

Edgar Filing: AAON INC - Form 10-Q

AAON INC  
Form 10-Q  
August 02, 2007

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

FORM 10-Q

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

For the quarterly period ended June 30, 2007  
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  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

As of June 30, 2007 registrant had outstanding a total of 12,474,770 shares of its \$.004 par value Common Stock.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	June 30, 2007
-----	
(in thousands, except	
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$          326
Accounts receivable, net	46,177
Inventories, net	34,444
Prepaid expenses and other	516
Deferred tax assets	4,314
	-----
Total current assets	85,777
Property, plant and equipment, net	61,937
Notes receivable, long-term	75
	-----
Total assets	\$      147,789
	=====
<b>Liabilities and Stockholders' Equity</b>	
Current liabilities:	
Current maturities of long-term debt	\$          5
Accounts payable	17,225
Dividends payable	2,497
Accrued liabilities	21,756
	-----
Total current liabilities	41,483
Other long-term liabilities	72
Deferred tax liabilities	3,592
Commitments and contingencies	
<b>Stockholders' equity:</b>	
Preferred stock, \$.001 par value, 5,000,000 shares authorized, no shares issued	-
Common stock, \$.004 par value, 50,000,000 shares authorized, 12,474,770 and 12,338,832 issued and outstanding at June 30, 2007, and December 31, 2006, respectively	50
Additional paid-in capital	403
Accumulated other comprehensive income, net of tax	1,222
Retained earnings	100,967
	-----
Total stockholders' equity	102,642
	-----
Total liabilities and stockholders' equity	\$      147,789
	=====

The accompanying notes are an integral part of these statements.

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

	Three Months Ended		June 30, 2006
	June 30, 2007	June 30, 2006	
	(in thousands, except share and per s		
Net sales	\$ 70,835	\$ 59,137	\$ 12
Cost of sales	55,237	49,018	9
Gross profit	15,598	10,119	3
Selling, general and administrative expenses	5,270	4,853	1
Income from operations	10,328	5,266	2
Interest expense	3	(10)	
Interest income	3	15	
Other income, net	82	138	
Income before income taxes	10,416	5,409	2
Income tax provision	3,539	1,954	
Net income	\$ 6,877	\$ 3,455	\$ 1
Earnings per share:			
Basic	\$ 0.55	\$ 0.28	\$
Diluted	\$ 0.54	\$ 0.27	\$
Cash dividends declared per common share:	\$ 0.20	\$ 0.20	\$
Weighted average shares outstanding:			
Basic	12,461	12,315	1
Diluted	12,693	12,666	1

The accompanying notes are an integral part of these statements.

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

	Common Stock	Paid-in	Accumulated
	Shares	Capital	Other Comprehensive Income

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(in thousands)

Balance at December 31, 2006	12,339	\$ 49	\$ 210	\$ 667
Adjustment for the adoption of FASB Interpretation (FIN) No. 48				
Comprehensive income:				
Net income	-	-	-	-
Foreign currency translation adjustment	-	-	-	555
Total comprehensive income				
Stock options exercised, including tax benefits	233	3	2,814	-
Share based compensation	-	-	311	-
Stock repurchased and retired	(97)	(2)	(2,932)	-
Dividends declared	-	-	-	-
Balance at June 30, 2007	12,475	\$ 50	\$ 403	\$ 1,222

The accompanying notes are an integral part of these statements.

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

Six Months  
Ended  
June 30, 2007

	(in thousands)
OPERATING ACTIVITIES	
Net income	\$ 13,194
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	4,660
Net provision for losses on accounts receivable	234
Gain on disposition of assets	(11)
Share-based compensation	311
Excess tax benefits from stock options exercised	(1,814)
Deferred income taxes	(676)
Changes in assets and liabilities:	
Accounts receivable	(9,439)
Inventories	(4,821)
Prepaid expenses and other	(247)
Accounts payable	1,325
Accrued liabilities	7,105
Net cash provided by operating activities	9,820
INVESTING ACTIVITIES	
Proceeds from sale of property, plant and equipment	21
Proceeds from matured certificate of deposit	-
Investment in certificate of deposit	-
Capital expenditures	(7,209)

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Net cash used in investing activities	(7,188)
FINANCING ACTIVITIES	
Borrowings under revolving credit facility	8,898
Payments under revolving credit facility	(8,898)
Payments of long-term debt	(54)
Stock options exercised	1,000
Excess tax benefits from stock options exercised	1,814
Repurchase of stock	(2,932)
Cash dividends paid to stockholders	(2,465)
Net cash used in financing activities	(2,637)
Effect of exchange rate on cash	43
Net increase (decrease) in cash and cash equivalents	38
Cash and cash equivalents, beginning of year	288
Cash and cash equivalents, end of period	\$ 326

The accompanying notes are an integral part of these statements.

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AAON, Inc., and Subsidiaries  
Notes to the Consolidated Financial Statements  
June 30, 2007  
(unaudited)

1. BASIS OF PRESENTATION

The financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The Company believes that the disclosures made in these financial statements are adequate to make the information presented not misleading when read in conjunction with the financial statements and the notes thereto included in the Company's latest audited financial statements which were included in the Form 10-K Report for the fiscal year ended December 31, 2006, filed by AAON, Inc. with the SEC. In the opinion of management, the accompanying financial statements include all normal, recurring adjustments required for a fair presentation of the results of the periods presented. Operating results for the six months ended June 30, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

Revenue Recognition

The Company recognizes revenues from sales of products at the time of shipment. For sales initiated by independent manufacturer representatives, the Company recognizes revenues net of the representatives' commission. The Company's policy is to exclude sales taxes from revenue when collected and expenses when paid and instead, record the collection and payment of sales taxes through a liability account.

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### Currency

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

### New Accounting Pronouncements

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109, Accounting for Income Taxes. This interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recorded a \$551,000 increase in the liability for unrecognized tax benefits, which is offset by an increase of the deferred tax assets of \$155,000, resulting in a decrease to the January 1, 2007, retained earnings balance of \$396,000 (for additional information see Note 9 to the Consolidated Financial Statements).

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In June 2006, the Emerging Issues Task Force reached a consensus on Issue 06-3 ("EITF 06-3"), How Sales Tax Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement. The guidance requires that a company disclose its accounting policy (i.e., gross or net presentation) regarding presentation of taxes within the scope of EITF 06-3. If taxes are reported on a gross basis, a company should disclose the amount of such taxes for each period for which an income statement is presented. EITF 06-3 is effective for fiscal periods beginning after December 15, 2006. As disclosed in the "Revenue Recognition" footnote above, the Company presents sales net of sales taxes. Accordingly, this issue does not have a financial impact to the Company.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS 157 defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Although SFAS 157 applies to (and amends) the provisions of existing authoritative literature, it does not, of itself, require any new fair value measurements or establish valuation standards. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will adopt SFAS 157 on January 1, 2008. Adoption of SFAS 157 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which creates an alternative

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measurement treatment for certain financial assets and financial liabilities. SFAS 159 permits fair value to be used for both the initial and subsequent measurements on an instrument-by-instrument basis, with changes in the fair value to be recognized in earnings as those changes occur. This election is referred to as the fair value option. SFAS 159 also requires additional disclosures to compensate for the lack of comparability that will arise from the use of the fair value option. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 159 on January 1, 2008. Adoption of SFAS 159 is not expected to have a material impact on the Company's Consolidated Financial Statements.

### 2. ACCOUNTS RECEIVABLE

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

Accounts receivable balances at June 30, 2007, and December 31, 2006, and the changes in the allowance for doubtful accounts for the six months ended June 30, 2007, and 2006, are as follows:

	June 30, 2007	December 2006
-----		
(in thousands)		
Accounts receivable	\$ 46,673	\$ 37,000
Less: allowance for doubtful accounts	(496)	(2,000)
	-----	-----
Total, net	\$ 46,177	\$ 36,000
	=====	=====

	June 30, 2007	June 30, 2006
-----		
Six Months Ended		
(in thousands)		
Allowance for doubtful accounts:		
Balance, beginning of period	\$ 266	\$ 600
Provision for losses on accounts receivable	411	200
Adjustments to provision	(177)	(200)
Accounts receivable written off, net of recoveries	(4)	(200)
	-----	-----
Balance, end of period	\$ 496	\$ 300
	=====	=====

### 3. INVENTORIES

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Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method. The Company establishes an allowance for excess and obsolete inventories based on product line changes, the feasibility of substituting parts and the need for supply and replacement parts. Inventory balances at June 30, 2007, and December 31, 2006, and the changes in the allowance for excess and obsolete inventories account for the six months ended June 30, 2007, and 2006, are as follows:

	June 30, 2007	December 2006
-----		
(in thousands)		
Raw materials	\$ 29,585	\$ 25,9
Work in process	2,003	2,2
Finished goods	3,206	1,6
	-----	-----
	34,794	29,8
Less: Inventory reserve	(350)	(3
	-----	-----
Total, net	\$ 34,444	\$ 29,5
	=====	=====

	June 30, 2007	June 3 2006
-----		
Six Months Ended		
(in thousands)		
Allowance for excess and obsolete inventories:		
Balance, beginning of period	\$ 350	\$ 3
Provision for excess and obsolete inventories	-	
Adjustments to reserve	-	
	-----	-----
Balance, end of period	\$ 350	\$ 3
	=====	=====

4. ACCRUED LIABILITIES

At June 30, 2007, and December 31, 2006, accrued liabilities were comprised of the following:

	June 30, 2007	December 2006
-----		
(in thousands)		
Warranty	\$ 6,160	\$ 5,5
Commissions	9,335	6,8
Payroll	2,382	1,8
Income taxes	1,972	
Workers' compensation	541	4
Medical self-insurance	733	8
Other	632	4



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Total

-----  
\$ 21,755  
=====

-----  
\$ 16,0  
=====

5. SUPPLEMENTAL CASH FLOW INFORMATION

Interest payments of \$7,000 and \$22,000 were made for the six months ended June 30, 2007, and 2006, respectively. Payments for income taxes of \$3,800,000 and \$4,500,000 were made during the six months ended June 30, 2007, and 2006, respectively. Dividends payable of \$2,497,000 and \$2,478,000 were accrued as of June 30, 2007, and 2006 and paid in July 2007 and 2006, respectively.

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6. REVOLVING CREDIT FACILITY

The Company's revolving credit facility provides for maximum borrowings of \$15.2 million which is provided by the Bank of Oklahoma, National Association. Under the line of credit, there is one standby letter of credit totaling approximately \$600,000. The letter of credit is a requirement of the Company's workers compensation insurance and will expire December 31, 2007. Interest on borrowings is payable monthly at the Wall Street Journal prime rate less 0.5% or LIBOR plus 1.6%, at the election of the Company (6.92% at June 30, 2007). No fees are associated with the unused portion of the committed amount. At June 30, 2007, and December 31, 2006, the Company had no borrowings outstanding under the revolving credit facility. Borrowings available under the revolving credit facility at June 30, 2007, were \$14.6 million. The credit facility requires the Company to maintain certain financial ratios. At June 30, 2007, the Company was in compliance with its financial ratio covenants. On July 30, 2007 the Company renewed the line of credit with a maturity date of July 30, 2008.

7. STOCK COMPENSATION

The Company maintains a stock option plan for key employees, directors and consultants. The Company's stock option plan provided for 2,925,000 shares of common stock to be issued under the plan. Under the terms of the 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 prior to May 25, 2004, vest one year from the date of grant and are exercisable for nine years thereafter. Options granted to directors on or after May 25, 2004, 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, the stockholders of the Company adopted a Long-Term Incentive Plan which provides an additional 500,000 shares that can be granted in the form of stock options, stock appreciation rights, restricted stock awards, performance units and performance awards. Since inception of the Plan, non-qualified stock options and restricted stock awards have been granted with the same vesting schedule as the previous plan.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R) Share-Based Payment (SFAS 123R), using the modified-prospective-transition provisions. Under that transition method, compensation cost recognized in 2006 and the first six months of 2007 includes all share-based payments granted prior to, but not yet vested as of January 1, 2006, and compensation cost for all share-based payments granted subsequent to January 1, 2006. The compensation cost is based on the grant date fair value calculated using a Black-Scholes-Merton Option Pricing Model in accordance with provisions of Statement 123(R).

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For the three month periods ended June 30, 2007, and 2006, the Company recognized approximately \$148,000 and \$107,000 and for the six month periods ended June 30, 2007, and 2006, the Company recognized approximately \$311,000 and \$233,000, respectively, in pre-tax compensation expense in the Consolidated Statements of Income related to the stock option plan. The total pre-tax compensation cost related to nonvested stock options not yet recognized as of June 30, 2007, is \$2.1 million and is expected to be recognized over a weighted-average period of 2.4 years. Statement 123(R) requires that cash flows from the exercise of stock options resulting from tax benefits in excess of recognized cumulative compensation cost (excess tax benefits) be classified as financing cash flows. For the six months ended June 30, 2007, and 2006, \$1,814,000 and \$1,270,000, respectively, of such excess tax benefits from share-based payment plans was classified as financing cash flows.

The following assumptions were used to determine the fair value of the unvested stock options on the original grant date for expense recognition purposes for options granted during the six months ended June 30, 2007, and June 30, 2006. No options were granted to directors or officers for the six months ended June 30, 2007.

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	Six Months Ended	
	June 30, 2007	June 30, 2006
Directors and Officers:		
Expected dividend yield	N/A	1.65%
Expected volatility	N/A	36.48%
Risk-free interest rate	N/A	5.15%
Expected life	N/A	8.0 yrs
Forfeiture Rate	N/A	0%
Employees:		
Expected dividend yield	1.47%	1.65%
Expected volatility	41.93%	36.48%
Risk-free interest rate	4.72%	5.15%
Expected life	6.3 yrs	6.3 yrs
Forfeiture Rate	28%	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 the Company's stock. The Company initiated a dividend payout in the second quarter of 2006. The Company used Board approved semi-annual dividend payouts of \$0.20 per share to calculate the expected dividend yield.

The following is a summary of stock options outstanding as of June 30, 2007:

Range of Exercise Prices	Options Outstanding			
	Number Outstanding at June 30, 2007	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
-----				

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\$3.39 - \$3.39	66,250	0.54	\$ 3.39	\$ 25.76
\$4.00 - \$5.78	217,530	1.87	4.86	24.29
\$8.59 - \$16.94	177,675	5.27	12.52	16.63
\$17.10 - \$18.00	48,667	8.02	17.70	11.45
\$19.02 - \$22.32	112,208	6.06	20.27	8.88
\$23.99 - \$27.65	174,000	9.27	25.53	3.62
Total	796,330	5.10	\$ 13.92	\$ 15.23

A summary of option activity under the plan as of June 30, 2007, is as follows:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding at January 1, 2007	974,330	\$ 11.00	
Granted	73,125	24.19	
Exercised	(232,775)	4.30	
Forfeited or Expired	(18,350)	22.01	
Outstanding at June 30, 2007	796,330	13.92	5.10
Exercisable at June 30, 2007	528,248	\$ 9.47	3.22

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The weighted average grant date fair value of options granted during the six months ended June 30, 2007, and 2006 was \$11.14 and \$9.82, respectively. The total intrinsic value of options exercised during the six months ended June 30, 2007, and 2006 was \$5.4 million and \$3.9 million, respectively. The cash received from options exercised during the six months ended June 30, 2007, and 2006, was \$1.0 million and \$1.0 million, respectively. The impact of these cash receipts is included in financing activities in the accompanying Consolidated Statements of Cash Flows.

A summary of the unvested options for the six month period ended June 30, 2007, is as follows:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2007	277,320	\$ 9.13
Granted	52,500	\$ 11.14
Vested	(44,738)	\$ 8.77
Forfeited	(17,000)	\$ 9.78
Nonvested at June 30, 2007	268,082	\$ 9.55

The Company also grants restricted stock awards to employees and directors.

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These awards are recorded at their fair values on the date of grant and compensation cost is recorded using straight-line vesting over the service period. The weighted average grant date fair value of restricted stock awards granted during the six months ended June 30, 2007, was \$29.76 per share (total grant date fair value of \$273,792). There were no restricted stock awards granted during the six months ended June 30, 2006. As of June 30, 2007, there was no aggregate intrinsic value of restricted stock awards that are expected to vest. In addition, as of June 30, 2007, unrecognized compensation cost related to non-vested restricted stock awards was \$265,578 which is expected to be recognized over a weighted average period of three years. The following summary reflects restricted stock awards activity and related information.

	Shares	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2007	-	\$ -
Granted	9,200	\$ 29.76
Vested	-	\$ -
Forfeited	-	\$ -
Nonvested at June 30, 2007	9,200	\$ 29.76

8. EARNINGS PER SHARE

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

	Three Months Ended June 30, 2007*	June 30, 2006*	June 30, 2005
	(in thousands, except share and per share amounts)		
Numerator:			
Net income	\$ 6,877	\$ 3,455	\$ 13,000
Denominator:			
Denominator for basic earnings per share - Weighted average shares	12,460,914	12,315,485	12,417,000
Effect of dilutive employee stock options and restricted stock awards	231,659	350,908	234,000
Denominator for diluted earnings per share - Weighted average shares	12,692,573	12,666,393	12,652,000
Basic earnings per share	\$ 0.55	\$ 0.28	\$ 1.03
Diluted earnings per share	\$ 0.54	\$ 0.27	\$ 1.00
Anti-dilutive shares			174,000
Weighted average exercise price			\$ 25.00

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### 9. INCOME TAXES

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. Effective January 1, 2007, the Company adopted FIN 48. In accordance with FIN 48, the Company recorded a \$551,000 increase in its liability for unrecognized tax benefits, interest, and penalties, which is offset by an increase of the deferred tax assets of \$155,000, resulting in a decrease to the January 1, 2007, retained earnings balance of \$396,000. The total amount of unrecognized tax benefits that if recognized would affect the effective tax rate is \$396,000. The total amount of unrecognized tax benefits at January 1, 2007, is \$447,000 related to tax positions for which it is reasonably possible that the total amounts could significantly decrease during the next twelve months. This amount represents the unrecognized tax benefits comprised of items related to determination of state nexus. Resolution of these tax benefits will occur through a voluntary compliance program, which was initiated during the three months ended June 30, 2007.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. At January 1, 2007, the Company had accrued \$141,000 and \$29,000 for the potential payment of interest and penalties, respectively.

As of June 30, 2007, the Company is subject to U.S. Federal income tax examinations for the tax years 2004 through 2006, and to non-U.S. income tax examinations for the tax years of 2004 through 2006. In addition, the Company is subject to state and local income tax examinations for the tax years 2001 through 2006.

There were no significant changes to any of these amounts during the six months ended June 30, 2007.

### 10. STOCK REPURCHASE

Following repurchases of approximately 12% of its outstanding Common Stock between September 1999 and September 2001, the Company announced and began its most recent stock repurchase program on October 17, 2002, targeting repurchases of up to an additional 10% (1,325,000 shares) of its outstanding stock. Through June 30, 2006, the Company had repurchased a total of 1,257,864 shares under this program for an aggregate price of \$22,034,568, or an average of \$17.52 per share. On February 14, 2006, the Board of Directors approved the suspension of the Company's repurchase program.

On July 1, 2005, the Company entered into a stock repurchase arrangement by which employee-participants in AAON's 401K savings and investment plan are entitled to have shares of AAON stock in their accounts sold to the Company to provide diversification of their investments. Through June 30, 2007, the Company repurchased 287,713 shares for an aggregate price of \$6,321,000 or an average price of \$21.97 per share.

On November 7, 2006, the Board of Directors authorized the Company to repurchase shares from certain directors following their exercise of stock options expiring on March 11, 2007. To date, the Company repurchased 64,875 shares for an aggregate price of \$1,799,000 or an average price of \$27.73.

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### 11. CONTINGENCIES

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

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

AAON engineers, manufactures and markets air-conditioning and heating equipment consisting of standardized and custom rooftop units, chillers, air-handling units, make-up units, heat recovery units, condensing units, coils and boilers. The Company has successfully gained market share through its "semi-custom" product lines, which offer the customer value, quality, function, serviceability and efficiency. Custom units are marketed and sold to retail, manufacturing, educational, medical and other commercial industries. AAON markets units to all 50 states in the United States and certain provinces in Canada. International sales are less than five percent as the majority of all sales are domestic.

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

The principal components of cost of goods sold are labor, raw materials, component costs, factory overhead, freight out and engineering expense. The principal raw materials used in AAON's manufacturing processes are steel, copper and aluminum. Raw materials ranged in prices and at times increases were incurred up to approximately 24% for steel, 42% for aluminum and 400% for copper from 2004 to June 30, 2007. The increases resulted in economic challenges to AAON. AAON reviewed and adjusted current pricing strategies and created efficiencies in production in order to mitigate the economic factors of increasing commodity prices. The major component costs include compressors, electric motors and electronic controls, which also increased due to increases in commodities.

Selling, general, and administrative ("SG&A") costs include the Company's internal sales force, warranty costs, profit sharing and administrative expense. Warranty expense is estimated based on historical trends and other factors. The Company's warranty on its products is: for parts only, the earlier of one year from the date of first use or 14 months from date of shipment; compressors (if applicable), an additional four years; on gas-fired heat exchangers (if applicable), 15 years; and on stainless steel heat exchangers (if applicable), 25 years. Warranty charges on heat exchangers do not occur frequently.

The office facilities of the Company consist of a 337,000 square foot building (322,000 sq. ft. of manufacturing/warehouse space and 15,000 sq. ft. of office space) located at 2425 S. Yukon Avenue, Tulsa, Oklahoma (the "original facility"), and a 563,000 square foot manufacturing/warehouse building and a 22,000 square foot office building (the "expansion facility") located across the street from the original facility at 2440 S. Yukon Avenue. The Company utilizes 39% of the expansion facility and the remaining 61% is leased to a third party.

Other operations are conducted in a plant/office building at 203-207 Gum Springs Road in Longview, Texas, containing 258,000 square feet (251,000 sq. ft. of manufacturing/warehouse and 7,000 sq. ft. of office space). An additional 15 acres of land was purchased for future expansion in 2004 and 2005 in Longview,

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Texas. The Company's operations in Burlington, Ontario, Canada, are located at 279 Sumach Drive, consisting of an 82,000 sq. ft. office/manufacturing facility on a 5.6 acre tract of land.

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Set forth below is unaudited income statement information with respect to the Company for the periods ended June 30, 2007, and 2006:

	Three Months Ended				Six Months	
	June 30, 2007		June 30, 2006		June 30, 2007	
	(In thousands)					
Net sales	\$ 70,835	100%	\$ 59,137	100%	\$129,463	100%
Cost of sales	55,237	78%	49,018	83%	98,143	76%
Gross profit	15,598	22%	10,119	17%	31,320	24%
Selling, general and administrative expenses	5,270	7%	4,853	8%	11,017	8%
Income from operations	10,328	15%	5,266	9%	20,303	16%
Interest expense	3	0%	(10)	0%	(7)	0%
Interest income	3	0%	15	0%	6	0%
Other income	82	0%	138	0%	270	0%
Income before income taxes	10,416	15%	5,409	9%	20,572	16%
Income tax provision	3,539	5%	1,954	3%	7,378	6%
Net income	\$ 6,877	10%	\$ 3,455	6%	\$ 13,194	10%

### Results of Operations

Key events impacting AAON's cash balance, financial condition, and results of operations for the six months ended June 30, 2007 include the following:

- o Increased sales due to innovative products and effective moderation of commodity costs with purchase agreements and pricing strategies affected sales and gross margin positively, which resulted in significantly higher revenues and income.
- o In February 2006, the Board of Directors authorized a semi-annual cash dividend payment. Cash dividends were paid in January of 2007, affecting cash by \$2.5 million. Dividends were declared in the second quarter of 2007 and accrued. Payment of cash dividends occurred in July of 2007 in the amount of \$2.5 million.
- o Stock repurchases of AAON stock from employee's 401(k) savings and investments plan were authorized in 2005. AAON continued to repurchase stock from employees and made repurchases from other incentive plans throughout the six months ended June 30, 2007, resulting in cash payments of \$2.9 million. This cash outlay is partially offset by cash

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received from options exercised by employees as a part of an incentive bonus program. The cash received in the first six months of 2007 from options exercised was \$1.0 million.

- o Purchases of equipment to create efficiencies remained a priority. AAON capital expenditures were \$7.2 million. Equipment purchases and proper upkeep of manufacturing facilities create significant efficiencies, lower production costs and allow continued growth in production. The Company currently estimates it will spend a total of approximately \$10.0 million on capital expenditures in 2007 for continued growth.

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### Net Sales

Net sales increased \$11.7 million (19.8%) to \$70.8 million from \$59.1 million for the three months ended June 30, 2007, and \$16.7 million (14.8%) to \$129.5 million from \$112.8 million for the six months ended June 30, 2007, compared to the same periods in 2006. Increased sales were attributable to an increase in volume of product sold related to the Company's new and redesigned products being favorably received by its customers and from certain pricing strategies implemented in 2006 and the second quarter of 2007 that are now being fully recognized as back orders from 2006 become completed. Management anticipates continued growth throughout 2007.

### Gross Profit

Gross profit increased \$5.5 million (54.1%) to \$15.6 million from \$10.1 million for the three months ended June 30, 2007, and increased \$10.8 million (52.8%) to \$31.3 million from \$20.5 million for the six months ended June 30, 2007, compared to the same periods in 2006. Gross margins were 22.0% compared to 17.1% for the three months ended June 30, 2007, and June 30, 2006, respectively, and were 24.2% compared to 18.2% for the six months ended June 30, 2007, and June 30, 2006, respectively. The increase in gross profit results from pricing strategies becoming fully utilized and production and labor efficiencies as volume remains at a high and steady level. The Company also began to see a leveling off of raw material increases, thus lowering the cost of raw materials and allowing for higher gross profits.

Steel, copper and aluminum are high volume materials used in the manufacturing of the Company's products, which are obtained from domestic suppliers. Raw materials ranged in prices and at times increases were incurred up to approximately 24% for steel, 42% for aluminum and 400% for copper from 2004 to June 30, 2007, causing increased inventory costs. The Company also purchases from other domestic manufacturers certain components, including compressors, electric motors and electrical controls used in its products. The suppliers of these components are significantly affected by the rising raw material costs, as steel, copper and aluminum are used in the manufacturing of their products; therefore, the Company is also experiencing price increases from component part suppliers. The Company is beginning to see some leveling off of the increases in certain materials, but continues to monitor these costs and price units accordingly. The Company instituted several price increases to customers from 2004 to 2007 in an attempt to offset the continued increases in steel, copper and aluminum. The Company attempts to limit the impact of price increases on these materials by entering into cancelable fixed price contracts with its major suppliers for periods of 6-12 months.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$417 thousand (8.6%) to \$5.3 million from \$4.9 million for the three months ended June 30, 2007, and



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increased \$1.6 million (17%) to \$11.0 million from \$9.4 million for the six months ended June 30, 2007, compared to the same periods in 2006. The increase in selling, general and administrative expenses was primarily caused by an increase in profit sharing due to increased net income. The Company contributes 10% of pre-tax profit to all eligible employees equally on a quarterly basis to reward employee productivity.

### Other Income

Other income was \$82,000 and \$138,000 for the three months ended June 30, 2007, and 2006, respectively. Other income was \$270,000 and \$264,000 for the six months ended June 30, 2007, and 2006, respectively. Other income is attributable primarily to rental income from the Company's expansion facility. All expenses associated with the facility that are allocated to the rental portion of the building are included in Other income. The Company plans to continue to monetize the expansion facility until it is needed for increased capacity. Other income also includes foreign currency gains and losses that result from operations in Canada. The weakened U.S. dollar was the primary reason for the decrease in Other income for the three months ended June 30, 2007.

### Analysis of Liquidity and Capital Resources

AAON's working capital and capital expenditure requirements are generally met through net cash provided by operations and the revolving bank line of credit.

**Cash Flows Provided by Operating Activities.** Net cash provided by operating activities decreased in the six months ended June 30, 2007, by \$1.6 million from the prior years six months ended June, 30, 2006. The decrease is primarily the result of increased inventory due to increased levels to accommodate future sales. Increased accounts receivable also contributed to the decrease in operating cash due to the timing of shipment of products. The increased inventory and accounts receivable is partially offset by the increase in Net income based on factors stated above as well as the increased accrued liabilities, which consists of an increase in commission's payable.

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**Cash Flows Used in Investing Activities.** Cash flows used in investing activities were \$7.2 million and \$12.3 million for the six months ended June 30, 2007, and 2006, respectively. The decrease in cash flows used in investing activities in 2007 was primarily related to lower capital expenditures of \$7.2 million for additions to manufacturing facilities, machinery and equipment compared to \$12.3 million for the same period in 2006. Capital expenditures in 2007 related to building renovations and machinery and equipment to further automate production. Management utilizes cash flows provided from operating activities to fund capital expenditures that are expected to spur growth and create efficiencies. The Company is currently in line with budgeted capital expenditures of approximately \$10.0 million in 2007 for equipment requirements. The Company expects its cash requirements to be provided from cash flows from operations.

For the six months ended June, 30, 2007, the Company did not invest nor receive proceeds from any certificate of deposits. For the same period in 2006, the Company received proceeds from investments of \$2 million and reinvested a total of \$2 million.

**Cash Flows Used in Financing Activities.** Cash flows used in financing activities were \$2.6 million and \$234,000 for the six months ended June 30, 2007, and 2006, respectively. The increase of cash used in financing activities primarily relates to cash dividends declared and paid and the continued repurchase of the Company's stock.

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The Company repurchased shares of stock from employees' 401(k) savings and investment plan and other incentive plans for the six months ended June 30, 2007, in the amount of \$2.9 million for 106,037 shares of stock. There were shares of stock repurchased for a total of \$2.2 million for the same period in 2006.

In February 2006, the Board of Directors authorized a semi-annual cash dividend payment. Cash dividends were declared in December 2006 and were paid in January 2007 in the amount of \$2.5 million. Cash dividends of \$2.5 million were declared and accrued for on June 11, 2007, and paid on July 2, 2007. Prior to 2006, no cash dividends had been declared or paid. Board approval is required to determine the date of declaration for each semi-annual payment.

The Company received cash from stock options exercised of \$1.0 million and classified the tax benefit of stock options exercised of \$1.8 million in financing activities for the six months ended June 30, 2007. Due to the increase in stock price and the exercise price of options, the tax effect of the gains received by the Company increased for the six months ended June 30, 2007. The cash received for options exercised and income tax effect partially offset the stock repurchase and dividend payments for the six months ended June 30, 2007. The cash received from stock options exercised for the same period in 2006 was \$1.0 million and the tax benefit of stock options exercised was \$1.3 million.

### General

The Company's revolving credit facility provides for maximum borrowings of \$15.2 million which is provided by the Bank of Oklahoma, National Association. Under the line of credit, there is one standby letter of credit totaling approximately \$600,000. The letter of credit is a requirement of the Company's workers compensation insurance and will expire December 31, 2007. Interest on borrowings is payable monthly at the Wall Street Journal prime rate less 0.5% or LIBOR plus 1.6%, at the election of the Company (6.92% at June 30, 2007). No fees are associated with the unused portion of the committed amount. At June 30, 2007 and December 31, 2006, the Company had no borrowings outstanding under the revolving credit facility. Borrowings available under the revolving credit facility at June 30, 2007, were \$14.6 million. The credit facility requires the Company to maintain certain financial ratios. At June 30, 2007, the Company was in compliance with its financial ratio covenants. On July 30, 2007, the line of credit's maturity date was extended to July 30, 2008.

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Management believes the Company's bank revolving credit facility (or comparable financing), and projected cash flows from operations will provide the necessary liquidity and capital resources to the Company for fiscal year 2007 and the foreseeable future. The Company's belief that it will have the necessary liquidity and capital resources is based upon its knowledge of the HVAC industry and its place in that industry, its ability to limit the growth of its business if necessary, its ability to authorize dividend cash payments, and its relationship with its existing bank lender. For information concerning the Company's revolving credit facility at June 30, 2007, see Note 6 to the financial statements included in this report.

### Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial

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statements and the reported amounts of revenues and expenses during the reporting period. Because these estimates and assumptions require significant judgment, future actual results could differ from those estimates and could have a significant impact on the Company's results of operations, financial position and cash flows. The Company reevaluates its estimates and assumptions on a monthly basis.

Effective January 1, 2007, the Company adopted FIN 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." FIN 48 provides guidance for the recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In accordance with FIN 48, the Company recognized a cumulative-effect adjustment of \$396,000, increasing its liability for unrecognized tax benefits, interest and penalties and reducing the January 1, 2007 balance of retained earnings. See Note 9 for more information on income taxes.

Except for the adoption of FIN 48 and EITF 06-3, there have been no significant changes in critical accounting policies or management estimates since the year ended December 31, 2006. A comprehensive discussion of the Company's critical accounting policies and management estimates is included in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

### New Accounting Pronouncements

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement No. 109, Accounting for Income Taxes. This interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recorded a \$551,000 increase in the liability for unrecognized tax benefits, which is offset by an increase of the deferred tax assets of \$155,000, resulting in a decrease to the January 1, 2007, retained earnings balance of \$396,000 (for additional information see Note 8 to the Consolidated Financial Statements).

In June 2006, the EITF reached a consensus on Issue 06-3, How Sales Tax Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement. The guidance requires that a company disclose its accounting policy (i.e., gross or net presentation) regarding presentation of taxes within the scope of EITF 06-3. If taxes are reported on a gross basis, a company should disclose the amount of such taxes for each period for which an income statement is presented. EITF 06-3 is effective for fiscal periods beginning after December 15, 2006. The Company presents sales net of sales taxes. Accordingly, this issue will not have a financial impact to the Company.

In September 2006, the FASB released SFAS No. 157, Fair Value Measurements. SFAS 157 defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Although SFAS 157 applies to (and amends) the provisions of existing authoritative literature, it does not, of itself, require any new fair value measurements or establish valuation standards. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007,

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and interim periods within those fiscal years. The Company will adopt SFAS 157 on January 1, 2008. Adoption of SFAS 157 is not expected to have a material impact on the Company's Consolidated Financial Statements.

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In February, 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, which creates an alternative measurement treatment for certain financial assets and financial liabilities. SFAS 159 permits fair value to be used for both the initial and subsequent measurements on an instrument by instrument basis, with changes in the fair value to be recognized in earnings as those changes occur. This election is referred to as the fair value option. SFAS 159 also requires additional disclosures to compensate for the lack of comparability that will arise from the use of the fair value option. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 159 on January 1, 2008. Adoption of SFAS 159 is not expected to have a material impact on the Company's Consolidated Financial Statements.

### 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", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. The Company undertakes no 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.

The Company is subject to interest rate risk on its revolving credit facility which bears variable interest based upon a prime or LIBOR rate. The Company had no outstanding balance as of June 30, 2007.

Foreign sales accounted for less than 5% of the Company's sales for the six months ended June 30, 2007, and the Company accepts payment for such sales in U.S. and Canadian dollars; therefore, the Company believes it is not exposed to significant foreign currency exchange rate risk on these sales. Foreign currency transactions and financial statements are translated in accordance with Statement of Financial Standards No. 52, Foreign Currency Translation. The Company uses the U.S. dollar as its functional currency, except for the Company's Canadian subsidiaries, which use the Canadian dollar. Adjustments arising from translation of the Canadian subsidiaries' financial statements are reflected in accumulated other comprehensive income in the Consolidated Statements of Stockholders' Equity. Transaction gains or losses that arise from exchange rate fluctuations applicable to transactions are denominated in Canadian currency and are included in the results of operations as incurred. The exchange rate of the United States dollar to the Canadian dollar was \$0.94 and

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\$0.90 at June 30, 2007, and June 30, 2006, respectively.

Important raw materials purchased by the Company are steel, copper and aluminum, which are subject to price fluctuations. The Company attempts to limit the impact of price increases on these materials by entering cancelable fixed price contracts with its major suppliers for periods of 6 -12 months, however; in 2006 cost increases in basic commodities, such as steel, copper and aluminum, severely impacted profit margins. Continued volatility in prices may impact profit margins in future periods.

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

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### Item 4. Controls and Procedures.

#### Evaluation of Disclosure Controls and Procedures

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

- o The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and
- o The Company's disclosure controls and procedures operate such that important information flows to appropriate collection and disclosure points in a timely manner and are effective to ensure that such information is accumulated and communicated to the Company's management, and made known to the Company's Chief Executive Officer and Chief Financial Officer, particularly during the period when this Quarterly Report was prepared, as appropriate to allow timely decisions regarding the required disclosure.

AAON's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures and concluded that these controls and procedures were effective as of June 30, 2007.

#### Changes in Internal Control over Financial Reporting

There have been no changes in internal control over financial reporting that occurred during 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II - OTHER INFORMATION

### Item 1A. Risk Factors.

There have been no material changes from risk factors as previously disclosed in the Company's Form 10-K in response to Item 1A, to Part I of its Form 10-K.

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

Following repurchases of approximately 12% of its outstanding Common Stock between September 1999 and September 2001, the Company announced and began a stock repurchase program on October 17, 2002, targeting repurchases of up to an additional 10% (1,325,000 shares) of its outstanding stock. Through December 31, 2005, the Company had repurchased a total of 1,257,864 shares under this program for an aggregate price of \$22,034,568, or an average of \$17.52 per share. On February 14, 2006, the Board of Directors approved the suspension of the Company's repurchase program.

On July 1, 2005, the Company entered into a stock repurchase arrangement by which employee-participants in AAON's 401(k) savings and investment plan are entitled to have shares of AAON stock in their accounts sold to the Company to provide diversification of their investments. The maximum number of shares to be repurchased is unknown under the program as the amount is contingent on the number of shares sold by employees. Through June 30, 2007, the Company repurchased 287,713 shares for an aggregate price of \$6,321,000 or an average price of \$21.97 per share. The Company purchases the shares at the current market price.

On November 7, 2006, the Board of Directors authorized the Company to repurchase shares from certain directors following their exercise of stock options expiring on March 11, 2007. To date, the Company repurchased 64,875 shares for an aggregate price of \$1,799,000 or an average price of \$27.73.

Repurchases during the second quarter of 2007 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
Month #1 April 1-30, 2007	6,876	\$ 25.64	6,876	-
Month #2 May 1-31, 2007	31,046	\$ 28.88	11,046	-
Month #3 June 1-30, 2007	7,438	\$ 30.56	7,438	-
Total	45,360	\$ 28.67	25,360	-

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

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At the Company's Annual Meeting of Stockholders held on May 22, 2007, Thomas E Naugle was reelected as a director for a three-year term by a vote of 10,933,999 shares "For", 16,567 shares "Against" and 489,812 shares "Abstain". In addition, at the Annual Meeting the position on the Board of Directors formerly held by Jerry E. Ryan was held open as a "vacancy" on the Board, to be subsequently filled by the Board when a suitable replacement has been selected. This was approved by a vote of 9,557,670 shares "For", 350,180 shares "Against", and 42,381 shares "Abstain". Other directors whose terms of office continued after the meeting are: Anthony Pantaleoni and Jack E. Short whose terms end in 2008 and Norman H. Asbjornson, John B. Johnson, Jr. and Charles C. Stephenson, Jr., whose terms end in 2009.

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In addition, at the Annual Meeting adoption of the Company's Long-Term Incentive Plan as described in Note 7, Stock Compensation, was approved by a vote of 8,913,032 shares "For", 984,141 shares "Against" and 53,058 shares "Abstain".

Item 5. Other Information.

The Board of Directors voted to initiate a semi-annual cash dividend of \$0.20 per share to the holders of the outstanding Common Stock of the Company as of the close of business on June 11, 2007, the record date, payable on July 2, 2007.

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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 8, 2007

By: /s/ Norman H. Asbjornson

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Norman H. Asbjornson  
President/CEO

Dated: August 8, 2007

By: /s/ Kathy I. Sheffield

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Kathy I. Sheffield  
Vice President/CFO

