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AAON, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) And first, we will hear from Jon from Kansas City Capital.

Jon Braatz – Kansas City Capital

Good afternoon, Norman, Kathy.

Norman Asbjornson

Good afternoon.

Kathy Sheffield

Hi.

Jon Braatz – Kansas City Capital

There were a number of things that you talked about that had an impact on your margins on the quarter. The mix, some productivity improvements and so on, I am trying to get a better handle on what maybe more permanent and long lasting, obviously mix can shift but what do you see out there in terms of heading more permanent increase in type of gross margins. How sustainable are these margins I guess?

Norman Asbjornson

I think we're probably about where we might have a chance to sustain and I don't think there is a lot of upside left. The productivity improvements I think are ones that will stay with us. That has happened without any special things going on, I guess it's improvements we've made and methods that we do things and the improvements and the machinery to then with and education of our people and improvements of that nature, so probably pretty solid.

The biggest unknowing in this whole thing has to do back with the material side of it. We've been able to manage that reasonably well with our price increases this past year to where we may have lied a little bit and we may have napped and picked it up with our labor improvements is the way it kind of looks, but it's definitely still with us and we're still going to have to be going forward with fairly significant, fairly regular, price increases as we have, and maybe even increasing the size of the them or may be increasing the frequency of them. Because as I said we have been notified of a component cost not steel or not copper nor aluminum but some of the components we use are some

fairly significant increases about to fall on us right now and they have been all year but they are not being any less now, that are being a greater percentages.

Jon Braatz – Kansas City Capital

How much do you anticipate prices might have to be raised in the subsequent months here to offset that and do you think they'll continue to be a little bit of lag here or how proactive are you going to be on passing those cost increases through?

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