

AAON INC
Form 10-Q
August 08, 2013

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, 2013
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

(State or other jurisdiction

of incorporation or organization)

2425 South Yukon, Tulsa, Oklahoma 74107

(Address of principal executive offices)

(Zip Code)

87-0448736

(IRS Employer

Identification No.)

(918) 583-2266

(Registrant's telephone number, including area code)

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

Yes

No

Indicate by check mark whether the registrant has submitted electronically 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

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

Accelerated filer

Edgar Filing: AAON INC - Form 10-Q

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

As of August 5, 2013, registrant had outstanding a total of 36,726,733 shares of its \$.004 par value Common Stock.

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

	June 30, 2013	December 31, 2012
	(in thousands, except share and per share data)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,415	\$ 3,159
Certificates of deposit	3,460	3,120
Investments held to maturity at amortized cost	7,353	2,832
Accounts receivable, net	50,108	43,866
Income tax receivable	410	694
Note receivable	29	28
Inventories, net	34,131	32,614
Prepaid expenses and other	900	740
Deferred tax assets	5,605	4,493
Total current assets	121,411	91,546
Property, plant and equipment:		
Land	1,340	1,340
Buildings	60,126	59,761
Machinery and equipment	118,253	117,617
Furniture and fixtures	9,322	8,906
Total property, plant and equipment	189,041	187,624
Less: Accumulated depreciation	102,963	96,929
Property, plant and equipment, net	86,078	90,695
Certificates of deposit	1,298	2,120
Investments held to maturity at amortized cost	11,475	8,041
Note receivable	952	1,091
Total assets	\$ 221,214	\$ 193,493
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit facility	\$ —	\$ —
Accounts payable	13,858	13,047
Dividends payable	3,712	—
Accrued liabilities	36,045	26,578
Total current liabilities	53,615	39,625
Deferred revenue	201	—
Deferred tax liabilities	14,878	15,732
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.001 par value, 16,875,000 shares authorized, no shares issued*	—	—
Common stock, \$.004 par value, 168,750,000 shares authorized, 36,754,988 and 36,776,624 issued and outstanding at June 30, 2013 and December 31, 2012, respectively*	147	147
Additional paid-in capital	—	—
Retained earnings	152,373	137,989

Edgar Filing: AAON INC - Form 10-Q

Total stockholders' equity	152,520	138,136
Total liabilities and stockholders' equity	\$221,214	\$193,493

*Reflects three-for-two stock split effective July 2, 2013

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

- 1-

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands, except share and per share data)			
Net sales	\$91,241	\$83,333	\$158,074	\$148,290
Cost of sales	63,565	62,230	115,086	113,669
Gross profit	27,676	21,103	42,988	34,621
Selling, general and administrative expenses	9,089	6,899	16,056	12,880
(Gain) loss on disposal of assets	(59	) 10	(52	) (13
Income from operations	18,646	14,194	26,984	21,754
Interest expense	—	(11	) (1	) (27
Interest income	57	2	92	15
Other income (expense), net	253	(51	) 237	(3
Income before taxes	18,956	14,134	27,312	21,739
Income tax provision	6,837	4,837	8,053	7,875
Net income	\$12,119	\$9,297	\$19,259	\$13,864
Earnings per share:				
Basic*	\$0.33	\$0.25	\$0.52	\$0.38
Diluted*	\$0.33	\$0.25	\$0.52	\$0.37
Cash dividends declared per common share*:	\$0.10	\$0.08	\$0.10	\$0.08
Weighted average shares outstanding:				
Basic*	36,759,718	36,828,650	36,760,173	36,854,913
Diluted*	37,150,262	37,091,528	37,056,201	37,124,982

*Reflects three-for-two stock split effective July 2, 2013

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

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

	Common Stock Shares*	Amount*	Paid-in Capital	Retained Earnings*	Total
	(in thousands)				
Balances at December 31, 2012	36,777	\$ 147	\$—	\$ 137,989	\$ 138,136
Net income	—	—	—	19,259	19,259
Stock options exercised and restricted stock awards vested, including tax benefits	139	1	1,151	—	1,152
Share-based compensation	—	—	695	—	695
Stock repurchased and retired	(161	) (1	) (1,846	) (1,163	) (3,010
Dividends**	—	—	—	(3,712	) (3,712
Balances at June 30, 2013	36,755	\$ 147	\$—	\$ 152,373	\$ 152,520

*Reflects three-for-two stock split effective July 2, 2013

**Includes cash payment of fractional shares from three-for-two stock split effective July 2, 2013

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,	
	2013	2012
	(in thousands)	
Operating Activities		
Net income	\$ 19,259	\$ 13,864
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,268	6,747
Amortization of bond premiums	304	20
Provision for losses on accounts receivable, net of adjustments	102	(1
Provision for excess and obsolete inventories	201	—
Share-based compensation	695	364
Excess tax benefits from stock options exercised and restricted stock awards vested	(385	) (33
Gain on disposition of assets	(52	) (13
Foreign currency transaction gain	43	7
Interest income on note receivable	(20) —
Deferred income taxes	(1,966	) (875
Write-off of note receivable	75	—
Changes in assets and liabilities:		
Accounts receivable	(6,344	) (17,949
Income tax receivable	3,942	5,801
Inventories	(1,718	) (4,194
Prepaid expenses and other	(160	) (91
Accounts payable	1,101	4,215
Deferred revenue	201	—
Accrued liabilities	6,194	11,714
Net cash provided by operating activities	27,740	19,576
Investing Activities		
Capital expenditures	(1,949	) (8,091
Proceeds from sale of property, plant and equipment	60	306
Investment in certificates of deposits	(958	) (4,274
Maturities of certificates of deposits	1,440	—
Purchases of investments held to maturity	(9,969	) (5,624
Maturities of investments	1,710	—
Proceeds from called investment	—	270
Principal payments from note receivable	40	15
Net cash used in investing activities	(9,626	) (17,398
Financing Activities		
Borrowings under revolving credit facility	2,321	27,108
Payments under revolving credit facility	(2,321	) (24,424
Stock options exercised	767	69
Excess tax benefits from stock options exercised and restricted stock awards vested	385	33
Repurchase of stock	(3,010	) (1,895
Net cash (used in) provided by financing activities	(1,858	) 891

Edgar Filing: AAON INC - Form 10-Q

Net increase in cash and cash equivalents	16,256	3,069
Cash and cash equivalents, beginning of period	3,159	13
Cash and cash equivalents, end of period	\$ 19,415	\$ 3,082

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

- 4-

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

1. 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, 2012 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, 2012. All inter-company balances and transactions have been eliminated in consolidation.

We are engaged in the manufacture and sale of air conditioning and heating equipment consisting of rooftop units, chillers, air-handling units, make-up air units, heat recovery units, condensing units 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 on a monthly basis. The most significant estimates include, but are not limited to, the allowance for doubtful accounts, inventory reserves, warranty accrual, workers compensation accrual, medical insurance accrual 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, 2012. There have been no significant changes in our critical accounting policies.

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, we present 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 Product 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 \$15.2 million and \$15.1 million for each of the three months ended June 30, 2013 and 2012, respectively. The amount of payments to our representatives were \$28.8 million and \$28.0 million for each of the six months ended June 30, 2013 and 2012, 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 \$4.8 million and \$5.2 million in certificates of deposit at June 30, 2013, and December 31, 2012, respectively. At June 30, 2013, the certificates of deposit bear interest ranging from 0.25% to 0.85% per annum and have various maturities ranging from approximately five months to two years.

Investments Held to Maturity – Our investments held to maturity are comprised of \$18.8 million of corporate notes and bonds with original maturities ranging from less than one month to 22 months. The investments have moderate risk with S&P ratings ranging from A+ 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, 2013 and December 31, 2012:

	Amortized Cost (in thousands)	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
June 30, 2013:				
Current assets:				
Investments held to maturity	\$7,353	\$3	\$—	\$7,356
Non current assets:				
Investments held to maturity	11,475	—	(59	) 11,416
Total	\$18,828	\$3	(\$59	) \$18,772
December 31, 2012:				
Current assets:				
Investments held to maturity	\$2,832	\$—	\$(1	) \$2,831
Non current assets:				
Investments held to maturity	8,041	—	(9	) 8,032

Edgar Filing: AAON INC - Form 10-Q

Total	\$10,873	\$—	\$(10) \$10,863
-------	----------	-----	-------	------------

- 6-

4. Accounts Receivable

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

	June 30, 2013	December 31, 2012
	(in thousands)	
Accounts receivable	\$50,262	\$43,918
Less: Allowance for doubtful accounts	(154)	(52)
Total, net	\$50,108	\$43,866

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(in thousands)			
Allowance for doubtful accounts:				
Balance, beginning of period	\$321	\$261	\$52	\$268
Provisions for losses on accounts receivables	(167)	(6)	102	(1)
Accounts receivable written off, net of recoveries	—	(13)	—	(25)
Balance, end of period	\$154	\$242	\$154	\$242

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, 2013	December 31, 2012
	(in thousands)	
Raw materials	\$29,606	\$28,155
Work in process	2,477	2,757
Finished goods	2,585	2,065
	34,668	32,977
Less: Allowance for excess and obsolete inventories	(537)	(363)
Total, net	\$34,131	\$32,614

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

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(in thousands)			
Allowance for excess and obsolete inventories:				
Balance, beginning of period	\$532	\$300	\$363	\$300
Provisions for excess and obsolete inventories	5	—	201	—
Inventories written off	—	—	(27)	—
Balance, end of period	\$537	\$300	\$537	\$300

6. Supplemental Cash Flow Information

	Three months ended		Six months ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Supplemental disclosures:	(in thousands)			
Interest paid	\$—	\$2	\$—	\$26
Income taxes paid	5,904	3,700	6,089	3,700
Non-cash investing and financing activities:				
Non-cash capital expenditures	274	(2,750	) 290	(1,356
Trade-in of equipment	—	—	—	300

7. Warranties

The Company has warranties with various terms from eighteen months for parts to twenty-five 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, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Warranty accrual:	(in thousands)			
Balance, beginning of period	\$5,890	\$6,086	\$5,776	\$6,093
Payments made	(1,184	) (1,370	) (1,917	) (2,092
Provisions	2,060	1,859	2,907	2,574
Balance, end of period	\$6,766	\$6,575	\$6,766	\$6,575
Warranty expense:	\$2,196	\$1,859	\$3,043	\$2,574

8. Accrued Liabilities

Accrued liabilities are as follows:

June 30, 2013	December 31, 2012
---------------	----------------------