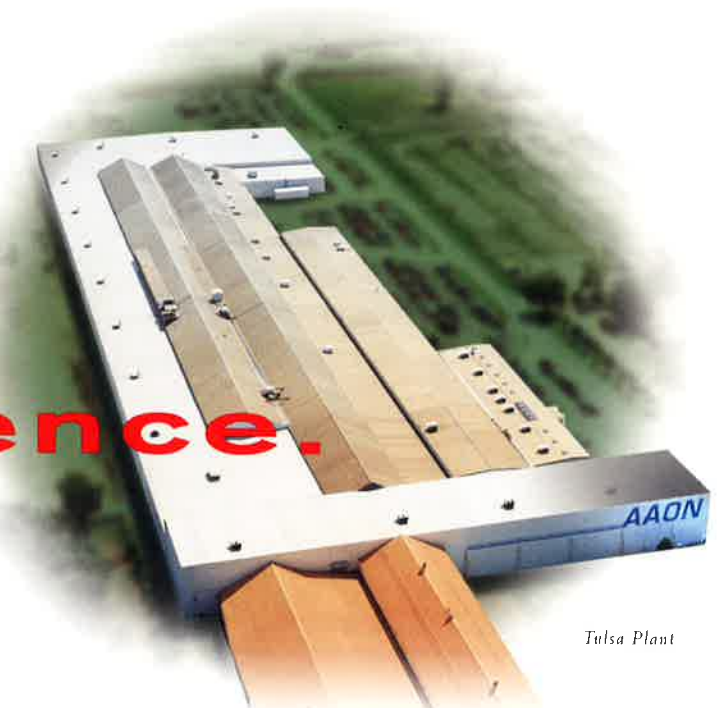
AAON Inc. 96 Annual Report

Air of Opportunity

Air Of Confidence.

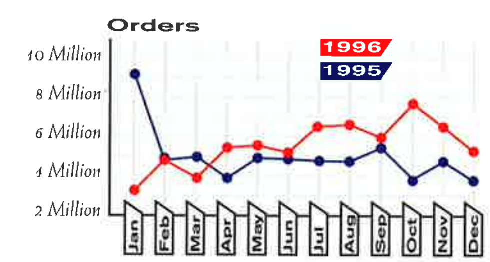


Tulsa Plant

To Our Shareholders

1996 was a pivotal year for AAON. Our reliance upon national accounts diminished as we continued our customer base expansion with more diverse installations. Although still used on low-rise structures, the customers included more schools, office and industrial buildings than ever before.

Despite a rapid decline in sales to national accounts, which stabilized in the third and fourth quarters, total sales decreased by only 6.7 percent. Development of a broader customer base enabled us to minimize the reduction in sales during a time of diminishing national account shipments.



In contrast to total sales, orders increased 12 percent in 1996 as compared with 1995. Our increase in orders was not fully translated into shipments and resulted in a year end backlog of $14,700,000, more than a 20 percent increase over 1995.

Promisingly, the second half of 1996 saw increases in both sales and shipments when compared with the same period in 1995.

For 1996, we developed product displays utilizing full-sized equipment that were sent around the country to assist our sales representatives in their efforts. In addition to our displays, we developed enhancements to our product selection software and sales literature. The most notable development in software was the creation of a coil selection program to assist representatives in selling coils in addition to air conditioning equipment. The traveling displays will continue to be a part of our promotional efforts along with constant software and literature upgrades.

What a difference a year makes.

Air Of Quality.

The effort to expand our customer base, combined with modest inflation, required us to minimize price increases in 1996. However, in spite of our aggressive customer base expansion, we were able to increase profits as a percentage of sales. The increase in profitability is due to a number of factors, some of which may not apply in future years. First, copper and aluminum prices experienced substantial decreases in 1996 as compared with 1995. Second, capital expenditures made in earlier years allowed us to increase efficiency in manufacturing. Third, there was a change in unit sizes sold to our new customer mix. We will continue our customer base expansion efforts in 1997.

With facility expansions completed in 1995, capital expenditures during 1996 focused upon productivity enhancing equipment. We developed a method of manufacturing gas furnace components which resulted in a more efficient product for the customer, requiring less manufacturing expense. Automated sheet metal processing equipment was installed in our coil products facility, reducing labor requirements while improving product quality. New production lines were installed in the Tulsa facility to handle demand for larger sized equipment. The effect of these changes in manufacturing only slightly impacted 1996 due to the timing of their implementation, yet they will greatly assist our operations in 1997. Production methods and plant capacity are now present to enable us to handle sizable increases in demand efficiently.

Longview Plant

New products and revisions to existing products were started in 1996. Development of an air handler product line was initiated and will result in a new offering during the spring of 1997. An air-cooled chiller product was tested and will complement the air handler products being developed. A new blower design was created which is quieter, more efficient and easier to assemble. We are continually reevaluating our product in light of new market manufacturing developments in an attempt to offer a product with custom-style features built in a production-line manner for a value-conscious customer.

In 1997, we look forward to renewed growth in volume and profitability with an increase in sales to our entire customer base, new products, improved manufacturing methods and margins, and a favorable economic environment. We are optimistic about our prospects in spite of the normal challenges in our industry. As always, your employees, listed on the inside cover of this report, thank you for your continuing support.

Sincerely,

Norman H. Asbjornson
President
April 16, 1997

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, 1996

Commission file number: 33-18336-LA

AAON, INC.
(Exact name of Registrant as specified in its charter)

NEVADA	**87-0448736**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
2425 South Yukon, Tulsa, Oklahoma	**74107**
(Address of principal executive offices)	(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, 1997, was approximately $30,296,000. For purposes of this computation, all officers, directors and 5% beneficial owners of Registrant are deemed to be affiliates.

As of March 1, 1997, Registrant had outstanding a total of 6,128,574 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 29, 1997, are incorporated into Part III.

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PART I

Item 1. Business.

General Development of Business AAON, Inc., a Nevada corporation ("AAON-Nevada" or, including its subsidiaries, the "Company"), was incorporated on August 18, 1987.

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. On June 16, 1989, pursuant to a Conversion/Exchange Agreement, 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., of Longview, Texas, which manufactures coils used in the products of AAON-Oklahoma.

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, in turn, are 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 1996 level of sales, approximately $63 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., Target, 80% new construction and 20% 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 130 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 50 tons.

AAON-Oklahoma's engineers have developed a heat recovery wheel for its RH, RF and RG units. The product responds to requirements of the U.S. Clean Air Act which mandate increased fresh air in commercial structures. This product, which is marketed under the name AAONAIRE®, 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 heat recovery wheel have been proven by numerous installations during the past year, but sales to date, while increasing, account for a minor part of revenues.

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 32,900-1,563,469 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 Customer The Company's largest customer last year was Target Stores, Inc. Sales to Target were 14% of total sales in 1996 compared to 17% in 1995. The Company has no written contract with Target.

The loss of Target 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 Target will diminish over a period of time.

In order to diversify its customer base, the Company has added to and/or upgraded its sales representation in various markets.

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 12 individuals and approximately 76 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, 1997, of $14,772,000, compared to $10,478,000 at March 1, 1996. The current backlog consists of orders considered by management to be firm and substantially all of which will be filled by July 1, 1997; 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 borrowings up to $12,150,000. The Company believes that it will have sufficient bank credit available to meet its working capital needs through 1997 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, 1997, the Company had 556 employees and 157 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 recovery wheel option known as AAONAIRE® discussed under "Products and Markets".

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 337,000 square feet (322,000 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 four cart-type conveyor lines with variable line speed adjustment, three 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 $4.5 million per month in 1996, which is 27% 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 $6,609,000 at March 1, 1997, are secured, in part, by its Longview buildings.

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, 1996, through December 31, 1996.

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 National Association of Securities Dealers, Inc., was as follows:

QUARTER ENDED	HIGH BID	LOW BID
March 31, 1995	$ 15.00	$ 10.50
June 30, 1995	$ 11.75	$ 6.75
September 30, 1995	$ 7.75	$ 6.50
December 30, 1995	$ 7.00	$ 4.50
March 31, 1996	$ 6.375	$ 4.50
June 30, 1996	$ 6.00	$ 4.375
September 30, 1996	$ 6.375	$ 4.25
December 31, 1996	$ 6.00	$ 4.625

On March 1, 1997, there were 225 holders of record, and 2,173 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.

YEARS ENDED DECEMBER 31 *(In thousands, except earnings per share)*

RESULTS OF OPERATIONS:	1996	1995	1994	1993	1992
Net sales	$62,845	$67,346	$79,542	$45,394	$37,026
Net income	$ 2,075	$ 2,069	$ 5,101	$ 2,665	$ 1,593
Earnings per share (1)	$ .34	$ .34	$ .81	$ .44	$ .26

DECEMBER 31 *(In thousands)*

BALANCE SHEET DATA:	1996	1995	1994	1993	1992
Total assets	$35,569	$32,212	$32,562	$24,083	$ 15,705
Long-term debt	$ 8,976	$10,695	$10,648	$11,008	$ 4,087
Stockholders' equity	$15,640	$13,546	$11,461	$ 6,350	$ 3,685

(1) Earnings per share for the years ended December 31, 1996, 1995, 1994, 1993 and 1992 are based on 6,118,697, 6,104,666, 6,301,088, 6,091,392 and 6,091,392 common shares and common share 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 1996, 1995, 1993 or 1992.

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 1996, 1995 and 1994:

YEARS ENDED DECEMBER 31 *(In thousands)*

	1996	1995	1994
Net sales	$62,845	$67,346	$79,542
Cost of sales	51,797	56,528	61,664
Gross profit	11,048	10,818	17,878
Selling, general and administrative expenses	6,413	6,318	7,921
Income from operations	4,635	4,500	9,957
Interest expense	838	815	806
Other expense	406	452	445
Income before income taxes	3,391	3,233	8,706
Income tax provision	1,316	1,164	3,605
Net income	$ 2,075	$ 2,069	$ 5,101

Results of Operations Net sales decreased by approximately 7% in 1996 as compared to 1995, and 1995 sales were 15% less than in 1994. The reductions in sales in 1996 and 1995 were primarily attributable to a drop in sales to two of the Company's largest customers. The outlook for 1997 is for increased sales to its entire customer base.

Gross profit increased in 1996 to 17.6% compared to 16.1% in 1995, but was less than the 22.5% margin in 1994. The 1.5% increase in margin in 1996 compared to 1995 resulted primarily from higher selling prices, whereas the lower margin in 1995 compared to 1994 mainly reflected substantial increases in copper and aluminum prices. The Company expects to realize another modest increase in gross profit in 1997.

While SG&A expenses increased slightly in 1996 compared to 1995, such expenses were considerably higher in 1994 primarily because of the greater 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 years 1994-1996 also helped to contain borrowings, as did effective control of inventories.

Income before income taxes were comparable the last two years, whereas such income in 1995 decreased 63% compared to 1994 primarily due to cost increases exceeding selling price increases.

Financial Condition and Liquidity The $3.7 million increase in accounts receivable at December 31, 1996, compared to year end 1995, was primarily attributable to slower collections and, to a lesser extent, to increased sales in the fourth quarter of 1996. Accounts receivable in 1995 were comparable to 1994 as a percentage of sales. Inventories at December 31, 1996 and 1995 were at approximately the same level, but were higher at year end 1994 due to greater sales.

Property, Plant and Equipment at December 31, 1996 and 1995 were approximately the same amount, with depreciation being only slightly more than additions during 1996. There was a $2 million increase in PP&E in 1995, net of depreciation, which was attributable to major expansions 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, 1996 and 1995 primarily reflect the inventories and sales volumes in each of those years and the timing of payments to creditors.

Also, accrued liabilities at year-end 1996 and 1995 reflect the amount of reserves (warranty and commissions) related to sales and the timing of estimated income tax payments.

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. 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 June 30, 1998) provides for maximum borrowings of $12,150,000. Interest on this line is payable monthly at the Wall Street Journal prime rate or LIBOR plus 1.85%, at the election of the Company. This loan is collateralized by the accounts receivable, inventory and general intangibles of the Company's two operating subsidiaries.

Forward-Looking Statements The outlook/expectation for increases in sales and gross profit in 1997 expressed under Results of Operations above constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Company believes that these forecasts are based on reasonable assumptions. No assurances, however, can be given that these goals will be achieved. Important factors that could cause actual results to differ materially from those in the forward-looking statements include (1) the timing and extent of changes in material prices, (2) the effects of fluctuations in the commercial/industrial new construction market, and (3) the timing and extent of changes in interest rates, as well as other competitive factors during the year.

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. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT.

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 1997 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 1997 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 1997 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 1997 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)		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 Forms 8-K dated March 21, 1994, and March 6, 1997.

(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 September 11, 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, as amended.

(b) The Company did not file any reports on Form 8-K during the period from October 1, 1996, to December 31, 1996.

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 10, 1997 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 10, 1997 /s/ Norman H. Asbjornson
Norman H. Asbjornson
President and Director
(principal executive officer)

DATED: MARCH 10, 1997 /s/ William A. Bowen
William A. Bowen
Vice President-Finance and Director
(principal financial officer
and principal accounting officer)

DATED: MARCH 10, 1997 /s/ John B. Johnson, Jr.
John B. Johnson, Jr.
Director

DATED: MARCH 10, 1997 /s/ Richard E. Minshall
Richard E. Minshall
Director

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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, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. 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, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Tulsa, Oklahoma
February 7, 1997

Consolidated Balance Sheets

(In thousands, except share amounts)

	December 31, 1996	1995
ASSETS		
CURRENT ASSETS:		
Cash	$ 138	$ 663
Accounts receivable, *net (Notes 2 and 4)*	13,539	9,846
Inventories, *net (Notes 2 and 4)*	9,140	9,061
Prepaid expenses and other	160	475
Deferred income taxes *(Note 5)*	1,604	1,104
Total current assets	24,581	21,149
PROPERTY, PLANT AND EQUIPMENT, *net (Notes 2 and 4)*	10,133	10,312
OTHER ASSETS, *net (Note 2)*	855	751
Total assets	$ 35,569	$ 32,212
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 6,097	$ 4,424
Accrued liabilities *(Note 2)*	4,765	2,605
Current maturities of long-term debt *(Note 4)*	91	942
Total current liabilities	10,953	7,971
LONG-TERM DEBT (Note 4)	8,976	10,695
STOCKHOLDER'S EQUITY, per accompanying statements:		
Preferred stock, $.001 par value, 5,000,000 shares authorized, no shares issued	–	–
Common stock, $.004 par value, 50,000,000 shares authorized, 6,128,574 and 6,113,449 issued at December 31, 1996 and 1995, respectively	25	24
Additional paid-in capital	7,705	7,687
Retained earnings	7,910	5,835
Total stockholders' equity	15,640	13,546
Total liabilities and stockholders' equity	$ 35,569	$ 32,212

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

Consolidated Statements of Operations

(In thousands, except share amounts)

YEARS ENDED DECEMBER 31,	1996	1995	1994
NET SALES (*Note 6*)	$ 62,845	$ 67,346	$ 79,542
COST OF SALES	51,797	56,528	61,664
Gross Profit	11,048	10,818	17,878
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,413	6,318	7,921
Income From Operations	4,635	4,500	9,957
INTEREST EXPENSE	838	815	806
OTHER EXPENSE	406	452	445
Income Before Income Taxes	3,391	3,233	8,706
INCOME TAX PROVISION (*Note 5*)	1,316	1,164	3,605
Net Income	$ 2,075	$ 2,069	$ 5,101
EARNINGS PER SHARE	$ .34	$ .34	$ .81
WEIGHTED AVERAGE SHARES OUTSTANDING	6,119	6,105	6,301

The accompanying notes are an integral part of these statements.

Consolidated Statements of Stockholders' Equity

(In thousands)

	COMMON STOCK Shares	Amount	Paid-in Capital	Retained Earnings	Total
BALANCE, JANUARY 1, 1994	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	6,113	24	7,687	5,835	13,546
NET INCOME	-	-	-	2,075	2,075
STOCK OPTIONS EXERCISED (*Note 7*)	15	1	18	-	19
BALANCE, DECEMBER 31, 1996	6,128	$ 25	$ 7,705	$ 7,910	$ 15,640

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

(In thousands)

YEARS ENDED DECEMBER 31,	1996	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 2,075	$ 2,069	$ 5,101
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	2,497	2,705	1,714
Provision for losses on accounts receivable	450	122	157
Provision for excess and obsolete inventories	–	–	100
Loss on disposition of assets	–	1	38
Deferred income taxes	(860)	(146)	(1,051)
Change in assets and liabilities-			
(Increase) decrease in accounts receivable	(4,143)	1,930	(3,941)
(Increase) decrease in inventories	(59)	1,184	(3,347)
(Increase) decrease in prepaid expenses and other	286	(216)	(66)
Increase (decrease) in accounts payable	1,673	(1,428)	1,971
Increase (decrease) in accrued liabilities	2,160	(1,060)	2,073
Total adjustments	2,004	3,092	(2,352)
Net cash provided by (used in) operating activities	4,079	5,161	2,749
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	–	3	59
Capital expenditures	(2,053)	(4,596)	(2,376)
Net cash used in investing activities	(2,053)	(4,593)	(2,317)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under revolving credit agreement	32,651	40,276	35,130
Payments under revolving credit agreement	(31,899)	(39,653)	(34,542)
Proceeds from long-term debt	–	400	–
Payments on long-term debt	(3,322)	(970)	(1,117)
Stock options exercised	19	16	10
Net cash provided by (used in) financing activities	(2,551)	69	(519)
NET INCREASE (DECREASE) IN CASH	(525)	637	(87)
CASH, BEGINNING OF YEAR	663	26	113
CASH, END OF YEAR	$ 138	$ 663	$ 26

The accompanying notes are an integral part of these statements.

Notes To Consolidated Financial Statements

DECEMBER 31, 1996 AND 1995 *(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 air conditioning coils 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 required payments equal to 20 percent of CP/AAON's pre-tax income for each of the years ending December 31, 1992 through 1996. Also, the agreement required CP/AAON to make monthly advances of $20 through December 1996. There were no additional amounts payable exceeding the monthly advances.

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 $1,547, $2,033 and $2,712 for the years ended December 31, 1996, 1995 and 1994, 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 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 1996 or 1995.

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.

Details To Consolidated Balance Sheets

	December 31, 1996	1995
ACCOUNTS RECEIVABLE:		
Accounts receivable	$ 14,072	$ 10,050
Less- allowance for doubtful accounts	533	204
Total, net	$ 13,359	$ 9,846
INVENTORIES:		
Raw materials	$ 5,640	$ 5,451
Work in process	1,385	1,366
Finished goods	2,245	2,394
	9,270	9,211
Less- allowance for excess and obsolete inventories	130	150
Total, net	$ 9,140	$ 9,061
PROPERTY, PLANT AND EQUIPMENT:		
Land	$ 274	$ 274
Buildings	7,278	7,246
Machinery and equipment	8,933	7,523
Furniture and fixtures	1,516	1,100
	18,001	16,143
Less- accumulated depreciation	7,868	5,831
Total, net	$ 10,133	$ 10,312
OTHER ASSETS:		
Noncompetition agreement	$ –	$ 975
Deferred income taxes	809	449
Other	46	107
	855	1,531
Less- accumulated amortization for noncompetition agreement	–	780
Total, net	$ 855	$ 751
ACCRUED LIABILITIES:		
Warranty	$ 1,390	$ 1,390
Commissions	1,441	555
Income taxes	1,214	264
Other	720	396
Total	$ 4,765	$ 2,605

	December 31, 1996	1995	1994
ALLOWANCE FOR DOUBTFUL ACCOUNTS:			
Balance, beginning of period	$ 204	$ 145	$ 80
Provision for losses on accounts receivable	450	122	157
Accounts receivable written off, net of recoveries	(121)	(63)	(92)
Balance, end of period	$ 533	$ 204	$ 145
ALLOWANCE FOR EXCESS AND OBSOLETE INVENTORY:			
Balance, beginning of period	$ 150	$ 240	$ 140
Provision for excess and obsolete inventories	–	–	100
Inventories written off	(20)	(90)	–
Balance, end of period	$ 130	$ 150	$ 240

3. Supplemental Cash Flow Information:

Interest payments of $813, $815 and $760 were made during the years ended December 31, 1996, 1995 and 1994, respectively. Payments for income taxes of $652, $1,604 and $4,335 were made during the years ended December 31, 1996, 1995 and 1994, respectively.

4. Debt:

LONG-TERM DEBT AT DECEMBER 31, CONSISTS OF THE FOLLOWING:	1996	1995
Three bank term-loan agreements, paid in 1996.	$ –	$ 2,930
$12,150 maximum bank line of credit, with interest payable monthly at LIBOR plus 1.85% (7.50% at December 31, 1996), due June 30, 1998, collateralized by accounts receivable and inventory.	8,690	7,938
Bank term-loan agreement, payable in monthly installments of $3, through March 2000, plus interest at the bank's prime rate plus 1/4% (8.5% at December 31, 1996), collateralized by real estate.	327	367
Other	50	402
	9,067	11,637
Less current maturities	91	942
	$ 8,976	$ 10,695

COMBINED MATURITIES OF DEBT FOR EACH OF THE YEARS ENDED DECEMBER 31, ARE AS FOLLOWS:

1997	$ 91
1998	8,730
1999	40
2000	206
	$ 9,067

The revolving credit agreement requires, among other things, that the Company maintain a minimum tangible net worth, minimum working capital and a minimum debt to tangible net worth ratio. At December 31, 1996, the Company was in compliance with the covenants of the revolving credit agreement.

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:

The Company applies the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." SFAS 109 requires recognition of deferred tax liabilities and assets for expected future consequences of events that have been included in a company's financial statements or tax return. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates.

YEARS ENDED DECEMBER 31,	1996	1995	1994
THE INCOME TAX PROVISION CONSISTS OF THE FOLLOWING:			
Current	$ 2,176	$ 1,310	$ 4,656
Deferred	(860)	(146)	(1,051)
	$ 1,316	$ 1,164	$ 3,605
THE RECONCILIATION OF THE FEDERAL STATUTORY INCOME TAX RATE TO THE EFFECTIVE INCOME TAX RATE IS AS FOLLOWS:			
Federal statutory rate	34%	34%	34%
State income taxes	5	4	6
Other	–	(2)	1
	39%	36%	41%

THE TAX EFFECT OF TEMPORARY DIFFERENCES GIVING RISE TO THE COMPANY'S DEFERRED INCOME TAXES AT DECEMBER 31 ARE AS FOLLOWS:

NET DEFERRED TAX ASSETS -	1996	1995
Valuation reserves	$ 450	$ 213
Warranty accrual	535	556
Other accruals	572	286
Depreciation and amortization	388	126
Noncompetition agreement	420	322
Other, net	48	50
	$2,413	$1,553

6. MAJOR CUSTOMERS:

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

YEARS ENDED DECEMBER 31,	1996	1995	1994
Target	14%	17%	*
Wal-Mart Stores, Inc.	*	27%	40%

* Less than 10 percent

7. BENEFIT PLANS:

The Company maintains a stock option plan for key employees and directors and restricts 605,000 shares of common stock for issuance under the plan. 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, 1996, 142,125 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, 1994	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	276,650	$1.19-$13.01
Granted	207,125	$4.50-$5.13
Exercised	(15,125)	$1.19
Cancelled	(42,900)	$13.01
OUTSTANDING AT DECEMBER 31, 1996	425,750	$1.19-$5.13
EXERCISABLE AT DECEMBER 31, 1996	190,025	$1.19-$5.13

The Company adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's stock option plans been determined consistent with the provisions of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	1996	1995
NET INCOME:		
As reported	$ 2,075	$ 2,069
Pro forma	$ 2,004	$ 2,069
EARNINGS PER SHARE:		
As reported	$ .34	$ .34
Pro forma	$ .33	$ .34

Because of the SFAS 123 method of accounting has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%, expected volatility of 50.24% to 50.79%, risk-free interest rate of 6.14% to 6.78%, and expected lives of eight years.

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 $97, $84 and $78 in 1996, 1995 and 1994, 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 $303, $479 and $998 for the years ended December 31, 1996, 1995 and 1994, respectively.

8. STOCK DIVIDEND:

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.

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President and Treasurer
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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
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Tulsa, Oklahoma
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Anthony Pantaleoni
Partner, Fulbright & Jaworski L.L.P.
New York, New York
(Law Firm)

Charles C. Stephenson, Jr.
Chairman, Vintage Petroleum, Inc.
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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 LLP
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

Website Address
http://www.aaon.com

AAON Proudly Acknowledges the Dedication and Determination of Our Employees Whose Efforts Contribute Immeasurably To Our Success.

Of Appreciation

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