

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2001  
OR  
\_\_\_ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-475

A.O. Smith Corporation  
Delaware 39-0619790  
(State of Incorporation) (IRS Employer ID Number)

P. O. Box 245008, Milwaukee, Wisconsin 53224-9508  
Telephone: (414) 359-4000

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

Title of Each Class	Shares of Stock Outstanding January 31, 2002	Name of Each Exchange on Which Registered
Class A Common Stock (par value \$5.00 per share)	8,653,889	American Stock Exchange
Common Stock (par value \$1.00 per share)	15,148,169	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

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 and (2) has been subject to such filing requirements for the past 90 days. Yes  No \_\_\_

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

The aggregate market value of voting stock held by nonaffiliates of the registrant was \$13,492,651 for Class A Common Stock and \$270,786,309 for Common Stock as of January 31, 2002.

Documents Incorporated by Reference:

- Portions of the company's definitive Proxy Statement for the 2002 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after the end of the registrant's fiscal year and, upon such filing, to be incorporated by reference in Part III).

PART 1

ITEM 1 - BUSINESS

A. O. Smith Corporation (the company) serves customers worldwide and consists of two segments, Electric Motor and Water Systems Technologies. The company's electric motor business is one of North America's largest manufacturers of fractional horsepower, integral horsepower alternating current (A/C) and direct current (D/C), and hermetic electric motors. The water systems business is a leading manufacturer of residential and commercial gas and electric water heating equipment and copper tube boilers.

On January 10, 2001, the company sold its engineered storage products business to CST Industries. The sale completed the divestiture of the company's Storage and Fluid Handling business segment. Net cash proceeds from the divestiture were \$35.3 million. (See Note 3 to the Consolidated Financial Statements, entitled "Discontinued Operations" which appears elsewhere herein.)

The following table summarizes sales by segment for the company's operations. This segment summary and all other information presented in this section should be read in conjunction with the Consolidated Financial Statements and the Notes thereto, which appear elsewhere herein.

	Years Ended December 31 (dollars in millions)				
	2001	2000	1999	1998	1997
Electric Motor Technologies	\$ 802.7	\$ 902.4	\$ 735.0	\$487.4	\$397.7
Water Systems Technologies	348.5	345.5	335.3	313.4	305.4
Total Operations	\$1,151.2	\$1,247.9	\$1,070.3	\$800.8	\$703.1

ELECTRIC MOTOR TECHNOLOGIES

Segment sales decreased \$100 million or 11 percent in 2001 to \$803 million and

represented 70 percent of total sales. The decrease in sales in 2001 was due to a downturn that began in the heating and air conditioning market during the second half of 2000 that expanded to include the company's other major motor markets.

Electric Motor Technologies manufactures: hermetic motors that are sold worldwide to manufacturers of air conditioning and commercial refrigeration compressors; fractional horsepower fan motors used in furnaces, air conditioners, and blowers; fractional horsepower motors for pumps for home water systems, swimming pools, hot tubs, and spas; fractional horsepower motors used in other consumer products (such as garage door openers); and integral horsepower A/C and D/C motors for industrial and commercial applications. Sales to the heating, ventilating, air conditioning and refrigeration market account for more than 60 percent of segment sales.

The electric motor business continues to move production to its lower cost facilities which are concentrated primarily in Mexico. In addition, the company acquired a 100 percent equity interest in Shenzhen Speeda Industrial Co., Ltd. in December 2001, and will utilize the facility located in the People's Republic of China to manufacture electric motors.

The electric motor business sells directly to original equipment manufacturers (OEMs) and also markets its products through a distributor network, which sells to smaller OEMs and the after-market. The company estimates that approximately 60 percent of the market is derived from the less cyclical replacement business with the remainder being impacted by general business conditions in the new construction market.

The segment's principal products are sold in competitive markets with its major competitors being Emerson Electric, General Electric, Fasco, Jakel and vertically integrated customers.

#### WATER SYSTEMS TECHNOLOGIES

Segment sales in 2001 were \$349 million, one percent higher than 2000 sales of \$346 million and represented 30 percent of total sales.

Domestic residential water heater sales in 2001 were \$180 million or approximately 52 percent of segment revenues. The company markets residential gas and electric water heaters through a network of plumbing wholesalers in the United States and Canada. The majority of the company's sales are in the less cyclical replacement market, although the new housing market is also an important portion of the business. The residential water heater market remains highly competitive. On December 28, 2001, the company acquired State Industries, Inc. (State) of Ashland City, Tennessee. State had 2001 sales of approximately \$316 million. The company competes with three other manufacturers in supplying over 90 percent of market requirements. The principal competitors of the Water Products business are Rheem Manufacturing, The American Water Heater Group, and Bradford-White.

The company also markets commercial water heating equipment through a network of plumbing wholesalers in the United States and Canada. The company's Water Products business is the largest manufacturer of commercial water heaters in North America. Commercial water heaters are used in a wide range of applications including schools, nursing homes, hospitals, prisons, hotels, motels, laundries, restaurants, stadiums, amusement parks, car washes, and other large users of hot water. The commercial market is characterized by competition from a broader range of products and competitors than occurs in the residential market. The majority of commercial sales are derived from the less cyclical replacement market with the remainder being impacted by general business conditions in the commercial construction market.

#### RAW MATERIAL

Raw materials for the company's operations, which consist primarily of steel, copper, and aluminum, are generally available from several sources in adequate quantities. The company hedges the majority of its annual copper purchases to protect against price volatility.

#### SEASONALITY

There is no significant seasonal pattern to the company's consolidated quarterly sales and earnings.

#### RESEARCH AND DEVELOPMENT, PATENTS, AND TRADEMARKS

In order to improve competitiveness by generating new products and processes, the company conducts research and development at its Corporate Technology Center in Milwaukee, Wisconsin as well as at its operating units. Total expenditures for research and development in continuing operations in 2001, 2000, and 1999, were approximately \$27.6, \$24.5, and \$23.9 million, respectively.

The company owns and uses in its businesses various trademarks, trade names, patents, trade secrets, and licenses. While a number of these are important to the company, it does not consider a material part of its business to be dependent on any one of them.

#### EMPLOYEES

The company and its subsidiaries employed approximately 14,800 persons as of December 31, 2001.

#### BACKLOG

Normally, none of the company's operations sustain significant backlogs.

#### ENVIRONMENTAL LAWS

The company's operations are governed by a variety of federal, state, and local laws intended to protect the environment. While environmental considerations are a part of all significant capital expenditures, compliance with the environmental laws has not had a material effect and is not expected to have a material effect upon the capital expenditures, earnings, or competitive position of the company. See Item 3.

#### FOREIGN SALES

Total U.S. export sales from continuing operations were \$91 million, \$62 million, and \$46 million in 2001, 2000, and 1999, respectively. The increase in 2001 was due primarily to the relocation of an electric motors customer from the United States to Mexico.

## ITEM 2 - PROPERTIES

The company manufactures its products in 40 plants worldwide. These facilities have an aggregate floor space of 6,602,000 square feet, consisting of 4,845,000 square feet owned by the company and 1,757,000 square feet of leased space. Twenty-three of the company's facilities are foreign plants with 2,122,000 square feet of space, of which 1,024,000 square feet are leased.

The manufacturing plants presently operated by the company are listed below by industry segment.

	United States -----	Foreign -----
Electric Motor Technologies (3,449,000 sq. ft.)	McMinnville, TN; Mebane, NC; Monticello, IN; Mt. Sterling, KY; Owosso, MI; Ripley, TN; Scottsville, KY; Tipp City, OH; Upper Sandusky, OH	Acuna, Mexico; Bray, Ireland; Budapest, Hungary; Gainsborough, England; Juarez, Mexico (11); Monterrey, Mexico (3); Shenzhen, People's Republic of China
Water Systems Technologies (3,153,000 sq. ft.)	Ashland City, TN; Charlotte, NC; Cookeville, TN; El Paso, TX; Florence, KY; Franklin, TN; McBee, SC; Renton, WA	Juarez, Mexico; Nanjing, People's Republic of China; Stratford, Canada; Veldhoven, The Netherlands

The principal equipment at the company's facilities consists of presses, welding, machining, slitting, and other metal fabricating equipment, winding machines, and furnace and painting equipment. The company regards its plants and equipment as well-maintained and adequate for its needs. Multishift operations are used where necessary.

In addition to its manufacturing facilities, the company's World Headquarters and Corporate Technology Center are located in Milwaukee, Wisconsin. The company also has offices in Alsip, Illinois; El Paso, Texas; Irving, Texas; London, England; and Singapore.

## ITEM 3 - LEGAL PROCEEDINGS

The company is involved in various unresolved legal actions, administrative proceedings, and claims in the ordinary course of its business involving product liability, property damage, insurance coverage, patents, and environmental matters including the disposal of hazardous waste. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss or recovery, the company believes these unresolved legal actions will not have a material effect on its financial position or results of operations. A more detailed discussion of these matters appears in Note 13 of the Notes to Consolidated Financial Statements.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders during the fourth quarter of 2001.

EXECUTIVE OFFICERS OF THE COMPANY

Pursuant to General Instruction of G(3) of Form 10-K, the following is a list of the current executive officers which is included as an unnumbered Item in Part I of this report in lieu of being included in the company's Proxy Statement for its 2002 Annual Meeting of Stockholders.

ROBERT J. O'TOOLE

Chairman of the Board of Directors, President and Chief Executive Officer

Mr. O'Toole, 61, became chairman of the board of directors in March 1992. He is a member of the Investment Policy Committee of the board of directors. He was elected chief executive officer in March 1989. He was elected president, chief operating officer, and a director in 1986. Mr. O'Toole joined the company in 1963. He is a director of Briggs & Stratton Corporation and Factory Mutual Insurance Company.

RANDALL S. BEDNAR

Vice President - Information Technology

Mr. Bednar, 49, was elected vice president-information technology in July 2001. From 1996 until 2000, he was vice president and chief information officer of The Gates Corporation. Prior to the Gates Corporation, he held a series of information technology assignments during 15 years at Rockwell Automation.

CHARLES J. BISHOP

Vice President - Corporate Technology

Dr. Bishop, 60, has been vice president-corporate technology since 1985. Dr. Bishop joined the company in 1981.

MICHAEL J. COLE

Vice President - Asia

Mr. Cole, 57, was elected vice president-Asia in March 1996. Previously he was vice president-emerging markets of Donnelly Corporation, an automotive supplier.

DONALD M. HEINRICH

Senior Vice President and President - A. O. Smith Electrical Products Company

Mr. Heinrich, 49, was elected senior vice president in July 2001, and has been president of A. O. Smith Electrical Products Company, a division of the company, since July 2001. He joined A. O. Smith Electrical Products Company in January 2000 as senior vice president-operations. He also served as president of Smith Fiberglass Products Company, a former division of the company, from November 1997 through January 2000. Mr. Heinrich joined the company in October 1992 as vice president-business development.

JOHN J. KITA

Vice President, Treasurer and Controller

Mr. Kita, 46, was elected vice president, treasurer and controller in April 1996. From 1995 to 1996 he was treasurer and controller. Prior thereto, he served as assistant treasurer since he joined the company in 1988.

KENNETH W. KRUEGER

Senior Vice President and Chief Financial Officer

Mr. Krueger, 45, became senior vice president and chief financial officer in August 2000. Previously he was a group vice president, finance and business planning at Eaton Corporation. Prior to Eaton, he was vice president, finance for Rockwell Automation, where he worked from 1983 to 1999.

RONALD E. MASSA

Senior Vice President and President - A. O. Smith Water Products Company

Mr. Massa, 52, became president of A. O. Smith Water Products Company, a division of the company, in February 1999. He was elected senior vice president in June 1997. He served as the president of A. O. Smith Automotive Products Company, a former division of the company, from June 1996 to April 1997. He was the president of A. O. Smith Water Products Company from 1995 to June 1996 and held other management positions in the Water Products Company prior thereto. He joined the company in 1976.

ALBERT E. MEDICE

Vice President - Europe

Mr. Medice, 59, was elected vice president-Europe in 1995. Previously, from 1990 to 1995, he was the general manager of A. O. Smith Electric Motors (Ireland) Ltd., a subsidiary of the company. Mr. Medice joined the company in 1986 as vice president-marketing for its Electrical Products Company division.

EDWARD J. O'CONNOR

Vice President - Human Resources and Public Affairs

Mr. O'Connor, 61, has been vice president-human resources and public affairs for the company since 1986. He joined the company in 1970.

STEVE W. RETTLER

Vice President - Business Development

Mr. Rettler, 47, was elected vice president-business development in July 1998. Previously he was vice president and general manager of Brady Precision Tape Co., a manufacturer of specialty tape products for the electronics market.

W. DAVID ROMOSER

Vice President, General Counsel and Secretary

Mr. Romoser, 58, was elected vice president, general counsel and secretary in March 1992.

PART II

ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

- (a) Market Information. The Common Stock is listed on the New York Stock Exchange. The Class A Common Stock of A. O. Smith Corporation is listed on the American Stock Exchange. The symbols for these classes of the company's stock are: AOS for the Common Stock and SMCA for the Class A Common Stock. Wells Fargo Bank Minnesota, N.A., P.O. Box 64854, St. Paul, Minnesota 55164-0854 serves as the registrar, stock transfer agent, and the dividend reinvestment agent for both classes of the company's common stock.

Quarterly Common Stock Price Range

2001	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
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Common Stock				
High	20.10	19.53	18.50	19.75
Low	15.88	16.40	15.25	14.67
Class A Common				
High	19.80	19.20	18.30	18.90
Low	15.88	16.50	16.00	14.50
2000	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
-----	-----	-----	-----	-----
Common Stock				
High	23.13	22.81	21.38	17.25
Low	14.94	17.81	11.19	12.50
Class A Common				
High	22.00	22.44	17.25	16.88
Low	15.50	17.88	12.00	12.75

- (b) Holders. As of January 31, 2002, the number of shareholders of record of Common Stock and Class A Common Stock were 1,186 and 501, respectively.
- (c) Dividends. Dividends paid on the common stock are shown in Note 15 to the Consolidated Financial Statements appearing elsewhere herein. The company's credit agreements contain certain conditions and provisions which restrict the company's payment of dividends. Under the most restrictive of these provisions, retained earnings of \$58.5 million were unrestricted as of December 31, 2001.

## ITEM 6 - SELECTED FINANCIAL DATA

(Dollars in Thousands, except per share amounts)

	Years ended December 31(1)				
	2001(2)	2000	1999(3)	1998(4)	1997(5)
Net sales - continuing operations	\$ 1,151,156	\$ 1,247,945	\$ 1,070,339	\$ 800,803	\$ 703,050
Earnings (Loss)					
Continuing operations	14,502	41,656	50,270	40,656	32,065
Discontinued operations:					
Operating earnings (loss)	-	-	(890)	3,835	20,719
Gain (loss) on disposition	-	(11,903)	(6,958)	-	101,046
	-	(11,903)	(7,848)	3,835	121,765
Net earnings	\$ 14,502	\$ 29,753	\$ 42,422	\$ 44,491	\$ 153,830
Basic earnings (loss) per share of common stock					
Continuing operations	\$ .61	\$ 1.78	\$ 2.17	\$ 1.73	\$ 1.16
Discontinued operations	-	(.51)	(.34)	.16	4.41
Net earnings	\$ .61	\$ 1.27	\$ 1.83	\$ 1.89	\$ 5.57
Diluted earnings (loss) per share of common stock					
Continuing operations	\$ .61	\$ 1.76	\$ 2.11	\$ 1.68	\$ 1.14
Discontinued operations	-	(.50)	(.33)	.16	4.32
Net earnings	\$ .61	\$ 1.26	\$ 1.78	\$ 1.84	\$ 5.46
Cash dividends per common share	\$ .52	\$ .50	\$ .48	\$ .47	\$ .45

	December 31				
	2001	2000	1999	1998	1997
Total assets	\$ 1,293,923	\$ 1,064,868	\$ 1,065,585	\$ 736,570	\$ 682,789
Long-term debt	390,385	316,372	351,251	131,203	100,972
Total stockholders' equity	451,878	448,395	431,084	401,093	399,705

- (1) The company has accounted for the fiberglass piping, liquid and dry storage and automotive businesses as discontinued operations in the consolidated financial statements. On December 8, 2000, the company sold its fiberglass piping business and on January 10, 2001, the company sold its liquid and dry storage business. On April 18, 1997, the company sold its automotive products business, exclusive of its Mexican automotive affiliate, and on October 1, 1997, the company sold its 40 percent interest in its Mexican affiliate. See Note 3 to the consolidated financial statements included elsewhere herein.
- (2) On December 28, 2001, the company acquired all of the outstanding stock of State Industries, Inc., a manufacturer of a comprehensive line of residential and commercial water heaters. The aggregate purchase price was \$117.2 million. See Note 2 to the consolidated financial statements included elsewhere herein.
- (3) On August 2, 1999, the company acquired the assets of MagneTek, Inc.'s domestic electric motor business and six wholly owned foreign subsidiaries for \$244.6 million. See Note 2 to the consolidated financial statements included elsewhere herein.
- (4) On July 1, 1998, the company acquired certain assets of General Electric Company's domestic compressor motor business for \$125.6 million.
- (5) On March 31, 1997, the company acquired UPPCO, Incorporated, a manufacturer of subfractional C-frame electric motors, for \$60.9 million.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

A. O. Smith Corporation recorded net earnings from continuing operations of \$14.5 million or \$.61 per share in 2001 compared with \$41.7 million or \$1.76 per share in 2000. Excluding a \$9.4 million pretax special charge related primarily to the restructuring of its electric motor operations, the company recorded earnings of \$20.5 million, or \$.86 per share. The significant decline in earnings was primarily due to challenging market conditions in the electric motor business, as explained later in this section. The water systems business established new sales and earnings records in 2001. Individual segment performance will be discussed later in this section.

Working capital for continuing operations at December 31, 2001, was \$221.6 million compared with \$204.3 million and \$207.3 million at December 31, 2000 and 1999, respectively. The increase in working capital in 2001 was due to the December 28, 2001, acquisition of State Industries, Inc. (State), a water heater manufacturing company, for \$117.2 million. The modest decline in working capital in 2000 was due to lower accounts receivable resulting from weaker HVAC markets.

Capital expenditures were \$35.3 million in 2001 versus \$40.5 million in 2000 and \$32.8 million in 1999. The decrease in capital spending in 2001 and increase in 2000 occurred in the company's electric motor operation. The company is projecting 2002 capital expenditures of approximately \$45 million, an increase over 2001 primarily due to the acquisition of State. The level of 2002 capital expenditures is expected to be marginally lower than 2002 depreciation expense. Cash flow during 2002 is expected to adequately cover projected capital expenditures.

On June 8, 2001, the company issued \$50 million in notes under loan facilities with two insurance companies. The notes range in maturity from 2013 to 2016 and carry an interest rate of 7.3 percent. Due to the acquisition of State, long-term debt increased \$74.0 million from \$316.4 million at December 31, 2000, to \$390.4 million at December 31, 2001. The company's leverage as measured by the ratio of total debt to total capitalization was 47 percent at December 31, 2001, compared with 42 percent at the end of 2000. Excluding potential acquisitions, the company expects 2002 cash flow to result in a year-end leverage ratio of approximately 43 percent, closer to its long-term target of 40 percent.

The company expects to have adequate liquidity in 2002 as it has a minimal amount of long-term debt maturing. In addition, it has a \$250 million multi-year revolving credit facility with a group of 10 financial institutions that expires on August 2, 2004, and an \$83 million 364 day credit agreement with a group of six banks, that expires on July 26, 2002, which will support any short-term borrowing needs (see Note 8 of Notes to the Consolidated Financial Statements).

In connection with the acquisition of State in December 2001, the company recorded additional purchase liabilities of approximately \$3.9 million associated with employee severance costs. In addition, the company recorded purchase liabilities of \$17.9 million in 1999 associated with the MagneTek motor acquisition, which included employee severance and relocation, as well as certain facility costs. The balance of MagneTek purchase liabilities of \$6.5 million at December 31, 2001, are expected to be fully utilized during 2002.

Included in other assets is a \$32.8 million receivable due to the payments of claims associated with the dip tube class action lawsuit (see Note 13 of Notes to the Consolidated Financial Statements). The company expects a modest increase to the receivable in 2002. The receivable is classified as a long-term asset because court proceedings will not begin until late 2002 and may not conclude until 2003 or later.

A.O. Smith Corporation has paid dividends for 62 consecutive years. The company paid a total of \$.52 per share in 2001 compared with \$.50 per share in 2000.

## RESULTS OF OPERATIONS

Sales from continuing operations in 2001 were \$1.15 billion, a decline of \$96.8 million or 7.8 percent from sales of \$1.25 billion in 2000. The decrease in sales resulted from an 11 percent decline in the electric motors business, which more than offset a slight increase in sales for the water heater business. Sales in 2000 increased \$178 million compared with 1999, with \$190 million of the increase resulting from an additional seven months of sales from the August 1999 acquisition of the MagneTek motor business, and an additional \$12 million in sales from the company's Chinese water heater operation. These increases were partially offset by lower sales in the company's base electric motor business.

The company's gross profit margin for 2001 was 17.6 percent, compared with 19.9 percent and 21.6 percent in 2000 and 1999, respectively. The decline in gross margin from 2000 to 2001 occurred within the electric motor business and was due primarily to under-absorption of manufacturing costs associated with lower volume, Mexican wage inflation throughout the year, and increased costs for certain raw materials. The lower profit margin in 2000 compared with 1999 was due to inclusion of a full year of sales for the MagneTek acquisition which carried lower margins than the base electric motor business and less favorable cost absorption associated with declining volumes in the latter half of the year.

Sales in the Electric Motor Technologies segment in 2001 were \$802.7 million, \$100 million or 11 percent lower than 2000 sales of \$902.4 million. Sales in 1999 were \$735.0 million. The heating, ventilation, and air conditioning (HVAC) business experienced the largest sales decline of \$60 million or 11 percent in 2001. The lower demand for motors in 2001 was due to a number of factors including general economic conditions, reduced discretionary spending on the part of consumers, and inventory adjustments by air conditioning manufacturers and retailers. The increase in sales from 1999 to 2000 was due to the additional seven months of ownership of the MagneTek motor business which contributed approximately \$190 million in sales. Excluding MagneTek, sales in the underlying motor business declined five percent in 2000 due mostly to a reduction in demand from HVAC customers.

Earnings for the Electric Motor Technologies segment in 2001 were \$28.9 million before special charges or \$46.6 million lower than 2000 operating earnings of \$75.5 million. Earnings in 1999 were \$78.9 million. The significant decline in earnings was due mostly to lower sales volume, higher costs for raw materials and Mexican labor, and more competitive market conditions. The decline in earnings from 1999 to 2000 was due primarily to a weaker air conditioning market.

In the fourth quarter of 2001, the company announced a cost reduction program to address its challenging motor market conditions. The program consists of three major elements. The first involves a reduction of approximately 10 percent of the salaried workforce to be completed by the middle of 2002. The second element targets improved contribution margins and involves the repositioning of additional parts fabrication and assembly work to lower-cost Mexican operations and is expected to be completed by the end of the first quarter of 2003. A portion of the work currently performed at six domestic plants will be transferred to the company's operations in Juarez, Acuna, and Monterrey, Mexico. The third element involved re-alignment of distribution activities into three hub warehouses thereby reducing cost and improving customer service and has been completed. A pretax charge of \$8.1 million was recognized in the fourth quarter of 2001 of which \$0.8 million was spent as of December 31, 2001. The program is expected to generate pretax savings of more than \$16.0 million in 2002 and \$20.0 to \$25.0 million annually thereafter.

Sales for the Water Systems Technologies segment increased slightly from \$345.5 million in 2000 to \$348.5 million in 2001 and represents the fourth consecutive year of record sales. The increased sales resulted from higher sales of residential products and growth in the Chinese operation, partially offset by lower sales in other international markets. Sales of \$345.5 million in 2000 were higher than 1999 sales of \$335.3 million due to a significant increase in China where sales almost doubled, contributing an additional \$12 million.

Earnings for Water Systems Technologies in 2001 were \$40.5 million before special charges, reflecting a 16 percent increase over 2000 earnings of \$34.9 million. The improved earnings performance in 2001 was the result of higher volume, better performance in China, and improved plant efficiencies throughout the organization. The earnings improvement from \$33.8 million in 1999 to \$34.9 million in 2000 resulted from improved performance in China.

On December 28, 2001, the company acquired all of the outstanding stock of State, a manufacturer of residential and standard commercial water heaters. The acquisition will nearly double the size of the company's existing water heater business while complementing the existing wholesale distribution channel and adding a strong presence in the retail market. The company also expects to achieve scale-related synergies as a result of the acquisition. The aggregate purchase price was \$117.2 million and was comprised of \$57.8 million for the outstanding stock, assumption of \$56.3 million in debt, and \$3.1 million of acquisition costs. Additionally, the company recognized a special charge of \$1.3 million in the fourth quarter of 2001 for lease costs associated with moving the Water Products Company headquarters from Irving, Texas, to Ashland City, Tennessee, State's headquarters. The move is intended to facilitate the integration of the two businesses.

On January 21, 2000, the company announced its decision to exit the storage tank and fiberglass pipe markets, consistent with the company's strategy to expand its presence in the electric motor and water products markets. On December 8, 2000, the company sold the fiberglass business, Smith Fiberglass Products Company, to Varco International Corporation. The transaction took the form of the sale of the majority of the fiberglass piping domestic assets and the sale of the company's equity interest in its Chinese operation. On January 10, 2001, the company sold substantially all of the assets of its storage tank business, Engineered Storage Products Company, to CST Industries. The sale of these businesses resulted in net after-tax proceeds of \$62 million. After-tax losses associated with discontinued operations amounted to \$11.9 million and \$7.8 million in 2000 and 1999, respectively, and consisted mostly of losses associated with the disposition of these businesses. The 2000 loss also included an after-tax charge of \$4 million related to revised estimates on certain claims that arose out of the sale of its automotive business in April 1997 (see Note 3 of Notes to the Consolidated Financial Statements).

Selling, general, and administrative (SG&A) expense in 2001 was \$145.7 million, \$8.0 million lower than the \$153.7 million recorded in 2000. The decrease resulted from volume-related reductions in selling expenses, cost reduction programs, and lower accruals for incentive plans. SG&A in 2000 increased \$17.4 million over 1999 due to the additional expense associated with a full year of owning the MagneTek motor business. Relative to net sales, SG&A has been stable over the last three years.

Interest expense was \$16.4 million in 2001 compared with \$22.1 million and \$12.8 million in 2000 and 1999, respectively. The decline from 2000 to 2001 was the result of lower average debt levels and declining interest rates while the increase from 1999 to 2000 was due primarily to acquisition-related financings.

Amortization of intangibles was constant in 2001 and 2000, at approximately \$7.0 million. The increase from \$5.2 million in 1999 to 2000 was associated with the acquisition of MagneTek.

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." Under the new standards, goodwill and indefinite-lived intangible assets are no longer amortized but instead are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. Accordingly, the goodwill associated with the December 2001 acquisition of State and Shenzhen Speeda Industrial Co., Ltd. (see Note 2 of Notes to the Consolidated Financial Statements) will not be amortized. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the company will apply the new accounting standards beginning January 1, 2002. The company is currently assessing the financial impact SFAS No. 142 will have on its Consolidated Financial Statements. The company

anticipates that all of the goodwill amortization of \$6.6 million in 2001 will be eliminated as a charge to operations in 2002.

Other expense increased by \$1.1 million from 2000 to 2001 due mostly to losses incurred on forward foreign currency contracts. The change from other income of \$0.6 million in 1999 to other expense of \$0.3 million in 2000 was due to a decrease in interest income as marketable securities were liquidated to fund the MagneTek motor business acquisition.

The company's effective tax rate was 35.5 percent in 2001, 36.0 percent in 2000, and 34.8 percent in 1999. The rate decreased in 2001 as a result of increased research and state tax credits, partially offset by the negative impact of the losses on low-tax foreign jurisdictions. The rate increased in 2000 as a result of fewer research tax credits as compared to 1999.

#### Outlook

Recent information on lower inventory levels in the HVAC industry is encouraging. The company believes it is taking the actions necessary to adjust its cost base to current sales volumes and will be in a strong position when markets recover to more normal levels. This positioning, coupled with the impact of the State acquisition and the new accounting standards eliminating goodwill amortization, will contribute to earnings growth in 2002 and leads the company to reiterate its earlier forecast of earnings in the range of \$1.40 to \$1.60 per share. The company further believes first and second quarter earnings will show modest improvement over 2001, with favorable comparisons accelerating in the second half of the year.

#### OTHER MATTERS

##### Environmental

The company's operations are governed by a number of federal, state, and local environmental laws concerning the generation and management of hazardous materials, the discharge of pollutants into the environment, and remediation of sites owned by the company or third parties. The company has expended financial and managerial resources complying with such laws. Expenditures related to environmental matters were not material in 2001 and are not expected to be material in any single year. Although the company believes that its operations are substantially in compliance with such laws and maintains procedures designed to maintain compliance, there are no assurances that substantial additional costs for compliance will not be incurred in the future. However, since the same laws govern the company's competitors, the company should not be placed at a competitive disadvantage.

##### Market Risk

The company is exposed to various types of market risks, primarily currency and certain commodities. The company monitors its risks in such areas on a continuous basis and generally enters into forward and futures contracts to minimize such exposures for periods of less than one year. The company does not engage in speculation in its derivatives strategies. Further discussion regarding derivative instruments is contained in Note 1 of Notes to the Consolidated Financial Statements.

Commodity risks include raw material price fluctuations. The company uses futures contracts to fix the cost of its expected needs with the objective of reducing price risk. Futures contracts are purchased over time periods and at volume levels which approximate expected usage. At December 31, 2001, the company had commodity futures contracts amounting to \$57 million of commodity purchases. A hypothetical 10 percent change in the underlying commodity price of such contracts would have a potential impact of \$5.7 million. It is important to note that gains and losses from the company's futures contract activities will be offset by gains and losses in the underlying commodity purchase transactions being hedged.

In addition, the company enters into foreign currency forward contracts to minimize the effect of fluctuating foreign currencies. At December 31, 2001, the company had net foreign currency contracts outstanding of \$81

million. Assuming a hypothetical 10 percent movement in the respective currencies, the potential foreign exchange gain or loss associated with the change in rates would amount to \$8.1 million. It is important to note that gains and losses from the company's forward contract activities will be offset by gains and losses in the underlying transactions being hedged.

The company's earnings exposure related to movements in interest rates is primarily derived from outstanding floating-rate debt instruments that are determined by short-term money market rates. At December 31, 2001, the company had \$260 million in outstanding floating-rate debt with a weighted-average interest rate of 2.3 percent at year end. A hypothetical 10 percent annual increase or decrease in the year-end average cost of the company's outstanding floating-rate debt would result in a change in annual pretax interest expense of \$0.6 million.

#### Forward-Looking Statements

Certain statements in this report are "forward-looking statements." These forward-looking statements can generally be identified as such because the context of the statement will include words such as the company "believes," "anticipates," "estimates," "expects," "projects," "forecasts," or words of similar import.

Although the company believes that its expectations are based upon reasonable assumptions within the bounds of its knowledge of its business, there can be no assurance that the results expressed in forward-looking statements will be realized. Although a significant portion of the company's sales are derived from the replacement of previously installed product, and such sales are therefore less volatile, numerous factors may affect actual results and cause results to differ materially from those expressed in forward-looking statements made by, or on behalf of, the company. The company considers most important among such factors, the stability in its electric motor and water products markets, the timely and proper integration of the State acquisition, the implementation of associated cost-reduction programs, general economic conditions, and competitive pressures.

All subsequent written and oral forward-looking statements attributable to the company, or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

#### ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Market Risk" above.

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REPORT OF ERNST & YOUNG LLP,  
INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
A. O. Smith Corporation

We have audited the accompanying consolidated balance sheets of A. O. Smith Corporation as of December 31, 2001 and 2000, and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 consolidated financial position of A. O. Smith Corporation at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin  
January 16, 2002

CONSOLIDATED BALANCE SHEETS  
December 31 (dollars in thousands)

	2001	2000
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 20,759	\$ 15,287
Receivables	209,871	169,117
Inventories	194,706	169,630
Deferred income taxes	22,403	12,907
Other current assets	28,039	7,789
Net current assets - discontinued operations	1,796	22,651
<b>Total Current Assets</b>	<b>477,574</b>	<b>397,381</b>
Net property, plant, and equipment	355,298	282,835
Net goodwill and other intangibles	301,924	244,821
Prepaid pension	103,272	81,958
Other assets	55,855	40,380
Net long-term assets - discontinued operations	-	17,493
<b>Total Assets</b>	<b>\$ 1,293,923</b>	<b>\$ 1,064,868</b>
<b>Liabilities</b>		
Current Liabilities		
Notes payable	\$ 3,280	\$ -
Trade payables	131,073	91,780
Accrued payroll and benefits	29,525	27,388
Accrued liabilities	58,443	26,865
Product warranty	19,470	11,574
Income taxes	887	1,695
Long-term debt due within one year	13,272	11,129
<b>Total Current Liabilities</b>	<b>255,950</b>	<b>170,431</b>
Long-term debt	390,385	316,372
Product warranty	50,162	17,631
Post-retirement benefit obligation	17,073	18,012
Deferred income taxes	62,154	67,814
Other liabilities	66,321	26,213
<b>Total Liabilities</b>	<b>842,045</b>	<b>616,473</b>
Commitments and contingencies (Notes 8 and 13)		
<b>Stockholders' Equity</b>		
Preferred Stock	-	-
Class A Common Stock (shares issued 8,686,484 and 8,722,720)	43,432	43,614
Common Stock (shares issued 23,862,878 and 23,826,642)	23,863	23,827
Capital in excess of par value	54,785	53,521
Retained earnings	551,420	549,237
Accumulated other comprehensive loss	(6,858)	(5,438)
Treasury stock at cost	(214,764)	(216,366)
<b>Total Stockholders' Equity</b>	<b>451,878</b>	<b>448,395</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,293,923</b>	<b>\$ 1,064,868</b>

See accompanying notes which are an integral part of these statements.

CONSOLIDATED STATEMENT OF EARNINGS

Years ended December 31 (dollars in thousands, except per share amounts)

	2001	2000	1999
<b>Continuing Operations</b>			
Net sales	\$1,151,156	\$1,247,945	\$1,070,339
Cost of products sold	948,815	999,821	839,572
Gross profit	202,341	248,124	230,767
Selling, general, and administrative expenses	145,742	153,695	136,304
Interest expense	16,418	22,102	12,821
Amortization of intangibles	6,956	6,932	5,162
Restructuring and other charges	9,368	-	-
Other (income) expense - net	1,371	307	(612)
Provision for income taxes	22,486	65,088	77,092
	7,984	23,432	26,822
<b>Earnings from Continuing Operations</b>	<b>14,502</b>	<b>41,656</b>	<b>50,270</b>
<b>Discontinued Operations</b>			
Loss from discontinued operations less related income tax benefit 2000 - \$7,772, and 1999 - \$5,017	-	(11,903)	(7,848)
<b>Net Earnings</b>	<b>\$ 14,502</b>	<b>\$ 29,753</b>	<b>\$ 42,422</b>
<b>Basic Earnings (Loss) Per Share of Common Stock</b>			
Continuing Operations	\$0.61	\$1.78	\$2.17
Discontinued Operations	-	(.51)	(.34)
<b>Net Earnings</b>	<b>\$0.61</b>	<b>\$1.27</b>	<b>\$1.83</b>
<b>Diluted Earnings (Loss) Per Share of Common Stock</b>			
Continuing Operations	\$0.61	\$1.76	\$2.11
Discontinued Operations	-	(.50)	(.33)
<b>Net Earnings</b>	<b>\$0.61</b>	<b>\$1.26</b>	<b>\$1.78</b>

CONSOLIDATED STATEMENT OF COMPREHENSIVE EARNINGS

Years ended December 31 (dollars in thousands)

	2001	2000	1999
<b>Net Earnings</b>	<b>\$ 14,502</b>	<b>\$ 29,753</b>	<b>\$ 42,422</b>
Other comprehensive earnings (loss)			
Foreign currency translation adjustments	(981)	(2,200)	(1,750)
Unrealized net loss on cash flow derivative instruments less related income tax benefit of \$287	(439)	-	-
<b>Comprehensive Earnings</b>	<b>\$ 13,082</b>	<b>\$ 27,553</b>	<b>\$ 40,672</b>

See accompanying notes which are an integral part of these statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31 (dollars in thousands)

	2001	2000	1999
Continuing			
Operating Activities			
Earnings from continuing operations	\$ 14,502	\$ 41,656	\$ 50,270
Adjustments to reconcile earnings from continuing operations to cash provided by operating activities:			
Depreciation	38,485	36,582	30,769
Amortization	8,591	8,477	6,546
Net change in current assets and liabilities	11,175	3,563	(24,929)
Net change in noncurrent assets and liabilities	(22,667)	(15,343)	(13,930)
Other	(258)	241	(911)
Cash Provided by Operating Activities	49,828	75,176	47,815
Investing Activities			
Acquisition of businesses	(117,988)	-	(244,592)
Capital expenditures	(35,318)	(40,516)	(32,807)
Cash Used in Investing Activities	(153,306)	(40,516)	(277,399)
Financing Activities			
Long-term debt incurred	90,565	-	229,677
Long-term debt retired	(11,129)	(33,379)	(4,629)
Purchase of treasury stock	-	-	(2,773)
Net proceeds from common stock and option activity	1,407	816	1,149
Dividends paid	(12,319)	(11,720)	(11,172)
Cash Provided by (Used in) Financing Activities	68,524	(44,283)	212,252
Cash Flow Provided by (Used in) Discontinued Operations	40,426	10,149	(5,573)
Net increase (decrease) in cash and cash equivalents	5,472	526	(22,905)
Cash and cash equivalents--beginning of year	15,287	14,761	37,666
Cash and Cash Equivalents--End of Year	\$ 20,759	\$ 15,287	\$ 14,761

See accompanying notes which are an integral part of these statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 31 (dollars in thousands)

	2001	2000	1999
<b>Class A Common Stock</b>			
Balance at beginning of year	\$ 43,614	\$ 43,615	\$ 43,688
Conversion of Class A Common Stock	(182)	(1)	(73)
Balance at end of year	\$ 43,432	\$ 43,614	\$ 43,615
<b>Common Stock</b>			
Balance at beginning of year	\$ 23,827	\$ 23,826	\$ 23,812
Conversion of Class A Common Stock	36	1	14
Balance at end of year	\$ 23,863	\$ 23,827	\$ 23,826
<b>Capital in Excess of Par Value</b>			
Balance at beginning of year	\$ 53,521	\$ 53,026	\$ 51,121
Conversion of Class A Common Stock	146	-	59
Exercise of stock options	(116)	(84)	(182)
Tax benefit from exercise of stock options	1,114	404	1,797
Stock incentives and directors' compensation	120	175	231
Balance at end of year	\$ 54,785	\$ 53,521	\$ 53,026
<b>Retained Earnings</b>			
Balance at beginning of year	\$ 549,237	\$ 531,204	\$ 499,954
Net earnings	14,502	29,753	42,422
Cash dividends on common stock	(12,319)	(11,720)	(11,172)
Balance at end of year	\$ 551,420	\$ 549,237	\$ 531,204
<b>Accumulated Other Comprehensive Loss</b>			
Balance at beginning of year	\$ (5,438)	\$ (3,238)	\$ (1,488)
Foreign currency translation adjustments	(981)	(2,200)	(1,750)
Unrealized net loss on cash flow derivative instruments less related income tax benefit of \$287	(439)	-	-
Balance at end of year	\$ (6,858)	\$ (5,438)	\$ (3,238)
<b>Treasury Stock</b>			
Balance at beginning of year	\$ (216,366)	\$ (217,349)	\$ (215,994)
Purchase of treasury stock	-	-	(2,773)
Exercise of stock options	1,524	901	1,330
Stock incentives and directors' compensation	78	82	88
Balance at end of year	\$ (214,764)	\$ (216,366)	\$ (217,349)
<b>Total Stockholders' Equity</b>	<b>\$ 451,878</b>	<b>\$ 448,395</b>	<b>\$ 431,084</b>

See accompanying notes which are an integral part of these statements.

1. Organization and Significant Accounting Policies

Organization. A. O. Smith Corporation (the company) is a manufacturer serving customers worldwide. The company's major product lines include fractional and integral horsepower alternating current (A/C), direct current (D/C) and hermetic electric motors, as well as residential and commercial water heaters. The company's products are manufactured and marketed primarily in North America. Electric motors are sold principally to original equipment manufacturers and industrial distributors. Water heaters are sold principally to plumbing wholesalers and retail outlets.

Consolidation. The consolidated financial statements include the accounts of the company and its wholly owned subsidiaries after elimination of intercompany transactions.

Use of estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the accompanying financial statements and notes. Actual results could differ from those estimates.

Fair values. The carrying amounts of cash and cash equivalents, receivables and trade payables approximated fair value as of December 31, 2001 and 2000 due to the short maturities of these instruments. The carrying amount of long-term debt approximated fair value as of December 31, 2001 and 2000 based on current rates offered to the company for debt with the same or similar maturities.

Foreign currency translation. For all subsidiaries outside the United States with the exception of Mexico, the company uses the local currency as the functional currency. For those operations using a functional currency other than the U.S. dollar, assets and liabilities are translated into U.S. dollars at year-end exchange rates, and revenues and expenses are translated at weighted-average exchange rates. The resulting translation adjustments are recorded as a separate component of stockholders' equity. The Mexico operations use the U.S. dollar as the functional currency as such operations are a direct and integral component of the company's U.S. operations. Gains and losses from foreign currency transactions are included in net earnings.

Cash and cash equivalents. The company considers all highly liquid investments, generally with a maturity of three months or less when purchased, to be cash equivalents.

Inventory valuation. Inventories are carried at lower of cost or market. Cost is determined on the last-in, first-out (LIFO) method for substantially all domestic inventories which comprise 93 percent and 90 percent of the company's total inventory at December 31, 2001 and 2000, respectively. Inventories of foreign subsidiaries and supplies are determined using the first-in, first-out (FIFO) method.

Property, plant, and equipment. Property, plant, and equipment are stated at cost. Depreciation is computed primarily by the straight-line method. The estimated service lives used to compute depreciation are generally 25 to 50 years for buildings and 5 to 20 years for equipment. Maintenance and repair costs are expensed as incurred.

Goodwill and other intangibles. Goodwill is amortized over 40 years. The amortization period for other intangibles is as follows: patents and licensed technologies, 5 to 10 years; assembled workforce, 20 to 25 years; and customer lists, 30 years.

1. Organization and Significant Accounting Policies (continued)

December 31 (dollars in thousands)	2001	2000
Goodwill, at cost	\$ 309,094	\$ 248,925
Other intangibles, at cost	15,314	11,424
	-----	-----
	324,408	260,349
Less accumulated amortization	22,484	15,528
	-----	-----
	\$ 301,924	\$ 244,821
	=====	=====

Impairment of long-lived and intangible assets. Property, plant, and equipment, goodwill, and other intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. Such analyses necessarily involve significant judgment.

Derivative instruments. Effective January 1, 2001, the company adopted Statement of Financial Accounting Standards (SFAS) No. 133, as amended, which requires that all derivative instruments be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of the hedging relationships. Any fair value changes are recorded in net earnings or other comprehensive earnings (loss). The cumulative effect of adopting SFAS No. 133 was not material to the company's consolidated financial statements as of January 1, 2001.

The company utilizes certain derivative instruments to enhance its ability to manage currency exposures and raw material price risks. Derivative instruments are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of those exposures. The company does not enter into contracts for speculative purposes. The contracts are executed with major financial institutions with no credit loss anticipated for failure of the counterparties to perform.

Commodity Future Contracts

In addition to entering into supply arrangements in the normal course of business, the company also enters into futures contracts to fix the cost of certain raw material purchases, principally copper, with the objective of minimizing changes in cost due to market price fluctuations.

The commodity futures contracts are designated as cash flow hedges of a forecasted transaction. Derivative commodity liabilities of \$6.9 million are recorded in accrued liabilities as of December 31, 2001, with the value of the effective portion of the contracts of \$6.9 million recorded in accumulated other comprehensive earnings (loss) and reclassified into cost of products sold in the period in which the underlying transaction is recorded in earnings. Ineffective portions of the commodity hedges are recorded in earnings in the period in which the ineffectiveness occurs. The impact of hedge ineffectiveness on earnings was not material for the year ended December 31, 2001.

Foreign Currency Forward Contracts

The company is exposed to foreign currency exchange risk as a result of transactions in currencies other than the functional currency of certain subsidiaries. The company utilizes foreign currency forward purchase and sale contracts to manage the volatility associated with foreign currency purchases, sales and certain intercompany transactions in the normal course of business. Contracts typically have maturities of a year or less. Principal currencies include the Mexican peso, Hungarian forint, British pound, Euro and U.S. dollar.

1. Organization and Significant Accounting Policies (continued)

Forward contracts are accounted for as cash flow hedges of a forecasted transaction. Derivative currency assets of \$6.6 million as of December 31, 2001, are recorded in other current assets. Gains and losses on these instruments are recorded in other comprehensive earnings (loss) until the underlying transaction is recorded in earnings. When the hedged item is realized, gains or losses are reclassified from accumulated other comprehensive earnings (loss) to the statement of earnings. The assessment of effectiveness for forward contracts is based on changes in the forward rates. These hedges have been determined to be perfectly effective.

The majority of the amounts in accumulated other comprehensive earnings (loss) for cash flow hedges are expected to be reclassified into earnings within a year.

The following table summarizes, by currency, the contractual amounts of the company's foreign currency forward contracts.

December 31 (dollars in thousands)	2001		2000	
	Buy	Sell	Buy	Sell
Euro	\$ 3,900	\$1,560	\$12,400	\$1,840
British pound	2,824	1,525	1,515	1,532
Hungarian forint	3,394	-	3,135	-
Mexican peso	74,279	-	64,901	-
Total	\$84,397	\$3,085	\$81,951	\$3,372

The forward contracts in place at December 31, 2001 and 2000, amounted to approximately 85 percent and 75 percent, respectively, of the company's anticipated subsequent year exposure for those currencies hedged.

Revenue recognition. The company recognizes revenue upon transfer of title, which generally occurs upon shipment of the product to the customer.

Compensated absences. In the fourth quarter of 2001 and the second quarter of 2000, the company changed its vacation policy for certain employees so that vacation pay is earned ratably throughout the year and must be used by year-end. The accrual for compensated absences was reduced by \$1.6 and \$2.3 million in 2001 and 2000, respectively, to eliminate vacation pay no longer required to be accrued under the current policy.

Research and development. Research and development costs are charged to operations as incurred and amounted to \$27.6, \$24.5, and \$23.9 million for continuing operations during 2001, 2000, and 1999, respectively.

Product warranty. The company offers warranties on the sales of certain of its products and records an accrual for estimated future claims. Such accruals are based upon historical experience and management's estimate of the level of future claims.

Environmental costs. The company accrues for losses associated with environmental obligations when such losses are probable and reasonably estimable. Costs of estimated future expenditures are not discounted to their present value. Recoveries of environmental costs from other parties are recorded as assets when their receipt is considered probable. The accruals are adjusted as facts and circumstances change.

1. Organization and Significant Accounting Policies (continued)

Earnings per share of common stock. The numerator for the calculation of basic and diluted earnings per share is net earnings. The following table sets forth the computation of basic and diluted weighted-average shares used in the earnings per share calculations:

	2001	2000	1999
Denominator for basic earnings per share-- weighted-average shares	23,648,136	23,396,210	23,220,813
Effect of dilutive stock options	266,646	294,932	566,540
Denominator for diluted earnings per share	23,914,782	23,691,142	23,787,353

Reclassifications. Certain prior year amounts have been reclassified to conform to the 2001 presentation.

New accounting standards. In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." Under the new standards, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. Accordingly, the goodwill associated with the December 2001 acquisitions (see Note 2) will not be amortized. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the company will apply the new accounting standards beginning January 1, 2002. The company is currently assessing the financial impact SFAS No. 142 will have on the Consolidated Financial Statements. The company anticipates that all of the goodwill amortization of \$6.6 million in 2001 will be eliminated as a charge to operations in 2002.

2. Acquisitions

On December 28, 2001, the company acquired all of the outstanding stock of State Industries, Inc. (State). State is a manufacturer of a comprehensive line of residential and standard commercial water heaters and will nearly double the size of the company's existing water heater business, while complementing the existing wholesale channel of distribution with a strong presence in the retail market. Scale related synergies also are expected to be achieved as a result of the acquisition.

The aggregate purchase price was \$117.2 million. This was comprised of \$57.8 million for the outstanding stock, assumption of \$56.3 million of debt, and \$3.1 million of acquisition costs of which \$1.8 million are unpaid at December 31, 2001. In connection with the State acquisition, additional purchase liabilities of \$3.9 million were recorded for employee severance.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The company is in the process of obtaining third-party appraisal of property, plant, and equipment and valuation of certain intangible assets and, therefore, the allocation of the purchase price is subject to refinement. The non-deductible goodwill has been recorded within the Water Systems Technologies segment. Of the \$3.9 million of acquired intangible assets, \$3.0 million was assigned to trademarks that are not subject to amortization. The weighted average amortization period of the remaining acquired intangible assets is expected to be 8.6 years.

2. Acquisitions (continued)

December 28, 2001 (dollars in thousands)

Current assets	\$ 102,665
Property, plant and equipment	74,409
Intangible assets	3,890
Goodwill	60,123
Other assets	653
	-----
Total assets acquired	\$ 241,740
	=====
Current liabilities	74,261
Long-term liabilities	52,094
	-----
Total liabilities assumed	126,355
	-----
Net assets acquired	\$ 115,385
	=====

On a pro forma basis, the unaudited consolidated results from continuing operations assuming the State acquisition occurred on January 1, 2000, is as follows:

Years ended December 31 (dollars in thousands)	2001	2000
	-----	-----
Net sales	\$1,467,261	\$1,572,923
Earnings from continuing operations	17,604	33,572
Earnings per share:		
Basic	.74	1.43
Diluted	.74	1.42

The pro forma results have been prepared for informational purposes only and include adjustments to depreciation expense of acquired plant and equipment, amortization of intangible assets other than goodwill and trademarks, increased interest expense on acquisition debt, and certain other adjustments, together with related income tax effects of such adjustments. Anticipated efficiencies from the consolidation of manufacturing and commercial activities and anticipated lower material costs related to the consolidation of purchasing have been excluded from the pro forma operating results. These pro forma results do not purport to be indicative of the results of operations that would have occurred had the purchases been made as of the beginning of the periods presented or of the results of operations that may occur in the future.

In December 2001, the company acquired a 100 percent equity interest in Shenzhen Speeda Industrial Co., Ltd. and will utilize the facility located in the People's Republic of China to manufacture electric motors. The total purchase price of \$3.3 million, including future payments of \$.7 million, exceeded the fair value of the assets acquired (principally plant and equipment) by \$.8 million which was recorded as non-deductible goodwill within the Electric Motor Technologies segment.

On August 2, 1999, the company acquired the assets of MagneTek Inc.'s (MagneTek) domestic electric motor business and six wholly owned foreign subsidiaries for \$244.6 million. The acquisition was accounted for using the purchase method of accounting and the financial statements include MagneTek's operating results since the date of acquisition. The purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values at the date of acquisition. The excess of the purchase price over the fair value of net assets acquired of \$104.3 million has been recorded as goodwill. Other intangibles acquired, customer lists, patents, and trademarks were assigned fair values aggregating \$9.0 million and are being amortized over periods of 5 to 30 years. In connection with the MagneTek acquisition, additional purchase liabilities of \$17.9 million were recorded which included employee severance and relocation, as well as certain facility exit costs. The remaining balance of such purchase liabilities at December 31, 2001, is \$6.5 million.

### 3. Divestitures and Discontinued Operations

On January 17, 2000 (the measurement date), the company, with the approval of its Board of Directors, decided to divest the company's fiberglass piping and liquid and dry storage businesses. The combined net sales of these operations were \$129.3 and \$118.6 million in 2000 and 1999, respectively.

On December 8, 2000, the company sold the fiberglass piping business, operated as Smith Fiberglass Products Company. On January 10, 2001 the company sold its liquid and dry storage business, operated as Engineered Storage Products Company. The net after-tax proceeds from the sale of these businesses were \$62 million.

The components of the after-tax loss from discontinued operations included in the consolidated statement of earnings are as follows:

Years ended December 31 (dollars in thousands)	2000	1999
-----		
Earnings (loss) from operations:		
Smith Fiberglass Products Company	\$ -	\$(4,355)
Engineered Storage Products Company	3,139	3,465
Loss on disposition:		
Smith Fiberglass Products Company	(9,032)	(6,958)
Engineered Storage Products Company	(1,993)	-
Automotive Products Company	(4,017)	-
	-----	-----
Net after-tax loss from discontinued operations	\$(11,903)	\$(7,848)
	=====	=====

Certain expenses have been allocated to the operations of the discontinued businesses, including interest expense, which was allocated based on the ratio of net assets of the discontinued businesses to the total consolidated capital of the company.

The \$9.0 million additional loss recorded at the time of the disposition of the fiberglass piping business in 2000 resulted from recognition of sales proceeds substantially less than originally anticipated, as the acquisition financing market, both generally and specific to the potential buyer, deteriorated to the point where the original transaction was not feasible. Subsequently, a sales contract containing a substantial reduction in sales proceeds and other concessions made by the company relative to the assumption of certain future costs was negotiated. An after-tax loss from operations (in an amount greater than what was originally anticipated as of the measurement date) of \$5.5 million is included in the \$9.0 million loss on disposition in 2000.

As a result of difficult financing conditions prevalent late in 2000, certain prospective buyers for the storage business withdrew from active negotiations resulting in a single interested buyer. The company agreed to price concessions to successfully complete its exit from this business, which resulted in an unanticipated after-tax loss on disposition for this business of \$2.0 million.

The \$4.0 million after-tax loss on disposition in 2000 for the automotive business consists of two items: \$2.8 million (\$4.0 million pretax) for workers' compensation costs associated with increased claims having an occurrence date prior to the 1997 sale of the automotive business for which the company retained responsibility per the sales contract, and \$1.2 million (\$2.0 million pretax) for final settlement of a purchase price dispute in the amount of \$7.6 million for which \$5.6 million pretax reserve had been established at the time of sale. The \$2.8 million adjustment for workers' compensation costs was incremental to a \$12.3 million reserve for workers' compensation retained by the company at the time of sale.

### 3. Divestitures and Discontinued Operations (continued)

The components of the net assets of discontinued operations included in the consolidated balance sheets are as follows:

December 31 (dollars in thousands)	2001	2000
Receivables	\$ 264	\$ 25,915
Inventories	-	4,138
Other current assets	7,371	8,737
Trade payables	-	(3,090)
Accrued payroll and benefits	-	(2,908)
Other current liabilities	(5,839)	(10,141)
Net current assets	\$ 1,796	\$ 22,651
Net property, plant, and equipment	\$ -	\$ 18,266
Other assets	-	5,130
Long-term liabilities	(2,078)	(5,903)
Net long-term assets (liabilities)	\$ (2,078)	\$ 17,493

The net long-term liability in 2001 is included in other liabilities in the consolidated balance sheet.

### 4. Business Improvement Programs

In the fourth quarter of 2001, the company recorded restructuring and other charges of \$9.4 million (\$6.0 million after tax, or \$.25 per share). The program is expected to generate pretax savings of more than \$16.0 million in 2002 and \$20.0 to \$25.0 million annually thereafter. The charges include employee separation costs of \$7.7 million associated with product or component manufacturing repositioning and the realignment of certain administrative functions. The resulting reduction of workforce is approximately 150 salaried and 775 hourly employees. In addition, the company recorded facility impairment and lease charges of \$1.7 million representing estimated costs of facilities to be vacated. The company spent \$.8 million through December 31, 2001, for employee severance and separation costs. As a result of actions taken through December 31, 2001, the workforce has been reduced by approximately 66 employees. The company expects to be substantially completed with the realignment activities prior to December 31, 2002.

### 5. Statement of Cash Flows

Supplemental cash flow information is as follows:

Years ended December 31 (dollars in thousands)	2001	2000	1999
Net change in current assets and liabilities:			
Receivables	\$ 16,159	\$ 10,278	\$ (7,726)
Inventories	6,983	(6,187)	(20,158)
Other current assets	163	(377)	393
Trade payables	7,265	10,559	6,654
Accrued liabilities, including payroll and benefits	(8,984)	(3,091)	(1,979)
Income taxes	(10,411)	(7,619)	(2,113)
	\$ 11,175	\$ 3,563	\$ (24,929)

## 6. Inventories

December 31 (dollars in thousands)	2001	2001
Finished products	\$ 120,231	\$ 109,702
Work in process	40,210	37,186
Raw materials	58,375	41,051
Inventories, at FIFO cost	218,816	187,939
Allowance to state inventories at LIFO cost	24,110	18,309
	\$ 194,706	\$ 169,630
	=====	=====

## 7. Property, Plant, and Equipment

December 31 (dollars in thousands)	2001	2000
Land	\$ 9,408	\$ 6,690
Buildings	136,189	99,888
Equipment	491,906	435,440
	637,503	542,018
Less accumulated depreciation	282,205	259,183
	\$ 355,298	\$ 282,835
	=====	=====

## 8. Long-Term Debt and Lease Commitments

December 31 (dollars in thousands)	2001	2000
Bank credit lines, average year-end interest rate of 4.5% for 2001 and 6.6% for 2000	\$ 25,596	\$ 37,770
Commercial paper, average year-end interest rate of 2.3% for 2001 and 7.1% for 2000	104,404	124,945
Revolver borrowings, average year-end interest rate of 2.3% for 2001 and 7.2% for 2000	120,000	50,000
Term notes with insurance companies, expiring through 2018, average year-end interest rate of 7.1% for 2001 and 7.0% for 2000	141,157	102,286
Other notes, expiring through 2012, average year-end interest rate of 3.2 % for 2001 and 4.5% for 2000	12,500	12,500
	403,657	327,501
Less amount due within one year	13,272	11,129
	\$ 390,385	\$ 316,372
	=====	=====

The company has a \$250 million multi-year revolving credit agreement with a group of 10 financial institutions, that expires on August 2, 2004. It also has an \$83 million 364-day credit agreement with a group of six banks, that expires on July 26, 2002. At its option, the company maintains either cash balances or pays fees for bank credit and services.

On June 8, 2001, the company issued \$50 million in notes under loan facilities with two insurance companies. The notes range in maturity from 2013 to 2016 and carry an interest rate of 7.3%.

## 8. Long-Term Debt and Lease Commitments

The company's credit agreement and term notes contain certain conditions and provisions which restrict the company's payment of dividends. Under the most restrictive of these provisions, retained earnings of \$58.5 million were unrestricted as of December 31, 2001.

Borrowings under the bank credit lines and in the commercial paper market that are supported by the multi-year revolving credit agreement have been classified as long-term. It has been the company's practice to renew or replace the revolving credit agreement so as to maintain the availability of debt on a long-term basis and to provide 100 percent backup for its borrowings in the commercial paper market.

Long-term debt, maturing within each of the five years subsequent to December 31, 2001, is as follows: 2002-\$13.3; 2003-\$11.7; 2004-\$8.6; 2005-\$8.6; and 2006-\$6.9 million.

Future minimum payments under noncancelable operating leases total \$69.0 million and are due as follows: 2002-\$15.0; 2003-\$12.0; 2004-\$10.7; 2005-\$6.7; 2006-\$5.7 and thereafter-\$18.9 million. Rent expense, including payments under operating leases, was \$19.0, \$18.3, and \$15.3 million in 2001, 2000, and 1999, respectively.

Interest paid by the company for continuing and discontinued operations, was \$16.9, \$24.6, and \$13.8 million in 2001, 2000, and 1999, respectively.

## 9. Stockholders' Equity

The company's authorized capital consists of 3 million shares of Preferred Stock \$1 par value, 14 million shares of Class A Common Stock \$5 par value, and 60 million shares of Common Stock \$1 par value. The Common Stock has equal dividend rights with Class A Common Stock and is entitled, as a class, to elect 25 percent of the board of directors and has 1/10th vote per share on all other matters.

During 2001, 2000, and 1999, 36,236, 200, and 14,655 shares, respectively, of Class A Common Stock were converted into Common Stock. Regular dividends paid on the Class A Common and Common Stock amounted to \$.52, \$.50, and \$.48 per share in 2001, 2000, and 1999, respectively.

On December 9, 1997, the company's board of directors authorized the repurchase of up to \$50 million of Common Stock of which \$21.5 million remains available at December 31, 2001. At December 31, 2001, 32,595 and 8,730,594, shares of Class A Common Stock and Common Stock, respectively, were held as treasury stock. At December 31, 2000, 32,595 and 8,967,312 shares of Class A Common Stock and Common Stock, respectively, were held as treasury stock.

## 10. Stock Options

The company has two Long-Term Executive Incentive Compensation Plans for granting nonqualified and incentive stock options to key employees. The 1990 Plan has terminated except as to outstanding options. The 1999 Plan provides for the issuance of 1.5 million stock options at fair value on the date of grant. The options granted become exercisable one year from date of grant and, for active employees, expire ten years after date of grant. The number of shares available for granting of options at December 31, 2001, was 158,650.

10. Stock Options (continued)

Changes in option shares, all of which are Common Stock, were as follows:

	Weighted-Average Per Share Exercise Price-2001	Years Ended December 31		
		2001	2000	1999
Outstanding at beginning of year	\$ 12.87	2,448,500	1,979,800	2,022,900
Granted				
2001--\$15.14 per share	15.14	510,700		
2000--\$13.56 to \$16.28 per share			632,000	
1999--\$29.03 per share				173,900
Exercised				
2001--\$5.63 to \$16.33 per share	6.24	(225,600)		
2000--\$4.67 to \$16.33 per share			(141,600)	
1999--\$4.67 to \$16.67 per share				(217,000)
Expired				
2000--\$18.00 to \$27.25 per share			(21,700)	
Outstanding at end of year (2001--\$8.67 to \$29.83 per share)	17.01	2,733,600	2,448,500	1,979,800
Exercisable at end of year	17.44	2,222,900	1,816,500	1,805,900

The following table summarizes weighted-average information by range of exercise prices for stock options outstanding and exercisable at December 31, 2001:

Range of Exercise Prices	Options Outstanding at December 31, 2001	Weighted- Average Exercise Price	Options Exercisable at December 31, 2001	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life
\$8.67 to \$13.56	747,100	12.63	747,100	12.63	7 years
\$15.14 to \$18.33	1,636,650	16.62	1,125,950	17.29	6 years
\$25.25 to \$29.83	349,850	28.16	349,850	28.16	7 years
	2,733,600		2,222,900		

SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The company has chosen to continue applying Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option plans. Accordingly, because the number of shares is fixed and the exercise price of the stock options equals the market price of the underlying stock on the date of grant, no compensation expense has been recognized.

10. Stock Options (continued)

Had compensation cost been determined based upon the fair value at the grant date for awards under the plans based on the provisions of SFAS No. 123, the company's pro forma earnings and earnings per share from continuing operations would have been as follows:

Years ended December 31 (dollars in thousands, except per share amounts)	2001	2000	1999
-----			
Earnings:			
As reported	\$14,502	\$41,656	\$50,270
Pro forma	12,727	40,330	49,311
Earnings per share:			
As reported:			
Basic	\$ 0.61	\$ 1.78	\$2.17
Diluted	0.61	1.76	2.11
Pro forma:			
Basic	0.54	1.72	2.12
Diluted	0.53	1.70	2.07

The weighted-average fair value per option at the date of grant during 2001, 2000, and 1999 using the Black-Scholes option-pricing model, was \$5.30, \$4.73, and \$9.58, respectively. Assumptions were as follows:

	2001	2000	1999
-----			
Expected life (years)	6.0	5.0	4.0
Risk-free interest rate	4.7%	5.0%	6.5%
Dividend yield	2.3%	2.2%	2.1%
Expected volatility	37.9%	39.9%	38.6%

## 11. Pension and Other Post-retirement Benefits

The company provides retirement benefits for all United States employees. Plan assets consist primarily of marketable equities and debt securities. The company also has several foreign pension plans, none of which are material to the company's financial position. Effective January 1, 2001, the company changed its Executive Supplemental Pension Plan (ESPP) to an unfunded defined benefit plan. The company also has several unfunded defined benefit post-retirement plans covering certain hourly and salaried employees that provide medical and life insurance benefits from retirement to age 65.

The company has a defined contribution profit sharing and retirement plan covering the majority of its salaried nonunion employees which provides for annual company contributions of 35 percent to 140 percent of qualifying contributions made by participating employees. The amount of the company's contribution in excess of 35 percent is dependent upon the company's profitability. The company also has defined contribution plans for certain hourly employees which provide for annual matching company contributions.

On December 28, 2001, the company acquired State Industries, Inc., including its pension and defined contribution benefit plans.

The company does not provide post-retirement health care benefits beyond age 65. Certain hourly employees retiring after January 1, 1996, are subject to a maximum annual benefit and salaried employees hired after December 31, 1993, are not eligible for post-retirement medical benefits. As a result, a one percentage point change in the health care cost trend rate would not have a significant effect on the amounts reported. The post-retirement benefit obligation was determined using an assumed healthcare cost trend rate of nine percent in 2001 trending down to six percent in 2004 and thereafter.

The following tables present the changes in benefit obligations, plan assets, funded status, and major assumptions used to determine these amounts for domestic pension and post-retirement plans and components of net periodic benefit costs.

11. Pension and Other Post-retirement Benefits (continued)

Years ended December 31 (dollars in thousands)	Pension Benefits		Post-retirement Benefits	
	2001	2000	2001	2000
<b>Change in benefit obligations</b>				
Benefit obligation at beginning of year	\$(561,771)	\$(530,658)	\$ (17,177)	\$ (17,477)
ESPP benefit obligation at beginning of year	(6,963)	-	-	-
Service cost	(5,900)	(6,631)	(258)	(271)
Interest cost	(41,579)	(40,926)	(1,227)	(1,267)
Participant contributions	-	-	(387)	(264)
Plan amendments	(542)	-	-	-
Actuarial gains (losses) including assumption changes	(15,759)	(23,084)	2	79
Acquisition	(64,642)	-	-	-
Benefits paid	46,669	39,528	2,592	2,023
<b>Benefit obligation at end of year</b>	<b>\$(650,487)</b>	<b>\$(561,771)</b>	<b>\$ (16,455)</b>	<b>\$ (17,177)</b>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 737,119	\$ 755,487	\$ -	\$ -
Actual return on plan assets	(35,967)	21,160	-	-
Contribution by the company	946	-	2,205	1,759
Participant contributions	-	-	387	264
Acquisition	48,899	-	-	-
Benefits paid	(46,669)	(39,528)	(2,592)	(2,023)
<b>Fair value of plan assets at end of year</b>	<b>\$ 704,328</b>	<b>\$ 737,119</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Funded status</b>	<b>\$ 53,841</b>	<b>\$ 175,348</b>	<b>\$ (16,455)</b>	<b>\$ (17,177)</b>
Unrecognized net actuarial loss (gain)	22,290	(97,503)	(1,781)	(1,845)
Unrecognized net transition asset	-	(499)	-	-
Unrecognized prior service cost (credit)	7,780	4,612	(525)	(677)
<b>Net amount recognized</b>	<b>\$ 83,911</b>	<b>\$ 81,958</b>	<b>\$ (18,761)</b>	<b>\$ (19,699)</b>
<b>Amounts recognized in the statement of financial position consist of:</b>				
Prepaid pension asset	\$ 103,272	\$ 81,958	\$ -	\$ -
Accrued benefit liability	(19,361)	-	(1,688)	(1,687)
Post-retirement benefit obligation	-	-	(17,073)	(18,012)
<b>Net amount recognized</b>	<b>\$ 83,911</b>	<b>\$ 81,958</b>	<b>\$ (18,761)</b>	<b>\$ (19,699)</b>
<b>Weighted-average assumptions as of December 31</b>				
Discount rate	7.25%	7.50%	7.25%	7.50%
Expected return on plan assets	10.00%	10.25%	n/a	n/a
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

11. Pension and Other Post-retirement Benefits (continued)

Years ended December 31 (dollars in thousands)	Pension Benefits			Post-retirement Benefits		
	2001	2000	1999	2001	2000	1999
Components of net periodic benefit cost						
Service cost	\$ 5,900	\$ 6,631	\$ 4,890	\$ 258	\$ 271	\$ 338
Interest cost	41,579	40,926	36,314	1,227	1,267	1,195
Expected return on plan assets	(68,067)	(64,854)	(56,598)	-	-	-
Amortization of prior service cost	937	559	502	(152)	(152)	(152)
Amortization of transition asset	(499)	(939)	(939)	-	-	-
Amortization of net actuarial gain	-	-	-	(66)	(82)	(59)
Defined benefit plan cost (income)	\$ (20,150)	\$ (17,677)	\$ (15,831)	\$ 1,267	\$ 1,304	\$ 1,322
Various U.S. defined contribution plans cost	2,418	3,559	5,087			
	\$ (17,732)	\$ (14,118)	\$ (10,744)			

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$71,561, \$68,104 and \$48,899, respectively, as of December 31, 2001. The amounts were zero at December 31, 2000, since these plans were acquired or changed during 2001.

Net periodic benefit cost is determined using the assumptions as of the beginning of the year. The funded status is determined using the assumptions as of the end of the year.

## 12. Income Taxes

The components of the provision for income taxes for continuing operations consisted of the following:

Years ended December 31 (dollars in thousands)	2001	2000	1999
-----			
Current:			
Federal	\$ (10,100)	\$ 3,964	\$ 11,810
State	(12)	428	2,399
International	2,426	3,581	1,339
Deferred	15,670	15,459	11,274
	-----	-----	-----
	\$ 7,984	\$ 23,432	\$ 26,822
	=====	=====	=====

The provision for income taxes for continuing operations differs from the U.S. federal statutory rate due to the following items:

Years ended December 31 (dollars in thousands)	2001	2000	1999
-----			
Provision at U.S. federal statutory rate	35.0%	35.0%	35.0%
International income tax rate differential	2.2	(1.1)	(1.8)
State income and franchise taxes	(.8)	3.0	3.6
Research tax credits	(1.3)	(.1)	(1.8)
Other	.4	(.8)	(.2)
	----	----	----
	35.5%	36.0%	34.8%
	====	====	====

Components of earnings from continuing operations before income taxes were as follows:

Years ended December 31 (dollars in thousands)	2001	2000	1999
-----			
United States	\$ 18,939	\$ 57,845	\$ 76,201
International	3,547	7,243	891
	-----	-----	-----
	\$ 22,486	\$ 65,088	\$ 77,092
	=====	=====	=====

Total taxes paid (tax refunds received) by the company for continuing and discontinued operations amounted to \$(2.7), \$13.1, and \$11.6 million in 2001, 2000, and 1999, respectively.

No provision for U.S. income taxes or foreign taxes has been made on the undistributed earnings of foreign subsidiaries as such earnings are considered to be permanently invested. At December 31, 2001, the undistributed earnings amounted to \$38.5 million. Determination of the amount of unrecognized deferred tax liability on the undistributed earnings is not practicable. In addition, no provision or benefit for U.S. income taxes have been made on foreign currency translation gains or losses.

12. Income Taxes (continued)

The tax effects of temporary differences of assets and liabilities between income tax and financial reporting for continuing operations are as follows:

December 31 (dollars in thousands)

	2001		2000	
	Assets	Liabilities	Assets	Liabilities
Employee benefits	\$ 25,605	\$ 42,125	\$ 19,261	\$ 33,791
Inventory	-	3,363	1,134	-
Receivables	-	10,111	-	4,697
Product liability and warranty	40,986	-	11,814	-
Depreciation differences	-	42,781	-	27,781
Amortization differences	-	17,941	-	13,094
Tax loss and credit carryovers	9,946	-	-	-
All other	33	-	-	7,753
	-----	-----	-----	-----
	\$ 76,570	\$ 116,321	\$ 32,209	\$ 87,116
	=====	=====	=====	=====
Net liability		\$ 39,751		\$ 54,907
		=====		=====

These deferred tax assets and liabilities are classified in the balance sheet as current or long-term based on the balance sheet classification of the related assets and liabilities as follows:

December 31 (dollars in thousands)	2001	2000
Current deferred income tax assets	\$ 22,403	\$ 12,907
Long-term deferred income tax liabilities	(62,154)	(67,814)
	-----	-----
Net liability	\$ 39,751	\$ 54,907
	=====	=====

As a result of the acquisition of State Industries, Inc., the company has \$19 million of federal net operating loss carryovers that expire between 2018 and 2021, \$7.8 million of federal capital loss carryovers that expire in 2006, \$2.0 million of contribution carryovers that expire between 2002 and 2006, and \$2.5 million of tax credits, the majority of which have an unlimited carryover period. Due to a change in State Industries, Inc. ownership, the annual limitation for utilization of the federal tax carryovers is the equivalent of \$2.7 million of deductions.

The company also has approximately \$140 million of state and local net operating loss carryovers. The majority of these carryovers expire between 2010 and 2021.

13. Litigation and Insurance Matters

The company and the newly acquired State Industries, Inc. (State) are involved in various unresolved legal actions, administrative proceedings, and claims in the ordinary course of its business involving product liability, property damage, insurance coverage, patents, and environmental matters, including the disposal of hazardous waste. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible loss or recovery, the company believes these unresolved legal actions will not have a material effect on its financial position or results of operations. The following paragraphs summarize noteworthy actions and proceedings.

On July 16, 1999, a class action lawsuit was filed in the United States District Court, Western District of Missouri, by individuals on behalf of themselves and all persons throughout the United States who have owned or currently own a water heater manufactured by Rheem Manufacturing Company, A. O. Smith Corporation, Bradford White Company, American Water Heater Company, Lochinvar Corporation, and State Industries, Inc. (the "water heater manufacturers") that contains a dip tube manufactured, designed, supplied, or sold by Perfection Corporation between August 1993 and October 1996. A dip tube is a plastic tube in a residential water heater that brings the cold water supply to the bottom area of the tank to be heated.

The plaintiffs and defendants reached a settlement of the claims of this litigation. On November 22, 1999, the United States District Court, Western District of Missouri, entered an order giving preliminary approval to the settlement. On May 1, 2000, the District Court, which oversees the dip tube class action, gave final approval to the settlement. The final order approved the remedial system provided for in the settlement agreement. The deadline for filing claims under the class action settlement agreement was December 31, 2000. The water heater manufacturers paid the settlement claims. All other legal actions brought against the water heater manufacturers respecting dip tube claims have been dismissed as a result of the settlement of the class action.

Separately, the water heater manufacturers filed a direct action lawsuit in the Civil District Court for the Parish of Orleans, State of Louisiana, against Perfection Corporation and American Meter Company, the parent company of Perfection: Manner Plastics Materials, Inc., the developer of the polypropylene formula which it sold to Perfection Corporation: and their insurers. This lawsuit seeks (1) recovery of damages sustained by the water heater manufacturers related to the costs of the class action settlement and the handling of dip tube claims outside of and prior to the national class action settlement, (2) damages for the liability of the water heater manufacturers assumed by Perfection Corporation by contract, and (3) personal injuries suffered by the water heater manufacturers as a result of the disparagement of their businesses. Also relating to the water heater manufacturers' recovery efforts, the insurers of Perfection Corporation have brought third-party claims against the water heater manufacturers in a state court action in Cook County, Illinois. Perfection Corporation has also sued the water heater manufacturers in a separate action in Cook County, Illinois. The filing by Perfection Corporation is an attempt to preempt the Louisiana lawsuit.

As of December 31, 2001, the company recorded a long-term receivable of \$32.8 million (as detailed below) related to dip tube repair claims, administrative costs, legal fees and related expenses. It is the company's expectation that all or a substantial portion of its costs will be recovered from Perfection, American Meter Company, Manner Plastics Materials, Inc., and their insurers, as well as the company's insurers.

(dollars in thousands)	2001	2000	1999 and Prior	Cumulative December 31, 2001
Repair claim payments	\$13,378	\$ 6,268	\$2,537	\$22,183
Administrative costs	4,503	2,009	1,021	7,533
Legal fees	470	2,085	490	3,045
Total funding	\$18,351	\$10,362	\$4,048	\$32,761

13. Litigation and Insurance Matters (continued)

State is a defendant in three lawsuits pending at December 31, 2001, in state courts in Texas, California and Alabama. The plaintiffs in each of these lawsuits are claiming they purchased a water heater manufactured by State which was defective, causing the plaintiffs to incur expenses for repair, replacement or property damages. State ceased manufacturing this type water heater in 1999. The plaintiffs in each lawsuit are seeking class action status. The Texas lawsuit was certified by the trial court as a class action in 1999. Subsequently, State and the class representatives entered into a settlement agreement which provided compensation for the class members. As a result of a class member's objection to the settlement, the appellate court, in reviewing the certification of the class and the objection to the settlement, overruled the trial court and in 2001 ordered the decertification of the class action. The Texas Supreme Court affirmed the appellate court decision. State filed a separate lawsuit which is pending in the federal District Court in Dallas, Texas against the class representatives seeking to have the court declare that State has no obligation under the settlement agreement. State is vigorously contesting all of the claims in the three lawsuits. The company believes that were there to be an adverse outcome with these lawsuits, it would not be material to the company's financial condition. The insurer of State is disputing the insurability of these claims. State and its insurer are suing each other in a lawsuit which is pending in the federal District Court in Nashville, Tennessee respectively seeking a declaration concerning the coverage provided, if any, by the insurance policies for these claims.

The company is currently involved as a potentially responsible party ("PRP") in judicial and administrative proceedings initiated on behalf of various state and federal regulatory agencies seeking to clean up 12 sites which have been environmentally impacted (the "Sites") and to recover costs they have incurred or will incur as to the Sites. State is not involved in any environmentally impacted sites. The company previously reported that it was a defendant in two separate lawsuits involving a former mine in Colorado that is being remediated by the United States Environmental Protection Agency ("EPA"). The claims against the company have been dismissed by the trial court in both of those actions. While the State of Colorado retains the right to appeal the trial court's decision in one of those actions, the company believes that the trial court's well reasoned decision would be upheld on any appeal brought by the State of Colorado. Since the EPA has indicated that it does not intend to pursue any claims against the company with respect to this site, the company should have no further potential liability with respect to the site.

It is impossible at this time to estimate the total cost of remediation for the Sites or the company's ultimate share of those costs, primarily because the Sites are in various stages of the remediation process and issues remain open at many Sites concerning the selection and implementation of the final remedy, the cost of that remedy and the company's liability at a Site relative to the liability and viability of the other PRPs.

The company has established reserves for the Sites in a manner that is consistent with generally accepted accounting principles for costs associated with such cleanups when those costs are capable of being reasonably estimated. To the best of the company's knowledge, the reserves it has established and insurance proceeds that are available to the company are sufficient to cover the company's liability. The company further believes its insurers have the financial ability to pay any such covered claims, and there are viable PRPs at each of the Sites which have the financial ability to pay their respective shares of liability at the sites.

With respect to non-environmental claims, the company has self-insured a portion of its product liability loss exposure and other business risks for many years. The company has established reserves which it believes are adequate to cover incurred claims. For the year ended December 31, 2001, the company had \$125 million of third-party product liability insurance for individual losses in excess of \$1.5 million and for aggregate annual losses in excess of \$10 million; State had \$100 million of third-party product liability insurance for individual losses in excess of \$3.0 million and for aggregate annual losses in excess of \$8 million. The company reevaluates its exposure on claims periodically and makes adjustments to its reserves as appropriate.

#### 14. Operations by Segment

The company has two reportable segments: Electric Motor Technologies and Water Systems Technologies. The Electric Motor Technologies segment manufactures fractional and integral alternating current (A/C) and direct current (D/C) motors used in fans and blowers in furnaces, air conditioners, and ventilating systems; industrial applications such as material handling; as well as in other consumer products such as home appliances and jet pump motors, swimming pools, hot tubs, and spas. In addition, the Electric Motor Technologies segment manufactures hermetic motors which are sold worldwide to manufacturers of compressors used in air conditioning and refrigeration systems. The Water Systems Technologies segment manufactures residential gas and electric water heaters as well as commercial water heating equipment used in a wide range of applications including hotels, laundries, car washes, factories, and large institutions. In addition, the Water Systems Technologies segment manufactures copper tube boilers used in large-volume hot water and hydronic heating applications.

The accounting policies of the reportable segments are the same as those described in the "Summary of Significant Accounting Policies" outlined in Note 1. Intersegment sales have been excluded from segment revenues and are immaterial. Earnings before interest and taxes (EBIT) is used to measure the performance of the segments and allocate resources.

#### Operations by segment

Years ended December 31 (dollars in millions)	Earnings from Continuing Operations			Net Sales		
	2001	2000	1999	2001	2000	1999
Electric Motor Technologies	\$ 20.8	\$ 75.5	\$ 78.9	\$ 802.7	\$ 902.4	\$ 735.0
Water Systems Technologies	39.2	34.9	33.8	348.5	345.5	335.3
Total Segments - EBIT	60.0	110.4	112.7	\$ 1,151.2	\$ 1,247.9	\$ 1,070.3
General Corporate and Research and Development Expenses	(21.1)	(23.2)	(22.8)			
Interest Expense	(16.4)	(22.1)	(12.8)			
Earnings from Continuing Operations before Income Taxes	22.5	65.1	77.1			
Provision for Income Taxes	(8.0)	(23.4)	(26.8)			
Earnings from Continuing Operations	\$ 14.5	\$ 41.7	\$ 50.3			

Net sales of the Electric Motor Technologies segment includes sales to York International Corporation of \$140.4, \$182.9, and \$191.3 million in 2001, 2000, and 1999, respectively.

#### Total assets, depreciation and amortization, and capital expenditures by segment

(dollars in millions)	Total Assets (December 31)			Depreciation and Amortization (Years Ended December 31)			Capital Expenditures (Years Ended December 31)		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
Electric Motor Technologies	\$ 680.3	\$ 700.6	\$ 705.1	\$ 37.0	\$ 34.7	\$ 27.3	\$ 29.5	\$ 35.6	\$ 27.0
Water Systems Technologies	420.6	182.8	177.4	8.9	9.0	8.8	5.7	4.6	5.6
Total Segments	1,100.9	883.4	882.5	45.9	43.7	36.1	35.2	40.2	32.6
Corporate Assets	191.2	141.4	120.9	1.2	1.3	1.2	0.1	0.3	0.2
Discontinued Operations	1.8	40.1	62.2	-	5.6	5.3	-	1.5	5.1
Total	\$ 1,293.9	\$ 1,064.9	\$ 1,065.6	\$ 47.1	\$ 50.6	\$ 42.6	\$ 35.3	\$ 42.0	\$ 37.9

Corporate assets consist primarily of cash and cash equivalents, deferred income taxes, and prepaid pension.

14. Operations by Segment (continued)

Net sales and long-lived assets by geographic location

The following data by geographic area includes net sales based on product shipment destination and long-lived assets based on physical location. Long-lived assets include net property, plant, and equipment and other long-term assets and exclude prepaid pension, intangible assets, and long-lived assets of discontinued operations.

(dollars in millions)	Long-Lived Assets				Net Sales		
	2001	2000	1999		2001	2000	1999
United States	\$ 283.4	\$ 200.1	\$ 192.1	United States	\$ 984.4	\$ 1,108.9	\$ 959.7
Mexico	102.0	98.7	91.7	Foreign	166.8	139.0	110.6
Other Foreign	25.8	24.4	28.5	Total	\$1,151.2	\$ 1,247.9	\$1,070.3
Total	\$ 411.2	\$ 323.2	\$ 312.3				

15. Quarterly Results of Operations (Unaudited)

(dollars in millions, except per share amounts)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2001	2000	2001	2000	2001	2000	2001	2000
Net sales	\$ 318.2	\$ 344.6	\$ 308.3	\$ 341.3	\$ 269.1	\$ 290.8	\$ 255.6	\$ 271.2
Gross profit	58.8	73.4	58.6	73.5	42.6	54.3	42.3	46.9
Earnings								
Continuing	8.5	14.2	10.7	17.6	0.4	7.3	(5.1)	2.5
Discontinued	-	0.4	-	-	-	1.5	-	(13.8)
Net Earnings	8.5	14.6	10.7	17.6	0.4	8.8	(5.1)	(11.3)
Basic earnings per share								
Continuing	.36	.61	.45	.75	.02	.31	(.21)	.11
Discontinued	-	.02	-	-	-	.07	-	(.59)
Net Earnings	.36	.63	.45	.75	.02	.38	(.21)	(.48)
Diluted earnings per share								
Continuing	.36	.60	.45	.74	.02	.31	(.21)	.11
Discontinued	-	.02	-	-	-	.06	-	(.58)
Net Earnings	.36	.62	.45	.74	.02	.37	(.21)	(.47)
Common dividends declared	.13	.12	.13	.12	.13	.13	.13	.13

Net earnings and dividends declared per share are computed separately for each period and, therefore, the sum of such quarterly per share amounts may differ from the total for the year.

See Note 8 for restrictions on the payment of dividends.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information included under the heading "Election of Directors" in the company's definitive Proxy Statement for the 2002 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after the end of the registrant's fiscal year) is incorporated herein by reference. The information required regarding Executive Officers of the company is included in Part I of this Form 10-K under the caption "Executive Officers of the company."

The information included under the heading "Compliance with Section 16(a) of the Securities Exchange Act" in the company's definitive Proxy Statement for the 2002 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after the end of the registrant's fiscal year) is incorporated herein by reference.

ITEM 11 - EXECUTIVE COMPENSATION

The information included under the heading "Executive Compensation" in the company's definitive Proxy Statement for the 2002 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after the end of the registrant's fiscal year) is incorporated herein by reference, except for the information required by paragraphs (i), (k), and (l) of Item 402(a)(8) of Regulation S-K.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information included under the headings "Principal Stockholders" and "Security Ownership of Directors and Management" in the company's definitive Proxy Statement for the 2002 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after the end of the registrant's fiscal year) is incorporated herein by reference.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information included under the headings and "Compensation Committee Interlocks and Insider Participation" in the company's definitive Proxy Statement for the 2002 Annual Meeting of Stockholders (to be filed with the Securities and Exchange Commission under Regulation 14A within 120 days after the end of the registrant's fiscal year) is incorporated herein by reference.

ITEM 14 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES and REPORTS ON FORM 8-K

(a) Financial Statements and Financial Statement Schedules

Form 10-K  
Page Number

The following consolidated financial statements of A. O. Smith Corporation are included in Item 8:

Consolidated Balance Sheets at December 31, 2001 and 2000..	17
For each of the three years in the period ended December 31, 2001:	
- Consolidated Statement of Earnings.....	18
- Consolidated Statement of Comprehensive Earnings	18
- Consolidated Statement of Cash Flows.....	19
- Consolidated Statement of Stockholders' Equity.....	20
Notes to Consolidated Financial Statements	21-40

The following consolidated financial statement schedule of A. O. Smith Corporation is included in Item 14(d):

Schedule II - Valuation and Qualifying Accounts.....	43
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Schedules not included have been omitted because they are not applicable.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 2001.

(c) Exhibits - see the Index to Exhibits on pages 46-47 of this report.

Pursuant to the requirements of Rule 14a-3(b)(10) of the Securities Exchange Act of 1934, as amended, the company will, upon request and upon payment of a reasonable fee not to exceed the rate at which such copies are available from the Securities and Exchange Commission, furnish copies to its security holders of any exhibits listed in the Index to Exhibits.

Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 14(c) of Form 10-K are listed as Exhibits 10(a) through 10(f) in the Index to Exhibits.

A. O. SMITH CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
(000 Omitted)

Years ended December 31, 2001, 2000, and 1999

Description	Balance at Beginning of Year	Additions		Deductions <sup>3</sup>	Balance at End of Year
		Charged to Costs and Expenses <sup>1</sup>	Charged to Other Accounts <sup>2</sup>		
2001:					
Valuation allowance for trade and notes receivable	\$ 2,989	\$ 2,344	\$ 1,581	\$ 2,034	\$ 4,880
2000:					
Valuation allowance for trade and notes receivable	3,121	2,023	-	2,155	2,989
1999:					
Valuation allowance for trade and notes receivable	2,523	1,159	-	561	3,121

<sup>1</sup>Provision (credit) based upon estimated collection.

<sup>2</sup>Associated with the purchase of State and Shenzhen Speeda Industrial Co., Ltd.

<sup>3</sup>Uncollectible amounts/expenditures charged against the reserve.

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into registrant's Registration Statements on Form S-8 Nos. 2-72542 filed on May 26, 1981, Post-Effective Amendment No. 1, filed on May 12, 1983, Post-Effective Amendment No. 2, filed on December 22, 1983, Post-Effective Amendment No. 3, filed on March 30, 1987; 33-19015 filed on December 11, 1987; 33-21356 filed on April 21, 1988; Form S-8 No. 33-37878 filed November 16, 1990; Form S-8 No. 33-56827 filed December 13, 1994; Form S-8 No. 333-05799 filed June 12, 1996, and 333-92329 filed December 8, 1999.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf of the undersigned, thereunto duly authorized.

A. O. SMITH CORPORATION

By: /s/ Robert J. O'Toole

-----  
Robert J. O'Toole  
Chief Executive Officer  
Date: February 20, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of February 20, 2002 by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name and Title	Signature
ROBERT J. O'TOOLE Chairman of the Board of Directors, President and Chief Executive Officer	/s/ Robert J. O'Toole ----- Robert J. O'Toole
KENNETH W. KRUEGER Senior Vice President and Chief Financial Officer	/s/ Kenneth W. Krueger ----- Kenneth W. Krueger
JOHN J. KITA Vice President, Treasurer and Controller	/s/ John J. Kita ----- John J. Kita
W. MICHAEL BARNES Director	/s/ W. Michael Barnes ----- W. Michael Barnes
GLEN R. BOMBERGER Director	/s/ Glen R. Bomberger ----- Glen R. Bomberger
RONALD D. BROWN Director	/s/ Ronald D. Brown ----- Ronald D. Brown
WILLIAM F. BUEHLER Director	/s/ William F. Buehler ----- William F. Buehler
KATHLEEN J. HEMPEL Director	/s/ Kathleen J. Hempel ----- Kathleen J. Hempel
AGNAR PYTTE Director	/s/ Agnar Pytte ----- Agnar Pytte
BRUCE M. SMITH Director	/s/ Bruce M. Smith ----- Bruce M. Smith
MARK D. SMITH Director	/s/ Mark D. Smith ----- Mark D. Smith

INDEX TO EXHIBITS

Exhibit Number	Description
(3)(i)	Restated Certificate of Incorporation of the corporation as amended April 5, 1995, incorporated by reference to the quarterly report on Form 10-Q for the quarter ended March 31, 1995, and as further amended on February 5, 1996, and incorporated by reference to the annual report on Form 10-K for the year ended December 31, 1995
(3)(ii)	By-laws of the corporation as amended October 7, 1997, incorporated by reference to the quarterly report on Form 10-Q for the quarter ended September 30, 1997.
(4)	<p>(a) The corporation's outstanding long-term debt is described in Note 8 to the Consolidated Financial Statements. None of the long-term debt is registered under the Securities Act of 1933. None of the debt instruments outstanding at the date of this report exceeds 10 percent of the corporation's total consolidated assets, except for the item disclosed as exhibit 4(b) below. The corporation agrees to furnish to the Securities &amp; Exchange Commission, upon request, copies of any instruments defining rights of holders of long-term debt described in Note 7.</p> <p>(b) A. O. Smith Corporation Restated Certificate of Incorporation as amended April 5, 1995, [incorporated by reference to Exhibit (3)(i) above]</p> <p>(c) The Company has instruments that define the rights of holders of long-term debt that are not being filed with this Annual Report on Form 10-K in reliance upon Item 601(b) (4) (iii) of Regulation S-K. The Company agrees to furnish to the Securities and Exchange Commission, upon request, copies of these instruments.</p>
(10)	<p>Material Contracts</p> <p>(a) 1990 Long-Term Executive Incentive Compensation Plan, as amended, incorporated by reference to the Form S-8 Registration Statement filed by the corporation on December 13, 1994, (Reg. No. 33-56827)</p> <p>(b) Long-Term Executive Incentive Compensation Plan incorporated by reference to the Form S-8 Registration Statement filed by the corporation on December 8, 1999, (Reg. No. 333-92329)</p> <p>(c) Executive Incentive Compensation Plan, as amended, incorporated by reference to Exhibit A to the Proxy Statement dated April 21, 1997, for a May 21, 1997, Annual Meeting of Stockholders</p> <p>(d) Executive Life Insurance Plan, incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1992</p> <p>(e) Corporate Directors' Deferred Compensation Plan, as amended, incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1992</p> <p>(f) Executive Supplemental Pension Plan dated as of January 1, 2001</p> <p>(g) Supplemental Profit Sharing Plan as of January 1, 2001</p>

INDEX TO EXHIBITS (continued)

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Exhibit Number	Description
(21)	Subsidiaries
(23)	Consent of Independent Auditors

A. O. SMITH CORPORATION  
EXECUTIVE SUPPLEMENTAL PENSION PLAN

AS AMENDED AND RESTATED  
EFFECTIVE JANUARY 1, 2001

Section 1. Purpose

The purpose of this Plan is to provide a pension plan supplement for certain key executives of the Company. This Plan, effective January 1, 2001, applies only to Executives who are in active employment with the Company on or after such date.

This plan is an amendment and restatement of the A. O. Smith Corporation Supplemental Benefit Plan, dated December 14, 1993, and is a continuation of the pension plan supplement part of that plan. The profit sharing supplement part of that plan was continued under the A. O. Smith Corporation Supplemental Profit Sharing Plan, effective January 1, 2001.

Section 2. Definitions

(a) "Affiliate" a domestic subsidiary or affiliated company of A. O. Smith Corporation which has been designated as being eligible to participate in the Plan by the Committee.

(b) "Average Monthly Earnings" means the monthly average in the five (5) Plan Years (of the most recent ten (10) Plan Years prior to termination of employment) in which the greatest Earnings were received.

(c) "Company" means A. O. Smith Corporation.

(d) "Committee" means the Personnel and Compensation Committee of the Board of Directors of the Company.

(e) "Earnings" shall mean the total of all wages, salaries, commissions and bonuses paid to the Executive, including any deferred compensation or salary reduction amounts pursuant to Section 125 and 401(k) of the Internal Revenue Code.

(f) "Executive" means an employee of the Company or an Affiliate with a position which is assigned Grade 23 or above and who is entitled to a deferred vested or retirement benefit in the Pension Plan.

(g) "Pension Plan" means the A. O. Smith Retirement Plan.

(h) "Plan Year" means the calendar year.

Section 3. Pension Plan Supplement

(a) An Executive may be entitled to receive a monthly Pension Plan supplement (the "Pension Plan Supplement") from the Company under this Plan. The formula for calculation of the monthly Pension Plan Supplement, if any, which an Executive may receive is as follows:

- (1) 1.65% of the Executive's Average Monthly Earnings multiplied by the number of years of Credited Service (as defined in the Pension Plan), but not more than forty (40) years;
- (2) reduced by any applicable reduction factors for early retirement in the Pension Plan;
- (3) minus the total monthly retirement or deferred vested benefit actually payable to the Executive from the Pension Plan; and
- (4) minus the benefit that the Executive is entitled to under the A. O. Smith Corporation Executive Life Insurance Plan.

(b) The monthly Pension Plan Supplement shall be paid to the Executive in each calendar month the Executive actually receives a retirement or deferred vested benefit from the Pension Plan in the same form elected under the Pension Plan. The Pension Plan Supplement shall cease on the date of the cessation of Pension Plan benefits to the Executive or any beneficiaries thereof.

(c) In the event survivor benefits are payable to beneficiaries of the Executive from the Pension Plan, the Company shall pay a monthly supplement to the same beneficiaries equal in the aggregate to the Pension Plan Supplement, provided however, that any such supplemental beneficiary payments shall be reduced to reflect the joint and survivor benefit option election made by the Executive and in effect under the Pension Plan. In no event shall a benefit be paid under this Plan to a beneficiary of an Executive if the Executive dies prior to beginning receipt of his payments under the Pension Plan.

Section 4. Unfunded Plan

The rights of the Executive or an Executive's beneficiary under the Plan shall be solely those of an unsecured creditor of the Company. The Company shall not be required to set aside any assets with respect to the Plan and any assets actually held by the Company with reference to the Plan shall be the sole property of the Company. Neither the Executive nor an Executive's beneficiaries, heirs, legal representatives, or assigns shall have ownership rights of any nature with respect to any assets set aside for the Plan, unless and until such time as such assets are paid over and transferred to the Executive or the



## Section 5. Non-Alienation of Benefits

Neither an Executive nor his designated beneficiaries shall have the power to transfer, assign, anticipate or otherwise encumber in advance the payments provided in this Plan; nor shall any of said payments, nor any assets or funds of the Company or any Affiliate be subject to seizure for the payment of any of the Executive's or his beneficiaries' judgments, alimony or separate maintenance or be reached or transferred by operation of law in the event of the bankruptcy or insolvency of the Executive or any beneficiary.

## Section 6. Administration

The Committee shall have all such powers that may be necessary to carry out the provisions of the Plan, including without limitation, the discretionary power and authority to delegate administrative matters to other persons, to construe and interpret the Plan, to adopt and revise rules, regulations and forms relating to and consistent with the Plan's terms, to select the actuarial factors to be used, to make all other benefit determinations, and to make any other determination which it deems necessary or advisable for the implementation and administration of the Plan. Subject to the foregoing, all decisions and determinations by the Committee shall be final, binding and conclusive as to all parties, including without limitation any Executive and all other employees and persons, unless arbitrary and capricious.

## Section 7. Appeals Procedures

(a) If an Executive (or beneficiary) believes he is entitled to a benefit hereunder that was not provided, the Executive or beneficiary (hereinafter referred to as the "claimant") shall file a written claim for such benefit with the Committee. If for any reason a claim for benefits under this Plan is denied by the Committee, the Committee shall deliver to the claimant a written explanation setting forth the specific reasons for the denial, pertinent references to the section of the Plan on which the denial is based, a description of such other data as may be pertinent to the claim review, and information on the procedures to be followed by the claimant in obtaining a review of his claim and his right to file a civil suit pursuant to ERISA section 502, all written in a manner calculated to be understood by the claimant. For this purpose, the claimant's claim shall be deemed filed when presented in writing to the Committee, and the Committee's explanation shall be in writing delivered to the claimant within ninety (90) days of the date the claim is filed.

(b) The claimant shall have sixty (60) days following his receipt of the denial of the claim to file with the Committee a written request for review of the denial. For such review, the claimant or his representative may review pertinent documents and submit written issues and comments. The Committee shall decide the issue on review and furnish the claimant with a copy of its decision within sixty (60) days of receipt of the claimant's request for review of his claim. The decision on review shall be final and binding and in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent provisions of the Plan on which the

decision is based, a statement that the claimant is entitled to receive copies of, or access to, pertinent documents, and a statement that the claimant is entitled to bring an action under ERISA section 502. If a copy of the decision is not so furnished to the claimant within such sixty (60) days, the claim shall be deemed denied on review.

#### Section 8. Limitation of Rights Against the Company

Participation in this Plan, or any modifications thereof, or the payments of any benefits hereunder, shall not be construed as giving to any Executive any right to be retained in the service of the Company, limiting in any way the right of the Company to terminate such Executive's employment at any time, evidencing any agreement or understanding, express or implied, that the Company will employ such Executive in any particular position or at any particular rate of compensation and/or guaranteeing such Executive any right to receive any other form or amount of remuneration from the Company.

#### Section 9. Construction

The Plan shall be construed, administered and governed in all respects under and by the laws of the State of Wisconsin, without reference to conflict of law principles thereof. Wherever any words are used herein in the masculine, they shall be construed as though they were used in the feminine for all cases where they would so apply; and wherever any words are used herein in the singular or the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply. The words "hereof", "herein" and "hereunder" and other similar compounds of the word "here" shall mean and refer to this entire document and not to any particular paragraph.

#### Section 10. Amendment or Termination of the Plan

The Committee shall have the right to amend, modify, terminate or discontinue the Plan at any time; and such action shall be final, binding and conclusive as to all parties, including any Executive, any beneficiary thereof and all other employees and persons. Notwithstanding the foregoing, any such Committee action to terminate or discontinue the Plan or to change the payment amounts or the time and manner of payment thereof as then provided in the Plan shall not be effective and operative with respect to benefits accrued as of such date, unless and until written consent thereto is obtained from each Executive affected by such action or, if any such Executive is not then living, from the beneficiary thereof.

#### Section 11. Relationship to Employment Agreements

Except as otherwise expressly provided herein, the Plan does not affect the rights of the Executive under any employment or other compensation agreement with the Company covering an Executive.

Section 12. Successors and Assigns

The terms and conditions of the Plan, as amended and in effect from time to time, shall be binding upon the successors and assigns of the Company, including without limitation any entity into which the Company may be merged or with which the Company may be consolidated.

A. O. SMITH CORPORATION  
SUPPLEMENTAL Profit Sharing Plan

EFFECTIVE JANUARY 1, 2001

Section 1. Purpose

The purpose of the A. O. Smith Corporation Supplemental Profit Sharing Plan ("the Plan") is to provide a profit sharing plan supplement for certain key employees of the Company and its Affiliates who are subject to any reduction in Company Matching Contributions from the A. O. Smith Profit Sharing Retirement Plan due to the restrictions of Section 401(a)(17), on covered compensation or due to the maximum limitation on contributions under Sections 401(k), and 401(m), or 402(g) of the Internal Revenue Code

This Plan is a continuation of the profit sharing supplement part ("Reserve Account I") of the A. O. Smith Corporation Supplemental Benefit Plan, dated December 14, 1993. The A. O. Smith Corporation Supplemental Benefit Plan has been amended and restated effective January 1, 2001 and renamed the A. O. Smith Corporation Executive Supplemental Pension Plan.

Section 2. Definitions

(a) "Affiliate" a domestic subsidiary or affiliated company of A. O. Smith Corporation which has been designated as being eligible to participate in the Plan by the Committee.

(b) "Company" means A. O. Smith Corporation

(c) "Company Matching Contribution" shall have the same meaning as set forth in the Qualified Plan.

(d) "Committee" means the Personnel and Compensation Committee of the Board of Directors of the Company.

(e) "Crediting Election" means the investment fund(s) selected by the Employee to be used as the basis for calculation of the rate of return equivalent for the Employee's Profit Sharing Account. An Employee's Crediting Election may be changed on a daily basis.

(f) "Eligible Tax Deferred Employee Contribution" shall have the same meaning as set forth in the Qualified Plan

(g) "Employee" means any employee of the Company or an Affiliate who is assigned Grade 21 or above and whose Company Matching Contribution in the A. O. Smith Profit Sharing Retirement Plan is limited by application of the Sections 401(a)(17), 402(g), 401(k) or 401(m) of the Internal Revenue Code.

(h) "Plan Year" means the calendar year.

(i) "Profit Sharing Account" means the bookkeeping reserve account (formerly named Reserve Account I) for each Employee to identify the applicable profit sharing supplement under this Plan.

(j) "Qualified Plan" means the A. O. Smith Profit Sharing Retirement Plan.

Section 3. Profit Sharing Plan Supplement

The Company shall establish a Profit Sharing Account for each Employee to identify the value of the applicable supplement from time to time. To be eligible for a credit to the Profit Sharing Account for a Plan Year, the Employee must contribute the maximum Eligible Tax-Deferred Employee Contributions allowed by law to the Qualified Plan. As of each December 31st, the amount to be credited to the Employee's Profit Sharing Account shall be equal to the difference between (a) and (b):

(a) The Company Matching Contribution the Employee would have been entitled to from the Qualified Plan in the Plan Year assuming the Employee had made the maximum Eligible Tax-Deferred Employee Contributions for such Plan Year without the application of the restrictions in Sections 401(a)(17) on covered compensation or the limitations on contributions under Sections 401(k), 401(m) and 402(g) of the Internal Revenue Code, and

(b) The actual Company Matching Contribution allocable to the account of the Employee for such Plan Year in the Qualified Plan.

For purposes of determining the Company Matching Contribution under (a) above, an Employee's compensation shall include the amount of any base salary which the Employee has chosen to defer for such year under any deferred compensation arrangement of the Company. The amount of the supplement determined under this Section 3 shall be credited to the Employee's Profit Sharing Account on January 31st of each Plan Year following the Plan Year in which the supplement is earned.

Section 4. Vesting

An Employee shall vest in the amounts allocated to the Profit Sharing Account under the same vesting rules set forth in Article IX of the Qualified Plan.

Section 5. Profit Sharing Account

(a) As of the last day of each calendar month, an additional amount shall be credited or debited against the Employee's Profit Sharing Account based on the rate of return of the Employee's Crediting Election. The Committee shall select a minimum of four investment funds to be used to determine the rate of return equivalent on the Employee's Profit Sharing Account.

(b) Subject to an alternative election described below, payment of the vested amounts credited to the Profit Sharing Account for each Employee shall commence during the month of January immediately following the Employee's termination of employment with the Company and shall be made in fifteen (15) annual installments, subject to a minimum annual installment amount of \$5,000 or such higher amount determined in the discretion of the Committee and uniformly applicable to all Employees. The first such installment shall equal the vested value of the Profit Sharing Account as of the date of distribution divided by fifteen (15). Each subsequent installment shall equal the remaining value of the Profit Sharing Account, including earnings (or losses) as of the date of such distribution divided by the number of remaining installment payments. Notwithstanding the foregoing, on or prior to December 31st of the calendar year preceding the Employee's termination of employment, the Employee may elect by written instrument delivered to the Committee that the number of annual installment periods be any whole number less than fifteen (15); in any such case, the method of determining the distributable amount each year shall be correspondingly adjusted.

(c) In the event of an Employee's death either before or after benefits hereunder have commenced to him, any amount remaining allocated to the Profit Sharing Account shall be paid to such beneficiary or beneficiaries as the Employee shall designate by written instrument delivered to the Committee, or if no such written instrument is properly delivered or if such designated beneficiary predeceases the Employee, to the executors, administrators, or personal representatives of the Employee's estate. Any installment payments previously commenced to the Employee shall continue to such beneficiary. In the event no distributions had been made to the Employee prior to his death, installment payments shall commence thereafter to the beneficiary as provided in subsection (b) above.

(d) The Profit Sharing Account shall be utilized solely as a device for the measurement and determination of the amount to be paid to an Employee at the times specified above for the payment of the accumulated value of supplemental profit sharing benefits under this Plan. The rights of the Employee or an Employee's beneficiary under the Plan shall be solely those of an unsecured creditor of the Company. Neither the Profit Sharing Account nor any other reserve established on the Company's books to reflect the liabilities under this Plan shall constitute or be treated as a trust fund of any kind. On the contrary, it is expressly agreed and understood that the Company shall not be required to set aside any assets with respect hereto and that any assets actually held by the Company with reference to this Plan shall be and remain the sole property of the Company, and that neither an Employee nor an Employee's beneficiaries, heirs, legal representatives or assigns shall have ownership rights of any nature with respect thereto, unless and until such time as such assets are paid over and transferred to the Employee or the Employee's beneficiaries, as herein provided.

#### Section 6. Non-Alienation of Benefits

Neither an Employee nor his designated beneficiaries shall have the power to transfer, assign, anticipate or otherwise encumber in advance any of the payments provided in this Plan; nor shall any of said payments, nor any assets or funds of the Company be subject to seizure for the payment of any of the Employee's or his beneficiaries' judgments, alimony or separate

maintenance or be reached or transferred by operation of law in the event of the bankruptcy or insolvency of the Employee or any beneficiary.

#### Section 7. Administration

The Committee shall have all such powers that may be necessary to carry out the provisions of the Plan, including without limitation, the discretionary power and authority to delegate administrative matters to other persons, to construe and interpret the Plan, determine benefits, to adopt and revise rules, regulations and forms relating to and consistent with the Plan's terms and to make any other determination which it deems necessary or advisable for the implementation and administration of the Plan. Subject to the foregoing, all decisions and determinations by the Committee shall be final, binding and conclusive as to all parties, including without limitation any Employee and all other persons unless, arbitrary and capricious.

#### Section 8. Appeals Procedures

(a) If an Employee (or beneficiary) believes he is entitled to a benefit hereunder that was not provided, the Employee or beneficiary (hereinafter referred to as the "claimant") shall file a written claim for such benefit with the Committee. If for any reason a claim for benefits under this Plan is denied by the Committee, the Committee shall deliver to the claimant a written explanation setting forth the specific reasons for the denial, pertinent references to the section of the Plan on which the denial is based, a description of such other data as may be pertinent to the claim review, and information on the procedures to be followed by the claimant in obtaining a review of his claim, and his right to file a civil suit pursuant to ERISA Section 502, all written in a manner calculated to be understood by the claimant. For this purpose, the claimant's claim shall be deemed filed when presented in writing to the Committee, and the Committee's explanation shall be in writing delivered to the claimant within ninety (90) days of the date the claim is filed.

(b) The claimant shall have sixty (60) days following his receipt of the denial of the claim to file with the Committee a written request for review of the denial. For such review, the claimant or his representative may review pertinent documents and submit written issues and comments. The Committee shall decide the issue on review and furnish the claimant with a copy of its decision within sixty (60) days of receipt of the claimant's request for review of his claim. The decision on review shall be final and binding and in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, as well as specific references to the pertinent provisions of the Plan on which the decision is based. If a copy of the decision is not so furnished to the claimant within such sixty (60) days, the claim shall be deemed denied on review.

#### Section 9. Limitation of Rights Against the Company

Participation in this Plan, or any modifications thereof, or the payments of any benefits hereunder, shall not be construed as giving to any Employee any right to be retained in the service of the Company, limiting in any way the right of the Company to terminate such

Employee's employment at any time, evidencing any agreement or understanding, express or implied, that the such Employee will be employed in any particular position or at any particular rate of compensation and/or guaranteeing such Employee any right to receive any other form or amount of remuneration from the Company.

#### Section 10. Construction

The Plan shall be construed, administered and governed in all respects under and by the laws of the State of Wisconsin, without reference to conflict of law principles thereof. Wherever any words are used herein in the masculine, they shall be construed as though they were used in the feminine for all cases where they would so apply; and wherever any words are used herein in the singular or the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply. The words "hereof", "herein" and "hereunder" and other similar compounds of the word "here" shall mean and refer to this entire document and not to any particular paragraph.

#### Section 11. Amendment or Termination of the Plan

The Committee shall have the right to amend, modify, terminate or discontinue the Plan at any time; and such action shall be final, binding and conclusive as to all parties, including any Employee, any beneficiary thereof and all other persons. Notwithstanding the foregoing, any such Committee action to terminate or discontinue the Plan or to change the payment amounts or the time and manner of payment thereof as then provided in the Plan shall not be effective and operative with respect to amounts allocated to the Profit Sharing Account as of such date, unless and until written consent thereto is obtained from each Employee affected by such action or, if any such Employee is not then living, from the beneficiary thereof.

#### Section 12. Relationship to Employment Agreements

Except as otherwise expressly provided herein, the Plan does not affect the rights of the Employee under any employment or other compensation agreement with the Company or any Affiliate.

#### Section 13. Successors and Assigns

The terms and conditions of the Plan, as amended and in effect from time to time shall be binding upon the successors and assigns of the Company.

## SUBSIDIARIES

The following lists all significant subsidiaries and affiliates of A. O. Smith Corporation. Certain direct and indirect subsidiaries of A. O. Smith Corporation have been omitted because, considered in the aggregate as a single subsidiary, such subsidiaries would not constitute a significant subsidiary.

Name of Subsidiary	Jurisdiction in Which Incorporated
AOS Holding Company	Delaware
A. O. Smith International Corporation	Delaware
APCOM, Inc.	Tennessee
State Industries, Inc.	Tennessee
A. O. Smith Export, Ltd.	Barbados
A. O. Smith Holdings (Barbados) SRL	Barbados
A. O. Smith Enterprises Ltd.	Canada
A. O. Smith (China) Water Heater Co., Ltd.	China
A. O. Smith Electrical Products (Shenzhen)Co., Ltd.	China
A. O. Smith L'eau Chaude S.a.r.l.	France
A. O. Smith Warmwasser-Systemtechnik GmbH	Germany
A. O. Smith Electrical Products Limited Liability Company	Hungary
A. O. Smith Electric Motors (Ireland) Ltd.	Ireland
A. O. Smith Holdings (Ireland) Ltd.	Ireland
IG-Mex, S.A. de C.V.	Mexico
Motores Electricos de Juarez, S.A. de C.V.	Mexico
Motores Electricos de Monterrey, S.A. de C.V.	Mexico
Productos de Agua, S.A. de C.V.	Mexico
Productos Electricos Aplicados, S.A. de C.V.	Mexico
A.O. Smith Electrical Products B.V.	The Netherlands
A.O. Smith Water Products Company B.V.	The Netherlands
A.O. Smith Holdings B.V.	The Netherlands
A.O. Smith Products v.o.f.	The Netherlands
A. O. Smith Electrical Products (S.E.A) Pte Ltd	Singapore
A. O. Smith Electrical Products Limited	United Kingdom
State Water Heaters (U.K.) Limited	United Kingdom

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-8 Nos. 2-72542, 33-19015, 33-21356, 33-37878, 33-56827, 333-05799, and 333-92329) pertaining to the 1990 Long-Term Executive Incentive Compensation Plan and Long-Term Executive Incentive Compensation Plan of A. O. Smith Corporation and in the related prospectuses of our report dated January 16, 2002, with respect to the consolidated financial statements and schedule of A. O. Smith Corporation included in this Annual Report (Form 10-K) for the year ended December 31, 2001.

/s/ ERNST & YOUNG LLP

Milwaukee, Wisconsin  
February 18, 2002