FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
SEC Accession No. 0001026608-01-500015

FILER

AAON INC
CIK:**824142**| IRS No.: **870448736** | State of Incorp.:**NV** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-18953** | Film No.: **1696745**
SIC: **3585** Air-cond & warm air heatg equip & comm & indl refrig equip

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the quarterly period ended June 30, 2001

Commission file number: 33-183336-LA

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

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

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

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

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

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date. 5,780,474 shares of $.004 par value Common Stock.

Page

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

On pages 3 through 8 of this report.

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

Results of Operations. Net sales increased by $6,102,000, up 8.2% (from $74,853,000 to $80,955,000), during the six-month period ended June 30, 2001, compared to the same period in 2000. Sales to existing customers in the first half of 2001 accounted for 88% of the Company's business, with 12% coming from new business. The increase in sales in 2001 resulted from increases in the Company's market share in all areas of its business, aided by both new products introductions and newly developed versions of existing product lines. The increase was attributable to more sales generated by manufacturers' representations and replacement business.

Gross profit increased in the first half of 2001 to 27.4% compared to 23.2% in the same period in 2000. The increase in margins was attributable to growth and stability of the Company's work force which contributed to a significant reduction in overtime expense and improved manufacturing efficiencies.

SG&A expenses rose $2,913,000 (41.0%) during the six months ended June 30, 2001, compared to 2000, primarily due to increases in warranty and bad debt reserves.

Net income during the first half of 2001 ($7,392,000) increased almost twice the rate of sales (16.0% vs. 8.2%) compared to the same period in 2000, due to the increase in sales and improvement in gross margins.

Management expects sales and earnings to continue at record levels for the remainder of 2001.

Financial Condition and Liquidity. Accounts receivable increased by $2,782,000 at June 30, 2001, compared to December 31, 2000, due to the sales increase.

Property, plant and equipment increased $5,032,000, at June 30, 2001, reflecting additions to buildings, machinery and equipment, offset in part by greater depreciation. All capital expenditures in the first half of 2001 were financed out of cash flow and borrowings under the Company's revolving credit bank loan.

Current liabilities were up $1,326,000 reflecting higher reserves and accrued liabilities related to the increase in sales and production.

The capital needs of the Company are met primarily by its bank revolving credit facility. Management believes this bank debt (or comparable financing), term loans and projected profits from operations will provide the necessary liquidity and capital resources to the Company for the foreseeable future. The Company's belief that it will have the necessary liquidity and capital resources is based upon its knowledge of the HVAC industry and its place in that industry, its ability to limit the growth of its business if necessary, and its relationship with its existing bank lender.

For information concerning the Company's long-term debt at June 30, 2000, see Note 3 to the Financial Statements on pages 7 and 8 of this report.

Forward-Looking Statements

This Report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects", "anticipates", "intends", "plans" "believes", "seeks", "estimates", "will", 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 actual results to differ materially from those in the forward-looking statements include (1) the timing and extent of changes in material 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.

While the Company is exposed to changes in interest rates regarding its total debt of $14,942,000, a hypothetical 10% change in interest rates on its variable rate borrowings would not have a material effect on the Company's earnings or cash flow.

Foreign sales account for less than 2% of the Company's total sales and the Company accepts payment for such sales only in U.S. dollars; hence, the

Company is not exposed to any foreign currency exchange rate risk.

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 negotiating with each of its major suppliers on a term basis from six months to three years.

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

At the Company's Annual Meeting of Stockholders held on May 22, 2001, Joseph M. Klein and Thomas E. Naugle were reelected as directors for three-year terms, with each receiving 99.9% of the votes cast (5,669,893 shares "For", 35 shares "Against" and 4,435 shares "Withheld Authority" as to Mr. Naugle and 5,667,393 shares "For", 2,535 shares "Against" and 4,435 shares "Withheld Authority" as to Mr. Klein. Other directors whose terms of office continued after the meeting are: William A. Bowen and Anthony Pantaleoni, whose terms end in 2002, and Norman H. Asbjornson, John B. Johnson, Jr., and Charles C. Stephenson, Jr., whose terms end in 2003.

<TABLE>

AAON, Inc.
Consolidated Balance Sheets

	June 30, 2001*	December 31, 2000
	(In Thousands, except per share data)	
<CAPTION>		
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash	$ 13	$ 17
Accounts receivable	31,029	28,247
Inventories	15,110	15,140
Prepaid expenses	537	245
Deferred income tax	3,709	3,709
Total current assets	50,398	47,358
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	885	885
Buildings	16,642	16,594
Machinery and equipment	34,781	27,869
Furniture and fixtures	3,251	3,175
Total Property, Plant & Equipment	55,559	48,523
Less: accumulated depreciation	21,067	19,063
Net property, plant & equipment	34,492	29,460
Total Assets	$ 84,890	$ 76,818
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 8,349	$ 11,691
Accrued liabilities	15,286	12,351
Current maturities of long-term debt	9,593	7,860
Total Current Liabilities	33,228	31,902
DEFFERED TAX LIABILITY	2,051	2,051
LONG-TERM DEBT	5,349	5,853
STOCKHOLDERS' EQUITY		
Common Stock, $.004par, 50,000,000 shares authorized, 5,780,474 issued and outstanding	23	23
Preferred Stock, 5,000,000 shares authorized, no shares issued		
Additional paid-in capital	175	-
Retained earnings	44,064	36,989

Total stockholders' equity	44,262	37,012
Total Liabilities and Stockholders' Equity	$ 84,890	$ 76,818

* unaudited
</TABLE>

<TABLE>

AAON, Inc.
Consolidated Statements of Operations

<CAPTION>

<S>	Three Months Ended June 30, 2001*	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001*	Six Months Ended June 30, 2000
	(In Thousands, except per share data)			
Sales, net	$ 41,520	$ 39,388	$ 80,955	$ 74,853
Cost of Sales	30,638	30,825	58,811	57,455
Gross Profit	10,882	8,563	22,144	17,398
Selling, general and administrative expenses	4,669	3,197	10,019	7,106
Income from operations	6,213	5,366	12,125	10,292
Interest expense	312	208	608	382
Other (income) expense	(135)	(79)	(235)	(187)
Income before income taxes	6,036	5,237	11,752	10,097
Income tax provision	2,220	1,909	4,360	3,724
Net Income	$ 3,816	$ 3,328	$ 7,392	$ 6,373
Earnings Per Share:				
Basic	$ 0.66	$ 0.57	$ 1.28	$ 1.08
Diluted	$ 0.63	$ 0.54	$ 1.22	$ 1.02
Weighted Average Shares Outstanding:				
Basic	5,757,909	5,876,681	5,754,904	5,915,444
Diluted	6,035,939	6,212,690	6,039,670	6,221,608

*unaudited
</TABLE>

<TABLE>

AAON, Inc.
Consolidated Statements of Stockholders' Equity

<CAPTION>

<S>	Common Stock Shares	Common Stock Amount	Paid In Capital	Retained Earnings	Total
			(In Thousands)		
Balance, December 31, 2000	5,763	$ 23	$ -	$ 36,989	$ 37,012
Stock Option Exercise	37		248		248
Repurchase of Common Stock*	(20)		(73)	(317)	(390)

Net Income*				7,392	7,392
Balance, June 30, 2001*	5,780	$ 23	$ 175	$ 44,064	$ 44,262

* unaudited
</TABLE>

<TABLE>

AAON, Inc.
Consolidated Statements of Cash Flows

<CAPTION>

<S>	Six Months Ended June 30, 2001* <C>	Six Months Ended June 30, 2000 <C>
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 7,392	$ 6,373
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and Amortization	2,004	1,634
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts Receivable	(2,782)	(1,796)
Inventories	30	(973)
Prepaid Expenses	(292)	(4)
Accounts Payable	(3,342)	85
Accrued Liabilities	2,935	3,161
Total Adjustments	(1,447)	2,107
Net cash provided by (used in) Operating Activities	5,945	8,480
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures	(7,036)	(6,479)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing under Revolving Credit Agreement	38,205	35,284
Payments under Revolving Credit Agreement	(36,472)	(30,055)
Changes in long-term debt	(504)	(199)
Exercise of Stock Options	248	373
Repurchase of Common Stock	(390)	(7,416)
Net cash provided by (used in) financing activities	1,087	(2,013)
NET CHANGE IN CASH	(4)	(12)
CASH, beginning of period	17	25
CASH, end of period	$ 13	$ 13

*unaudited
</TABLE>

AAON, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2001

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, 2000, filed by AAON, Inc. with the SEC. Certain reclassifications of prior year amounts have been made to conform to current year presentations. These reclassifications had no impact on net income. However, management believes that no adjustments to the financial statements are necessary.

2. INVENTORIES:

Inventories at June 30, 2001 (unaudited), and December 31, 2000, consist of the following:

	June 30, 2001	December 31, 2000
Raw Materials	$ 8,994,000	$ 9,701,000
Work in Process	2,562,000	1,967,000
Finished Goods	3,554,000	3,472,000
	$15,110,000	$15,140,000

3. LONG-TERM DEBT:

Long-term debt at June 30, 2001 (unaudited), and December 31, 2000, consists of the following:

	June 30, 2001	December 31, 2000
$15,150,000 bank line of credit with interest payable monthly at LIBOR plus 1.60% (5.59% at June 30, 2001) due July 31, 2001	$ 8,650,000	$ 6,917,000
Three notes payable due in 84 equal installments totaling $36,489, plus interest at 7.47%, and 7.52%, collateralized by machinery and equipment	1,634,000	6,796,000

Three notes payable due in 120 equal installments totaling $42,100, plus interest at the commercial paper rate plus 1.55% (7.29% June 30, 2001), collateralized by machinery and equipment	4,658,000	-0-

	14,942,000	13,713,000
Less Current Maturities	9,593,000	7,860,000
	$ 5,349,000	$ 5,853,000

In July 2000, the bank line of credit was amended to a maturity date of July 31, 2001.

4. NEW ACCOUNTING PRONOUNCEMENTS:

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. Companies must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133, as amended by SFAS No. 137 and No. 138, is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 cannot be applied retroactively and must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. The Company adopted SFAS No. 133, on January 1, 2001. The adoption of SFAS No. 133 did not have a material impact on the Company financial statements.

5. FOOTNOTES INCORPORATED BY REFERENCE:

Certain footnotes are applicable to the financial statements, but would be substantially unchanged from those presented in the December 31, 2000, 10-K filed with the SEC. Accordingly, reference should be made to this statement for the following:

Note	Description
1	Business and Summary of Significant Accounting Policies
4	Income Taxes
5	Benefit Plans
6	Shareholder Rights Plan
8	Litigation

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits - None.

(b) Registrant did not file any reports on Form 8-K during the three-month period ended June 30, 2001.

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: July 30, 2001

By: /s/ Norman H. Asbjornson

Norman H. Asbjornson
President

Dated: July 30, 2001 By: /s/ Kathy I. Sheffield

Kathy I. Sheffield

Treasurer