AAON INC
Form 10-Q
August 04, 2016

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

FORM 10-Q

[a] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016
or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________________ to ____________________

Commission file number: 0-18953

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

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

2425 South Yukon, 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 a No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes a No Not Applicable

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer a Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No a

As of July 29, 2016, registrant had outstanding a total of 52,924,765 shares of its $.004 par value Common Stock.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.
AAON, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	June 30, 2016	December 31, 2015
Assets	(in thousands, except share and per share data)	
Current assets:		
Cash and cash equivalents	$12,209	$ 7,908
Certificates of deposit	9,832	10,080
Investments held to maturity at amortized cost	22,303	12,444
Accounts receivable, net	58,483	50,024
Income tax receivable	669	4,702
Note receivable	25	23
Inventories, net	40,125	38,499
Prepaid expenses and other	1,083	533
Total current assets	144,729	124,213
Property, plant and equipment:		
Land	2,233	2,233
Buildings	75,912	68,806
Machinery and equipment	152,165	143,100
Furniture and fixtures	12,058	11,270
Total property, plant and equipment	242,368	225,409
Less: Accumulated depreciation	130,505	124,348
Property, plant and equipment, net	111,863	101,061
Certificates of deposit	240	1,880
Investments held to maturity at amortized cost	—	5,039
Note receivable	695	661
Total assets	$257,527	$ 232,854
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit facility	$—	$ —
Accounts payable	9,367	6,178
Dividends payable	5,797	—
Accrued liabilities	38,087	37,235
Total current liabilities	53,251	43,413
Deferred revenue	1,295	698
Deferred tax liabilities	6,855	8,706
Donations	1,142	1,119
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, 53,008,136 and 53,012,363 issued and outstanding at June 30, 2016 and December 31, 2015, respectively	212	212

Additional paid-in capital	—	—
Retained earnings	194,772	178,706
Total stockholders' equity	194,984	178,918
Total liabilities and stockholders' equity	$257,527	$ 232,854

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands, except share and per share data)			
Net sales	$102,319	$90,275	$187,741	$167,043
Cost of sales	69,572	63,158	129,263	118,128
Gross profit	32,747	27,117	58,478	48,915
Selling, general and administrative expenses	10,561	9,200	19,474	17,517
Gain on disposal of assets	(12)	(30)	(20)	(25)
Income from operations	22,198	17,947	39,024	31,423
Interest income, net	67	29	141	73
Other income (expense), net	10	27	127	(48)
Income before taxes	22,275	18,003	39,292	31,448
Income tax provision	7,934	6,873	14,145	11,919
Net income	$14,341	$11,130	$25,147	$19,529
Earnings per share:				
Basic	$0.27	$0.21	$0.47	$0.36
Diluted	$0.27	$0.20	$0.47	$0.36
Cash dividends declared per common share:	$0.11	$0.11	$0.11	$0.11
Weighted average shares outstanding:				
Basic	53,036,009	54,208,362	53,028,224	54,205,657
Diluted	53,401,238	54,669,763	53,395,361	54,714,604

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

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

	Common Stock		Paid-in	Retained	
	Shares	Amount	Capital	Earnings	Total
	(in thousands)				
Balances at December 31, 2015	53,012	$ 212	$ —	$178,706	$178,918
Net income	—	—	—	25,147	25,147
Stock options exercised and restricted stock awards vested, including tax benefits	297	1	2,383	—	2,384
Share-based compensation	—	—	2,043	—	2,043
Stock repurchased and retired	(301)	(1)	(4,426)	(3,247)	(7,674)
Dividends	—	—	—	(5,834)	(5,834)
Balances at June 30, 2016	53,008	$ 212	$ —	$194,772	$194,984

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

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

	Six Months Ended June 30,	
	2016	2015
Operating Activities	(in thousands)	
Net income	$25,147	$19,529
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,346	5,599
Amortization of bond premiums	151	106
Provision for losses on accounts receivable, net of adjustments	(42)	(102)
Provision for excess and obsolete inventories	308	59
Share-based compensation	2,043	1,281
Excess tax benefits from stock options exercised and restricted stock awards vested	(1,129)	(2,452)
Gain on disposition of assets	(20)	(25)
Foreign currency transaction (gain) loss	(48)	53
Interest income on note receivable	(14)	(16)
Deferred income taxes	(1,851)	(563)
Changes in assets and liabilities:		
Accounts receivable	(8,417)	(1,286)
Income taxes	5,162	1,636
Inventories	(1,934)	(9,623)
Prepaid expenses and other	(550)	(446)
Accounts payable	1,848	(1,030)
Deferred revenue	220	136
Accrued liabilities and donations	1,252	(867)
Net cash provided by operating activities	28,472	11,989
Investing Activities		
Capital expenditures	(15,825)	(9,304)
Proceeds from sale of property, plant and equipment	1	30
Investment in certificates of deposits	(4,112)	—
Maturities of certificates of deposits	6,000	4,658
Purchases of investments held to maturity	(9,782)	—
Maturities of investments	3,801	9,201
Proceeds from called investments	1,010	504
Principal payments from note receivable	26	28
Net cash (used in) provided by investing activities	(18,881)	5,117
Financing Activities		
Borrowings under revolving credit facility	761	—
Payments under revolving credit facility	(761)	—
Stock options exercised	1,255	2,534
Excess tax benefits from stock options exercised and restricted stock awards vested	1,129	2,452
Repurchase of stock	(7,674)	(6,444)
Net cash used in financing activities	(5,290)	(1,458)
Net increase in cash and cash equivalents	4,301	15,648
Cash and cash equivalents, beginning of period	7,908	21,952
Cash and cash equivalents, end of period	$12,209	$37,600

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”). 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, 2015 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, 2015. 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 and coils.

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, the allowance for doubtful accounts, 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.

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, 2015. There have been no significant changes in our critical accounting policies.

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.

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 May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, with the issuance of ASU 2015-14, the FASB amended the effective date for us to January 1, 2018. The Company plans to adopt using the retrospective transition method. We are currently assessing how ASU 2014-09 will impact our consolidated financial statements and notes thereto.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which will address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The ASU becomes effective in the annual reporting period beginning after December 31, 2017, including interim reporting periods. We do not expect ASU 2016-01 will have a material effect on our consolidated financial statements and notes thereto.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which makes several modifications to Topic 718. See further discussion in Note 11 of the Notes to the Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which provides implementation guidance for Topic 606 on principal versus agent considerations. The effective date and transition requirements for the ASU are the same as ASU 2014-09. We are currently assessing how ASU 2016-08 will impact our consolidated financial statements and notes thereto.

In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, which provides clarification for two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance. The effective date and transition requirements for the ASU are the same as ASU 2014-09. We are currently assessing how ASU 2016-10 will impact our consolidated financial statements and notes thereto.

In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers, which further amends Topic 606. The effective date and transition requirements for the ASU are the same as ASU 2014-09. We are currently assessing how ASU 2016-12 will impact our consolidated financial statements and notes thereto.

2. Revenue Recognition

We recognize revenues from sales of products when the title and risk of ownership pass to the customer. 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 July - November of each year.

In addition, the Company presents revenues net of sales tax and net of certain payments to 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. 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.

We are responsible for billings and collections resulting from all sales transactions, including those initiated by our Representatives. 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. 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. The Company is under no obligation related to Third Party Products.

The Representatives' fee and Third Party Products amounts ("Due to Representatives") are paid only after all amounts associated with the order are collected from the customer. The amount of payments to our Representatives were $13.7 million and $14.1 million for the three months ended June 30, 2016 and 2015, respectively. The amounts of payments to our Representatives were $27.7 million and $28.1 million for the six months ended June 30, 2016 and 2015, respectively.

The Company also sells extended warranties on parts for various lengths of time ranging from 6 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. Investments

Certificates of Deposit – We held $10.1 million and $12.0 million in certificates of deposit at June 30, 2016 and December 31, 2015, respectively. At June 30, 2016, the certificates of deposit bear interest ranging from 0.45% to 0.90% per annum and have various maturities ranging from less than one month to approximately 13 months.

Investments Held to Maturity – Our investments held to maturity are comprised of $22.3 million of corporate notes and bonds with original maturities ranging from less than one month to approximately 12 months. The investments have moderate risk with S&P ratings ranging from AA+ to BBB-.

We record the amortized cost basis and accrued interest of the corporate notes and bonds in the Consolidated Balance Sheets. We record the interest and amortization of bond premium to interest income in the Consolidated Statements of Income.

The following summarizes the amortized cost and estimated fair value of our investments held to maturity as of June 30, 2016 and December 31, 2015:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
June 30, 2016:	(in thousands)			
Current assets:				
Investments held to maturity	$22,303	$ —	$ (9)	$22,294
Non current assets:				
Investments held to maturity	—	—	—	—
Total	$22,303	$ —	$ (9)	$22,294
December 31, 2015:				
Current assets:				
Investments held to maturity	$12,444	$ —	$ (16)	$12,428
Non current assets:				
Investments held to maturity	5,039	—	(17)	5,022
Total	$17,483	$ —	$ (33)	$17,450

4. Accounts Receivable

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

	June 30, 2016	December 31, 2015
	(in thousands)	
Accounts receivable	$58,556	$ 50,139
Less: Allowance for doubtful accounts	(73)	(115)
Total, net	$58,483	$ 50,024

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Allowance for doubtful accounts:	(in thousands)			
Balance, beginning of period	$238	$ 112	$115	$ 171
Provisions for losses on accounts receivables, net of recoveries	(165)	(43)	(42)	(94)
Accounts receivable written off	—	—	—	(8)
Balance, end of period	$73	$ 69	$73	$ 69

5. Inventories

Inventories are valued at the lower of cost or market. 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.

	June 30, 2016	December 31, 2015
	(in thousands)	
Raw materials	$36,442	$ 33,853
Work in process	2,417	2,522
Finished goods	2,331	2,881
	41,190	39,256
Less: Allowance for excess and obsolete inventories	(1,065)	(757)
Total, net	$40,125	$ 38,499

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

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Allowance for excess and obsolete inventories:	(in thousands)			
Balance, beginning of period	$894	$ 755	$757	$ 714
Provisions for excess and obsolete inventories	171	18	308	59
Inventories written off	—	—	—	—
Balance, end of period	$1,065	$ 773	$1,065	$ 773

6. Supplemental Cash Flow Information

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Supplemental disclosures:	(in thousands)			
Interest paid	$—	$—	$—	$—
Income taxes paid	$10,329	$6,643	$10,847	$10,846
Non-cash investing and financing activities:				
Non-cash capital expenditures	1,047	(102)	1,312	(173)
Dividends declared	5,834	5,982	5,834	5,982

7. Warranties

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

Changes in the warranty accrual are as follows:

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Warranty accrual:	(in thousands)			
Balance, beginning of period	$8,130	$8,105	$8,469	$8,130
Payments made	(1,004)	(1,117)	(1,657)	(2,003)
Provisions	1,328	1,104	1,642	1,965
Balance, end of period	$8,454	$8,092	$8,454	$8,092
Warranty expense:	$1,328	$1,104	$1,642	$1,965

8. Accrued Liabilities

Accrued liabilities are as follows:

	June 30, 2016	December 31, 2015
	(in thousands)	
Warranty	$8,454	$ 8,469
Due to representatives	12,318	10,597
Payroll	4,555	3,954
401(k) Contributions	2,311	3,054
Profit sharing	2,517	2,220
Worker's compensation	358	366
Medical self-insurance	790	676
Customer prepayments	1,870	2,895
Donations	600	600
Employee benefits and other	4,314	4,404
Total	$38,087	$ 37,235

9. Revolving Credit Facility

Our revolving credit facility provides for maximum borrowings of $30.0 million which is provided by BOKF, NA dba Bank of Oklahoma, formerly known as Bank of Oklahoma, N.A. ("Bank of Oklahoma"). Under the line of credit, there is one standby letter of credit totaling $0.8 million. Borrowings available under the revolving credit facility at June 30, 2016 were $29.2 million. Interest on borrowings is payable monthly at LIBOR plus 2.5%. No fees are associated with the unused portion of the committed amount. We had no outstanding balance under the revolving credit facility at June 30, 2016 and December 31, 2015. The termination date of the revolving credit facility is July 27, 2016.

As of June 30, 2016, we were in compliance with our financial covenants. These covenants require that we meet certain parameters related to our tangible net worth, total liabilities to tangible net worth ratio and working capital. At June 30, 2016, our tangible net worth was $195.0 million and met the requirement of being at or above $95.0 million. Our total liabilities to tangible net worth ratio was 0.32 to 1, and met the requirement of not being above 2 to 1. Our working capital was $91.5 million and met the requirement of being at or above $40.0 million.

Effective July 27, 2016, the Company amended its revolving credit facility with the Bank of Oklahoma. The amendment extends the termination date of the revolving credit facility to July 27, 2018, eliminates the covenant requirement for the working capital requirement of being at or above $40.0 million and modifies the tangible net worth covenant requirement from $95.0 million to $125.0 million.

10. Income Taxes

Income tax expense for each of the three months ended June 30, 2016 and 2015 was $7.9 million, or 35.6% of pre-tax income, and $6.9 million, or 38.2% of pre-tax income, respectively. Income tax expense for each of the six months ended June 30, 2016 and 2015 was $14.1 million, or 36.0% of pre-tax income, and $11.9 million, or 37.9% of pre-tax income, respectively. The Company's estimated annual 2016 effective tax rate is approximately 36.0%. This differs from the U.S. federal statutory rate of 35% due principally to items such as state and local income taxes, the federal domestic activities deduction and state income tax credits. The Indian Employment Credit and Research and Development Credit were not extended until December 2015 for the 2015 and 2016 tax years. As such, the effective rate for the six months ended June 30, 2016 is reduced for the impact of these credits while the effective rate for the six months ended June 30, 2015 does not reflect these credits.

We file income tax returns in the U.S., state and foreign income tax returns jurisdictions. We are subject to U.S. examinations for tax years 2012 to present, and to non-U.S. income tax examinations for the tax years of 2011 to present. In addition, we are subject to state and local income tax examinations for the tax years 2011 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.

11. Share-Based Compensation

We have historically maintained a stock option plan for key employees, directors and consultants ("the 1992 Plan"). The 1992 Plan provided for 14.9 million shares to be issued under the plan in the form of stock options. Under the terms of the 1992 Plan, the exercise price of shares granted may not be less than 85% of the fair market value at the date of the grant. Options granted to directors vest one-third each year, commencing one year after the date of grant. All other options granted vest at a rate of 20% per year, commencing one year after date of grant, and are exercisable during years 2-10.

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. Since inception of the LTIP, non-qualified stock options and restricted stock awards were granted with the same vesting schedule as the previous plan. 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 3.8 million shares, comprised of 3.4 million new shares provided for under the 2016 Plan and approximately 0.4 million shares that were available for issuance under the previous LTIP, that are now authorized for issuance under the 2016 Plan, that 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 will be 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 shall be limited to independent directors. The Committee may delegate certain duties to one or more officers of the Company as provided in the 2016 Plan. The Committee 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 compensation cost related to unvested stock options not yet recognized as of June 30, 2016 is $3.2 million and is expected to be recognized over a weighted-average period of 2.1 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 six months ended June 30, 2016 and 2015 using a Black Scholes Model:

	Six months ended June 30, 2016	June 30, 2015
Director and Officers:		
Expected dividend rate	$0.22	$0.18
Expected volatility	42.38 %	44.14 %
Risk-free interest rate	2.02 %	1.97 %
Expected life (in years)	8	8
Employees:		
Expected dividend rate	$0.22	$0.18
Expected volatility	41.82 %	44.14 %
Risk-free interest rate	1.76 %	2.05 %
Expected life (in years)	8	8

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

The following is a summary of stock options vested and exercisable as of June 30, 2016:

Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Intrinsic Value (in thousands)
$4.54-$8.65	344,958	5.06	$ 7.67	$ 6,843
$8.70-$22.76	37,505	7.39	15.77	440
$23.57-$28.27	7,664	8.66	23.57	30
Total	390,127	5.35	$ 8.76	$ 7,313

The following is a summary of stock options vested and exercisable as of June 30, 2015:

Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Intrinsic Value (in thousands)
$4.31-$7.18	221,842	4.08	$ 5.74	$ 3,722
$7.44-$8.17	15,300	5.94	7.65	227
$8.65-$23.57	181,970	6.85	8.94	2,472
Total	419,112	5.35	$ 7.20	$ 6,421

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

Options	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2015	1,130,910	$ 13.38
Granted	192,400	24.61
Exercised	(177,087)	7.09
Forfeited or Expired	(36,562)	20.43
Outstanding at June 30, 2016	1,109,661	$ 16.12
Exercisable at June 30, 2016	390,127	$ 8.76

The total intrinsic value of options exercised during the six months ended June 30, 2016 and 2015 was $3.4 million and $6.8 million, respectively. The cash received from options exercised during the six months ended June 30, 2016 and 2015 was $1.3 million and $2.5 million, respectively. The impact of these cash receipts is included in financing activities in the accompanying Consolidated Statements of Cash Flows.

Since 2007, as part of the LTIP and since May 2016 as part of the 2016 Plan, the Compensation Committee of the Board of Directors has authorized and issued restricted stock awards to directors and key employees. Restricted stock awards granted to directors vest one-third each year. All other restricted stock awards vest at a rate of 20% per year. 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.

These awards are recorded at their fair value on the date of grant and compensation cost is recorded using straight-line vesting over the service period. At June 30, 2016, unrecognized compensation cost related to unvested restricted stock awards was approximately $6.5 million, which is expected to be recognized over a weighted average period of 2.0 years.

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

Restricted stock	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2015	410,023	$ 18.78
Granted	129,350	22.75
Vested	(78,933)	18.79
Forfeited	(9,159)	19.01
Unvested at June 30, 2016	451,281	$ 19.91

A summary of share-based compensation is as follows:

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Grant date fair value of awards during the period:	(in thousands)			
Options	$1,279	$ —	$2,059	$657
Restricted stock	1,043	834	2,942	2,556
Total	$2,322	$ 834	$5,001	$3,213
Share-based compensation expense:				
Options	$404	$246	$741	$398
Restricted stock	691	597	1,302	883
Total	$1,095	$843	$2,043	$1,281
Income tax benefit/(deficiency) related to share-based compensation:				
Options	$417	$1,160	$1,130	$2,236
Restricted stock	(33)	194	(1)	216
Total	$384	$1,354	$1,129	$2,452

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which makes several modifications to Topic 718 including: accounting for excess tax benefits and deficiencies; classifying excess tax benefits on the statement of cash flows; accounting for forfeitures; classifying awards that permit share repurchases to satisfy statutory tax-withholding requirement; and classifying tax payments on behalf of employees on the statement of cash flows. The ASU becomes effective for interim and annual reporting periods beginning after December 31, 2016. We intend to early adopt the ASU effective July 1, 2016.

The impact of adopting this ASU may be material. The Company cannot predict the impact as it is dependent of the Company’s stock price in the future, the timing of when restricted stock vests and the timing of when employees choose to exercise stock options. The changes for excess tax benefits and tax deficiencies will be applied prospectively. These changes will require the Company to report excess tax benefits and tax deficiencies as an income tax benefit or expense on the income statement rather than as a component of additional paid-in capital as it does now. Excess tax benefits and deficiencies will be treated as discrete items to the tax provision in the reporting period in which they occur.

Additionally, ASU 2016-09 will impact the calculation of diluted weighted average shares under the treasury stock method as the Company will no longer increase or decrease the assumed proceeds from an employee vesting in, or exercising, a share-based payment award by the amount of excess tax benefits or deficiencies taken to additional paid-in capital.

The Company plans to retrospectively apply the guidance for classification of the excess tax benefits in the statement of cash flows. The excess tax benefits are classified currently as both a cash inflow from financing activities and a cash outflow from operating activities in the statement of cash flows. Upon adoption, these will be classified as cash flows in operating activities as part of cash payments for taxes. The Company does not believe this change will have a material impact on the prior periods in the consolidated statement of cash flows.

The Company currently applies a forfeiture rate to its share-based compensation expense and adjusts expense to actual as awards vest and/or are forfeited. Upon adoption of ASU 2016-09, the Company will account for forfeitures as they occur, rather than estimating forfeitures as of an award's grant date. This change in accounting policy election will be adopted using a modified retrospective transition method and the Company will recognize a cumulative-effect adjustment to retained earnings of approximately $150,000.

The Company plans to retrospectively apply the guidance for classification of tax payments on employee’s behalf to classify these payments as cash outflows from financing activities. This is not expected to have a material impact of the consolidated statement of cash flows.

12. 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.

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
	(in thousands, except share and per share data)			
Numerator:				
Net income	$14,341	$ 11,130	$25,147	$ 19,529
Denominator:				
Basic weighted average shares	53,036,009	54,208,362	53,028,224	54,205,657
Effect of dilutive stock options and restricted stock	365,229	461,401	367,137	508,947
Diluted weighted average shares	53,401,238	54,669,763	53,395,361	54,714,604
Earnings per share:				
Basic	$0.27	$ 0.21	$0.47	$ 0.36
Diluted	$0.27	$ 0.20	$0.47	$ 0.36
Anti-dilutive shares:				
Shares	504,955	145,136	493,264	134,625

13. Stockholders' Equity

Stock Repurchase - 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. Effective May 24, 2016, the Board authorized up to $25.0 million in open market repurchases and on June 2, 2016, the Company executed a repurchase agreement in accordance with the rules and regulations of the SEC allowing the Company to repurchase an aggregate amount of $25.0 million or a total of approximately 2.0 million shares from the open market. The agreement will terminate upon the aforementioned thresholds having been met, on April 15, 2017, or upon other provisions contained in the repurchase agreement by either the Company or its agent. 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. Any other repurchases from directors or employees is contingent upon Board approval. All repurchases are done at current market prices.

Our repurchase activity is as follows:

	Six months ended June 30,						Inception to date		
	2016			2015					
Program	Shares	Total $	$ per share	Shares	Total $	$ per share	Shares	Total $	$ per share
Open market	10,230	$265,402	$25.94	—	$—	$—	3,679,451	$56,773,205	$15.43
401(k)	274,147	6,967,393	25.41	264,535	6,177,178	23.35	5,816,089	57,824,264	9.94
Directors and employees	17,128	440,828	25.74	11,249	267,453	23.78	1,860,688	15,280,991	8.21

Total	301,505	$	7,673,623	$	25.45	275,784	$	6,444,631	$	23.37	11,356,228	$	129,878,460	$	11.44

Subsequent to June 30, 2016, the Company has repurchased approximately an additional 300,000 shares for $1.8 million.

Dividends - At the discretion of the Board of Directors, 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 19, 2015	June 12, 2015	July 1, 2015	$ 0.11
October 29, 2015	December 2, 2015	December 23, 2015	$ 0.11
May 24, 2016	June 10, 2016	July 1, 2016	$ 0.11

14. 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 or cash flows.

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, 2015. 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, 2015. 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 and coils. 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 certain provinces in Canada. Foreign sales were approximately $7.9 million of our total net sales for the six months just ended and $7.0 million of our sales during the same period of 2015.

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. When new construction is down, we emphasize the replacement market. The new construction market in 2015 through the second quarter of 2016 continued to be unpredictable and uneven. Thus, we continue to emphasize promotion of the benefits of AAON equipment to property owners in the replacement market.

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.

The price levels of our raw materials have remained relatively consistent the past few years, but the market continues to be volatile and unpredictable as a result of the uncertainty related to the U.S. economy and a weakening global economy. For the six months ended June 30, 2016, the price for copper, galvanized steel, stainless steel and aluminum decreased by approximately 9.3%, 15.6%, 20.4% and 2.9%, respectively, from the six months ended June 30, 2015.

In 2011, we began using an all aluminum microchannel condenser coil on our small rooftop unit product line and, in 2013, we began using this condenser coil in our larger rooftop product line as well. The condenser coil is the outdoor coil of a conventional air conditioning system. We are using this type of condenser coil substantially throughout the complete rooftop unit product line. This has reduced our copper tube usage in this component of the product, however, copper will remain a high volume raw material because of its use throughout the equipment.

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

- Overall unit sales increased approximately 18.3% as compared to the same period last year, driving the increase in sales for the quarter.
- Cash and cash equivalents increased $4.3 million primarily from cash inflows from operations.
- We invested $15.8 million in capital expenditures in connection with the construction of our new research and development lab and water source heat pump line.

Results of Operations

Three Months Ended June 30, 2016 vs. Three Months Ended June 30, 2015

Units Sold

	Three Months Ended June 30,	
	2016	2015
Rooftop Units	4,833	3,858
Split Systems	939	1,025
Outdoor Mechanical Rooms	22	14
Total Units	5,794	4,897

Net Sales

	Three Months Ended June 30,			
	2016	2015	Change	% Change
	(in thousands, except unit data)			
Net sales	$102,319	$90,275	$12,044	13.3 %
Total units	5,794	4,897	897	18.3 %

Sales increased primarily due to increased volume as compared to the prior year.

Cost of Sales

	Three Months Ended June 30,		Percent of Sales	
	2016	2015	2016	2015
	(in thousands)			
Cost of sales	$69,572	$63,158	68.0%	70.0%
Gross Profit	32,747	27,117	32.0%	30.0%

The principal components of cost of sales are labor, raw materials, component costs, factory overhead, freight out and engineering expense. The principal high volume raw materials used in our manufacturing processes are steel, copper and aluminum, which are obtained from domestic suppliers. Cost of sales increased overall due to the corresponding increase in sales with a slight offset due to decreases in commodity prices.

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

	2016	2015	% Change
Copper	$3.50	$3.86	(9.3)%
Galvanized Steel	$0.38	$0.45	(15.6)%
Stainless Steel	$1.17	$1.47	(20.4)%
Aluminum	$1.66	$1.71	(2.9)%

Selling, General and Administrative Expenses

	Three Months Ended June 30,		Percent of Sales	
	2016	2015	2016	2015
	(in thousands)			
Warranty	$1,328	$1,104	1.3 %	1.2 %
Profit Sharing	2,517	2,029	2.5 %	2.2 %
Salaries & Benefits	3,160	2,685	3.1 %	3.0 %
Stock Compensation	749	620	0.7 %	0.7 %
Advertising	448	190	0.4 %	0.2 %
Depreciation	214	237	0.2 %	0.3 %
Insurance	315	304	0.3 %	0.3 %
Professional Fees	281	360	0.3 %	0.4 %
Donations	103	(155)	0.1 %	(0.2)%
Other	1,446	1,826	1.4 %	2.0 %
Total SG&A	$10,561	$9,200	10.3%	10.2 %

The overall increase in SG&A was primarily due to increased compensation and profit sharing expenses due to better results versus the same period last year. The increase was partially offset by a decrease in other expense, which was higher in 2015 due to sales taxes to certain states.

Income Taxes

	Three Months Ended June 30,		Effective Tax Rate	
	2016	2015	2016	2015
	(in thousands)			
Income tax provision	$7,934	$6,873	35.6%	38.2%

The Company’s estimated annual 2016 effective tax rate is expected to be approximately 36.0%. The Indian Employment Credit and Research and Development Credit were not extended until December 2015 for the 2015 and 2016 tax years. As such, the effective rate for the three months ended June 30, 2016 is reduced for the impact of these credits while the effective rate for the three months ended June 30, 2015 does not reflect these credits.

Six Months Ended June 30, 2016 vs. Six Months Ended June 30, 2015

Units Sold

	Six Months Ended June 30,	
	2016	2015
Rooftop Units	8,392	7,181
Split Systems	1,739	1,618
Outdoor Mechanical Rooms	31	31
Total Units	10,162	8,830

Net Sales

	Six months ended June 30,			
	2016	2015	Change	% Change
	(in thousands, except unit data)			
Net sales	$187,741	$167,043	$20,698	12.4 %
Total units	10,162	8,830	1,332	15.1 %

Sales increased primarily due to increased volume as compared to the prior year.

Cost of Sales

	Six months ended June 30,		Percent of Sales	
	2016	2015	2016	2015
	(in thousands)			
Cost of sales	$129,263	$118,128	68.9%	70.7%
Gross Profit	58,478	48,915	31.1%	29.3%

The principal components of cost of sales are labor, raw materials, component costs, factory overhead, freight out and engineering expense. The principal high volume raw materials used in our manufacturing processes are steel, copper and aluminum, which are obtained from domestic suppliers. Cost of sales increased overall due to the corresponding increase in sales.

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

	2016	2015	% Change
Copper	$3.50	$3.86	(9.3)%
Galvanized Steel	$0.38	$0.45	(15.6)%
Stainless Steel	$1.17	$1.47	(20.4)%
Aluminum	$1.66	$1.71	(2.9)%

Selling, General and Administrative Expenses

	Six Months Ended June 30,		Percent of Sales	
	2016	2015	2016	2015
	(in thousands)			
Warranty	$1,642	$1,965	0.9 %	1.2 %
Profit Sharing	4,450	3,552	2.4 %	2.1 %
Salaries & Benefits	6,202	5,120	3.3 %	3.1 %
Stock Compensation	1,405	927	0.7 %	0.6 %
Advertising	757	392	0.4 %	0.2 %
Depreciation	437	466	0.2 %	0.3 %
Insurance	643	609	0.3 %	0.4 %
Professional Fees	839	1,002	0.4 %	0.6 %
Donations	212	(44)	0.1 %	— %
Other	2,887	3,528	1.5 %	2.1 %
Total SG&A	$19,474	$17,517	10.4%	10.5 %

The overall increase in SG&A was primarily due to increased compensation costs and profit sharing expenses due to better results versus the same period last year. The increase was partially offset by a decrease in warranty expense related to continued improvement in quality control and other expense, which was higher in 2015 due to sales taxes to certain states.

Income Taxes

	Six Months Ended June 30,		Effective Tax Rate	
	2016	2015	2016	2015
	(in thousands)			
Income tax provision	$14,145	$11,919	36.0%	37.9%

The Company's estimated annual 2016 effective tax rate is expected to be approximately 36.0%. The Indian Employment Credit and Research and Development Credit were not extended until December 2015 for the 2015 and 2016 tax years. As such, the effective rate for the six months ended June 30, 2016 is reduced for the impact of these credits while the effective rate for the six months ended June 30, 2015 does not reflect these credits.

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 our revolving credit facility.

Our cash and short-term investments increased $13.9 million from December 31, 2015 to June 30, 2016 and totaled $44.3 million at June 30, 2016; while long-term investments decreased $6.7 million, from $6.9 million to $0.2 million, respectively.

Under the line of credit, there was one standby letter of credit of $0.8 million as of June 30, 2016. At June 30, 2016, we have $29.2 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 June 30, 2016 and December 31, 2015. Interest on borrowings is payable monthly at LIBOR plus 2.5%. The termination date of the revolving credit facility is July 27, 2016.

At June 30, 2016, 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, total liabilities to tangible net worth ratio and working capital. At June 30, 2016, our tangible net worth was $195.0 million, which meets the requirement of being at or above $95.0 million. Our total liabilities to tangible net worth ratio was 0.32 to 1.0 which meets the requirement of not being above 2 to 1. Our working capital was $91.5 million, which meets the requirement of being at or above $40.0 million.

Effective July 27, 2016, the Company amended its revolving credit facility with the Bank of Oklahoma. The amendment extends the termination date of the revolving credit facility to July 27, 2018, eliminates the covenant requirement for the working capital requirement of being at or above $40.0 million and modifies the tangible net worth covenant requirement from $95.0 million to $125.0 million.

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. Effective May 24, 2016, the Board authorized up to $25.0 million in open market repurchases and on June 2, 2016, the Company executed a repurchase agreement in accordance with the rules and regulations of the SEC allowing the Company to repurchase an aggregate amount of $25.0 million or a total of approximately 2.0 million shares from the open market. The agreement will terminate upon the aforementioned thresholds having been met, on April 15, 2017, or upon other provisions contained in the repurchase agreement by either the Company or its agent. 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. Any other repurchases from directors or employees is contingent upon Board approval. All repurchases are done at current market prices.

Our repurchase activity is as follows:

	Six months ended June 30,						Inception to date		
	2016			2015					
Program	Shares	Total $	$ per share	Shares	Total $	$ per share	Shares	Total $	$ per share
Open market	10,230	$265,402	$25.94	—	$—	$—	3,679,451	$56,773,205	$15.43
401(k)	274,147	6,967,393	25.41	264,535	6,177,178	23.35	5,816,089	57,824,264	9.94
Directors and employees	17,128	440,828	25.74	11,249	267,453	23.78	1,860,688	15,280,991	8.21
Total	301,505	$7,673,623	$25.45	275,784	$6,444,631	$23.37	11,356,228	$129,878,460	$11.44

Subsequent to June 30, 2016, the Company has repurchased approximately an additional 300,000 shares for $1.8 million.

Dividends - At the discretion of the Board of Directors, 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 19, 2015	June 12, 2015	July 1, 2015	$ 0.11
October 29, 2015	December 2, 2015	December 23, 2015	$ 0.11
May 24, 2016	June 10, 2016	July 1, 2016	$ 0.11

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 2016 and the foreseeable future.

Statement of Cash Flows

The following table reflects the major categories of cash flows for the six months ended June 30, 2016 and 2015. For additional details, see the Condensed Consolidated Statements of Cash Flows in the condensed consolidated financial statements.

	Six months ended June 30,	
	2016	2015
	(in thousands)	
Operating Activities		
Net Income	$25,147	$19,529
Income statement adjustments, net	5,744	3,940
Changes in assets and liabilities:		
Accounts receivable	(8,417)	(1,286)
Income taxes	5,162	1,636
Inventories	(1,934)	(9,623)
Prepaid expenses and other	(550)	(446)
Accounts payable	1,848	(1,030)
Deferred revenue	220	136
Accrued liabilities & donations	1,252	(867)
Net cash provided by operating activities	28,472	11,989
Investing Activities		
Capital expenditures	(15,825)	(9,304)
Purchases of investments	(13,894)	—
Maturities of investments and proceeds from called investments	10,811	14,363
Other	27	58
Net cash (used in) provided by investing activities	(18,881)	5,117
Financing Activities		
Stock options exercised and excess tax benefits from stock options exercised and restricted stock awards vested	2,384	4,986
Repurchase of stock	(7,674)	(6,444)
Net cash used in financing activities	$(5,290)	$(1,458)

Cash Flows Provided by Operating Activities

The increase in cash flows from operations is primarily due to the increase in net income and decreases in our estimated tax payments offset by cash outflows in accounts receivable and inventory caused by the increased level of sales in 2016 versus 2015.

Cash Flows (Used in) Provided by Investing Activities

The Company has invested surplus cash flows into investment purchases in 2016, while in 2015 the Company allowed the investments to mature without re-investment. Capital expenditures increased compared to the prior year due to continued investment in our new research and development lab as well as other construction projects. The capital expenditure program for 2016 is estimated to be approximately $32.7 million.

Cash Flows Used in Financing Activities

Options exercised by employees decreased compared to last year, which decreased the related excess tax benefits as well. Buyback activity increased, with the increase in dollars driven by a higher stock price over the period as compared to the prior year.

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 agreements as of June 30, 2016.

Critical Accounting Policies

There have been no material changes in the Company’s critical accounting policies during the six months ended June 30, 2016.

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”, “v “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, and (4) general economic, market or business conditions.

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, 2015. 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 2015 Annual Report.

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

On May 17, 2010, the Board authorized a stock buyback program, targeting open market repurchases of up to approximately 5% (2.9 million shares) of the Company's outstanding stock. In May 2015, the Board authorized repurchases up to an additional 2.75 million shares, or a total of approximately 5.7 million shares. In October 2015, the Board authorized $25.0 million for use under the Company's stock buyback program. Effective May 24, 2016, the Board authorized up to $25.0 million in open market repurchases and on June 2, 2016, the Company executed a repurchase agreement in accordance with the rules and regulations of the SEC allowing the Company to repurchase an aggregate amount of $25.0 million or a total of approximately 2.0 million shares from the open market. The agreement will terminate upon the aforementioned thresholds having been met, on April 15, 2017, or upon other provisions contained in the repurchase agreement by either the Company or its agent. We have repurchased a total of approximately 3.7 million shares under these programs for an aggregate price of $56.8 million, or an average price of $15.43 per share. We purchased the shares at current market prices.

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. Through June 30, 2016, we repurchased approximately 5.8 million shares for an aggregate price of $57.8 million, or an average price of $9.94 per share. We purchased the shares at current market prices.

Periodically, 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. Through June 30, 2016, we repurchased approximately 1.8 million shares for an aggregate price of $15.3 million, or an average price of $8.21 per share. We purchased the shares at current market prices.

Repurchases during the second quarter of 2016 were as follows:

	ISSUER PURCHASES OF EQUITY SECURITIES			
Period	(a) Total Number	(b) Average Price	(c) Total Number	(d) Maximum Number (or

	of Shares (or Units) Purchased	Paid Per Share (or Unit)	of Shares (or Units) Purchased as part of Publicly Announced Plans or Programs	Approximate Dollar Value) of Shares (or Units) that may yet be Purchased under the Plans or Programs
April 2016	36,474	$ 26.99	36,474	—
May 2016	64,276	27.53	64,276	—
June 2016	54,471	26.74	54,471	—
Total	155,221	$ 27.13	155,221	—

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

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

On May 24, 2016, the Company held its Annual Meeting. At the Annual Meeting, the Company's stockholders (i) elected each of the nominees listed below to the Company's Board of Directors to serve until the 2018 Annual Meeting of Stockholders for Angela E. Kouplen, until the 2019 Annual Meeting of Stockholders for Paul K. Lackey, Jr. and A. H. McElroy II, or until their respective successors are elected and qualified, (ii) approved the AAON, Inc. 2016 Long-Term Incentive Plan and (iii) ratified the selection of Grant Thornton, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2016. The final results for the votes regarding each proposal are set forth below.

(i) The voting results with respect to the election of each director were as follows:

Nominees:	For	Against	Withheld	Broker Non-Votes
Angela E. Kouplen	43,676,929	429,932	19,609	5,467,789
Paul K. Lackey, Jr.	38,681,465	5,440,954	4,051	5,467,789
A. H. McElroy II	43,221,151	901,268	4,051	5,467,789

(ii) The voting results with respect to the approval of the AAON, Inc. 2016 Long-Term Incentive Plan were as follows:

For	Against	Abstain	Broker Non-Votes
43,125,512	947,278	53,680	5,467,789

(iii) The voting results with respect to the ratification of the selection of Grant Thornton, LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2016 were as follows:

For	Against	Abstain	Broker Non-Votes
49,304,611	270,288	19,360	—

Item 5. Other Information.

At the May 24, 2016 board meeting following the Annual Meeting, the Board of Directors declared a regular semi-annual cash dividend of $0.11 per share. The dividends were paid to stockholders of record as of the close of business on June 10, 2016, with a payment date of July 1, 2016.

Item 6. Exhibits.

(a) Exhibits

(i) Exhibit 31.1 Section 302 Certification of CEO
(ii) Exhibit 31.2 Section 302 Certification of CFO

(iii) Exhibit 32.1 Section 1350 Certification of CEO
(iv) Exhibit 32.2 Section 1350 Certification of CFO

SIGNATURES

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

AAON, INC.

Dated: August 4, 2016 By: /s/ Norman H. Asbjornson
Norman H. Asbjornson
President/CEO

Dated: August 4, 2016 By: /s/ Scott M. Asbjornson
Scott M. Asbjornson
Chief Financial Officer