

***AAON, INC.***

**1990 ANNUAL REPORT**

# AAON Inc.

2425 South Yukon  
Tulsa, Oklahoma 74107  
(918) 583-AAON • FAX (918) 583-6094

## Letter to Stockholders:

1990 was another eventful year for AAON, Inc. We had a significant increase in sales and earnings, restructured our bank borrowings, further enhanced our business control systems, completed a Warrant stock offering and got our Common Stock listed on NASDAQ.

Sales and net income for the year ended December 31, 1990, were \$36,127,000 and \$979,000 (or \$.04 per share), respectively, compared to \$31,329,000 and \$210,000 (or \$.01 per share) during the previous year. Income before income taxes was \$1,426,000 in 1990, compared to \$210,000 in 1989 (the same as net income, due to available net operating loss carryforwards).

The Company's bank revolving credit facility was reduced from \$8 million to \$6 million and extended to April 30, 1991. Negotiations are now in progress to further extend this loan. In December, 1990, we obtained a bank term loan of \$3 million on our manufacturing facility and equipment, which replaced, in part (\$600,000), an existing equipment loan.

During 1990, considerable progress was made toward switching the Company's business control systems from a manual to computerized system. At year end, most of the business control portion had been computerized and over half of our manufacturing controls had been converted. As a result, we were able to increase our volume of business while reducing inventory.

Sales to our two major customers, Wal-Mart Stores, inc., and McDonald's Corporation, accounted for 85% of the Company's total sales in 1990, compared to 89% of total sales in 1989. Sales to other customers and of parts increased from \$3.4 million in 1989 to \$5.6 million in 1990. Our backlog was \$8,774,000 at December 31, 1990, compared to \$9,870,000 a year ago.


Due to a downturn in overall new construction in the building industry starting in the Summer of 1990, our sales declined in the fourth quarter of last year and we anticipate a lower level of demand to continue in 1991.

We sold 325,302 shares of Common Stock pursuant to exercise of outstanding Warrants, at \$.50 per share, during the 60 days of effectiveness (June 1-July 31, 1990) of a Registration Statement filed with the Securities and Exchange Commission.

In December, 1990, the Company's Common Stock was listed with NASDAQ and now trades under the symbol "AAON".

We will keep you informed of future developments on a quarterly basis.

March 27, 1991

  
Norman H. Asbjornson  
President

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1990

Commission file number: 33-18336-LA

**AAON, INC.**

(Exact name of Registrant as specified in its charter)

Nevada  
(State or other jurisdiction  
of incorporation or organization)

87-0448736  
(IRS Employer  
Identification No.)

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

74107  
(Zip Code)

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

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$.001  
(Title of Class)

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

The aggregate market value of Registrant's voting stock held by non-affiliates computed by reference to the average bid and asked prices of such stock on March 1, 1991, was approximately \$4,900,000. For purposes of this computation, all officers, directors and 5% beneficial owners of Registrant are deemed to be affiliates.

As of March 1, 1991, Registrant had outstanding a total of 22,150,318 shares of its \$.001 par value Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's definitive Proxy Statement filed in connection with the Annual Meeting of Stockholders to be held April 24, 1991, are incorporated into Part III.

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PART I

**Item 1. Business.**

General Development of Business

AAON, Inc., formerly Diamond Head Resources, Inc., a Nevada corporation ("AAON-Nevada"), was incorporated on August 18, 1987. In connection with organizing the company, AAON-Nevada issued 925,000 shares of Common Stock for \$.04 per share and in September, 1987, it made another limited offering and sale of 1,040,000 shares at \$.10 per share. During February and March, 1988, AAON-Nevada made a public offering and sale of 2,400,000 Units of Common Stock and Warrants in furtherance of its objective of seeking and acquiring an interest in a prospective business opportunity. Since the business would be selected at a later date, it was a so-called "blind pool" or "blank check" offering.

AAON, Inc., an Oklahoma corporation ("AAON-Oklahoma"), was incorporated on August 15, 1988, for the purpose of acquiring the assets, subject to certain liabilities, of the Heating, Ventilation and Air-Conditioning ("HVAC") Division of John Zink Company ("JZC"). AAON-Oklahoma's purchase of the HVAC business was consummated on September 30, 1988, at a price of \$9,219,000, consisting of a cash payment of \$7,035,000 and assumption of accounts payable totalling \$2,184,000. \$2,222,000 of the cash payment was provided from equity investments of \$272,000 and stockholder subordinated loans totalling \$1,950,000. In addition to a \$580,000 loan from AAON-Nevada (discussed below), \$4,233,000 was obtained from bank loans; hence, the transaction may be characterized as a "leveraged buyout". The bank debt was guaranteed by AAON-Nevada.

On September 30, 1988, AAON-Nevada made a loan of virtually all of its assets (\$580,000) to AAON-Oklahoma, to partially finance AAON-Oklahoma's purchase of the HVAC business on that date. An integral part of that transaction was a Conversion/Exchange Agreement by and among AAON-Nevada, AAON-Oklahoma and the stockholders of AAON-Oklahoma, which was "triggered" on June 16, 1989. As a result, the \$580,000 loan was converted to equity (10,000 shares of AAON-Oklahoma stock), the former stockholders of AAON-Oklahoma became the owners of 80% of the outstanding stock of AAON-Nevada and AAON-Oklahoma became the wholly-owned subsidiary of AAON-Nevada.

Since AAON-Nevada is merely a holding company and AAON-Oklahoma is the dominant business entity, references to them hereinafter are generally made collectively as the "Company".

The Company is engaged in the manufacture and sale of commercial rooftop air conditioners and heating equipment. Its predecessor began the HVAC business as a manufacturer of residential heating equipment in the 1930's. In 1959, the business was expanded to heating and air-conditioners. In 1968, JZC began the production of commercial rooftop heating and air-conditioning units. Production of residential units was phased out between 1974-1987.

JZC was purchased by Sunbeam Corporation in 1972. Sunbeam was acquired by Allegheny International, Inc., in 1981. In June, 1987, JZC was acquired by Lone Star Technologies, Inc. Financial information concerning the operations of such "Predecessor Company" is included under Item 6. Selected Financial Data and Item 14. (Financial Statements).



## Products and Markets

The Company engineers, manufactures, markets and services commercial rooftop air-conditioning and heating equipment. Its products serve the commercial and industrial new construction and replacement markets. The commercial market consists of units installed on commercial or industrial structures of generally less than 10 stories in height. The size of this market is determined primarily by the number of commercial and industrial building completions. The replacement market consists of units installed to replace existing units which are worn or damaged. Historically, approximately half of the industry's market for air-conditioning has consisted of replacement units.

The commercial and industrial new construction market is subject to cyclical fluctuations in that it is generally tied to housing starts, but has a lag factor of 6-18 months. Housing starts are, in turn, affected by such factors as interest rates, the state of the economy, population growth and the relative age of the population. When new construction is down, the Company emphasizes the replacement market.

Based on its 1990 level of sales, approximately \$36 million, the Company has a 6% share of its estimated total market of \$625 million. Approximately 75% of the Company's sales now come from new construction and 25% from renovation/replacements. The percentage of sales (for new construction vs. replacement) to particular customers is related to their stage of development, e.g., McDonald's 70% new construction and 30% replacement, and Wal-Mart, 90% new construction and 10% replacement.

The Company purchases certain components, fabricates sheet metal and tubing and then assembles and tests the finished products. The finished products consist of a single unit system containing heating and/or cooling components in a self-contained cabinet, referred to in the industry as "unitary" products.

The Company has two groups of rooftop products: its RE Series of products, which is offered in 19 cooling sizes ranging from 2 to 63 tons; and its RF Series, which is offered in nine cooling sizes ranging from 40 to 130 tons.

The Company's products are designed to compete on the high side of standardized, packaged rooftop products. Accordingly, its prices range between \$300 and \$550 per ton of cooling, which is approximately 5%, on average, higher than other standardized products. Performance characteristics of the Company's products range in cooling capacity from 32,900-1,569,200 BTU's and in heating capacity from 65,000-1,680,000 BTU's. The Company believes that its RE and RF Series of products meet the Department of Energy's proposed energy efficiency standards effective January 1, 1992. The standards are designed to set the maximum amount of energy to be used in producing a given amount of cooling. The standard for less than 65,000 BTU/HR is 8.7 energy efficiency rating ("EER"), for 65,000 to 135,000 BTU/HR is 8.5 EER and for over 135,000 BTU/HR is 8.2 EER. The Company's competitors are redesigning their products to meet these standards, but, due to the lag time between completion of redesign and publication of results, management does not know the current extent of their compliance.

When used to describe the size or cooling capacity of HVAC equipment, the term "ton" refers to the amount of cooling capacity required to reduce the temperature of one ton of water one degree Fahrenheit in one hour. A ton is equivalent to approximately 12,000 BTU. A typical commercial building requires a ton of air-conditioning for every 300-400 square feet or, for a 100,000 square foot building, 250 tons of air-conditioning, which may involve multiple units.

## Major Customers

Wal-Mart Stores, Inc., and McDonald's Corporation accounted for approximately 85% of the Company's sales (\$19.9 million to Wal-Mart and \$10.7 million to McDonald's) in 1990. Sales to Wal-Mart were at the \$16 million level in 1989, whereas sales to McDonald's were approximately \$12 million in 1989. While sales to Wal-Mart increased during 1990, reflecting a higher level of new construction, the Company anticipates a reduction in the amount of its business with Wal-Mart in 1991. The Company continued to provide most of McDonald's requirements during 1990. However, due to a reduction in requirements by McDonald's, the Company's level of business with McDonald's declined in 1990 and is projected to be less in 1991.

Sales to these customers are made pursuant to calendar year contracts, now effective for 1991, which are oral in the case of McDonald's and by letter agreement with Wal-Mart. Although the contract with McDonald's is oral and subject to cancellation at any time, McDonald's has been a significant customer of the Company and its predecessor since 1969. It is the Company's experience and understanding that McDonald's makes only oral contracts for material suppliers on its buildings. The written contract with Wal-Mart provides for automatic renewal for additional terms of one year each, unless terminated by either party upon ninety days' notice prior to the end of the existing year term. Wal-Mart has been a significant customer of the Company and its predecessor since 1971.

The loss of either of these customers would have a material adverse effect on the Company. However, with the Company's planned emphasis on marketing to other customers, management believes that the extent of its dependence on sales to McDonald's and Wal-Mart will diminish over a period of time.

The percentage of the Company's unit sales to its two major customers during 1990 (vs. 1989) decreased by approximately 4% (89% to 85%) as compared to its total business, due primarily to a \$2.2 million increase in sales to other customers and of parts (\$5.6 million vs. \$3.4 million) and a \$1.3 million decrease in sales to McDonald's, offset by a \$3.9 million increase in sales to Wal-Mart.

In order to diversify its customer base, the Company plans specifically during the next twelve months to add to and/or upgrade its sales representation in various markets, seek general trade business, as well as other national accounts, and penetrate additional trade areas and has developed a new sales brochure and engineering catalog.

The new markets targeted by the Company consist of commercial and industrial buildings of one to eight stories in height. The Company's historical trade area has been the Midwest and Southwest sections of the United States, and the Company now plans to expand into the rest of the country.

## Sources and Availability of Raw Materials

The most important materials purchased by the Company are steel and copper, which are obtained from domestic suppliers. The Company also purchases from other domestic manufacturers certain components, including compressors, coils, electric motors and electrical controls used in its products. The Company endeavors to obtain the lowest possible cost in its purchases of raw materials and components, consistent with meeting specified quality standards. The Company is not dependent upon any one

### Distribution

The Company utilizes a direct sales staff of four individuals and approximately 69 independent manufacturer representatives' organizations (of which 48 contributed business in 1991) to market its products. Sales are made directly to the contractor or end user, with shipments being made from the Company's Tulsa and Longview plants to the job site. Billings are to the contractor or end user, with a commission paid directly to the manufacturer representative.

The Company's products and sales strategy focus on a "niche" market. The targeted market for its rooftop equipment is customers seeking a product of better quality than offered, and/or options not offered, by standardized manufacturers.

To support and service its customers and the ultimate consumer, the Company provides parts availability through seven independent parts distributors and has a factory service organization at its Tulsa plant. Also, a number of the manufacturer representatives utilized by the Company have their own service organizations, which, together with the Company, provide the necessary warranty work and/or normal service to customers.

The Company's warranty on its rooftop products is: for parts only, one year from the earlier of the date of first use or 15 months from date of shipment; compressor, an additional four years; and on gas-fired heat exchangers (if applicable), 10 years.

### Research and Development

All R&D activities of the Company are company-sponsored, rather than customer-sponsored. Ongoing work involves the RH and RG Series, component evaluation and refinement, and development of control systems. This work will cost approximately \$175,000 per year and is paid for as a normal budgeted expense.

### Backlog

The Company had a current backlog as of February 29, 1992, of \$6,283,000, compared to \$9,438,000 at February 28, 1991. The current backlog consists of orders considered by management to be firm and substantially all of which will be filled by June 1, 1992; however, the orders are subject to cancellation by the customers.

### Working Capital Practices

Working capital practices in the industry center on inventories and accounts receivable. The Company regularly reviews its working capital components with a view to maintaining the lowest level consistent with requirements of anticipated levels of operation. Its greatest needs arise during the months of July-November, the peak season for inventory (primarily purchased material) and accounts receivable. The Company's working capital requirements are generally met through a bank revolving credit facility, which currently permits allowable borrowings up to \$5 million. The Company believes that it will have sufficient bank credit available to meet its working capital needs through 1992 and beyond.

### Seasonality

Sales of the Company's products are moderately seasonal with the peak period being July-November of each year.

### Competition

In the domestic market for commercial rooftop units, the Company competes primarily with Trane Company, a division of American Standard, Inc., Lennox Industries, Inc., York International Corporation, SnyderGeneral Corporation and Carrier Corporation, a subsidiary of United Technologies Corporation. All of these competitors are substantially larger and have greater resources than the Company. The Company competes primarily on the basis of price, quality, function, serviceability, efficiency, availability of product, product line recognition and acceptability of sales outlet. However, in new construction where the contractor is the purchasing decision maker, the Company often is at a competitive disadvantage because of the emphasis placed on initial cost; whereas, in the replacement market and other owner-controlled purchases, the Company has a better chance of getting the business since quality and long-term cost are generally taken into account.

### Employees

As of March 23, 1992, the Company had 290 employees, including 117 of CP/AAON, Inc., none of whom are represented by unions. Management considers its relations with its employees to be good.

### Patents, Trademarks, Licenses and Concessions

The Company does not consider any patents, trademarks, licenses or concessions held by it to be material to its business operations.

### Environmental Matters

Laws concerning the environment that affect or could affect the Company's domestic operations include, among others, the Clean Water Act, the Clean Air Act, the Resource Conservation and Recovery Act, the Occupational Safety and Health Act, the National Environmental Policy Act, the Toxic Substances Control Act, regulations promulgated under these Acts, and any other federal, state or local laws or regulations governing environmental matters. The Company believes that it presently complies with these laws and that future compliance will not materially adversely affect the Company's earnings or competitive position.

### **Item 2. Properties.**

The plant and office building of AAON, Inc., is of sheet metal construction, containing 184,000 square feet (172,000 sq. ft. of manufacturing/warehouse space and 12,000 sq. ft. of office space), located on a 12-acre tract of land at 2425 South Yukon, Tulsa, Oklahoma. The manufacturing area is in a heavy industrial type building, with total coverage by bridge cranes, containing manufacturing equipment designed for sheet metal fabrication and metal stamping. Assembly lines consist of three cart-type conveyor lines with variable line speed adjustment, two of which are motor driven. Sub-assembly areas and production line manning are based upon line speed. The manufacturing facility varies in width from 160 feet to 220 feet and in length from 700 feet to 900

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Current production is approximately \$2 million per month, which is 20% of the estimated capacity of the plant (which would require the addition of sheet metal manufacturing equipment and other necessary manufacturing support items).

Management deems the plant to be nearly ideal for the type of products being manufactured by the Company. The office space is believed to be adequate to support all capabilities of the manufacturing facility.

On December 14, 1990, the Company obtained a \$3,000,000 term loan secured by its manufacturing facility (building and equipment), which is repayable in monthly installments of \$25,000 of principal, plus interest, December 31, 1990, through October 31, 1993, and a "balloon" of the balance on November 30, 1993.

**Item 3. Legal Proceedings.**

The Company is not a party to any material pending legal proceedings and no such action is contemplated by or, to the best of its knowledge, has been threatened against the Company.

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

No matter was submitted to a vote of security holders, through solicitation of proxies or otherwise, during the period from October 1, 1990, through December 31, 1990.

**PART II**

**Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.**

The Company's Common Stock has been traded in the over-the-counter market since April, 1988, and became listed with NASDAQ in December, 1990, under the symbol "AAON". The following table sets forth, for the respective periods indicated, the prices for the Company's Common Stock in the over-the-counter market, based on inter-dealer bid prices without retail mark-up, mark-down or commission (which may not represent actual transactions), as reported and summarized by the National Quotation Bureau.

<u>Quarter Ended</u>	<u>High Bid</u>	<u>Low Bid</u>
March 31, 1989	\$.42	\$.25
June 30, 1989	\$.8125	\$.25
September 30, 1989	\$.8125	\$.3125
December 31, 1989	\$.5625	\$.4375
March 31, 1990	\$.5625	\$.375
June 30, 1990	\$.50	\$.25
September 30, 1990	\$.4375	\$.25
December 31, 1990	\$.375	\$.25

At March 1, 1991, there were 210 holders of record of the Company's Common Stock.

Since its inception, no dividends have been paid on the Company's Common Stock and the Company does not anticipate paying dividends in the foreseeable future. Further, there is a negative covenant under the Company's Revolving Credit and Term Loan Agreement which prohibits the payment of dividends.



**Item 6. Selected Financial Data:**

The following selected financial data should be read in conjunction with the financial statements and related notes thereto for the periods indicated, which are included in this report.

Results of Operations:	Successor Company (1)				Predecessor Company (2)			
	Years ended			From inception (8/15/88) through 12/31/88	Nine months ended 9/30/88	Year ended 12/31/87		
	12/31/91	12/31/90	12/31/89					
	(000's) Except earnings (loss) per share							
Net sales	\$26,678	\$36,127	\$31,329	\$5,663	\$13,936	\$15,609		
Net income (loss)	\$ 379	\$ 979	\$ 210	\$ (482)	\$ 891	\$ 1,114		
Earnings (loss) per share (3)	\$ .02	\$ .04	\$ .01	\$ (.03)	\$ .05	\$ .06		
<b>Balance Sheet Data:</b>	<b>As of:</b>	<b>12/31/91</b>	<b>12/31/90</b>	<b>12/31/89</b>	<b>12/31/88</b>	<b>As of:</b>	<b>9/30/88</b>	<b>12/31/87</b>
		(000's)						
Total assets		\$14,309	\$14,312	\$14,912	\$9,992	\$ 9,079	\$ 6,627	
Long-term debt		\$ 5,343	\$ 4,660	\$ 2,519	\$3,130	\$ -	\$ -	
Stockholders' equity (4)		\$ 2,092	\$ 1,713	\$ 621	\$ (210)	\$ 5,531	\$ 4,640	

- AAON, Inc. (Oklahoma), was organized on August 15, 1988, for the purpose of acquiring the HVAC Division of John Zink Company ("JZC"). On September 30, 1988, AAON acquired the assets of HVAC and assumed certain of its liabilities. The acquisition was accounted for by the "purchase" method of accounting, which resulted in inventory being "stepped up" by \$691,000 and machinery and equipment being written down by approximately \$550,000. The inventory purchased was sold during the initial three months of operations of AAON and the added cost of \$691,000 was included in cost of sales and thereby reduced the gross margin by a like amount.
- JZC, the Predecessor Company, was acquired in June, 1987, which transaction was also accounted for by the "purchase" method of accounting and similarly resulted in a "step up" in basis of assets and liabilities.
- Earnings (loss) per share for the years ended December 31, 1991, 1990 and 1989 are based on 22,150,318, 21,989,000 and 19,828,000 shares, respectively and for all other periods are based on 17,460,000 shares.
- The Company has not paid any dividends and the Company's Revolving Credit and Term Loan Agreement prohibits the payment of dividends.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Set forth below is income statement information with respect to the Company for years 1991, 1990 and 1989:

	Years ended December 31,		
	1991	1990	1989
Net sales	\$ 26,678	\$ 36,127	\$ 31,329
Cost of sales	(22,396)	(29,980)	(26,171)
Other expenses	(3,763)	(4,721)	(4,948)
Income before income taxes	519	1,426	210
Income tax provision	(140)	(447)	--
Net income	\$ 379	\$ 979	\$ 210

**Material Changes in Financial Condition.** The \$1,599,000 reduction in accounts receivable at year-end 1991 (vs. 1990) is a reflection of the reduction in the Company's volume of sales. Inventories decreased from \$5,048,000 at December 31, 1990, to \$3,954,000 at December 31, 1991, as a result of new business control systems and a lower volume of business. Current liabilities were reduced during the year from \$7,939,000 to \$6,774,000 due to a \$3,045,000 (from \$5,117,000 to \$2,072,000) reduction in borrowings under the Company's revolving credit facility, offset by an increase in accounts payable of \$1,215,000 and issuance of a note payable in the amount of \$525,000 as a part of the Coils Plus acquisition. The increase of \$1,873,000 in machinery and equipment and of \$223,000 in other assets, as well as the non-competition agreement of \$975,000, relate primarily to the purchase of assets of Coils Plus, Inc.

**Material Changes in Results of Operations.** Sales decreased by \$9,449,000 during 1991, compared to 1990, whereas sales increased by \$4,798,000 in 1990 vs. 1989. Both changes in level of sales were primarily attributable to the volume of business (approximately 95%). Gross profit decreased to 16.1% in 1991 compared to 17.0% in 1990, due to a greater percentage of low-margin work in 1991. Margins in 1989 were 16.4%, reflecting inefficiencies resulting from the introduction of a new product line and training of additional employees.

Other expenses decreased during the current year by \$958,000, primarily due to reductions in selling, general and administrative expenses (\$715,000) and interest expense. Other expenses decreased in 1990 compared to 1989 by \$227,000, primarily due to reductions in SG&A and amortization expenses, offset by a small increase in interest expense.

The decrease in income before income taxes of \$907,000 in 1991 compared to 1990 resulted primarily from reduced sales and margins. The increase of \$1,216,000 in 1990 was primarily due to increased sales, gross profit and operating efficiencies.



obligation of the Company since it limits its actual commitments to known needs relating to its backlog of orders requiring shipment over the ensuing one to three month period.

Other expenses decreased during the current year by \$227,000, primarily due to reductions in selling, general and administrative and amortization expenses, offset by a small increase in interest expense. Other expenses increased in 1989 compared to 1988 by \$1,646,000, primarily due to non-recurring moving expenses of \$649,000 and other start-up expenses of \$57,000, plus interest expense of \$1,062,000.

The decrease in income before income taxes from \$978,000 in 1988 to \$210,000 in 1989 was mainly due to the above-mentioned moving and start-up expenses, interest and manufacturing inefficiencies. The increase of \$1,216,000 in 1990 was primarily due to increased sales, gross profit and operating efficiencies.

**Liquidity and Capital Resources.** The capital needs of the Company have been met since the inception of its operations primarily by its bank revolving credit facility. Management believes this bank debt (or comparable financing) and projected profits from operations will provide the necessary liquidity and capital resources to the Company for at least the next five years. Although the present term of the Company's revolving credit facility ends on April 30, 1991, negotiations for a new loan agreement are in progress and management believes that an acceptable extension will be arranged prior to April 30, 1991. 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 relationships with its existing bank lender.

The Company's revolving credit agreement currently provides for maximum borrowings of \$6 million. Interest on this loan is payable monthly at the Chase Manhattan Bank prime rate plus 1-1/2%. Availability of funds under the agreement is based on 80% of eligible accounts receivable, plus 50% of inventory not to exceed 50% of the borrowing base.

The Company also has had the benefit of \$1,950,000 of subordinated loans from stockholders (due September 30, 1993) and a \$3,000,000 (reduced to \$2,925,000 as of March 1, 1991) bank term loan on its manufacturing facility and equipment (repayable beginning December, 1990, through November, 1993).

**Trends.** While the Company's sales have increased significantly during the past three years, new construction (which largely determines the Company's potential market) is currently experiencing a downturn and the Company anticipates a decline in the level of business with its two major customers in 1991.

#### **Item 8. Financial Statements and Supplementary Data.**

The financial statements and supplementary data are included at page 15.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

As set forth in the Company's Form 8-K (Date of Report: June 16, 1989), registrant changed independent accountants as a consequence of the "reverse acquisition" between Diamond Head Resources, Inc. (now AAON, Inc., a Nevada corporation), and AAON, Inc. (an Oklahoma corporation). No report of the former accountants, Jones and Thomas, on the financial statements of registrant had ever contained an adverse opinion or a disclaimer of opinion or was qualified or modified as to uncertainty, audit scope or accounting principles. There were no "disagreements" (as defined in Item 304 of Regulation S-K) between registrant and said former accountant. The dismissal of the former accountant and engagement of the present accountant, Arthur Andersen & Co., were approved by the new Board of Directors of registrant following the conversion/exchange transaction on June 16, 1989.

### **PART III**

#### **Item 10. Directors and Executive Officers of the Registrant.**

Incorporated by reference to the Company's Proxy Statement filed with the Securities and Exchange Commission in connection with the Company's 1991 Annual Meeting of Stockholders.

#### **Item 11. Executive Compensation.**

Incorporated by reference to the Company's Proxy Statement filed with the Securities and Exchange Commission in connection with the Company's 1991 Annual Meeting of Stockholders.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management.**

Incorporated by reference to the Company's Proxy Statement filed with the Securities and Exchange Commission in connection with the Company's 1991 Annual Meeting of Stockholders.

#### **Item 13. Certain Relationships and Related Transactions.**

Incorporated by reference to the Company's Proxy Statement filed with the Securities and Exchange Commission in connection with the Company's 1991 Annual Meeting of Stockholders.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

- (a) 1. Financial statements.

See Index to Financial Statements on page 14.

2. Financial statement schedules.

3. Exhibits:

- (3) (A) Articles of Incorporation\*  
(A-1) Certificate of Amendment  
(B) Bylaws\*

- (10) (A) Revolving Credit and Term Loan Agreement and related documents\*\*

- (A-1) Fifth Amendment to Revolving Credit and Term Loan Agreement and related documents.

- (B) Letter Agreement with Wal-Mart Stores, Inc.

- (22) List of Subsidiaries\*\*

\* Incorporated herein by reference to the exhibits to the Company's Form S-18 Registration Statement No. 33-18336-LA.

\*\* Incorporated herein by reference to the exhibits to the Company's Transition Report on Form 10-K for the period from October 1, 1988, to December 31, 1988.

- (b) The Company did not file any reports on Form 8-K during the period from October 1, 1990, to December 31, 1990.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, heretunto duly authorized.

AAON, INC.

Dated: March 27, 1991

By: /s/ Norman H. Asbjornson  
Norman H. Asbjornson, President

Pursuant to the requirements of the Securities Exchange act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: March 27, 1991

By: /s/ Norman H. Asbjornson  
Norman H. Asbjornson  
President and Director  
(principal executive officer)

Dated: March 27, 1991

By: /s/ William A. Bowen  
William A. Bowen  
Vice President-Finance and Director  
(principal financial officer  
and principal accounting officer)

Dated: March 27, 1991

By: /s/ John B. Johnson, Jr.  
John B. Johnson, Jr.  
Director

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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To the Stockholders and Board of Directors  
of AAON, Inc.:

We have audited the accompanying consolidated balance sheets of AAON, Inc. (a Nevada Corporation and Successor Company) and its wholly owned subsidiary as of December 31, 1990 and 1989, respectively, and the related consolidated statements of operations, stockholders' equity and cash flows for the periods from inception (August 15, 1988) through December 31, 1988 and the years ended December 31, 1990 and 1989, and the statements of operations and division equity and cash flows for HVAC, a division of John Zink Company (Predecessor Company) for the nine months ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of AAON, Inc. as of December 31, 1990 and 1989, and the results of the Successor and Predecessor companies' consolidated operations and their cash flows for the periods ended as described above in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the index of consolidated financial statements are presented for purposes of complying with the Securities and Exchange Commission's rules and are not a required part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

*Arthur Andersen & Co.*

Tulsa, Oklahoma  
February 22, 1991

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	1991	1991
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 296,000	\$ 357,000
Accounts receivable, net of allowance for doubtful accounts of \$50,000 and \$30,000, respectively (Note 3)	3,062,000	4,661,000
Income tax refund receivable	-	300,000
Inventories (Notes 2 and 3)	3,954,000	5,048,000
Prepaid expenses	44,000	28,000
Deferred income taxes	220,000	69,000
Total current assets	7,576,000	10,463,000
<b>PROPERTY, PLANT AND EQUIPMENT, at cost (Note 2):</b>		
Land	185,000	185,000
Buildings	2,551,000	2,445,000
Machinery and equipment	3,285,000	1,421,000
Furniture and fixtures	180,000	168,000
	6,201,000	4,219,000
Less- accumulated depreciation	699,000	403,000
Net property, plant and equipment	5,502,000	3,816,000
NONCOMPETITION AGREEMENT (Note 1)	975,000	-
OTHER ASSETS	256,000	33,000
	\$14,309,000	\$14,312,000
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 2,909,000	\$ 1,694,000
Accrued liabilities	805,000	828,000
Note payable	525,000	-
Current maturities of long-term debt	463,000	300,000
Revolving credit agreement (Note 3)	2,072,000	5,117,000
Total current liabilities	6,774,000	7,939,000
LONG-TERM DEBT (Note 4)	3,393,000	2,710,000
SUBORDINATED NOTES PAYABLE TO STOCKHOLDERS (Note 4)	1,950,000	1,950,000
DEFERRED INCOME TAXES PAYABLE	100,000	-
<b>COMMITMENTS AND CONTINGENCIES (Notes 1 and 5)</b>		
<b>STOCKHOLDERS' EQUITY (Note 9):</b>		
Common stock, \$.001 par value, 50,000,000 shares authorized, 22,150,318 issued and outstanding	22,000	22,000
Preferred stock, 5,000,000 shares authorized, no shares issued	-	-
Additional paid-in capital	984,000	984,000
Retained earnings	1,086,000	707,000
Total stockholders' equity	2,092,000	1,713,000
	\$14,309,000	\$14,312,000

The accompanying notes are an integral part of these balance sheets.

## CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE YEARS ENDED DECEMBER 31,		
	1991	1990	1989
NET SALES (Note 7)	\$26,678,000	\$36,127,000	\$31,329,000
COST OF SALES	22,396,000	29,980,000	26,171,000
GROSS PROFIT	4,282,000	6,147,000	5,158,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,937,000	3,652,000	3,765,000
INCOME FROM OPERATIONS	1,345,000	2,495,000	1,393,000
INTEREST EXPENSE	756,000	1,104,000	1,062,000
OTHER (INCOME) EXPENSE	70,000	(35,000)	121,000
INCOME BEFORE INCOME TAXES	519,000	1,426,000	210,000
INCOME TAX PROVISION (Notes 2 and 6)	140,000	447,000	-
NET INCOME	\$ 379,000	\$ 979,000	\$ 210,000
EARNINGS PER SHARE (Note 8)	\$ .02	\$ .04	\$ .01

The accompanying notes are an integral part of these statements.



AAON, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 1989, 1990 AND 1991  
(Note 1)

	Common Stock		Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount			
BALANCE, DECEMBER 31, 1988	40,000	\$ 40,000	\$232,000	\$ (482,000)	\$ (210,000)
CONVERSION OF DEBT TO EQUITY	10,000	10,000	611,000	-	621,000
REVERSE ACQUISITION	21,775,016	(28,000)	28,000	-	-
NET INCOME	-	-	-	210,000	210,000
BALANCE, DECEMBER 31, 1989	21,825,016	22,000	871,000	(272,000)	621,000
WARRANTS EXERCISED	325,302	-	113,000	-	113,000
NET INCOME	-	-	-	979,000	979,000
BALANCE, DECEMBER 31, 1990	22,150,318	22,000	984,000	707,000	1,713,000
NET INCOME	-	-	-	379,000	379,000
BALANCE, DECEMBER 31, 1991	22,150,318	\$ 22,000	\$984,000	\$1,086,000	\$2,092,000

The accompanying notes are an integral part of these statements.

AAON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Notes 1 and 2)

	For the Years Ended December 31,		
	1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 379,000	\$ 979,000	\$ 210,000
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	302,000	257,000	286,000
Loss on disposition of assets	-	38,000	11,000
Deferred income taxes	(51,000)	(34,000)	(35,000)
Change in assets and liabilities, net of effect from purchase of CP-			
(Increase) decrease in accounts receivable	1,599,000	(404,000)	(977,000)
(Increase) decrease in income tax refund receivable	300,000	(300,000)	-
(Increase) decrease in inventories	1,619,000	2,007,000	(1,925,000)
(Increase) decrease in prepaid expenses	(16,000)	43,000	(20,000)
(Increase) decrease in other assets	2,000	-	(20,000)
Increase (decrease) in accounts payable	(411,000)	(2,752,000)	2,345,000
Increase (decrease) in accrued liabilities	(23,000)	225,000	360,000
Total adjustments	3,321,000	(920,000)	25,000
Net cash provided by operating activities	3,700,000	59,000	235,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	9,000	-	-
Capital expenditures	(349,000)	(650,000)	(2,240,000)
Purchase of CP	(51,000)	-	-
Net cash used in investing activities	(391,000)	(650,000)	(2,240,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit agreement	12,642,000	19,408,000	12,322,000
Payments under revolving credit agreement	(15,687,000)	(20,964,000)	(10,336,000)
Proceeds from long-term debt	-	2,391,000	19,000
Payments on long-term debt	(325,000)	-	-
Warrants exercised	-	113,000	-
Net cash provided by (used in) financing activities	(3,370,000)	948,000	2,005,000
NET INCREASE (DECREASE) CHANGE IN CASH	(61,000)	357,000	-
CASH, beginning of year	357,000	-	-
CASH, end of year	\$ 296,000	\$ 357,000	\$ -

The accompanying notes are an integral part of these statements.

AAON, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1990 AND 1989

1. COMPANY OPERATIONS AND ORGANIZATION:

AAON, Inc. (AAON or the Company), is a Nevada corporation organized in August 1987 as Diamond Head Resources, Inc. (Diamond Head). Diamond Head was formed solely for the purpose of creating a capital resource fund to acquire or enter into a favorable business opportunity. Diamond Head completed a public offering in March 1988. Diamond Head changed its name to AAON, Inc. during 1990.

AAON, Inc. (AAON, an Oklahoma corporation) was organized on August 15, 1988 for the purpose of acquiring the heating, ventilating and air-conditioning division of John Zink Company (HVAC or Predecessor Company). On September 30, 1988, AAON acquired the assets of HVAC for \$7,035,000 plus the assumption of liabilities of approximately \$2,184,000. Funding was provided through the sale of 40,000 shares of AAON common stock, proceeds from the issuance of subordinated debentures to stockholders of AAON, proceeds from a subordinated note to Diamond Head, a revolving credit agreement and a term loan agreement. The acquisition was accounted for by the purchase method and the accounts of HVAC were recorded at their estimated fair value at the date of acquisition. The excess of the fair value of net assets acquired over the total acquisition cost reduced machinery and equipment by approximately \$550,000.

On June 16, 1989, Diamond Head exercised its option to convert the subordinated note of \$580,000 plus accrued interest to 10,000 shares of AAON common stock. In addition, Diamond Head agreed to exchange 17,460,000 newly issued shares of Diamond Head's \$.001 par value common stock for 40,000 shares of common stock held by AAON's stockholders. The ownership of the pretransaction stockholders of Diamond Head was thereby reduced to 20 percent and the then stockholders of AAON became the owners of 80 percent of Diamond Head. For accounting purposes, the transaction was accounted for as a reverse acquisition (as if AAON acquired Diamond Head). The value assigned to the shares exchanged in the acquisition of Diamond Head was the net book value of Diamond Head as of June 16, 1989 which was approximately \$620,000. Beginning on June 16, 1989, the financial results of Diamond Head were included in the financial results of AAON.

2. ACCOUNTING POLICIES:

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, AAON, Inc.. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition

Revenues are recognized at the time each air-conditioning and heating unit is shipped.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method. Inventories at December 31, consist of the following:

	<u>1990</u>	<u>1989</u>
Raw materials	\$4,203,000	\$5,968,000
Work in process	103,000	321,000
Finished goods	862,000	766,000
	<u>5,168,000</u>	<u>7,055,000</u>
Less allowance for excess and obsolete inventory	120,000	-
	<u>\$5,048,000</u>	<u>\$7,055,000</u>
	=====	=====

Property, Plant and Equipment

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	25
Machinery and equipment	4-10
Furniture and fixtures	10

Warranties

A provision is provided for the estimated cost of warranty obligations at the time the related products are sold. Warranty expense was \$1,414,000, \$640,000 and \$143,000 for the years ended December 31, 1990 and 1989, and the three-month period ended December 31, 1988, respectively. The expense in the nine-month period ended September 30, 1988 for the Predecessor Company was not material.

Research and Development

Research and development costs are expensed as incurred. Research and development costs for the years ended December 31, 1990 and 1989, were \$169,000 and \$277,000, respectively. There were no research and development expenses incurred by the Company through December 31, 1988. The Predecessor Company had research and development costs of \$196,000 for the nine months ended September 30, 1988.

### Income Taxes

The Company has adopted Statement of Financial Accounting Standards No. 96 - "Accounting for Income Taxes". This statement requires an asset and liability approach for financial accounting and reporting for income taxes.

### Statement of Cash Flows

Interest payments of \$1,162,000, \$1,063,000 and \$141,000 were made for the years ended December 31, 1990 and 1989 and three months ended December 31, 1988, respectively. Payments for taxes of approximately \$780,000 and \$30,000 were made during the years ended December 31, 1990 and 1989, respectively.

During 1989, the Company had a noncash financing activity in which \$580,000 of subordinated long-term debt and \$41,000 of related accrued interest was converted from debt to equity.

### 3. REVOLVING CREDIT AGREEMENT:

The Company had outstanding borrowings of \$5,117,000 as of December 31, 1990 under a revolving credit agreement with a bank. Under the agreement, interest is payable monthly at the Chase Manhattan Bank prime rate plus one and one-half percent (11 1/2 percent at December 31, 1990). A commitment fee of one-half percent per annum is payable on the average daily unborrowed amount. Availability of funds under the agreement is based on 80 percent of eligible accounts receivable plus inventory, with inventory not to exceed 50 percent of the borrowing base, consisting of up to 50 percent of finished goods plus up to 50 percent of raw materials, not to exceed \$6,000,000 in borrowings as of December 31, 1990. During the year, the maximum available under the agreement varied from \$8,000,000 to \$6,000,000. The agreement is collateralized by accounts receivable, inventory contracts, intangibles and, in addition, the stock of the Company's wholly owned subsidiary.

The agreement along with the term loan agreement described in Note 4 requires, among other things, that the Company maintain minimum net worth, a minimum tangible net worth plus subordinated debt, minimum working capital, a minimum debt to tangible net worth ratio and restricts the transfer of funds between Diamond Head and AAON. The revolving credit facility expires on April 30, 1991. At December 31, 1990, the Company was in compliance with the covenants of the revolving credit and term loan agreement.

The highest amount of short-term borrowings from the bank revolving credit agreement, the average amount of borrowings under the agreement and the weighted average interest rates were as follows:

	<u>Year Ended December 31,</u>	
	<u>1990</u>	<u>1989</u>
Largest amount borrowed	\$7,994,000	\$7,838,000
Average amount borrowed	6,803,000	6,020,000
Weighted average interest rate	11.9%	12.5%

### 4. LONG-TERM DEBT:

Long-term debt at December 31, 1990 and 1989 consist of the following:

	<u>1990</u>	<u>1989</u>
Bank term loan agreement, payable in monthly payments of \$25,000 beginning in December 1990 through November 1993, plus interest payable monthly at Chase Manhattan Bank prime plus 1 1/2%, collateralized by machinery, equipment and real estate.	\$3,000,000	\$ -
10% subordinated notes to stockholders, payable in September 1993, interest payable quarterly.	1,950,000	1,950,000
Bank term loan agreement, refinanced during 1990.	-	600,000
Other	10,000	19,000
	<u>\$4,960,000</u>	<u>\$2,569,000</u>
Less- current maturities	300,000	50,000
	<u>\$4,660,000</u>	<u>\$2,519,000</u>

Combined maturities of long-term debt for each of the years ended December 31, are as follows:

1991	\$ 300,000
1992	304,000
1993	4,356,000
	<u>\$4,960,000</u>

### 5. COMMITMENTS:

AAON leases certain equipment and office space under various operating leases. Rental expense for the years ended December 31, 1990 and 1989 was approximately \$190,000 and \$80,000, respectively. Rent expense in the other periods presented was not material. At December 31, 1990, the aggregate future commitments under operating leases are as follows:

1991	\$194,000
1992	184,000
1993	176,000
1994	42,000

Noncompetition agreement discounted at 8.5%, payable in monthly payments of \$20,000 beginning in January 1992 through December 1996.	975,000	-
Unsecured note payable to a bank, discounted at 8.5%, payable in December 1994.	194,000	-
Other	12,000	10,000
	<u>\$5,806,000</u>	<u>\$4,960,000</u>
Less- current maturities	463,000	300,000
	<u>\$5,343,000</u>	<u>\$4,660,000</u>

Combined maturities of long-term debt for each of the years ended December 31, are as follows:

1992	\$ 463,000
1993	4,515,000
1994	387,000
1995	211,000
1996	230,000
	<u>\$5,806,000</u>

5. COMMITMENTS AND CONTINGENCIES:

AAON leases certain equipment and office space under various operating leases. Rental expense for the years ended December 31, 1991, 1990 and 1989 was approximately \$190,000, \$190,000 and \$80,000, respectively. At December 31, 1991, the aggregate future commitments under operating leases are as follows:

1992	\$330,000
1993	316,000
1994	175,000

6. INCOME TAXES:

The income tax provision consists of the following:

	<u>Years Ended December 31,</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Current			
Federal	\$190,000	\$477,000	\$ 35,000
State	1,000	4,000	-
Deferred	(51,000)	(34,000)	(35,000)
	<u>\$140,000</u>	<u>\$447,000</u>	<u>\$ -</u>

The difference between income tax reporting and financial reporting arises primarily from differences in the methods of accounting for inventory capitalization, inventory reserves, depreciation, warranty expense and bad-debt expense. The reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	<u>Years Ended December 31,</u>		
	<u>1991</u>	<u>1990</u>	<u>1989</u>
Statutory rate	34%	34%	34%
Adjustment of estimated income taxes for prior year	(7%)	-	-
NOLCF benefit	-	-	(31%)
Other	-	(3%)	(3%)
	<u>27%</u>	<u>31%</u>	<u>-</u>

7. MAJOR CUSTOMERS:

For the years ended December 31, 1991, 1990 and 1989, sales to McDonalds Corporation were approximately \$4,000,000, \$11,000,000 and \$12,000,000, respectively, and to Wal-Mart Stores, Inc. were approximately \$16,000,000, \$20,000,000 and \$16,000,000, respectively.

8. EARNINGS PER SHARE:

Earnings per share data for the years ended December 31, 1991, 1990 and 1989, has been calculated on the weighted average shares outstanding of 22,150,318, 21,989,000 and 19,828,000, respectively.

9. WARRANTS REGISTERED AND EXERCISED:

In March 1988, the Company completed a public offering of 2,400,000 units, each consisting of one share of common stock and a warrant to purchase one share of common stock for \$.50 per share at any time 60 days



AAON, INC.

SCHEDULE IV - INDEBTEDNESS OF AND TO RELATED

PARTIES - NONCURRENT

Column A (1)	Column F Balance at Beginning of Period	Column G Additions	Column H Deductions	Column I Balance at End of Period
<u>For the year ended December 31, 1989</u>				
10% convertible subordinated note to Diamond Head Resources, Inc.	\$ 580,000	\$ -	\$(580,000)(2)	\$ -
10% subordinated notes to stockholders	1,950,000	-	-	1,950,000
	\$2,530,000	-	\$(580,000)	\$1,950,000
<u>For the year ended December 31, 1990</u>				
10% subordinated notes to stockholders	\$1,950,000	\$ -	\$ -	\$1,950,000

(1) Columns B, C, D and E have been eliminated as the required disclosures are either not applicable or the amounts are not material. There was no indebtedness of and to related parties for the other periods presented in the financial statements.

(2) This note was converted to equity during 1989 (see Notes 1 and 4 to financial statements).

AAON, INC.

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

FOR THE THREE YEARS ENDED DECEMBER 31, 1990

Description	Balance at Beginning of Period	Additions at Cost	Retirements	Other Changes Add (Deduct)	Balance at End of Period
<u>SUCCESSOR COMPANY</u>					
<u>Year Ended December 31, 1990:</u>					
Land	\$ 185,000	\$ -	\$ -	\$ -	\$ 185,000
Buildings	2,318,000	127,000	-	-	2,445,000
Machinery and equipment	1,032,000	443,000	54,000	-	1,421,000
Furniture and fixtures	88,000	80,000	-	-	168,000
	\$3,623,000	\$ 650,000	54,000	\$ -	\$4,219,000
<u>Year Ended December 31, 1989:</u>					
Land	\$ 185,000	\$ -	-	-	185,000
Buildings	503,000	1,815,000	-	-	2,318,000
Machinery and equipment	640,000	411,000	19,000	-	1,032,000
Furniture and fixtures	74,000	14,000	-	-	88,000
	\$1,402,000	\$2,240,000	\$19,000	\$ -	\$3,623,000
<u>From Inception (August 15, 1988) through December 31, 1988:</u>					
Land	\$ -	\$ 185,000	\$ -	\$ -	\$ 185,000
Buildings	-	503,000	-	-	503,000
Machinery and equipment	474,000	166,000	-	-	640,000
Furniture and fixtures	33,000	41,000	-	-	74,000
	\$ 507,000	\$ 895,000	\$ -	\$ -	\$1,402,000
<u>PREDECESSOR COMPANY</u>					
<u>Nine Months Ended September 30, 1988:</u>					
Land	\$ -	\$ -	\$ -	\$ -	\$ -
Buildings	-	-	-	-	-
Machinery and equipment	1,022,000	\$ 2,000	-	(\$50,000)(1)	474,000
Furniture and fixtures	19,000	-	-	14,000	33,000
	\$1,041,000	\$ 2,000	\$ -	\$(536,000)	\$507,000

(1) This amount represents an adjustment related to the allocation of the purchase price.

AAON, INC.

SCHEDULE VI - ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

FOR THE THREE YEARS ENDED DECEMBER 31, 1990

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Balance at End of Period
<u>SUCCESSOR COMPANY</u>				
Year Ended December 1990:				
Buildings	\$ 58,000	\$120,000	\$ -	\$178,000
Machinery and equipment	100,000	122,000	17,000	205,000
Furniture and fixtures	9,000	11,000	-	20,000
	<u>\$167,000</u>	<u>\$253,000</u>	<u>\$ 17,000</u>	<u>\$403,000</u>
Year Ended December 31, 1989:				
Buildings	\$ -	\$ 58,000	\$ -	\$ 58,000
Machinery and equipment	13,000	91,000	4,000	100,000
Furniture and fixtures	1,000	8,000	-	9,000
	<u>\$ 14,000</u>	<u>\$157,000</u>	<u>\$ 4,000</u>	<u>\$167,000</u>
From Inception (August 15, 1988) through December 31, 1988:				
Buildings	\$ -	\$ -	\$ -	\$ -
Machinery and equipment	-	13,000	-	13,000
Furniture and fixtures	-	1,000	-	1,000
	<u>\$ -</u>	<u>\$ 14,000</u>	<u>\$ -</u>	<u>\$ 14,000</u>
<u>PREDECESSOR COMPANY</u>				
Nine Months Ended September 30, 1988:				
Buildings	\$ -	\$ -	\$ -	\$ -
Machinery and equipment	53,000	80,000	133,000	-
Furniture and fixtures	2,000	3,000	5,000	-
	<u>\$ 55,000</u>	<u>\$ 83,000</u>	<u>\$138,000</u>	<u>\$ -</u>

AAON, INC.

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

	Column A	Column B	Column C	Column D	Column E
	Balance at Beginning of Period	Balance at Beginning of Period	Charged to costs and expenses	Deductions	Balance at End of Period
For the year ended December 31, 1989					
Allowance for Doubtful Accounts (1)	\$290,000		\$122,000	\$352,000	\$ 60,000
For the year ended December 31, 1990					
Allowance for Doubtful Accounts (1)	\$ 60,000		\$ 60,000	\$ 90,000	\$ 30,000
Allowance for Excess and Obsolete Inventory (2)	\$ -		\$120,000	\$ -	\$120,000

(1) Netted against Accounts Receivable in the balance sheets.

(2) Netted against Inventory in the balance sheet.

(3) There were no valuation and qualifying accounts for the other periods presented in the financial statements.

AAON, INC.

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION (1)

<u>Column A</u> <u>Item</u>	<u>Column B</u>	
	<u>Charged to expense</u> <u>for the Year Ended</u> <u>December 31, 1990</u>	<u>Charged to expense</u> <u>for the Year Ended</u> <u>December 31, 1989</u>
Maintenance and repairs	\$370,000	\$652,000

(1) No other item exceeded one percent of total revenues in any of the periods presented in the statements of operations.

**Board of Directors**

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Norman H. Asbjornson  
President and Treasurer  
AAON, Inc.

William A. Bowen  
President  
The Bowen Company  
Tulsa, Oklahoma  
(Financial Consulting)

Richard E. Minshall  
President  
Capital Advisors, Inc.  
Tulsa, Oklahoma  
(Investment Advisory Firm)

Anthony Pantaleoni  
Partner, Fulbright Jaworski  
& Reavis McGrath  
New York, New York  
(Law Firm)

John B. Johnson, Jr.  
Member, Gable & Gotwals  
Tulsa, Oklahoma  
(Law Firm)

**Officers**

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Norman H. Asbjornson  
President and Treasurer

Robert G. Fergus  
Vice President

William A. Bowen  
Vice President-Finance

John B. Johnson, Jr.  
Secretary

**Corporate Data**

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**Transfer Agent and Registrar**  
Progressive Transfer Company  
1981 East Murray-Holladay Road  
Suite 200  
Salt Lake City, Utah 84117

**Auditors**  
Arthur Andersen & Co.  
One Williams Center  
Suite 1900  
Tulsa, Oklahoma 74172

**Corporate Counsel**  
Gable & Gotwals  
2000 Fourth National Bank Building  
Tulsa, Oklahoma 74119

**Corporate Offices**  
2425 South Yukon  
Tulsa, Oklahoma 74107

**Common Stock**  
NASDAQ-AAON