

Risk Factors Comparison 2025-02-27 to 2024-02-28 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text** Section

The following risks and uncertainties may affect our performance and results of operations. The discussion below contains “forward- looking statements” as outlined in the Forward- Looking Statements section above. Our ability to mitigate risks may cause our future results to materially differ from what we currently anticipate. Additionally, the ability of our competitors to react to material risks will affect our future results.

Risks Related to Our Business ~~the COVID-19 Pandemic~~ Our business, results of operations, ~~and~~ financial condition **may be disrupted**, cash flows, and stock price can **adversely affected by public health pandemics. Our business, results of operations and financial condition may be adversely affected if a** ~~by~~ **pandemics, epidemics, or other public health emergencies** ~~pandemic interferes with the ability of our employees, such suppliers, and other business partners to perform their respective responsibilities and obligations relative to the operations of our business. We monitor the outbreak of any public health pandemic and evaluate the impact on our business as information emerges~~ **COVID-19. In March 2020, The extent to which the World Health health** ~~Organization characterized COVID-19 as a pandemic; and the President of the United States declared the COVID-19 outbreak a national emergency. The outbreak resulted in governments around the world implementing increasingly stringent measures to help control the spread of the virus, including quarantines, “shelter in place” and “stay at home” orders, travel restrictions, business curtailments, school closures, vaccination or testing mandates and other measures. In addition, governments and central banks in several parts of the world enacted fiscal and monetary stimulus measures to counteract the impacts of COVID-19. We are considered a critical infrastructure industry, as defined by the U. S. Department of Homeland Security. Although we have continued to operate our facilities to date consistent with federal guidelines and state and local orders, the outbreak of COVID-19 and any preventive or protective actions taken by governmental authorities may have a material adverse effect on our operations~~ **business**, supply chain **chains**, customers, and transportation networks, including business shutdowns or disruptions. During 2023, 2022, and 2021 we experienced some price **prices of** increases in our components and raw materials; which appear to be a result of COVID-19 and subsequent inflation, as well **will depend on future developments** as supply chain challenges related to certain manufacturing parts. Even though the COVID-19 pandemic has subsided, we may experience materially adverse impacts to our business due to any resulting economic recession or depression. Additionally, concerns over the economic impact of COVID-19 have caused extreme volatility in financial and other capital markets which may **be highly uncertain** adversely impact our stock price and **cannot be predicted** our ability to access capital markets. ~~To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this Annual Report, such as those relating to our products and financial performance.~~ **Risks Related to Our Business** Our business can be hurt by economic conditions. Our business is affected by a number of economic factors, including the level of economic activity in the markets in which we operate. Sales in the commercial and industrial new construction markets correlate to the number of new homes and buildings that are built, which in turn is influenced by cyclical factors such as interest rates, inflation, consumer spending habits, employment rates, and other macroeconomic factors over which we have no control. In the HVAC business, a decline in economic activity as a result of these cyclical or other factors typically results in a decline in new construction and replacement purchases which could impact our sales volume and profitability. Our results of operations and financial condition could be negatively impacted by the loss of one or more major customers. From time to time in the past, we derived a significant portion of our sales from a limited number of customers, and such concentration may continue in the future. The loss of, or significant reduction in sales to significant customers (or a related portfolio group of customers) could have a material adverse effect on our results of operations, financial condition and cash flow. Further, the addition of new major customers in the future could increase our customer concentration risks as described above. Our results of operations and financial condition could be negatively impacted by the loss of a major third- party representative. We are dependent on our third- party representatives to market and sell our products. If such relationships were terminated or impaired for any reason, it could materially and adversely affect our ability to generate revenues and profits. Certain ~~of our~~ competitors with greater financial resources than us could target our third- party representatives for exclusive sales channels. We may not be able to secure additional third- party representatives who will effectively market our products in certain geographical areas. In addition, adding new representatives requires additional administrative efforts and costs. If we are unable to establish new representative relationships or continue current relationships, or terminate and replace our third- party representatives, our business, financial condition, and results of operations could be materially and adversely affected. We may incur material costs as a result of warranty and product liability claims that would negatively affect our profitability. The development, manufacture, sale and use of our products involve a risk of warranty and product liability claims. Our product liability insurance policies have limits that, if exceeded, may result in material costs that would have an adverse effect on our future profitability. An excess of or significant claim (s) could lead to the cancellation of our ~~policies~~ **policies** and the loss of and inability to find additional insurance carriers. In addition, warranty claims are not covered by our product liability insurance and there may be types of product liability claims that are also not covered by our product liability insurance. We depend on our **officers and** senior leadership team and the loss of ~~our Chief Executive Officer or~~ one or more key employees or an inability to attract and retain highly skilled employees could adversely affect our business. Our success depends largely upon the continued services of our officers and senior leadership team. ~~In particular, our Chief Executive Officer (“CEO”), Gary D. Fields, is critical to our vision, strategic direction, culture, and overall business success. Furthermore, Mr. Fields’ extensive industry knowledge and sales-channel experience would be difficult to replace. We also rely~~

on our **officers and** senior leadership team in the areas of research and development, marketing, production, sales, and general and administrative functions. ~~From time to time, there may be changes in our senior leadership team resulting from the hiring or departure of senior leadership team members, which could disrupt our business.~~ While we have a robust succession plan in place for each one of our officers and senior leadership team members, the loss of one or more could have a serious adverse effect on our business. We do not maintain key- ~~man person~~ insurance for **officers** Gary D. Fields or any ~~other member members~~ of our senior leadership team. **To mitigate certain business risks of departing executives upon termination, on July 30, 2024, Other-- the than Board of Directors of the Company, upon the recommendation of the Compensation Committee of the Board of Directors (the " Committee ") approved the adoption of the AAON, Inc. Executive Severance Plan (the " Executive Severance Plan ") to provide financial and transitional assistance following a termination of employment under agreements negotiated with certain circumstances to certain executive- level employees . Pursuant to the terms of BASX the Executive Severance Plan , we do not have in the event an Eligible Executive' s employment agreements with is terminated by us without " cause " our -- or by an Eligible Executive officers or senior leadership team members that require them to continue to work for us for any specified period and, therefore, " good reason " (as each such term is defined in they-- the could terminate Executive Severance Plan), subject to their-- the execution employment with us at any time. The employment agreements with the employees of BASX guarantee a validly executed, irrevocable release of claims, the Eligible Executive will be eligible to receive the certain compensation, such as salary and benefits defined by , and employment terms. We do not believe the terms or conditions of these -- the Executive Severance Plan agreements are outside the standard expectation of another employee at a similar level.** Operations may be affected by natural disasters, especially since most of our operations are performed at a single location. Natural disasters such as tornadoes, ice storms and fires, as well as accidents, acts of terror, infection, and other factors beyond our control could adversely affect our operations. Our facilities are in areas where tornadoes are likely to occur, and the majority of our operations are at our Tulsa, Oklahoma facilities. With the acquisition of BASX in 2021, we now have operations in an area that is ~~historically~~ impacted by **wildfires** wild fires. The effects of natural disasters and other events could damage our facilities and equipment and force a temporary halt to manufacturing and other operations, and such events could consequently cause severe damage to our business. We maintain insurance against these sorts of events; however, this is not guaranteed to cover all the losses and damages incurred. Furthermore, we may experience significant increases in our insurance premium costs in relation to these matters that may have a material adverse effect upon our business, liquidity, financial condition, or results of operations. If we are unable to hire, develop or retain employees, it could have an adverse effect on our business. We compete to hire new employees and then seek to train them to develop their skills. We may not be able to successfully recruit, develop, and retain the personnel we need. Unplanned turnover or failure to hire and retain a diverse, skilled workforce, could increase our operating costs and adversely affect our results of operations. Variability in self- insurance liability estimates could impact our results of operations. We self- insure for certain employee health insurance and workers' compensation insurance coverage up to a predetermined level, beyond which we maintain stop- loss insurance from a third- party insurer. Our aggregate exposure varies from year to year based upon the number of participants in our insurance plans. We estimate our self- insurance liabilities using an analysis provided by our claims administrator and our historical claims experience. Our accruals for insurance reserves reflect these estimates and other management judgments, which are subject to a high degree of variability. If the number or severity of claims for which we self- insure increases, it could cause a material and adverse change to our reserves for self- insurance liabilities, as well as to our earnings. Risks Related to Our Brand and Product Offerings We may not be able to compete favorably in the highly competitive HVAC business. Competition in our various markets could cause us to reduce our prices or lose market share, which could have an adverse effect on our future financial results. Substantially all of the markets in which we participate are highly competitive. The most significant competitive factors we face are product reliability, product performance, service, manufacturing lead - times, and price, with the relative importance of these factors varying among our product line. Other factors that affect competition in the HVAC market include the development and application of new technologies and an increasing emphasis on the development of more efficient HVAC products. Moreover, new product introductions are an important factor in the market categories in which our products compete. Several of our competitors have greater financial and other resources than we have, allowing them to invest in more extensive research and development. We may not be able to compete successfully against current and future competition and current and future competitive pressures ~~facced by us~~ may materially adversely affect our business and results of operations. We may not be able to successfully develop and market new products. Our future success will depend upon our continued investment in research and new product development and our ability to continue to achieve new technological advances in the HVAC industry. Our inability to continue to successfully develop and market new products or our inability to implement technological advances on a pace consistent with that of our competitors could lead to a material adverse effect on our business and results of operations. Furthermore, our continued investment in new product development may render certain legacy products and components obsolete resulting in increased inventory obsolescence expense that may have a material adverse effect upon our financial condition or results of operations. Risks Related to Material Sourcing and Supply We may be adversely affected by problems in the availability, or increases in the prices, of raw materials and components. Problems in the availability, or increases in the prices, of raw materials or components could depress our sales or increase the costs of our products. We are dependent upon components purchased from third parties, as well as raw materials such as steel, copper and aluminum. Occasionally, we enter into cancellable and non- cancellable contracts on terms from six to 18 months for raw materials and components. However, if a key supplier is unable or unwilling to meet our supply requirements, we could experience supply interruptions or cost increases, either of which could have an adverse effect on our gross profit. We risk having losses resulting from the use of non- cancellable contracts. Historically, we have attempted to limit the impact of price fluctuations on commodities by entering into non- cancellable contracts with our major suppliers for periods of six to 18 months. We expect to receive delivery of raw materials from our contracts for use in our manufacturing operations. These contracts are

not accounted for using hedge accounting since they meet the normal purchases and sales exemption. The use of such contracts could cause us to forego the economic benefits we would otherwise realize if prices were to change in our favor. Additionally, should there be a downturn in the market, we could be committed to purchase more materials than necessary for our production and carry excess inventory which could result in additional costs to the business.

Risks Related to Electronic Data Processing and Digital Information Our business is subject to the risks of interruptions by cybersecurity attacks. We depend upon information technology infrastructure, including network, hardware and software systems to conduct our business. Despite our implementation of network and other cybersecurity measures, our information technology system and networks could be disrupted due to technological problems, a cyber- attack, acts of terrorism, severe weather, a solar event, an electromagnetic event, a natural disaster, the age and condition of information technology assets, human error, or other reasons. To date, we have not experienced a material impact to our business or operations resulting from cyber- security or other similar information attacks, but due to the ever- evolving attack methods, as well as the increased amount and level of sophistication of these attacks, our security measures may not be adequate to protect against highly targeted sophisticated cyber- attacks, or other improper disclosures of confidential and / or sensitive information. Additionally, we may have access to confidential or other sensitive information of our customers, which, despite our efforts to protect, may be vulnerable to security breaches, theft, or other improper disclosure. Any cyber- related attack or other improper disclosure of confidential information could have a material adverse effect on our business, as well as other negative consequences, including significant damage to our reputation, litigation, regulatory actions, and increased cost. We are reliant on information technology. We are reliant on information technology in all aspects of our business, operated and maintained by the Company as well as under control of third parties. If we do not invest sufficient capital in a timely manner to acquire, develop, or implement new information technologies or maintain or upgrade current information technologies, we could suffer outages as well as be at a competitive disadvantage within our industry which could have a material adverse effect upon our financial condition and results of operations.

Complications with the design or implementation of our new enterprise resource planning system could adversely impact our business and operations. We rely extensively on information systems and technology to manage our business and summarize operating results. We are in the process of implementing a new global enterprise resource planning (“ ERP ”) system. This ERP system will replace our existing operating and financial systems. The ERP system is designed to accurately maintain the Company’s financial records, enhance operational functionality and provide timely information to the Company’s management team related to the operation of the business. The ERP system implementation process has required, and will continue to require, the investment of significant personnel and financial resources. We may not be able to successfully implement the ERP system without experiencing delays, increased costs and other difficulties. If we are unable to successfully design and implement the new ERP system as planned, our financial positions, results of operations and cash flows could be negatively impacted. Additionally, if we do not effectively implement the ERP system as planned or the ERP system does not operate as intended, the effectiveness of our internal control over financial reporting could be adversely affected or our ability to assess those controls adequately could be delayed.

Risks Related to Governmental Regulation and Policies Exposure to environmental liabilities could adversely affect our results of operations. Our future profitability could be adversely affected by current or future environmental laws. We are subject to extensive and changing federal, state and local laws and regulations designed to protect the environment in the United States and in other parts of the world. These laws and regulations could impose liability for remediation costs and result in civil or criminal penalties in case of non- compliance. Compliance with environmental laws increases our costs of doing business. Because these laws are subject to frequent change, we are unable to predict the future costs resulting from environmental compliance. We are subject to potentially extreme governmental regulations and policies. We always face the possibility of new governmental regulations, ~~and~~ policies ~~and trade agreements~~, **from the Federal or state levels**, which could have a substantial or even extreme negative effect on our operations and profitability. ~~Several intrusive component part governmental regulations are in process. If these proposals become final rules, the effect would be the regulation of compressors and fans in products for which the Department of Energy does not have current authority.~~ This could affect equipment we currently manufacture and could have an impact on our product design, operations, and profitability . **We anticipate more state regulatory activity in the future. Additional state regulatory rules can lead to a patchwork of different compliance regulations that may impact the results of each of our operating segments and our consolidated results** . The Dodd- Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as “ conflict minerals ”, originating from the Democratic Republic of Congo and adjoining countries. As a result, in August 2012, the SEC adopted annual disclosure and reporting requirements for those companies ~~who that~~ use conflict minerals in their products. Accordingly, we began our reasonable country of origin inquiries in fiscal year 2013, with initial disclosure requirements beginning in May 2014. There are costs associated with complying with these disclosure requirements, including ~~for~~ due diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply, and pricing of materials used in our products. As there may be only a limited number of suppliers offering “ conflict - free ” conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict - free or if we are unable to sufficiently verify the origins ~~for of~~ all conflict minerals used in our products through the procedures we may implement. Our operations could be negatively impacted by new legislation as well as changes in regulations and trade agreements, including tariffs and taxes. Unfavorable conditions resulting from such changes could have a material adverse effect on our business, financial condition and results of operations. We are subject to adverse changes in tax laws. Our tax expense or benefits could be adversely affected by changes in tax provisions, unfavorable findings in tax examinations, or differing interpretations by tax authorities. We are unable to estimate the impact that current and future

tax proposals and tax laws could have on our results of operations. We are currently subject to state and local tax examinations for which we do not expect any major assessments. We are subject to international regulations that could adversely affect our business and results of operations. Due to our use of Representatives in foreign markets, we are subject to many laws governing international relations, including those that prohibit improper payments to government officials and commercial customers, and restrict where we can do business, what information or products we can supply to certain countries and what information we can provide to a non- U. S. government, including but not limited to the Foreign Corrupt Practices Act, U. K. Bribery Act and the U. S. Export Administration Act. Violations of these laws, which are complex, may result in criminal penalties or sanctions that could have a material adverse effect on our business, financial condition and results of operations. Changes in legislation or government regulations or policies could adversely affect our results of operations. Our sales, gross margins and profitability could be directly impacted by changes in legislation or government regulations or policies. Specifically, changes in environmental and energy efficiency standards and regulations related to global climate change are being implemented to curtail the use of hydrofluorocarbons which are used in refrigerants that are essential to many of our products. Our inability or delay in developing or marketing products that match customer demand while also meeting applicable efficiency and environmental standards may negatively impact our results. We ~~are completely transitioning~~ **transitioned** to a new refrigerant with lower global warming potential for our HVAC systems ~~which was required~~ **and must be fully compliant under current governmental regulations by the US EPA for any equipment manufactured beginning January 1, 2025.** We ~~expect to incur~~ **incurred** costs associated with this transition related to the purchase of the new refrigerant as well as additional sensors and detectors on our HVAC systems. In addition, we ~~expect to incur~~ **incurred** cost to our facilities, specifically costs to store and use the new refrigerant in production; however, ~~we do those costs were~~ **not expect these costs to be significant.** Due to the increased flammability of the new refrigerant, the insurance industry may require higher premiums for companies ~~once in the future conversion begins.~~ **Furthermore New York State released a final rule on December 23, due 2024, that requires that we change our products to use the expected increased demand of the newer refrigerants with a 20- year global warming potential less than 10 beginning January 1, 2034. This will require significant research and development as well as the older hydrofluorocarbon refrigerants (equipment could potentially cost significantly more to build. We expect California and Washington state to release similar rules as they are phased out) well as several other states. Unfortunately, we expect to will likely see a patchwork of different timing and requirements from various states which could increased- increase manufacturing the options that we will need to offer which could also increase** costs related to purchases of refrigerants and could see higher costs for future warranty claims. As with any significant regulatory change, delays or other changes to implementation timing could also have a negative impact on our operations and profitability. Additionally, regulations that reduce or eliminate the use of fossil fuels such as natural gas and propane may reduce or eliminate sales of gas - fired equipment for which AAON holds a strong market position. This will result in a shift to more air- and water- cooled heat pump -type units to provide space heating. This shift in product line could affect production productivity, material costs and aftermarket warranty costs. Future legislation or regulations relating to environmental policies, product certification, product liability, taxes, amount and availability of tax incentives and other matters, may impact the results of each of our operating segments and our consolidated results. **Changes in U. S. or foreign trade policies, including additional tariffs or global trade conflicts, could increase the cost of our products, which could adversely impact the competitiveness of our products. There is currently significant uncertainty about the future relationship between the U. S. and various other countries with respect to trade policies and tariffs. For example, a former U. S. administration previously called for substantial changes to U. S. foreign trade policy with respect to China and other countries, including the possibility of imposing greater restrictions on international trade and significant increases in tariffs on goods imported into the U. S. Other administrations could take a different approach to U. S. foreign trade policy, so there remains uncertainty as to whether trade between the U. S and other countries, including countries in which we operate, may be impacted by these policy shifts. Changes in policy or continued uncertainty could depress economic activity and restrict our access to suppliers or customers. Tariffs implemented on our products (or on materials, parts or components we use to manufacture our products) have in the past increased the cost of our products manufactured in the U. S. and imported into the U. S. If additional tariffs or trade restrictions are implemented on our products (or on materials, parts or components we use to manufacture our products) by the U. S. or other countries, the cost of products manufactured in countries such as China and Mexico and imported into the U. S. or other countries in which we operate could increase further. We expect to continue to pass along some of these costs to our customers, but the increased cost could adversely affect the demand for products. These cost increases could adversely affect the demand for our products and / or our profitability, which could have a material adverse effect on our business and our earnings.**