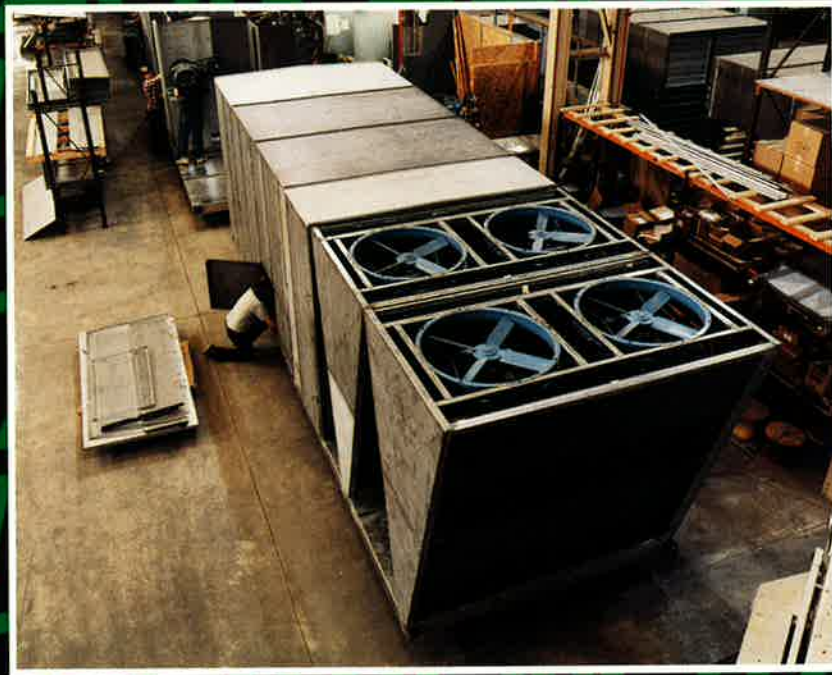


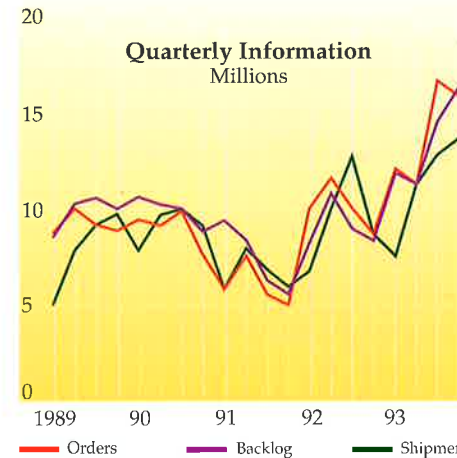
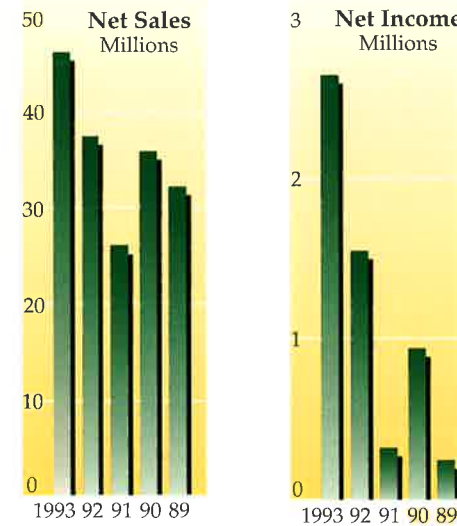
AAON

1993 ANNUAL REPORT



AAON PROUDLY ACKNOWLEDGES THE DEDICATION AND DETERMINATION OF OUR EMPLOYEES
WHOSE EFFORTS CONTRIBUTE IMMEASURABLY TO OUR SUCCESS

DAVID ABRON • DELMAR ADAMS • RODNEY ADAMS • MICHAEL AICHELE, JR. • BILL ALLEN • JONNIE ALLEN
JIM ANGUS • NORMAN ASBJORNSON • SCOTT ASBJORNSON • GARY ASHMORE • EMANUEL ATCHISON • DAVID BAKER
PEARL BALDWIN • TONY BARBER • JOSEPH BARBERA • ROBERT BARKINS, JR. • EDDIE BARNETT • JERRELL BARNETT
PAMELA BARNETT • MELTON BARR • MICHAEL BASS • BRIAN BEIL • ISAAC BENN • VICTOR BERROSPE
HANK BIERWIRTH • JANA BIRDWELL • BRANDON BLALOCK • KYLE BLESSING • JIM BLEVINS • PATRICK BOLL
KENNETH BOLTINGHOUSE • KRISTINA BOOTZ • WILLIAM BOWEN • JOHNNY BOYCE • LINDA BRICKER
TONY BROTHERTON • DARLENE BROWN • DARREN BROWN • FALECIA BROWN • GERRY BROWN • KEVIN BROWN
ROBERT BROWN • TED BROWN • WILLIAM BRYANT • BANG BUI • ROBERT BURCH • ROBBYE BURK • ROBERTA BURKE
DIANA CADENA • HORACIO CADENA • OSCAR CADENA • KENT CALICOAT • ARTHUR CANDLER • SUSAN CARPENTER
STEVE CARTER • LUIS MANUEL CASTANON • JUAN CASTRO • WILLIAM CHANDLER • CHRISTENE CHAPMAN
PHAYUANH CHAREUNSOUK • DALE CHERRY • DANIEL CHERRY • PAUL CHERRY • GEORGE CHURCHILL
MORRIS CLARK • SUSAN CLARK • RAYMOND CLEVELAND • DAVID COBB • KENNETH COCHRAN • PENNY COLE
ROSE COLE • ISRAEL COLON • CLARENCE COOK • TERESA COPELAND • RANDALL COPELAND • ELAINE CORKHILL
TIMOTHY CORKHILL • GLENNA CORNEJO • JERRY COSPER • LENDA COSPER • STEVE COTHRAN • RONNIE COUSINS
ANNA COX • JOHN COX • RICHARD CRAITE • MELVIN CRAMER • PRESTON CREASON • MIKEL CREWS
JERROLD CRITTENDEN • GARY CROSBY • DARRELL CROW • BRIAN CUNNINGHAM • MIKE CURRY • TERESA DAMME
JACKIE DANIELS • LORETTA DARLING • CARLA DAVIS • CRYSTAL DAVIS • MARK DAVIS • RICHARD DAVIS
RON DAVIS • GWENDOLYN DECKARD • JUANA DELOBO • CARLOS DELUNA • CHARLES DEWEESE
CAROLYN DIPASQUALE • HOMER DODD • KEVIN DODD • RICKEY DODSON • JOHN DOWNEY
THOMAS DREADFULWATER • MICHAEL DREW • RANDY DUNAWAY • CHARLIE DUNN, II • RALPH DURBIN
RANDY DWIGGINS • LARRY EDWARDS • JOHN ENGLE • TINISHA ENGLISH • NORMAN EVANS • BOB EWING
JAMES EWING • ROBERT EWING • CEOLAR FAGGANS • ROCKLON FAGGANS • DAVID FARLEY • ROBERT FERGUS
PEDRO FERNANDEZ • MELANIE FIORILLO • DAVID FLETCHER • RANDOLPH FLOYD • RUBY FLOYD
CHRISTOPHER FOBELL • MARY ELLEN FRANKLIN • LINDA FREEMAN • JOHNNIE FRIESZ • DAVID FUNK
RICKY GABEHART • CURTIS GANN • LEON GANN • SHARI GARCIA • MICHAEL GARRETT • TYLER GILLIAM
DAVID GILLILAND • ELPIDIO GOMEZ • PEDRO GOMEZ • SUSANO LOPEZ GONZALEZ • JERRY GOODALE
RICH GOODALE • BARRY GOODSON • CYNTHIA GRANADO • BRYAN GREER • JACK GREER • RONALD GREER
JEWEL GRIFFITH • JEANNE HACKLER • NANCY HACKNEY • JACK HALL • KELLY HALL • ROBERT HALL
PHILIP HAMPTON • STEVEN HAMPTON • RUSSELL HANCOCK • ROBERT HARP • KENNETH HAVARD • OREN HENDERSON
JAMES HENSLEY • ARIEL HERNANDEZ • SANDRA HERNANDEZ • TAKEO HIGA • DEWAYNE HIGHTOWER • JOHN HILL
LYNN HODGE • GREG HOLCOMB • CLEMA GEORGE HOLLAND • DONNA HOLLOWAY • DEBBIE HOLT • JERRY HOUSTON
LARRY HOWARD • LYDIA HUDSON • DOUGLAS HUFFMAN • LARRY HUFFMAN • BILLY HUGHART • NEIL HUGHES
SAMMY HURLEY • BOBBY HURT • GALEN HURT • GARY HUTCHINS • SAMUEL INGRAM • LOREN IRONS • TIM IRWIN
BELINDA JACKSON • BOBBY JACKSON • DONALD JACKSON • MCKINLEY JAMES • MICHAEL JOHNSON
TERRY JOHNSON • SHARRI JOHNSTON • HENRY JORDAN • KATHY KANE • RICHARD KEATON • RANDALL KEENER
HAROLD KEMPKE • TONIA KING • DONLE KIRKLAND • CHARLES KIRKLAND • REBECCA KNIGHT
RAYMOND KOLLOCK • JAMES KOSS • KUMAR KRISHNAN • KEVIN LANCASTER • ROBERT LANE • CYNTHIA LANPHEAR
GLEN DALE LATHAN • RICHARD LAWSON • RONALD LAWSON • JACKIE LEE • RONA LEMONS • PATRICIA LENNOX
KEVIN LESTER • JOHN LEWIS • THAD LINDSEY • RICHARD LONEY • MARGARITO LOPEZ • FRANCISCO LOZOYA
DAVID MAGEE • SCOTT MAHAN • LATY MALAPHA • BRUCE MARRS • MARY MARTIN • PEDRO MARTINEZ
JAMES MASON • CHRISTOPHER MASON, JR. • JOE MATHENY • PERCY MATHIS • DAVID MAULDIN • STACY MAYO
RICKY McCLAIN • JEARL McCOMBS • ROY McCONNELL • TIM McDOWELL • SUSIE McWILLIAMS • CHARLES MEADOWS
CHARLES MEADOWS II • JOE MENDOZA • TIMOTHY MILGATE • STEPHEN MINOR • JOSE MIRELES
DOUGLAS MITCHELL • TRACY MOBLEY • JO ANN MONTGOMERY • KIMBERLY MOORE • SHERRY MOORE
TONY MOORE • JAN MOORE • KRISHNA MUPPAVARAPU • SHAWN NEVELS • NITA NICHOLS • CALVIN NOEL
JERRY NOLAN • WANDOLYN O'QUINN • GARY OLER • RAYMOND OSBORN • JAMES O'NEILL • STEPHEN PARGETER
SHIRLEY PARKER • MICHEAL PARNELL • RONNIE PATTON • VADEN PAULSEN • LASANDRA PEE • JIMMY PENSE
PATRICK PEREZ • JAMES PHILLIPS • RICHARD PHILLIPS • ANGELA PHIPPS • RONALD PINGILLEY • KEVIN PITTSER
MARK POOL • DENNIS POTEETE • GREG POWERS • MARTIN PRADA • JOSE RAMON • TONY READ • DIEGO REBOLLAR
MIGUEL REBOLLAR • JAMES REED • WILLIE REED • PHILLIP RELLERGERT • GHLIE RENNER • LORI REYNOLDS
MICKEY REYNOLDS • AURELIO REYNOSO • BALLARD RICE • ROBERT RITCH • JESUS RIVAS • DOUGLAS ROADS
MICHAEL ROARK • AARON ROBBINS • BRUCE ROBINSON • JEFFERY ROGERS • JERRY ROGERS • WAYNE ROLAND
TERRY ROMBACH • ROBERT ROMO • JOHNNY ROSS • RONALD RUENGERT • ARTURO RUIZ • AVA RUSSELL
MARY RYAN • MARK SARASUA • WARREN SATOE • ROBERT SCHOOLEY • MARK SCHROEDER • DWAYNE SCHWARTZ
CURTIS SEYMOUR • ALLEN SHAEFFER • KATHY SHEFFIELD • DEBRA SHELTON • KIM SHERRILL • VINSON SHIPP
ROGER SHIPP • JOSEPH SINGH • JANET SLAGLE • ALLAN SMITH • BRETT SMITH • CHRISTINE SMITH • JAMES SMITH
REGINALD SMITH • DENNIS SNOW • KHAO SOUVANNASING • JOE SPEARS • LAWANA STANE • DON STANFORD
LARRY STANTON • BRIAN STEWART • CARL STEWART • STEVE STEWART • TOMMY STEWART • OLA STINSON
BRENT STOCKTON • BILLY STRENGTH • HAROLD SUMMERS • GARY SWARER • NELSON SWIGER • JAMES TABER
GABRIEL TALAMANTES • JOE TART • STANLEY TAYLOR • JANET THOMAS • JAMES TORNBURG • JORGE TORRES
CHARLES TULLOS • PERNELL UNDERWOOD • JOHN VANNESS • BIANCA VAZQUEZ • TERRENCE VEDDER
RODERICK WALKER • PERRY WARNER • DONALD WATERS • ANTHONY WEBB • KENNETH WEBB • MARVIN WEBB
NORRIS WEBB • SHAWN WELSH • SHARON WEST • DAVID WHITEHOUSE • STEVEN WHORTON • JACKIE WILES
JERRY WILES • CHARLES WILLIAMS • STEPHEN WILLIAMS • DAVID LEE WILLIS • JOE WILLIS • BURTON WITASCHEK
SHANE WOLVERTON • ELOISE WOODS • STEPHEN WOOLSEY • CHERYL WRIGHT • DANNY WRIGHT • JASON WRIGHT
STANLEY WRIGHT • JIM WYRICK • CHRIS YODER • DONNIE YOUNG



Financial Highlights

Income Data (\$000)	1993	1992	1991	1990	1989
Net Sales	45,394	37,026	26,678	36,127	31,329
Gross Profit	11,486	7,302	4,282	6,147	5,158
Operating Income	5,308	3,241	1,345	2,495	1,393
Interest Expense	809	785	756	1,104	1,062
Depreciation and Amortization	1,130	806	302	257	286
Pretax Income	4,240	2,453	519	1,426	210
Net Income	2,665	1,593	379	979	210
Shares Outstanding*	5,538	5,538	5,538	5,538	5,456
Earnings Per Share*	0.48	0.29	0.07	0.18	0.04

Balance Sheet (\$000)

Current Assets	15,862	9,280	7,576	10,463	11,418
Net Fixed Assets	7,427	5,367	5,502	3,816	3,456
Accumulated Depreciation	2,117	1,261	699	403	167
Total Assets	24,083	15,705	14,309	14,312	14,912
Current Liabilities	13,305	7,693	6,774	7,939	11,772
Long-Term Debt	4,281	4,087	5,343	4,660	2,519
Stockholder's Equity	6,350	3,685	2,092	1,713	621

Funds Flow Data (\$000)

From (To) Operations	(32)	(291)	3,700	59	235
From (To) Investment	(2,575)	(603)	(391)	(650)	(2,240)
From (To) Financing	2,655	663	(3,370)	948	2,005
From (To) Cash	48	(231)	(61)	357	0

Ratio Analysis

Return on Equity	72.3%	76.1%	22.1%	157.6%	N/A
Return on Assets	17.0%	11.1%	2.6%	6.6%	2.1%
Net Margin	5.9%	4.3%	1.4%	2.7%	0.7%
Long-Term Debt to Equity	67%	111%	255%	272%	406%
Interest Coverage	6.6	4.1	1.8	2.3	1.3
Current Ratio	1.2	1.2	1.1	1.3	1.0

* Adjusted for one-for-four reverse split effective close of business September 15, 1993.

Company Highlights

August 1988
September 1988
December 1988-April 1989

December 1988-December 1989
June 1989

September 1989
December 1990
1991-1992

December 1991
December 1991
1992
February 1993
July 1993
September 1993

November 1993

AAON, an Oklahoma corporation, founded.
Purchase of John Zink Air Conditioning Division.
AAON purchased for \$650,000, a 184,000 square foot plant at 2425 South Yukon, Tulsa, Oklahoma, renovated the facility and moved in.
Introduced new product line of rooftop heating and air conditioning units 2-140 tons.
Became publicly traded company with the reverse acquisition of Diamond Head Resources.
Changed name of Diamond Head Resources to AAON, Inc., a Nevada corporation.
Listed on NASDAQ Small Cap-Symbol "AAON"
Major customer reduced new construction and purchasing of AAON units by \$10,000,000 per year.
Formed CP/AAON, a Texas Corporation, as a subsidiary to AAON, Inc. (Nevada).
CP/AAON purchased coil making assets of Coils Plus.
Introduced higher efficiency units 2-140 tons.
CP/AAON purchased for \$720,000 a 110,000 square foot plant in Longview, Texas.
CP/AAON moves to new facility.
One-for-four reverse stock split.
Retired \$1,927,000 of subordinated debt.
Listed on the NASDAQ National Market System.

In 1993, we initiated the production of a cooling only unit engineered specifically for the overseas market. Production teams were able to quickly adapt the unique design requirements to a new product including horizontal discharge, capacity to operate in high ambient conditions and special packaging for international shipping. Although the new unit represented only a modest portion of our total sales, by year end we had sold the product in most major countries in the Middle East.



AAON's new international unit.

In the United States, we identified a growing market demand for energy-efficient alternative heating and cooling units. We responded by developing a

commercial-use, dual fuel heat pump. Like the unit developed for the international market, AAON's heat pump has to date had only a minor impact in terms of sales. However, its availability in our line of products has produced expanded opportunities with our customers.

In September, 1993, we retired \$1,927,000 of subordinated debt which was incurred in 1988 when the Company was formed, and we effected a 1-for-4 reverse stock split. In November, our common stock began trading on the NASDAQ National Market System.

Looking forward, we are encouraged by our recent past. We feel confident that significant growth will continue as a part of our future.

As you may surmise, we are extremely proud and appreciative of our employees, whose names are listed on the inside of the cover of this report, and we look forward to the continued support of our stockholders.

Sincerely,

Norman H. Asbjornson
President
April 11, 1994



Installing 140 ton VAV rooftop unit.

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, 1993

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 \$.004
(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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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, 1994, was approximately \$47,603,000. For purposes of this computation, all officers, directors and 5% beneficial owners of Registrant are deemed to be affiliates.

As of March 1, 1994, Registrant had outstanding a total of 5,537,629 shares of its \$.004 par value Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Registrant's definitive Proxy Statement to be filed in connection with the Annual Meeting of Stockholders to be held May 10, 1994, 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" or, including its subsidiaries, the "Company"), was incorporated on August 18, 1987. During February and March, 1988, Diamond Head Resources, Inc., made a public offering of its stock in furtherance of the objective of seeking and acquiring an interest in a prospective business opportunity

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 in Tulsa, Oklahoma. AAON-Oklahoma's purchase of the HVAC business was consummated on September 30, 1988, at which time AAON-Nevada made a loan of virtually all of its assets (\$580,000) to AAON-Oklahoma to partially finance the purchase. 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.

AAON-Oklahoma is engaged in the manufacture and sale of commercial rooftop air conditioners and heating equipment.

On December 30, 1991, CP/AAON, Inc. ("CP/AAON"), a Texas corporation organized as a wholly-owned subsidiary of AAON-Nevada for the purpose of the acquisition, purchased most of the assets of Coils Plus, Inc. ("CP"), of Longview, Texas, which manufactures coils used in the products of AAON-Oklahoma. Under the asset purchase agreement, CP/AAON is required to make payments to the unsecured creditors of CP equal to 20% of CP/AAON's pre-tax net income in 1992, 1993 and 1994.

In connection with the purchase of assets from CP, CP/AAON entered into a non-compete agreement with the former stockholder of CP. The agreement requires payments equal to 20% of CP/AAON's pre-tax income for each of the years ending December 31, 1992 through 1996. In addition, a lump-sum equal to five times the average of the payments for 1995 and 1996, subject to a maximum of \$4,000,000, will be payable in April 1997. Also, the agreement requires CP/AAON to make monthly advances of \$20,000 through December 1996 against amounts becoming due thereunder.

Products and Markets

The Company engineers, manufactures and markets commercial rooftop air-conditioning and heating equipment and air-conditioning coils. Its products serve the commercial and industrial new construction and replacement markets. While to date virtually all of the Company's sales have been to the domestic market, concerted efforts began in 1993 to develop foreign sales which accounted for approximately 1% of its sales last year and are projected to increase in the coming years.

The rooftop market consists of units installed on commercial or industrial structures of generally less than 10 stories in height.

CP/AAON's coil sales are made to air-conditioning unit manufacturers, including AAON-Oklahoma, and to the commercial/industrial general building market.

The size of these markets is determined primarily by the number of commercial and industrial building completions. The replacement market consists of products installed to replace existing units/components which are worn or damaged. Historically, approximately half of the industry's market 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 1993 level of sales, approximately \$45 million, the Company has a 6% share of the rooftop market and a 2% share of the coil market. Approximately 65% of the Company's sales now come from new construction and 35% from renovation/replacements. The percentage of sales (for new construction vs. replacement) to particular customers is related to their stage of development, e.g., 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 of AAON-Oklahoma 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 finished products of CP/AAON are coils, consisting of a sheet metal casing with tubing and fins contained therein.

The Company now has four groups of rooftop products: its RE Series, which is offered in 19 cooling sizes ranging from 2 to 60 tons, but which is being phased out in favor of the RH Series; its RH Series, which is a higher efficiency version of the RE Series; its RF Series, which is offered in nine cooling sizes ranging from 40 to 130 tons; and its RG Series (now being introduced), which is a heat pump variation of the RH Series.

AAON-Oklahoma's products are designed to compete on the high side of standardized, packaged rooftop products. Accordingly, its prices range from \$300 and \$550 per ton of cooling, which is approximately 5%, on average, higher than other standardized products. Performance characteristics of these 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. All of the Company's rooftop products meet the Department of Energy's efficiency standards, which are designed to set the maximum amount of energy to be used in producing a given amount of cooling.

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

The Company's two largest customers are Wal-Mart Stores, Inc., and K-Mart. Wal-Mart accounted for approximately 38% of the Company's sales in 1993, compared to 42% in 1992, and sales to K-Mart were 12% in 1992 and 1993.

Sales to Wal-Mart are made pursuant to calendar year contracts, now effective for 1994, which are by letter agreement providing 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 Company has no written contract with K-Mart.

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

In order to diversify its customer base, the Company plans to add to and/or upgrade its sales representation in various markets, seek general trade business, as well as other national accounts, penetrate additional trade areas, both domestic and foreign, and introduce its RG Series of products.

Sources and Availability of Raw Materials

The most important materials purchased by the Company are steel, copper and aluminum, which are obtained from domestic suppliers. The Company also purchases from other domestic manufacturers certain components, including compressors, 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 source for its raw material or the major components of its manufactured products, but AAON-Oklahoma purchases all of its coils from CP/AAON. By having multiple suppliers, the Company believes that it will have adequate sources of supplies to meet its manufacturing requirements for the foreseeable future.

Further, the Company attempts to limit the impact of increases in raw materials and purchased component prices on its profit margins by negotiating with each of its major suppliers on a term basis from six months to a year.

Distribution

The Company utilizes a direct sales staff of nine individuals and approximately 76 independent manufacturer representatives' organizations (of which 59 contributed business in 1993) to market its products in the United States. The Company also has one international sales representative and utilizes five distributors in other countries. 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.

AAON-Oklahoma'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, AAON-Oklahoma provides parts availability through six 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 products is: for parts only, the earlier of one year from 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 RG Series, component evaluation and refinement, and development of control systems and new product development. This work will cost approximately \$200,000 per year and is budgeted as a normal, recurring expense.

Backlog

The Company had a current backlog as of March 1, 1994, of \$21,357,000, compared to \$12,138,000 at March 1, 1993. The current backlog consists of orders considered by management to be firm and substantially all of which will be filled by July 1, 1994; 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 \$7,150,000. The Company believes that it will have sufficient bank credit available to meet its working capital needs through 1994 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, the Company competes primarily with Trane Company, a division of American Standard, Inc., Lennox Industries, Inc., York International 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 total value, 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, AAON-Oklahoma often is at a competitive disadvantage on sales of rooftop units because of the emphasis placed on initial cost; whereas, in the replacement market and other owner-controlled purchases of such units, 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 1, 1994, the Company had 369 employees and 120 temporaries, 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-Oklahoma is of sheet metal construction, containing 186,000 square feet (172,000 sq. ft. of manufacturing/warehouse space and 14,000 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. Subassembly 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 feet. Production at this facility averaged approximately \$3.3 million per month in 1993, which is 30% of the estimated capacity of the plant (to reach capacity would require the addition of sheet metal manufacturing equipment and other necessary manufacturing support items). Management deems this plant to be nearly ideal for the type of rooftop products being manufactured by the Company. The office space is believed to be adequate to support all capabilities of the manufacturing facility.

The operations of CP/AAON are conducted in a plant/office building at 203 Gum Springs Road in Longview, Texas, containing 110,000 square feet on 7.96 acres. The manufacturing area (approximately 106,000 square feet) is located in two 120 foot wide sheet metal buildings connected by an adjoining structure. The facility is built for light industrial manufacturing.

Bank borrowings of the Company, totalling \$10,430,000 at March 1, 1994, are secured, in part, by its Tulsa and Longview facilities (buildings and equipment).

Item 3. Legal Proceedings.

The Company is not a party to any pending legal proceeding which management believes is likely to result in a material liability 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, 1993, through December 31, 1993.

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, from December 31, 1990, to November 29, 1993, on the NASDAQ Small-Cap Market and thereafter on the NASDAQ National Market 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 interdealer 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, 1992	\$1.375	\$1.00
June 30, 1992	\$1.25	\$1.00

The range of sales prices for the Company's Common Stock during the last two quarters of 1992 and year 1993, as reported by the National Association of Securities Dealers, Inc., was as follows:

<u>Quarter Ended</u>	<u>High Bid</u>	<u>Low Bid</u>
September 30, 1992	\$1.75	\$1.00
December 31, 1992	\$2.375	\$1.125
March 31, 1993	\$3.00	\$1.375
June 30, 1993	\$6.125	\$2.375
September 30, 1993	\$8.00	\$4.25
December 30, 1993	\$7.75	\$6.00

All of the foregoing stock prices through September 15, 1993, have been adjusted for the 1-for-4 reverse split effective that date.

On March 1, 1994, there were 190 holders of record, and 1,556 beneficial owners, 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	Years ended					
	12/31/93	12/31/92	12/31/91	12/31/90	12/31/89	
	(In thousands, except earnings per share)					
Net sales	\$ 45,394	\$ 37,026	\$ 26,678	\$ 36,127	\$ 31,329	
Net income	\$ 2,665	\$ 1,593	\$ 379	\$ 979	\$ 210	
Earnings per share (1)	\$.48	\$.29	\$.07	\$.18	\$.04	
Balance Sheet Data:	As of	12/31/93	12/31/92	12/31/91	12/31/90	12/31/89
		(In thousands)				
Total assets	\$	24,083	\$ 15,705	\$ 14,309	\$ 14,312	\$ 14,912
Long-term debt	\$	4,281	\$ 4,087	\$ 5,343	\$ 4,660	\$ 2,519
Stockholders' equity (2)	\$	6,350	\$ 3,685	\$ 2,092	\$ 1,713	\$ 621

- (1) Earnings per share for the years ended December 31, 1993, 1992, 1991, 1990 and 1989 are based on 5,537,629, 5,537,629, 5,537,629, 5,537,629 and 5,456,303 shares, respectively. Effective September 15, 1993, the Company completed a one-for-four reverse stock split. The prior years shares outstanding and earnings per share disclosures have been restated to reflect the reverse split.
- (2) The Company has not paid any dividends as its 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 1993, 1992 and 1991:

	Years ended December 31,		
	1993	1992	1991
	(In thousands)		
Net sales	\$45,394	\$37,026	\$26,678
Cost of sales	(33,908)	(29,724)	(22,396)
Other expenses	(7,246)	(4,849)	(3,763)
Income before income taxes	4,240	2,453	519
Income tax provision	(1,575)	(860)	(140)
Net income	<u>\$ 2,665</u>	<u>\$ 1,593</u>	<u>\$ 379</u>

Material Changes in Financial Condition. The increases of \$3,985,000 in accounts receivable and \$2,381,000 in inventories at year-end 1993 (vs. 1992) reflect primarily the higher volume of sales in the fourth quarter. The increase of \$1,238,000 in "Buildings" is attributable to the purchase of a 110,000 square foot facility for CP/AAON, Inc. The increase of \$1,086,000 in "Machinery and equipment" was for new productivity improving manufacturing equipment. The increase of \$550,000 in "Furniture and fixtures" reflects the addition of a new main frame computer and CAD stations. Current liabilities increased by \$5,612,000 due to the increase in fourth quarter sales volume.

Material Changes in Results of Operations. Sales increased by \$8,368,000 during 1993 vs. 1992, compared to an increase of \$10,348,000 in 1992 over 1991. Both increases in sales were primarily attributable to the volume of business (approximately 95%), with most of the increased sales in 1993 being attributable to sales in the fourth quarter. Gross profit increased to 25.3% in 1993 compared to 19.7% in 1992, due to improvements in operational efficiency and increased productivity in 1993. Margins in 1991 were 16.1%.

Other expenses increased during the current year by \$2,397,000, primarily due to additional selling, general and administrative expenses (\$2,117,000) attributable to warranty expenses, approximately one-half of which was a "one-time charge", and significant additions to engineering staff. Other expenses increased in 1992 compared to 1991 by \$1,086,000, primarily due to greater SG&A expenses (\$1,124,000) attributable to CP/AAON, which was acquired in December, 1991.

The increase in income before income taxes of \$1,787,000 in 1993 compared to 1992 resulted primarily from increased sales and higher margins. The increase of \$1,934,000 in 1992 was also due to increased sales and higher margins.

Liquidity and Capital Resources. The capital needs of the Company are met 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. 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 relationship with its existing bank lender.

The Company's revolving credit line (which currently extends to March 31, 1995) provides for maximum borrowings of \$7,150,000. Interest on this line is payable monthly at the Chase Manhattan Bank prime rate plus 1/2% or LIBOR plus 3%, at the election of the Company. Availability of funds under the agreement is based on 80% of eligible accounts receivable, plus 50% of raw materials and finished goods inventories, with inventories not to exceed 50% of the borrowing base. Its term loans were in the original principal amounts of \$2,550,000 and \$1,450,000, providing for monthly principal payments of \$25,000 and \$15,000, respectively, commencing June 30, 1992, and \$1,000,000, providing for monthly principal payments of \$10,000 commencing February 28, 1993. Interest on these loans is payable monthly at the Chase Manhattan Bank prime rate plus 1%. The maturity of all three term loans is January 31, 1999.

Trends. Management anticipates higher sales and earnings in the current year due to increasing market share.

Item 8. Financial Statements and Supplementary Data.

The financial statements and supplementary data are included at page 16.

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

None.

PART III

Item 10. Management Report.

Incorporated by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company's 1994 Annual Meeting of Stockholders.

Item 11. Executive Compensation.

Incorporated by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company's 1994 Annual Meeting of Stockholders.

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

Incorporated by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company's 1994 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions.

Incorporated by reference to the Company's definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with the Company's 1994 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 Consolidated Financial Statements
on page 15.

2 Exhibits:

- (2) Asset Purchase Agreement and related agreements concerning the purchase of assets of Coils Plus, Inc., by CP/AAON, Inc., on December 30, 1991 (i)
- (3) (A) Articles of Incorporation (ii)
(A-1) Article Amendments (iii)
(B) Bylaws (ii)
(B-1) Amendment of Bylaws (iv)
- (4) (A) Restated Revolving Credit and Term Loan Agreement ("Loan Agreement") and related documents (iv)

(A-1) Latest amendment of Loan Agreement (v)
- (10) (A) Letter Agreement with Wal-Mart Stores, Inc. (iii)

(B) AAON, Inc. 1992 Stock Option Plan (vi)
- (21) List of Subsidiaries (vi)

(i) Incorporated herein by reference to the exhibits to the Company's Form 8-K dated January 13, 1992.

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

(iii) Incorporated herein by reference to the exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1990, and to the Company's Form 8-K dated March 21, 1994.

(iv) Incorporated herein by reference to the Company's Form 8-K dated June 22, 1992, or exhibits thereto.

(v) Incorporated herein by reference to exhibits to the Company's Form 8-K dated December 15, 1993.

(vi) Incorporated herein by reference to exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991.

(b) The Company did not file any reports on Form 8-K during the period from October 1, 1993, to December 31, 1993.

SIGNATURES

Pursuant to the requirement 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, hereunto duly authorized.

AAON, INC.

Dated: March 23, 1994

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 23, 1994

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

Dated: March 23, 1994

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

Dated: March 23, 1994

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

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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 subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1993. 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 audit 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 financial statements referred to above present fairly, in all material respects, the financial position of AAON, Inc. and subsidiaries as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, 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 3, 1994

AAON, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	<u>DECEMBER 31,</u>	
	<u>1993</u>	<u>1992</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 113	\$ 65
Accounts receivable, net of allowance for doubtful accounts of \$80 and \$81, respectively	8,114	4,129
Inventories	6,998	4,617
Prepaid expenses	134	139
Deferred income taxes	503	330
Total current assets	<u>15,862</u>	<u>9,280</u>
PROPERTY, PLANT AND EQUIPMENT, net	<u>7,427</u>	<u>5,367</u>
INTANGIBLE ASSET, net	585	780
OTHER ASSETS	209	278
	<u>\$ 24,083</u>	<u>\$ 15,705</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,881	\$ 1,755
Accrued liabilities	1,592	959
Revolving credit agreement	6,727	2,394
Current maturities of long-term debt	1,105	2,585
Total current liabilities	<u>13,305</u>	<u>7,693</u>
LONG-TERM DEBT	<u>4,281</u>	<u>4,087</u>
DEFERRED INCOME TAXES	<u>147</u>	<u>240</u>
COMMITMENTS		
STOCKHOLDERS' EQUITY, per accompanying statement:		
Common stock, \$.004 par value, 50,000,000 shares authorized	22	22
Preferred stock, \$.001 par value, 5,000,000 shares authorized, no shares issued	-	-
Additional paid-in capital	984	984
Retained earnings	5,344	2,679
Total stockholders' equity	<u>6,350</u>	<u>3,685</u>
	<u>\$ 24,083</u>	<u>\$ 15,705</u>

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

AAON, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share information)

	<u>FOR THE YEARS ENDED DECEMBER 31,</u>		
	<u>1993</u>	<u>1992</u>	<u>1991</u>
NET SALES	\$ 45,394	\$ 37,026	\$ 26,678
COST OF SALES	<u>33,908</u>	<u>29,724</u>	<u>22,396</u>
GROSS PROFIT	11,486	7,302	4,282
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>6,178</u>	<u>4,061</u>	<u>2,937</u>
INCOME FROM OPERATIONS	5,308	3,241	1,345
INTEREST EXPENSE	809	785	756
OTHER EXPENSE	<u>259</u>	<u>3</u>	<u>70</u>
INCOME BEFORE INCOME TAXES	4,240	2,453	519
INCOME TAX PROVISION	<u>1,575</u>	<u>860</u>	<u>140</u>
NET INCOME	<u>\$ 2,665</u>	<u>\$ 1,593</u>	<u>\$ 379</u>
EARNINGS PER SHARE	<u>\$.48</u>	<u>\$.29</u>	<u>\$.07</u>
AVERAGE SHARES OUTSTANDING	<u>5,538</u>	<u>5,538</u>	<u>5,538</u>

The accompanying notes are an integral part of these statements.

AAON, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1993, 1992 AND 1991

(In thousands)

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
BALANCE, DECEMBER 31, 1990	22,150	\$ 22	\$ 984	\$ 707	\$ 1,713
NET INCOME	<u>-</u>	<u>-</u>	<u>-</u>	<u>379</u>	<u>379</u>
BALANCE, DECEMBER 31, 1991	22,150	22	984	1,086	2,092
NET INCOME	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,593</u>	<u>1,593</u>
BALANCE, DECEMBER 31, 1992	22,150	22	984	2,679	3,685
REVERSE STOCK SPLIT	(16,612)	-	-	-	-
NET INCOME	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,665</u>	<u>2,665</u>
BALANCE, DECEMBER 31, 1993	<u>5,538</u>	<u>\$ 22</u>	<u>\$ 984</u>	<u>\$5,344</u>	<u>\$ 6,350</u>

The accompanying notes are an integral part of these statements.

AAON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	<u>FOR THE YEARS ENDED DECEMBER 31,</u>		
	<u>1993</u>	<u>1992</u>	<u>1991</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 2,665	\$ 1,593	\$ 379
Adjustments to reconcile net income to net cash provided by (used in) operating activities-			
Depreciation and amortization	1,130	806	302
Provision for losses on accounts receivable	111	31	20
Provision for losses on inventories	-	182	(62)
Loss on disposition of assets	11	13	-
Deferred income taxes	(266)	30	(51)
Change in assets and liabilities, net of effect of acquisition-			
(Increase) decrease in accounts receivable	(4,096)	(1,098)	1,579
Decrease in income tax refund receivable	-	-	300
(Increase) decrease in inventories	(2,381)	(845)	1,681
(Increase) decrease in prepaid expenses and other assets	74	(117)	(14)
Increase (decrease) in accounts payable	2,126	(1,040)	(411)
Increase (decrease) in accrued liabilities	594	154	(23)
Total adjustments	<u>(2,697)</u>	<u>(1,884)</u>	<u>3,321</u>
Net cash provided by (used in) operating activities	<u>(32)</u>	<u>(291)</u>	<u>3,700</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	-	20	9
Capital expenditures	(2,575)	(623)	(349)
Purchase of CP	-	-	(51)
Net cash used in investing activities	<u>(2,575)</u>	<u>(603)</u>	<u>(391)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit agreement	23,103	17,429	12,642
Payments under revolving credit agreement	(18,770)	(17,107)	(15,687)
Proceeds from long-term debt	1,007	1,450	-
Payments on long-term debt and note payable	(2,685)	(1,109)	(325)
Net cash provided by (used in) financing activities	<u>2,655</u>	<u>663</u>	<u>(3,370)</u>
NET INCREASE (DECREASE) IN CASH	<u>48</u>	<u>(231)</u>	<u>(61)</u>
CASH, beginning of year	<u>65</u>	<u>296</u>	<u>357</u>
CASH, end of year	<u>\$ 113</u>	<u>\$ 65</u>	<u>\$ 296</u>

The accompanying notes are an integral part of these statements.

AAON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1993, 1992 AND 1991

(Dollar amounts in thousands, except per share information)

1. OPERATIONS AND ORGANIZATION:

AAON, Inc. (the Company, a Nevada corporation) is engaged in the manufacture and sale of commercial rooftop air conditioners, heating equipment and components through its wholly-owned subsidiaries AAON, Inc. (AAON, an Oklahoma corporation) and CP/AAON, Inc. (CP/AAON, a Texas corporation).

CP/AAON was organized in December 1991, as a wholly owned subsidiary of AAON for the purpose of acquiring certain assets of Coils Plus, Inc. (CP), an air coil manufacturer. On December 30, 1991, CP/AAON acquired certain assets of CP for \$2,166 which was financed mostly through short-term notes and borrowings under AAON's bank line of credit. The purchase method of accounting was used to account for the purchase of CP whereby the total purchase consideration was allocated to the assets purchased based on their estimated fair values.

Under the asset purchase agreement with CP, CP/AAON is required to make payments to the unsecured creditors of CP equal to 20 percent of CP/AAON's pre-tax income in 1992, 1993 and 1994. Any amounts paid to the unsecured creditors will be recorded as additional purchase consideration.

In connection with the purchase from CP, CP/AAON entered into a noncompete agreement with the former stockholder of CP. The agreement requires payments equal to 20 percent of CP/AAON's pre-tax income for each of the years ending December 31, 1992 through 1996. In addition, a lump-sum equal to five times the average of the payments for 1995 and 1996, subject to a maximum of \$4,000, will be payable in April 1997. Also, the agreement requires CP/AAON to make monthly advances of \$20 through December 1996. Any additional amounts payable exceeding the monthly advances will be expensed at the end of each year. No such expense was required for 1993 or 1992. The present value of the total of advances is recorded as a noncompetition agreement (see Note 4).

2. ACCOUNTING POLICIES:

Consolidation

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

Revenue Recognition

Revenues are recognized at the time of shipment.

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>1993</u>	<u>1992</u>
Raw materials	\$ 4,008	\$ 3,468
Work in process	1,302	713
Finished goods	<u>1,828</u>	<u>676</u>
	7,138	4,857
Less allowance for excess and obsolete inventory	140	240
	<u>\$ 6,998</u>	<u>\$ 4,617</u>

Property, Plant and Equipment

Property, plant and equipment at December 31, consists of the following:

	<u>1993</u>	<u>1992</u>
Land	\$ 227	\$ 185
Buildings	4,038	2,800
Machinery and equipment	4,480	3,394
Furniture and fixtures	<u>799</u>	<u>249</u>
	9,544	6,628
Less - accumulated depreciation	<u>2,117</u>	<u>1,261</u>
	<u>\$ 7,427</u>	<u>\$ 5,367</u>

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

	<u>Years</u>
Buildings	20
Machinery and equipment	4-10
Furniture and fixtures	5

Intangible Asset

The noncompetition agreement is being amortized over five years and is shown net of \$390 and \$195 of amortization on the balance sheet at December 31, 1993 and 1992, respectively.

Warranties

A provision is made for the estimated cost of warranty obligations at the time the related products are sold.

Warranty expense was \$2,457, \$880 and \$755 for the years ended December 31, 1993, 1992 and 1991, respectively.

The accrual for warranty obligations was \$845 and \$376 at December 31, 1993 and 1992, respectively, and is included in accrued liabilities.

3. SUPPLEMENTAL CASH FLOW INFORMATION:

Interest payments of \$809, \$783 and \$722 were made for the years ended December 31, 1993, 1992 and 1991, respectively. Payments for income taxes of approximately \$1,923, \$789 and \$152 were made during the years ended December 31, 1993, 1992 and 1991, respectively. A capital lease obligation of \$392 was incurred when the Company entered into a lease for new computer equipment.

4. DEBT:

The Company had outstanding borrowings of \$6,727 as of December 31, 1993 under a revolving credit agreement with a bank which expires March 31, 1995. Under the agreement, interest is payable monthly at LIBOR plus three percent (6.5% at December 31, 1993). Availability of funds under the agreement is based on 80 percent of eligible accounts receivable plus 50 percent of raw materials and finished goods inventories, with inventories not to exceed 50 percent of the borrowing base, not to exceed \$7,150 in borrowings at December 31, 1993. The agreement is collateralized by accounts receivable, inventory contracts, intangibles and the stock of AAON and CP/AAON.

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

	<u>1993</u>	<u>1992</u>
Three bank term-loan agreements, payable in total monthly payments of \$50 through January 1999 with a balloon payment in January 1999, plus interest payable monthly at Chase Manhattan Bank prime plus 1% (7% at December 31, 1993), collateralized by machinery, equipment and real estate.	\$ 4,130	\$ 3,720
10% subordinated notes to stockholders.	-	1,927
Noncompetition agreement discounted at 8.5%, payable in monthly payments of \$20 through December 1996.	634	812
Other	<u>622</u>	<u>213</u>
	5,386	6,672
Less- current maturities	<u>1,105</u>	<u>2,585</u>
	<u>\$ 4,281</u>	<u>\$ 4,087</u>

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

1994	\$1,105
1995	932
1996	958
1997	661
1998	600
Thereafter	<u>1,130</u>
	<u>\$5,386</u>

The revolving credit agreement along with the term loan agreements requires, among other things, that the Company maintain minimum net worth, a minimum tangible net worth, minimum working capital, a minimum debt to tangible net worth ratio and restricts the transfer of funds between the Company and its subsidiaries. At December 31, 1993, 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>Years Ended December 31,</u>	
	<u>1993</u>	<u>1992</u>
Largest amount borrowed	\$ 6,727	\$ 4,000
Average amount borrowed	3,761	3,059
Weighted average interest rate	7.1%	6.9%

5. COMMITMENTS:

The Company leases certain equipment and office space under various operating leases. Rental expense for the years ended December 31, 1993, 1992 and 1991 was approximately \$206, \$286 and \$190, respectively. At December 31, 1993, the aggregate future commitments under operating leases are as follows:

1994	\$ 149
1995	135
1996	135
1997	34

6. INCOME TAXES:

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 109, "Accounting for Income Taxes." The adoption of this statement did not impact the financial statements.

The income tax provision consists of the following:

	<u>Years Ended December 31,</u>		
	<u>1993</u>	<u>1992</u>	<u>1991</u>
Current	\$ 1,841	\$ 830	\$ 191
Deferred	(266)	30	(51)
	<u>\$ 1,575</u>	<u>\$ 860</u>	<u>\$ 140</u>

The reconciliation of the statutory income tax rate to the effective income tax rate is as follows:

	<u>Years Ended December 31,</u>		
	<u>1993</u>	<u>1992</u>	<u>1991</u>
Statutory rate	34%	34%	34%
Adjustment of estimated income taxes for prior year	-	-	(7%)
Other	<u>3%</u>	<u>1%</u>	<u>-</u>
	<u>37%</u>	<u>35%</u>	<u>27%</u>

All significant state income taxes have been offset by various available credits.

The tax effect of temporary differences giving rise to the Company's consolidated deferred income taxes at December 31 are as follows:

	<u>1993</u>	<u>1992</u>
Deferred tax assets -		
Valuation reserves	\$ 75	\$ 109
Warranty accrual	287	128
Other accruals	115	77
Other, net	<u>26</u>	<u>16</u>
	<u>503</u>	<u>330</u>
Deferred tax liabilities -		
Depreciation and amortization	159	240
Other, net	<u>(12)</u>	<u>-</u>
	<u>147</u>	<u>240</u>
Net deferred tax asset	<u>\$ 356</u>	<u>\$ 90</u>

7. MAJOR CUSTOMERS:

Sales to major customers consist of the following:

	<u>Years Ended December 31,</u>		
	<u>1993</u>	<u>1992</u>	<u>1991</u>
Wal-Mart Stores, Inc.	38%	42%	59%
K-Mart	12%	12%	-
McDonald's Corporation	-	-	13%

8. STOCK OPTION PLAN:

During 1992, the shareholders approved a stock option plan for key employees and directors, covering 275,000 shares of common stock. Under the terms of this plan, the exercise price of shares granted will not be less than 85 percent of their fair market value at the date of the grant. Options granted vest at a rate of 20 percent per year, commencing one year after date of grant, and are exercisable for ten years.

At December 31, 1993, 37,500 shares were available for granting future options. Options for 125,000 shares were outstanding at an exercise price of \$1.25 and options for 112,500 shares were outstanding at an exercise price of \$1.3125 per share. The exercise price of the 237,500 options granted in 1992 was equal to the market price at the date of grant and options on 47,500 shares were exercisable at December 31, 1993.

9. REVERSE STOCK SPLIT:

Effective September 15, 1993, the Company completed a one-for-four reverse stock split. The earnings per share and average shares outstanding amounts in the Consolidated Statements of Operations have been restated to reflect the reverse stock split.

10. EARNINGS PER SHARE:

Earnings per share are computed by dividing net income by the average number of shares outstanding during each year, restated for the one-for-four reverse stock split. Dilution that could result from the exercise of stock options is less than three percent.

AAON, INC.

SCHEDULE II - AMOUNTS RECEIVABLE FROM RELATED PARTIES,

UNDERWRITERS, PROMOTERS AND EMPLOYEES OTHER THAN

RELATED PARTIES

(In thousands)

	Balance at Beginning of Period	Additions	Deductions	Balance at End of Period
<u>For the year ended December 31, 1993</u>				
Jack Greer(1)	\$ 258	\$ -	\$ 57	\$ 201 (2)
<u>For the year ended December 31, 1992</u>				
Jack Greer (1)	\$ 244	\$ 54	\$ 40	\$ 258 (2)
<u>For the year ended December 31, 1991</u>				
Jack Greer(1)	\$ -	\$ 244	\$ -	\$ 244 (2)

(1) Noninterest-bearing note receivable, due April 1997, with monthly payments of \$3,333.

(2) Amount included in other assets in the balance sheets.

AAON, INC.

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

FOR THE THREE YEARS ENDED DECEMBER 31, 1993

(In thousands)

Description	Balance at Beginning of Period	Additions at Cost	Retirements	Balance at End of Period
<u>Year ended December 31, 1993:</u>				
Land	\$ 185	\$ 42	\$ -	\$ 227
Buildings	2,800	1,238	-	4,038
Machinery and equipment	3,394	1,169	83	4,480
Furniture and fixtures	249	558	8	799
	<u>\$ 6,628</u>	<u>\$ 3,007</u>	<u>\$ 91</u>	<u>\$ 9,544</u>
<u>Year ended December 31, 1992:</u>				
Land	\$ 185	\$ -	\$ -	\$ 185
Buildings	2,551	254	5	2,800
Machinery and equipment	3,285	297	188	3,394
Furniture and fixtures	180	72	3	249
	<u>\$ 6,201</u>	<u>\$ 623</u>	<u>\$ 196</u>	<u>\$ 6,628</u>
<u>Year ended December 31, 1991:</u>				
Land	\$ 185	\$ -	\$ -	\$ 185
Buildings	2,445	106	-	2,551
Machinery and equipment	1,421	1,873	9	3,285
Furniture and fixtures	168	12	-	180
	<u>\$ 4,219</u>	<u>\$ 1,991</u>	<u>\$ 9</u>	<u>\$ 6,201</u>

AAON, INC.

SCHEDULE VI - ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

FOR THE THREE YEARS ENDED DECEMBER 31, 1992

(In thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Balance at End of Period
Year ended December 31, 1993:				
Buildings	\$ 453	\$ 201	\$ -	\$ 654
Machinery and equipment	722	614	73	1,263
Furniture and fixtures	86	120	6	200
	<u>\$ 1,261</u>	<u>\$ 935</u>	<u>\$ 79</u>	<u>\$ 2,117</u>
Year ended December 31, 1992:				
Buildings	\$ 308	\$ 145	\$ -	\$ 453
Machinery and equipment	354	417	49	722
Furniture and fixtures	37	49	-	86
	<u>\$ 699</u>	<u>\$ 611</u>	<u>\$ 49</u>	<u>\$ 1,261</u>
Year ended December 31, 1991:				
Buildings	\$ 178	\$ 130	\$ -	\$ 308
Machinery and equipment	205	149	-	354
Furniture and fixtures	20	17	-	37
	<u>\$ 403</u>	<u>\$ 296</u>	<u>\$ -</u>	<u>\$ 699</u>

AAON, INC.

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

	Balance at Beginning of Period	Charged to costs and expenses	Deductions	Balance at End of Period
<u>For the year ended December 31, 1993</u>				
Allowance for doubtful accounts (1)	<u>\$ 81</u>	<u>\$ 111</u>	<u>\$ 112</u>	<u>\$ 80</u>
Allowance for excess and obsolete inventory (2)	<u>\$ 240</u>	<u>\$ -</u>	<u>\$ 100</u>	<u>\$ 140</u>
<u>For the year ended December 31, 1992</u>				
Allowance for doubtful accounts (1)	<u>\$ 50</u>	<u>\$ 257</u>	<u>\$ 226</u>	<u>\$ 81</u>
Allowance for excess and obsolete inventory (2)	<u>\$ 58</u>	<u>\$ 182</u>	<u>\$ -</u>	<u>\$ 240</u>
<u>For the year ended December 31, 1991</u>				
Allowance for doubtful accounts (1)	<u>\$ 30</u>	<u>\$ 111</u>	<u>\$ 91</u>	<u>\$ 50</u>
Allowance for excess and obsolete inventory (2)	<u>\$ 120</u>	<u>\$ -</u>	<u>\$ 62</u>	<u>\$ 58</u>

(1) Netted against accounts receivable in the balance sheets.

(2) Netted against inventories in the balance sheets.

Board of Directors

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 L.L.P.
New York, New York
(Law Firm)

John B. Johnson, Jr.
Member, Johnson, Allen, Jones &
Dornblaser
Tulsa, Oklahoma
(Law Firm)

Officers

Norman H. Asbjornson
President and Treasurer

Robert G. Fergus
Vice President

William A. Bowen
Vice President—Finance

John B. Johnson, Jr.
Secretary

Corporate Data

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

Auditors
Arthur Andersen & Co.
6450 South Lewis,
Suite 300
Tulsa, Oklahoma 74136

Corporate Counsel
Johnson, Allen, Jones & Dornblaser
900 Petroleum Club Building
601 South Boulder
Tulsa, Oklahoma 74119

Corporate Offices
2425 South Yukon Avenue
Tulsa, Oklahoma 74107

Common Stock
NASDAQ-AAON

AAON PROUDLY ACKNOWLEDGES THE DEDICATION AND DETERMINATION OF OUR EMPLOYEES WHOSE EFFORTS CONTRIBUTE IMMEASURABLY TO OUR SUCCESS

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JIMANGUS • NORMAN ASBJORNSON • SCOTT ASBJORNSON • GARY ASHMORE • EMANUEL ATCHISON • DAVID BAKER
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HANK BIERWIRTH • JANA BIRDWELL • BRANDON BLALOCK • KYLE BLESSING • JIM BLEVINS • PATRICK BOLL
KENNETH BOLTINGHOUSE • KRISTINA BOOTZ • WILLIAM BOWEN • JOHNNY BOYCE • LINDA BRICKER
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ROBERT BROWN • TED BROWN • WILLIAM BRYANT • BANG BUI • ROBERT BURCH • ROBBYE BURK • ROBERTA BURKE
DIANA CADENA • HORACIO CADENA • OSCAR CADENA • KENT CALICOAT • ARTHUR CANDLER • SUSAN CARPENTER
STEVE CARTER • LUIS MANUEL CASTANON • JUAN CASTRO • WILLIAM CHANDLER • CHRISTENE CHAPMAN
PHAYUANH CHAREUNSOUK • DALE CHERRY • DANIEL CHERRY • PAUL CHERRY • GEORGE CHURCHILL
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