based on the Company's leverage ratio. The weighted average interest rate on borrowings outstanding on the Revolver was 6.3% and 6.2% for the three and six months ended June 30, 2023. Fees associated with the unused portion of the committed amount are included in interest expense on our consolidated statements of income for the three and six months ended June 30, 2023 and 2022.

If SOFR cannot be determined pursuant to the definition, as defined by the Revolver agreement, any outstanding effected loans will be deemed to have been converted into alternative base rate ("ABR") loans. ABR loans would bear interest at a rate per annum equal to the highest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Rate in effect on such day plus 0.50%, or (c) daily simple SOFR for a one-month tenor in effect on such day plus 1.00%.

At June 30, 2023, we were in compliance with our financial covenants, as defined by the Revolver. These covenants require that we meet certain parameters related to our leverage ratio. At June 30, 2023, our leverage ratio was 0.37 to 1.0, which meets the requirement of not being above 3 to 1.

2019 New Markets Tax Credit - On October 24, 2019, the Company entered into a transaction with a subsidiary of an unrelated third-party financial institution (the "2019 Investor") and a certified Community Development Entity under a qualified New Markets Tax Credit ("2019 NMTC") program pursuant to Section 45D of the Internal Revenue Code of 1986, as amended, related to an investment in plant and equipment to facilitate the expansion of our Longview, Texas manufacturing operations (the "2019 Project"). In connection with the NMTC transaction, the Company received a $23.0 million NMTC allocation for the 2019 Project and secured low interest financing and the potential for future debt forgiveness related to the expansion of its Longview, Texas facilities.

Upon closing of the 2019 NMTC transaction, the Company provided an aggregate of approximately $15.9 million to the Investor, in the form of a loan receivable, with a term of twenty-five years, bearing an interest rate of 1.0%. This $15.9 million in proceeds plus capital contributed from the Investor was used to make an aggregate $22.5 million loan to a subsidiary of the Company. This financing arrangement is secured by equipment at the Company's Longview, Texas facilities, and a guarantee from the Company, including an unconditional guarantee of the NMTCs.

2023 New Markets Tax Credit

On April 25, 2023, the Company entered into a transaction with a subsidiary of an unrelated third-party financial institution (the "2023 Investor") and a certified Community Development Entity under a qualified New Markets Tax Credit ("2023 NMTC") program pursuant to Section 45D of the Internal Revenue Code of 1986, as amended, related to an investment in plant and equipment to facilitate the expansion of our Longview, Texas manufacturing operations (the "2023 Project"). In connection with the 2023 NMTC transaction, the Company received a $23.0 million NMTC allocation for the 2023 Project and secured low interest financing and the potential for future debt forgiveness related to the expansion of its Longview, Texas facilities.

Upon closing of the 2023 NMTC transaction, the Company provided an aggregate of approximately $16.7 million to the Investor, in the form of a loan receivable, with a term of twenty-five years, bearing an interest rate of 1.0%. This $16.7 million in proceeds plus capital contributed from the Investor was used to make an aggregate $23.8 million loan to a subsidiary of the Company. This financing arrangement is secured by a guarantee from the Company, including an unconditional guarantee of the NMTCs.

Stock Repurchases - The Board has authorized one active stock repurchase program for the Company. The Board must authorize the timing and amount of these purchases and all repurchases are in accordance with the rules and regulations of the SEC allowing the Company to repurchase shares from the open market. On November 3, 2022, the Board of Directors approved an updated stock repurchase plan with repurchases under the plan not to exceed $50 million. The current repurchase plan will expire at the Board of Directors discretion.

Our open market repurchase programs are as follows:

Effective Date	Authorized Repurchase $	Expiration Date
March 13, 2020	$20 million	November 9, 2022
November 3, 2022	$50 million	** [1]

[1] Expiration Date is at Board's discretion. The Company is authorized to effectuate repurchases of the Company's common stock on terms and conditions approved in advance by the Board.

The Company repurchases shares of AAON, Inc. stock from employees for payment of statutory tax withholdings on stock transactions. All other repurchases from directors or employees are contingent upon Board approval. All repurchases are done at current market prices.

Lastly, the Company also had a stock repurchase arrangement by which employee-participants in our 401(k) savings and investment plan were entitled to have shares in AAON, Inc. stock in their accounts sold to the Company. The 401(k) Plan was amended in June 2022 to discontinue this program. No additional shares have been purchased by the Company under this arrangement since June 2022.

Our repurchase activity is as follows:

	Six Months Ended					
	June 30, 2023			June 30, 2022		
	(in thousands, except share and per share data)					
Program	Shares	Total $	$ per share	Shares	Total $	$ per share
Open market	—	$ —	$ —	—	$ —	$ —
401(k)	—	—	—	103,936	5,913	56.89
Employees	13,083	1,162	88.82	16,183	953	58.89
Total	13,083	$ 1,162	$ 88.82	120,119	$ 6,866	$ 57.16

Our repurchase activity since Company inception, including our current authorized stock repurchase programs, are as follows:

	Inception to June 30, 2023		
	(in thousands, except share and per share data)		
Program	Shares	Total $	$ per share
Open market	4,327,367	$ 81,616	$ 18.86
401(k)	8,308,368	171,789	20.68
Directors and employees	2,058,038	24,522	11.92
Total	14,693,773	$ 277,927	$ 18.91

Dividends - At the discretion of the Board, we pay cash dividends. Board approval is required to determine the date of declaration and amount for each cash dividend payment.

Our recent cash dividends are as follows:

Declaration Date[1]	Record Date	Payment Date	Dividend per Share	Annualized Dividend per Share
May 18, 2022	June 3, 2022	July 1, 2022	$0.19	$0.38
November 8, 2022	November 28, 2022	December 16, 2022	$0.24	$0.48
March 1, 2023	March 13, 2023	March 31, 2023	$0.12	$0.48
May 18, 2023	June 9, 2023	June 30, 2023	$0.12	$0.48

[1] Effective with the cash dividend declared on March 1, 2023 (paid on March 31, 2023), the Company moved from semi-annual cash dividends to quarterly cash dividends.

On July 7, 2023, the Board of Directors declared a three-for-two stock split of the Company's common stock to be paid in the form of a stock dividend. Stockholders of record at the close of business on July 28, 2023 will receive one additional share for every two shares they hold as of that date on August 16, 2023 (ex-dividend date August 17, 2023).

Based on historical performance and current expectations, we believe our cash and cash equivalents balance, the projected cash flows generated from our operations, our existing committed revolving credit facility (or comparable financing) and our expected ability to access capital markets will satisfy our working capital needs, capital expenditures, and other liquidity requirements associated with our operations in 2023 and the foreseeable future.

Statement of Cash Flows

The following table reflects the major categories of cash flows for the six months ended June 30, 2023 and 2022. For additional details, see the consolidated financial statements.

	Six Months Ended	
	June 30, 2023	June 30, 2022
	(in thousands)	
Operating Activities		
Net Income	$ 82,496	$ 34,005
Income statement adjustments, net	25,996	23,560
Changes in assets and liabilities:		
Accounts receivable	(26,782)	(53,736)
Income taxes	(15,171)	(1,895)
Inventories	(17,927)	(33,879)
Contract assets	(4,711)	(2,820)
Prepaid expenses and other long-term assets	(2,502)	(3,066)
Accounts payable	(14,874)	6,490
Contract liabilities	(1,162)	22,217
Extended warranties	1,526	421
Accrued liabilities & other long-term liabilities	33,051	7,123
Net cash provided by (used in) operating activities	59,940	(1,580)
Investing Activities		
Capital expenditures	(60,629)	(27,227)
Cash paid for building (Note 18)	—	(22,000)
Cash paid in business combination, net of cash acquired	—	(249)
Other	132	39
Net cash used in investing activities	(60,497)	(49,437)
Financing Activities		
Proceeds from financing obligations, net of issuance costs	6,061	—
Payment related to financing costs	(398)	—
Borrowings under revolving credit facility	279,961	94,900
Payments under revolving credit facility	(272,429)	(28,651)
Principal payments on financing lease	—	(28)
Stock options exercised	23,244	6,385
Repurchase of stock	—	(5,912)
Employee taxes paid by withholding shares	(1,162)	(954)
Cash dividends paid to stockholders	(13,004)	—
Net cash provided by financing activities	$ 22,273	$ 65,740

Cash Flows Provided by Operating Activities

The Company currently manages cash needs through working capital as well as drawing on its line of credit. Collections and payments cycles are on a normal pattern and fluctuate due to timing of receipts and payments. In early 2022, the Company began increasing the purchase of inventory to take advantage of favorable pricing opportunities and also to mitigate the impact of future supply chain disruptions on our operations. Increases in the timing of our customer prepayment as well as increases in our employee bonuses pools and benefits (as a result of our positive operating results) increased our cash provided by accrued liabilities.

Payment terms for BASX jobs typically require upfront cash to fund the job resulting in cash inflows related to our contract liabilities and cash inflows fluctuate due to job timing and scheduling.

Cash Flows Used in Investing Activities

The capital expenditures for the six months ended June 30, 2023 relate to our continued investment in our production capabilities. Purchases during the six months ended June 30, 2023 relate to additional sheetmetal and other machinery for both replacement and growth, additional warehouse space in Longview, Texas, additional office space in Tulsa, Oklahoma, additional land in Tulsa, Oklahoma for future growth, and a partial interest in an airplane. The capital expenditure program for 2023 is estimated to be approximately $135.0 million. Many of these projects are subject to review and cancellation at the discretion of our CEO and Board of Directors without incurring substantial charges.

Cash Flows Provided by Financing Activities

The change in cash from financing activities in 2023 is primarily related to borrowings under our revolving credit facility to manage our working capital needs, especially strategic purchases of inventory to avoid supply chain delays and the funding of certain capital expenditures, offset by repayments we were able to make due to our increased operating results and financial condition.

Furthermore, cash flows from financing activities is historically affected by the timing of stock options exercised by our employees. Stock options exercised increased due to the increase in the number of employee options exercised and increase in our average stock price during the six months ended June 30, 2023 compared to the six months ended June 30, 2022.

Effective with the cash dividend declared on March 1, 2023 (paid on March 31, 2023), the Company moved from semi-annual cash dividends to quarterly cash dividends. The second quarter dividend was paid on June 30, 2023.

Commitments and Contractual Obligations

We are occasionally party to short-term and long-term, cancellable and occasionally non-cancellable, contracts with suppliers for the purchase of raw material and component parts. We expect to receive delivery of raw material and component parts for use in our manufacturing operations. These contracts are not accounted for as derivative instruments because they meet the normal purchase and normal sales exemption. We had no material contractual purchase obligations as of June 30, 2023 except as described below.

On April 27, 2022, the Company entered into a purchase and sale agreement with a third-party manufacturer to purchase certain assets to design and manufacture fan wheels for the purchase price of $6.5 million. As of June 30, 2023, we have paid approximately $3.5 million related to this agreement, which is included in other long-term assets and property, plant and equipment, with the remaining $3.0 million included in accounts payable and other long-term assets on our consolidated balance sheets. The final payment will be made in 2023.

Critical Accounting Policies

There have been no material changes in the Company’s critical accounting policies during the six months ended June 30, 2023.

Recent Accounting Pronouncements

See Note 1 of the Notes to the Consolidated Financial Statements for a discussion of recent accounting pronouncements.

Forward-Looking Statements

This Quarterly Report on Form 10-Q (or statements otherwise made by the Company or on the Company's behalf from time to time in other reports, filings with the Securities and Exchange Commission ("SEC"), news releases, conferences, website postings, presentations or otherwise) includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Any statements contained herein that are not historical facts are forward-looking statements and involve risks and uncertainties. For all of these forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the U.S. Private Securities Litigation Reform Act of 1995. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "confident", "outlook", "project", "should", "will", and variations of such words and other words of similar meaning or similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Important factors that could cause results to differ materially from those in the forward-looking statements include, among others:

- market conditions and customer demand for our products;
- the timing and extent of changes in raw material and component prices;
- naturally-occurring events, pandemics, and other disasters causing disruption to our manufacturing operations, product deliveries and production capacity;
- the impact caused by inflationary cost pressures, national or global health issues, such as the coronavirus pandemic ("COVID-19"), any variants or similar outbreaks (including the response thereto) and their effects on, among other things, demand for our products, supply chain disruptions, our liquidity and financial position, results of operations, stock price, payment of dividends, our ability to secure new orders, our ability to convert backlog to revenue and impacts to the operations status of our facilities;
- natural disasters and extreme weather conditions, including, without limitation, their effects on locations where our products are manufactured;
- the effects of fluctuations in the commercial/industrial new construction market;
- the timing of introduction and market acceptance of new products;
- the timing and extent of changes in interest rates, as well as other competitive factors during the year;
- general economic, market or business conditions;
- tightening of labor markets and the ability to hire employees for continued growth
- creditworthiness of our customers and their access to capital;
- changing technologies;
- the material failure, interruption of service, compromised data or information technology security, phishing emails, cybersecurity breaches or other impacts to our information technology and related systems and networks (including any of the foregoing of third-party vendors and other contractors who provide information technology or other services);
- costs and results of litigation, including trial and appellate costs;
- economic, market or business conditions in the specific industry and market in which our businesses operate;
- future levels of capital expenditures, research and development and indebtedness, including, without limitation, our ability to reduce indebtedness and risks associated with the same;
- legal, regulatory, and environmental issues, including, without limitation, compliance of our products with mandated standards and specifications; and
- integration of acquired businesses and our ability to realize synergies and cost savings.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. Except as required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events, occurrences or developments after the date on which such statement is made. For a discussion of risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, please see Item 1A "Risk Factors" included in our Annual Report on Form 10-K, and as otherwise disclosed from time to time in our other filings with the SEC.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Commodity Price Risk

We are exposed to volatility in the prices of commodities used in some of our products and we may use cancellable and non-cancellable contracts with our major suppliers for periods of six to 18 months to manage this exposure.

Interest Rate Risk

We are exposed to changes in interest rates related to our outstanding debt. As of June 30, 2023, we had an outstanding balance of $78.5 million. For each one percentage point increase in the interest rate applicable to our outstanding debt, our annual income before taxes would decrease by approximately $0.8 million.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer with the oversight of the Audit Committee, regarding the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded, as of the end of the period covered by this Quarterly Report, that our disclosure controls and procedures were effective.

(c) Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 17 of the Notes to the Consolidated Financial Statements.

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022. The risk factors described in our Annual Report could materially adversely affect our business, financial condition or future results. There have been no material changes to the risk factors included in our 2022 Annual Report.

Item 2. Unregistered Sales of Equity and Securities and Use of Proceeds.

Stock Repurchases

The Company may repurchase AAON, Inc. stock on the open market from time to time. From inception through June 30, 2023, we have repurchased a total of approximately 4.3 million shares (at current market prices) under the various open market stock buyback programs for an aggregate price of $81.6 million, or an average price of $18.86 per share. The Board must authorize the timing and amount of these purchases and all repurchases are in accordance with the rules and regulations of the SEC allowing the Company to repurchase shares from the open market. On November 3, 2022, the Board of Directors approved an updated stock repurchase plan with repurchases under the plan not to exceed $50.0 million. The current repurchase plan will expire at the Board of Directors discretion.

The Company repurchases shares of AAON, Inc. stock from employees for payment of statutory tax withholdings on stock transactions. All other repurchases from directors or employees are contingent upon Board approval. All repurchases are done at current market prices. From inception through June 30, 2023, we repurchased approximately 2.1 million shares (at current market prices) for an aggregate price of $24.5 million, or an average price of $11.92 per share.

Lastly, the Company also had a stock repurchase arrangement by which employee-participants in our 401(k) Plan were entitled to have shares of AAON, Inc. stock in their accounts sold to the Company. The 401(k) Plan was amended in June 2022 to discontinue this program. From inception through June 30, 2023, we repurchased approximately 8.3 million shares (at current market prices) for an aggregate price of $171.8 million, or an average price of $20.68 per share.

Repurchases during the second quarter of 2023 were as follows:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid Per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may yet be Purchased under the Plans or Programs
April 2023	319	$	96.88	319	—
May 2023	624		92.07	624	—
June 2023	467		93.36	467	—
Total	1,410	$	93.58	1,410	—

Contingent Shares Issued in BASX Acquisition

In December 2021, we closed on the acquisition of BASX. Under the MIPA Agreement, we committed to $78.0 million in the aggregate of contingent consideration to the former owners of BASX, which is payable in approximately 1.04 million shares of the Company's common stock, par value $0.004 per share. The shares do not accrue dividends.

Under the MIPA Agreement, the potential future issuance of the shares is contingent upon BASX meeting certain post-closing earn-out milestones during each of the years ended 2021, 2022, and 2023. Based on the final allocation of the consideration paid, we estimated the fair value of contingent consideration related to these shares to be approximately $60.0 million, which is included in additional paid-in capital on the consolidated balance sheets. As of June 30, 2023, 0.39 million shares and 0.49 million shares related to the earn-out milestones for the years ended 2022 and 2021, respectively, have been issued to the former owners of BASX as private placements exempt from registration with the SEC under Rule 506(b), which are included in common stock on the consolidated statements of stockholders' equity.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 4A. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

Rule 10b5-1 Trading Arrangements

The following table describes contracts, instructions or written plans for the purchase or sale of our securities intended to satisfy the affirmative defense conditions of Rule 10b5-1(c). There were no non-Rule 10b5-1 trading arrangements entered into during the quarter ended June 30, 2023.

Name and Title of Director or Officer	Date of Adoption of Arrangement	Duration of the Arrangement	Aggregate Number of Securities to be Purchased or Sold Pursuant to the Arrangement
Stephen E. Wakefield	November 23, 2022	Terminated May 17, 2023	95,788
Vice President and Chief Operating Officer			

Item 6. Exhibits.

Exhibit #	Description
3.2	Amended and Restated Bylaws of AAON, Inc. effective March 9, 2023 (i)
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification by Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T formatted in iXBRL (Inline Extensible Business Reporting Language): (i) our Consolidated Balance Sheets as of June 30, 2023 and December 31, 2022; (ii) our Consolidated Statements of Income for the six months ended June 30, 2023 and 2022; (iii) our Consolidated Statements of Stockholders' Equity for the six months ended June 30, 2023 and 2022; (iv) our Consolidated Statements of Cash Flows for the six months ended June 30, 2023 and 2022; and (vi) the notes to our Consolidated Financial Statements.
104	Cover Page Interactive Data File pursuant to Rule 406 of Regulation S-T formatted in iXBRL (Inline Extensible Business Reporting Language) and contained in Exhibit 101.
(i)	Incorporated herein by reference to the exhibit to our Form 8-K dated March 9, 2023.

SIGNATURES

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

AAON, INC.

Dated: August 03, 2023 By: /s/ Gary D. Fields

Gary D. Fields
Chief Executive Officer

Dated: August 03, 2023 By: /s/ Rebecca A. Thompson

Rebecca A. Thompson
Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Gary D. Fields, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AAON, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 03, 2023

/s/ Gary D. Fields

Gary D. Fields
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Rebecca A. Thompson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of AAON, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 03, 2023

/s/ Rebecca A. Thompson

Rebecca A. Thompson
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of AAON, Inc. (the “Company”), on Form 10-Q for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Gary D. Fields, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 03, 2023

/s/ Gary D. Fields

Gary D. Fields
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AAON, Inc. (the “Company”), on Form 10-Q for the quarter ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Rebecca A. Thompson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 03, 2023

/s/ Rebecca A. Thompson

Rebecca A. Thompson
Chief Financial Officer