

**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, 2020

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

(IRS Employer

of incorporation or organization)

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)

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

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

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

As of November 3, 2020, registrant had outstanding a total of 52,242,095 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, 2020	December 31, 2019
	<i>(in thousands, except share and per share data)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 70,603	\$ 26,797
Restricted cash	7,998	17,576
Accounts receivable, net of allowance for credit losses of \$546 and \$353, respectively	62,195	67,399
Income tax receivable	3,914	772
Note receivable	29	29
Inventories, net	78,819	73,601
Prepaid expenses and other	1,973	1,375
Total current assets	225,531	187,549
Property, plant and equipment:		
Land	3,804	3,274
Buildings	115,600	101,113
Machinery and equipment	267,763	236,087
Furniture and fixtures	18,342	16,862
Total property, plant and equipment	405,509	357,336
Less: Accumulated depreciation	196,631	179,242
Property, plant and equipment, net	208,878	178,094
Intangible assets, net		
Goodwill	3,229	3,229
Right of use assets	1,618	1,683
Note receivable	560	597
Total assets	\$ 439,913	\$ 371,424
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Revolving credit facility	\$ —	\$ —
Accounts payable	16,038	11,759
Accrued liabilities	45,468	44,269
Total current liabilities	61,506	56,028
Deferred tax liabilities	22,973	15,297
Other long-term liabilities	4,191	3,639
New market tax credit obligation (a)	6,351	6,320
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value, 5,000,000 shares authorized, no shares issued	—	—
Common stock, \$.004 par value, 100,000,000 shares authorized, 52,264,801 and 52,078,515 issued and outstanding at September 30, 2020 and December 31, 2019, respectively	209	208
Additional paid-in capital	8,175	3,631
Retained earnings	336,508	286,301
Total stockholders' equity	344,892	290,140
Total liabilities and stockholders' equity	\$ 439,913	\$ 371,424

(a) Held by variable interest entities (Note 16)

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

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<i>(in thousands, except share and per share data)</i>			
Net sales	\$ 134,772	\$ 113,500	\$ 397,851	\$ 346,759
Cost of sales	93,924	86,090	275,925	263,715
Gross profit	40,848	27,410	121,926	83,044
Selling, general and administrative expenses	14,716	12,374	45,869	38,963
Loss (gain) on disposal of assets	1	6	(61)	296
Income from operations	26,131	15,030	76,118	43,785
Interest income, net	10	9	90	49
Other income (expense), net	15	(7)	20	(16)
Income before taxes	26,156	15,032	76,228	43,818
Income tax provision	5,696	742	16,111	7,380
Net income	<u>\$ 20,460</u>	<u>\$ 14,290</u>	<u>\$ 60,117</u>	<u>\$ 36,438</u>
Earnings per share:				
Basic	<u>\$ 0.39</u>	<u>\$ 0.27</u>	<u>\$ 1.15</u>	<u>\$ 0.70</u>
Diluted	<u>\$ 0.38</u>	<u>\$ 0.26</u>	<u>\$ 1.14</u>	<u>\$ 0.69</u>
Cash dividends declared per common share:	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.19</u>	<u>\$ 0.16</u>
Weighted average shares outstanding:				
Basic	<u>52,260,551</u>	<u>52,111,444</u>	<u>52,174,705</u>	<u>52,086,209</u>
Diluted	<u>53,151,295</u>	<u>52,722,127</u>	<u>52,955,049</u>	<u>52,624,583</u>

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

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

	<b>Nine Months Ended September 30, 2020</b>				
	<b>Common Stock</b>	<b>Paid-in</b>		<b>Retained</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Capital</b>	<b>Earnings</b>	
	<i>(in thousands)</i>				
Balances at December 31, 2019	52,079	\$ 208	\$ 3,631	\$ 286,301	\$ 290,140
Net income	—	—	—	60,117	60,117
Stock options exercised and restricted stock awards granted	616	2	18,517	—	18,519
Share-based compensation	—	—	8,546	—	8,546
Stock repurchased and retired	(430)	(1)	(22,519)	—	(22,520)
Dividends	—	—	—	(9,910)	(9,910)
Balances at September 30, 2020	<u>52,265</u>	<u>\$ 209</u>	<u>\$ 8,175</u>	<u>\$ 336,508</u>	<u>\$ 344,892</u>

	<b>Three Months Ended September 30, 2020</b>				
	<b>Common Stock</b>	<b>Paid-in</b>		<b>Retained</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Capital</b>	<b>Earnings</b>	
	<i>(in thousands)</i>				
Balances at June 30, 2020	52,234	\$ 209	\$ 6,451	\$ 316,035	\$ 322,695
Net income	—	—	—	20,460	20,460
Stock options exercised and restricted stock awards granted	126	—	4,346	—	4,346
Share-based compensation	—	—	2,852	—	2,852
Stock repurchased and retired	(95)	—	(5,474)	—	(5,474)
Dividends	—	—	—	13	13
Balances at September 30, 2020	<u>52,265</u>	<u>\$ 209</u>	<u>\$ 8,175</u>	<u>\$ 336,508</u>	<u>\$ 344,892</u>

	<b>Nine Months Ended September 30, 2019</b>				
	<b>Common Stock</b>	<b>Paid-in</b>		<b>Retained</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Capital</b>	<b>Earnings</b>	
	<i>(in thousands)</i>				
Balances at December 31, 2018	51,991	\$ 208	\$ —	\$ 249,235	249,443
Net income	—	—	—	36,438	36,438
Stock options exercised and restricted stock awards granted	494	2	11,281	—	11,283
Share-based compensation	—	—	9,854	—	9,854
Stock repurchased and retired	(366)	(1)	(16,459)	—	(16,460)
Dividends	—	—	—	(8,303)	(8,303)
Balances at September 30, 2019	<u>52,119</u>	<u>\$ 209</u>	<u>\$ 4,676</u>	<u>\$ 277,370</u>	<u>\$ 282,255</u>

	<b>Three Months Ended September 30, 2019</b>				
	<b>Common Stock</b>	<b>Paid-in</b>		<b>Retained</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Capital</b>	<b>Earnings</b>	
	<i>(in thousands)</i>				
Balances at June 30, 2019	52,118	\$ 209	\$ 4,299	\$ 263,003	\$ 267,511
Net income	—	—	—	14,290	14,290
Stock options exercised and restricted stock awards granted	110	—	3,598	—	3,598
Share-based compensation	—	—	2,068	—	2,068
Stock repurchased and retired	(109)	—	(5,289)	—	(5,289)
Dividends	—	—	—	77	77
Balances at September 30, 2019	<u>52,119</u>	<u>\$ 209</u>	<u>\$ 4,676</u>	<u>\$ 277,370</u>	<u>\$ 282,255</u>

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,**

	<b>2020</b>	<b>2019</b>
<b>Operating Activities</b>	<i>(in thousands)</i>	
Net income	\$ 60,117	\$ 36,438
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,971	17,627
Amortization of debt issuance cost	31	—
Provision for credit losses on accounts receivable, net of adjustments	193	91
Provision for excess and obsolete inventories	1,776	1,003
Share-based compensation	8,546	9,854
(Gain) loss on disposition of assets	(61)	296
Foreign currency transaction loss (gain)	18	(17)
Interest income on note receivable	(19)	(19)
Deferred income taxes	7,676	3,614
Changes in assets and liabilities:		
Accounts receivable	5,011	(2,096)
Income taxes	(3,142)	2,283
Inventories	(6,994)	(4,014)
Prepaid expenses and other	(598)	(513)
Accounts payable	3,654	782
Deferred revenue	1,128	263
Accrued liabilities	688	4,991
Net cash provided by operating activities	96,995	70,583
<b>Investing Activities</b>		
Capital expenditures	(48,955)	(30,831)
Proceeds from sale of property, plant and equipment	61	68
Investment in certificates of deposits	—	(6,000)
Maturities of certificates of deposits	—	6,000
Principal payments from note receivable	38	39
Net cash used in investing activities	(48,856)	(30,724)
<b>Financing Activities</b>		
Stock options exercised	18,519	11,283
Repurchase of stock	(21,390)	(15,437)
Employee taxes paid by withholding shares	(1,130)	(1,023)
Cash dividends paid to stockholders	(9,910)	(8,303)
Net cash used in financing activities	(13,911)	(13,480)
<b>Net increase in cash, cash equivalents and restricted cash</b>	34,228	26,379
<b>Cash, cash equivalents and restricted cash, beginning of period</b>	44,373	1,994
<b>Cash, cash equivalents and restricted cash, end of period</b>	\$ 78,601	\$ 28,373

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

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

**1. General**

*Basis of Presentation*

The accompanying unaudited consolidated financial statements of AAON, Inc., a Nevada corporation, and our operating subsidiaries, all of which are wholly-owned, (collectively, the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the rules and regulations of the Securities and Exchange Commission ("SEC").

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

These financial statements have not been audited by the Company's independent registered public accounting firm, except that the consolidated balance sheet at December 31, 2019 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, 2019. All intercompany balances and transactions have been eliminated in consolidation.

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

*Use of Estimates*

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

*Impact of COVID-19 Pandemic*

In March 2020, the World Health Organization characterized the coronavirus ("COVID-19") a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The rapid spread of the pandemic and the continuously evolving responses to combat it have had an increasingly negative impact on the global economy.

Our manufacturing operations are considered a critical infrastructure industry, as defined by the U.S. Department of Homeland Security, as such, the decrees issued by national, state, and local governments in response to the COVID-19 pandemic have had minimal impact on our operations except for higher employee absenteeism in our manufacturing facilities. We had continuous operations during the nine months ended September 30, 2020. For the most part, our workers are able to socially distance themselves during the manufacturing process. Additional precautions have been taken to social distance workers that work in close environments. The Company utilizes sanitation stations, requires the use of a facial covering when unable to socially distance, performs daily temperature scanning, and performs additional cleaning and sanitation throughout the day and deep cleaning overnight. The Company did see significant employee absenteeism in the latter part of June 2020. These unexpected employee absences resulted in reduced shipments and longer lead times in the second quarter 2020. During the third quarter 2020, employee attendance levels were stronger than previously anticipated. Additionally, our work force has adapted well to school and childcare related issues.

The magnitude of the impact of COVID-19 remains unpredictable and we, therefore, continue to anticipate potential supply chain disruptions, increased employee absenteeism and additional health and safety costs related to the COVID-19 pandemic that could unfavorably impact our business.

Although these disruptions and costs are expected to be temporary, there is significant uncertainty around the duration and overall impact to our business operations. We do not believe that the impact of the COVID-19 pandemic will have a material adverse effect on the results of our operations, financial position and cash flows as of and for the year ended December 31, 2020.

However, we are monitoring the progression of the pandemic and its potential effect on our 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, 2019.

#### *Fair Value Measurements*

We adopted ASU No. 2018-13, *Fair Value Measurements (Topic 820)*, as amended, as of January 1, 2020. The ASU includes additional disclosure requirements for unrealized gains and losses for Level 3 fair value measurements and significant observable inputs used to develop Level 3 fair value measurements. There was not a material impact to financial statements upon adoption. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Fair value is based upon assumptions that market participants would use when pricing an asset or liability. We use the following fair value hierarchy, which prioritizes valuation technique inputs used to measure fair value into three broad levels:

- Level 1: Quoted prices in active markets for identical assets and liabilities that we have the ability to access at the measurement date.
- Level 2: Inputs (other than quoted prices included within Level 1) that are either directly or indirectly observable for the asset or liability, including (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in inactive markets, (iii) inputs other than quoted prices that are observable for the asset or liability, and (iv) inputs that are derived from observable market data by correlation or other means.
- Level 3: Unobservable inputs for the asset or liability including situations where there is little, if any, market activity for the asset or liability. Items categorized in Level 3 include the estimated fair values of property, plant and equipment, intangible assets 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.

## Intangible Assets

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

## Goodwill

Goodwill represents the excess of the consideration paid for the acquired businesses, in our February 2018 business combination, over the fair value of the individual assets acquired, net of liabilities assumed. Goodwill at September 30, 2020 is deductible for income tax purposes. Goodwill is not amortized, but instead is evaluated for impairment at least annually. We perform our annual assessment of impairment during the fourth quarter of our fiscal year, and more frequently if circumstances warrant.

## Recent Accounting Pronouncements

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

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

In December 2019, the FASB issued ASU 2019-12, *Income Taxes: Simplifying the Accounting for Income Taxes*. The ASU includes simplification of accounting for income taxes for franchise taxes, step up in tax basis for goodwill as part of a business combination and interim reporting of enacted changes in tax laws. The ASU is effective for the Company beginning after December 15, 2020. We do not expect ASU 2019-12 will have a material effect on our consolidated financial statements and notes thereto.

## 2. Revenue Recognition

Disaggregated net sales by major source:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	<i>(in thousands)</i>			
Rooftop units	\$ 102,750	\$ 78,432	\$ 312,725	\$ 255,532
Condensing units	6,304	4,416	15,307	13,622
Air handlers	5,805	6,523	18,068	18,150
Outdoor mechanical rooms	867	181	2,216	1,488
Water source heat pumps	6,770	8,751	14,269	21,417
Part sales	10,484	10,313	24,562	25,602
Other	1,792	4,884	10,704	10,948
Net Sales	<u>\$ 134,772</u>	<u>\$ 113,500</u>	<u>\$ 397,851</u>	<u>\$ 346,759</u>



Disaggregated units sold by major source:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Rooftop units	4,372	3,520	12,179	11,079
Condensing units	593	418	1,447	1,291
Air handlers	534	552	1,545	1,669
Outdoor mechanical rooms	6	7	22	28
Water source heat pumps	1,847	1,311	5,109	5,977
Total Units	7,352	5,808	20,302	20,044

The Company recognizes revenue, presented net of sales tax, when it satisfies the performance obligation in its contracts. The primary performance obligation in our contract is delivery of the requested manufactured equipment. Most of the Company's products are highly customized, cannot be resold to other customers and the cost of rework to be resold is not economical. The Company has a formal cancellation policy and generally does not accept returns on these units. As a result, many of the Company's products do not have an alternative use and therefore, for these products we recognize revenue over the time it takes to produce the unit. For all other products that are part sales or standardized units, we satisfy the performance obligation when the 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. Sales of our products are moderately seasonal with the peak period being May-October of each year.

We are responsible for billings and collections resulting from all sales transactions, including those initiated by our independent manufacturer representatives ("Representatives"). Representatives are national companies that are in the business of providing HVAC units and other related products and services to customers. The end user customer orders a bundled group of products and services from the Representative and expects the Representative to fulfill the order. These additional products and services may include controls purchased from another manufacturer to operate the unit, start-up services, and curbs for supporting the unit ("Third Party Products"). All are associated with the purchase of a HVAC unit but may be provided by the Representative or another third party. Only after the specifications are agreed to by the Representative and the customer, and the decision is made to use an AAON HVAC unit, will we receive notice of the order. We establish the amount we must receive for our HVAC unit ("minimum sales price"), but do not control the total order price that is negotiated by the Representative with the end user customer. The Representatives submit the total order price to us for invoicing and collection. The total order price includes our minimum sales price and an additional amount which may include both the Representatives' fee and amounts due for additional products and services required by the customer. The Company is considered the principal for the equipment we design and manufacture and records that revenue gross. 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 sheet.

The Representatives' fee and Third Party Products amounts ("Due to Representatives") are paid only after all amounts associated with the order are collected from the customer. The amount of payments to our Representatives were \$11.5 million and \$12.7 million for the three months ended September 30, 2020 and 2019, respectively. The amount of payments to our Representatives were \$39.0 million and \$34.4 million for the nine months ended September 30, 2020 and 2019, respectively.

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

### 3. Leases

We adopted ASU No. 2016-02, *Leases (Topic 842)*, as amended, as of January 1, 2019, using the transition method, which becomes effective upon the date of adoption. The transition method allows entities to initially apply the new leases standard at the adoption date (January 1, 2019) and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification. We have also elected the short-term lease measurement and recognition exemption which does not require balance sheet presentation for

short-term leases. The Company historically does not enter into numerous or material lease agreements to support its manufacturing operations. Furthermore, any lease agreements entered into are usually less than a year and for leases on non material assets such as warehouse vehicles and office equipment.

Adoption of the new standard resulted in the recording of additional lease right of use assets and lease liabilities of approximately \$1.8 million as of January 1, 2019, which mostly relates to the multi-year facility lease assumed in our February 2018 business combination. The cumulative-effect adjustment to the opening balance was immaterial to the consolidated financial statements as a whole. The standard did not materially impact our consolidated net earnings or cash flows. As of September 30, 2020, our right of use assets and lease liabilities are approximately \$1.6 million.

#### 4. Accounts Receivable

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

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	<i>(in thousands)</i>	
Accounts receivable	\$ 62,741	\$ 67,752
Less: Allowance for credit losses	(546)	(353)
Total, net	<u>\$ 62,195</u>	<u>\$ 67,399</u>

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>	<b>September 30, 2020</b>	<b>September 30, 2019</b>
Allowance for credit losses:	<i>(in thousands)</i>			
Balance, beginning of period	\$ 429	\$ 392	\$ 353	\$ 264
Provisions (recoveries) for expected credit losses, net of adjustments	117	(37)	193	91
Accounts receivable written off, net of recoveries	—	(2)	—	(2)
Balance, end of period	<u>\$ 546</u>	<u>\$ 353</u>	<u>\$ 546</u>	<u>\$ 353</u>

#### 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:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	<i>(in thousands)</i>	
Raw materials	\$ 76,673	\$ 68,842
Work in process	1,541	1,825
Finished goods	4,717	5,578
Total, gross	82,931	76,245
Less: Allowance for excess and obsolete inventories	(4,112)	(2,644)
Total, net	<u>\$ 78,819</u>	<u>\$ 73,601</u>

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Allowance for excess and obsolete inventories:	<i>(in thousands)</i>			
Balance, beginning of period	\$ 2,373	\$ 2,350	\$ 2,644	\$ 1,210
Provisions (recoveries) for excess and obsolete inventories	1,969	(150)	1,776	1,003
Inventories written off	(230)	—	(308)	(13)
Balance, end of period	<u>\$ 4,112</u>	<u>\$ 2,200</u>	<u>\$ 4,112</u>	<u>\$ 2,200</u>

## 6. Intangible Assets

Our intangible assets consist of the following:

	September 30, 2020	December 31, 2019
	<i>(in thousands)</i>	
Intellectual property	\$ 700	\$ 700
Less: Accumulated amortization	(603)	(428)
Total, net	<u>\$ 97</u>	<u>\$ 272</u>

Amortization expense recorded in cost of sales is as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	<i>(in thousands)</i>			
Amortization expense	\$ 58	\$ 58	\$ 175	\$ 175

## 7. Supplemental Cash Flow Information

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Supplemental disclosures:	<i>(in thousands)</i>			
Income taxes paid	\$ 1,841	\$ 1,116	\$ 11,576	\$ 1,510
Non-cash investing and financing activities:				
Non-cash capital expenditures	\$ (4,421)	\$ (116)	\$ 625	\$ (280)

## 8. Warranties

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

Changes in the warranty accrual are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Warranty accrual:	<i>(in thousands)</i>			
Balance, beginning of period	\$ 13,160	\$ 11,666	\$ 12,652	\$ 11,421
Payments made	(1,687)	(2,023)	(4,481)	(5,200)
Provisions	2,054	2,707	5,356	6,129
Balance, end of period	<u>\$ 13,527</u>	<u>\$ 12,350</u>	<u>\$ 13,527</u>	<u>\$ 12,350</u>
Warranty expense:	\$ 2,054	\$ 2,707	\$ 5,356	\$ 6,129

## 9. Accrued Liabilities

Accrued liabilities were comprised of the following:

	September 30, 2020	December 31, 2019
	<i>(in thousands)</i>	
Warranty	\$ 13,527	\$ 12,652
Due to representatives	10,257	11,538
Payroll	7,448	5,058
Profit sharing	3,000	1,721
Worker's compensation	646	522
Medical self-insurance	247	707
Customer prepayments	2,151	4,627
Donations	604	354
Employee vacation time	3,493	3,804
Other	4,095	3,286
Total	<u>\$ 45,468</u>	<u>\$ 44,269</u>

## 10. Revolving Credit Facility

Our revolving credit facility, as amended, ("BOK Revolver") provides for maximum borrowings of \$30.0 million, which is provided by BOKF, NA dba Bank of Oklahoma ("Bank of Oklahoma"). Under the line of credit, there is one standby letter of credit totaling \$1.7 million. Borrowings available under the revolving credit facility at September 30, 2020 were \$28.3 million. Interest on borrowings is payable monthly at LIBOR plus 2.0%. No fees are associated with the unused portion of the committed amount. We had no outstanding balance under the revolving credit facility at September 30, 2020 and December 31, 2019. The revolving credit facility expires on July 26, 2021.

As of September 30, 2020, we were in compliance with our financial covenants. These covenants require that we meet certain parameters related to our tangible net worth and total liabilities to tangible net worth ratio. At September 30, 2020, our tangible net worth was \$344.9 million and met the requirement of being at or above \$175.0 million. Our total liabilities to tangible net worth ratio was 0.3 to 1, and met the requirement of not being above 2 to 1.

## 11. Income Taxes

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	<i>(in thousands)</i>			
Current	\$ 3,081	\$ 446	\$ 8,435	\$ 3,766
Deferred	2,615	296	7,676	3,614
Income tax provision	<u>\$ 5,696</u>	<u>\$ 742</u>	<u>\$ 16,111</u>	<u>\$ 7,380</u>

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, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Federal statutory rate	21.0 %	21.0 %	21.0 %	21.0 %
State income taxes, net of Federal benefit	2.3	1.3	4.0	4.2
Amended Oklahoma tax returns	—	(4.5)	—	(2.0)
Excess tax benefits	(2.3)	(1.7)	(3.3)	(3.1)
Return to provision adjustments	0.5	(7.1)	0.2	(2.1)
Other	0.3	(4.1)	(0.8)	(1.2)
Effective tax rate	<u>21.8 %</u>	<u>4.9 %</u>	<u>21.1 %</u>	<u>16.8 %</u>

During the three months ended September 2019, upon completion of the Company's 2018 tax return, the Company recorded an additional benefit due to higher than expected research and development credit of \$0.6 million. Historically, the Company has taken advantage of the Oklahoma Investment/New Jobs Credit ("OK Credit"). This OK Credit allows the Company to take a credit equal to 1% of eligible investments each year for five years, beginning with the year of investment. The Company determined it could take advantage of an additional 1% tax credit for years in which the Company's location was deemed to be within an enterprise zone. The additional OK Credit for being in an enterprise zone, or otherwise allowable under Oklahoma law resulted in a benefit of \$0.3 million for 2018 and \$0.9 million for our 2015, 2016 and 2017 amended returns, combined.

The Company's estimated annual 2020 effective tax rate, excluding discrete events, is approximately 24%. We file income tax returns in the U.S., state and foreign income tax returns jurisdictions. We are subject to U.S. income tax examinations for tax years 2016 to present, and to non-U.S. income tax examinations for the tax years 2015 to present. In addition, we are subject to state and local income tax examinations for the tax years 2015 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.

### ***Coronavirus Aid, Relief, and Economic Security Act***

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted on March 27, 2020, and includes a retroactive correction to the 2017 Tax Cuts and Jobs Act that allows for much faster depreciation of qualified improvement property that is placed in service after December 31, 2017. Under current rules, the calculation of depreciation or repair deductions for prior years can be recomputed and a one-time catch-up adjustment is allowed in the current tax year for missed deductions. The adjustment is the difference between depreciation or repair deductions claimed versus depreciation or repair deductions that could have been claimed by the end of the prior tax year and does not require amending any prior year tax returns.

## 12. Share-Based Compensation

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

On May 24, 2016, our stockholders adopted the 2016 Long-Term Incentive Plan (“2016 Plan”) which provides for approximately 8.9 million shares, comprised of 3.4 million new shares provided for under the 2016 Plan, approximately 0.4 million shares that were available for issuance under the previous LTIP that are now authorized for issuance under the 2016 Plan, approximately 2.6 million shares that were approved by the stockholders on May 15, 2018, and an additional 2.5 million shares that were approved by the stockholders on May 12, 2020. Under the 2016 Plan, shares can be granted in the form of stock options, stock appreciation rights, restricted stock awards, performance awards, dividend equivalent rights, and other awards. Under the 2016 Plan, the exercise price of shares granted may not be less than 100% of the fair market value at the date of the grant. The 2016 Plan is administered by the Compensation Committee of the Board of Directors or such other committee of the Board of Directors as is designated by the Board of Directors (the “Committee”). Membership on the Committee is limited to independent directors. The Committee will determine the persons to whom awards are to be made, determine the type, size and terms of awards, interpret the 2016 Plan, establish and revise rules and regulations relating to the 2016 Plan and make any other determinations that it believes necessary for the administration of the 2016 Plan. The Committee may delegate certain duties to one or more officers of the Company as provided in the 2016 Plan.

### Options

The total pre-tax compensation cost related to unvested stock options not yet recognized as of September 30, 2020 is \$23.4 million and is expected to be recognized over a weighted average period of 3.1 years.

The following weighted average assumptions were used to determine the fair value of the stock options granted on the original grant date for expense recognition purposes for options granted during the nine months ended September 30, 2020 and 2019 using a Black Scholes-Merton Model:

	Nine months ended	
	September 30, 2020	September 30, 2019
<b>Directors and Officers:</b>		
Expected dividend rate	\$0.33	\$0.32
Expected volatility	31.63%	29.54%
Risk-free interest rate	0.64%	2.40%
Expected life (in years)	5.0	5.0
<b>Employees:</b>		
Expected dividend rate	\$0.32	\$0.32
Expected volatility	31.31%	29.54%
Risk-free interest rate	0.68%	2.39%
Expected life (in years)	5.0	5.0

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, 2020:

Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Intrinsic Value (in thousands)
\$ 7.18 - \$ 36.95	526,235	5.51	\$ 28.03	\$ 16,957
\$ 37.00 - \$ 40.87	1,978	7.34	38.50	43
\$ 41.37 - \$ 60.32	210,496	8.19	41.53	3,940
Total	738,709	6.28	\$ 31.90	\$ 20,940

The following is a summary of stock options vested and exercisable as of September 30, 2019:

Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Intrinsic Value (in thousands)
\$ 7.18 - \$ 33.20	350,549	5.29	\$ 21.07	\$ 8,717
\$ 33.40 - \$ 40.87	124,622	7.79	35.63	1,284
\$ 41.37 - \$ 50.68	4,070	0.67	41.37	19
Total	479,241	5.90	\$ 25.03	\$ 10,020

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

Stock Options	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2019	3,627,047	\$ 36.32
Granted	1,038,542	44.84
Exercised	(547,808)	33.80
Forfeited or Expired	(214,838)	40.48
Outstanding at September 30, 2020	3,902,943	\$ 38.71
Exercisable at September 30, 2020	738,709	\$ 31.90

The total intrinsic value of options exercised during the nine months ended September 30, 2020 and 2019 was \$12.1 million and \$7.0 million, respectively. The cash received from options exercised during the nine months ended September 30, 2020 and 2019 was \$18.5 million and \$11.3 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, 2020, unrecognized compensation cost related to unvested restricted stock awards was approximately \$5.3 million, which is expected to be recognized over a weighted average period of 2.9 years.

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

<b>Restricted Stock</b>	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Unvested at December 31, 2019	267,484	\$ 34.42
Granted	76,148	43.54
Vested	(108,215)	32.55
Forfeited	(8,216)	39.88
Unvested at September 30, 2020	<u>227,201</u>	<u>\$ 38.17</u>

### *Share-Based Compensation*

A summary of share-based compensation is as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>	<b>September 30, 2020</b>	<b>September 30, 2019</b>
<b>Grant date fair value of awards during the period:</b>	<i>(in thousands)</i>			
Options	\$ 258	\$ 244	\$ 12,332	\$ 20,315
Restricted stock	—	—	3,316	4,584
Total	<u>\$ 258</u>	<u>\$ 244</u>	<u>\$ 15,648</u>	<u>\$ 24,899</u>
<b>Share-based compensation expense:</b>				
Options	\$ 2,208	\$ 1,539	\$ 6,136	\$ 7,683
Restricted stock	644	529	2,410	2,171
Total	<u>\$ 2,852</u>	<u>\$ 2,068</u>	<u>\$ 8,546</u>	<u>\$ 9,854</u>
<b>Income tax benefit/(deficiency) related to share-based compensation:</b>				
Options	\$ 579	\$ 233	\$ 1,990	\$ 964
Restricted stock	9	7	503	462
Total	<u>\$ 588</u>	<u>\$ 240</u>	<u>\$ 2,493</u>	<u>\$ 1,426</u>

Share-based compensation expense is recognized on a straight-line basis over the service period of the related share-based compensation award. Stock options and restricted stock awards, granted to employees, vest at a rate of 20% per year. Restricted stock awards granted to directors historically vest 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. Forfeitures are accounted for as they occur.

Historically, if the employee or director is retirement eligible (as defined by the applicable LTIP or 2016 Plan) or becomes retirement eligible during 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 share-based compensation 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.



### 13. Employee Benefits

#### *Defined Contribution Plan - 401(k)*

We sponsor a defined contribution plan (the “Plan”). Eligible employees may make contributions in accordance with the Plan and IRS guidelines. In addition to the traditional 401(k), eligible employees are given the option of making an after-tax contribution to a Roth 401(k) or a combination of both. The Plan provides for automatic enrollment and for an automatic increase to the deferral percentage at January 1st of each year and each year thereafter. Eligible employees are automatically enrolled in the Plan at a 6% deferral rate and currently contributing employees deferral rates will be increased to 6% unless their current rate is above 6% or the employee elects to decline the automatic enrollment or increase. Administrative expenses are paid for by Plan participants. The Company paid no administrative expenses during the three and nine months ended September 30, 2020 and 2019.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	<i>(in thousands)</i>			
Contributions made to the defined contribution plan	\$ 2,242	\$ 1,820	\$ 6,791	\$ 5,270

#### *Profit Sharing Bonus Plan*

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	<i>(in thousands)</i>			
Profit sharing bonus plan expense	\$ 3,000	\$ 1,684	\$ 8,691	\$ 4,948

#### *Employee Medical Plan*

We self-insure for our employees' health insurance. 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 Plan. We estimate our self-insurance liabilities using an analysis provided by our claims administrator and our historical claims experience. In addition, the Company matches 175% of a participating employee's allowed contributions to a qualified health saving account to assist employees with our health insurance plan deductibles.

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	<i>(in thousands)</i>			
Medical claim payments	\$ 2,985	\$ 1,650	\$ 6,843	\$ 4,500
Health saving account contributions	890	790	2,663	2,410

## 14. Earnings Per Share

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
<i>(in thousands, except share and per share data)</i>				
<b>Numerator:</b>				
Net income	\$ 20,460	\$ 14,290	\$ 60,117	\$ 36,438
<b>Denominator:</b>				
Basic weighted average shares	52,260,551	52,111,444	52,174,705	52,086,209
Effect of dilutive stock options and restricted stock	890,744	610,683	780,344	538,374
Diluted weighted average shares	53,151,295	52,722,127	52,955,049	52,624,583
<b>Earnings per share:</b>				
Basic	\$ 0.39	\$ 0.27	\$ 1.15	\$ 0.70
Diluted	\$ 0.38	\$ 0.26	\$ 1.14	\$ 0.69
<b>Anti-dilutive shares:</b>				
Shares	118,832	1,834,379	473,295	1,886,728

## 15. Stockholders' Equity

### Stock Repurchases

The Board has authorized three stock repurchase programs for the Company. The Company may purchase shares on the open market from time to time, up to a total of 5.7 million shares. 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:

Agreement Execution Date	Authorized Repurchase \$	Expiration Date
May 16, 2018 <sup>1</sup>	\$15 million	March 1, 2019
March 5, 2019 <sup>1</sup>	\$20 million	March 4, 2020
March 13, 2020	\$20 million	** <sup>2</sup>

<sup>1</sup> The 2018 and 2019 purchase authorizations were executed under 10b5-1 programs.

<sup>2</sup> Expiration Date is at Board's discretion. The Company is authorized to effectuate repurchases of the Company's common stock on terms and conditions approved in advance by the Board.

The Company also has a stock repurchase arrangement by which employee-participants in our 401(k) savings and investment plan are entitled to have shares in AAON, Inc. stock in their accounts sold to the Company. The maximum number of shares to be repurchased is contingent upon the number of shares sold by employee-participants.

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

Our repurchase activity is as follows:

Program	Nine Months Ended					
	September 30, 2020			September 30, 2019		
	Shares	Total \$	\$ per share	Shares	Total \$	\$ per share
Open market	103,689	\$ 4,987	\$ 48.10	5,799	\$ 200	\$ 34.46
401(k)	303,112	16,403	54.12	335,139	15,237	45.46
Directors and employees	22,655	1,130	49.88	24,948	1,023	41.00
Total	429,456	\$ 22,520	\$ 52.44	365,886	\$ 16,460	\$ 44.99

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

Program	Inception to September 30, 2020		
	Shares	Total \$	\$ per share
Open market	4,205,255	\$ 74,793	\$ 17.79
401(k)	7,770,851	136,330	17.54
Directors and employees	2,004,584	20,712	10.33
Total	13,980,690	\$ 231,835	\$ 16.58

Subsequent to September 30, 2020 and through November 3, 2020, the Company repurchased 52,646 shares for \$3.3 million from our 401(k) savings and investment plan.

### Dividends

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

Our recent dividends are as follows:

Declaration Date	Record Date	Payment Date	Dividend per Share
May 20, 2019	June 3, 2019	July 1, 2019	\$0.16
November 6, 2019	November 27, 2019	December 18, 2019	\$0.16
May 15, 2020	June 3, 2020	July 1, 2020	\$0.19

## 16. 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 “Investor”) and a certified Community Development Entity under a qualified New Markets Tax Credit (“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 “Project”). In connection with the 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 Project.

Upon closing of the 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 NMTCs.

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 Investor's interest of \$6.3 million is recorded in New market tax credit obligation on the consolidated balance sheet. 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.

The Investor is subject to 100 percent recapture of the NMTC 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 NMTC arrangement. Noncompliance with applicable requirements could result in the Investor's projected tax benefits not being realized and, therefore, require the Company to indemnify the Investor for any loss or recapture of the NMTC 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 this financing arrangement.

The 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 transaction in these VIEs outside of the financing transactions executed as part of the NMTC arrangement.

## 17. Commitments and Contingencies

We are subject to various claims and legal actions that arise in the ordinary course of business. 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 have concluded that the likelihood is remote that the ultimate resolution of any pending litigation or claims will be material or have a material adverse effect on the Company's business, financial position, results of operations and/or cash flows.

We are occasionally party to short-term, cancellable and occasionally non-cancellable, fixed price contracts with major suppliers for the purchase of raw material and component parts. We expect to receive delivery of raw materials 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, 2020.

## 18. Related Parties

The Company purchases some supplies from an entity controlled by the Company's Executive Chairman. The Company sometimes makes sales to the Executive Chairman for parts. Additionally, 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. All related party transactions are made on standard Company terms.

The following is a summary of transactions and balance with affiliates:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>	<b>September 30, 2020</b>	<b>September 30, 2019</b>
	<i>(in thousands)</i>			
Sales to affiliates	\$ 662	\$ 338	\$ 2,550	\$ 706
Payments to affiliates	110	32	207	225
			<b>September 30, 2020</b>	<b>December 31, 2019</b>
			<i>(in thousands)</i>	
Due from affiliates			\$ 425	\$ 22
Due to affiliates			—	2

## 19. Segments

The following table summarizes certain financial data related to our segments. Transactions between segments are recorded based on prices negotiated between the segments. Sales of units represent the selling price of our units plus freight and other miscellaneous charges less any returns and allowances. Parts include sales of purchased and fabricated parts including our coils along with the related freight and less any returns and allowances. The “Other” category in the table below includes certain sales cost and expenses that are not allocated to the reportable segments.

Asset information by segment is not easily identifiable or reviewed by the chief operating decision maker. As such, this information is not included below.

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	<i>(in thousands)</i>			
<b>Sales</b>				
Units	\$ 123,827	\$ 102,499	\$ 372,267	\$ 319,820
Parts - External	11,222	11,028	26,162	27,287
Parts - Inter-segment	5,659	6,448	18,074	21,665
Other	(277)	(27)	(578)	(348)
Eliminations	(5,659)	(6,448)	(18,074)	(21,665)
Net sales	<u>\$ 134,772</u>	<u>\$ 113,500</u>	<u>\$ 397,851</u>	<u>\$ 346,759</u>
<b>Gross Profit</b>				
Units	\$ 41,675	\$ 27,729	\$ 128,523	\$ 84,888
Parts - External	4,917	5,077	11,641	13,236
Parts - Inter-segment	(758)	44	(1,587)	889
Other	(5,744)	(5,396)	(18,238)	(15,080)
Eliminations	758	(44)	1,587	(889)
Net gross profit	<u>\$ 40,848</u>	<u>\$ 27,410</u>	<u>\$ 121,926</u>	<u>\$ 83,044</u>

## 20. Error Correction

We have corrected herein our consolidated financial statements as of September 30, 2019 and for the three and nine months ended September 30, 2019, in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 250, *Accounting Changes and Error Corrections*.

### ***Error Correction Background***

During the preparation of the 2019 Annual Report on Form 10-K (filed on February 27, 2020) the Company noted errors in previously issued financial statements relating to share-based compensation expense for stock options and restricted stock awards held by retirement eligible employees and directors. As defined by our Long-Term Incentive Plans (Note 12), stock options and restricted stock awards are fully vested when an active employee or director meets certain retirement eligibility requirements. We have corrected the previously issued 2019 financial statements to recognize all share-based compensation, related to retirement eligible employees or directors, by the earlier of the grant date (if retirement eligible on grant date) or ratably from grant date to retirement eligible date. The corrected financial statements also include corrections for the tax effect of the share-based compensation corrections as well as the corrections' impact on our prior periods' employees profit sharing bonus plan (Note 13).

## Description of Tables

The following tables represent our corrected consolidated statements of income and statements of stockholders' equity for the three and nine months ended September 30, 2019 and statements of cash flows for the nine months ended September 30, 2019, as well as our corrected consolidated balance sheet data at September 30, 2019. The values as previously reported for September 30, 2019 were derived from our Quarterly Report on Form 10-Q for the three and nine month ended September 30, 2019 filed on October 31, 2019.

### Consolidated Statements of Income

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	Previously Reported	Corrections	As Corrected	Previously Reported	Corrections	As Corrected
	<i>(in thousands, except share and per share data)</i>					
Net sales	\$ 113,500	\$ —	\$ 113,500	\$ 346,759	\$ —	\$ 346,759
Cost of sales	86,115	(25) (a)	86,090	263,406	309 (a)	263,715
Gross profit	27,385	25	27,410	83,353	(309)	83,044
Selling, general and administrative expenses	12,994	(620) (b)	12,374	37,476	1,487 (b)	38,963
Loss (gain) on disposal of assets	6	—	6	296	—	296
Income from operations	14,385	645	15,030	45,581	(1,796)	43,785
Interest income, net	9	—	9	49	—	49
Other (expense) income, net	(7)	—	(7)	(16)	—	(16)
Income before taxes	14,387	645	15,032	45,614	(1,796)	43,818
Income tax provision	560	182 (c)	742	7,924	(544) (c)	7,380
Net income	\$ 13,827	\$ 463	\$ 14,290	\$ 37,690	\$ (1,252)	\$ 36,438
Earnings per share:						
Basic	\$ 0.27	\$ —	\$ 0.27	\$ 0.72	\$ (0.02)	\$ 0.70
Diluted	\$ 0.26	\$ —	\$ 0.26	\$ 0.72	\$ (0.03)	\$ 0.69
Cash dividends declared per common share:	\$ —	\$ —	\$ —	\$ 0.16	\$ —	\$ 0.16
Weighted average shares outstanding:						
Basic	52,111,444	—	52,111,444	52,086,209	—	52,086,209
Diluted	52,722,127	—	52,722,127	52,624,583	—	52,624,583

#### Balance Sheet Data (at end of period):

Current assets	\$ 170,536	\$ (252) (c)	\$ 170,284
Total assets	352,152	(252) (c)	351,900
Current liabilities	53,882	(779) (d)	53,103
Deferred income taxes	15,034	(2,161) (c)	12,873
Total stockholders' equity	\$ 279,567	\$ 2,688 (e)	\$ 282,255

(a) The share-based compensation correction to cost of sales for the three and nine months ended September 30, 2019 was approximately \$0.1 million and \$0.3 million, respectively.

(b) The share-based compensation correction to selling, general and administrative expenses for the three and nine months ended September 30, 2019 was approximately \$0.7 million and \$1.7 million, respectively. Included in the correction to selling, general and administrative expenses is a correction to our employee profit sharing bonus plan (Note 13) of approximately \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2019, respectively.

(c) The corrections to income tax receivable and deferred tax liability are the tax effect of the share-based compensation correction.

(d) This is the cumulative reduction of our employee profit sharing bonus plan (Note 13) liability as a result of the share-based compensation correction. The prior period costs were recovered through our estimated 2019 fourth quarter payment which was paid in early 2020.

(e) This is the cumulative effect on stockholders' equity as a result of the share-based compensation correction. See table below for a description of the changes in stockholders' equity in the consolidated statements of stockholders' equity for the three and nine months ended September 30, 2019, respectively.

<b>Consolidated Statements of Stockholders' Equity</b>					
<b>Nine Months Ended September 30, 2019</b>					
	<b>Common Stock</b>		<b>Paid-in</b>	<b>Retained</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Capital</b>	<b>Earnings</b>	
<i>(in thousands)</i>					
<b>As Previously Reported</b>					
Balances at December 31, 2018	51,991	\$ 208	\$ —	\$ 247,291	\$ 247,499
Net income	—	—	—	37,690	37,690
Stock options exercised and stock awards granted	494	2	11,281	—	11,283
Share-based compensation	—	—	7,858	—	7,858
Stock repurchased and retired	(366)	(1)	(16,459)	—	(16,460)
Dividends	—	—	—	(8,303)	(8,303)
Balances at September 30, 2019	<u>52,119</u>	<u>209</u>	<u>2,680</u>	<u>276,678</u>	<u>279,567</u>
<b>Correction Impacts</b>					
Balances at December 31, 2018	—	—	—	1,944	1,944
Net income	—	—	—	(1,252)	(1,252)
Stock options exercised and stock awards granted	—	—	—	—	—
Share-based compensation	—	—	1,996	—	1,996
Stock repurchased and retired	—	—	—	—	—
Dividends	—	—	—	—	—
Balances at September 30, 2019	<u>—</u>	<u>—</u>	<u>1,996</u>	<u>692</u>	<u>2,688</u>
<b>As Corrected</b>					
Balances at December 31, 2018	51,991	\$ 208	\$ —	\$ 249,235	\$ 249,443
Net income	—	—	—	36,438	36,438
Stock options exercised and stock awards granted	494	2	11,281	—	11,283
Share-based compensation	—	—	9,854	—	9,854
Stock repurchased and retired	(366)	(1)	(16,459)	—	(16,460)
Dividends	—	—	—	(8,303)	(8,303)
Balances at September 30, 2019	<u>52,119</u>	<u>\$ 209</u>	<u>\$ 4,676</u>	<u>\$ 277,370</u>	<u>\$ 282,255</u>

See descriptions of changes to net income in the consolidated statement of income for the nine months ended September 30, 2019 in the table above.

**Consolidated Statements of Stockholders' Equity**  
**Three Months Ended September 30, 2019**

	<b>Common Stock</b>		<b>Paid-in</b>	<b>Retained</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Capital</b>	<b>Earnings</b>	
<i>(in thousands)</i>					
<b>As Previously Reported</b>					
Balances at June 30, 2019	52,118	\$ 209	\$ 1,586	\$ 262,774	\$ 264,569
Net income	—	—	—	13,827	13,827
Stock options exercised and stock awards granted	110	—	3,598	—	3,598
Share-based compensation	—	—	2,785	—	2,785
Stock repurchased and retired	(109)	—	(5,289)	—	(5,289)
Dividends	—	—	—	77	77
Balances at September 30, 2019	<u>52,119</u>	<u>209</u>	<u>2,680</u>	<u>276,678</u>	<u>279,567</u>
<b>Correction Impacts</b>					
Balances at June 30, 2019	—	—	2,713	229	2,942
Net income	—	—	—	463	463
Stock options exercised and stock awards granted	—	—	—	—	—
Share-based compensation	—	—	(717)	—	(717)
Stock repurchased and retired	—	—	—	—	—
Dividends	—	—	—	—	—
Balances at September 30, 2019	<u>—</u>	<u>—</u>	<u>1,996</u>	<u>692</u>	<u>2,688</u>
<b>As Corrected</b>					
Balances at June 30, 2019	52,118	\$ 209	\$ 4,299	\$ 263,003	\$ 267,511
Net income	—	—	—	14,290	14,290
Stock options exercised and stock awards granted	110	—	3,598	—	3,598
Share-based compensation	—	—	2,068	—	2,068
Stock repurchased and retired	(109)	—	(5,289)	—	(5,289)
Dividends	—	—	—	77	77
Balances at September 30, 2019	<u>52,119</u>	<u>\$ 209</u>	<u>\$ 4,676</u>	<u>\$ 277,370</u>	<u>\$ 282,255</u>

See descriptions of changes to net income in the consolidated statement of income for the three months ended September 30, 2019 in the table above.



**Consolidated Statements of Cash Flows**  
**Nine Months Ended September 30, 2019**

	Previously Reported	Corrections	As Corrected
<b>Operating Activities</b>	<i>(in thousands)</i>		
Net income	\$ 37,690	\$ (1,252)	\$ 36,438
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,627	—	17,627
Provision for credit losses on accounts receivable, net of adjustments	91	—	91
Provision for excess and obsolete inventories	1,003	—	1,003
Share-based compensation	7,858	1,996	9,854
Loss (gain) on disposition of assets	296	—	296
Foreign currency transaction (gain) loss	(17)	—	(17)
Interest income on note receivable	(19)	—	(19)
Deferred income taxes	4,208	(594)	3,614
Changes in assets and liabilities:			
Accounts receivable	(2,096)	—	(2,096)
Income taxes	2,234	49	2,283
Inventories	(4,014)	—	(4,014)
Prepaid expenses and other	(513)	—	(513)
Accounts payable	782	—	782
Deferred revenue	263	—	263
Accrued liabilities and donations	5,190	(199)	4,991
Net cash provided by operating activities	70,583	—	70,583
<b>Investing Activities</b>			
Capital expenditures	(30,831)	—	(30,831)
Proceeds from sale of property, plant and equipment	68	—	68
Investment in certificates of deposits	(6,000)	—	(6,000)
Maturities of certificates of deposits	6,000	—	6,000
Principal payments from note receivable	39	—	39
Net cash used in investing activities	(30,724)	—	(30,724)
<b>Financing Activities</b>			
Stock options exercised	11,283	—	11,283
Repurchase of stock	(15,437)	—	(15,437)
Employee taxes paid by withholding shares	(1,023)	—	(1,023)
Cash dividends paid to stockholders	(8,303)	—	(8,303)
Net cash used in financing activities	(13,480)	—	(13,480)
<b>Net increase in cash and cash equivalents</b>	26,379	—	26,379
<b>Cash and cash equivalents, beginning of year</b>	1,994	—	1,994
<b>Cash and cash equivalents, end of year</b>	\$ 28,373	\$ —	\$ 28,373

See descriptions of changes to net income and the balance sheet in the tables above.

## **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, 2019.

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, 2019. We do not assume any obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, new information or circumstances or otherwise, except as required by law.

### **Overview**

We engineer, manufacture and market air conditioning and heating equipment consisting of standard, semi-custom and custom rooftop units, chillers, packaged outdoor mechanical rooms, air handling units, makeup air units, energy recovery units, condensing units, geothermal/water-source heat pumps, coils and controls. These products are marketed and sold to retail, manufacturing, educational, lodging, supermarket, medical and other commercial industries. We market our products to all 50 states in the United States and all provinces in Canada. Foreign sales were approximately \$8.4 million of our total net sales for the nine months just ended and \$11.5 million of our sales during the same period of 2019.

Our business can be affected by a number of economic factors, including the level of economic activity in the markets in which we operate. The uncertainty of the economy has negatively impacted the commercial and industrial new construction markets. A further decline in economic activity could result in a decrease in our sales volume and profitability. Sales in the commercial and industrial new construction markets correlate closely to the number of new homes and buildings that are built, which in turn is influenced by cyclical factors such as interest rates, inflation, consumer spending habits, employment rates and other macroeconomic factors over which we have no control.

We sell our products to property owners and contractors through a network of manufacturers’ representatives and our internal sales force. The demand for our 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 six to 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. Our sales strategy is currently balanced between new construction and replacement applications. The new construction market through the third quarter of 2020 is showing signs of uncertainty. We continue to emphasize the benefits of AAON equipment to property owners in the replacement market.

Our manufacturing operations are considered a critical infrastructure industry, as defined by the U.S. Department of Homeland Security, as such, the decrees issued by national, state, and local governments in response to the COVID-19 pandemic have had minimal impact on our operations except for higher employee absenteeism in our manufacturing facilities. We maintained continuous operations during the nine months ended September 30, 2020. For the most part, our workers are able to socially distance themselves during the manufacturing process. Additional precautions have been taken to social distance workers that work in close environments. The Company utilizes sanitation stations, requires the use of a facial covering when unable to socially distance, performs daily temperature scanning, and performs additional cleaning and sanitation throughout the day and deep cleaning overnight. The Company did see significant employee absenteeism in the latter part of June 2020. These unexpected employee absences resulted in reduced shipments and longer lead times in the second quarter of 2020. During the third quarter 2020 employee attendance levels were stronger than previously anticipated. Additionally, our work force has adapted well to school and childcare related issues.

While the Company's operations are primarily in Oklahoma and Texas, our domestic sales to customers cover almost all 50 states. Only the state of Texas has more than 10% of our revenues. For the nine months ended September 30, 2020, we've experienced record sales. We have not seen a significant slow down or disruption in our customer jobs and have benefited from some of the new construction for temporary hospitals due to COVID-19. The outlook for 2021 continues to present a lot of uncertainty. The Architecture Billings Index has been down for several months, indicating a decline in construction, which may start to impact the new nonresidential construction market in late 2020. Although construction may decline, our equipment is uniquely positioned to address COVID challenges by providing heightened filtration and sanitation through the use of MERV 13 filters, UV lights and bi-polar ionization installed in the factory. With approximately 50% of our total sales already represented by the replacement market, we are confident of our ability to grow our market share in the replacement market while we continue to pursue opportunities in the new construction market. With our improved lead times, we have been able to continue our planned reduction of our backlog to a more manageable level and we believe this will also allow our order intake to stay consistent but do not see significant growth opportunities in the near term

We had unrestricted cash and cash equivalents of \$70.6 million as of September 30, 2020. Our capital expenditures during the nine months ended September 30, 2020 were \$49.0 million, as compared to \$30.8 million for the same period a year ago, and we anticipate our full-year 2020 capital expenditures will total approximately \$73.2 million. Our expansion to our Longview, Texas facility is on schedule and expected to be operational by January 2021. The Company also has \$28.3 million available under its line of credit. Should the Company experience an unexpected downturn due to COVID-19; spending on dividends and capital expenditures can be reduced and the line of credit can be utilized.

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 compressors, motors and electrical controls. We have experienced minimal disruption to our supply chain due to COVID-19.

The price levels of most raw materials were stable in the past twelve months, but we are beginning to see increases in raw material costs. There is also a possibility prices could rise in the future depending on the impact COVID-19 has on our supply chain. At September 30, 2020, the price (twelve month trailing average) for copper, galvanized steel and aluminum decreased 4.1%, 2.0% and 2.2% (stainless steel increased 0.8%), respectively, as compared to the price (twelve month trailing average) at September 30, 2019.

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

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

- We experienced significant employee absenteeism, mostly in June, related to COVID-19 during the nine months ended that impacted our production.
- We continue to become more efficient. Our gross profit percentage improved from 23.9% during the nine months ended in 2019 to 30.6% in 2020.
- We invested \$49.0 million in capital expenditures, continuing our work on projects such as our Longview, TX expansion and the purchase of additional Salvagnini machines that will increase our sheet metal capacity.
- Total cash, cash equivalents and restricted cash was \$78.6 million at September 30, 2020.

## Backlog

The following table shows our historical backlog levels:

<b>September 30, 2020</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>
<i>(in thousands)</i>		
\$ 84,885	\$ 142,747	\$ 165,325

During 2018 and most of 2019, the Company struggled to maintain adequate sheet-metal production capacity that resulted in long lead times and a high backlog. The Company started to increase its sheet-metal production at the end of 2019 with the

addition of new Salvagnini machines. This led in part to a record fourth quarter of 2019 that helped reduce our backlog. Since then, the Company has continued to increase its sheet-metal capacity, increase sales, improve lead times and reduce our backlog to a more manageable level.

## Results of Operations

*Three months ended September 30, 2020 vs. Three months ended September 30, 2019*

### Units Sold

	Three Months Ended	
	September 30, 2020	September 30, 2019
Rooftop units	4,372	3,520
Condensing units	593	418
Air handlers	534	552
Outdoor mechanical rooms	6	7
Water source heat pumps	1,847	1,311
Total Units	7,352	5,808

### Net Sales

	Three Months Ended			
	September 30, 2020	September 30, 2019	Change	% Change
	<i>(in thousands, except unit data)</i>			
Net sales	\$ 134,772	\$ 113,500	\$ 21,272	18.7 %
Total units	7,352	5,808	1,544	26.6 %

Our net sales increased by 18.7% due in part to our price increases in the past year and more so from increases in sheet metal production.

### Cost of Sales

	Three Months Ended		Percent of Sales	
	September 30, 2020	September 30, 2019	2020	2019
	<i>(in thousands)</i>			
Cost of sales	\$ 93,924	\$ 86,090	69.7 %	75.9 %
Gross profit	40,848	27,410	30.3 %	24.1 %

We continue to see overall raw material costs decrease. The Company has improved its labor and overhead efficiencies through increased production and absorption of fixed costs.

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

	2020	2019	% Change
Copper	\$ 3.52	\$ 3.67	(4.1)%
Galvanized Steel	\$ 0.50	\$ 0.51	(2.0)%
Stainless Steel	\$ 1.32	\$ 1.31	0.8 %
Aluminum	\$ 1.76	\$ 1.80	(2.2)%

## Selling, General and Administrative Expenses

	Three Months Ended		Percent of Sales	
	September 30, 2020	September 30, 2019	2020	2019
	<i>(in thousands)</i>			
Warranty	\$ 2,054	\$ 2,707	1.5 %	2.4 %
Profit sharing	3,000	1,684	2.2 %	1.5 %
Salaries & benefits	4,725	3,437	3.5 %	3.0 %
Stock compensation	1,330	767	1.0 %	0.7 %
Advertising	229	146	0.2 %	0.1 %
Depreciation	515	400	0.4 %	0.4 %
Insurance	254	218	0.2 %	0.2 %
Professional fees	542	693	0.4 %	0.6 %
Donations	106	155	0.1 %	0.1 %
Bad debt expense	117	(37)	0.1 %	— %
Other	1,844	2,204	1.4 %	1.9 %
<b>Total SG&amp;A</b>	<b>\$ 14,716</b>	<b>\$ 12,374</b>	<b>10.9 %</b>	<b>10.9 %</b>

Profit sharing expenses increased due to our increased earnings for the three months ended 2020 as compared to 2019. Salaries & benefits is up as well due in part to additional incentives for our employees as a result of the Company's strong performance.

## Income Taxes

	Three Months Ended		Effective Tax Rate	
	September 30, 2020	September 30, 2019	2020	2019
	<i>(in thousands)</i>			
Income tax provision	\$ 5,696	\$ 742	21.8 %	4.9 %

The Company's estimated annual 2020 effective tax rate, excluding discrete events, is expected to be approximately 24%.

During the three months ended September 2019, upon completion of the Company's 2018 tax return, the Company recorded additional benefit due to higher than expected research and development credit of \$0.6 million. Historically, the Company has taken advantage of the Oklahoma Investment New Jobs Credit ("OK Credit"). This OK Credit allows the Company to take a credit equal to 1% of eligible investments each year for five years, beginning with the year of investment. The Company determined it could take advantage of an additional 1% tax credit for years in which the Company's location was deemed to be within an enterprise zone. The additional OK Credit for being in an enterprise zone, or otherwise allowable under Oklahoma law, resulted in a benefit of \$0.3 million for 2018 and \$0.9 million for our 2015, 2016 and 2017 amended returns, combined.

## Results of Operations

Nine Months Ended September 30, 2020 vs. Nine Months Ended September 30, 2019

### Units Sold

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Rooftop units	12,179	11,079
Condensing units	1,447	1,291
Air handlers	1,545	1,669
Outdoor mechanical rooms	22	28
Water source heat pumps	5,109	5,977
Total Units	20,302	20,044

### Net Sales

	Nine Months Ended			
	September 30, 2020	September 30, 2019	Change	% Change
	<i>(in thousands, except unit data)</i>			
Net sales	\$ 397,851	\$ 346,759	\$ 51,092	14.7 %
Total units	20,302	20,044	258	1.3 %

Our net sales increased by 14.7% due in part to our increased sheet metal production from the additional Salvagnini machines that were placed into operation allowing increased production in our rooftop units and in part from price increases put in place over the last year and a half.

### Cost of Sales

	Nine Months Ended			
	September 30, 2020	September 30, 2019	Percent of Sales	
			2020	2019
	<i>(in thousands)</i>			
Cost of sales	\$ 275,925	\$ 263,715	69.4 %	76.1 %
Gross profit	121,926	83,044	30.6 %	23.9 %

We continue to see overall raw material costs decrease. The Company has improved its labor and overhead efficiencies through increased production and absorption of fixed costs.

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

	2020	2019	% Change
Copper	\$ 3.52	\$ 3.67	(4.1)%
Galvanized steel	\$ 0.50	\$ 0.51	(2.0)%
Stainless steel	\$ 1.32	\$ 1.31	0.8 %
Aluminum	\$ 1.76	\$ 1.80	(2.2)%

## Selling, General and Administrative Expenses

	Nine Months Ended		Percent of Sales	
	September 30, 2020	September 30, 2019	2020	2019
	<i>(in thousands)</i>			
Warranty	\$ 5,356	\$ 6,129	1.3 %	1.8 %
Profit sharing	8,691	4,948	2.2 %	1.4 %
Salaries & benefits	14,921	10,602	3.8 %	3.1 %
Stock compensation	4,020	5,989	1.0 %	1.7 %
Advertising	446	496	0.1 %	0.1 %
Depreciation	1,470	1,092	0.4 %	0.3 %
Insurance	733	594	0.2 %	0.2 %
Professional fees	1,796	1,723	0.5 %	0.5 %
Donations	1,892	1,019	0.5 %	0.3 %
Bad debt expense	193	91	— %	— %
Other	6,351	6,280	1.6 %	1.8 %
<b>Total SG&amp;A</b>	<b>\$ 45,869</b>	<b>\$ 38,963</b>	<b>11.5 %</b>	<b>11.2 %</b>

Profit sharing expenses increased due to our increased earnings for the period. Salaries & benefits is up as well due in part to additional incentives for our employees as a result of the Company's strong performance. Stock compensation is lower because the valuation of the Company-wide equity grant awarded in March 2020 was less than the grant awarded in March 2019. Donations increased due to the contribution of approximately \$1.3 million to Winifred, Montana Public Schools in recognition of Norman H. Asbjornson's transition from CEO to Executive Chairman.

## Income Taxes

	Nine Months Ended		Effective Tax Rate	
	September 30, 2020	September 30, 2019	2020	2019
	<i>(in thousands)</i>			
Income tax provision	\$ 16,111	\$ 7,380	21.1 %	16.8 %

The Company's estimated annual 2020 effective tax rate, excluding discrete events, is expected to be approximately 24%. During the three months ended September 2019, upon completion of the Company's 2018 tax return, the Company recorded additional benefit due to higher than expected research and development credit of \$0.6 million. Historically, the Company has taken advantage of the Oklahoma Investment New Jobs Credit ("OK Credit"). This OK Credit allows the Company to take a credit equal to 1% of eligible investments each year for five years, beginning with the year of investment. The Company determined it could take advantage of an additional 1% tax credit for years in which the Company's location was deemed to be within an enterprise zone. The additional OK Credit for being in an enterprise zone, or otherwise allowable under Oklahoma law, resulted in a benefit of \$0.3 million for 2018 and \$0.9 million for our 2015, 2016 and 2017 amended returns, combined.

## Liquidity and Capital Resources

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

**Working Capital** - Our unrestricted cash increased \$43.8 million from December 31, 2019 to September 30, 2020 and totaled \$70.6 million at September 30, 2020.

**Revolving Line of Credit** - Under the line of credit with Bank of Oklahoma, there was one standby letter of credit of \$1.7 million as of September 30, 2020. At September 30, 2020, we have \$28.3 million of borrowings available under the revolving credit facility. No fees are associated with the unused portion of the committed amount.

We had no outstanding balance under the revolving credit facility at September 30, 2020 and December 31, 2019. Interest on borrowings is payable monthly at LIBOR plus 2.0%. The termination date of the revolving credit facility is July 26, 2021.

At September 30, 2020, we were in compliance with all of the covenants under the revolving credit facility. We are obligated to comply with certain financial covenants under the revolving credit facility. These covenants require that we meet certain parameters related to our tangible net worth and total liabilities to tangible net worth ratio. At September 30, 2020, our tangible net worth was \$344.9 million, which meets the requirement of being at or above \$175.0 million. Our total liabilities to tangible net worth ratio was 0.3 to 1.0 which meets the requirement of not being above 2 to 1.

**New Market Tax Credit Obligation** - On October 24, 2019, the Company entered into a transaction with a subsidiary of an unrelated third-party financial institution (the “Investor”) and a certified Community Development Entity under a qualified New Markets Tax Credit (“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 “Project”). In connection with the 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 expansion of its Longview, Texas facilities.

Upon closing of the 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 NMTCs.

**Stock Repurchases** - The Board has authorized three stock repurchase programs for the Company. The Company may purchase shares on the open market from time to time, up to a total of 5.7 million shares. 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:

<b>Agreement Execution Date</b>	<b>Authorized Repurchase \$</b>	<b>Expiration Date</b>
May 16, 2018 <sup>1</sup>	\$15 million	March 1, 2019
March 5, 2019 <sup>1</sup>	\$20 million	March 4, 2020
March 13, 2020	\$20 million	** <sup>2</sup>

<sup>1</sup> The 2018 and 2019 purchase authorizations were executed under 10b5-1 programs.

<sup>2</sup> Expiration Date is at Board's discretion. The Company is authorized to effectuate repurchases of the Company's common stock on terms and conditions approved in advance by the Board.

The Company also has a stock repurchase arrangement by which employee-participants in our 401(k) savings and investment plan are entitled to have shares in AAON, Inc. stock in their accounts sold to the Company. The maximum number of shares to be repurchased is contingent upon the number of shares sold by employee-participants.

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



Our repurchase activity is as follows:

Program	Nine Months Ended					
	September 30, 2020			September 30, 2019		
<i>(in thousands, except share and per share data)</i>						
	Shares	Total \$	\$ per share	Shares	Total \$	\$ per share
Open market	103,689	\$ 4,987	\$ 48.10	5,799	\$ 200	\$ 34.46
401(k)	303,112	16,403	54.12	335,139	15,237	45.46
Directors and employees	22,655	1,130	49.88	24,948	1,023	41.00
Total	429,456	\$ 22,520	\$ 52.44	365,886	\$ 16,460	\$ 44.99

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

Program	Inception to September 30, 2020		
	Shares	Total \$	\$ per share
<i>(in thousands, except share and per share data)</i>			
Open market	4,205,255	\$ 74,793	\$ 17.79
401(k)	7,770,851	136,330	17.54
Directors and employees	2,004,584	20,712	10.33
Total	13,980,690	\$ 231,835	\$ 16.58

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

Our recent dividends are as follows:

Declaration Date	Record Date	Payment Date	Dividend per Share
May 20, 2019	June 3, 2019	July 1, 2019	\$0.16
November 6, 2019	November 27, 2019	December 18, 2019	\$0.16
May 15, 2020	June 3, 2020	July 1, 2020	\$0.19

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 2020 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, 2020 and 2019. For additional details, see the consolidated financial statements.

	<b>Nine Months Ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>
	<i>(in thousands)</i>	
<b>Operating Activities</b>		
Net Income	\$ 60,117	\$ 36,438
Income statement adjustments, net	37,131	32,449
Changes in assets and liabilities:		
Accounts receivable	5,011	(2,096)
Income taxes	(3,142)	2,283
Inventories	(6,994)	(4,014)
Prepaid expenses and other	(598)	(513)
Accounts payable	3,654	782
Deferred revenue	1,128	263
Accrued liabilities & donations	688	4,991
Net cash provided by operating activities	<u>96,995</u>	<u>70,583</u>
<b>Investing Activities</b>		
Capital expenditures	(48,955)	(30,831)
Purchases of investments	—	(6,000)
Maturities of investments and proceeds from called investments	—	6,000
Other	99	107
Net cash used in investing activities	<u>(48,856)</u>	<u>(30,724)</u>
<b>Financing Activities</b>		
Stock options exercised	18,519	11,283
Repurchase of stock	(21,390)	(15,437)
Employee taxes paid by withholding shares	(1,130)	(1,023)
Cash dividends paid to stockholders	(9,910)	(8,303)
Net cash used in financing activities	<u>\$ (13,911)</u>	<u>\$ (13,480)</u>

### Cash Flows Provided by Operating Activities

The Company manages cash needs through working capital rather than drawing on its line of credit. Collections and payments cycles are on a normal pattern and fluctuate due to timing of receipts and payments. The Company has been able to improve its collections of outstanding receivables due in part through prepayment of orders. The Company also has also increased the purchase of inventory to take advantage of current favorable pricing and also to prevent future supply chain disruptions.

### Cash Flows Used in Investing Activities

The capital expenditure program for 2020 is estimated to be approximately \$73.2 million. The capital expenditures for 2020 relate to the expansion of our Longview, Texas facility, purchase of additional Salvagnini sheet metal fabrication machines, completion of our R&D lab and other operational improvements. 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 Used in Financing Activities

Stock options exercised increased due to the increase in the number of employee options exercised and increases in our stock price. The Company also purchased approximately \$5.0 million of our outstanding stock through the open market buyback program (Note 15) during the nine months ended September 30, 2020.

### **Off-Balance Sheet Arrangements**

We are not party to any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

### **Contractual Obligations**

We had no material contractual purchase obligations as of September 30, 2020.

### **Critical Accounting Policies**

There have been no material changes in the Company's critical accounting policies during the nine months ended September 30, 2020.

### **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 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", "should", 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. We undertake no obligation 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, (4) general economic, market or business conditions, and (5) the impact of COVID-19 on the economy, demand for our products and our operations, including the measures taken by governmental authorities to address it, which may precipitate or exacerbate other risks and/or uncertainties.

### **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 fixed price cancellable and non-cancellable contracts with our major suppliers for periods of six to 18 months to manage this exposure.

#### **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.**

We are subject to various claims and legal actions that arise in the ordinary course of business. 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 have concluded that the likelihood is remote that the ultimate resolution of any pending litigation or claims will be material or have a material adverse effect on the Company's business, financial position, results of operations or cash flows.

#### **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, 2019. 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 2019 Annual Report, except as follows:

***Our business, results of operations, financial condition, cash flows and stock price can be adversely affected by pandemics, epidemics or other public health emergencies, such as the recent outbreak of COVID-19.***

Our business, results of operations, financial condition, cash flows and stock price can be adversely affected by pandemics, epidemics or other public health emergencies, such as the recent outbreak of COVID-19 which has spread from China to many other countries including the United States. In March 2020, the World Health Organization characterized COVID-19 as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. The outbreak has resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business curtailments, school closures, and other measures. In addition, governments and central banks in several parts of the world have enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19.

We are considered a critical infrastructure industry, as defined by the U.S. Department of Homeland Security. Although we have continued to operate our facilities to date consistent with federal guidelines and state and local orders, the outbreak of COVID-19 and any preventive or protective actions taken by governmental authorities may have a material adverse effect on our operations, supply chain, customers and transportation networks, including business shutdowns or disruptions. The extent to which COVID-19 may adversely impact our business depends on future developments, which are highly uncertain and unpredictable, depending upon the severity and duration of the outbreak and the effectiveness of actions taken globally to contain or mitigate its effects. Any resulting financial impact cannot be estimated reasonably at this time, but may materially adversely affect our business, results of operations, financial condition and cash flows. Even after the COVID-19 pandemic has subsided, we may experience materially adverse impacts to our business due to any resulting economic recession or depression. Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets which has and may continue to adversely impact our stock price and our ability to access capital markets. To the extent

the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in our 2019 Annual Report, such as those relating to our products and financial performance.

*Operations may be affected by natural disasters, especially since most of our operations are performed at a single location.*

Natural disasters such as tornadoes and ice storms, as well as accidents, acts of terror, infection and other factors beyond our control could adversely affect our operations. Especially, as our facilities are in areas where tornadoes are likely to occur, and the majority of our operations are at our Tulsa facilities, the effects of natural disasters and other events could damage our facilities and equipment and force a temporary halt to manufacturing and other operations, and such events could consequently cause severe damage to our business. We maintain insurance against these sorts of events; however, this is not guaranteed to cover all the losses and damages incurred. Furthermore, we may experience increases in our insurance premium costs in relation to these matters that may have a material adverse effect upon our business, liquidity, financial condition or results of operations.

*We may not be able to successfully develop and market new products.*

Our future success will depend upon our continued investment in research and new product development and our ability to continue to achieve new technological advances in the HVAC industry. Our inability to continue to successfully develop and market new products or our inability to implement technological advances on a pace consistent with that of our competitors could lead to a material adverse effect on our business and results of operations. Furthermore, our continued investment in new product development may render certain legacy products and components obsolete resulting in increased inventory obsolescence expense that may have a material adverse effect upon our financial condition or results of operations.

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

The Company may repurchase AAON, Inc. stock on the open market from time to time, up to a total of 5.7 million shares. We have repurchased a total of approximately 4.2 million shares (at current market prices) under the various open market stock buyback programs for an aggregate price of \$74.8 million, or an average price of \$17.79 per share. The Board must authorize the timing and amount of these purchases and all repurchases are in accordance with the rules and regulations of the SEC allowing the Company to repurchase shares from the open market.

On July 1, 2005, we entered into a stock repurchase arrangement by which employee-participants in our 401(k) savings and investment plan are entitled to have shares of AAON, Inc. stock in their accounts sold to the Company. The maximum number of shares to be repurchased is contingent upon the number of shares sold by employees. From inception through September 30, 2020, we repurchased approximately 7.8 million shares (at current market prices) for an aggregate price of \$136.3 million, or an average price of \$17.54 per share.

Lastly, the Company repurchases shares of AAON, Inc. stock from certain of its directors and employees. The number of shares to be repurchased is contingent upon Board approval. From inception through September 30, 2020, we repurchased approximately 2.0 million shares (at current market prices) for an aggregate price of \$20.7 million, or an average price of \$10.33 per share.

Repurchases during the third quarter of 2020 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 2020	43,971	\$ 56.92	43,971	—
August 2020	21,585	59.06	21,585	—
September 2020	29,460	57.64	29,460	—
Total	95,016	\$ 57.62	95,016	—



## 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 5, 2020

/s/ Gary D. Fields

Gary D. Fields  
Chief Executive Officer

## CERTIFICATION

I, Scott M. Asbjornson, 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 5, 2020

/s/ Scott M. Asbjornson

Scott M. Asbjornson  
Chief Financial Officer



**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, 2020, 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 5, 2020

/s/ Gary D. Fields

Gary D. Fields  
Chief Executive Officer

**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, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Scott M. Asbjornson, 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 5, 2020

/s/ Scott M. Asbjornson

Scott M. Asbjornson  
Chief Financial Officer