

AAOONV

Annual
Report

25

AAON proudly acknowledges

the dedication and determination

of our employees whose efforts

contribute immeasurably to our success.

JAMES AREL
GARY ADAMS
MICHAEL AICHELE, JR.
JOYCE ALFORD
JONNIE ALLEN
MICHAEL AMBURGEY
JIM AMPERT
PAUL AMOSS
CHARLES ANDERSON, JR.
ERASMO AREBAS
JOHN ASBJORNSON
NORMAN ASBJORNSON
SCOTT ASBJORNSON
GARY ASHMORE
EMANUEL ATCHISON
ELOY AVILA

DAVID BAKER
PEARL BALDWIN
JOSEPH BARBERA
BARRY BARKINS
EDDIE BARNETT
MELTON BARR
MICHAEL BASS
TERANCE BASSETT
ERIC BATSIE
CURTIS BATTLE
BRIAN BELL
MICHAEL BELVEAL
ISAAC BENIN

CARMEN BERROSPE
HANK BIERMIRTH
OLLIE BIXLER
JAMES BLACK
BRANDON BLACKLOCK
KYLE BLESSING
JACQUE BLEVINS
JIM BLEVINS
RICHARD BOBO
JOHN BONICELLI
GAIL BOWEN
WILLIAM BOWEN
DEMECO BOWENS

GREGORY BOX
JARRETT BRANSCUM
CURTIS BRUCE
BILLY BRUMER
CHARLES BRITTEHAM, JR.
GERALD BROOKS
TOMY BROTHERTON
DARLENE BROWN
KEVIN BROWN
RACHAEL BROWN
ROBERT BROWN
TED BROWN
JAMES BRUCE

WAYNE BRUNT
WILLIAM BRYANT
BANG BUI
CARLOS BUAREA
ROBERT BURCH
ROBBY BURK
JOHN BUTLER
RICKY BUZZARD
DIANA CADENA
OSCAR CADENA
MARTHA CALDERAS
KENT CALLICOAT
ERASTO CANCHOLA
ARTHUR CANDLER
JUAN CASTRO
WILLIAM CHANDLER
PHAYUANH CHAREUNSOUK

RUBEN CHAVEZ
DALE CHERRY
DANIEL CHERRY
PAUL CHERRY
GEORGE CHURCHILL
SOCORRO CISNEROS
MORRIS CLARK
RAYMOND CLEVELAND
DAVID COBE
JERRY COBE
KENNETH COCHRAN
CHIKETA COLE
PENNY COLE
ROSE COLE
ISHAEL COLON
CLARENCE COOK

DAVID COOK
ELAINE CORKHILL
GLENNIA CORREJO
JERRY COSPER
BELINDA COX
JOHN COX
RICHARD CRABBE
LINDA CRAMER
MELVIN CRAMER
PRESTON CREASON
MIKEL CREWS
ROBIN CRIPPS
DARRELL CROW

ROBERT CUMMINGS
BRIAN CUNNINGHAM
GWENDOLYN DANIELS
BERRIARD DAVISBY
LORETTA DARLING
CARLA DAVIS
KIRKJON DAVIS
MARK DAVIS
RICHARD DAVIS
RON DAVIS
GWENDOLYN DECKARD
JUANA DELOBO
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ELIAS DIAZ
KATHRYN DOBBINS
HOMER DODD
KEVIN DODD
RICKY DODSON
PRINTISS DORSBY
HAROLD DOUGLAS
JOHN DOWNEY
THOMAS DRADELUWATER
MICHAEL DREW
ROBERT DUBBS
JOSEPH DUBBS
THEODORE DUKE

ARIEL HERRANDEZ
RALPH HIGGA
DENAYNE HIGHTOWER
JACOB HILL
JOHN HILL
MARCELLA HILL
CHRISTOPHER HIRDERS
JOSEPH HINES
JERRY HIRTH
GREG HOLCOMB
ANTHONY HOLLINS
DORNA HOLLOWAY
RONALD EVANS
BOB EWING
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STANLEY HORTON
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PEDRO FERNANDEZ
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SHARON FONTELOT
DON FORBES
ERNEST FORKEY
MARY ELLEN FRANKLIN
LINDA FREEMAN
TOMMAY FRIEND

JOHNNY FRIESZ
RICKY GABEHART
YOLANDA GALVAN
CURTIS GANN
LEON GANN
ERICQUE GARCIA
MARIA GARCIA
DAPHNE GEORGE
TYLER GILLIAM
DAVID GILLILAND
HENRY GOLDSTON
ELPIDIO GOMEZ
MIGUEL GOMEZ

SHOMERIC KING
SUSANO GONZALEZ
JERRY GOODALE
RICH GOODALE
BARRY GOODSON
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JACQUE GOSWELL
IKE GRAHAM
CYNTHIA GRANADO
CASEY GREER
RONALD GREER
STEVE GRESHAM
JEWEL GRIFFITH

JEANNE HACKLER
NANCY HACKREY
GLENDA HALL
JACK HALL
KELLY HALL
NEIL HAMILTON
PHILIP HAMPTON
STEVEN HAMPTON
BRENDA HARIMAN
ROBERT HARP
KENNETH HAYARD
OREN HEIDORSON
JAMES HENSLEY

DON MADREWELL
DAVID MAGEE
SCOTT MAHAN
LACY MALAPHA
NANCY MARROQUIN
BRUCE MARRS
KEITH MARTIN
MARY MARTIN
PAUL MARTIN
GRACIELA MARTINEZ
JAMES MASON
CHRISTOPHER MASON, JR.
DAVID HOLT
JANICE MASSA
PERCY MATHIS
JAMES MCGALL
JEARL MCGOMBES
ROY MCGOMBELL

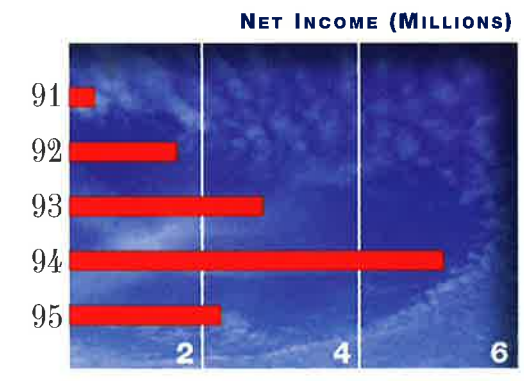
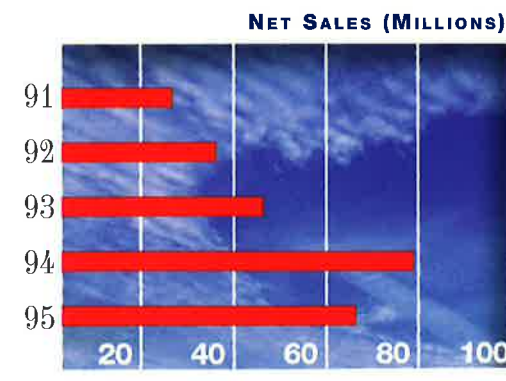
Financial Highlights

INCOME DATA (\$000)	1995	1994	1993	1992	1991
Net Sales	67,346	79,542	45,394	37,026	26,678
Gross Profit	10,818	17,878	11,486	7,302	4,282
Operating Income	4,500	9,957	5,308	3,241	1,345
Interest Expense	815	806	809	785	756
Depreciation and Amortization	2,705	1,714	1,130	806	302
Prelax Income	3,233	8,706	4,240	2,453	519
Net Income	2,069	5,101	2,665	1,593	379
Weighted Average Shares Outstanding and Common Share Equivalents*	6,105	6,301	6,091	6,091	6,091
Earnings Per Common and Common Equivalent Share*	.34	0.81	0.44	0.26	0.06

BALANCE SHEET (\$000)	1995	1994	1993	1992	1991
Current Assets	21,149	23,777	15,862	9,280	7,576
Net Fixed Assets	10,312	8,230	7,427	5,367	5,502
Accumulated Depreciation	5,831	3,324	2,117	1,261	699
Total Assets	32,212	32,562	24,083	15,705	14,309
Current Liabilities	7,971	10,453	6,578	7,693	6,774
Long-Term Debt	10,695	10,648	11,008	4,087	5,343
Stockholder's Equity	13,546	11,461	6,350	3,685	2,092

FUNDS FLOW DATA (\$000)	1995	1994	1993	1992	1991
From (To) Operations	5,161	2,749	(32)	(291)	3,700
From (To) Investment	(4,593)	(2,376)	(2,575)	(603)	(391)
From (To) Financing	69	(519)	2,655	663	(3,370)
From (To) Cash	637	(87)	48	(231)	(61)

RATIO ANALYSIS	1995	1994	1993	1992	1991
Return on Equity	18.1%	80.3%	72.3%	76.1%	22.1%
Return on Assets	6.4%	21.2%	17.0%	11.1%	2.6%
Net Margin	3.1%	6.4%	5.9%	4.3%	1.4%
Total Liabilities to Equity	1.4	1.8	2.8	3.3	5.8
Long-Term Debt to Equity	.8	.9	1.7	1.1	2.6
Interest Coverage	5.0	11.8	6.2	4.1	1.7
Current Ratio	2.7	2.3	2.4	1.2	1.1



* Adjusted for one-for-four reverse split effective September 15, 1993 and for a 10 percent stock dividend issued on March 27, 1995.

Company Highlights

AUGUST 1988
AAON, an Oklahoma corporation, founded.

SEPTEMBER 1988
Purchase of John Zink Air Conditioning Division.

SPRING 1989
AAON purchased, renovated and moved into a 184,000 square foot plant in Tulsa, Oklahoma. Introduced a new product line of rooftop heating and air conditioning units 2-140 tons.

SUMMER 1989
Became a publicly traded company with the reverse acquisition of Diamond Head Resources (now "AAON, Inc.", a Nevada corporation).

DECEMBER 1990
Listed on NASDAQ Small Cap-Symbol "AAON".

DECEMBER 1991
Formed CP/AAON, a Texas Corporation, as a subsidiary to AAON, Inc. (Nevada), and purchased coil making assets of Coils Plus.

SPRING 1993
CP/AAON purchased, renovated and moved into a 110,000 square foot plant in Longview, Texas.

SEPTEMBER 1993
One-for-four reverse stock split. Retired \$1,927,000 of subordinated debt.

NOVEMBER 1993
Listed on the NASDAQ National Market System.

JANUARY 1995
Introduced a desiccant heat recovery wheel option available on all AAON rooftop units.

MARCH 1995
Purchase of property with 26,000 square ft. building adjacent to CP/AAON's plant in Longview, TX. Issued a ten percent stock dividend.

SEPTEMBER 1995
Completed expansion of the Tulsa facility to 332,000 square feet.

95

was a year of challenges for AAON. Although difficult, during 1995 we were able to expand our customer base, strengthen our representative network, improve our products and create the infrastructure necessary for renewed expansion. Unfortunately, revenues shrank by 16% and earnings by 61% as we dealt with three difficult issues. Our backlog of

orders also decreased by 44% to \$11,432,580 as our business shifted from accounts with long lead times toward shorter turnaround orders. These shorter lead times have resulted in an increase in the cyclical nature of our business.

The first issue was that in contrast with 1994, our margins were hindered by unusual increases in the cost of raw materials such as copper and aluminum. A substantial portion of the cost increases occurred in our coil manufacturing division. Raw material costs plateaued in early 1995 while we required the entire year to pass along most price increases.

The second problem was that the competitive pressures which we encountered as a result of our price increases reduced orders for coils by 7%. In an effort to improve the profitability of this operation, we have undertaken significant streamlining measures, including changes in the management of this division.

The third issue was that orders of packaged air-conditioning equipment from two large national accounts decreased markedly. However, excluding the effect of those two customers, orders for packaged air-conditioning units increased by 8.5% last year. This increase in business has developed through our sales representative network.



RF 40-130 ton assembly area.



Roll metal uncoiler in new North building.



During 1995 we reviewed the performance of our representatives and took additional actions to enable this group to provide a large source of orders for our business. The growth in orders from our representatives consists of a more diverse customer base including schools, office buildings, shopping malls and industrial applications. By developing a broader customer base, we will reduce our dependence upon a particular type of customer and reduce the volatility which that can produce.

Orders from our representative network have increased from 49% of our business in 1994 to 65% in 1995. Considerable sales tools, both printed and electronic, have been improved to assist our representatives. These tools are available for both operational divisions and have helped to broaden our market penetration.

The building expansion and acquisition initiated in 1994 has been finished. With this expansion, a large portion of foreseeable capital expenditures has been completed as we have developed the infrastructure required to service a larger portion of the market. For the immediate future, capital expenditures will be greatly reduced as we shift our focus toward the marketing demands necessary to resume an upward pattern in both growth and profits.

Expansion of our facilities has allowed us to enlarge the area available for production of our large tonnage equipment. We have seen an increase in demand for this type of equipment which necessitated a more efficient assembly area. During 1995, we have been progressing up a learning curve in the assembly of significantly more non standardized units. Having had this experience, we believe that we are better prepared to handle the expected nature of our growth in offices, schools, and industrial buildings which will have unique construction demands.



Supermall located in the Seattle, Washington area.



Future 25-60 ton assembly area.

In addition to the positive outlook for our large tonnage equipment and representative network sales, AAONAIRE™ is developing its place in the market. AAONAIRE™, our energy recovery wheel product, is currently being tested by some large customers for use in their construction. These units have also been favorably accepted by our representative network.

We expect that 1996 will continue to present us with a number of challenges and opportunities. Challenges will abound in the slowing of retail building construction. However, we believe that with our building completed, our product line expanded and our representative sales force strengthened, we have positioned ourselves well to exploit the opportunities which will also develop in 1996.

As always, your employees, listed on the inside cover of this report, thank you for your ongoing support.

Sincerely,

Norman H. Asbjornson
President
April 8, 1996

Our units are ready to ship to customers across the country.



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, 1995

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. []

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, 1996, was approximately \$22,287,000. For purposes of this computation, all officers, directors and 5% beneficial owners of Registrant are deemed to be affiliates.

As of March 1, 1996, Registrant had outstanding a total of 6,113,449 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 14, 1996, 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. In early 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, the former stockholders of AAON-Oklahoma became the owners of 80% of the outstanding stock of AAON-Nevada and AAON-Oklahoma became a 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 such purpose, purchased most of the assets of Coils Plus, Inc. ("CP"), of Longview, Texas, which manufactures coils used in the products of AAON-Oklahoma. 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 years 1992-1996. 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, heating and heat recovery 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 2% of its sales last year and are projected to increase in 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 1995 level of sales, approximately \$67 million, the Company has a 7% 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 its finished products. The finished products of AAON-Oklahoma consist of a single unit system containing heating, cooling and/or heat recovery 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 RH Series, which is offered in 18 cooling sizes ranging from 3 to 60 tons; its RF Series, which is offered in nine cooling sizes ranging from 40 to 140 tons; its RG Series, which is a heat pump variation of the RH Series; and its HA Series, which is a horizontal discharge package for either rooftop or ground installation, offered in nine sizes ranging from 4 to 40 tons.

AAON-Oklahoma's engineers have developed a new heat-wheel option for its RH, RF and RG units. The product responds to new requirements of the U.S. Clean Air Act which mandate increased fresh air in commercial structures. This product, which will be marketed under the name "AAON-AIRE", increases the capacity of AAON HVAC units by up to 50% with no additional energy cost. The Company has been granted patent pending status on this unique product. This enhancement was introduced in January 1995. The energy savings and comfort improvement afforded by the heatwheel have been proven by numerous installations during the past year, but sales to date have been modest.

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.

A typical commercial building installation 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 would involve multiple units.

Major Customers

The Company's two largest customers are Wal-Mart and Target. Wal-Mart accounted for approximately 27% of the Company's sales in 1995, compared to 40% in 1994. Sales to Target were 17% of total sales in 1995 and less than 10% in 1994.

Sales to Wal-Mart are made pursuant to calendar year contracts, now effective for 1995, 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 Target.

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, and penetrate additional trade areas, both domestic and foreign.

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 10 individuals and approximately 70 independent manufacturer representatives' organizations to market its products in the United States. The Company also has one international sales representative and utilizes six 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; compressors, 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 HA 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, 1996, of \$10,478,000, compared to \$22,352,000 at March 1, 1995. The current backlog consists of orders considered by management to be firm and substantially all of which will be filled by July 1, 1996; 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 \$8,150,000. The Company believes that it will have sufficient bank credit available to meet its working capital needs through 1996 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, 1996, the Company had 480 employees and 94 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, other than possibly the patent pending on the heat-wheel option known as "AAONAIRE™" discussed under "Products and Markets" and "Major Customers" above.

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 332,000 square feet (317,000 sq. ft. of manufacturing/warehouse space and 15,000 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 is 1,140 feet in length and varies in width from 390 feet to 220 feet. Production at this facility averaged approximately \$4.8 million per month in 1995, which is 29% of the estimated capacity of the plant. 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 for the foreseeable future.

The operations of CP/AAON are conducted in a plant/office building at 203-207 Gum Springs Road in Longview, Texas, containing 138,000 square feet on 14 acres. The manufacturing area (approximately 131,000 square feet) is located in two 120-foot wide sheet metal buildings connected by an adjoining structure and a 28,000 square foot building adjacent thereto. The facility is built for light industrial manufacturing.

Bank borrowings of the Company, totalling \$7,860,000 at March 1, 1996, 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, 1995, through December 31, 1995.

PART II

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

The Company's Common Stock is traded on the NASDAQ National Market under the symbol "AAON". The range of sales prices for the Company's Common Stock during the last two years, as reported by the National Association of Securities Dealers, Inc., was as follows:

Quarter Ended	High Bid	Low Bid
March 31, 1994	\$ 14.125	\$ 7.25
June 30, 1994	\$ 18.00	\$ 10.75
September 30, 1994	\$ 16.75	\$ 12.125
December 30, 1994	\$ 14.875	\$ 10.75
March 31, 1995	\$ 15.00	\$ 10.50
June 30, 1995	\$ 11.75	\$ 6.75
September 30, 1995	\$ 7.75	\$ 6.50
December 31, 1995	\$ 7.00	\$ 4.50

On March 1, 1996, there were 250 holders of record, and 2,533 beneficial owners, of the Company's Common Stock.

Since its inception, no cash dividends have been paid on the Company's Common Stock and the Company does not anticipate paying cash dividends in the foreseeable future. There is a negative covenant under the Company's Revolving Credit and Term Loan Agreement which prohibits the declaration or payment of such dividends, if following such action there would result a Default or Event of Default thereunder. The Company paid a 10% stock dividend on March 27, 1995.

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 elsewhere in this report.

Results of Operations:	Years ended December 31,				
	1995	1994	1993	1992	1991
	<i>(In thousands, except earnings per share)</i>				
Net sales	\$67,346	\$79,542	\$45,394	\$37,026	\$26,678
Net income	2,069	5,101	2,665	1,593	379
Earnings per share (1)	.34	.81	.44	.26	.06
Balance Sheet Data:	December 31,				
	1995	1994	1993	1992	1991

(In thousands)

Total assets	\$32,212	\$32,562	\$24,083	\$15,705	\$14,309
Long-term debt	10,695	10,648	11,008	4,087	5,343
Stockholders' equity	13,546	11,461	6,350	3,685	2,092

(1) Earnings per share for the years ended December 31, 1995, 1994, 1993, 1992 and 1991 are based on 6,104,666, 6,301,088, 6,091,392, 6,091,392, and 6,091,392 common shares and common equivalents, respectively. Common share equivalents represent shares issuable upon assumed exercise of stock options which would have a dilutive effect. Common share equivalents had no material effect on the computation in 1995, 1993, 1992 or 1991. The Company paid a 10% stock dividend on March 27, 1995. Effective September 15, 1993, the Company completed a one-for-four reverse stock split. The shares outstanding and earnings per share disclosures have been restated to reflect the stock dividend and the reverse stock split.

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 1995, 1994 and 1993:

	Years ended December 31,		
	1995	1994	1993
	(In thousands)		
Net sales	\$67,346	\$79,542	\$45,394
Cost of sales	56,528	61,664	33,908
Gross profit	10,818	17,878	11,486
Selling, general and administrative expenses	6,318	7,921	6,178
Income from operations	4,500	9,957	5,308
Interest expense	815	806	809
Other expense	452	445	259
Income before income taxes	3,233	8,706	4,240
Income tax provision	1,164	3,605	1,575
Net income	\$2,069	\$5,101	\$2,665

Results of Operations

Net sales decreased by approximately 15% in 1995 as compared to 1994, but were 33% greater than in 1993. The reduction in sales in 1995 as compared to 1994 was primarily attributable to a drop in sales to two of the Company's largest customers, whereas the 75% increase in sales in 1994 as compared to 1993 reflected a nearly across the board growth in sales to all categories of customers. The differences in levels of sales in all three years were mainly due to the volume of business (approximately 97%), rather than price changes. The outlook for 1996 is for sales comparable to 1995 and for a continuation of the trend of less concentration of sales to a few major, national account customers.

Gross profit declined in 1995 and 1994 to 16.1% and 22.5%, respectively, of net sales, compared to 25.3% in 1993, due to an inability to pass on increased costs, mitigated in part in 1994 by forward purchasing of material which enabled the Company to avoid substantial increases in copper and aluminum prices. The Company expects continued difficulty in 1996 in passing on increased costs to existing customers, but anticipates getting better margins on sales to new customers, with the net effect of achieving some overall improvement in margins.

SG&A expenses decreased 20% in 1995 compared to 1994, whereas these expenses increased 28% in 1994 compared to 1993, in both instances being primarily attributable to the volume of business, i.e., warranty and selling costs.

Interest expense has remained at approximately the same level for three years, despite substantial capital expenditures in 1995 and the significant increase in sales in 1994. Profits in 1995 and 1994 also helped to contain borrowings, as did effective control of inventories and accounts receivable.

Income before income taxes in 1995 decreased 63% compared to 1994 primarily due to cost increases exceeding selling price increases. Income before income taxes in 1994 increased 105% over 1993 primarily due to a 75% increase in sales and an increase in SG&A of only 28% as compared to 1993.

Financial Condition and Liquidity

Accounts receivable and inventories in 1995 were comparable to 1994 as a percentage of sales. Accounts receivable and inventories were disproportionately less than the increase in sales in 1994 as compared to 1993.

The \$2,082,000 increase in "Property, Plant and Equipment" in 1995, net of depreciation, was attributable to the major expansion of the Company's Tulsa and Longview, Texas, manufacturing facilities. All capital expenditures in 1995 were financed out of that year's cash flow and a minor amount of borrowings under the Company's revolving credit bank loan, except for the Longview land and improvements purchases which were financed by a bank term loan.

The size of accounts payable at December 31, 1995 and 1994 primarily reflect the inventories and sales volumes in each of those years.

Also, accrued liabilities at year-end 1995 and 1994 reflect the amount of reserves (warranty, commissions and employee payroll and benefit accruals) related to sales.

The capital needs of the Company are met primarily by its bank revolving credit facility. Management believes this bank debt (or comparable financing), term loans and projected profits from operations will provide the necessary liquidity and capital resources to the Company for at least the next five years, including a lump-sum payment, if any (pursuant to a noncompete agreement with the former stockholder of Coils Plus, Inc., the assets of which were acquired by CP/AAON in December, 1991) equal to five times the average of 20% of CP/AAON's pre-tax income for 1995 and 1996, which will be payable in April, 1997. 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 July 31, 1997) provides for maximum borrowings of \$8,150,000. Interest on this line is payable monthly at the Chase Manhattan Bank prime rate or LIBOR plus 2.4%, 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 (which commenced June 30, 1992), and \$1,000,000, providing for monthly principal payments of \$10,000 (which commenced February 28, 1994). Interest on these loans is payable monthly at the Chase Manhattan Bank prime rate plus 1/2%. The maturity of all three term loans is January 31, 1999.

Item 8. Financial Statements and Supplementary Data.

The financial statements and supplementary data are included at page 12.

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 1996 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 1996 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 1996 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 1996 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 11.

2. Exhibits:

- (3) (A) Articles of Incorporation (i)
- (A-1) Article Amendments (ii)
- (B) Bylaws (i)
- (B-1) Amendment of Bylaws (iii)

- (4) (A) Restated Revolving Credit and Term Loan Agreement ("Loan Agreement") and related documents (iii)
- (A-1) Latest amendment of Loan Agreement (iv)

- (10) (A) Letter Agreement with Wal-Mart Stores, Inc. (ii)
- (B) AAON, Inc. 1992 Stock Option Plan, as amended (v)

(21) List of Subsidiaries (v)

(27) Financial Data Schedule

- (i) Incorporated herein by reference to the exhibits to the Company's Form S-18 Registration Statement No. 33-18336-LA.
- (ii) 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.
- (iii) Incorporated herein by reference to the Company's Form 8-K dated June 22, 1992, or exhibits thereto.
- (iv) Incorporated herein by reference to exhibit to the Company's Form 8-K dated March 18, 1996.
- (v) Incorporated herein by reference to exhibits to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1991, and to the Company's Form S-8 Registration Statement No. 33-78520.

(b) The Company did not file any reports on Form 8-K during the period from October 1, 1995, to December 31, 1995.

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 20, 1996

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 20, 1996

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

Dated: March 20, 1996

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

Dated: March 20, 1996

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

Dated: March 20, 1996

/s/ Richard E. Minshall
Richard E. Minshall
Director

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of AAON, Inc.:

We have audited the accompanying consolidated balance sheets of AAON, Inc. (a Nevada corporation) and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1995. 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

Tulsa, Oklahoma
February 2, 1996

Arthur Andersen LLP

AAON, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	DECEMBER 31,	
	1995	1994
ASSETS		
CURRENT ASSETS:		
Cash	\$ 663	\$ 26
Accounts receivable, net (Notes 2 and 4)	9,846	11,898
Inventories, net (Notes 2 and 4)	9,061	10,245
Prepaid expenses and other	475	201
Deferred income taxes (Note 5)	1,104	1,385
Total current assets	21,149	23,755
PROPERTY, PLANT AND EQUIPMENT, net (Notes 2 and 4)	10,312	8,230
OTHER ASSETS, net (Note 2)	751	577
Total assets	<u>\$32,212</u>	<u>\$32,562</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,424	\$ 5,852
Accrued liabilities (Note 2)	2,605	3,665
Current maturities of long-term debt (Note 4)	942	936
Total current liabilities	7,971	10,453
LONG-TERM DEBT (Note 4)	10,695	10,648
STOCKHOLDERS' EQUITY, per accompanying statements (Note 8):		
Preferred stock, \$.001 par value, 5,000,000 shares authorized, no shares issued	-	-
Common stock, \$.004 par value, 50,000,000 shares authorized	24	24
Additional paid-in capital	7,687	7,671
Retained earnings	5,835	3,766
Total stockholders' equity	13,546	11,461
Total liabilities and stockholders' equity	<u>\$32,212</u>	<u>\$32,562</u>

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

AAON, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	FOR THE YEARS ENDED DECEMBER 31,		
	1995	1994	1993
NET SALES (Note 6)	\$67,346	\$79,542	\$45,394
COST OF SALES	<u>56,528</u>	<u>61,664</u>	<u>33,908</u>
GROSS PROFIT	10,818	17,878	11,486
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>6,318</u>	<u>7,921</u>	<u>6,178</u>
INCOME FROM OPERATIONS	4,500	9,957	5,308
INTEREST EXPENSE	815	806	809
OTHER EXPENSE	<u>452</u>	<u>445</u>	<u>259</u>
INCOME BEFORE INCOME TAXES	3,233	8,706	4,240
INCOME TAX PROVISION (Note 5)	<u>1,164</u>	<u>3,605</u>	<u>1,575</u>
NET INCOME	<u>\$2,069</u>	<u>\$5,101</u>	<u>\$2,665</u>
EARNINGS PER SHARE	<u>\$.34</u>	<u>\$.81</u>	<u>\$.44</u>
WEIGHTED AVERAGE SHARES OUTSTANDING	<u>6,105</u>	<u>6,301</u>	<u>6,091</u>

The accompanying notes are an integral part of these statements.

AAON, INC.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1993, 1994 AND 1995**

(In thousands)

	Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
BALANCE, JANUARY 1, 1993	22,150	\$22	\$ 984	\$2,679	\$ 3,685
REVERSE STOCK SPLIT (Note 8)	(16,612)	-	-	-	-
NET INCOME	-	-	-	2,665	2,665
BALANCE, DECEMBER 31, 1993	5,538	\$22	\$ 984	\$5,344	\$ 6,350
NET INCOME	-	-	-	5,101	5,101
STOCK OPTIONS EXERCISED (Note 7)	8	-	10	-	10
STOCK DIVIDEND (Note 8)	555	2	6,677	(6,679)	-
BALANCE, DECEMBER 31, 1994	6,101	\$24	\$7,671	\$3,766	\$11,461
NET INCOME	-	-	-	2,069	2,069
STOCK OPTIONS EXERCISED (Note 7)	12	-	16	-	16
BALANCE, DECEMBER 31, 1995	<u>6,113</u>	<u>\$24</u>	<u>\$7,687</u>	<u>\$5,835</u>	<u>\$13,546</u>

The accompanying notes are an integral part of these statements.

AAON, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

FOR THE YEARS
ENDED DECEMBER 31,

	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$2,069	\$5,101	\$2,665
Adjustments to reconcile net income to net cash provided by (used in) operating activities-			
Depreciation and amortization	2,705	1,714	1,130
Provision for losses on accounts receivable	122	157	111
Provision for excess and obsolete inventories	-	100	-
Loss on disposition of assets	1	38	11
Deferred income taxes	(146)	(1,051)	(266)
Change in assets and liabilities-			
(Increase) decrease in accounts receivable	1,930	(3,941)	(4,096)
(Increase) decrease in inventories	1,184	(3,347)	(2,381)
(Increase) decrease in prepaid expenses and other	(216)	(66)	74
Increase (decrease) in accounts payable	(1,428)	1,971	2,126
Increase (decrease) in accrued liabilities	(1,060)	2,073	594
Total adjustments	3,092	(2,352)	(2,697)
Net cash provided by (used in) operating activities	5,161	2,749	(32)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	3	59	-
Capital expenditures	(4,596)	(2,376)	(2,575)
Net cash used in investing activities	(4,593)	(2,317)	(2,575)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit agreement	40,276	35,130	23,103
Payments under revolving credit agreement	(39,653)	(34,542)	(18,770)
Proceeds from long-term debt	400	-	1,007
Payments on long-term debt	(970)	(1,117)	(2,685)
Stock options exercised	16	10	-
Net cash provided by (used in) financing activities	69	(519)	2,655
NET INCREASE (DECREASE) IN CASH	637	(87)	48
CASH, beginning of year	26	113	65
CASH, end of year	\$ 663	\$ 26	\$ 113

The accompanying notes are an integral part of these statements.

AAON, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1995 AND 1994
(Dollar amounts in thousands, except share and 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). Products are primarily sold to building owner/operators in the domestic commercial and industrial new construction and replacement markets.

In December 1991, CP/AAON acquired certain assets of Coils Plus, Inc. (CP), an air coil manufacturer. In connection with the purchase from CP, CP/AAON entered into a noncompetition 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 payment 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 1995, 1994, 1993 or 1992. The present value of the total of advances is recorded as a noncompetition agreement and is being amortized over five years.

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.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Maintenance, repairs and betterments, including replacement of minor items of physical properties, are charged to expense; major additions to physical properties are capitalized. Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings	10-20
Machinery and equipment	3-7
Furniture and fixtures	3-5

Warranties

A provision is made for the estimated cost of warranty obligations at the time the related products are sold. Warranty expense was \$2,033, \$2,712 and \$2,457 for the years ended December 31, 1995, 1994 and 1993, respectively.

Earnings Per Share

Earnings per share has been computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding, restated for the one-for-four reverse stock split and the ten percent stock dividend (See Note 8). Common share equivalents included in the computation represent shares issuable upon assumed exercise of stock options which would have a dilutive effect. Common share equivalents had no material effect on the computation in 1995 or 1993.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 1994 consolidated financial statements to conform with the 1995 presentation. These reclassifications did not impact net income.

Details to Consolidated Balance Sheets

	December 31,	
	1995	1994
ACCOUNTS RECEIVABLE:		
Accounts receivable	\$10,050	\$12,043
Less- allowance for doubtful accounts	204	145
Total, net	<u>\$ 9,846</u>	<u>\$11,898</u>
INVENTORIES:		
Raw materials	\$ 5,451	\$ 6,448
Work in process	1,366	2,202
Finished goods	2,394	1,835
	9,211	10,485
Less- allowance for excess and obsolete inventories	150	240
Total, net	<u>\$ 9,061</u>	<u>\$10,245</u>
PROPERTY, PLANT AND EQUIPMENT:		
Land	\$ 274	\$ 227
Buildings	7,246	4,088
Machinery and equipment	7,523	6,343
Furniture and fixtures	1,100	896
	16,143	11,554
Less- accumulated depreciation	5,831	3,324
Total, net	<u>\$10,312</u>	<u>\$ 8,230</u>
OTHER ASSETS:		
Noncompetition agreement	\$ 975	\$ 975
Deferred income taxes	449	22
Other	107	165
	1,531	1,162
Less- accumulated amortization for noncompetition agreement	780	585
Total, net	<u>\$ 751</u>	<u>\$ 577</u>
ACCRUED LIABILITIES:		
Warranty	\$ 1,390	\$ 1,830
Commissions	555	680
Other	660	1,155
Total	<u>\$ 2,605</u>	<u>\$ 3,665</u>

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	Year Ended December 31,		
	1995	1994	1993
Balance, beginning of period	\$145	\$ 80	\$ 81
Provision for losses on accounts receivable	122	157	111
Accounts receivable written off, net of recoveries	(63)	(92)	(112)
Balance, end of period	<u>\$204</u>	<u>\$145</u>	<u>\$ 80</u>

ALLOWANCE FOR EXCESS AND OBSOLETE INVENTORY:

	Year Ended December 31,		
	1995	1994	1993
Balance, beginning of period	\$240	\$140	\$240
Provision for excess and obsolete inventories	-	100	-
Inventories written off	(90)	-	(100)
Balance, end of period	<u>\$150</u>	<u>\$240</u>	<u>\$140</u>

3. SUPPLEMENTAL CASH FLOW INFORMATION:

Interest payments of \$815, \$760 and \$809 were made during the years ended December 31, 1995, 1994 and 1993, respectively. Payments for income taxes of \$1,604, \$4,335 and \$1,923 were made during the years ended December 31, 1995, 1994 and 1993, respectively.

4. DEBT:

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

	1995	1994
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 1/2% (9% at December 31, 1995), collateralized by machinery, equipment and real estate.	\$2,930	\$3,530
\$8,150 maximum bank line of credit subject to a borrowing base of accounts receivable and inventory, with interest at LIBOR plus 2.4% (8.33% at December 31, 1995), due July 31, 1997, collateralized by accounts receivable, inventory, intangibles and the stock of AAON and CP/AAON.	7,938	7,315
Bank term-loan agreement, payable in monthly installments of \$3, through March 2000, plus interest at the bank's prime rate plus 1/4% (8.75% at December 31, 1995), collateralized by real estate.	367	-
Noncompetition agreement discounted at 8.5%, payable in monthly payments of \$20 through December 1996.	229	440
Other	173	299
	11,637	11,584
Less- current maturities	942	936
	<u>\$10,695</u>	<u>\$10,648</u>

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

1996	\$ 942
1997	8,439
1998	460
1999	1,590
2000	206
	<u>\$11,637</u>

The revolving credit and the term-loan agreement requires, among other things, that the Company maintain minimum net worth, a minimum tangible net worth, minimum working capital and a minimum debt to tangible net worth ratio. The revolving credit portion of the agreement allows the Company two interest rate options; Chase Manhattan Bank prime or LIBOR plus 2.4%. At December 31, 1995, the Company was in compliance with the covenants of the revolving credit and term-loan agreements.

Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of the long-term debt approximates the carrying value.

5. INCOME TAXES:

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes". SFAS No. 109 requires an asset and liability approach to financial accounting and reporting for income taxes. The difference between the financial statement and tax basis of assets and liabilities is determined and deferred tax assets or liabilities are computed for those differences that have future tax consequences. The adoption of this statement did not impact the consolidated financial statements.

The income tax provision consists of the following:

	Years Ended December 31,		
	1995	1994	1993
Current	\$1,310	\$4,656	\$1,841
Deferred	(146)	(1,051)	(266)
	<u>\$1,164</u>	<u>\$3,605</u>	<u>\$1,575</u>

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

	Years Ended December 31,		
	1995	1994	1993
Federal statutory rate	34 %	34 %	34 %
State income taxes	4	6	-
Other	(2)	1	3
	<u>36 %</u>	<u>41 %</u>	<u>37 %</u>

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

	1995	1994
Net deferred tax assets -		
Valuation reserves	\$ 213	\$ 201
Warranty accrual	556	759
Other accruals	286	372
Depreciation and amortization	126	(188)
Noncompetition agreement	322	210
Other, net	50	53
	<u>\$1,553</u>	<u>\$1,407</u>

6. MAJOR CUSTOMERS:

Sales to customers with greater than ten percent of total sales consist of the following:

	Years Ended December 31,		
	1995	1994	1993
Target	17%	*	*
Wal-Mart Stores, Inc.	27%	40%	38%
K-Mart Corp.	*	*	12%

* Less than 10 percent

7. BENEFIT PLANS:

During 1994, the shareholders approved an amendment to the stock option plan for key employees and directors to increase the number of shares of common stock covered by the plan to 605,000. 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. The exercise price of all options granted was equal to the market price at the date of 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, 1995, 306,350 shares were available for granting future options. The number and exercise price of options granted were as follows:

	Number of Shares	Price Per Share
OUTSTANDING AT JANUARY 1, 1993	237,500	\$1.25-\$1.31
Granted	-	-
Exercised	-	-
OUTSTANDING AT DECEMBER 31, 1993	237,500	\$1.25-\$1.31
Stock dividend	23,750	-
Granted	37,400	\$13.01
Exercised	(8,250)	\$ 1.19
OUTSTANDING AT DECEMBER 31, 1994	290,400	\$1.19-\$13.01
Exercised	(13,750)	\$ 1.19
OUTSTANDING AT DECEMBER 31, 1995	<u>276,650</u>	<u>\$1.19-\$13.01</u>
EXERCISABLE AT DECEMBER 31, 1995	<u>123,800</u>	<u>\$1.19-\$13.01</u>

The Company sponsors a defined contribution benefit plan. Employees can make contributions at a minimum of one percent and a maximum of 15 percent of compensation. The Company may, on a discretionary basis, contribute a Company matching contribution not to exceed six percent of compensation. The Company made matching contributions of \$84, \$78 and \$27 in 1995, 1994 and 1993, respectively.

The Company maintains a profit sharing bonus plan under which ten percent of pre-tax profit is paid to eligible employees on a quarterly basis. Profit sharing expense was \$479, \$998 and \$457 for the years ended December 31, 1995, 1994 and 1993, respectively.

8. STOCK DIVIDEND AND REVERSE STOCK SPLIT:

During February 1995, the Company declared a ten percent stock dividend. The earnings per share and average shares outstanding amounts in the 1994 consolidated statements of operations and the shares outstanding in the 1994 consolidated statements of stockholders' equity were restated to reflect the stock dividend. 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.

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President and Treasurer
AAON, Inc.

William A. Bowen

President
The Bowen Company
Tulsa, Oklahoma
(Financial Consulting)

John B. Johnson, Jr.

Member, Johnson, Allen, Jones & Dornblaser
Tulsa, Oklahoma
(Law Firm)

Joseph M. Klein

President
CCI Corporation
(Truck Parts & Service,
OEM Heavy Duty Trucks)

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)

Charles C. Stephenson, Jr.

Chairman
Vintage Petroleum, Inc.
(Oil & Gas Production & Exploration)

Officers

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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
Suite 200
Salt Lake City, Utah 84117

Auditors

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

General Counsel

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

Executive Offices

2425 South Yukon Avenue
Tulsa, Oklahoma 74107

Common Stock

NASDAQ—AAON

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MICHAEL AICHELE JR
JOYCE ALFORD
JONNIE ALLEN
MICHAEL AMBURGEY
JIM AMENT
PAUL AMOSS
CHARLES ANDERSON JR
ERASMO AREBAS
JOHN ASBJORNSON
NORMAN ASBJORNSON
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GARY ASHMORE
EMANUEL ATCHISON
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MELTON BARR
MICHAEL BASS
TERANCE BASSETT
ORIE BATISTE
CURTIS BATTLE
BRIAN BEIL
MICHAEL BELVEAL
ISAAC BENN
CARMEN BERROSPE
HANK BIERWIRTH
OLLIE BIXLER
JAMES BLACK
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KYLE BLESSING
JACKIE BLEVINS
JIM BLEVINS
RICHARD BOBO
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GAIL BOWEN
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DEMECO BOWENS
GREGORY BOX
JURRETT BRANSCUM
CURTIS BRICE
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ERASTO CANCHOLA
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DALE CHERRY
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RON DAVIS
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JUANA DELOBO
CHARLES DEWEESE
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AAON proudly acknowledges

the dedication and determination

of our employees whose efforts

contribute immeasurably to our success.