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

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2024

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 November 5, 2024, registrant had outstanding a total of 81,279,625 shares of its $.004 par value Common Stock.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	September 30, 2024	December 31, 2023
Assets	*(in thousands, except share and per share data)*	
Current assets:		
Cash and cash equivalents	$ 15	$ 287
Restricted cash	6,650	8,736
Accounts receivable, net	143,806	138,108
Income tax receivable	1,125	—
Inventories, net	177,731	213,532
Contract assets	95,120	45,194
Prepaid expenses and other	3,389	3,097
Total current assets	427,836	408,954
Property, plant and equipment, net	427,652	369,947
Intangible assets, net and goodwill	158,838	149,945
Right of use assets	15,505	11,774
Other long-term assets	794	816
Total assets	$ 1,030,625	$ 941,436
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 27,199	$ 27,484
Accrued liabilities	96,243	85,508
Contract liabilities	16,391	13,757
Total current liabilities	139,833	126,749
Revolving credit facility, long-term	55,677	38,328
Deferred tax liabilities	1,658	12,134
Other long-term liabilities	20,527	16,807
New markets tax credit obligations[1]	16,074	12,194
Commitments and contingencies (Note 18)		
Stockholders' equity:		
Preferred stock, $.001 par value, 5,000,000 shares authorized, no shares issued	—	—
Common stock, $.004 par value, 200,000,000 shares authorized[2], 81,246,902 and 81,508,381 issued and outstanding at September 30, 2024 and December 31, 2023, respectively	325	326
Additional paid-in capital	59,398	122,063
Retained earnings	737,133	612,835
Total stockholders' equity	796,856	735,224
Total liabilities and stockholders' equity	$ 1,030,625	$ 941,436

[1] Held by variable interest entities (Note 17)

[2] Effective July 9, 2024, our authorized common shares increased from 100,000,000 to 200,000,000 (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 September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
	(in thousands, except share and per share data)			
Net sales	$ 327,252	$ 311,970	$ 902,917	$ 861,880
Cost of sales	213,094	195,861	583,423	574,599
Gross profit	114,158	116,109	319,494	287,281
Selling, general and administrative expenses	48,637	51,470	139,820	123,684
Loss (gain) on disposal of assets	1	(25)	(15)	(13)
Income from operations	65,520	64,664	179,689	163,610
Interest expense, net	(1,091)	(1,266)	(1,697)	(3,959)
Other income, net	81	93	333	370
Income before taxes	64,510	63,491	178,325	160,021
Income tax provision	11,885	15,413	34,456	29,447
Net income	$ 52,625	$ 48,078	$ 143,869	$ 130,574
Earnings per share:				
Basic	$ 0.65	$ 0.59	$ 1.77	$ 1.61
Diluted	$ 0.63	$ 0.58	$ 1.72	$ 1.57
Cash dividends declared per common share:	$ 0.08	$ 0.08	$ 0.24	$ 0.24
Weighted average shares outstanding:				
Basic	81,089,476	81,418,800	81,448,413	81,140,473
Diluted	83,107,077	83,393,054	83,579,989	83,275,208

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

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

	Nine Months Ended September 30, 2024				
	Common Stock		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
			(in thousands)		
Balance at December 31, 2023	81,508	$ 326	$ 122,063	$ 612,835	$ 735,224
Net income	—	—	—	143,869	143,869
Stock options exercised and restricted stock awards granted	937	4	25,641	—	25,645
Contingent shares issued (Note 16)	243	1	6,363	—	6,364
Share-based compensation	—	—	12,814	—	12,814
Stock repurchased and retired	(1,441)	(6)	(107,483)	—	(107,489)
Dividends	—	—	—	(19,571)	(19,571)
Balance at September 30, 2024	81,247	$ 325	$ 59,398	$ 737,133	$ 796,856

	Nine Months Ended September 30, 2023				
	Common Stock		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
			(in thousands)		
Balances at December 31, 2022	80,138	$ 322	$ 98,735	$ 461,657	560,714
Net income	—	—	—	130,574	130,574
Stock options exercised and restricted stock awards granted	1,517	5	25,246	—	25,251
Share-based compensation	—	—	12,102	—	12,102
Stock repurchased and retired	(423)	(2)	(26,209)	—	(26,211)
Dividends	—	—	—	(19,946)	(19,946)
Balance at September 30, 2023	81,232	$ 325	$ 109,874	$ 572,285	$ 682,484

	Three Months Ended September 30, 2024				
	Common Stock		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
			(in thousands)		
Balances at June 30, 2024	80,951	$ 324	$ 49,174	$ 691,000	$ 740,498
Net income	—	—	—	52,625	52,625
Stock options exercised and restricted stock awards granted	342	1	9,823	—	9,824
Share-based compensation	—	—	4,363	—	4,363
Stock repurchased and retired	(46)	—	(3,962)	—	(3,962)
Dividends	—	—	—	(6,492)	(6,492)
Balance at September 30, 2024	81,247	$ 325	$ 59,398	$ 737,133	$ 796,856

	Three Months Ended September 30, 2023				
	Common Stock		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
			(in thousands)		
Balances at June 30, 2023	81,569	$ 326	$ 128,636	$ 531,149	$ 660,111
Net income	—	—	—	48,078	48,078
Stock options exercised and restricted stock awards granted	66	1	2,006	—	2,007
Share-based compensation	—	—	4,279	—	4,279
Stock repurchased and retired	(403)	(2)	(25,047)	—	(25,049)
Dividends	—	—	—	(6,942)	(6,942)
Balance at September 30, 2023	81,232	$ 325	$ 109,874	$ 572,285	$ 682,484

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

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

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
	(in thousands)	
Operating Activities		
Net income	$ 143,869	$ 130,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,185	33,439
Amortization of debt issuance costs	111	57
Amortization of right of use assets	133	166
Provision for (recoveries of) credit losses on accounts receivable, net of adjustments	815	(92)
Provision for excess and obsolete inventories, net of write-offs	1,848	2,979
Share-based compensation	12,814	12,102
Gain on disposition of assets	(15)	(13)
Foreign currency transaction loss	10	—
Interest income on note receivable	(14)	(15)
Deferred income taxes	(4,112)	(3,917)
Changes in assets and liabilities:		
Accounts receivable	(6,513)	(32,040)
Income taxes	(2,295)	(12,472)
Inventories	33,953	(18,547)
Contract assets	(49,926)	(10,155)
Prepaid expenses and other long-term assets	(304)	(896)
Accounts payable	1,733	(15,631)
Contract liabilities	2,634	(1,848)
Extended warranties	1,249	2,049
Accrued liabilities and other long-term liabilities	10,512	21,405
Net cash provided by operating activities	191,687	107,145
Investing Activities		
Capital expenditures	(99,371)	(82,900)
Proceeds from sale of property, plant and equipment	21	129
Software development expenditures	(14,436)	—
Principal payments from note receivable	38	39
Net cash used in investing activities	(113,748)	(82,732)
Financing Activities		
Proceeds from financing obligation, net of issuance costs	4,186	6,061
Payment related to financing costs	(417)	(398)
Borrowings under revolving credit facility	410,503	444,072
Payments under revolving credit facility	(393,154)	(436,656)
Stock options exercised	25,645	25,251
Repurchase of stock	(100,034)	(25,009)
Employee taxes paid by withholding shares	(7,455)	(1,202)
Cash dividends paid to stockholders	(19,571)	(19,946)
Net cash used in financing activities	(80,297)	(7,827)
Net (decrease) increase in cash, cash equivalents and restricted cash	(2,358)	16,586
Cash, cash equivalents and restricted cash, beginning of period	9,023	5,949
Cash, cash equivalents and restricted cash, end of period	$ 6,665	$ 22,535

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 eight variable interest entities ("VIEs") (Note 17) 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, 2023 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, 2023. 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 centers 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 consolidated 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, revenue percentage of completion and estimated costs to complete. Actual results could differ materially from those estimates.

Inflation and Labor Market

In 2023, we saw the slowing of inflation and some stabilization of 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 monitor and manage increases 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 2023, we awarded annual merit raises for an overall 3.9% increase to wages.
- In March 2024, we awarded annual merit raises for an overall 3.3% increase to wages.

We 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.

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, 2023.

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 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 or asset acquisitions. 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	6 - 30 years
Customer relationships	14 years

Software Development Costs

We capitalize costs incurred to purchase or develop software for internal use. Internal-use software development costs are capitalized during the application development stage. These capitalized costs are reflected in intangible assets, net and goodwill on the consolidated balance sheets and are amortized over the estimated useful life of the software. The useful life of our internal-use software development costs is generally one to six 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.

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, 2023, 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 20) by major source, net of intercompany sales eliminations.

	Three Months Ended September 30, 2024			
	AAON Oklahoma	AAON Coil Products	BASX	Total
	(in thousands)			
Rooftop units	$ 203,172	$ —	$ —	$ 203,172
Condensing units	—	16,548	—	16,548
Air handlers	—	15,829	414	16,243
Cleanroom systems	—	—	6,966	6,966
Data center cooling solutions	—	599	54,561	55,160
Water-source heat pumps	—	1,403	—	1,403
Part sales	20,113	1	984	21,098
Other[1]	5,602	852	208	6,662
	$ 228,887	$ 35,232	$ 63,133	$ 327,252

	Three Months Ended September 30, 2023			
	AAON Oklahoma	AAON Coil Products	BASX	Total
	(in thousands)			
Rooftop units	$ 221,417	$ —	$ —	$ 221,417
Condensing units	—	7,636	—	7,636
Air handlers	—	9,862	7,558	17,420
Outdoor mechanical rooms	—	62	—	62
Cleanroom systems	—	—	5,355	5,355
Data center cooling solutions	—	3,284	25,726	29,010
Water-source heat pumps	—	3,898	—	3,898
Part sales	17,756	4	371	18,131
Other[1]	7,281	1,023	737	9,041
	$ 246,454	$ 25,769	$ 39,747	$ 311,970

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

	Nine Months Ended September 30, 2024			
	AAON Oklahoma	AAON Coil Products	BASX	Total
	(in thousands)			
Rooftop units	$ 598,079	$ —	$ —	$ 598,079
Condensing units	—	43,814	—	43,814
Air handlers	—	38,303	4,972	43,275
Cleanroom systems	—	—	25,506	25,506
Data center cooling solutions	—	1,731	114,141	115,872
Water-source heat pumps	—	4,558	—	4,558
Part sales	53,404	7	2,168	55,579
Other[1]	13,271	2,439	524	16,234
	$ 664,754	$ 90,852	$ 147,311	$ 902,917

	Nine Months Ended September 30, 2023			
	AAON Oklahoma	AAON Coil Products	BASX	Total
	(in thousands)			
Rooftop units	$ 597,508	$ —	$ —	$ 597,508
Condensing units	61	34,243	—	34,304
Air handlers	—	34,693	13,196	47,889
Outdoor mechanical rooms	208	274	—	482
Cleanroom systems	—	—	35,063	35,063
Data center cooling solutions	—	6,524	56,079	62,603
Water-source heat pumps	3,128	10,064	—	13,192
Part sales	47,623	5	862	48,490
Other[1]	18,142	3,459	748	22,349
	$ 666,670	$ 89,262	$ 105,948	$ 861,880

[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.

The Company recognizes revenue, presented net of sales tax, when it satisfies the performance obligation in its contracts. For certain manufactured equipment contracts and part sales, the primary performance obligation is delivery. 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, changes in product mix 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 a Company 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 $10.7 million and $20.1 million for the three months ended September 30, 2024 and 2023, respectively, and $31.7 million and $46.4 million for the nine months ended September 30, 2024 and 2023, respectively.

3. Leases

The Company has various lease arrangements for certain manufacturing and warehousing facilities, equipment rental, as well as administrative facilities. Lease expiration dates, including expected renewal options, range from April 2025 to November 2033. The discount rates used to calculate the present value of lease payment range from 1.3% to 6.6% as of September 30, 2024. Currently, all leases are classified as operating leases.

The following table presents the balances by lease type:

Operating Leases	**Balance Sheet Classification**	**September 30, 2024**	**December 31, 2023**
		(in thousands)	
Right of use assets	Right of use assets	$ 15,505	$ 11,774
Lease liability, short-term	Accrued liabilities	2,298	2,021
Lease liability, long-term	Other long-term liabilities	13,788	10,201

Since 2018, the Company has leased the manufacturing, engineering, and office space used by our operations in Parkville, Missouri. The lease provides approximately 86,000 square feet of manufacturing and office space. The lease expires 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. In January 2024, we amended the lease for an additional 157,550 square feet for operations and parts distribution. The amended lease term will expire November 30, 2029.

In July 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.

We also lease several properties near our Redmond, Oregon location. In the aggregate, these leases contain approximately 104,500 square feet of additional warehouse space. These leases have expiring terms from February 2025 to November 2033.

Total undiscounted future lease payments are as follows:

	(in thousands)
2024	$ 822
2025	3,126
2026	3,046
2027	3,136
2028	3,130
Thereafter	6,403

4. Accounts Receivable

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

	September 30, 2024	December 31, 2023
	(in thousands)	
Accounts receivable	$ 144,944	$ 138,431
Less: Allowance for credit losses	(1,138)	(323)
Total, net	$ 143,806	$ 138,108

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Allowance for credit losses:	(in thousands)			
Balance, beginning of period	$ 1,492	$ 306	$ 323	$ 477
Provisions for (recoveries of) expected credit losses, net of adjustments	(354)	79	820	(92)
Accounts receivable written off, net of recoveries	—	—	(5)	—
Balance, end of period	$ 1,138	$ 385	$ 1,138	$ 385

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:

	September 30, 2024	December 31, 2023
	(in thousands)	
Raw materials	$ 179,368	$ 211,259
Work in process	5,692	5,523
Finished goods	679	2,910
Total, gross	185,739	219,692
Less: Allowance for excess and obsolete inventories	(8,008)	(6,160)
Total, net	$ 177,731	$ 213,532

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Allowance for excess and obsolete inventories:	*(in thousands)*			
Balance, beginning of period	$ 6,801	$ 5,281	$ 6,160	$ 4,527
Provision for excess and obsolete inventories	2,075	1,521	4,003	2,979
Inventories written off	(868)	(2,014)	(2,155)	(2,718)
Balance, end of period	$ 8,008	$ 4,788	$ 8,008	$ 4,788

6. Property, Plant and Equipment

Our property, plant and equipment consist of the following:

	September 30, 2024	December 31, 2023
Property, plant and equipment:	*(in thousands)*	
Land	$ 15,918	$ 15,438
Buildings	257,253	205,841
Machinery and equipment	409,160	391,366
Furniture and fixtures	43,786	40,787
Total property, plant and equipment	726,117	653,432
Less: Accumulated depreciation	298,465	283,485
Property, plant and equipment, net	$ 427,652	$ 369,947

Depreciation expense is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(in thousands)			
Depreciation expense	$ 14,636	$ 11,301	$ 39,104	$ 30,734

7. Intangible Assets and Goodwill

Intangible Assets

Our intangible assets consist of the following:

		September 30, 2024	December 31, 2023
Definite-lived intangible assets		*(in thousands)*	
	Intellectual property	$ 12,450	$ 12,450
	Customer relationships	47,547	47,547
	Capitalized internal-use software	18,297	3,323
Less:	Accumulated amortization	(15,919)	(9,838)
	Total, net	62,375	53,482
Indefinite-lived intangible assets			
	Trademarks	14,571	14,571
Total intangible assets, net		$ 76,946	$ 68,053

Amortization expense is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(in thousands)			
Amortization expense	$ 2,626	$ 902	$ 6,081	$ 2,705

Total future amortization expense for finite-lived intangible assets was estimated as follows:

	(in thousands)
2024	$ 2,627
2025	6,395
2026	4,780
2027	4,763
2028	4,655
Thereafter	29,120
Total future amortization expense	52,340
Internal-use software projects not in service	10,035
Total	$ 62,375

Goodwill

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

	Nine Months Ended	
	September 30, 2024	September 30, 2023
	(in thousands)	
Balance, beginning of period	$ 81,892	$ 81,892
Additions (decreases) during the period	—	—
Balance, end of period	$ 81,892	$ 81,892

8. Supplemental Cash Flow Information

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Supplemental disclosures:	*(in thousands)*			
Interest paid	$ 1,128	$ 1,187	$ 1,676	$ 3,814
Income taxes paid	$ 12,194	$ 12,081	$ 40,864	$ 45,724
Non-cash investing and financing activities:				
Non-cash capital expenditures	$ (5,296)	$ (1,536)	$ (2,018)	$ 35
Contingent shares issued (Note 16)	$ —	$ —	$ 6,364	$ —

9. 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		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Warranty accrual:	*(in thousands)*			
Balance, beginning of period	$ 21,632	$ 16,900	$ 20,573	$ 15,682
Payments made	(3,672)	(3,337)	(9,331)	(7,653)
Warranty expense	4,670	4,248	11,388	9,782
Balance, end of period	$ 22,630	$ 17,811	$ 22,630	$ 17,811

10. Accrued Liabilities and Other Long-Term Liabilities

Accrued liabilities were comprised of the following:

	September 30, 2024	December 31, 2023
	(in thousands)	
Warranty	$ 22,630	$ 20,573
Due to representatives	21,171	14,428
Payroll	18,722	18,829
Profit sharing	6,242	7,596
Workers' compensation	630	338
Medical self-insurance	2,420	1,460
Customer prepayments	1,969	2,621
Donations, short-term	635	381
Accrued income taxes	—	1,170
Employee vacation time	11,154	10,315
Extended warranties, short-term	2,979	2,387
Lease liability, short-term	2,298	2,021
Property taxes	3,014	—
Other	2,379	3,389
Total	$ 96,243	$ 85,508

Other long-term liabilities were comprised of the following:

	September 30, 2024	December 31, 2023
	(in thousands)	
Lease liability	$ 13,788	$ 10,201
Extended warranties	6,739	6,082
Donations and other	—	524
Total	$ 20,527	$ 16,807

11. 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 September 30, 2024, and December 31, 2023 we had $55.7 million and $38.3 million outstanding under the Revolver, respectively. We have one standby letter of credit totaling $0.3 million as of September 30, 2024, and two standby letters of credit totaling $2.3 million as of December 31, 2023. Borrowings available under the Revolver at September 30, 2024 were $144.0 million. The Revolver expires on May 27, 2027. We have amended the Revolver to allow for the occurrence of transactions associated with the New Markets Tax Credit transactions (Note 17).

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 6.6% for both the three and nine months ended September 30, 2024 as compared to 6.5% and 6.3% for the three and nine months ended September 30, 2023, 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 nine months ended September 30, 2024 and 2023.

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 September 30, 2024, 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 September 30, 2024, our leverage ratio was 0.19 to 1.0, which meets the requirement of not being above 3 to 1.

12. Income Taxes

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

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(in thousands)			
Current	$ 16,038	$ 14,892	$ 38,568	$ 33,364
Deferred	(4,153)	521	(4,112)	(3,917)
Income tax provision	$ 11,885	$ 15,413	$ 34,456	$ 29,447

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		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Federal statutory rate	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes, net of Federal benefit	4.9	3.4	5.0	4.0
Excess tax benefits related to share-based compensation (Note 13)	(7.9)	(0.8)	(6.6)	(3.9)
Return to provision	(0.3)	0.9	(0.2)	0.3
Non-deductible executive compensation	1.9	—	1.5	—
Research and development credits	(1.1)	(0.2)	(1.2)	(0.9)
Change in valuation allowance (Oklahoma Investment Credit)	—	—	—	(2.0)
Other	(0.1)	—	(0.2)	(0.1)
Effective tax rate	18.4 %	24.3 %	19.3 %	18.4 %

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 (not income tax related) which resulted in us discontinuing our accumulation of credits for Oklahoma's manufacturing property investment program after the 2022 tax year. 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 nine months ended September 30, 2023. As of September 30, 2024, we have investment tax credit carryforwards of approximately $0.6 million. These credits have estimated expirations from the year 2039 through 2043.

In accordance with the 2017 Tax Cuts & Jobs Act, under Internal Revenue Code Section 162(m), the tax deduction for covered executives of public companies is limited to $1.0 million per individual. Because of the increase in our stock price and timing of executive stock option exercises this resulted in an increase to the income tax provision of approximately $1.2 million and $2.6 million for the three and nine months ended September 30, 2024, respectively.

In accordance with the 2017 Tax Cuts & Jobs Act, under Internal Revenue Code Section 174, research and development expenses incurred after December 31, 2021 are required to be capitalized and amortized over 5 years. The amortization requirements for tax purposes is a mid-year convention, meaning that the tax amortization is 10% in the year of acquisition, 20% in the following 4 years, and 10% in the final year.

The Company's estimated annual 2024 effective tax rate, excluding discrete events, is approximately 24.9%. We file income tax returns in the U.S., state and foreign income tax return jurisdictions. We are subject to U.S. income tax examinations for tax years 2021 to present, and to non-U.S. income tax examinations for the tax years 2020 to present. In addition, we are subject to state and local income tax examinations for the tax years 2020 to present. The Company continues to evaluate its need to file returns in various state jurisdictions. Any interest or penalties would be recognized as a component of income tax expense.

13. Share-Based Compensation

On May 22, 2007, our stockholders adopted a Long-Term Incentive Plan ("LTIP") which provided 5.0 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 13.4 million shares, comprised of 5.1 million new shares provided for under the 2016 Plan, approximately 0.6 million shares that were available for issuance under the previous LTIP that were then authorized for issuance under the 2016 Plan, approximately 3.9 million shares that were approved by the stockholders on May 15, 2018, and an additional 3.8 million shares that were approved by the stockholders on May 12, 2020.

On May 21, 2024, our stockholders adopted the 2024 Long-Term Incentive Plan ("2024 Plan") which provides for approximately 2.7 million new shares and approximately 3.7 million shares that were issued and outstanding under the 2016 Plan (as of May 21, 2024) that are now authorized for issuance under the 2024 Plan. The 3.7 million shares issued and outstanding under the 2016 Plan are only eligible for issuance under the 2024 Plan upon forfeiture, expiration, or cancellation.

Under the 2024 Plan and previously under the 2016 Plan (collectively, the "Plans"), 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 Plans, the exercise price of shares granted may not be less than 100% of the fair market value at the date of the grant. The Plans are 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 Plans. The Committee determines the persons to whom awards are to be made, determines the type, size and terms of awards, interprets the Plans, establishes and revises rules and regulations relating to the Plans and makes any other determinations that it believes necessary for the administration of the Plans.

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 nine months ended September 30, 2024 and 2023, using a Black Scholes-Merton Model:

	Nine months ended	
	September 30, 2024	**September 30, 2023**
Senior Leadership[1]:		
Expected (annual) dividend rate	$0.32	$0.32
Expected volatility	37.90%	37.89%
Risk-free interest rate	4.14%	4.39%
Expected life (in years)	4.0	4.0
Employees:		
Expected (annual) dividend rate	$0.32	$0.32
Expected volatility	33.56%	38.30%
Risk-free interest rate	4.27%	4.41%
Expected life (in years)	3.0	3.0

[1] Senior Leadership 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 September 30, 2024:

Range of Exercise Prices				Number of Shares	Weighted Average Remaining Contractual Life *(in years)*	Weighted Average Exercise Price	Intrinsic Value *(in thousands)*
$	13.95	- $	27.58	1,267,078	3.75	$ 25.27	$ 104,618
$	28.28	- $	37.07	534,194	6.01	31.63	40,709
$	37.09	- $	107.85	332,194	6.97	50.80	18,947
			Total	2,133,466	4.82	$ 30.84	$ 164,274

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

Stock Options	**Shares**	**Weighted Average Exercise Price**
Outstanding at December 31, 2023	3,619,585	$ 33.09
Granted	414,016	79.77
Exercised	(820,177)	31.26
Forfeited or Expired	(44,816)	52.50
Outstanding at September 30, 2024	3,168,608	$ 39.34
Exercisable at September 30, 2024	2,133,466	$ 30.84

The total pre-tax compensation cost related to unvested stock options not yet recognized as of September 30, 2024, is $10.8 million and is expected to be recognized over a weighted average period of approximately 2.0 years.

The total intrinsic value of options exercised during the nine months ended September 30, 2024 and 2023, was $45.7 million and $27.6 million, respectively. The cash received from options exercised during the nine months ended September 30, 2024 and 2023, was $25.6 million and $25.3 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 September 30, 2024, unrecognized compensation cost related to unvested restricted stock awards was approximately $5.9 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, 2023	187,084	$ 44.07
Granted	65,187	78.26
Vested	(96,672)	40.87
Forfeited	(5,560)	56.41
Unvested at September 30, 2024	150,039	$ 60.53

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 September 30, 2024, is $6.0 million and is expected to be recognized over a weighted average period of approximately 1.7 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 nine months ended September 30, 2024 and 2023, using a Monte Carlo Model:

	Nine months ended	
	September 30, 2024	**September 30, 2023**
Expected (annual) dividend rate	$0.32	$0.32
Expected volatility	33.99%	32.71%
Risk-free interest rate	4.31%	4.66%
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, 2023	152,112	$ 54.88
Granted	47,965	106.24
Additional payout[1]	2,059	58.53
Vested	(21,919)	58.53
Forfeited	(5,957)	69.81
Unvested at September 30, 2024[2]	174,260	$ 68.09

[1] The additional number of PSUs earned based on a 110% achievement at December 31, 2023 for awards vesting in 2024.

[2] Consists of 70,852 PSUs cliff vesting December 31, 2024, 56,528 PSUs cliff vesting December 31, 2025, and 46,880 PSUs cliff vesting December 31, 2026.

Key Employee Awards

As part of the December 2021 acquisition of BASX, the Company granted 39,899 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 issuance of the Key Employee Awards was 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 vested and was 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 weighted average grant date fair value of the key awards was $53.45. All pre-tax compensation cost has been recognized as of December 31, 2023, and all 39,899 awards vested in March 2024.

Share-Based Compensation

A summary of share-based compensation is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Grant date fair value of awards during the period:		*(in thousands)*		
Options	$ 222	$ 106	$ 9,342	$ 5,224
PSUs	39	—	5,096	4,907
Restricted stock	73	246	5,102	4,396
Total	$ 334	$ 352	$ 19,540	$ 14,527
Share-based compensation expense:				
Options	$ 1,960	$ 2,228	$ 6,213	$ 6,604
PSUs	1,238	737	3,089	1,820
Restricted stock	1,165	1,053	3,512	2,903
Key Employee Awards	—	261	—	775
Total	$ 4,363	$ 4,279	$ 12,814	$ 12,102
Income tax benefit (deficiency) related to share-based compensation:				
Options	$ 5,066	$ 478	$ 10,294	$ 5,639
PSUs	—	—	169	—
Restricted stock	32	16	1,003	680
Key Employee Awards	—	—	282	—
Total	$ 5,098	$ 494	$ 11,748	$ 6,319

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, 2016 Plan or 2024 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.

14. 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 6.0% deferral rate and currently contributing employees deferral rates will be increased to 6.0% unless their current rate is at or above 6.0% 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 nine months ended September 30, 2024 and 2023.

The Company matches 175.0% up to 6.0% of employee contributions of eligible compensation. Additionally, Plan participant forfeitures are used to reduce the cost of the Company contributions.

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(in thousands)			
Contributions, net of forfeitures, made to the defined contribution plan	$ 4,570	$ 4,497	$ 14,646	$ 13,164

Profit Sharing Bonus Plans

We maintain a discretionary profit sharing bonus plan under which approximately 8.5% of pre-tax profit (10% prior to January 1, 2024) from the Company is paid to eligible employees on a quarterly basis in order to reward employee productivity. Eligible employees are regular full-time non-exempt employees of the Company who are actively employed and working on the first and last day of the calendar quarter. BASX employees are eligible to participate in the discretionary profit sharing bonus plan on January 1, 2024.

Prior to January 1, 2024, BASX had 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. This incentive program ended December 31, 2023.

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(in thousands)			
Profit sharing bonus plan and employee incentive plan expense	$ 6,242	$ 6,954	$ 17,319	$ 17,772

Employee Medical Plan

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 employee's allowed contributions to a qualified health saving account to assist employees with health insurance plan deductibles. BASX employees joined the Company's medical plan and benefits on January 1, 2024.

BASX was insured for healthcare coverage through a third party through December 31, 2023. 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. This healthcare coverage ended December 31, 2023.

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(in thousands)			
Medical premium payments	$ 5,314	$ 4,455	$ 12,609	$ 11,255
Health saving account contributions	2,568	1,460	6,850	3,718

15. 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 nine months ended September 30, 2024 and 2023:

	Three Months Ended		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
	(in thousands, except share and per share data)			
Numerator:				
Net income	$ 52,625	$ 48,078	$ 143,869	$ 130,574
Denominator:				
Basic weighted average shares	81,089,476	81,418,800	81,448,413	81,140,473
Effect of dilutive shares related to stock based compensation[1]	2,017,601	1,974,254	2,068,574	1,993,664
Effect of dilutive shares related to contingent consideration[2]	—	—	63,002	141,071
Diluted weighted average shares	83,107,077	83,393,054	83,579,989	83,275,208
Earnings per share:				
Basic	$ 0.65	$ 0.59	$ 1.77	$ 1.61
Dilutive	$ 0.63	$ 0.58	$ 1.72	$ 1.57
Anti-dilutive shares:				
Shares	385,756	360,408	312,157	296,072

[1] Dilutive shares related to stock options, restricted stock, PSUs and Key Employee Awards (Note 13)

[2] Dilutive shares related to contingent shares issued to the former owners of BASX (Note 16)

16. Stockholders' Equity

Stock Repurchases

The Board authorizes the stock repurchase programs for the Company. The Company may purchase shares on the open market from time to time at current market prices. 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 authorized open market repurchase programs during the periods presented are as follows:

Effective Date	Authorized Repurchase $	Expiration Date
November 3, 2022	$50 million[1]	February 27, 2024
February 27, 2024	$50 million[1]	June 4, 2024
June 4, 2024	$50 million[2]	June 14, 2024

[1] Repurchases made in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended.

[2] Repurchases made in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

The Company also repurchases shares of AAON, Inc. stock related to our LTIP plans (Note 13) at current market prices.

Our repurchase activity is as follows:

	Nine Months Ended					
	September 30, 2024			September 30, 2023		
	(in thousands, except share and per share data)					
Program	Shares	Total $	$ per share	Shares	Total $	$ per share
Open market	1,353,564	$ 100,034	$ 73.90	402,873	$ 25,009	$ 62.08
LTIP shares[1]	87,981	7,455	84.73	20,218	1,202	59.45
Total	1,441,545	$ 107,489	$ 74.57	423,091	$ 26,211	$ 61.95

[1] Includes stock repurchased for payment of statutory tax withholding and/or stock repurchased to cover the strike price of stock options.

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	Record Date	Payment Date	Dividend per Share	Annualized Dividend per Share
March 1, 2023	March 13, 2023	March 31, 2023	$0.08	$0.32
May 18, 2023	June 9, 2023	June 30, 2023	$0.08	$0.32
August 18, 2023	September 8, 2023	September 29, 2023	$0.08	$0.32
November 10, 2023	November 29, 2023	December 18, 2023	$0.08	$0.32
March 5, 2024	March 18, 2024	March 29, 2024	$0.08	$0.32
May 24, 2024	June 7, 2024	June 28, 2024	$0.08	$0.32
August 15, 2024	September 6, 2024	September 27, 2024	$0.08	$0.32

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 received one additional share for every two shares they held as of that date on August 16, 2023 (ex-dividend date August 17, 2023). Cash was paid in lieu of fractional shares (approximately $0.5 million). All share and per share information has been updated to reflect the effects of this stock split. The retroactive effect of the stock split resulted in an approximately $0.1 million reclass between common stock and retained earnings within stockholders' equity on the consolidated balance sheet.

Contingent Shares Issued in BASX Acquisition

As discussed above, the Company declared a three-for-two stock split effective August 16, 2023. All share and per share information has been updated to reflect the effect of this stock split.

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 1.6 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 issuance of shares to the former owners of BASX was contingent upon BASX meeting certain post-closing earn-out milestones during each of the years ended 2021, 2022, and 2023. In March 2024, we issued the remaining 0.2 million shares related to the earn-out milestone for the year ended 2023. As a result of the shares issued in March 2024, the tax basis exceeded the book basis for consideration paid resulting in a deferred tax asset and an increase to additional paid-in capital of $6.4 million, respectively, on our consolidated balance sheet. The deferred tax asset is expected to be amortized over fifteen years. We previously issued 0.6 million shares in March 2023, related to the earn-out milestone for the year ended 2022. All shares have been issued as private placements exempt from registration with the SEC under Rule 506(b) and are included in common stock on the consolidated statements of stockholders' equity.

Authorized Shares Outstanding

An amendment to the Company's Articles of Incorporation to increase its total authorized common shares from 100,000,000 to 200,000,000 was approved by our stockholders on May 21, 2024 at the Company's Annual Meeting. On July 9, 2024, a Certificate of Amendment was filed with the Nevada Secretary of State to effectuate the increase in authorized shares.

17. 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 markets tax credit obligations 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 are 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 markets tax credit obligations 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.

2024 New Markets Tax Credit

On February 27, 2024, the Company entered into a transaction with a subsidiary of an unrelated third-party financial institution (the “2024 Investor”) and a certified Community Development Entity under a qualified New Markets Tax Credit (“2024 NMTC”) program pursuant to Section 45D of the Internal Revenue Code of 1986, as amended, related to an investment in real estate to facilitate 2023 Project. In connection with the 2024 NMTC transaction, the Company received a $15.5 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 2024 NMTC transaction, the Company provided an aggregate of approximately $11.0 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 $11.0 million in proceeds plus capital contributed from the Investor was used to make an aggregate $16.0 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 2024 NMTC are 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 that either of which can be exercised at the end of the seven-year compliance period. The 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 2024 Investor's interest of $3.8 million is recorded in New markets tax credit obligations 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, 2023 Investor, and 2024 Investor are each subject to 100 percent recapture of the 2019, 2023, and 2024 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, 2023 NMTC arrangements, and 2024 NMTC arrangements, respectively. Noncompliance with applicable requirements could result in the 2019 and/or 2023 and/or 2024 Investors' projected tax benefits not being realized and, therefore, require the Company to indemnify the 2019 Investor, 2023 Investor, and 2024 Investor for any loss or recapture of the 2019 NMTC, 2023 NMTC, and 2024 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 any of these financing arrangements.

The 2019 Investor, 2023 Investor, and 2024 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, 2023 NMTC, or 2024 NMTC arrangements, respectively.

18. 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 the 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 the First Amended Complaint on January 31, 2023.

On September 28, 2023, the parties attended a court ordered settlement conference and agreed to resolve the case for $7.5 million. A settlement agreement was entered into on October 25, 2023 and the case has been dismissed with prejudice. The final payment was made on October 26, 2023.

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 September 30, 2024, except as noted below.

In 2023, the Company executed a five-year purchase commitment for refrigerants. Payments made in satisfaction of the purchase commitment were approximately $3.1 million and $9.7 million the three and nine months ended September 30, 2024, respectively, as compared to $2.4 million and $7.5 million for the three and nine months ended September 30, 2023, respectively. Estimated minimum future payments are $2.2 million, $9.1 million, $10.5 million, and $11.2 million for 2024, 2025, 2026, and 2027, respectively. We had no other material contractual purchase obligations as of September 30, 2024.

In November 2024, the Company entered into a definitive agreement to purchase a new 787,000 square foot facility in Memphis, Tennessee, which will accommodate incremental demand from the data center market over the next several years, at the same time providing more geographic diversification across our manufacturing footprint. The purchase price for the facility is approximately $63.0 million.

19. Related Parties

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

	Three Months Ended		Nine Months Ended	
	September 30, 2024	**September 30, 2023**	**September 30, 2024**	**September 30, 2023**
	(in thousands)			
Sales to affiliates	$ 2,214	$ 1,047	$ 6,035	$ 4,811
Payments to affiliates	368	90	1,488	872

	September 30, 2024	**December 31, 2023**
	(in thousands)	
Due from affiliates	$ 534	$ 994
Due to affiliates	58	145

The nature of our related party transactions is as follows:

- The Company sells units to an entity owned by a member of the CEO'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 for various Company meetings.
- The Company leases flight time of an aircraft partially owned by our President/COO and Vice President.

20. 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		Nine Months Ended	
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Net Sales			*(in thousands)*	
AAON Oklahoma				
External sales	$ 228,887	$ 246,454	$ 664,754	$ 666,670
Inter-segment sales	1,238	768	4,220	3,467
AAON Coil Products				
External sales	35,232	25,769	90,852	89,262
Inter-segment sales	12,292	11,871	30,565	28,687
BASX				
External sales	63,133	39,747	147,311	105,948
Inter-segment sales	40	(74)	262	1,426
Eliminations	(13,570)	(12,565)	(35,047)	(33,580)
Net sales	$ 327,252	$ 311,970	$ 902,917	$ 861,880
Gross Profit				
AAON Oklahoma	$ 84,119	$ 94,174	$ 246,400	$ 231,403
AAON Coil Products	12,421	8,307	33,719	22,948
BASX	17,618	13,628	39,375	32,930
Gross profit	$ 114,158	$ 116,109	$ 319,494	$ 287,281

	September 30, 2024	December 31, 2023
Long-lived assets[1]	*(in thousands)*	
AAON Oklahoma	$ 252,732	$ 248,556
AAON Coil Products	112,358	83,169
BASX	78,067	49,996
Total long-lived assets	$ 443,157	$ 381,721

[1] Property, plant and equipment, net & right of use assets

	September 30, 2024	December 31, 2023
Intangible assets, net and goodwill		
AAON Oklahoma	$ 21,880	$ 10,282
AAON Coil Products	—	—
BASX	136,958	139,663
Total intangible assets, net and goodwill	$ 158,838	$ 149,945

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, 2023.

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, 2023. 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 are engaged in the engineering, manufacturing, and selling of premium heating, ventilation, and air conditioning equipment consisting primarily of 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 a variety of vertical markets including retail, manufacturing, educational, lodging, supermarket, data centers, medical and pharmaceutical, industrial, and other commercial markets. We sell our products to all 50 states in the United States and certain provinces in Canada. Foreign sales were approximately $24.6 million of our total net sales for the nine months ended September 30, 2024, and $29.3 million of our sales during the same period of 2023.

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, change in market demand between more customized, higher performing HVAC equipment and lower priced standard equipment, as well as many other factors. When new construction is down, we emphasize the replacement market.

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 for a more concentrated customer base and an internal sales force is more effective for such 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 September 30, 2024, the price (year to date average) for copper, galvanized steel, stainless steel and aluminum decreased 5.1%, 13.2%, 23.7%, and 1.6%, respectively, as compared to the price (year to date average) at September 30, 2023.

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 a recurring 1% monthly price increase beginning June 1, 2022, and ending on April 1, 2023. We reinstated the recurring 1% monthly price increase on October 1, 2023, through February 1, 2024.

Backlog

The following table shows our historical backlog levels:

September 30, 2024	December 31, 2023	September 30, 2023
	(in thousands)	
$ 647,694	$ 510,028	$ 490,591

At September 30, 2024, we had a backlog of $647.7 million. Compared to a year ago, backlog was up 32.0% from $490.6 million, driven by the BASX and AAON Coil Products segments. At the end of the quarter, a majority of total backlog consisted of orders of data center equipment that will be delivered in 2025.

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
		(in thousands)		
Net sales	$ 327,252	$ 311,970	$ 902,917	$ 861,880
Cost of sales	213,094	195,861	583,423	574,599
Gross profit	114,158	116,109	319,494	287,281
Selling, general and administrative expenses	48,637	51,470	139,820	123,684
Loss (gain) on disposal of assets	1	(25)	(15)	(13)
Income from operations	$ 65,520	$ 64,664	$ 179,689	$ 163,610

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

- Net sales for the three and nine months ended September 30, 2024, increased 4.9% and 4.8%, respectively, compared to the same period in 2023 with increases in our data center solutions of 90.1% and 85.1% for the three and nine months ended September 30, 2024, respectively.
- Our cash flows from operations for the nine months ended September 30, 2024 were $191.7 million, up 78.9% compared to a year ago, giving us the flexibility to continue our investment in capital expenditures and software development of $113.8 million for this period.
- We completed the repurchase of 1.4 million shares for $107.5 million during the nine months ended September 30, 2024.

We report our financial results based on three reportable segments: AAON Oklahoma, AAON Coil Products, and BASX, which are further described in "Segments" (Note 20) 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 September 30, 2024 and Three Months Ended September 30, 2023

	Three Months Ended					
	September 30, 2024	Percent of Sales[1]	September 30, 2023	Percent of Sales[1]	$ Change	% Change
			(in thousands)			
Net Sales[2]						
AAON Oklahoma	$ 228,887	69.9 %	$ 246,454	79.0 %	$ (17,567)	(7.1)%
AAON Coil Products	35,232	10.8 %	25,769	8.3 %	9,463	36.7 %
BASX	63,133	19.3 %	39,747	12.7 %	23,386	58.8 %
Net sales	$ 327,252		$ 311,970		$ 15,282	4.9 %
Cost of Sales[2]						
AAON Oklahoma	$ 144,768	63.2 %	152,280	61.8 %	$ (7,512)	(4.9)%
AAON Coil Products	22,811	64.7 %	17,462	67.8 %	5,349	30.6 %
BASX	45,515	72.1 %	26,119	65.7 %	19,396	74.3 %
Cost of sales	$ 213,094	65.1 %	$ 195,861	62.8 %	$ 17,233	8.8 %
Gross Profit[2]						
AAON Oklahoma	$ 84,119	36.8 %	$ 94,174	38.2 %	$ (10,055)	(10.7)%
AAON Coil Products	12,421	35.3 %	8,307	32.2 %	4,114	49.5 %
BASX	17,618	27.9 %	13,628	34.3 %	3,990	29.3 %
Gross profit	$ 114,158	34.9 %	$ 116,109	37.2 %	$ (1,951)	(1.7)%

[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 September 30, 2024, total net sales increased $15.3 million or 4.9%, due to an increase in volumes of approximately 2.8% and price increases of approximately 2.1%. For the three months ended September 30, 2024, our BASX segment increased by 58.8% primarily related to data center cooling solutions.

Gross profit as a percent of sales decreased to 34.9% for the three months ended September 30, 2024, as compared to 37.2% for the three months ended September 30, 2023. AAON Oklahoma's gross profit as a percent of sales decreased due to the lower volumes out of this segment that resulted in less overhead absorption. AAON Coil products benefited from a favorable product mix of units for the data center market that had significant repetition and resulted in high production efficiencies. BASX completed construction of its new weld shop expansion in Redmond during the quarter. The continued construction at this location requires outsourcing of some processes and materials that have lowered the BASX margin temporarily.

As shown in the table below, the cost of raw materials has decreased, or stayed relatively flat, but we continued to experience inflation in our component parts that typically lag raw materials by six to 18 months. Additionally, in order to retain our existing employees, we have increased our starting wage rate considerably in recent years and continue to award periodic wage increases to our employees. These additional costs have been offset by the various price increases we have put in place in the past two years and increases in our production efficiency that has led to increased overhead absorption.

Raw Material Costs

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

	2024	2023	% Change
Copper	$ 5.32	$ 5.45	(2.4)%
Galvanized steel	$ 0.60	$ 0.59	1.7 %
Stainless steel	$ 2.33	$ 3.31	(29.6)%
Aluminum	$ 2.47	$ 2.45	0.8 %

Selling, General and Administrative Expenses

	Three Months Ended		Percent of Sales	
	September 30, 2024	September 30, 2023	2024	2023
	(in thousands)			
Warranty	$ 4,670	$ 4,248	1.4 %	1.4 %
Profit sharing	6,242	6,954	1.9 %	2.2 %
Salaries & benefits	14,974	13,106	4.6 %	4.2 %
Stock compensation	2,806	2,476	0.9 %	0.8 %
Advertising	1,012	646	0.3 %	0.2 %
Depreciation & amortization	5,835	3,943	1.8 %	1.3 %
Insurance	2,148	1,403	0.7 %	0.4 %
Professional fees	1,189	9,914	0.4 %	3.2 %
Donations	59	226	— %	0.1 %
Other	9,702	8,554	3.0 %	2.7 %
Total SG&A	$ 48,637	$ 51,470	14.9 %	16.5 %

Selling, general and administrative expenses decreased $2.8 million for the three months ended September 30, 2024, from the prior year period. Depreciation and amortization increased $1.9 million during the three months ended September 30, 2024, due to increased investments in back office technology and automation. Professional fees decreased $8.7 million during the three months ended September 30, 2024, due to the 2023 litigation settlement (Note 18). Other expenses increased $1.1 million or 13.4% during the three months ended September 30, 2024, due to increased travel and consulting expenses.

Income Taxes

	Three Months Ended		Effective Tax Rate	
	September 30, 2024	September 30, 2023	2024	2023
	(in thousands)			
Income tax provision	$ 11,885	$ 15,413	18.4 %	24.3 %

The Company's estimated annual 2024 effective tax rate, excluding discrete events, is expected to be approximately 24.9%.

During the three months ended September 30, 2024, the Company recorded an excess tax benefit of $5.1 million as compared to $0.5 million during the same period in 2023. The excess tax benefit is related to the timing of stock option exercises as a result of our high stock price during the three months ended September 30, 2024 and 2023, respectively.

Segment Operating Results for Nine Months Ended September 30, 2024 and Nine Months Ended September 30, 2023

	Nine Months Ended					
	September 30, 2024	Percent of Sales[1]	September 30, 2023	Percent of Sales[1]	$ Change	% Change
			(in thousands)			
Net Sales[2]						
AAON Oklahoma	$ 664,754	73.6 %	$ 666,670	77.4 %	$ (1,916)	(0.3)%
AAON Coil Products	90,852	10.1 %	89,262	10.4 %	1,590	1.8 %
BASX	147,311	16.3 %	105,948	12.3 %	41,363	39.0 %
Net sales	$ 902,917		$ 861,880		$ 41,037	4.8 %
Cost of Sales[2]						
AAON Oklahoma	$ 418,354	62.9 %	435,267	65.3 %	$ (16,913)	(3.9)%
AAON Coil Products	57,133	62.9 %	66,314	74.3 %	(9,181)	(13.8)%
BASX	107,936	73.3 %	73,018	68.9 %	34,918	47.8 %
Cost of sales	$ 583,423	64.6 %	$ 574,599	66.7 %	$ 8,824	1.5 %
Gross Profit[2]						
AAON Oklahoma	$ 246,400	37.1 %	$ 231,403	34.7 %	$ 14,997	6.5 %
AAON Coil Products	33,719	37.1 %	22,948	25.7 %	10,771	46.9 %
BASX	39,375	26.7 %	32,930	31.1 %	6,445	19.6 %
Gross profit	$ 319,494	35.4 %	$ 287,281	33.3 %	$ 32,213	11.2 %

[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 nine months ended September 30, 2024, total net sales increased $41.0 million or 4.8%, due primarily to increases in price. BASX continues to see increased demand for data cooling solutions, increasing their sales year-over-year 39.0%.

Gross profit as a percent of sales increased to 35.4% for the nine months ended September 30, 2024, as compared to 33.3% for the nine months ended September 30, 2023. As noted above, realization of price increases has improved our margin profile along with the slowing of inflation for raw materials, especially in our AAON Oklahoma and AAON Coil Products segments, improving overall consolidated margin performance. Production timing delays at our BASX location during the first quarter of 2024, as well as some expansion construction inefficiencies, and materials outsourcing, contributed to less overhead absorption and margin performance, which resulted in a period over period decline in gross margin for our BASX segment.

As shown in the table below, the cost of raw materials has started to come down but we continued to experience inflation in our component parts that typically lag raw materials by six to 18 months. Additionally, in order to retain our existing employees, we have increased our starting wage rate considerably in recent years and continue to award periodic wage increases to our employees. These additional costs have been offset by the various price increases we have put in place in the past two years and increases in our production efficiency that has led to increased overhead absorption.

Raw Material Costs

Nine-month average raw material cost per pound as of September 30:

	2024	2023	% Change
Copper	$ 5.39	$ 5.68	(5.1)%
Galvanized steel	$ 0.59	$ 0.68	(13.2)%
Stainless steel	$ 2.54	$ 3.33	(23.7)%
Aluminum	$ 2.40	$ 2.44	(1.6)%

Selling, General and Administrative Expenses

	Nine Months Ended		Percent of Sales	
	September 30, 2024	September 30, 2023	2024	2023
	(in thousands)			
Warranty	$ 11,388	$ 9,782	1.3 %	1.1 %
Profit sharing	17,319	17,772	1.9 %	2.1 %
Salaries & benefits	44,873	39,229	5.0 %	4.6 %
Stock compensation	7,891	6,825	0.9 %	0.8 %
Advertising	2,616	2,505	0.3 %	0.3 %
Depreciation & amortization	13,971	9,812	1.5 %	1.1 %
Insurance	6,156	3,834	0.7 %	0.4 %
Professional fees	7,050	11,895	0.8 %	1.4 %
Donations	984	780	0.1 %	0.1 %
Other	27,572	21,250	3.1 %	2.5 %
Total SG&A	$ 139,820	$ 123,684	15.5 %	14.4 %

Selling, general and administrative expenses increased $16.1 million for the nine months ended September 30, 2024, from the prior year period. Depreciation and amortization has increased $4.2 million due to investments in back office technology and automation. Professional fees decreased $4.8 million during the nine months ended September 30, 2024, primarily due the 2023 litigation settlement (Note 18), offset by increases in various professional, regulatory, and legal corporate requirements. Other expenses increased $6.3 million or 29.8% during the nine months ended September 30, 2024, due to increased travel, bad debts, the closing of our New Markets Tax Credit transaction, and consulting expenses.

Income Taxes

	Nine Months Ended		Effective Tax Rate	
	September 30, 2024	September 30, 2023	2024	2023
	(in thousands)			
Income tax provision	$ 34,456	$ 29,447	19.3 %	18.4 %

The Company's estimated annual 2024 effective tax rate, excluding discrete events, is expected to be approximately 24.9%.

The 18.4% overall effective tax rate for the nine months ended September 30, 2023, 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 nine months ended September 30, 2023.

During the nine months ended September 30, 2024, the Company recorded an excess tax benefit of $11.7 million as compared to $6.3 million during the same period in 2023. The excess tax benefit is related to the timing of stock option exercises as a result of our high stock price during the nine months ended September 30, 2024 and 2023, respectively.

In accordance with the 2017 Tax Cuts & Jobs Act, under Internal Revenue Code Section 162(m), the tax deduction for covered executives of public companies is limited to $1.0 million per individual. Because of the increase in our stock price and timing of executive stock option exercises this resulted in an increase to the income tax provision of approximately $2.6 million for the nine months ended September 30, 2024.

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 $0.3 million from December 31, 2023 to September 30, 2024. Our restricted cash decreased $2.1 million due to funding requirements related to our Longview, Texas expansion. Our restricted cash originates from the closing of our recent New Markets Tax Credit transaction related to our Longview, Texas expansion. We expect most funds will be released from this account by the end of 2024.

Revolving Line of Credit - Our revolving credit facility (as amended, "Revolver"), provides for maximum borrowings of $200.0 million. As of September 30, 2024 and December 31, 2023, we had $55.7 million and $38.3 million outstanding under the Revolver, respectively. We have one standby letter of credit totaling $0.3 million as of September 30, 2024 and two standby letters of credit totaling $2.3 million as of December 31, 2023. At September 30, 2024, we have $144.0 million of borrowings available under the Revolver. The Revolver expires May 27, 2027. We have amended the Revolver to allow for the occurrence of transactions associated with the New Markets Tax Credit transactions (Note 17).

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 6.6% for both the three and nine months ended September 30, 2024, respectively, as compared to 6.5% and 6.3% for the three and nine months ended September 30, 2023, 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 nine months ended September 30, 2024 and 2023.

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 September 30, 2024, 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 September 30, 2024, our leverage ratio was 0.19 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. The unused net proceeds from the closing of the 2023 NMTC are included in restricted cash on our consolidated balance sheets required to be used for the 2023 Project.

2024 New Markets Tax Credit

On February 27, 2024, the Company entered into a transaction with a subsidiary of an unrelated third-party financial institution (the “2024 Investor”) and a certified Community Development Entity under a qualified New Markets Tax Credit (“2024 NMTC”) program pursuant to Section 45D of the Internal Revenue Code of 1986, as amended, related to an investment in real estate to facilitate 2023 Project. In connection with the 2024 NMTC transaction, the Company received a $15.5 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 2024 NMTC transaction, the Company provided an aggregate of approximately $11.0 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 $11.0 million in proceeds plus capital contributed from the Investor was used to make an aggregate $16.0 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 unused net proceeds from the closing of the 2024 NMTC are included in restricted cash on our consolidated balance sheets required to be used for the 2023 Project.

Stock Repurchases - 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
November 3, 2022	$50 million[1]	February 27, 2024
February 27, 2024	$50 million[1]	June 4, 2024
June 4, 2024	$50 million[2]	June 14, 2024

[1] Repurchases made in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended.

[2] Repurchases made in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended.

The Company also repurchases shares of AAON, Inc. stock related to our LTIP plans (Note 13) at current market prices.

Our repurchase activity is as follows:

	Nine Months Ended					
	September 30, 2024			September 30, 2023		
	(in thousands, except share and per share data)					
Program	Shares	Total $	$ per share	Shares	Total $	$ per share
Open market	1,353,564	$ 100,034	$ 73.90	402,873	$ 25,009	$ 62.08
LTIP shares[1]	87,981	7,455	84.73	20,218	1,202	59.45
Total	1,441,545	$ 107,489	$ 74.57	423,091	$ 26,211	$ 61.95

[1] Includes stock repurchased for payment of statutory tax withholding and/or stock repurchased to cover the strike price of stock options.

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	Record Date	Payment Date	Dividend per Share	Annualized Dividend per Share
March 1, 2023	March 13, 2023	March 31, 2023	$0.08	$0.32
May 18, 2023	June 9, 2023	June 30, 2023	$0.08	$0.32
August 18, 2023	September 8, 2023	September 29, 2023	$0.08	$0.32
November 10, 2023	November 29, 2023	December 18, 2023	$0.08	$0.32
March 5, 2024	March 18, 2024	March 29, 2024	$0.08	$0.32
May 24, 2024	June 7, 2024	June 28, 2024	$0.08	$0.32
August 15, 2024	September 6, 2024	September 27, 2024	$0.08	$0.32

On July 7, 2023, the Board of Directors declared a three-for-two stock split of the Company's common stock that was paid in the form of a stock dividend. Stockholders of record at the close of business on July 28, 2023 received one additional share for every two shares they held as of that date on August 16, 2023 (ex-dividend date August 17, 2023). All share and per share information has been updated to reflect the effects of this stock split.

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 2024 and the foreseeable future.

Statement of Cash Flows

The following table reflects the major categories of cash flows for the nine months ended September 30, 2024 and 2023. For additional details, see the consolidated financial statements.

	Nine Months Ended	
	September 30, 2024	**September 30, 2023**
	(in thousands)	
Operating Activities		
Net Income	$ 143,869	$ 130,574
Income statement adjustments, net	56,775	44,706
Changes in assets and liabilities:		
Accounts receivable	(6,513)	(32,040)
Income taxes	(2,295)	(12,472)
Inventories	33,953	(18,547)
Contract assets	(49,926)	(10,155)
Prepaid expenses and other long-term assets	(304)	(896)
Accounts payable	1,733	(15,631)
Contract liabilities	2,634	(1,848)
Extended warranties	1,249	2,049
Accrued liabilities & other long-term liabilities	10,512	21,405
Net cash provided by operating activities	191,687	107,145
Investing Activities		
Capital expenditures	(99,371)	(82,900)
Software development expenditures	(14,436)	—
Other	59	168
Net cash used in investing activities	(113,748)	(82,732)
Financing Activities		
Proceeds from financing obligations, net of issuance costs	4,186	6,061
Payment related to financing costs	(417)	(398)
Borrowings under revolving credit facility	410,503	444,072
Payments under revolving credit facility	(393,154)	(436,656)
Stock options exercised	25,645	25,251
Repurchase of stock	(100,034)	(25,009)
Employee taxes paid by withholding shares	(7,455)	(1,202)
Cash dividends paid to stockholders	(19,571)	(19,946)
Net cash used in financing activities	$ (80,297)	$ (7,827)

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.

Historically, the Company increased 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; however, as inflationary and supply chain disruptions have decreased, the Company has been able to reduce overall inventory levels. Additionally, 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 during the nine months ended September 30, 2023.

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 nine months ended September 30, 2024, relate to our continued investment in our production capabilities. Purchases during the nine months ended September 30, 2024, relate to additional infrastructure and machinery for both replacement and growth, additional production space in our Redmond, Oregon and Longview, Texas locations, additional equipment and production capacity in Parkville, Missouri, and additional land in Tulsa, Oklahoma for future growth. We have also made investments to purchase or develop software for internal use in anticipation of future Company growth. The capital expenditure program for 2024 is estimated to be approximately $215.0 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 2024 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.

During the nine months ended September 30, 2024, we repurchased $100.0 million under our open market share repurchase programs. Furthermore, cash flows from financing activities is historically affected by the timing of stock options exercised by our employee.

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 September 30, 2024, except as described below.

In 2023, the Company executed a five-year purchase commitment for refrigerants. Payments made in satisfaction of the purchase commitment were approximately $3.1 million and $9.7 million the three and nine months ended September 30, 2024, respectively, as compared to $2.4 million and $7.5 million for the three and nine months ended September 30, 2023, respectively. Estimated minimum future payments are $2.2 million, $9.1 million, $10.5 million, and $11.2 million for 2024, 2025, 2026, and 2027, respectively. We had no other material contractual purchase obligations as of September 30, 2024.

In November 2024, the Company entered into a definitive agreement to purchase a new 787,000 square foot facility in Memphis, Tennessee, which will accommodate incremental demand from the data center market over the next several years, at the same time providing more geographic diversification across our manufacturing footprint. The purchase price for the facility is approximately $63.0 million.

Critical Accounting Policies

There have been no material changes in the Company’s critical accounting policies during the nine months ended September 30, 2024.

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 September 30, 2024, we had an outstanding balance of $55.7 million on our Revolver. For each one percentage point increase in the interest rate applicable to our outstanding debt, our annual income before taxes would decrease by approximately $0.6 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 18 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, 2023. 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 2023 Annual Report except as follows:

<u>Risks Related to Governmental Regulation and Policies</u>

We are subject to climate-related risks.

As climate change continues to be a challenge across the globe, AAON recognizes there are risks specifically related to climate. As mentioned before, there could be stricter regulations on refrigerants, energy efficiency, and the use of fossil fuels. The price of electricity could increase, or the Company's operations could be affected by climate-change related weather events or water shortages. These risks could impact the Company on a short-term or long-term basis.

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. For nine months ended September 30, 2024, we have repurchased a total of approximately 1.4 million shares (at current market prices) under the various open market stock buyback programs for an aggregate price of $100.0 million, or an average price of $73.90 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.

The Company also repurchases shares of AAON, Inc. stock from employees for payment of statutory tax withholdings on stock transactions and/or stock repurchased to cover the strike price of stock options. For nine months ended September 30, 2024, we repurchased approximately 88.0 thousand shares (at current market prices) for an aggregate price of $7.5 million, or an average price of $84.73 per share.

Repurchases during the third quarter of 2024 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
July 2024	327	$ 87.29	327	—
August 2024	43,242	86.78	43,242	—
September 2024	1,839	98.37	1,839	—
Total	45,408	$ 87.25	45,408	—

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 1.6 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 issuance of shares to the former owners of BASX was contingent upon BASX meeting certain post-closing earn-out milestones during each of the years ended 2021, 2022, and 2023. In March 2024, we issued the remaining 0.2 million shares related to the earn-out milestone for the year ended 2023. As a result of the shares issued in March 2024, the tax basis exceeded the book basis for consideration paid resulting in a deferred tax asset and an increase to additional paid-in capital of $6.4 million, respectively, on our consolidated balance sheet. The deferred tax asset is expected to be amortized over 15 years. We previously issued 0.6 million shares in March 2023, related to the earn-out milestone for the year ended 2022. All shares have been issued as private placements exempt from registration with the SEC under Rule 506(b) and 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).

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			
Stephen E. Wakefield	September 13, 2023	Terminated December 27, 2023	181,000
Vice President			
Stephen E. Wakefield	March 14, 2024	Terminated July 12, 2024	29,946
Vice President			

Item 6. Exhibits.

Exhibit #	Description
3.1	Amended and Restated Articles of Incorporation[1]
3.2	Amended and Restated Bylaws of AAON, Inc. effective March 9, 2023[2]
4.16	Description of Securities
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 September 30, 2024, and December 31, 2023; (ii) our Consolidated Statements of Income for the nine months ended September 30, 2024 and 2023; (iii) our Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2024 and 2023; (iv) our Consolidated Statements of Cash Flows for the nine months ended September 30, 2024 and 2023; 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.

[1] Incorporated herein by reference to the exhibit to our Form 10-Q dated June 30, 2024.

[2] 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: November 07, 2024	By:	/s/ Gary D. Fields
		Gary D. Fields Chief Executive Officer
Dated: November 07, 2024	By:	/s/ Rebecca A. Thompson
		Rebecca A. Thompson Chief Financial Officer

Exhibit 4.16

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of August 1, 2024, AAON, Inc., a Nevada corporation, ("AAON") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our Common Stock.

Description of Common Stock

The following description of our Common Stock is a summary based on and qualified by our Amended and Restated Articles of Incorporation of AAON, Inc. (as further amended to date, the "Articles of Incorporation") and our Bylaws (as amended to date, the "Bylaws").

Authorized Capital Shares

Our authorized capital shares consist of 200,000,000 shares of common stock[1], $0.004 par value per share ("Common Stock"), and 5,000,000 shares of series preferred stock, $0.001 par value per share ("Preferred Stock"). The outstanding shares of our Common Stock are fully paid and nonassessable.

Voting Rights

Holders of Common Stock are entitled to one vote per share on all matters voted on by the stockholders, including the election of directors. Our Common Stock does not have cumulative voting rights.

Dividend Rights

Subject to the rights of holders of outstanding shares of Preferred Stock, if any, the holders of Common Stock are entitled to receive dividends, if any, as may be declared from time to time by the Board of Directors in its discretion out of funds legally available for the payment of dividends.

Liquidation Rights

Subject to any preferential rights of outstanding shares of Preferred Stock, if any, holders of Common Stock will share ratably in all assets legally available for distribution to our stockholders in the event of dissolution.

Other Rights and Preferences

Our Common Stock has no sinking fund or redemption provisions or preemptive, conversion or exchange rights.

Listing

The Common Stock is traded on The Nasdaq Stock Market LLC under the trading symbol "AAON."

[1] An amendment to the Company's Articles of Incorporation to increase its total authorized common shares from 100,000,000 to 200,000,000 was approved by our stockholders on May 21, 2024 at the Company's Annual Meeting. On July 9, 2024, a Certificate of Amendment was filed with the Nevada Secretary of State to effectuate the increase in authorized shares.

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: November 07, 2024

/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: November 07, 2024

/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 September 30, 2024, 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: November 07, 2024

/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 September 30, 2024, 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: November 07, 2024

/s/ Rebecca A. Thompson

Rebecca A. Thompson
Chief Financial Officer