AAON INC
Form 10-Q
November 07, 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 September 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	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 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

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 November 5, 2013, registrant had outstanding a total of 36,748,489 shares of its $.004 par value Common Stock.

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

	September 30, 2013	December 31, 2012
Assets	(in thousands, except share and per share data)	
Current assets:		
Cash and cash equivalents	$2,289	$3,159
Certificates of deposit	8,186	3,120
Investments held to maturity at amortized cost	11,421	2,832
Accounts receivable, net	46,129	43,866
Income tax receivable	1,769	694
Note receivable	29	28
Inventories, net	33,383	32,614
Prepaid expenses and other	619	740
Deferred tax assets	5,296	4,493
Total current assets	109,121	91,546
Property, plant and equipment:		
Land	1,353	1,340
Buildings	60,435	59,761
Machinery and equipment	122,356	117,617
Furniture and fixtures	9,539	8,906
Total property, plant and equipment	193,683	187,624
Less: Accumulated depreciation	105,975	96,929
Property, plant and equipment, net	87,708	90,695
Certificates of deposit	4,483	2,120
Investments held to maturity at amortized cost	17,867	8,041
Note receivable	959	1,091
Total assets	$220,138	$193,493
Liabilities and Stockholders' Equity		
Current liabilities:		
Revolving credit facility	$—	$—
Accounts payable	12,795	13,047
Accrued liabilities	30,314	26,578
Total current liabilities	43,109	39,625
Deferred revenue	358	—
Deferred tax liabilities	14,741	15,732
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value, 5,000,000 shares authorized, no shares issued	—	—
Common stock, $.004 par value, 168,750,000 shares authorized, 36,709,890 and 36,776,624 issued and outstanding at September 30, 2013 and December 31, 2012, respectively*	147	147
Additional paid-in capital	—	—
Retained earnings	161,783	137,989
Total stockholders' equity	161,930	138,136

Total liabilities and stockholders' equity	$220,138	$193,493

*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 Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(in thousands, except share and per share data)			
Net sales	$89,690	$76,816	$247,764	$225,106
Cost of sales	63,074	59,667	178,160	173,336
Gross profit	26,616	17,149	69,604	51,770
Selling, general and administrative expenses	9,687	6,747	25,743	19,627
Gain on disposal of assets	—	4	52	17
Income from operations	16,929	10,406	43,913	32,160
Interest expense	(1)	(16)	(2)	(43)
Interest income	61	40	153	55
Other income (expense), net	15	53	252	50
Income before taxes	17,004	10,483	44,316	32,222
Income tax provision	6,482	4,476	14,535	12,351
Net income	$10,522	$6,007	$29,781	$19,871
Earnings per share:				
Basic*	$0.29	$0.16	$0.81	$0.54
Diluted*	$0.28	$0.16	$0.80	$0.54
Cash dividends declared per common share*:	$—	$—	$0.10	$0.08
Weighted average shares outstanding:				
Basic*	36,742,262	36,803,235	36,752,657	36,837,686
Diluted*	37,017,561	37,001,127	37,041,775	37,083,695

*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		Paid-in	Retained	
	Shares*	Amount*	Capital	Earnings*	Total
	(in thousands)				
Balances at December 31, 2012	36,777	$147	$—	$137,989	$138,136
Net income	—	—	—	29,781	29,781
Stock options exercised and restricted stock awards vested, including tax benefits	171	1	1,487	—	1,488
Share-based compensation	—	—	1,054	—	1,054
Stock repurchased and retired	(238)	(1)	(2,541)	(2,275)	(4,817)
Dividends**	—	—	—	(3,712)	(3,712)
Balances at September 30, 2013	36,710	$147	$—	$161,783	$161,930

*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)

	Nine Months Ended September 30,	
	2013	2012
Operating Activities	(in thousands)	
Net income	$29,781	$19,871
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,349	10,079
Amortization of bond premiums	545	80
Provision for losses on accounts receivable, net of adjustments	121	(7)
Provision for excess and obsolete inventories	468	—
Share-based compensation	1,054	625
Excess tax benefits from stock options exercised and restricted stock awards vested	(502)	(267)
Gain on disposition of assets	(52)	(17)
Foreign currency transaction gain (loss)	35	(40)
Interest income on note receivable	(31)	—
Deferred income taxes	(1,794)	(987)
Write-off of note receivable	75	—
Changes in assets and liabilities:		
Accounts receivable	(2,384)	(8,227)
Income tax receivable	1,753	5,801
Inventories	(1,237)	(2,702)
Prepaid expenses and other	121	148
Accounts payable	(227)	2,681
Deferred revenue	358	—
Accrued liabilities	1,410	11,375
Net cash provided by operating activities	38,843	38,413
Investing Activities		
Capital expenditures	(6,407)	(12,582)
Proceeds from sale of property, plant and equipment	72	311
Investment in certificates of deposits	(8,869)	(4,280)
Maturities of certificates of deposits	1,440	1,060
Purchases of investments held to maturity	(22,275)	(5,624)
Maturities of investments	3,315	—
Proceeds from called investment	—	270
Principal payments from note receivable	52	20
Net cash used in investing activities	(32,672)	(20,825)
Financing Activities		
Borrowings under revolving credit facility	8,325	34,847
Payments under revolving credit facility	(8,325)	(39,422)
Stock options exercised	986	1,053
Excess tax benefits from stock options exercised and restricted stock awards vested	502	267
Repurchase of stock	(4,817)	(4,379)
Cash dividends paid to stockholders	(3,712)	(2,950)

Net cash used in financing activities	(7,041)	(10,584)
Net (decrease) increase in cash and cash equivalents	(870)	7,004
Cash and cash equivalents, beginning of period	3,159	13
Cash and cash equivalents, end of period	$2,289	$7,017

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

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 intercompany 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 as needed, but at a minimum on a quarterly basis. The most significant estimates include, but are not limited to, the allowance for doubtful accounts, inventory reserves, warranty accrual, worker's compensation accrual, medical insurance accrual, income taxes and share-based compensation. Actual results could differ materially from those estimates.

Accounting Policies

A comprehensive discussion of our critical accounting policies and management estimates is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 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 Products amounts ("Due to Representatives") are paid only after all amounts associated with the order are collected from the customer. The amount of payments to our representatives were $20.3 million and $14.8 million for the three months ended September 30, 2013 and 2012, respectively. The amount of payments to our representatives were $49.1 million and $42.8 million for each of the nine months ended September 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 $12.7 million and $5.2 million in certificates of deposit at September 30, 2013, and December 31, 2012, respectively. At September 30, 2013, the certificates of deposit bear interest ranging from 0.10% to 0.90% per annum and have various maturities ranging from approximately two months to 18 months.

Investments Held to Maturity – Our investments held to maturity are comprised of $29.3 million of corporate notes and bonds with original maturities ranging from less than one month to approximately 18 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 September 30, 2013 and December 31, 2012:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
September 30, 2013:	(in thousands)			
Current assets:				
Investments held to maturity	$11,421	$3	$—	$11,424
Non current assets:				
Investments held to maturity	17,867	—	(20)	17,847
Total	$29,288	$3	$(20)	$29,271
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

Total	$10,873	$—	$(10)	$10,863

4. Accounts Receivable

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

	September 30, 2013	December 31, 2012
	(in thousands)	
Accounts receivable	$46,302	$43,918
Less: Allowance for doubtful accounts	(173)	(52)
Total, net	$46,129	$43,866

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Allowance for doubtful accounts:	(in thousands)			
Balance, beginning of period	$154	$242	$52	$268
Provisions for losses on accounts receivables	19	(7)	121	(8)
Accounts receivable written off, net of recoveries	—	(3)	—	(28)
Balance, end of period	$173	$232	$173	$232

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.

	September 30, 2013	December 31, 2012
	(in thousands)	
Raw materials	$27,096	$28,155
Work in process	3,691	2,757
Finished goods	3,400	2,065
	34,187	32,977
Less: Allowance for excess and obsolete inventories	(804)	(363)
Total, net	$33,383	$32,614

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

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Allowance for excess and obsolete inventories:	(in thousands)			
Balance, beginning of period	$537	$300	$363	$300
Provisions for excess and obsolete inventories	267	—	468	—
Inventories written off	—	—	(27)	—
Balance, end of period	$804	$300	$804	$300

6. Supplemental Cash Flow Information

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Supplemental disclosures:	(in thousands)			
Interest paid	$1	$24	$1	$50
Income taxes paid	8,915	7,500	15,004	11,200
Non-cash investing and financing activities:				
Non-cash capital expenditures	(265)	(1,723)	25	(3,079)
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		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Warranty accrual:	(in thousands)			
Balance, beginning of period	$6,766	$6,575	$5,776	$6,093
Payments made	(1,477)	(1,036)	(3,394)	(3,128)
Provisions	2,238	1,129	5,145	3,703
Balance, end of period	$7,527	$6,668	$7,527	$6,668
Warranty expense:	$2,289	$1,129	$5,332	$3,703

8. Accrued Liabilities

Accrued liabilities are as follows:

	September 30, 2013	December 31, 2012
	(in thousands)	
Warranty	$7,527	$5,776
Due to representatives	10,090	9,439
Payroll	3,676	3,852
Worker's compensation	678	928
Medical self-insurance	505	420
Customer prepayments	1,855	3,933
Income tax payable	2,326	—
Employee benefits and other	3,657	2,230
Total	$30,314	$26,578

9. Revolving Credit Facility

Our revolving credit facility provides for maximum borrowings of $30.0 million which is provided by BOKF, NA dba Bank of Oklahoma, formerly known as Bank of Oklahoma, N.A. ("Bank of Oklahoma"). Under the line of credit, there is one standby letter of credit totaling $0.9 million. Borrowings available under the revolving credit facility at September 30, 2013, were $29.1 million. Interest on borrowings is payable monthly at LIBOR plus 2.5%. No fees are associated with the unused portion of the committed amount. We had no outstanding balance under the revolving credit facility at September 30, 2013 and December 31, 2012. Our weighted average interest rate was 2.69% at September 30, 2013 and 2.80% at December 31, 2012.

As of September 30, 2013, we were in compliance with our financial covenants. These covenants require that we meet certain parameters related to our tangible net worth, total liabilities to tangible net worth ratio and working capital. At September 30, 2013 our tangible net worth was $161.9 million and met the requirement of being at or above $95.0 million. Our total liabilities to tangible net worth ratio was 0.36 to 1, and met the requirement of not being above 2 to 1. Our working capital was $66.0 million and met the requirement of being at or above $40.0 million.

Effective July 28, 2013, the Company amended its revolving credit facility with the Bank of Oklahoma. The amendment extends the termination date of the revolving credit facility to July 27, 2014.

10. Income Taxes

Income tax expense for each of the three months ended September 30, 2013 and 2012, was $6.5 million, or 38.1% of pre-tax income, and $4.5 million, or 42.7% of pre-tax income, respectively. Income tax expense for each of the nine months ended September 30, 2013 and 2012, was $14.5 million, or 32.8% of pre-tax income and $12.4 million, or 38.3% of pre-tax income, respectively. The effective tax rate in 2012 was higher due to the loss of certain tax credits, as discussed below. Also, in the third quarter of 2012, the Company had some return to provision adjustments that caused the effective rate for that quarter to be higher than normal. The Company’s estimated annual effective tax rate for the year 2013 is 33.4%. This differs from the U.S. federal statutory rate of 35% due to items such as state and local income taxes, Domestic Activities Deduction and various other federal and state income tax credits. Additionally, the income tax provision for the nine months ended September 30, 2013 reflects discrete benefits related to the Research and Development (“R&D”) Credit and the Indian Employment Credit that were recorded in the first quarter of 2013. These federal credits were retroactively reinstated on January 2, 2013, with the enactment of the American Taxpayer Relief Act of 2012. No R&D Credit or Indian Employment Credit benefits were recorded in the income tax provision for 2012. The Company also had a change in estimate related to the recoverability of certain 2012 tax credits that was recorded in the first quarter of 2013, causing our effective tax rate to be lower than expected. This change in estimate was the result of additional and better information.

We file income tax returns in the U.S., state and foreign income tax returns jurisdictions. We are subject to U.S. examinations for tax years 2010 to present, and to non-U.S. income tax examinations for the tax years of 2007 through 2010. In addition, we are subject to state and local income tax examinations for the tax years 2009 to present. The Company continues to evaluate its need to file returns in various state jurisdictions and recorded $0.2 million in additional state income tax expense, net of federal benefit, during the second quarter ended June 30, 2013, related to our updated assessment of required state filings. Any interest or penalties would be recognized as a component of income tax expense.

11. Share-Based Compensation

As discussed in Note 13, the Company had a three-for-two stock split effective July 2, 2013. All share information herein has been updated to reflect the effect of this stock split.

We have historically maintained a stock option plan for key employees, directors and consultants ("the 1992 Plan"). The 1992 Plan provided for 9.9 million shares to be issued under the plan in the form of stock options. 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, our stockholders adopted a Long-Term Incentive Plan ("LTIP") which provides an additional 1,687,500 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. Under the LTIP, the exercise price of shares granted may not be less than 100% of the fair market value at the date of the grant.

The total pre-tax compensation cost related to unvested stock options not yet recognized as of September 30, 2013 is $2.0 million and is expected to be recognized over a weighted-average period of 2.3 years.

The following weighted average assumptions were used to determine the fair value of the stock options granted on the original grant date for expense recognition purposes for options granted during the nine months ended September 30, 2013 and 2012 using a Black Scholes Model:

	Nine months ended September 30, 2013		September 30, 2012	
Director and Officers:				
Expected dividend yield	1.19	%	1.23	%
Expected volatility	47.08	%	47.54	%
Risk-free interest rate	1.55	%	1.19	%
Expected life (in years)	7		7	
Employees:				
Expected dividend yield	1.14	%	1.23	%
Expected volatility	45.92	%	46.00	%
Risk-free interest rate	1.40	%	1.19	%
Expected life (in years)	8		8	

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

The following is a summary of stock options vested and exercisable as of September 30, 2013:

Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Intrinsic Value (in thousands)
$4.81-$6.47	74,100	2.27	$5.50	$1,561
$6.80-$8.65	209,850	4.58	7.18	4,067
$9.13-$13.05	192,183	7.66	11.32	2,929
Total	476,133	5.46	$8.59	$8,557

The following is a summary of stock options vested and exercisable as of September 30, 2012:

Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Intrinsic Value (in thousands)
$4.81-$6.47	140,025	2.90	$5.29	$1,072
$6.80-$8.65	277,125	4.93	7.43	1,527

$9.13-$11.17	73,650	8.14	10.28	196
$12.20-$14.38	2,250	8.18	12.20	2
Total	493,050	4.85	$7.27	$2,797

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

Options	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2012	1,115,513	$10.15
Granted	47,500	17.70
Exercised	(122,345)	7.93
Forfeited or Expired	(40,575)	11.80
Outstanding at September 30, 2013	1,000,093	$10.70
Exercisable at September 30, 2013	476,133	$8.59

The total intrinsic value of options exercised during the nine months ended September 30, 2013 and 2012 was $1.5 million and $2.1 million, respectively. The cash received from options exercised during the nine months ended September 30, 2013 and 2012 was $1.0 million and $1.1 million, respectively. The impact of these cash receipts is included in financing activities in the accompanying Consolidated Statements of Cash Flows.

Under the LTIP, the restricted stock award program offers the opportunity to earn shares of AAON Common Stock over time, rather than options that give the right to purchase stock at a set price. Restricted stock awards granted to directors vest one-third each year. All other restricted stock awards vest at a rate of 20% per year. Restricted stock awards are grants that entitle the holder to shares of common stock subject to certain terms. The fair value of restricted stock awards is based on the fair market value of AAON common stock on the respective grant dates, reduced for the present value of dividends.

These awards are recorded at their fair value on the date of grant and compensation cost is recorded using straight-line vesting over the service period. At September 30, 2013, unrecognized compensation cost related to unvested restricted stock awards was approximately $1.2 million, which is expected to be recognized over a weighted average period of 2.1 years.

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

Restricted stock	Shares	Weighted Average Grant Date Fair Value
Unvested at December 31, 2012	96,113	$12.11
Granted	36,304	19.29
Vested	(35,138)	12.17
Forfeited	(900)	8.50
Unvested at September 30, 2013	96,379	$14.83

A summary of share-based compensation is as follows:

	Three months ended		Nine months ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Grant date fair value of awards during the period:	(in thousands)			
Options	$110	$104	$382	$2,541
Restricted stock	51	353	700	649
Total	$161	$457	$1,082	$3,190
Share-based compensation expense:				
Options	$186	$175		