AAON INC
Form 10-Q/A
June 23, 2005

FORM 10-Q/A
(Amendment No. 1)

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

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

For the quarterly period ended March 31, 2005

Commission file number: 0-18953

AAON, INC.
(Exact name of registrant as specified in its charter)

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

2425 South Yukon, Tulsa, Oklahoma 74107
(Address of principal executive offices)
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes |X|  No ____

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes |X|  No ____

As of May 1, 2005, Registrant had outstanding a total of 12,381,558 shares of its $.004 par value Common Stock.

PART I

Item 1. Financial Statements.

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

| | March 31, 2005 |
|---|---|
| | (in thousands, except |
| **Assets** | |
| Current assets: | |
| Cash and cash equivalents | $ 370 |
| Certificate of deposit | 3,000 |
| Accounts receivable, net | 28,698 |
| Inventories, net | 23,496 |
| Prepaid expenses and other | 583 |
| Deferred tax asset | 3,537 |
| Total current assets | 59,684 |
| Property, plant and equipment, net | 50,608 |
| Notes receivable, long-term | 75 |
| Total assets | $ 110,367 |
| **Liabilities and Stockholders' Equity** | |
| Current liabilities: | |
| Revolving credit facility | $ 1,347 |
| Current maturities of long-term debt | 108 |
| Accounts payable | 11,018 |
| Accrued liabilities | 17,684 |
| Total current liabilities | 30,157 |
| Long-term debt, less current maturities | 140 |
| Deferred tax liabilities | 5,630 |
| Stockholders' equity: | |
| Preferred stock, $.001 par value, 5,000,000 shares authorized, no shares issued | - |
| Common stock, $.004 par value, 50,000,000 shares authorized, 12,376,333 and 12,349,583 issued and outstanding at March 31, 2005, December 31, 2004, respectively | 50 |
| Accumulated other comprehensive income | 235 |
| Retained earnings | 74,155 |
| Total stockholders' equity | 74,440 |
| Total liabilities and stockholders' equity | $ 110,367 |

See accompanying notes.

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

| | Three Months Ended March 31, 2005 | Three End March 3 |
|---|---|---|
| | (in thousands, except share and per shar | |
| Net sales | $ 42,780 | |
| Cost of sales | 32,730 | |
| Gross profit | 10,050 | |
| Selling, general and administrative expenses | 4,682 | |
| Income from operations | 5,368 | |
| Interest expense | (2) | |
| Interest income | 78 | |
| Other income (expense), net | (9) | |
| Income before income taxes | 5,435 | |
| Income tax provision | 2,148 | |
| Net income | $ 3,287 | |
| Earnings per share: | | |
| Basic | $ 0.27 | |
| Diluted | $ 0.26 | |
| Weighted average shares outstanding: | | |
| Basic | 12,386,840 | |
| Diluted | 12,795,125 | |

See accompanying notes.



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

| | Common Stock Shares | Amount | Paid-in Capital | Accumulated Other Comprehensive Income |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| | (in thousands) | | | |
| Balance at December 31, 2004 | 12,350 | $ 49 | $ - | $ 247 |
| Comprehensive income: | | | | |
| Net income | - | - | - | - |
| Foreign currency translation adjustment | - | - | - | (12) |
| Total comprehensive income | | | | |
| Stock options exercised, including tax benefits | 56 | 2 | 457 | - |
| Stock repurchased and retired | (30) | (1) | (457) | - |
| Balance at March 31, 2005 | 12,376 | $ 50 | $ - | $ 235 |

See accompanying notes.

-3-

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

| | Three Months Ended March 31, 2005 |
|---|---|
| | (in |
| **Operating Activities** | |
| Net income | $ 3,287 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation | 1,883 |
| Provision for losses on accounts receivable | 39 |
| Loss on disposition of assets | - |
| Deferred income taxes | (200 |
| Changes in assets and liabilities: | |
| Accounts receivable | (1,616 |
| Inventories | (2,628 |
| Prepaid expenses and other | (105 |
| Accounts payable | (1,864 |
| Accrued liabilities | 2,832 |
| Net cash provided by operating activities | 1,628 |
| **Investing Activities** | |
| Proceeds from sale of property, plant and equipment | - |
| Proceeds from matured certificate of deposit | 3,000 |
| Investment in certificate of deposit | (3,000 |
| Note receivable, long-term | (75 |
| Capital expenditures | (3,262 |
| Net cash used in investing activities | (3,337 |
| **Financing Activities** | |

| | |
|---|---|
| Borrowings under revolving credit agreement | 5,304 |
| Payments under revolving credit agreement | (3,957 |
| Payments on long-term debt | (27 |
| Stock options exercised | 242 |
| Repurchase of stock | (465 |
| Net cash provided by (used in) financing activities | 1,097 |
| Effects of exchange rate of cash | (12 |
| Net decrease in cash | (624 |
| Cash and cash equivalents, beginning of year | 994 |
| Cash and cash equivalents, end of year | $ 370 |

See accompanying notes.



AAON, Inc., and Subsidiaries
Notes to the Consolidated Financial Statements
March 31, 2005
(Unaudited)

1. BASIS OF PRESENTATION

The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures made in these financial statements are adequate to make the information presented not misleading when read in conjunction with the financial statements and the notes thereto included in the Company's latest audited financial statements which were included in the Form 10-K Report for the fiscal year ended December 31, 2004, filed by AAON, Inc. with the SEC. In the opinion of management, the accompanying financial statements include all normal, recurring adjustments required for a fair presentation of the results of the periods presented. Operating results for the three months ended March 31, 2005, are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

Acquisition

On May 4, 2004, the Company (through AAON Canada Inc.) acquired certain assets and assumed certain liabilities of Air Wise Inc. of Mississauga, Ontario, Canada for a total cost of $1,778,000. Air Wise is engaged in the engineering, manufacturing, and sale of custom air-handling units, make-up air units and packaged rooftop units for commercial and industrial buildings. The acquisition complements and expands the products the Company presently manufactures and adds significant additional capabilities for future growth. The purchase was paid for by cash flow generated from operations. Subsequent to May 4, 2004, AAON Canada Inc.'s activity is included in the Company's results of operations for the year ended December 31, 2004.

The Air Wise acquisition purchase price was allocated as of May 4, 2004, as follows:

| | U.S. Dollar (in thousands) |
|---|---|
| Accounts receivable | $ 1,087 |
| Inventory | 459 |
| Fixed assets | 277 |
| Accrued warranty liability | (45) |
| Total purchase price | $ 1,778 |

The Air Wise acquisition is not material for pro forma disclosure purposes.

On July 29, 2004, the Company (through AAON Properties Inc.) purchased property in Burlington, Canada, to relocate AAON Canada Inc. The purchase will allow the Company to enlarge and further expand its production capabilities. The purchase price totaled $1,100,000.

-5-

Currency

Foreign currency transactions and financial statements are translated in accordance with Statement of Financial Standards No. 52, Foreign Currency Translations. The Company uses the U.S. dollar as its functional currency, except for the Company's Canadian subsidiaries, which use the Canadian dollar. Adjustments arising from translation of the Canadian subsidiaries' financial statements are reflected in the Consolidated Statement of Stockholders' Equity. Transaction gains or losses that arise from exchange rate fluctuations applicable to transactions are denominated in Canadian currency and are included in the results of operations as incurred.

2. STOCK COMPENSATION

The Company maintains a stock option plan for key employees and directors. The Company accounts for the plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan qualify for "fixed" plan accounting and had an exercise price equal to the market value of the underlying common stock on the date of grant. The effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation is as follows:

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 |
|---|---|---|
| | (in thousands, except share data) | |
| Net income as reported | $3,287 | $2,337 |
| Deduct compensation expense determined | | |

| | | |
|---|---|---|
| under fair value method for all awards, net of related tax effects | (83) | (157) |
| Pro forma net income | $3,204 | $2,180 |
| Earnings per share: | | |
| Basic, as reported | $ 0.27 | $ 0.19 |
| Basic, pro forma | $ 0.26 | $ 0.17 |
| Diluted, as reported | $ 0.26 | $ 0.18 |
| Diluted, pro forma | $ 0.25 | $ 0.17 |

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank deposits and highly liquid, interest-bearing money market funds with initial maturities of three months or less.

4. CERTIFICATE OF DEPOSIT

At March 31, 2005, the Company had invested in a 30-day certificate of deposit that bears interest at 2.1% per annum.



5. ACCOUNTS RECEIVABLE

The Company grants credit to its customers and performs ongoing credit evaluations. The Company generally does not require collateral or charge interest. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, economic and market conditions and the age of the receivable. Past due accounts are generally written off against the allowance for doubtful accounts only after all collection attempts have been exhausted.

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

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| | (in thousands) | |
| Accounts receivable | $ 29,453 | $ 27,8 |
| Less: allowance for doubtful accounts | (755) | (7 |
| Total, net | $ 28,698 | $ 27,1 |

| | Three Months Ended March 31, 2005 | March 31, 2004 |
|---|---|---|
| | (in thousands) | |
| Allowance for doubtful accounts: | | |
| Balance, beginning of period | $ 717 | $ 1,1 |
| Provision for losses on accounts receivable | 39 | 4 |
| Accounts receivable written off, net of recoveries | (1) | |
| Balance, end of period | $ 755 | $ 1,6 |



6. INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method. The Company establishes 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. At March 31, 2005, and December 31, 2004, inventory balances and the related changes in the allowance for excess and obsolete inventories account are as follows:

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| | (in thousands) | |
| Raw materials | $ 17,010 | $ 16,3 |
| Work in process | 2,393 | 2,3 |
| Finished goods | 5,143 | 3,2 |
| | 24,546 | 21,9 |
| Less: Inventory reserve | (1,050) | (1,0 |
| Total, net | $ 23,496 | $ 20,8 |

7. ACCRUED LIABILITIES

At March 31, 2005, and December 31, 2004, accrued liabilities were comprised of the following:

| | March 31, 2005 | December 31, 2004 |
|---|---|---|
| | (in thousands) | |
| Warranty | $ 6,791 | $ 6,3 |
| Commissions | 5,795 | 5,9 |

| | | |
|---|---|---|
| Payroll | 1,058 | 1,1 |
| Income taxes | 1,988 | 3 |
| Workers' compensation | 522 | 4 |
| Medical self-insurance | 882 | 9 |
| Other | 648 | |
| Total | $ 17,684 | $ 15,0 |



8. WARRANTIES

A provision is made for the estimated cost of warranty obligations 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 Company's warranty liability during the three months ended March 31, 2005, and 2004, are as follows:

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 |
|---|---|---|
| | (in thousands) | |
| Balance, beginning of period | $ 6,301 | $ 6,020 |
| Warranties accrued during the period | 1,111 | 979 |
| Warranties settled during the period | (621) | (848) |
| Balance, end of period | $ 6,791 | $ 6,151 |

9. REVOLVING CREDIT FACILITY

The Company's $15,150,000 unsecured bank line of credit bears interest payable monthly at prime rate less .5% or LIBOR plus 1.60% (4.27% at March 31, 2005) at the election of the Company with a maturity date of July 30, 2005. The credit facility prohibits the declaration and payment of dividends. At March 31, 2005, the Company had $1,347,000 on the bank line of credit and as of December 31, 2004, the Company had no borrowings under the revolving credit facility. In addition, the Company has a $600,000 Letter of Credit expiring December 31, 2005. The company had $13,203,000 available on its credit facility at March 31, 2005.



10. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, |
|---|---|---|
| | (in thousands, except for share and per share data) | |

| | | |
|---|---|---|
| Numerator: | | |
| Net income | $ 3,287 | $ |
| Denominator: | | |
| Denominator for basic earnings per share - Weighted average shares | 12,386,840 | 12,4 |
| Effect of dilutive employee stock options | 408,285 | 5 |
| Denominator for diluted earnings per share - Weighted average shares | 12,795,125 | 12,9 |
| Basic earnings per share | $ 0.27 | $ |
| Diluted earnings per share | $ 0.26 | $ |
| Anti-dilutive shares | 92,250 | |
| Weighted Average Exercise Price | $ 18.48 | $ |

11. STOCK REPURCHASE

On October 17, 2002, the Company initiated a stock buyback program to repurchase up to 10% (1,325,000 shares) of its outstanding stock. Through December 31, 2004, and March 31, 2005, the Company had repurchased 1,078,064 shares for an aggregate price of $18,889,535, or an average price of $17.52 per share and 1,108,464 shares for an aggregate price of $19,354,519 or an average price of $17.46 per share, respectively.

12. CONTINGENCIES

The Company is subject to claims and legal actions that arise in the ordinary course of business. Management believes that the ultimate liability, if any, will not have a material effect on the Company's results of operations or financial position.



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

AAON engineers, manufactures and markets air-conditioning and heating equipment consisting of standardized and custom rooftop units, chillers, air-handling units, make-up units, heat recovery units, condensing units and coils.

AAON sells its products to property owners and contractors through a network of manufacturers' representatives and its internal sales force. Demand for the Company's products is influenced by national and regional economic and demographic factors. The commercial and industrial new construction market is subject to cyclical fluctuations in that it is generally tied to housing starts, but has a lag factor of 6-18 months. Housing starts, in turn, are affected by such factors as interest rates, the state of the economy, population growth and the relative age of the population. When new construction is down, the Company emphasizes the replacement market.

The principal components of cost of goods sold are labor, raw materials, component costs, factory overhead, freight out and engineering expense. The principal raw materials used in AAON's manufacturing processes are steel, copper and aluminum. The major component costs include compressors, electric motors and electronic controls.

Selling, general, and administrative ("SG&A") costs include the Company's internal sales force, warranty costs, profit sharing and administrative expense. Warranty expense is estimated based on historical trends and other factors. The Company's warranty on its products is: for parts only, the earlier of one year from the date of first use or 14 months from date of shipment; compressors (if applicable), an additional four years, on gas-fired heat exchangers (if applicable), 15 years, and on stainless steel heat exchangers (if applicable), 25 years.

On May 4, 2004, AAON Canada Inc., an Ontario corporation organized as a wholly-owned subsidiary of AAON, Inc., purchased certain assets of Air Wise Inc., of Mississauga, Ontario, Canada, which engineers, manufactures and sells custom air-handling units, make-up air units and packaged rooftop units for commercial and industrial buildings. The purchase price was $1,778,000, and was financed out of cash flow from operations. The Company's results of operations include the results of the acquisition from May 4, 2004 forward.

On July 29, 2004, AAON Properties Inc., an Ontario corporation organized as a wholly-owned subsidiary of AAON, Inc., purchased property in Burlington, Ontario, Canada to relocate AAON Canada Inc. The facilities consist of an 82,000 square foot building (71,000 sq. ft. of manufacturing/warehouse space and 11,000 sq. ft. of office space) located at 279 Sumach Drive on a 5.6 acres tract of land.

The office facilities of AAON, Inc. consist of a 337,000 square foot building (322,000 sq. ft. of manufacturing/warehouse space and 15,000 sq. ft. of office space) located at 2425 S. Yukon Avenue, Tulsa, Oklahoma (the "original facility"), and a 563,000 square foot manufacturing/warehouse building and a 22,000 square foot office building (the "expansion facility") located across the street from the original facility at 2440 S. Yukon Avenue. The Company utilizes 39% of the expansion facility and the remaining 61% is leased to a third party. The operations of AAON Coil Products, Inc., are conducted in a plant/office building at 203-207 Gum Springs Road in Longview, Texas, containing 226,000 square feet (219,000 sq. ft. of manufacturing/warehouse and 7,000 sq. ft. of office space). In April 2004, AAON Coil Products purchased a 13-acre tract of land for future expansion.

-11-

Set forth below is unaudited income statement information with respect to the Company for the periods ended March 31, 2005, and 2004:

| | Three Months Ended March 31, 2005 | Three Months Ended March 31, 2004 |
|---|---|---|
| | (in thousands) | |
| Net sales | $ 42,780 | $ 37,494 |
| Cost of sales | 32,730 | 29,793 |
| Gross profit | 10,050 | 7,701 |

| | | |
|---|---|---|
| Selling, general and administrative expenses | 4,682 | 3,967 |
| Income from operations | 5,368 | 3,734 |
| Interest expense | (2) | (17) |
| Interest Income | 78 | 81 |
| Other income (expense), net | (9) | 2 |
| Income before income taxes | 5,435 | 3,800 |
| Income tax provision | 2,148 | 1,463 |
| Net income | $ 3,287 | $ 2,337 |

Results of Operations

Net sales increased $5,286,000 (14.1%) to $42,780,000 from $37,494,000 for the three months ended March 31, 2005, compared to the same period in 2004. Increased sales were attributable to both volume and price increases and $2,000,000 of sales from AAON-Canada.

Gross margins were 23.5% compared to 20.5% for the three months ended March 31, 2005 and March 31, 2004, respectively. Gross profit increased $2,349,000 (30.5%) to $10,050,000 from $7,701,000 for the three months ended March 31, 2005, compared to the same period in 2004. The increases in margins and gross profit were primarily due to the increased volume, price increases and improved production efficiencies. The increase in margins was attained while component costs increased.

Steel, copper and aluminum are high volume materials used in the manufacturing of the Company's products, which are obtained from domestic suppliers. The Company also purchases from other domestic manufacturers certain components, including compressors, electric motors and electrical controls used in its products. The suppliers of these components are significantly affected by the rising raw material costs as steel, copper and aluminum are used in the manufacturing of their products. The Company is experiencing price increases from component part suppliers. The Company attempts to limit the impact of price increases on these materials by entering into cancelable fixed price contracts with its major suppliers for periods of 6-12 months.

Selling, general and administrative expenses increased $715,000 (18%) to $4,682,000 from $3,967,000 for the three months ended March 31, 2005 compared to the same period in 2004, primarily due to AAON-Canada expenses, professional fees, computer consulting and profit sharing expenses.



Financial Condition and Liquidity

Accounts receivable increased $1,577,000 from $27,121,000 at December 31, 2004, to $28,698,000 at March 31, 2005, due to the increase in sales.

Inventories increased $2,628,000 to $23,496,000 at March 31, 2005, compared to $20,868,000 at December 31, 2004, due to procurement of raw material and purchased parts required to accommodate increased sales and to manufacture units that had extended ship dates.

Accounts payable and accrued liabilities increased $751,000 to $28,702,000 at

March 31, 2005, compared to $27,951,000 at December 31, 2004, primarily due to the increase in inventory and timing of payment to vendors.

The Company generated $1,628,000 and $1,191,000 cash from operating activities during the three months ended March 31, 2005, and March 31, 2004, respectively. The increase in 2005 primarily related to an increase in net income. The increase in net income resulted from increased sales volume, price increases and improved production efficiencies. The decrease in 2004 was primarily due to a decrease in net income and an increase in inventories.

Cash flows used in investing activities were $3,337,000 for the three months ended March 31, 2005, and $663,000 for the three months ended March 31, 2004. Cash flows used in investing activities in 2005 were primarily related to capital expenditures for additions of machinery and equipment. Cash used in investing activities in 2004 were primarily related to machinery and equipment additions and the construction of the Company's sheet metal facility at the Tulsa plant. All capital expenditures and the building expansion were financed out of cash generated from operations.

Cash flows provided by and used in financing activities were $1,097,000 and $6,513,000 during the three months ended March 31, 2005, and March 31, 2004, respectively. The cash provided by financing activities in 2005 was primarily related to net borrowings under the revolving credit agreement. The cash used in 2004 was primarily related to the repurchase of Company stock and net payments under the revolving credit agreement. The Company's revolving credit facility provides for maximum borrowings of $15,150,000. Interest on borrowings is payable monthly at the Wall Street Journal prime rate less .5% or LIBOR plus 1.6%, at the election of the Company. Borrowings under the revolving credit facility at March 31, 2005, were $1,347,000 compared to $882,000 at March 31, 2004. In addition, the Company has a $600,000 Letter of Credit that expires December 31, 2005. The credit facility requires that the Company maintain a certain financial ratio and prohibits the declaration of dividends.

Management believes the Company's bank revolving credit facility (or comparable financing), and projected cash flows from operations will provide the necessary liquidity and capital resources to the Company for the foreseeable future. The Company's belief that it will have the necessary liquidity and capital resources is based upon its knowledge of the HVAC industry and its place in that industry, its ability to limit the growth of its business if necessary, and its relationship with its existing bank lender. For information concerning the Company's revolving credit facility at March 31, 2005, see Note 9 to the financial statements included in this report.

## Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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, future actual results could differ from those estimates and could have a significant impact on the Company's results of operations, financial position and cash flows. The Company reevaluates its estimates and assumptions on a monthly basis.



The following accounting policies may involve a higher degree of estimation or assumption:

Allowance for Doubtful Accounts - The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends in collections and write-offs, current customer status, the age of the receivable, economic conditions and other information. Aged receivables are reviewed on a monthly basis to determine if the reserve is adequate and adjusted accordingly at that time.

Inventory Reserves - The Company establishes a reserve for inventories based on the change in inventory requirements due to product line changes, the feasibility of using obsolete parts for upgraded part substitutions, the required parts needed for part supply sales, replacement parts and for estimated shrinkage.

Warranty - A provision is made for estimated warranty costs at the time the product is shipped and revenue is recognized. The warranty period is: for parts only, the earlier of one year from the date of first use or 14 months from date of shipment; compressors (if applicable), an additional four years; on gas-fired heat exchangers (if applicable), 15 years; and on stainless steel heat exchangers (if applicable), 25 years. Warranty expense is estimated based on the Company's warranty period, historical warranty trends and associated costs, and any known identifiable warranty issue. Due to the absence of warranty history on new products, an additional provision may be made for such products.

Historically, reserves have been within management's expectations.

Stock Compensation - The Company has elected to follow Accounting Principles Board Opinion No. 25 ("APB 25"), Accounting for Stock Issued to Employees and related interpretations in accounting for stock options. Under "fixed plan" accounting in APB 25, because the exercise price of the Company's options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company has adopted pro forma disclosures of SFAS 123.

New Accounting Pronouncements

FASB Statement 123 (R) replaces FASB Statement No.123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. The Statement requires measurement of the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The compensation cost will be recognized over the period of time during which an employee is required to provide service in exchange for the award, which will be the vesting period. The Statement applies to all awards granted and any unvested awards at December 31, 2005. SFAS 123 (R) will be effective for interim reporting beginning after December 31, 2005. The Company has not determined the impact of the adoption of SFAS 123 (R).

Forward-Looking Statements

This Quarterly Report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "will", and variations of such words and 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. 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. The Company undertakes no obligations to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Important factors that could cause results to differ materially from those in the forward-looking statements include (1) the timing and extent of changes in raw material and component prices, (2) the effects of fluctuations in the commercial/industrial new construction market, (3) the timing and extent of changes in interest rates, as well as other competitive factors during the year, and (4) general economic, market or business conditions.



Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is subject to interest rate risk on its revolving credit facility which bears variable interest based upon a prime or LIBOR rate. The Company's outstanding balance as of March 31, 2005, was $1,347,000.

Foreign sales accounted for only 2% of the Company's sales in 2004 and the Company accepts payment for such sales in U.S. and Canadian dollars; therefore, the Company believes it is not exposed to significant foreign currency exchange rate risk on these sales. Foreign currency transactions and financial statements are translated in accordance with Statement of Financial Standards No. 52, Foreign Currency Translation. The Company uses the U.S. dollar as its functional currency, except for the Company's Canadian subsidiaries, which use the Canadian dollar. Adjustments arising from translation of the Canadian subsidiaries' financial statements are reflected in Consolidated Statements of Stockholders' Equity. Transaction gains or losses that arise from exchange rate fluctuations applicable to transactions are denominated in Canadian currency and are included in the results of operations as incurred.

Important raw materials purchased by the Company are steel, copper and aluminum, which are subject to price fluctuations. The Company attempts to limit the impact of price increases on these materials by entering cancelable fixed price contracts with its major suppliers for periods of 6 -12 months. However, in 2004 cost increases in basic commodities, such as steel, copper and aluminum, were unprecedented in magnitude and severely impacted profit margins. In many instances, due to significant price increases this year, the supplier refused to supply materials at the originally negotiated six month or one year purchase order price.

The Company does not utilize derivative financial instruments to hedge its interest rate or raw materials price risks.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures.

At the end of the period covered by this Quarterly Report on Form 10-Q, the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer believe that:

- The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

- The Company's disclosure controls and procedures operate such that important information flows to appropriate collection and disclosure points in a timely manner and are effective to ensure that such information is accumulated and communicated to the Company's management, and made known to the Company's Chief Executive Officer and Chief Financial Officer, particularly during the period when this Quarterly Report was prepared, as appropriate to allow timely decisions regarding the required disclosure.

-15-

However, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as of March 31, 2005, are ineffective because of the material weaknesses that existed in information technology general controls that impaired the reliability of AAON's manufacturing and inventory processing, application processing functions and automated controls. These weaknesses, in turn, undermined the reliability of user controls over manufacturing processing, which were dependent upon the integrity of computer-generated reports. The specific factors giving rise to these material weaknesses include a) deficiencies in the authorization, development, testing and movement of changes to AAON's inventory and manufacturing applications and b) significant functional complexity of the inventory and manufacturing applications that create user dependence upon application-based controls to prevent or detect errors, omissions and irregularities in processing.

Changes in internal controls.

As of March 31, 2005, the Company has corrected one of the material weaknesses disclosed in its Form 10-K for the year ended December 31, 2004, regarding the Company's design of internal control over financial reporting with respect to the preparation of certain adjustments recorded by management related to the valuation of inventory and the capitalization of certain purchase price variances and absorption of manufacturing overhead. The Company is currently in the process of correcting the other material weaknesses regarding the Company's design of internal controls to develop controls over production program changes that will assure that only authorized changes to production programs have been properly designed, tested and moved into production. No other changes in the Company's internal control over financial reporting identified in connection with the evaluation required by Exchange Act Rule 13a-15(d) or 15d-15(d) have come to management's attention that have materially affected the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

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

Purchases of Equity Securities by the Company.

On September, 17, 2002, the Company initiated a stock buyback program to repurchase up to 10% (1,325,000 shares) of its outstanding stock. Through March 31, 2005, the Company had acquired 1,108,464 shares of its stock pursuant to its current buyback program.

Repurchases during the first quarter of 2005 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 Nu Approximate Doll of Shares (or Uni May Yet Be Purc Under the Plans or |
|---|---|---|---|---|
| Month #1 January 1-31, 2005 | - | $ - | - | |
| Month #2 February 1-28, 2005 | 14,900 | $15.06 | 14,900 | 232,03 |
| Month #3 March 1-31, 2005 | 15,500 | $15.52 | 15,500 | 216,53 |
| Total | 30,400 | $15.30 | 30,400 | |



Item 6. Exhibits.

(a) Exhibits

| | | |
|---|---|---|
| (i) | Exhibit 31.1 | Section 302 Certification of CEO |
| (ii) | Exhibit 31.2 | Section 302 Certification of CFO |
| (iii) | Exhibit 32.1 | Section 1350 Certification of CEO |
| (iv) | Exhibit 32.2 | Section 1350 Certification of CFO |

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: June 23, 2005 By: /s/ Norman H. Asbjornson

Norman H. Asbjornson
President/CEO

Dated: June 23, 2005 By: /s/ Kathy I. Sheffield

Kathy I. Sheffield
Treasurer