

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, 1998

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
(State of Incorporation)

39-0619790
(IRS Employer ID Number)

P. O. Box 23972, Milwaukee, Wisconsin 53223-0972
Telephone: (414) 359-4000

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

Title of Each Class -----	Shares of Stock Outstanding February 24, 1999 -----	Name of Each Exchange on Which Registered -----
Class A Common Stock (par value \$5.00 per share)	8,705,835	American Stock Exchange
Common Stock (par value \$1.00 per share)	14,546,351	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 X No

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

The aggregate market value of voting stock held by nonaffiliates of the registrant was \$13,689,623 for Class A Common Stock and \$275,167,889 for Common Stock as of February 24, 1999.

Documents Incorporated by Reference:

1. Portions of the company's definitive Proxy Statement dated March 5, 1999 for an April 14, 1999 Annual Meeting of Stockholders are incorporated by reference in Part III.

PART 1

ITEM 1 - BUSINESS

A. O. Smith Corporation is a 125 year old diversified manufacturer serving customers worldwide. The company is organized according to the products it offers and under this organizational structure has three segments, Electric Motor Technologies, Water Systems Technologies and Storage and Fluid Handling Technologies, which is categorized as "Other" for segment reporting purposes.

The company's Electric Motor Technologies segment produces fractional horsepower and hermetic electric motors. The Water Systems Technologies Segment is a leading manufacturer of residential and commercial gas, oil and electric water heating systems. The Other operations consist of businesses that manufacture reinforced thermosetting resin piping as well as liquid and dry bulk storage systems. Financial information regarding the company's business segments is provided in Note 13 to the Consolidated Financial Statements which appear elsewhere herein.

On July 1, 1998, the company acquired the assets of General Electric Company's domestic compressor motor business from the GE Industrial Controls Systems Division for \$126 million. The compressor motor business contributed approximately \$53 million to 1998 sales.

Formerly, the company was also in the automotive products business but sold this segment in 1997.

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)				
	1998	1997	1996	1995	1994
	----	----	----	----	----
Electric Motor Technologies	\$480.0	\$390.7	\$337.1	\$317.3	\$281.2
Water Systems Technologies	294.8	287.5	291.3	276.0	271.5
Other	142.8	154.7	152.8	103.4	95.3
	-----	-----	-----	-----	-----
Total Continuing Operations	\$917.6	\$832.9	\$781.2	\$696.7	\$648.0
	=====	=====	=====	=====	=====

Electric Motor Technologies

Segment sales increased \$89.3 million or almost 23 percent in 1998 to \$480.0 million and represented 52 percent of total company sales. The increase in sales in 1998 was primarily due to the acquisition of the GE compressor motor business.

The Electric Motor Technologies segment consists of the A. O. Smith Electrical Products Company which manufactures fan motors used in furnaces, air conditioners and blowers, as well as fractional horsepower motors used in other consumer products and jet pump motors sold to manufacturers of home water systems, swimming pools, hot tubs and spas. Hermetic motors are sold worldwide to manufacturers of compressors and are used in air conditioning and refrigeration systems. Sales to the heating, ventilating, air conditioning and refrigeration market account for approximately 60 percent of the unit's sales.

In addition to selling its products directly to OEMs, the company also markets its products through a distributor network, which sells to both OEMs and the related 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, Magnetek, Inc., Fasco and

Jakel and vertically integrated customers.

WATER SYSTEMS TECHNOLOGIES

The Water Systems Technology segment consists of the A. O. Smith Water Products Company which had 1998 sales of \$294.8 million, approximately three percent higher than 1997 sales of \$287.5 million and represented approximately 32 percent of total company sales.

Residential sales in 1998 were \$166 million or approximately 56 percent of segment revenues. The company markets residential gas and electric water heaters through a network of plumbing wholesalers in the United States. 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. A. O. Smith competes with four other manufacturers in supplying over 90 percent of market requirements. The principal competitors in the Water Systems residential market are Rheem Manufacturing, State Industries, The American Water Heater Group (formerly SABH, Inc.) and Bradford-White.

The company also markets commercial water heating systems through a network of plumbing wholesalers in the United States and Canada. A. O. Smith's Water Systems Technologies is the largest manufacturer of commercial water heaters. Commercial water heating systems 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 building construction market.

In 1995, Water Systems Technologies established a joint venture with China NanjingYuhuan Corporation to manufacture instantaneous and storage type heaters for the Chinese market. A. O. Smith acquired the partner's interest during the fourth quarter of 1998 and will begin reporting the Chinese subsidiary's financial results on a consolidated basis during 1999.

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OTHER

The Other segment includes Storage and Fluid Handling Technologies and provides world-wide solutions for effectively storing liquids and a wide range of dry materials; as well as high performance piping systems that safely and effectively contain and convey corrosive, abrasive or related materials. Significantly lower sales of fluid handling products and slightly lower sales of storage products combined for an eight-percent decline in total segment sales to \$142.8 million compared with the \$154.7 million recorded in 1997.

The Engineered Storage Products business sells storage tanks to industrial, municipal, agricultural liquid and dry bulk storage markets. Nineteen ninety-eight sales of storage products were \$90.8 million. The company's storage products are sold in competitive markets that include concrete, site welded and bolted tanks. Principal competitors include Columbian Steel Tank Company, Permastore LTD., Pittsburg Tank and Tower Company Inc. and Natgun Corporation.

Fiberglass Products manufactures reinforced thermosetting resin piping and fittings used to carry corrosive materials. Sales of fluid handling products were \$52.0 million in 1998. Typical applications include chemical and industrial process and waste stream piping, high and low pressure oil field pipe and tubing and underground gasoline service station piping. Products are sold through a network of distributors.

In 1995, Fiberglass Products formed a joint venture with Harbin Composites Corporation of Harbin, China to supply fiberglass pipe to the Chinese oil industry. The company is a majority owner of the venture, which began production in 1997, and acquired its partner's interest in early 1999.

Principal fluid handling products are sold in competitive markets with its major competitors being Ameron Corporation, Fibercast Company, Environ Corporation and

Total Containment Corporation.

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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 purchases of copper and aluminum 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 unit locations. Total expenditures for research and development in 1998, 1997 and 1996 were approximately \$17.8 million, \$17.2 million and \$17.3 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 9,700 persons in its operations as of December 31, 1998.

BACKLOG

Due to the nature of the company's products and their relatively short production cycles, none of its 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 export sales of continuing operations from the U.S. were \$ 64 million, \$ 64 million and \$52 million in 1998, 1997 and 1996, respectively.

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ITEM 2 - PROPERTIES

The company manufactures its products in 33 plants worldwide. These facilities have an aggregate floor space of 4,946,520 square feet, consisting of 3,737,210 square feet owned by the company and 1,209,310 square feet of leased space. Fifteen of the company's facilities are foreign plants including the Harbin joint venture with 1,346,250 square feet of space, of which 428,786 square feet are leased.

	United States	Foreign
Electric Motor Technologies (2,083,880 sq. ft.)	Mebane, NC; Monticello, IN; Mt. Sterling, KY; Paoli, IN; Scottsville, KY; Tipp City, OH; Upper Sandusky, OH	Acuna, Mexico; Bray, Ireland; Juarez, Mexico (5); Monterrey, Mexico (2)
Water Systems Technologies (1,705,290 sq. ft.)	El Paso, TX; Florence, KY; McBee, SC; Renton, WA	Juarez, Mexico; Nanjing, People's Rep. of China; Stratford, Canada (2); Veldhoven, The Netherlands
Storage & Fluid Handling Technologies (1,157,350 sq. ft.)	DeKalb, IL; Little Rock, AR (3); Parsons, KS; Wichita, KS; Winchester, TN	Harbin, People's Republic of China

The principal equipment at the company's facilities consist 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. It also has offices in Alsip, Illinois; El Paso, Texas; Irving, Texas; London, England and Beijing, China.

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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 12 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 1998.

EXECUTIVE OFFICERS OF THE COMPANY

Pursuant to General Instruction of G(3) of Form 10-K, the following list 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 1999 Annual Meeting of Stockholders.

ROBERT J. O'TOOLE

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

Mr. O'Toole, 58, 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, Firststar Bank Milwaukee, N.A., Firststar Corporation and Protection Mutual Insurance Company.

GLEN R. BOMBERGER

Executive Vice President, Chief Financial Officer and Director

Mr. Bomberger, 61, has been a director and executive vice president and chief financial officer of the company since 1986. He is a member of the Investment Policy Committee of the board of directors. Mr. Bomberger joined A. O. Smith in 1960. He is currently a director and vice president-finance of Smith Investment Company. He is a director of Firststar Funds, Inc.

JOHN A. BERTRAND

President - A. O. Smith Electrical Products Company

Mr. Bertrand, 60, has been president of A. O. Smith Electrical Products Company, a division of the company, since 1986. Mr. Bertrand joined the company in 1960.

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CHARLES J. BISHOP

Vice President - Corporate Technology

Dr. Bishop, 57, has been vice president-corporate technology since 1985. Dr. Bishop joined the company in 1981.

MICHAEL J. COLE

Vice President - Asia

Mr. Cole, 55, was elected vice president-Asia in March 1996. Previously he was vice president-emerging markets of Donnelly Corporation, an automotive supplier.

JOHN R. FARRIS

President - A. O. Smith Engineered Storage Products Company

Mr. Farris, 49, was elected president of A. O. Smith Engineered Storage Products Company, a division of the company, in July 1997. Previously he was president of A. O. Smith Harvestore Products, Inc. since November 1996 and president of Peabody TecTank, Inc. since 1987. Both of these subsidiaries were dissolved and the new entity A. O. Smith Engineered Storage Products Company established in July 1997.

DONALD M. HEINRICH

President - Smith Fiberglass Products Company

Mr. Heinrich, 46, became the president of Smith Fiberglass Products Company, a division of the company, in November 1997. He served as vice president-business development of A. O. Smith Corporation from October 1992.

JOHN J. KITA

Vice President, Treasurer and Controller

Mr. Kita, 43, 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.

RONALD E. MASSA

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

In February 1999, Mr. Massa, 49, became president of A. O. Smith Water Products Company, a division of the company. 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, 56, 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 A. O. Smith 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, 58, has been vice president - human resources and public affairs for the company since 1986. He joined A. O. Smith in 1970.

STEVE W. RETTLER

Vice President - Business Development

Mr. Rettler, 44, 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, 55, 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. Firststar Trust Company, P. O. Box 2077, Milwaukee, Wisconsin 53201 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

1998	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Common Stock				
High	29-23/24	35-2/3	35-7/8	27
Low	26-7/8	28-2/3	18-3/4	15-13/16
Class A Common				
High	29-2/3	35-1/3	35-2/3	26-1/16
Low	27-11/12	29-2/25	19	16-3/8
1997	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
Common Stock				
High	23-3/4	25	26-1/2	28-11/12

Low	19-1/12	22-7/12	22-2/3	26-1/2
Class A Common				
High	23-1/2	24-5/6	26-1/3	28-3/4
Low	19-5/6	22-2/3	23-1/6	26-11/12

- (b) Holders. As of January 31, 1999, the number of shareholders of record of Common Stock and Class A Common Stock were 1,383 and 614, respectively.
- (c) Dividends. Dividends paid on the common stock are shown in Note 14 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 \$65.8 million were unrestricted as of December 31, 1998.
- (d) Stock Repurchase Authority. As of February 22, 1999, approximately 8.4 million shares of Class A Common Stock and Common Stock had been repurchased for \$211 million under three stock repurchase authorizations granted by the Board of Directors in 1997.

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ITEM 6 - SELECTED FINANCIAL DATA
(Dollars in Thousands, except per share amounts)

	Years Ended December 31				
	1998	1997	1996	1995	1994
Net sales - continuing operations	\$ 917,569	\$ 832,937	\$ 781,193	\$ 696,700	\$ 648,004
Earnings					
Continuing operations	44,491	37,553	25,249	23,995	17,066
Discontinued operations:					
Operating earnings	-	15,231	40,168	37,418	40,281
Gain on disposition	-	101,046	-	-	-
Earnings	-	116,277	40,168	37,418	40,281
Net earnings	\$ 44,491	\$ 153,830	\$ 65,417	\$ 61,413	\$ 57,347
Basic earnings per share of common stock					
Continuing operations	\$ 1.89	\$ 1.36	\$.81	\$.77	\$.55
Discontinued operations	-	4.21	1.28	1.19	1.28
Net earnings	\$ 1.89	\$ 5.57	\$ 2.09	\$ 1.96	\$ 1.83
Diluted earnings per share of common stock					
Continuing operations	\$ 1.84	\$ 1.33	\$.79	\$.76	\$.54
Discontinued operations	-	4.13	1.27	1.18	1.27
Net earnings	\$ 1.84	\$ 5.46	\$ 2.06	\$ 1.94	\$ 1.81
Cash dividends per common share	\$.47	\$.45	\$.44	\$.39	\$.33
	December 31				
	1998	1997	1996	1995	1994
Total assets	\$ 767,432	\$ 716,516	\$ 871,152	\$ 748,479	\$ 660,546
Long-term debt	131,203	100,972	238,446	190,938	166,126
Total stockholders' equity	401,093	399,705	424,639	372,364	312,745

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

FINANCIAL REVIEW

A. O. Smith Corporation achieved record earnings from continuing operations in 1998 of \$44.5 million or \$1.84 per diluted share compared with \$37.6 million or \$1.33 per diluted share in 1997. The Electric Motor Technologies and Water Systems Technologies platforms established new sales records in 1998. Details of individual segment performance will be discussed later in this section.

Working capital at December 31, 1998 was \$155.2 million compared with the company's working capital of \$237.8 million and \$103.4 million at December 31, 1997 and 1996, respectively. The company purchased General Electric (GE) Company's Scottsville, Kentucky compressor motor business for \$125.6 million during the third quarter of 1998. The reduction in cash and cash equivalents by \$108.2 million during 1998 was primarily attributable to the acquisition. The majority of the increases to receivables and inventory accounts during 1998 were a result of the acquisition and the buyout of the partner in our Chinese water heater joint venture in late 1998. The majority of the increase in working capital in 1997 was due to the net cash proceeds received from the sale of the company's automotive products business.

Capital expenditures were \$27.9 million in 1998 compared with \$44.9 million in 1997 and \$37.8 million in 1996. The drop in capital spending during 1998 was principally due to lower capital expenditures in the Electric Motor Technologies business. The company expects that cashflow from operations will adequately cover 1999 capital expenditures.

The company's two joint ventures in the People's Republic of China were established in the fourth quarter of 1995. The company invested \$7.1 million in these joint ventures during 1998 compared with \$13.7 million in 1997.

Long-term debt increased \$30.2 million from \$101.0 million at December 31, 1997 to \$131.2 million at December 31, 1998. In conjunction with the Scottsville acquisition, the company issued \$30 million in senior notes under a loan facility with The Prudential Insurance Company of America. The notes mature in 2018 and carry an interest rate of 6.66%. As a result, the company's leverage, as measured by total debt to total capital, edged up to 25.3% at the end of 1998 versus 21.0% at the end of 1997.

The company repurchased 1,188,450 shares of its common stock during 1998 under its stock repurchase program. Since the program's inception in January 1997, approximately 8.4 million shares have been repurchased.

During 1998, the company split its stock 3-for-2 in the form of a 50% stock dividend on its common stock. The stock dividend increased the number of Common stock and Class A common stock shares outstanding to approximately 23.3 million shares. A. O. Smith Corporation has paid dividends for 59 consecutive years. A total of \$.47 per share was paid in 1998 versus \$.45 in 1997.

RESULTS OF OPERATIONS

Sales from continuing operations in 1998 were \$917.6 million surpassing 1997 sales of \$832.9 million by almost \$85 million, or more than ten percent. The majority of the increase in sales was attributable to the acquisition in July of GE's domestic compressor motor business. The higher 1998 sales also benefited from a full year of sales from the acquisition of UPPCO, a manufacturer of subfractional horsepower C-frame electric motors made in March 1997 and a resurgence in the domestic air conditioning market. The strong electric motor sales in 1998 combined with moderate growth in sales of commercial water heating equipment more than offset declines in sales of fiberglass pipe and storage tank products. Sales in 1997 increased approximately \$52 million compared with

1996 sales of \$781.2 million, primarily as a result of \$57 million of additional sales associated with the aforementioned acquisition of UPPCO.

The company's gross profit margin for continuing operations in 1998 was 20.4 percent, essentially the same as the 20.5 percent margin in 1997 and a full percentage point less than the 1996 margin of 21.4 percent. The unfavorable trend in margin from 1996 to 1997 was due to the lower margin associated with subfractional motors as well as the pricing concessions that were prevalent in the water heater industry.

Sales for the Electric Motor Technologies segment in 1998 increased \$89.3 million or almost 23 percent to a record \$480.0 million from 1997 sales of \$390.7 million. Sales in 1996 were \$337.1 million. Most of the increase in sales in 1998 was due to the previously discussed compressor motor acquisition and the recognition of a full year of sales from the 1997 UPPCO acquisition. Sales were also bolstered by a recovery in the hermetic motor business resulting from improvement in the heating, ventilating and air conditioning industry (HVAC). The increase in sales from 1996 to 1997 was due to the acquisition of UPPCO.

Earnings for the Electric Motor Technologies segment in 1998 were \$55.7 million or almost 24 percent higher than the \$45.0 million earned in 1997. Earnings in 1996 were \$42.4 million. The continuing improvement in earnings over this time period resulted primarily from the higher sales volume.

Sales for the Water Systems Technologies segment increased modestly from \$287.5 million in 1997 to \$294.8 million in 1998. Sales in 1996 were \$291.3 million. The growth in 1998 sales resulted from higher sales of commercial water heaters resulting from a strong commercial construction market and an expanded commercial product offering as well as record sales performance by the segment's European operations. Sales in 1997 declined from the levels achieved in 1996 primarily as a result of lower industry unit volumes and prices for residential products.

Earnings for Water Systems Technologies have remained fairly constant over the past three years. The favorable impact of improving commercial sales and ongoing cost reduction activities have been offset by an aggressive pricing environment in the residential market segment, as well as costs to start up a new manufacturing facility and develop distributor channels for its Chinese operation. During the fourth quarter of 1998, the company acquired the 20 percent share owned by its partner in the Chinese operation and established the Nanjing operation as a wholly foreign owned enterprise.

Sales for the Other segment declined from \$154.7 million in 1997 to \$142.8 million in 1998. Sales in 1996 were \$152.8 million. Weakness in the petroleum production and chemical markets caused by low oil and chemical prices resulted in reduced capital spending in these industries and an associated reduction in demand for storage tanks and fiberglass pipe. Earnings in 1998 were significantly lower than 1997 due to the lower volume.

Selling, general, and administrative (SG&A) expense in 1998 was \$106.6 million, about equal to the prior two years. Relative to sales, SG&A dropped steadily from a 1996 level of 13.7 percent to 11.6 percent in 1998. Higher general and administrative expense associated with the aforementioned acquisitions was offset by a reduction in general corporate expenses resulting from the divestiture of the company's automotive products business in April 1997 as well as cost reduction activities at the operating units.

Interest expense was \$6.9 million in 1998 compared with \$7.8 million and \$8.1 million in 1997 and 1996, respectively. The lower interest expense in 1998 was the result of slightly lower interest rates and increased interest amounts associated with major plant and equipment expenditures being capitalized.

Interest income in 1998 was \$3.8 million, or \$5.2 million less than 1997, as marketable securities were liquidated to fund the \$126 million compressor motor acquisition and the repurchase of slightly more than one million shares of common stock.

The company's effective tax rate in 1998 was 34.7 percent and was equivalent to the 1997 rate. The 1996 tax rate was 37.0 percent. The lower rates in 1998 and 1997 resulted from the utilization of state loss carry-forwards associated with

liquidated subsidiaries and research and development tax credits. Consolidated earnings from continuing operations in 1998 increased 18.5 percent to a record \$44.5 million compared with 1997 earnings of \$37.6 million, reflecting the favorable impact of the Electric Motor Technologies acquisitions and improvement in certain of its markets. Diluted earnings per share of \$1.84 in 1998 were 38 percent higher than the \$1.33 earned in 1997 and include the positive effect of additional share repurchases made during the year. Earnings per share in 1996 amounted to \$.79.

Outlook

For 1999, the company expects the difficulties at its Storage and Fiberglass Products businesses to persist and is cautiously optimistic about the market for the products of its Water Systems business segment. The company believes the Electric Motors business will improve over 1998 as it benefits from the incremental business of the compressor motor acquisition as well as the "Tier One" supply agreement signed with York International in July 1998.

The company continues to aggressively pursue accretive acquisitions such as the UPPCO C-Frame motor business and the previously discussed Scottsville compressor motor business. The company considers the pursuit of such acquisitions to be a very important element in its strategy for growth, especially considering the slower near term prospects of its non-motor businesses. Although the company believes 1999 earnings, excluding acquisitions, will increase over 1998 levels, accretive acquisitions will be required to achieve its target of 15 percent annual growth in earnings per share. The company recently indicated that it is comfortable with analyst estimates for 1999 ranging between \$1.95 and \$2.05 per share.

OTHER MATTERS

Year 2000

The company continues its efforts begun several years ago to address its potential Year 2000 (Y2k) issues. It has organized its activities to prepare for Y2k under a company-wide plan that involves four steps: Assessment, Modification, Testing and Implementation.

The company's business segments operate independently of each other. Each business segment has a core of full-time individuals who have been assigned specific Y2k responsibilities in addition to their regular assignments. The Y2k readiness project is a company-wide effort and is monitored centrally.

The assessment phase is complete and the modification phase is nearing completion. Key customers, vendors and service providers have been queried about their Y2k readiness and their responses are being analyzed. Follow-up efforts have commenced to obtain feedback from critical suppliers.

The testing and implementation phases for renovated information technology (IT) systems are underway. Implementation of all new and renovated systems that are Y2k compliant should be completed by the end of the first quarter of 1999. Testing should be completed by the end of 1999.

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The company anticipates that it will be Y2k compliant by the end of 1999 with respect to internal IT and non-IT systems and does not anticipate any material adverse effect on its business operations, products or financial prospects.

Costs specifically associated with renovating software for Y2k readiness are funded through operating cash flows and expensed as incurred. Y2k-related costs have not had a material effect on the company's financial position or results of operations. The company expects to incur total costs of approximately \$2.0 million on the Y2k problem of which the remaining costs are estimated to be \$500 thousand. Costs of replacing some of the company's systems with Year 2000 compliant systems have been capitalized as these new systems were acquired for business reasons and not to remediate Y2k problems, if any, in the former systems.

The company believes that all critical IT and non-IT systems and processes will be Y2k compliant and allow the company to continue operations in the Year 2000 and beyond with no material impact on its financial position or results of operations. Unanticipated problems including but not limited to, critical suppliers and business partners not meeting their commitments to be Y2k ready and the loss of critical skilled personnel, could result in an undetermined financial risk.

As part of its ongoing Year 2000 Project, business continuity plans may be expanded by the middle of 1999 for potential contingencies regarding currently unforeseen Y2k problems.

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 substantial financial and managerial resources complying with such laws. Expenditures related to environmental matters were not material in 1998 and are not expected to be material in any single year. Although the company believes that its operations are 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 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 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 risk. Futures contracts are purchased over time periods and at volume levels which approximate expected usage. At December 31, 1998, the company had commodity futures contracts amounting to approximately \$38 million of commodity purchases. A hypothetical 10 percent change in the underlying commodity price of such contracts would have a potential impact of \$3.8 million. It is important to note that gains and losses from the company's future contract activities would 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, 1998, the company had foreign currency contracts outstanding of approximately \$31 million. Assuming a hypothetical 10 percent movement in the respective currencies, the potential foreign exchange gain or loss associated with the change in rates

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would amount to \$3.1 million. It is important to note that gains and losses from the company's forward contract activities would be offset by gains and losses in the underlying transactions being hedged.

The majority of the company's debt is at fixed rates with insurance companies at various maturities. The interest income on the company's cash equivalents is subject to short term rate fluctuations. Due to the short-term nature of cash investments and the majority of debt being held at fixed rates, the company would not expect interest rate fluctuations to have a material impact on future earnings or cash flows.

Forward Looking Statements

Certain statements in this report are forward-looking statements. 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 its financial goals 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 may cause results to differ materially from those expressed in forward-looking statements made by or on behalf of the company. Among such numerous factors the company includes the continued growth of the worldwide heating, ventilating and air conditioning market; the weather and its impact on the heating and air conditioning market; the pricing environment for residential water heaters; capital spending trends in the oil, petrochemical and chemical markets; and the successful development of the company's business in China.

See "Market Risk" above.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Form 10-K
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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 sheet of A. O. Smith Corporation as of December 31, 1998 and 1997 and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedule listed in the index in 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 based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of A. O. Smith Corporation at December 31, 1998 and 1997 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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.

Milwaukee, Wisconsin
January 18, 1999

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CONSOLIDATED BALANCE SHEET

December 31 (dollars in thousands)

	1998	1997
Assets		
Current Assets		
Cash and cash equivalents	\$ 37,666	\$145,896
Receivables	133,764	126,232
Inventories	99,984	79,049
Deferred income taxes	11,376	11,849
Other current assets	4,599	2,702
Total Current Assets	287,389	365,728
Net property, plant, and equipment	248,770	207,756
Investments in and advances to joint ventures	2,449	25,605
Prepaid pension	51,525	37,468
Other assets	30,398	28,176
Goodwill	146,901	51,783
Total Assets	\$767,432	\$716,516
	=====	=====
Liabilities		
Current Liabilities		
Trade payables	\$ 57,429	\$ 61,299
Accrued payroll and benefits	31,385	26,397
Accrued liabilities	18,094	13,556
Income taxes	6,786	6,607
Product warranty	7,892	7,972
Long-term debt due within one year	4,629	5,590
Net current liabilities-discontinued operations	5,942	6,461
Total Current Liabilities	132,157	127,882
Long-term debt	131,203	100,972
Product warranty	19,370	18,349
Post retirement benefit obligation	17,417	16,756
Deferred income taxes	42,343	28,442
Other liabilities	23,849	24,410
Total Liabilities	366,339	316,811
Commitments and contingencies (notes 7 and 12)		
Stockholders' Equity		
Preferred Stock	-	-
Class A Common Stock (shares issued 8,737,575 and 5,838,858)	43,688	29,192
Common Stock (shares issued 23,811,787 and 15,860,792)	23,812	15,861
Capital in excess of par value	51,121	72,542
Retained earnings	499,954	466,514
Accumulated other comprehensive income	(1,488)	(1,579)
Treasury stock at cost	(215,994)	(182,825)
Total Stockholders' Equity	401,093	399,705
Total Liabilities and Stockholders' Equity	\$ 767,432	\$ 716,516

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

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CONSOLIDATED STATEMENT OF EARNINGS

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

	1998	1997	1996
Continuing Operations			
Net sales	\$917,569	\$832,937	\$781,193
Cost of products sold	730,543	662,227	614,218
Gross profit	187,026	170,710	166,975
Selling, general, and administrative expenses	106,622	106,999	107,350
Interest expense	6,887	7,762	8,114
Interest income	(3,828)	(9,035)	(341)
Other expense - net	4,382	3,328	5,629
Provision for income taxes	72,963	61,656	46,223
	25,283	21,359	17,080
Earnings before equity in loss of joint ventures	47,680	40,297	29,143
Equity in loss of joint ventures	(3,189)	(2,744)	(3,894)
Earnings from Continuing Operations	44,491	37,553	25,249
Discontinued Operations			
Earnings from operations less related income tax (1997 - \$7,698 and 1996 - \$19,988)	-	15,231	40,168
Gain on disposition less related income tax of \$71,538	-	101,046	-
Net Earnings	\$ 44,491	\$153,830	\$ 65,417
Basic Earnings Per Share of Common Stock			
Continuing Operations	\$1.89	\$1.36	\$.81
Discontinued Operations	-	4.21	1.28
Net Earnings	\$1.89	\$5.57	\$2.09
Diluted Earnings Per Share of Common Stock			
Continuing Operations	\$1.84	\$1.33	\$.79
Discontinued Operations	-	4.13	1.27
Net Earnings	\$1.84	\$5.46	\$2.06

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Years ended December 31 (dollars in thousands)

	1998	1997	1996
Net earnings	\$44,491	\$153,830	\$65,417
Foreign currency translation	91	(1,637)	98
Translation adjustment related to sale of Mexican affiliate	-	7,459	-
Comprehensive Income	\$44,582	\$159,652	\$65,515

See accompanying notes which are an integral part of these statements

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CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31 (dollars in thousands)

	1998	1997	1996
Operating Activities			
Continuing			
Net earnings	\$ 44,491	\$ 37,553	\$ 25,249
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	31,173	26,286	23,601
Equity in loss of joint ventures	3,189	2,744	3,894
Net change in current assets and liabilities	(3,564)	7,212	21,746
Net change in other noncurrent assets and liabilities	1,719	4,958	3,312
Other	591	1,495	2,630
Cash Provided by Operating Activities	77,599	80,248	80,432
Investing Activities			
Capital expenditures	(27,876)	(44,886)	(37,804)
Acquisition of businesses	(126,273)	(60,918)	(1,111)
Investment in joint ventures	(7,138)	(13,719)	(15,147)
Other	(2,139)	(1,295)	(2,567)
Cash Used by Investing Activities	(163,426)	(120,818)	(56,629)
Cash Flow Provided (Used) by Continuing Operations before Financing Activities			
	(85,827)	(40,570)	23,803
Discontinued			
Cash provided (used) by operating activities	(2,941)	(106,132)	113,644
Cash used by investing activities	-	(52,456)	(177,116)
Proceeds from disposition	-	773,090	-
Tax payments associated with disposition	-	(106,039)	-
Cash Flow Provided (Used) by Discontinued Operations before Financing Activities	(2,941)	508,463	(63,472)
Financing Activities			
Long-term debt incurred	30,028	-	58,507
Long-term debt retired	(5,590)	(143,816)	(4,000)
Purchase of treasury stock	(33,241)	(176,550)	-
Net proceeds from common stock and option activity	224	3,757	539
Tax benefit from exercise of stock options	168	884	28
Dividends paid	(11,051)	(12,677)	(13,807)
Cash Provided (Used) by Financing Activities	(19,462)	(328,402)	41,267
Net increase (decrease) in cash and cash equivalents	(108,230)	139,491	1,598
Cash and cash equivalents--beginning of year	145,896	6,405	4,807
Cash and Cash Equivalents--End of Year	\$ 37,666	\$ 145,896	\$ 6,405

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Years ended December 31 (dollars in thousands)

	1998	1997	1996
Class A Common Stock			
Balance at beginning of year	\$ 29,192	\$ 29,231	\$ 29,443
Conversion of Class A Common Stock	(94)	(39)	(212)
Three-for-two stock split	14,590	-	-
Balance at end of year	\$ 43,688	\$ 29,192	\$ 29,231
Common Stock			
Balance at beginning of year	\$ 15,861	\$ 15,853	\$ 15,811
Conversion of Class A Common Stock	19	8	42
Three-for-two stock split	7,932	-	-
Balance at end of year	\$ 23,812	\$ 15,861	\$ 15,853
Capital in Excess of Par Value			
Balance at beginning of year	\$ 72,542	\$ 69,410	\$ 68,871
Conversion of Class A Common Stock	75	31	170
Exercise of stock options	344	2,217	341
Tax benefit from exercise of stock options	168	884	28
Stock incentives and directors' compensation	561	-	-
Three-for-two stock split	(22,569)	-	-

Balance at end of year	\$ 51,121	\$ 72,542	\$ 69,410
Retained Earnings			
Balance at beginning of year	\$ 466,514	\$ 325,361	\$273,751
Net earnings	44,491	153,830	65,417
Cash dividends on common stock	(11,051)	(12,677)	(13,807)
Balance at end of year	\$ 499,954	\$ 466,514	\$325,361
Accumulated Other Comprehensive Income			
Balance at beginning of year	\$ (1,579)	\$ (7,401)	\$ (7,499)
Foreign currency translation adjustments	91	(1,637)	98
Translation adjustments related to sale of Mexican affiliate	-	7,459	-
Balance at end of year	\$ (1,488)	\$ (1,579)	\$ (7,401)
Treasury Stock			
Balance at beginning of year	\$ (182,825)	\$ (7,815)	\$ (8,013)
Purchase of treasury stock	(33,241)	(176,550)	-
Exercise of stock options, net of 7,416 shares surrendered as proceeds in 1998	(73)	1,540	198
Stock incentives and directors' compensation	145	-	-
Balance at end of year	\$ (215,994)	\$ (182,825)	\$ (7,815)
Total Stockholders' Equity	\$ 401,093	\$ 399,705	\$424,639

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

Organization. A. O. Smith Corporation is a diversified manufacturer serving customers world-wide. The company's major product lines include: fractional horsepower, subfractional horsepower and hermetic electric motors; residential and commercial water heaters; fiberglass piping systems and water waste water, and dry storage systems. The company's products are manufactured and marketed primarily in North America. The company has two plants in Europe and two plants in China. Original equipment manufacturers are the largest customers of the electric motor technologies unit. Water heaters are distributed principally through a diverse network of plumbing wholesalers. Fiberglass piping is sold through a network of distributors to the service station market and the petroleum production industry as well as the chemical/industrial market. Storage tanks are sold through a network of dealers to municipalities, industrial concerns and farmers.

Consolidation and basis of presentation. The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries.

Investment in joint ventures. At December 31, 1997, the company accounted for its two joint ventures in the People's Republic of China on the equity method as the local venture partners held certain participating rights. In December 1998, the company bought out its partner in one of the joint ventures (see Note 3) and accordingly, the company has consolidated this entity at December 31, 1998 while continuing to account for the other joint venture on the equity method.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the 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, trade payables and long-term debt approximated fair value as of December 31, 1998 and 1997.

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 these operations, 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. 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. Cash equivalents, consisting principally of money market funds, totaled \$26.9 million at December 31, 1998 and \$140 million at December 31, 1997. The cost of these securities are considered to be "available for sale" for financial reporting purposes.

Inventory valuation. Inventories are carried at lower of cost or market. Cost is determined on the last-in, first-out (LIFO) method for a significant portion of domestic inventories. 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.

Goodwill. Goodwill, representing the excess of cost over net assets of businesses acquired, is stated at cost and is amortized on a straight-line basis over the estimated periods benefited ranging from 15 to 40 years. Amortization charged to operations amounted to \$2.9 million, \$1.4 million and \$.5 million in 1998, 1997 and 1996, respectively.

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1. Organization and Significant Accounting Policies (continued)

Impairment of long-lived assets. Property, plant and equipment, investments in joint ventures, other long-term assets and goodwill 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 judgment.

Derivative instruments. The company enters into futures contracts to fix the cost of certain raw material purchases, principally copper and aluminum, with the objective of minimizing cost risk due to market fluctuations. Any differences between the company's fixed price and current market prices are included as part of the inventory cost when the contracts mature. As of December 31, 1998, the company had contracts covering the majority of its expected copper and a portion of its expected aluminum requirements for 1999. These futures contracts limit the impact from both favorable and unfavorable price changes. The effect of these programs was not material to the results of operations for the three years ended December 31, 1998.

As a result of having various foreign operations, the company is exposed to the effect of foreign currency rate fluctuations on the U.S. dollar value of its foreign subsidiaries. Further, the company and its subsidiaries conduct business in various foreign currencies. To minimize the effect of fluctuating foreign currencies on its income, the company enters into foreign currency forward contracts. The contracts are used to hedge known foreign currency transactions on a continuing basis for periods consistent with the company's exposures.

The company does not engage in speculation. The difference between market and contract rates is recognized in the same period in which gains or losses from the transactions being hedged are recognized. The contracts, which are executed with major financial institutions, generally mature within one year with no credit loss anticipated for failure of the counterparties to perform.

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

December 31 (dollars in thousands)	1998		1997	
	Buy	Sell	Buy	Sell
U.S. dollar	\$ 2,400	\$2,400	\$ 2,500	\$ 6,400
British pound	498	1,991	2,563	1,139
French franc	-	-	-	2,565
Canadian dollar	-	-	709	-

Mexican peso	32,535	-	32,486	-
	-----	-----	-----	-----
Total	\$35,433	\$4,391	\$38,258	\$10,104
	=====	=====	=====	=====

The contracts in place at December 31, 1998 and 1997 amounted to approximately 80 percent of the company's anticipated subsequent year exposure for those currencies hedged.

Revenue recognition. The company recognizes revenue upon shipment of product to the customer.

Research and development. Research and development costs are charged to expense as incurred and amounted to approximately \$17.8, 17.2 and \$17.3 million for continuing operations during 1998, 1997 and 1996, respectively.

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1. Organization and Significant Accounting Policies (continued)

Environmental remediation 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 remediation costs from other parties are recorded as assets when their receipt is probable. The accruals are adjusted as facts and circumstances change.

Stock split. On June 9, 1998 the company's Board of Directors declared a three-for-two stock split of the company's Class A Common Stock and Common Stock in the form of a stock dividend to stockholders of record on July 31, 1998 and payable on August 17, 1998. All references in the financial statements to number of shares outstanding, price per share, per share amounts and stock option plan data have been restated to reflect the split.

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:

	1998	1997	1996
-----	-----	-----	-----
Denominator for basic earnings per share--			
weighted average shares	23,583,790	27,634,307	31,383,292
Effect of dilutive stock options	600,114	556,978	350,997
-----	-----	-----	-----
Denominator for diluted earnings per share	24,183,904	28,191,285	31,734,289
=====	=====	=====	=====

Reclassifications. Certain prior year amounts have been reclassified to conform to the 1998 presentation.

New accounting standards. During 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (the Statement), which is required to be adopted for years beginning after June 15, 1999. The Statement will require the company to recognize all derivatives in the balance sheet at fair value. The company will adopt the Statement no later than January 1, 2000 and estimates that the effect will not be material to its results of operations, financial position or cash flows.

During 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued two Statements of Position (SOP) that are applicable to the company - SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" and SOP 98-5, "Reporting on the Costs of Start-up Activities". SOP 98-1 requires that certain computer software costs be capitalized and SOP 98-5 requires costs of start-up activities to be expensed as incurred. Since the company currently complies with the requirements of SOP 98-1 and SOP 98-5, these pronouncements will have no impact.

2. Acquisitions

On July 1, 1998, the company acquired certain assets of General Electric Company's domestic compressor motor business (Scottsville) for \$125.6 million. On March 31, 1997, the company acquired UPPCO, Incorporated (UPPCO), a manufacturer of subfractional C-frame electric motors, for approximately \$60.9 million. On December 6, 1995, the company acquired the stock of Peabody TecTank Inc. (TecTank), a manufacturer of dry bulk storage tanks, for approximately \$19.1 million, which included a final purchase price adjustment of \$1.1 million in 1996. The acquisitions were accounted for using the purchase method of accounting and, accordingly, the financial statements include the operating results of the acquisitions from their respective dates of acquisition. The purchase prices have been allocated to the assets acquired and the liabilities assumed based upon their respective fair values at the date of acquisition. The excess of the purchase prices over the fair values of net assets acquired, \$92.6, \$46.2 and \$7.0 million for Scottsville, UPPCO and TecTank, respectively, have been recorded as goodwill.

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2. Acquisitions (continued)

As discussed in Note 1, the company purchased its partner's interest in its water systems venture in December 1998. The excess of the consideration paid, including the distribution to the partner of certain inventories and equipment, over the fair values of the assets acquired amounted to \$5.3 million and has been recorded as goodwill.

On a pro forma basis, the unaudited consolidated results from continuing operations assuming the acquisition of Scottsville and UPPCO occurred on January 1, 1997 follows:

Years ended December 31 (dollars in thousands)	1998	1997
Net sales	\$984,370	\$964,043
Earnings	47,841	40,749
Earnings per share:		
Basic	2.03	1.47
Diluted	1.98	1.45

The pro-forma results have been prepared for informational purposes only and include adjustments to depreciation expense of acquired plant and equipment, amortization of goodwill, increased interest expense on acquisition debt and certain other adjustments, together with related income tax effects of all such adjustments. Anticipated efficiencies from the consolidation of certain manufacturing activities and anticipated lower material costs related to the consolidation of purchasing have been excluded from the amounts included in 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.

3. Discontinued Operations

On April 18, 1997, the company sold its automotive products business, excluding its Mexican automotive affiliate, for \$710 million. On October 1, 1997, the company sold the remainder of its automotive business with the sale of its 40% interest in its Mexican affiliate (Metalsa) for \$63 million. The operating results of the automotive businesses prior to their disposition have been reported separately as discontinued operations in the accompanying financial statements. Net sales of the discontinued operations were \$296.2 and \$863.0 million for the period ended April 18, 1997 and year ended December 31, 1996, respectively.

Liabilities of the discontinued business at December 31, 1998 and 1997 consisted primarily of employee obligations and other retained liabilities net of deferred income taxes. Certain expenses were allocated to the discontinued operations through the date of sale, including interest expense, which was allocated based on the ratio of net assets of the discontinued operations to the total consolidated net assets of the company.

4. Statement of Cash Flows

Supplemental cash flow information is as follows:

Years ended December 31 (dollars in thousands)	1998	1997	1996
Receivables	\$ 5,977	\$ 2,870	\$13,945
Inventories	(8,897)	7,539	(5,491)
Other current assets	(906)	1,187	434
Trade payables	(4,527)	(8,346)	13,187
Accrued liabilities, including payroll and benefits	4,694	1,894	(539)
Income taxes	95	2,068	210
	-----	-----	-----
	\$ (3,564)	\$ 7,212	\$21,746
	=====	=====	=====

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5. Inventories

December 31 (dollars in thousands)	1998	1997
Finished products	\$58,534	\$ 45,091
Work in process	18,354	19,656
Raw materials	50,542	42,870
Supplies	1,350	1,634
	-----	-----
	128,780	109,251
Allowance to state inventories at LIFO cost	28,796	30,202
	-----	-----
	\$ 99,984	\$ 79,049
	=====	=====

6. Property, Plant and Equipment

December 31 (dollars in thousands)	1998	1997
Land	\$ 6,575	\$ 6,323
Buildings	101,134	91,127
Equipment	399,324	352,697
	-----	-----
	507,033	450,147
Less accumulated depreciation	258,263	242,391
	-----	-----
	\$248,770	\$207,756
	=====	=====

Interest on borrowed funds during construction of \$1.5, \$1.0 and \$.2 million was capitalized in 1998, 1997 and 1996, respectively.

7. Long-Term Debt and Lease Commitments

December 31 (dollars in thousands)	1998	1997
Bank credit lines, average year-end interest rate of 6.4% for 1998 and 4.8% for 1997	\$ 6,789	\$ 1,929
Notes with insurance companies, expiring through 2018, average year-end interest rate of 7.0% for 1998 and 7.1% for 1997	111,543	86,172
Other notes, expiring through 2012, average year-end interest rate of 4.6% for 1998 and 5.2% for 1997	17,500	18,461
	-----	-----
	135,832	106,562
Less amount due within one year	4,629	5,590
	-----	-----
	\$131,203	\$100,972
	=====	=====

The company has a \$100 million multi-year revolving credit agreement with a group of nine banks which expires June 30, 2001. At its option, the company maintains either cash balances or pays fees for bank credit and services.

On July 1, 1998, the company issued \$30 million in senior notes under a loan

facility with the Prudential Insurance Company of America. The notes mature in 2018 and carry an interest rate of 6.66%.

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7. Long-Term Debt and Lease Commitments (continued)

The company's credit agreement and term loans contain certain conditions and provisions which restrict the company's payment of dividends. Under the most restrictive of these provisions, retained earnings of \$65.8 million were unrestricted as of December 31, 1998.

Borrowings under the bank credit lines are supported by the revolving credit agreement and accordingly, 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 bank credit lines borrowings.

Long-term debt, maturing within each of the five years subsequent to December 31, 1998, is as follows: 1999-\$4.6; 2000-\$9.6; 2001-\$11.1; 2002-\$13.3; 2003-\$11.7 million.

Future minimum payments under noncancelable operating leases from continuing operations total \$40.1 million and are due as follows: 1999-\$8.6; 2000-\$6.3; 2001-\$5.4; 2002-\$4.0; 2003-\$3.3; and thereafter- \$12.5 million. Rent expense for continuing operations, including payments under operating leases, was \$14.3, \$12.9 and \$12.1 million in 1998, 1997 and 1996, respectively.

Interest paid by the company for continuing and discontinued operations, was \$6.4, \$13.0 and \$15.1 million in 1998, 1997 and 1996, respectively.

8. 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 1998, 1997 and 1996, 19,914, 10,950 and 63,665 shares of Class A Common Stock were converted into Common Stock, respectively. Regular dividends paid on the Class A Common and Common Stock amounted to \$.47, \$.45 and \$.44 per share in 1998, 1997 and 1996, respectively.

On January 27, 1997, the company's Board of Directors approved the repurchase of up to 3 million shares of Common Stock. On June 10, 1997 and December 9, 1997, the Board authorized the repurchase of up to \$80 million and \$50 million, respectively, of additional Common Stock. During 1998 and 1997, the company purchased 4,800 and 21,750 shares of Class A Common Stock and 1,183,650 and 7,211,063 shares of Common Stock, respectively. At December 31, 1998, 31,740 and 9,226,036 shares of Class A Common Stock and Common Stock, respectively, were held as treasury stock. At December 31, 1997, 26,940 and 8,089,341 shares of Class A Common Stock and Common Stock, respectively, were held as treasury stock.

9. Stock Options

The company has two Long-Term Executive Incentive Compensation Plans for granting of nonqualified and incentive stock options to key employees. These plans have terminated except as to outstanding options. The company will submit a proposal to stockholders in 1999 for approval to reserve an additional 1.5 million shares of Common Stock under a new Long-Term Executive Incentive Compensation Plan (2000 Plan). Options 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, 1997 and 1996 was 221,550 and 396,600, respectively. Options as to 55,800 shares granted in 1998 under the 2000 Plan are subject to approval by the stockholders.

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9. Stock Options (continued)

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

	Weighted Average Per Share Exercise Price-1998	Years Ended December 31		
		1998	1997	1996
Outstanding at beginning of year	\$13.22	1,883,025	1,963,200	1,686,900
Granted				
1998--\$18.31 to \$29.83 per share	18.63	277,350		
1997--\$27.25 per share			175,050	
1996--\$16.33 and \$18.00 per share				309,150
Exercised				
1998--\$5.79 to \$18.33 per share	8.34	(137,475)		
1997--\$5.63 to \$18.33 per share			(255,225)	
1996--\$5.63 to \$18.33 per share				(32,850)
Outstanding at End of Year (1998--\$4.67 to \$29.83 per share)	14.29	2,022,900	1,883,025	1,963,200
Exercisable at End of Year	13.60	1,745,550	1,707,975	1,654,050

During 1998, an executive elected to defer the gain related to the exercise of 107,100 options. As a result, the executive deferred the receipt of 79,870 shares of Common Stock for which the company's obligation to issue the shares is included within Stockholders' Equity.

The following table summarizes weighted-average information by range of exercise prices for stock options outstanding and exercisable at December 31, 1998:

Range of Exercise Prices	Options Outstanding at December 31, 1998	Weighted Average Exercise Price	Options Exercisable at December 31, 1998	Weighted Average Exercise Price	Weighted- Average Remaining Contractual Life
\$4.67 to \$5.63	537,600	\$5.16	537,600	\$ 5.16	2 years
\$8.67	163,200	8.67	163,200	8.67	4 years
\$16.33 to \$18.33	1,138,200	17.31	869,700	17.00	8 years
\$25.25 to \$29.83	183,900	27.30	175,050	27.25	9 years
	2,022,900		1,745,550		

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. Had compensation cost been determined based upon the fair value at the grant date for awards under the plans based on the

9. Stock Options (continued)

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)

	1998	1997	1996
Earnings:			
As reported	\$44,491	\$ 37,553	\$ 25,249
Pro forma	43,637	36,655	24,370
Earnings per share:			
As reported:			
Basic	\$1.89	\$1.36	\$.81
Diluted	1.84	1.33	.79
Pro forma:			
Basic	1.85	1.33	.78
Diluted	1.80	1.31	.77

The weighted-average fair value per option at the date of grant during 1998, 1997 and 1996 using the Black-Scholes option-pricing model, was \$6.26, \$7.51 and \$4.97, respectively. Assumptions were as follows:

	1998	1997	1996
Expected life (years)	4.0	4.0	4.0
Risk-free interest rate	4.6%	5.9%	6.3%
Dividend yield	2.1%	2.0%	2.1%
Expected volatility	44.1%	30.4%	34.7%

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10. Pension and Other Post-retirement Benefits

The company provides retirement benefits for all United States employees and has several foreign pension plans, none of which are material to the company's financial position. Plan assets consist primarily of marketable equities and debt securities. The company also has several unfunded defined benefit post-retirement plans covering certain hourly and salaried employees which provide medical and life insurance benefits from retirement to age 65.

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

Years ended December 31 (dollars in thousands)	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
Change in benefit obligations				
Benefit obligation at beginning of year	\$ (495,215)	\$ (441,766)	\$ (15,208)	\$ (14,999)
Service cost	(4,368)	(2,765)	(194)	(222)
Interest cost	(35,761)	(35,944)	(1,026)	(1,155)
Participant contributions	-	-	(165)	(132)
Plan amendments	(2,462)	(984)	-	1,133
Acquisitions	-	-	(1,627)	-
Actuarial losses including assumption changes	(25,543)	(47,014)	(129)	(1,334)
Benefits paid	35,752	33,258	2,037	1,501
Benefit obligation at end of year	\$ (527,597)	\$ (495,215)	\$ (16,312)	\$ (15,208)
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 580,865	\$ 503,933	\$ -	\$ -
Actual return on plan assets	83,743	110,190	-	-
Contribution by the company	-	-	1,872	1,369
Participant contributions	-	-	165	132
Benefits paid	(35,752)	(33,258)	(2,037)	(1,501)
Fair value of plan assets at end of year	\$ 628,856	\$ 580,865	\$ -	\$ -

Funded status	\$ 101,259	\$ 85,650	\$ (16,312)	\$ (15,208)
Unrecognized net transition asset	(2,376)	(3,315)	-	-
Unrecognized net actuarial gain	(51,985)	(47,378)	(1,755)	(2,046)
Unrecognized prior service cost	4,627	2,511	(981)	(1,133)
	-----	-----	-----	-----
Prepaid pension asset (accrued cost)	\$ 51,525	\$ 37,468	\$ (19,048)	\$ (18,387)
	=====	=====	=====	=====
Major assumptions as of December 31				
Discount rate	7.00%	7.25%	7.00%	7.25%
Expected return on plan assets	10.25%	10.25%	n/a	n/a
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Health care cost trend rate	n/a	n/a	6.00%	6.00%

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

Years ended December 31 (dollars in thousands)	Pension Benefits			Other Benefits		
	1998	1997	1996	1998	1997	1996

Components of net periodic benefit cost						
Service cost	\$ 4,368	\$ 2,765	\$ 2,815	\$ 194	\$ 222	\$ 298
Interest cost	35,761	35,944	9,610	1,026	1,155	1,318
Expected return on plan assets	(53,100)	(49,845)	(18,589)	-	-	-
Amortization of prior service cost	346	959	484	(152)	-	-
Amortization of transition asset	(939)	(939)	(1,791)	-	-	-
Amortization of net actuarial gain	-	-	(62)	(162)	(367)	(117)
	-----	-----	-----	-----	-----	-----
Benefit cost (income)	\$ (13,564)	\$ (11,116)	\$ (7,533)	\$ 906	\$ 1,010	\$ 1,499
	=====	=====	=====	=====	=====	=====

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.

Pursuant to the agreement to sell the automotive products business, the buyer assumed the obligations for all post-retirement benefits other than pensions. The company retained all existing pension assets as well as all pension benefit obligations earned through the closing date. Accordingly, investment return on these assets and interest cost on the obligation subsequent to the sale are included in the calculation of net periodic pension income, whereas, such amounts prior to the sale are excluded as they were allocated to the components of discontinued operations pension expense. Subsequent to the closing date, the buyer assumed the responsibility for pension service earned by active employees of the automotive business.

Accrued post-retirement benefit cost is included in the consolidated balance sheet in the accounts shown below:

December 31 (dollars in thousands)	1998	1997

Accrued liabilities	\$ 1,631	\$ 1,631
Post retirement benefit obligation	17,417	16,756
	-----	-----
Accrued postretirement benefit cost	\$19,048	\$ 18,387
	=====	=====

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 company has a defined contribution profit sharing and retirement plan covering salaried nonunion employees which provides for annual corporate 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's contribution, including amounts for discontinued operations through the sale date, was \$3.5, \$3.5 and \$5.3 million for 1998, 1997 and 1996, respectively.

11. Income Taxes

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

Years ended December 31 (dollars in thousands)	1998	1997	1996

Current:			
Federal	\$14,633	\$26,475	\$13,002
State	1,236	607	3,143
Foreign	718	894	708
Deferred	9,796	(4,917)	627
Business tax credits	(1,100)	(1,700)	(400)
	-----	-----	-----
Provision for income taxes	\$25,283	\$21,359	\$17,080
	=====	=====	=====

The tax provision differs from the statutory U.S. federal rate due to the following items:

Years ended December 31 (dollars in thousands)	1998	1997	1996

Provision at federal statutory rate	\$25,537	\$21,580	\$16,178
Foreign income taxes	(662)	(158)	5
State income and franchise taxes	1,807	1,450	1,581
Business and foreign tax credits	(1,100)	(1,700)	(400)
Non-deductible items	555	568	675
Foreign sales corporation benefit	(854)	(381)	(959)
	-----	-----	-----
Provision for income taxes	\$25,283	\$21,359	\$17,080
	=====	=====	=====

The domestic and foreign components of income from continuing operations before income taxes were as follows:

Years ended December 31 (dollars in thousands)	1998	1997	1996

Domestic	\$68,491	\$58,740	\$43,527
Foreign	4,472	2,916	2,696
	-----	-----	-----
	\$72,963	\$61,656	\$46,223
	=====	=====	=====

Total taxes paid by the company amounted to \$6.5, \$133.6 and \$29.9 million in 1998, 1997 and 1996, respectively.

No provision for U.S. income taxes has been made on the undistributed earnings of foreign subsidiaries as such earnings are considered to be permanently invested. At December 31, 1998, the undistributed earnings amounted to \$14.7 million. It is not practical to determine the income tax liability that would result had such earnings been repatriated. In addition, no provision or benefit for U. S. income taxes have been made on foreign currency translation gains or losses.

11. Income Taxes (continued)

The approximate 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)

	1998		1997	
	Assets	Liabilities	Assets	Liabilities
Employee benefits	\$15,374	\$20,754	\$12,765	\$13,655
Product liability and warranty	9,381	-	9,021	-
Depreciation differences	-	28,877	-	17,338
Finance leases	-	1,208	-	2,025
All other	-	4,883	-	5,361
	-----	-----	-----	-----
	\$24,755	\$55,722	\$ 21,786	\$38,379
	=====	=====	=====	=====
Net liability		\$30,967		\$16,593
		=====		=====

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)	1998	1997
Current deferred income tax assets	\$ 11,376	\$ 11,849
Long-term deferred income tax liabilities	(42,343)	(28,442)
	-----	-----
Net liability	\$ 30,967	\$ 16,593
	=====	=====

12. Litigation and Insurance Matters

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. The following paragraphs summarize noteworthy actions and proceedings.

A lawsuit for damages and declaratory judgments in the Circuit Court of Milwaukee County, State of Wisconsin, in which the company is plaintiff is pending against three insurance companies for failure to pay in accordance with liability insurance policies issued to the company. The insurers have failed to pay, in full or in part, certain judgments, settlements and defense costs incurred in connection with closed lawsuits alleging damages for economic losses claimed to have arisen out of alleged defects in Harvestore animal feed storage equipment ("underlying claims"). In October 1998, the Wisconsin Appellate Court, First District, entered an order which reversed the decision of the Circuit Court which had granted the company partial summary judgment against two insurance companies with respect to three of the underlying claims. The company's petition to the Wisconsin Supreme Court to accept its appeal of this decision was denied in January 1999 and the Appellate Court remanded the case to the trial court with directions to grant summary judgment in favor of the two insurance companies with respect to the subject underlying claims. The lawsuit is continuing in the trial court with respect to the balance of the underlying claims brought by the company against those two insurance companies and the third insurance company. While the company has, in part, assumed applicability of this coverage, an adverse judgment should not be material to its financial condition.

12. Litigation and Insurance Matters (continued)

When the United States Environmental Protection Agency ("EPA") or state environmental agencies (collectively "Regulatory Agencies") determine that hazardous substances have been released to the environment at a site (a "Contaminated Site"), they may designate parties they believe have contributed hazardous materials to the site as potentially responsible parties ("PRPs"). Under applicable environmental laws, each PRP that contributed hazardous substances to a Contaminated Site may be jointly and severally liable for the costs associated with cleaning up the site. Typically, PRPs negotiate with the relevant Regulatory Agencies regarding the selection and implementation of a plan to clean up the site and the terms of the PRPs' involvement in the process. PRPs also negotiate with each other regarding allocation of each PRP's share of the clean up costs.

As part of its routine business operations, the company disposes of and recycles or reclaims certain industrial waste materials, chemicals and solvents at disposal and recycling facilities which are licensed by appropriate Regulatory Agencies and are owned and operated by third parties unrelated to the company. The company is currently involved as a PRP in judicial and administrative proceedings initiated on behalf of Regulatory Agencies seeking to clean up eleven such Contaminated Sites and to recover costs they have incurred or will incur as to those sites. The company has also been designated a PRP with respect to a former mining site in Colorado which is a Contaminated Site being cleaned up by the EPA. The company held the majority of the stock of a Colorado mining company for a period of time from 1935 to 1942. Estimates of clean up costs at this site have exceeded \$150,000,000. The company maintains that its status as a stockholder does not confer any liability on it for remediation of the site and accordingly has not participated in remediation. Nonetheless, it is monitoring the EPA's actions with respect to the site. While it is impossible to rule out any EPA action, the company believes it has valid defenses to any liability at this site and will vigorously defend any claims made against it with respect to the site.

It is impossible at this time to estimate the total cost of remediation for the twelve Contaminated 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. Other uncertainties are based upon the current status of the law.

Expenditures and reserves related to cleaning up the environment at Contaminated Sites have not been material to the company in any single year, including 1998 and, based on information known to the company, are not expected to be material to the company in any single year in the future. The company has established reserves for these matters in a manner that is consistent with generally accepted accounting principles for costs associated with such clean ups 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 at the known Contaminated Sites. 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, 1998, the company had \$60 million of third-party product liability insurance for individual losses in excess of \$1.5 million and for aggregate losses in excess of \$10 million.

13. Operations by Segment

The company reevaluates its exposure on claims periodically and makes adjustments to its reserves as appropriate.

In 1998, the company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which supersedes SFAS No. 14, "Financial Reporting for Segments of a Business Enterprise, replacing the "Industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the company's reportable segments. SFAS No. 131 also requires disclosures about products and services, geographic areas and major customers. The adoption of SFAS No. 131 did not affect results of operations or financial position but did result in the restatement of the historical segment information presented for 1997 and 1996.

The company is organized based on the products it offers and under this organizational structure has two reportable segments: Electric Motor Technologies and Water System Technologies, with other insignificant segments being aggregated as "Other". The Electric Motor Technologies segment manufactures fan motors used in furnaces, air conditioners and blowers, as well as fractional horsepower motors used in other consumer products and jet pump motors sold to manufacturers of home water systems, 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, as well as subfractional horsepower motors used in appliances, builders' products and a number of other applications. The Water Systems Technologies segment manufactures residential gas and electric water heaters as well as commercial water heating systems used in a wide range of applications including hotels, laundries, car washes, factories and large institutions. The other segment is comprised of two operating segments; one manufactures fiberglass piping systems and the other manufactures liquid and dry bulk storage systems. Neither of these operating segments represented a minimum of ten percent of total segment revenues, assets or profits in 1998 and are not projected to achieve these thresholds in the near future.

The accounting policies of the 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), as adjusted for the pretax equity in the losses of the company's joint ventures, is used to measure the performance of the segments and allocate resources.

13. Operations by segment (continued)

Operations by segment Years ended December 31 (dollars in millions)	Earnings before Interest and Taxes			Net Sales		
	1998	1997	1996	1998	1997	1996
Electric Motor Technologies	\$55.7	\$45.0	\$42.4	\$480.0	\$390.7	\$337.1
Water Systems Technologies	29.6	28.9	29.0	294.8	287.5	291.3
Other	8.4	10.7	11.1	142.8	154.7	152.8
Total Segments	93.7	84.6	82.5	\$917.6	\$832.9	\$781.2
Financial Services	(0.6)	(4.1)	(2.8)			
General Corporate and Research and Development Expenses	(22.3)	(24.6)	(29.6)			
Interest (Expense) Income - Net	(3.1)	1.3	(7.8)			
Earnings from Continuing Operations before Income Taxes	67.7	57.2	42.3			
Provision for Income Taxes	(23.2)	(19.6)	(17.1)			
Earnings from Continuing Operations	\$ 44.5	\$ 37.6	\$25.2			

Electric Motor Technologies included sales to York International of \$128.5, \$93.5 and \$91.5 million in 1998, 1997 and 1996, respectively.

Net sales - continuing	\$222.9	\$196.2	\$226.7	\$224.9	\$243.3	\$206.0	\$224.7	\$205.8
Gross profit - continuing	45.8	42.8	47.8	48.6	47.0	38.9	46.4	40.4
Earnings								
Continuing	10.2	7.1	12.6	11.7	11.0	9.0	10.7	9.8
Discontinued	-	12.8	-	96.1	-	1.0	-	6.4
Net earnings	10.2	19.9	12.6	107.7	11.0	10.0	10.7	16.2
Basic earnings per share								
Continuing	.42	.23	.54	.41	.47	.34	.46	.39
Discontinued	-	.42	-	3.40	-	.04	-	.25
Net earnings	.42	.65	.54	3.81	.47	.38	.46	.64
Diluted earnings per share								
Continuing	.41	.23	.52	.40	.46	.33	.45	.37
Discontinued	-	.41	-	3.33	-	.04	-	.25
Net earnings	.41	.64	.52	3.73	.46	.37	.45	.62
Common dividends declared	.11	.11	.11	.11	.12	.11	.12	.11

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 7 for restrictions on the payment of dividends.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

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PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information included under the heading "Election of Directors" in the corporation's definitive Proxy Statement dated March 5, 1999 for the Annual Meeting of Stockholders to be held April 14, 1999 is incorporated herein by reference. The information required regarding Executive Officers of the corporation is included in Part I of this Form 10-K under the caption "Executive Officers of the Corporation."

The information included under the heading "Compliance with Section 16(a) of the Securities Exchange Act" in the corporation's definitive Proxy Statement dated March 5, 1999 for the Annual Meeting of Stockholders to be held on April 14, 1999 is incorporated herein by reference.

ITEM 11 - EXECUTIVE COMPENSATION

The information included under the heading "Executive Compensation" in the corporation's definitive Proxy Statement dated March 5, 1999 for the April 14, 1999 Annual Meeting of Stockholders 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.

In addition, the information so incorporated by reference is revised to reflect the following matters, which were unintentionally not reflected in such Proxy Statement:

- (a) the following should be added to the information under the heading "Director Compensation" in the Proxy Statement: "In 1998 the A. O. Smith Non-Employee Directors' Retirement Plan was terminated. The participation of current directors in the Plan ceased and shares of Common Stock with an aggregate market value equivalent to the present value of the director's future benefit under the Plan were awarded to each director. The shares awarded have been deferred under the Directors' Deferred Compensation Plan. A total of 13,138 shares of Common Stock were awarded and deferred including 3,338; 3,846; 3,338; 348 and 2,268 shares respectively for Messrs. Barrett, Schuenke, Arthur O. Smith and Bruce M. Smith and Dr.

Pytte".

- (b) Mr. Bertrand's salary for 1998 as set forth in the Summary Compensation Table should be \$220,000 rather than \$200,000.

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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 corporation's Proxy Statement dated March 5, 1999 for the April 14, 1999 Annual Meeting of Stockholders is incorporated herein by reference.

In addition, the information so incorporated by reference is revised to reflect the following, which was unintentionally not reflected in such Proxy Statement:

Amounts shown in the column the heading of which is "Amount and Nature of Beneficial Ownership" under the heading "Security Ownership of Directors and Management" in the Proxy Statement for Messrs. Barrett, Buehler, Pokelwaldt, Schuenke and Dr. Pytte and for all directors, nominees and executive officers as a group include 3,672; 295; 295; 4,180 and 2,602 shares, respectively, of Common Stock, the receipt of which such persons have deferred under the Directors' Deferred Compensation Plan. In addition, amounts shown in such column for Messrs. Arthur O. Smith and Bruce M. Smith do not include 3,672 and 682 shares, respectively, of Common Stock, the receipt of which such persons have deferred under the Directors' Deferred Compensation Plan, and the amount shown in such column for all directors, nominees and executive offices as a group does not include such shares.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information included under the headings and "Compensation Committee Interlocks and Insider Participation" in the corporation's Proxy Statement dated March 5, 1999 for the April 14, 1999 Annual Meeting of Stockholders is incorporated herein by reference.

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PART IV

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 Sheet at December 31, 1998 and 1997....	19
For each of the three years in the period ended December 31, 1998:	
- Consolidated Statement of Earnings	20
- Consolidated Statement of Comprehensive Income.....	20
- Consolidated Statement of Cash Flows.....	21
- Consolidated Statement of Stockholders' Equity	22
Notes to Consolidated Financial Statements.....	23 - 38

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

All other schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the last quarter of 1998.

(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 corporation 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(h) in the Index to Exhibits.

A. O. SMITH CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(000 Omitted)

Years ended December 31, 1998, 1997 and 1996

Description	Balance at Beginning of Year	Additions		Deductions 2	Balance at End of Year
		Charged to Costs and Expenses 1	Charged to Other Accounts		
1998:					
Valuation allowance for trade and notes receivable	\$ 2,840	\$ 1,027	\$ -	\$ 878	\$ 2,989
1997:					
Valuation allowance for trade and notes receivable	3,473	2,065	-	2,698	2,840
1996:					
Valuation allowance for trade and notes receivable	4,796	615	-	1,938	3,473

1 Provision (credit) based upon estimated collection.
2 Uncollectible amounts charged against the reserve

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; and Form S-8 No. 333-05799 filed June 12, 1996.

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: March 17, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below as of March 17, 1999 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	/s/Robert J. O'Toole ----- Robert J. O'Toole
Chairman of the Board of Directors, President and Chief Executive Officer	
GLEN R. BOMBERGER	/s/Glen R. Bomberger ----- Glen R. Bomberger
Executive Vice President, Chief Financial Officer and Director	
JOHN J. KITA	/s/John J. Kita ----- John J. Kita
Vice President, Treasurer and Controller	
TOM H. BARRETT, Director	/s/Tom H. Barrett ----- Tom H. Barrett
WILLIAM F. BUEHLER, Director	/s/William F. Buehler ----- William F. Buehler
KATHLEEN J. HEMPEL, Director	/s/Kathleen J. Hempel ----- Kathleen J. Hempel
ROBERT N. POKELWALDT, Director	/s/Robert N. Pkelwaldt ----- Robert N. Pokelwaldt
AGNAR PYTTE, Director	/s/Agnar Pytte ----- Agnar Pytte
DONALD J. SCHUENKE, Director	/s/Donald J. Schuenke ----- Donald J. Schuenke

ARTHUR O. SMITH, Director

/s/Arthur O. Smith

Arthur O. Smith

BRUCE M. SMITH, Director

/s/Bruce M. Smith

Bruce M. 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)	(a) The corporation's outstanding long-term debt is described in Note 7 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% 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 & Exchange Commission, upon request, copies of any instruments defining rights of holders of long-term debt described in Note 7. (b) Fourth Amendment dated June 19, 1996 to the Amended and Restated Credit Agreement dated as of February 26, 1993 incorporated by reference to the quarterly report on Form 10-Q for the quarter ended June 30, 1996. (c) A. O. Smith Corporation Restated Certificate of Incorporation as amended April 5, 1995 [incorporated by reference to Exhibit (3) (i) above]
(10)	Material Contracts (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) (b) 1980 Long-Term Executive Incentive Compensation Plan incorporated by reference to the corporation's Proxy Statement dated March 1, 1988 for an April 6, 1988 Annual Meeting of Shareholders (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 (d) Supplemental Benefit Plan, as amended, incorporated by reference to the Annual Report on Form 10-K for the fiscal year ended December 31, 1992 (e) Executive Life Insurance Plan, incorporated by reference to the Annual Report on Form 10-K for the fiscal year

ended December 31, 1992

- (f) 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

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INDEX TO EXHIBITS (continued...)

Exhibit Number	Description
*(21)	Subsidiaries
*(23)	Consent of Independent Auditors
*(27.1)	Financial Data Schedules
*(27.2)	Restated Financial Data Schedule for fiscal year ended December 31, 1997.

*Filed Herewith

EXHIBIT 21

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
A. O. Smith Export, Ltd.	Barbados
A. O. Smith Enterprises Ltd.	Canada
A. O. Smith L'eau Chaude S.a.r.l.	France
A. O. Smith Warmwasser-Systemtechnik GmbH	Germany
A. O. Smith Electric Motors (Ireland) Ltd.	Ireland
A. O. Smith Holding (Ireland) Ltd.	Ireland
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 Water Products Company B.V.	The Netherlands
A. O. Smith (China) Water Heater Co., Ltd.	China
Harbin A. O. Smith Fiberglass Products Company Limited (HSF)	China

EXHIBIT 23

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 and 333-05799) pertaining to the 1980 Long-Term Executive Incentive Compensation Plan and the 1990 Long-Term Executive Incentive Compensation Plan of A. O. Smith Corporation and in the related prospectuses of our report dated January 18, 1999, 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, 1998.

ERNST & YOUNG LLP

Milwaukee, Wisconsin
March 17, 1999

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF A.O. SMITH CORPORATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF A.O. SMITH CORPORATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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