

REGISTRATION NO. 333-86074

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

A. O. SMITH CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

39-061970
(I.R.S. Employer
Identification No.)

11270 WEST PARK PLACE
MILWAUKEE, WI 53224-9508
(414) 359-4000
(Address, including zip code, and telephone number, including area code, of
registrant's principal executive offices)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as
practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant
to dividend or interest reinvestment plans, please check the following box. []

If any of the securities being registered on this Form are to be offered on a
delayed or continuous basis pursuant to Rule 415 under the Securities Act of
1933, other than securities offered only in connection with dividend or interest
reinvestment plans, please check the following box. []

If this Form is filed to register additional securities for an offering pursuant
to Rule 462(b) under the Securities Act, please check the following box and list

the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THIS OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION -- APRIL 19, 2002

[AOSMITH LOGO]

3,500,000 SHARES OF COMMON STOCK

We are offering 3,500,000 shares of our common stock. We have two classes of common equity: our common stock being offered by this prospectus and our class A common stock. The holders of our common stock are entitled to elect 25 percent of the members of our board of directors and to one-tenth of one vote on all other matters.

Our common stock is listed on the New York Stock Exchange under the symbol "AOS." The last reported sale price of our common stock on April 18, 2002 was \$29.15 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" ON PAGE 9.

PER SHARE TOTAL -----
Public offering
price.....
\$ \$ Underwriting discounts and
commissions..... \$ \$
Proceeds to A. O. Smith
Corporation..... \$ \$

We have granted the underwriters a 30-day option to purchase up to an additional 525,000 shares to cover over-allotments.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

ROBERT W. BAIRD & CO.

BANC OF AMERICA SECURITIES LLC

BEAR, STEARNS & CO. INC.

, 2002

OUTSIDE GATEFOLD:

"COMFORT, CONVENIENCE, SECURITY, AND FUN . . ."

"Every day, people come in contact with the quality products of A. O. Smith Corporation.

Our electrical motors and water heaters help make your life a little more comfortable, a little more convenient . . . and even more fun . . . where you live, work, and play."

[LEGEND Logo], [STATE WATER HEATERS logo], [UNIVERSAL ELECTRIC logo], [A. O. SMITH PROMAX logo], [A. O. SMITH WATER PRODUCTS COMPANY logo], [A. O. SMITH CENTURY logo], [CYCLONE XHE logo], [A. O. SMITH MASTER-FIT PLUS logo], [SEALED SHOT logo], [A. O. SMITH ELECTRICAL PRODUCTS COMPANY logo], [APCOM logo], [DURA-MAX logo], and [A. O. SMITH logo].

INSIDE GATEFOLD - LEFT SIDE:

Top of page:

[A. O. Smith Logo] "COMFORT, CONVENIENCE, SECURITY, AND FUN . . .

A. O. Smith At a Glance

Quality products manufactured by A. O. Smith are found at home, at work, or just about anywhere that people live, work, or play."

[Page includes twelve separate descriptions and pictures of selected A. O. Smith products. The descriptions and pictures are placed as follows around an illustration of a single-family home that depicts the locations of each of the twelve products in or around the home:

Product 1: "Precision hermetic motors for unitary air conditioning compressors"; [Picture of example product connected to a window air conditioner]

Product 2: "Cost-effective C-frame motors are used in residential ventilation applications such as bathroom fans and range hood fans"; [Picture of example product connected to a kitchen range hood]

Product 3: "Compact C-frame motors for appliances such as frost-free refrigerators and humidifiers"; [Picture of example product connected to a refrigerator]

Product 4: "Dependable fractional horsepower fan motors for attic fans and whole-house fan applications"; [Picture of example product connected to an attic fan]

Product 5: "Reversible garage door opener motors designed for frequent cycles in all types of weather"; [Picture of example product connected to a garage door opener]

Product 6: "Fractional horsepower electric motors are used on power sprayers and small air compressors;" [Picture of example product connected to a portable air compressor]

Product 7: "Manufacturers of swimming pool pumps use dependable A. O. Smith and Century(R)two-compartment switched and switchless pump motors"; [Picture of example product connected to a swimming pool pump]

Product 8: "A. O. Smith makes single-speed and two-speed motors for whirlpools, spas, and jetted tubs"; [Picture of example product connected to a whirlpool tub]

Product 9: "DC motors are used for treadmills and other exercise equipment"; [Picture of example product connected to a treadmill]

Product 10: "A. O. Smith has the right product and the right efficiency residential water heater for any size home. Water heaters may be vented conventionally or, for today's energy-efficient houses, direct vented or power vented"; [Picture of example product connected to a residential water heater]

Product 11: "Durable pump motors for continuous-duty applications such as sump pumps"; [Picture of example product connected to a sump pump]

Product 12: "Dependable fractional horsepower fan and blower motors for furnaces, air conditioners, and heat pumps"; [Picture of example product connected to a furnace]

INSIDE GATEFOLD - RIGHT SIDE:

[Page includes thirteen separate descriptions and pictures of selected A. O. Smith products. The descriptions and pictures are placed as follows around an illustration of a hotel that depicts the locations of each of the thirteen products in or around the hotel:

Product 1: "A. O. Smith manufactures hermetic motors in sizes up to 400 horsepower for commercial air conditioning equipment and rooftop chillers"; [Picture of example product connected to an air conditioner]

Product 2: "Totally enclosed, drip-proof integral horsepower motors for continuous-duty fan and blower applications, such as commercial air conditioning equipment"; [Picture of example product connected to an air conditioner]

Product 3: "94 percent efficiency, zero-clearance to combustibles design, and direct venting make the Cyclone XHE(R) water heater well-suited to many commercial applications"; [Picture of example product connected to a commercial water heater]

Product 4: "A. O. Smith supplies integral horsepower and fractional horsepower electric motors for commercial washing machines and dryers"; [Picture of example product connected to a commercial washing machine and a commercial dryer]

Product 5: "Submersible integral motors power hydraulic and inverter traction-driven elevators. Reliable integral DC motors open elevator doors"; [Picture of example product connected to an elevator door]

Product 6: "Durable, reversible fractional horsepower motors for commercial gate openers"; [Picture of example product connected to a commercial gate opener]

Product 7: "For applications that require large amounts of hot water or hot water at multiple temperatures, including sanitizing water, A. O. Smith offers custom-designed commercial water heaters and hot water storage tanks"; [Picture of example product connected to a commercial hot water heater]

Product 8: "High-efficiency copper-tube boilers are used for large-volume hot water applications for hydronic heating"; [Picture of example product connected to a hydronic heater]

Product 9: "For continuous-duty applications, such as sump or sewage pumps, customers rely on durable A. O. Smith fractional horsepower pump motors"; [Picture of example product connected to a sump pump]

Product 10: "Single-speed and two-speed two-compartment pool motors"; [Picture of example product connected to a pool motor]

Product 11: "Fractional horsepower electric motors are used for pool sweepers and related leisure-time equipment"; [Picture of example product connected to a pool sweeper]

Product 12: "Fractional horsepower ventilation motors for commercial convection ovens and commercial rangehood fans"; [Picture of example product connected to a commercial convection oven]

Product 13: "Specialty motors for carbonated dispenser pumps and vending machines"; [Picture of example product connected to a vending machine]]

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YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH INFORMATION THAT IS DIFFERENT FROM THAT CONTAINED IN THIS PROSPECTUS. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, SHARES OF OUR COMMON STOCK ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. YOU SHOULD ASSUME THAT THE INFORMATION IN THIS PROSPECTUS AND THE DOCUMENTS INCORPORATED BY REFERENCE IS ACCURATE ONLY AS OF THE RESPECTIVE DATES OF THOSE DOCUMENTS IN WHICH THE INFORMATION IS CONTAINED. OUR BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS, AND PROSPECTS MAY HAVE CHANGED SINCE THOSE DATES.

The underwriters are offering the shares subject to various conditions and may reject all or part of any order. Delivery of the shares of our common stock will be made on or about , 2002.

We have registered the following trademarks, which are used in this prospectus: A. O. SMITH, BURKAY, CENTURY, CYCLONE XHE, DURA-MAX, LEGEND, MASTER-FIT, PROMAX, and RELIANCE. We also own the following trademarks and trade names, which are used in this prospectus: APCOM, SEALED SHOT, STATE, UNIVERSAL, and UPPCO.

Unless the context requires otherwise, references in this prospectus to "we," "us," "our," or "ours" refer collectively to A. O. Smith Corporation and its subsidiaries. Unless otherwise stated, the information contained in this prospectus assumes the underwriters do not exercise the over-allotment option.

FORWARD-LOOKING STATEMENTS

This prospectus, including the information we incorporate by reference into this prospectus, contains statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts, including statements regarding our future financial position, business strategy, budgets, projected sales, costs and earnings, and plans and objectives for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "continue," or words of similar meaning. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated as of the date of this prospectus. Factors that could cause such a variance are disclosed in the section "Risk Factors" and elsewhere in this prospectus and include the following:

- - instability in our electrical products and water systems markets
- - our inability to timely and properly integrate our acquisition of State Industries, Inc.
- - our inability to implement cost-reduction programs
- - adverse changes in general economic conditions
- - competitive pressures on our businesses

The forward-looking statements included in this prospectus are made only as of the date of this prospectus, and we undertake no obligation to update publicly these statements to reflect subsequent events or circumstances. We urge you to review carefully the section "Risk Factors" for a more complete discussion of the risks of an investment in our common stock.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus. Because this is a summary, it is not complete and does not contain all of the information that may be important to you. For a more complete understanding of us and this offering of our common stock, we encourage you to read this prospectus in its entirety and the other documents to which we have referred you.

A. O. SMITH CORPORATION

OVERVIEW

We are a leading manufacturer of electric motors and water heating equipment, serving a diverse mix of residential, commercial, and industrial end markets principally in the United States with a growing international presence. Our company is organized in two segments: electrical products and water systems. Our electrical products business manufactures and markets a comprehensive line of hermetic motors, fractional horsepower alternating current (AC) and direct current (DC) motors, and integral horsepower motors. Our water systems business manufactures and markets a comprehensive line of residential gas and electric water heaters, standard and specialty commercial water heating equipment, high-efficiency copper-tube boilers, and water systems tanks. In 2001, on a pro forma basis for our December 2001 acquisition of State Industries, Inc., we had net sales of approximately \$1.5 billion, with 55 percent attributable to our electrical products business and 45 percent attributable to our water systems business.

Our electric motors are used in a wide variety of targeted applications, including heating, ventilating and air conditioning systems, commonly known as HVAC systems; pools, spas and water well pumps; garage door openers; overhead cranes; elevators; and industrial pumps. We primarily sell our electric motors directly to original equipment manufacturers, or OEMs. We also market our motor products through wholesale distributors who sell to smaller OEMs and aftermarket customers. Our residential and commercial water heaters are used in a wide variety of targeted applications, including homes, apartments, schools, hospitals, hotels, laundries, restaurants, stadiums and other large users of hot water. Our water systems wholesale distribution channel includes more than 2,600 wholesale plumbing distributors that serve residential, commercial, and industrial markets. We also sell our residential water heaters through the retail channel. In this channel, our customers include four of the six largest national hardware and home center chains, including a long-standing private label relationship with Sears, Roebuck and Co.

During the past five years, we have significantly repositioned our company. We have changed from a diversified manufacturer with five businesses, the largest of which was our legacy automotive structural components business that represented more than 50 percent of our total sales, to a company focused on our electrical products and water systems businesses, which we believe offer the opportunity for higher growth and more profitability. We divested our automotive structural components business in 1997, realizing pre-tax proceeds of \$770 million. By January 2001, we completed our repositioning with the divestiture of our storage and fluid handling businesses. During this period of time, we also made the following key acquisitions in our core electrical products and water systems businesses, which significantly broadened our product offerings and customer base:

- - In March 1997, we acquired UPPCO, Inc., a manufacturer of C-frame sub-fractional horsepower AC motors, which had annual sales of approximately \$70 million

- - In July 1998, we acquired General Electric Company's domestic hermetic motor business, which had annual sales of approximately \$120 million
- - In August 1999, we acquired MagneTek, Inc.'s electric motor business, which had annual sales of approximately \$380 million
- - In December 2001, we nearly doubled the size of our water systems business by acquiring State Industries, a manufacturer of residential and commercial water heating systems, which had annual sales of approximately \$320 million

OUR COMPETITIVE STRENGTHS

With the completion of our repositioning, we believe we possess the scale and competitive strengths necessary to continue to succeed in our targeted markets. Our principal competitive strengths are set forth below.

Market Leadership. We are one of the three largest manufacturers of electric motors in North America, having manufactured approximately 36 million electric motors in 2001. We believe we are among the leaders in North America in manufacturing and selling hermetic and fractional horsepower motors, and we have the leading position in the pool and spa motors niche. We are one of the two largest manufacturers of water heaters in North America, having produced more than 3 million units on a pro forma basis in 2001. We have a leading position in the higher-margin commercial water heater segment. With our acquisition of State Industries, we are now positioned to expand our presence in the residential market through the home center retail channel.

Low-Cost Manufacturing Capabilities. We have been, and will continue to be, proactive in shifting our manufacturing operations to lower-cost locations. We were one of the first United States manufacturers of electric motors and water heaters to capitalize on the low-cost manufacturing potential of Mexico, and we currently produce approximately 75 percent of our electric motors and 20 percent of our residential water heaters in our 17 Mexican manufacturing facilities. In addition to being low cost, we believe these facilities are widely regarded within our industries as high-quality manufacturing operations. Our recent acquisition of a motor manufacturer in China provides us with another platform to manufacture products at lower costs.

Comprehensive Product Offerings with Leading Brands. We believe we offer the most comprehensive product lines in our targeted markets. These offerings give us a competitive advantage by enabling us to offer a broad range of products that fulfill most electric motor and water heating needs of our customers. Many of our brand names, including A. O. Smith, Reliance, and State, are widely recognized within our industries and, we believe, are known for their high quality, reliability, and performance. Our comprehensive product offerings and strong brand identities have created customer loyalty and help us to maintain existing business, as well as capture additional sales, particularly as many of our customers seek to consolidate their supplier bases.

Operational and Engineering Flexibility. Our ability to offer fast, innovative, and practical solutions to our customers is one of the reasons we have achieved a leading position in many of our targeted markets. Our engineering centers are staffed with highly qualified, experienced engineers focused on quickly responding to our customers' needs by enhancing existing products and developing new products on a timely basis. In addition, our engineers work with our sales and marketing organization to develop new products that meet our

customers' evolving application needs and cost requirements. During the last three years, we have invested on average over \$25 million annually in research and development.

Strong Relationships with Our Customers. We have established long-standing, strong relationships with leading OEM customers, distributors, and retailers. For many of our customers, we supply all or substantially all of their requirements for the products we offer, and several of our customer relationships date back for more than 40 years. In our water systems business, we believe we offer the most extensive aftermarket technical support program, and most of our customers use our personnel to provide support directly to their end users.

Recurring Replacement Market Sales. We sell electric motors and water heaters to customers who often provide replacement products to end users. As a result, a substantial portion of our sales are less susceptible to the cyclicity inherent to many manufacturers because it is often essential to the end user's business or home to make the replacement purchase. In 2001, we believe approximately 50 percent of our electrical products segment's net sales and 80 percent of our water systems segment's pro forma net sales resulted from the replacement needs of end users.

Experienced Management Team. Our senior management team has significant experience in manufacturing, marketing, and sales. In addition, this team is experienced in the acquisition and integration of businesses, aggressive cost management, global operations, and efficient manufacturing techniques, all of which are critical to our long-term business strategy. We have a track record of acquiring complementary businesses and product lines, integrating them into our organization, and aggressively managing their cost structures.

OUR BUSINESS STRATEGY

We intend to use our competitive strengths to increase sales and profitability through the initiatives outlined below.

Focus On Organic Growth. We believe our "customer first" philosophy, customer relationships, and product development capabilities will enable us to grow our net sales. Our specific organic growth initiatives include the following:

- - **Increase Sales to Existing Customers.** We are focused on securing additional sales to existing customers. Our relationships with leading multi-national manufacturers, distributors, and retailers, when combined with our expanded product offerings, provide us with opportunities for growth. For example, in 2001, our net sales of electrical products to York International Corporation were \$172 million, an increase of approximately 83 percent from \$94 million in 1997. Similarly, in 2001, our pro forma net sales of water systems products to our top five wholesale distributors were \$154 million, an increase of approximately 63 percent from \$94 million in 1997 to these same customers. We expect that our expanded product offerings will allow us to continue to increase sales to existing customers.
- - **Introduce New Products.** We will continue to introduce differentiated products in our targeted markets. We work closely with our customers to develop new products or enhancements to existing products that improve performance and meet their needs. We pride ourselves on our ability to understand our customers' needs, and design, test, and build a product that matches those needs. For example, our electrical products business recently introduced two new lines of hermetic motors for use in commercial air

conditioners. The first is a redesigned motor that provides 20 percent more horsepower with only an eight percent increase in motor size, while the second is a new line of motors for use in commercial scroll compressors. In addition, during the last five years, our water systems business added several new products, including our Cyclone XHE commercial water heater, Genesis Burkay copper-tube boiler, and Master-Fit line of commercial water heaters.

- - Expand Internationally. To complement our North American capabilities, we have established a manufacturing presence in Europe and Asia, and we are prepared to expand further to serve our OEM customers as they increase their focus on international markets. We also intend to continue to identify and directly serve niche markets outside of North America that we believe offer significant growth opportunities. For example, we began manufacturing and marketing water heaters in China in 1998 from our plant in Nanjing and have grown this business to approximately \$26 million in sales in 2001. In addition, we have entered into a marketing agreement with Aquecedores Cumulus S/A, the second-largest water heater manufacturer in Brazil, which allows us to sell our high-efficiency commercial water heater products in that country.

Continue to Lower Manufacturing Costs. We are committed to being a low-cost supplier. We continuously seek ways to lower costs, enhance product quality, increase manufacturing efficiencies, and increase product throughput. The major cost-saving initiatives that we have in process are:

- - Complete the MagneTek Motor Operations Integration. We have recently achieved our target of approximately \$35 million of annualized cost savings in the areas of raw materials purchasing, facility and product line rationalization, and selling, general and administrative cost reductions since our acquisition of the MagneTek motor operations in 1999. We are in the process of transferring additional portions of our component and motor assembly operations to our lower-cost Mexican operations and plan to complete these transitions by the first quarter of 2003, which we expect will result in additional annual cost savings of approximately \$2 million.
- - Further Reduce Costs in Our Electrical Products Operations. In addition to the cost savings resulting from our MagneTek integration, during the fourth quarter of 2001, we initiated several cost-reduction programs in our electrical products business, including transferring six additional product manufacturing lines to our lower-cost Mexican operations, reducing the electrical products salaried workforce by 10 percent, and realigning our motor warehouse operations to improve distribution efficiencies. We believe these actions will enable us to achieve cost savings of more than \$16 million in 2002 and \$20 to \$25 million annually in subsequent years.
- - Selectively Manufacture in China. Although our Mexican operations, with their scale and production flexibility, will continue to be the best solution for supplying many of our customers, we believe that manufacturing in China offers an opportunity to complement our Mexican manufacturing for selected products, such as smaller size, higher order volume electric motors. With our December 2001 acquisition of Shenzhen Speeda Industrial Co., Ltd., a manufacturer of sub-fractional horsepower electric motors, we now have a platform to manufacture electric motors in China.
- - Integrate State Industries and Realize Operating Synergies. Our acquisition of State Industries provides us with access to new markets and an opportunity to improve the operations and efficiency of our overall water systems business. We are moving our water

systems business headquarters to State Industries' headquarters in Ashland City, Tennessee, to facilitate the integration of State Industries with our existing water systems operations. Our integration plan will enable us to take advantage of the best practices of the two organizations to improve efficiencies, rationalize our product lines, and reduce costs in the business. We have identified immediate cost-reduction opportunities, including management reductions, raw materials purchasing savings, and freight and logistics savings, and we believe that these actions will enable us to realize cost savings of approximately \$5 million in 2002, \$10 to \$12 million in 2003, and over \$15 million annually in subsequent years.

Pursue Strategic Acquisitions. We have been a consolidator in our targeted markets, and we believe we have assembled the scale necessary to continue to succeed in these markets. We will pursue complementary strategic acquisitions that allow us to leverage the marketing, engineering, and manufacturing strengths of our businesses. Our current acquisition criteria generally require that a potential candidate participates in a market segment growing faster than 10 percent per year and offers attractive profit margins.

CORPORATE INFORMATION

Our principal executive offices are located at 11270 West Park Place, Milwaukee, Wisconsin 53224-9508, and our telephone number is (414) 359-4000. Our website address is www.aosmith.com. However, the information contained on our website is not part of this prospectus.

THE OFFERING

Common stock offered by A. O. Smith Corporation.....	3,500,000 shares
Common stock to be outstanding after the offering.....	18,718,012 shares
Class A common stock outstanding before and after the offering.....	8,638,989 shares
Common stock and class A common stock outstanding after the offering.....	27,357,001 shares
Use of proceeds.....	We expect to use the net proceeds of the offering to reduce debt under our multi-year credit facility
New York Stock Exchange symbol of common stock.....	AOS
Risk factors.....	See the section entitled "Risk Factors" on page 9 for a discussion of factors you should consider carefully before deciding to buy our common stock

The number of shares of common stock and class A common stock outstanding after this offering is based on the actual number of shares outstanding as of March 31, 2002, and excludes:

- - 2,654,300 shares of common stock issuable upon exercise of options outstanding as of March 31, 2002, at a weighted average exercise price of \$17.08 per share; and
- - 1,664,950 shares of common stock available for future grants under our stock option plans, including 1,500,000 shares available for future grants under the stock option plan that our stockholders adopted on April 8, 2002.

The number of shares of common stock offered and to be outstanding assumes that the underwriters have not exercised their over-allotment option. If the underwriters exercise their over-allotment option in full, then we will issue and sell an additional 525,000 shares of our common stock and will have 19,243,012 shares of our common stock outstanding after the offering.

Each share of our class A common stock is convertible into one share of our common stock at any time at the holder's option. See "Description of Capital Stock."

SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table presents summary historical consolidated financial data as of and for each of the five years ended December 31, 2001, which have been derived from our audited consolidated financial statements, and as of and for each of the three months ended March 31, 2001 and 2002, which have been derived from our unaudited interim consolidated financial statements. You should read this information together with "Selected Historical Consolidated Financial Data," "Management's Discussion and Analysis of Results of Operations and Financial Condition," and our consolidated financial statements and related notes included elsewhere in this prospectus (except for the consolidated financial statements as of and for the years ended December 31, 1997 and 1998, which are not included in this prospectus).

FOR THE THREE MONTHS FOR THE YEARS ENDED
 DECEMBER 31, (1) ENDED MARCH 31, -----

----- 1997(2) 1998(3) 1999(4)
 2000 2001(5)(6) 2001(6) 2002 -----

-- (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)
 STATEMENT OF EARNINGS DATA(7): Continuing
 Operations: Net

sales.....	\$703.1	\$800.8	\$1,070.3	\$1,247.9	\$1,151.2	\$	
318.2	\$	371.9	Cost of products				
sold.....			543.4	623.2	839.5		
999.8	948.8	259.4	295.0	-----	-----	-----	-----
profit.....							
159.7							
177.6	230.8	248.1	202.4	58.8	76.9	Selling,	
general and administrative							
expenses.....							
105.8	105.2	136.3	153.7	145.7	38.1	53.2	
Interest expense.....							
6.6	5.9	12.8	22.1	16.4	4.8	4.2	Amortization
of intangibles.....							
0.9	2.5	5.2					
6.9	7.0	1.7	0.1	Restructuring and other			
charges.....							
--	--	--	--	9.4	--	--	
Other (income) expense -- net.....							
(6.7)	(2.9)	(0.6)	0.3	1.4	0.7	0.8	-----
-----	-----	-----	-----	-----	-----	-----	-----
---- Earnings before income							
taxes.....							
53.1	66.9	77.1	65.1	22.5			
13.5	18.6	Provision for income					
taxes.....							
18.4	23.2	26.8	23.4				
8.0	5.0	6.5	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----	-----
----- Earnings before							
equity in loss of joint							
ventures.....							
34.7	43.7	50.3	41.7	14.5	8.5	12.1	Equity in
loss of joint ventures.....							
(2.6)							
(3.0)	--	--	--	--	--	--	-----
-----	-----	-----	-----	-----	-----	-----	-----
----- Earnings							
from continuing operations.....							
32.1							
40.7	50.3	41.7	14.5	8.5	12.1	Discontinued	
Operations: Operating earnings							
(loss).....							
20.7	3.8	(0.9)	--	--	--	--	
--	--	--	Gain (loss) on				
disposition.....							
101.0	--	(7.0)					
(11.9)	--	--	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----	-----
----- 121.7	3.8						
(7.9)	(11.9)	--	--	--	--	--	-----
-----	-----	-----	-----	-----	-----	-----	-----
----- Net							
earnings.....							
\$153.8	\$ 44.5	\$ 42.4	\$ 29.8	\$ 14.5	\$ 8.5	\$	
12.1	=====	=====	=====	=====	=====	=====	
=====	=====	=====	=====	=====	=====	=====	
----- Basic Earnings							
(Loss) per Share: Continuing							
operations.....							
\$ 1.16	\$						
1.73	\$ 2.17	\$ 1.78	\$ 0.61	\$ 0.36	\$ 0.51		
Discontinued operations.....							
4.41	0.16	(0.34)	(0.51)	--	--	--	-----
-----	-----	-----	-----	-----	-----	-----	-----
----- Net							
earnings.....							
\$							

5.57	\$ 1.89	\$ 1.83	\$ 1.27	\$ 0.61	\$ 0.36	\$
0.51	=====	=====	=====	=====	=====	=====
===== Diluted Earnings						
(Loss) per Share: Continuing						
operations.....	\$ 1.14	\$				
1.68	\$ 2.11	\$ 1.76	\$ 0.61	\$ 0.36	\$ 0.50	
Discontinued operations.....						
4.32	0.16	(0.33)	(0.50)	--	--	----

--- Net						
earnings.....	\$					
5.46	\$ 1.84	\$ 1.78	\$ 1.26	\$ 0.61	\$ 0.36	\$
0.50	=====	=====	=====	=====	=====	=====
===== Average Shares						
Outstanding(8):						
Basic.....						
27.6	23.6	23.2	23.4	23.6	23.5	23.8
Diluted.....						
28.2	24.2	23.8	23.7	23.9	23.8	24.3
BALANCE SHEET DATA (AT PERIOD END): Cash and cash						
equivalents.....						
\$145.9	\$					
37.7	\$ 14.8	\$ 15.3	\$ 20.8	\$ 13.1	\$ 21.9	
Working						
capital.....	237.8					
155.2	217.7	227.0	221.6	238.0	224.1	Total
assets.....						
682.8	736.6	1,065.6	1,064.9	1,293.9	1,052.2	
1,305.2 Long-term						
debt.....	101.0					
131.2	351.3	316.4	390.4	295.7	378.9	Total
stockholders' equity.....						
399.7	401.1	431.1	448.4	451.9	452.7	466.1
OTHER FINANCIAL DATA(9): Capital						
expenditures.....	\$ 37.4					
\$ 18.5	\$ 32.8	\$ 40.5	\$ 35.3	\$ 9.5	\$ 7.1	
Depreciation and						
amortization.....	21.6	26.5	37.3			
45.1	47.1	11.4	12.3			
EBITDA(10).....						
72.4	95.6	125.8	131.6	85.7	29.6	35.0
Cash provided by (used in) operating						
activities.....						
73.5	65.6	47.8	75.2	49.8	(13.3)	22.9

-
- (1) We have accounted for our former fluid handling, liquid and dry storage, and automotive structural components businesses as discontinued operations in our consolidated financial statements. On April 18, 1997, we sold our automotive structural components business, exclusive of our Mexican automotive affiliate, and on October 1, 1997, we sold our 40 percent interest in our Mexican affiliate. On December 8, 2000, we sold our fluid handling business, and on January 10, 2001, we sold our storage business. See Note 3 to the consolidated financial statements included elsewhere in this prospectus.
 - (2) On March 31, 1997, we acquired UPPCO, Inc. for \$60.9 million.
 - (3) On July 1, 1998, we acquired certain assets of General Electric Company's domestic hermetic motor business for \$125.6 million.
 - (4) On August 2, 1999, we acquired MagneTek, Inc.'s domestic electric motor business for \$244.6 million. See Note 2 to the consolidated financial statements included elsewhere in this prospectus.
 - (5) On December 28, 2001, we acquired all of the outstanding stock of State Industries, Inc. for an aggregate purchase price of \$117.2 million, and in December 2001, we acquired 100 percent of the capital stock of Shenzhen Speeda Industrial Co., Ltd. for a total purchase price of \$3.3 million. See Note 2 to the consolidated financial statements included elsewhere in this prospectus.
 - (6) The statement of earnings data for the year ended December 31, 2001 and the three months ended March 31, 2001 do not include any results of operations of State Industries, Inc.
 - (7) Includes the results of the acquired businesses from their respective dates of acquisition.
 - (8) Adjusted for a three-for-two stock split in August 1998. Includes shares of common stock and class A common stock.
 - (9) Data shown is for continuing operations only.
 - (10) EBITDA consists of earnings before income taxes plus depreciation and amortization and interest expense, less interest income. We have presented EBITDA information solely as a supplemental disclosure because we believe it allows for a more complete analysis of the results of our operations and enables investors to determine our ability to service or incur indebtedness. EBITDA should not be construed as an alternative to earnings from continuing operations, net earnings, or cash flows from operating activities, as determined in accordance with accounting principles generally accepted in the United States. In addition, not all companies that report EBITDA information calculate EBITDA in the same manner as we do, and accordingly, our calculation is not necessarily comparable to similarly entitled measures of other companies and may not be an appropriate measure for performance relative to other companies.

RISK FACTORS

You should carefully consider the risk factors set forth below and all other information contained in this prospectus, including the documents incorporated by reference, before making an investment decision regarding our common stock. If any of the events contemplated by the following risks actually occurs, then our business, financial condition, or results of operations could be materially adversely affected. As a result, the trading price of our common stock could decline, and you may lose all or part of your investment. The risks and uncertainties below are not the only risks facing our company.

BECAUSE WE PARTICIPATE IN MARKETS THAT ARE HIGHLY COMPETITIVE, OUR REVENUES COULD DECLINE AS WE RESPOND TO COMPETITION.

We sell all of our products in highly competitive markets. We compete in each of our targeted markets based on product design, quality of products and services, product performance, maintenance costs, and price. We compete against manufacturers located in the United States and throughout the world. We also face potential competition from some OEMs to whom we sell our electrical products and from our customers and the end users of our products, who continually assess any costs that could be reduced by vertically integrating or using other alternate sources for the products we manufacture. A few of our competitors have greater financial, marketing, manufacturing, and distribution resources than we have. We cannot assure you that our products and services will continue to compete successfully with those of our competitors or that we will be able to retain our customer base or improve or maintain our profit margins on sales to our customers, all of which could materially and adversely affect our financial condition, results of operations, and cash flows.

SOME OF OUR MARKETS ARE CYCLICAL, AND A DECLINE IN ANY OF THESE MARKETS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATING PERFORMANCE.

Our electrical products business is cyclical and dependent on consumer spending and is therefore impacted by the strength of the economy generally, interest rates, and other factors. Economic factors adversely affecting OEM production and consumer spending could adversely impact our business. During recessionary periods, we have been adversely affected by reduced demand for our products. OEM production experienced a downturn in 2000 and 2001, which adversely affected demand for our electrical products. This downturn may continue or become more severe.

WE DEPEND ON REVENUES FROM A FEW SIGNIFICANT CUSTOMERS, AND ANY LOSS, CANCELLATION, REDUCTION, OR DELAY IN PURCHASES BY THESE CUSTOMERS COULD HARM OUR BUSINESS.

Sales to York International, our largest customer, represented 11.7 percent of pro forma 2001 net sales, and collectively net sales to our four largest customers represented approximately 25 percent of pro forma 2001 net sales. Our success will depend on our continued ability to develop and manage relationships with significant customers. We expect that significant customer concentration will continue for the foreseeable future. Our dependence on sales from a relatively small number of customers makes our relationship with each of these customers important to our business. We cannot assure you that we will be able to retain our largest customers. Some of our customers may in the future shift their purchases of products from us to our competitors or to other sources. The loss of one or more of our largest customers, any reduction or delay in sales to these customers, our inability to

successfully develop relationships with additional customers, or future price concessions that we may make could significantly harm our business.

WE INCREASINGLY MANUFACTURE OUR PRODUCTS OUTSIDE THE UNITED STATES, WHICH MAY PRESENT ADDITIONAL RISKS TO OUR BUSINESS.

A significant portion of our 2001 net sales were attributable to products manufactured outside of the United States, principally in Mexico, and expanding international manufacturing capacity in Mexico and China is part of our strategy to reduce costs. Approximately 7,000 of our 15,000 total employees and 17 of our 41 manufacturing facilities are located in Mexico. Approximately 800 employees and two manufacturing facilities are located in China. International operations generally are subject to various risks, including political, religious, and economic instability, local labor market conditions, the imposition of foreign tariffs and other trade restrictions, the impact of foreign government regulations, and the effects of income and withholding tax, governmental expropriation, and differences in business practices. We may incur increased costs and experience delays or disruptions in product deliveries and payments in connection with international manufacturing and sales that could cause loss of revenue. Unfavorable changes in the political, regulatory, and business climate could have a material adverse effect on our financial condition, results of operations, and cash flows.

WE MANUFACTURE A SIGNIFICANT PORTION OF OUR PRODUCTS IN MEXICO, WHICH EXPOSES US TO THE RISK OF INCREASED LABOR COSTS DUE TO BOTH WAGE INFLATION IN MEXICO AND STABILITY OR INCREASES IN THE VALUE OF THE MEXICAN PESO RELATIVE TO THE U.S. DOLLAR.

We currently manufacture approximately 75 percent of our electric motors and 20 percent of our residential water heaters in Mexico. The costs we incur manufacturing these products are directly related to changes in labor costs in Mexico and fluctuations in exchange rates of the Mexican peso relative to the U.S. dollar because the labor costs we incur measured in U.S. dollars are based on the cost of labor in Mexican pesos and the exchange rate of the Mexican peso relative to the U.S. dollar. Historically, Mexico has had higher wage inflation than the United States has had. That inflation does not adversely affect our costs when there is a corresponding decrease in the value of the Mexican peso relative to the U.S. dollar. However, during periods in which the value of the Mexican peso increases or remains stable relative to the U.S. dollar, higher wage inflation in Mexico results in an increase in our labor costs because we are not able to offset any increases in labor costs in Mexico when the cost of such labor in Mexican pesos is measured in U.S. dollars.

OUR OPERATIONS WILL SUFFER IF WE ARE UNABLE TO COMPLETE OUR INTERNAL COST REDUCTION PROGRAMS.

We are implementing a cost reduction program in our electrical products business, which includes a transfer of portions of our manufacturing and assembly work from six of our existing United States fabrication and motor assembly plants to our operations in Mexico; a 10 percent reduction in the electrical products salaried workforce; and a consolidation of several warehouse facilities. As of March 31, 2002, we had charged \$1.5 million against the reserve we established for this program. In implementing this program, we may not be able to successfully consolidate management, operations, product lines, distribution networks, and manufacturing facilities, and we could experience a disruption in our inventory and product supply or in administrative services. In addition, we may not be able to complete this program without unexpected costs or delays, or the need for increased management time and

effort. If we do not successfully implement this program on a timely basis, we will not achieve the planned operational efficiencies and cost savings, and there could be an adverse impact on ongoing relationships with our customers, all of which would impact our profitability.

FAILURE TO INTEGRATE STATE INDUSTRIES WOULD ADVERSELY AFFECT OUR OPERATIONS.

We completed our acquisition of State Industries on December 28, 2001. Realization of the benefits of this acquisition requires the integration of State Industries' sales and marketing, distribution, manufacturing, engineering, and administrative organization. The successful integration of State Industries will require substantial attention from our senior management, which will decrease the time that they have to serve and attract customers and develop new products and services. We cannot assure you that we will be able to integrate successfully State Industries, that we will operate the acquired business profitably, or that we will obtain the beneficial effect from this acquisition. Our financial condition, results of operations, and cash flows could be materially and adversely affected if we do not successfully integrate State Industries.

A SUBSTANTIAL PORTION OF OUR RESULTS HAS COME THROUGH ACQUISITIONS, AND WE MAY NOT BE ABLE TO IDENTIFY OR COMPLETE FUTURE ACQUISITIONS, WHICH COULD ADVERSELY AFFECT OUR FUTURE GROWTH.

Acquisitions we have made since 1997 have had a significant impact on our results of operations during that period. While we will continue to evaluate potential acquisitions, we may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms, obtain regulatory approval for certain acquisitions, or otherwise complete acquisitions in the future. If we complete any future acquisitions, then we may not be able to successfully integrate the acquired businesses or operate them profitably or accomplish our strategic objectives for those acquisitions. Our level of indebtedness may increase in the future if we finance acquisitions with debt, which would cause us to incur additional interest expense and could increase our vulnerability to general adverse economic and industry conditions and limit our ability to service our debt or obtain additional financing. We cannot assure you that future acquisitions will not have a material adverse effect on our financial condition, results of operations, and cash flows.

OUR SALES OF ELECTRICAL PRODUCTS INCORPORATED INTO HVAC SYSTEMS ARE AFFECTED BY THE WEATHER, AND MILD OR COOLER WEATHER COULD HAVE AN ADVERSE EFFECT ON OUR OPERATING PERFORMANCE.

Many of our electrical products are incorporated into HVAC systems that OEMs sell to end users. The number of installations of new and replacement HVAC systems or components is higher during the spring and summer seasons due to the increased use of air conditioning during warmer months. Mild or cooler weather conditions during the spring and summer seasons often result in end users deferring the purchase of new or replacement HVAC systems or components. As a result, prolonged periods of mild or cooler weather conditions in the spring or summer seasons in broad geographical areas could have a negative impact on the demand for our electrical products and, therefore, could have an adverse effect on our operating performance. In addition, due to variations in weather conditions from year to year, our operating performance in any single year may not be indicative of our performance in any future year.

OUR RESULTS OF OPERATIONS MAY BE NEGATIVELY IMPACTED BY PRODUCT LIABILITY LAWSUITS.

Our residential water heater business exposes us to potential product liability risks that are inherent in the design, manufacture, and sale of our products in that business. While we currently maintain what we believe to be suitable product liability insurance, we cannot assure you that we will be able to maintain this insurance on acceptable terms or that this insurance will provide adequate protection against potential liabilities. In addition, we self-insure a portion of product liability claims. A series of successful claims against us could materially and adversely affect our reputation and our financial condition, results of operations, and cash flows.

WE HAVE A \$33.4 MILLION ASSET RELATING TO DIP TUBE LITIGATION THAT WE MAY NOT BE ABLE TO COLLECT.

We and other water heater manufacturers settled in 1999 a class action lawsuit relating to water heaters that contained a dip tube (a water heater component) manufactured, designed, supplied, or sold by Perfection Corporation between August 1993 and October 1996. Following settlement of the class action lawsuit, we joined together with the other water heater manufacturers in an action against Perfection Corporation and other related parties and their insurers seeking to recover the damages we sustained as a result of the class action settlement and other damages. As of March 31, 2002, we recorded a long-term receivable of \$33.4 million related to repair claims, administrative costs, legal fees, and related expenses arising out of the settlement of the class action lawsuit. Although we expect that we will recover all or a substantial portion of this amount from Perfection Corporation, other related parties, their insurers, or our insurers, we cannot assure you that we will do so.

ONE STOCKHOLDER HAS VOTING CONTROL OF THE COMPANY.

We have two classes of common equity: our common stock, which we are offering by this prospectus; and our class A common stock. Currently and immediately after the offering, the holders of common stock are entitled, as a class, to elect only 25 percent of our board of directors. Currently and immediately after the offering, the holders of class A common stock are entitled, as a class, to elect the remaining directors. As of March 31, 2002, pro forma for the issuance of our common stock in the offering, a single stockholder, Smith Investment Company, effectively controlled 75 percent of our board of directors and our operations because it beneficially owned approximately 93 percent of our class A common stock. Due to the differences in the voting rights between shares of our common stock and shares of our class A common stock, Smith Investment Company is and immediately after the offering will be in a position to control to a large extent the outcome of matters requiring a stockholder vote, including the adoption of amendments to our certificate of incorporation or bylaws or approval of transactions involving a change of control. The differences in the voting rights between shares of our common stock and our class A common stock could have the effect of delaying, deterring, or preventing a change of control. As of March 31, 2002, pro forma for the issuance of our common stock in the offering, Smith Investment Company beneficially owned approximately 35 percent of the total number of outstanding shares of our common stock and class A common stock.

USE OF PROCEEDS

Based on an assumed offering price of \$29.15 per share, we estimate that we will receive approximately \$96.3 million of net proceeds in this offering, after deducting the underwriting discount and estimated offering expenses payable by us. We intend to use the net proceeds from this offering to repay debt under our \$250 million multi-year revolving credit facility, which expires on August 2, 2004. The interest we pay under this credit facility was 2.4 percent per annum as of March 31, 2002 and varies monthly with the London Interbank Offered Rate and our debt to total capitalization ratio. As of March 31, 2002, we had \$120.0 million of total debt outstanding under this credit facility, \$118.0 million of which we incurred in 2001 in connection with our acquisitions of State Industries and Shenzhen Speeda.

PRICE RANGES OF COMMON STOCK AND
CLASS A COMMON STOCK AND DIVIDEND POLICY

Our common stock is traded on the New York Stock Exchange under the symbol "AOS," and our class A common stock is traded on the American Stock Exchange under the symbol "SMCA." The following table sets forth the high and low sale prices of our common stock and class A common stock as reported by the New York Stock Exchange and the American Stock Exchange for the stated quarter.

	CLASS A COMMON STOCK		COMMON STOCK		
	HIGH	LOW	HIGH	LOW	

	HIGH		LOW		-----
	-----		-----		2000 First
Quarter.....	\$23.13	\$14.94	\$22.00	\$15.50	Second
Quarter.....	22.81	17.81	22.44	17.88	Third
Quarter.....	21.38	11.19	17.25	12.00	Fourth
Quarter.....	17.25	12.50	16.88	12.75	2001 First
Quarter.....	\$20.10	\$15.88	\$19.80	\$15.88	Second
Quarter.....	19.53	16.40	19.20	16.50	Third
Quarter.....	18.50	15.25	18.30	16.00	Fourth
Quarter.....	19.75	14.67	18.90	14.50	2002 First
Quarter.....	\$28.50	\$19.00	\$27.60	\$19.25	Second Quarter
(through April 18, 2002).....	\$29.60				
	\$25.30	\$28.55	\$26.00		

On April 18, 2002, the last reported sale price for our common stock on the New York Stock Exchange was \$29.15, and the last reported sale price for our class A common stock on the American Stock Exchange was \$28.50.

We paid cash dividends of \$.52 per share on our common stock and class A common stock in 2001 and dividends of \$.50 per share in 2000.

On April 9, 2002, our board of directors declared a quarterly cash dividend of \$.13 per share on our common stock and class A common stock payable on May 15, 2002, to shareholders of record on April 30, 2002. Holders of shares purchased in this offering will not be entitled to receive this dividend on the purchased shares.

We have paid cash dividends for 62 consecutive years. We currently intend to declare and pay dividends on a regular basis at a minimum of the current rate. However, the payment and amount of future dividends is at the discretion of our board of directors and will depend upon future earnings, capital requirements, our general financial condition, general business conditions, and other factors. In addition, the terms of our credit agreement contain certain conditions and provisions that restrict our ability to pay quarterly dividends. Under the most restrictive of these provisions, retained earnings of \$66.6 million were available for the payment of dividends as of March 31, 2002.

Whenever we pay cash dividends on our class A common stock, each share of common stock is entitled to receive a dividend at least equal to the dividend per share on our class A common stock. We may pay cash dividends to holders of common stock in excess of dividends paid, or without paying dividends, to holders of class A common stock.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of March 31, 2002, on an actual basis and as adjusted to give effect to our sale of 3,500,000 shares of common stock at an assumed public offering price of \$29.15 per share, after deducting the underwriting discount and estimated offering expenses and after applying the net proceeds in this offering as we intend. You should read this table together with "Management's Discussion and Analysis of Results of Operations and Financial Condition," "Description of Capital Stock," and our consolidated financial statements and related notes included elsewhere in this prospectus.

AS OF MARCH 31, 2002	-----	ACTUAL AS
ADJUSTED	-----	(DOLLARS IN MILLIONS)
Total		
debt(1).....		
	\$ 392,139	\$ 295,845
stockholders' equity: Preferred stock, 3,000,000 shares authorized; 0 shares outstanding.....		
\$ -	\$ -	
Class A common stock, \$5 par value; 14,000,000 shares authorized; 8,671,584 shares issued and 8,638,989 shares outstanding(2).....	43,358	43,358
Common stock, \$1 par value; 60,000,000 shares authorized; 23,877,778 shares issued and 15,218,012 shares outstanding; 23,877,778 shares issued and 18,718,012 shares outstanding as adjusted.....	23,878	27,378
Capital in excess of par value.....	55,697	70,215
Retained earnings.....	560,448	560,448
Accumulated other comprehensive loss.....	(2,815)	(2,815)
Treasury stock, at cost, 32,595 shares of class A common stock and 8,659,766 shares of common stock; 32,595 shares of class A common stock and 5,159,766 shares of common stock as adjusted.....	(214,417)	(136,141)
Total stockholders' equity.....	466,149	562,443
Total capitalization.....	\$ 858,288	\$ 858,288

(1) Total debt includes long-term debt and long-term debt due within one year.
(2) Each share of our class A common stock is convertible into one share of our common stock at any time at the holder's option.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table presents selected historical consolidated financial data as of and for each of the five years ended December 31, 2001, which have been derived from our audited consolidated financial statements, and as of and for each of the three months ended March 31, 2001 and 2002, which have been derived from our unaudited interim consolidated financial statements. You should read this information together with "Management's Discussion and Analysis of Results of Operations and Financial Condition," and our consolidated financial statements and the related notes included elsewhere in this prospectus (except for the consolidated financial statements as of and for the years ended December 31, 1997 and 1998, which are not included in this prospectus).

FOR THE THREE MONTHS FOR THE YEARS ENDED
DECEMBER 31,(1) ENDED MARCH 31, -----

----- 1997(2) 1998(3) 1999(4)
2000 2001(5)(6) 2001(6) 2002 -----

-- (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)
STATEMENT OF EARNINGS DATA(7): Continuing
Operations: Net

sales.....	\$703.1	\$800.8	\$1,070.3	\$1,247.9	\$1,151.2	\$
318.2	\$	371.9	Cost of products			
sold.....	543.4	623.2	839.5			
999.8	948.8	259.4	295.0	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
profit.....	159.7					
177.6	230.8	248.1	202.4	58.8	76.9	Selling,
						general and administrative
expenses.....						
105.8	105.2	136.3	153.7	145.7	38.1	53.2
Interest expense.....						
6.6	5.9	12.8	22.1	16.4	4.8	4.2
Amortization						
of intangibles.....	0.9	2.5	5.2			
6.9	7.0	1.7	0.1	Restructuring and other		
charges.....	-	-	-	9.4	-	-
(income) expense--net.....	(6.7)					
(2.9)	(0.6)	0.3	1.4	0.7	0.8	-----
-----	-----	-----	-----	-----	-----	-----
Earnings before income taxes.....	53.1					
66.9	77.1	65.1	22.5	13.5	18.6	Provision for
						income taxes.....
18.4	23.2	26.8				
23.4	8.0	5.0	6.5	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
Earnings						
before equity in loss of joint						
ventures.....						
34.7	43.7	50.3	41.7	14.5	8.5	12.1
Equity in						
loss of joint ventures.....	(2.6)					
(3.0)	-	-	-	-	-	-
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
Earnings from						
continuing operations.....	32.1	40.7				
50.3	41.7	14.5	8.5	12.1	Discontinued	
					Operations: Operating earnings	
(loss).....	20.7	3.8	(0.9)	-	-	
- - Gain (loss) on						
disposition.....	101.0	(7.0)				
(11.9)	-	-	-	-	-	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
121.7	3.8	(7.9)				
(11.9)	-	-	-	-	-	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
Net						
earnings.....						
\$153.8	\$ 44.5	\$ 42.4	\$ 29.8	\$ 14.5	\$ 8.5	\$
12.1	=====	=====	=====	=====	=====	=====
=====	=====	=====	=====	=====	=====	=====
=====	=====	=====	=====	=====	=====	=====
Basic Earnings						
(Loss) per Share: Continuing						
operations.....	\$ 1.16	\$				
1.73	\$ 2.17	\$ 1.78	\$ 0.61	\$ 0.36	\$ 0.51	
Discontinued operations.....						
4.41	0.16	(0.34)	(0.51)	-	-	-----
-----	-----	-----	-----	-----	-----	-----
-----	-----	-----	-----	-----	-----	-----
Net earnings.....						
\$ 5.57	\$ 1.89	\$ 1.83	\$ 1.27	\$ 0.61	\$ 0.36	\$
0.51	=====	=====	=====	=====	=====	=====
=====	=====	=====	=====	=====	=====	=====
=====	=====	=====	=====	=====	=====	=====
Diluted Earnings						

(Loss) per Share: Continuing										
operations.....									\$ 1.14	\$
	1.68	\$ 2.11	\$ 1.76	\$ 0.61	\$ 0.36	\$ 0.50				
Discontinued operations.....										
	4.32	0.16	(0.33)	(0.50)	-	-	-	-	-	-

Net earnings.....										
	\$ 5.46	\$ 1.84	\$ 1.78	\$ 1.26	\$ 0.61	\$ 0.36	\$			
	0.50	=====	=====	=====	=====	=====				
	=====	=====	=====	=====	=====	=====	Average Shares			
							Outstanding(8):			
Basic.....										
	27.6	23.6	23.2	23.4	23.6	23.5	23.8			
Diluted.....										
	28.2	24.2	23.8	23.7	23.9	23.8	24.3	BALANCE		
SHEET DATA (AT PERIOD END): Cash and cash										
equivalents.....								\$145.9	\$	
	37.7	\$ 14.8	\$ 15.3	\$ 20.8	\$ 13.1	\$ 21.9				
							Working			
capital.....								237.8		
	155.2	217.7	227.0	221.6	238.0	224.1	Total			
assets.....										
	682.8	736.6	1,065.6	1,064.9	1,293.9	1,052.2				
				1,305.2	Long-term					
debt.....								101.0		
	131.2	351.3	316.4	390.4	295.7	378.9	Total			
stockholders' equity.....										
	399.7	401.1	431.1	448.4	451.9	452.7	466.1			
OTHER FINANCIAL DATA(9): Capital										
expenditures.....								\$ 37.4		
	\$ 18.5	\$ 32.8	\$ 40.5	\$ 35.3	\$ 9.5	\$ 7.1				
							Depreciation and			
amortization.....								21.6	26.5	37.3
	45.1	47.1	11.4	12.3						
EBITDA(10).....										
	72.4	95.6	125.8	131.6	85.7	29.6	35.0	Cash		
								provided by (used in) operating		
activities.....										
	73.5	65.6	47.8	75.2	49.8	(13.3)	22.9			

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- (1) We have accounted for our former fluid handling, liquid and dry storage, and automotive structural components businesses as discontinued operations in our consolidated financial statements. On April 18, 1997, we sold our automotive structural components business, exclusive of our Mexican automotive affiliate, and on October 1, 1997, we sold our 40 percent interest in our Mexican affiliate. On December 8, 2000, we sold our fluid handling business, and on January 10, 2001, we sold our storage business. See Note 3 to the consolidated financial statements included elsewhere in this prospectus.
 - (2) On March 31, 1997, we acquired UPPCO, Inc. for \$60.9 million.
 - (3) On July 1, 1998, we acquired certain assets of General Electric Company's domestic hermetic motor business for \$125.6 million.
 - (4) On August 2, 1999, we acquired MagneTek, Inc.'s domestic electric motor business for \$244.6 million. See Note 2 to the consolidated financial statements included elsewhere in this prospectus.
 - (5) On December 28, 2001, we acquired all of the outstanding stock of State Industries, Inc. for an aggregate purchase price of \$117.2 million, and in December 2001, we acquired 100 percent of the capital stock of Shenzhen Speeda Industrial Co., Ltd. for a total purchase price of \$3.3 million. See Note 2 to the consolidated financial statements included elsewhere in this prospectus.
 - (6) The statement of earnings data for the year ended December 31, 2001 and the three months ended March 31, 2001 do not include any results of operations of State Industries, Inc.
 - (7) Includes the results of the acquired businesses from their respective dates of acquisition.
 - (8) Adjusted for a three-for-two stock split in August 1998. Includes shares of common stock and class A common stock.
 - (9) Data shown is for continuing operations only.
 - (10) EBITDA consists of earnings before income taxes plus depreciation and amortization and interest expense, less interest income. We have presented EBITDA information solely as a supplemental disclosure because we believe it allows for a more complete analysis of the results of our operations and enables investors to determine our ability to service or incur indebtedness. EBITDA should not be construed as an alternative to earnings from continuing operations, net earnings, or cash flows from operating activities, as determined in accordance with accounting principles generally accepted in the United States. In addition, not all companies that report EBITDA information calculate EBITDA in the same manner as we do, and accordingly, our calculation is not necessarily comparable to similarly entitled measures of other companies and may not be an appropriate measure for performance relative to other companies.

BUSINESS

OUR COMPANY

We are a leading manufacturer of electric motors and water heating equipment, serving a diverse mix of residential, commercial, and industrial end markets principally in the United States with a growing international presence. Our company is organized in two segments: electrical products and water systems. Our electrical products business manufactures and markets a comprehensive line of hermetic motors, fractional horsepower AC and DC motors, and integral horsepower motors. Our water systems business manufactures and markets a comprehensive line of residential gas and electric water heaters, standard and specialty commercial water heating equipment, high-efficiency copper-tube boilers, and water systems tanks. In 2001, on a pro forma basis for our December 2001 acquisition of State Industries, we had net sales of approximately \$1.5 billion, with 55 percent attributable to our electrical products business and 45 percent attributable to our water systems business.

Our electric motors are used in a wide variety of targeted applications, including HVAC systems; pools, spas and water well pumps; garage door openers; overhead cranes; elevators; and industrial pumps. We primarily sell our electric motors directly to OEMs. We also market our motor products through wholesale distributors who sell to smaller OEMs and aftermarket customers. Our residential and commercial water heaters are used in a wide variety of targeted applications, including homes, apartments, schools, hospitals, hotels, laundries, restaurants, stadiums, and other large users of hot water. Our water systems wholesale distribution channel includes more than 2,600 wholesale plumbing distributors that serve residential, commercial, and industrial markets. We also sell our residential water heaters through the retail channel. In this channel, our customers include four of the six largest national hardware and home center chains, including a long-standing private label relationship with Sears.

During the past five years, we have significantly repositioned our company. We have changed from a diversified manufacturer with five businesses, the largest of which was our legacy automotive structural components business that represented more than 50 percent of our total sales, to a company focused on our electrical products and water systems businesses, which we believe offer the opportunity for higher growth and more profitability. We divested our automotive structural components business in 1997, realizing pre-tax proceeds of \$770 million. By January 2001, we had completed our repositioning with the divestiture of our storage and fluid handling businesses. During this period, we also made key acquisitions, including:

ANNUAL YEAR REVENUES AT BUSINESS ACQUIRED ACQUISITION PRODUCTS - --- -----	
---- (IN MILLIONS) ELECTRICAL PRODUCTS UPPCO, Inc.	
1997 \$ 70 C-Frame sub-fractional horsepower AC motors General Electric Company's domestic hermetic motors business.....	1998
\$120 Hermetic motors for HVAC and refrigeration MagneTek, Inc.'s motor business.....	1999
\$380 Fractional horsepower, integral AC and DC motors WATER SYSTEMS State Industries, Inc.....	2001
\$320 Residential and commercial gas and electric water heaters, tanks, parts and accessories	

The following competitive strengths contribute to the success of our business:

- - We are among the leaders in North America in the electric motor and water heating market segments that we target, and we have the scale to increase our leadership positions
- - We have established a presence in Mexico and China to capitalize on the low-cost manufacturing potential of each region
- - Our comprehensive product offerings and strong brand identities have created customer loyalty and help us to maintain existing business, as well as capture additional sales, particularly as many of our customers seek to consolidate their supplier bases
- - Our operational and engineering flexibility help us to provide fast, innovative, and practical solutions for our customers
- - Our businesses have established long-standing, strong relationships with leading OEM customers, distributors, and retailers
- - Our products are used in essential applications that often require replacement purchases
- - Our senior management team has significant experience in manufacturing, marketing, and sales

We intend to use our competitive strengths to increase sales and profitability through the initiatives outlined below:

- - Increase sales to existing customers, introduce new products, and expand operations internationally
- - Continue to lower operating costs and realize significant cost savings by completing our MagneTek integration, further reducing cost in our electrical products operations, selectively manufacturing electric motors in China, and completing our integration of State Industries
- - Pursue complementary strategic acquisitions that position us in adjacent markets and allow us to leverage the marketing, engineering, and manufacturing strengths of our businesses

ELECTRICAL PRODUCTS

We are one of the three largest manufacturers of electric motors in North America, having manufactured approximately 36 million electric motors in 2001. We offer a comprehensive line of hermetic motors, fractional horsepower AC and DC motors, and integral horsepower motors, ranging in size from sub-fractional C-frame ventilation motors up to 500 horsepower hermetic and 800 horsepower specialty integral motors. We believe our extensive product offering gives us an advantage in our targeted markets, often allowing us to serve all of our customer's electric motor needs. We have significantly broadened our electric motor product line and customer base through a series of acquisitions, including UPPCO, General Electric Company's domestic hermetic motor business, and MagneTek's electric motor business. Our motors are used in a wide range of targeted residential, commercial, and industrial applications, including:

HVAC. We are North America's leading supplier of hermetic motors that is not affiliated with a compressor manufacturer. These precisely engineered motors range in size from 5.5 inches to more than 15 inches in diameter (1 1/2 to 500 horsepower) and are used for residential and commercial air conditioning compressors, chillers, and commercial refrigeration

equipment. We also manufacture a wide range of fractional horsepower fan and blower motors for use in furnaces, heat pumps, unitary and window air conditioners, and whole-house fan systems.

Pumps. We are the leading supplier of fractional horsepower pump motors for swimming pools, spas, and jetted tubs, serving virtually all of the largest manufacturers in this niche. Our motors also can be found in residential water equipment, such as sump pumps, sewage pumps, sprinkling or irrigation systems, and water well pumps.

Other residential and commercial. We are a leading supplier of fractional horsepower motors for residential and commercial garage door and gate openers, small air compressors, residential and commercial ventilation (range hood fans and kitchen and bathroom fans), and hundreds of other specialized uses.

Industrial. Our fractional horsepower and integral horsepower motors are used in overhead cranes, conveyors, elevators, commercial air conditioning, agricultural, power transmission, and industrial pump applications.

We estimate that total sales of electric motors in the United States were approximately \$9 billion in 2001, and we believe international demand for electric motors is about twice the size of the domestic demand. We target selected segments of these markets. HVAC-related applications accounted for approximately 60 percent of our 2001 segment sales, with pump, or water-moving, applications representing 20 percent of our 2001 segment sales, and the remainder made up of other residential, commercial, and industrial applications. We believe approximately 50 percent of our 2001 segment sales resulted from the replacement needs of end users.

Approximately 85 percent of our 2001 segment sales were to OEMs in a diverse mix of industries, with the remainder of sales directed to the aftermarket or distribution channels. Our 10 largest motor customers represented 50 percent of 2001 segment sales. Sales to our largest customer, York International and its wholly owned Bristol Compressors subsidiary, were \$172 million in 2001 and represented approximately 20 percent of segment sales. We believe that more than 25 percent of our total segment sales were attributable to products used outside of the United States.

We have a direct sales force consisting of 94 salespeople as of February 28, 2002. One-half of our sales force serves OEMs and the other one-half serves distributors. Our sales and marketing organization is focused on specific segments of our motor markets to identify and act on trends in the industries we serve. Our approach of focused marketing, supported by product engineering, has allowed us to establish close working relationships with many of the leading companies in the industries we serve. In many instances, we supply all or substantially all of their requirements for the products we offer, and several of our customer relationships date back for more than 40 years. We serve segments of the electric motor aftermarket through a nationwide network of wholesale electrical equipment distributors. We have traditionally concentrated our distribution services efforts in the HVAC and pool and spa aftermarkets, although the MagneTek acquisition expanded our distribution efforts into the industrial motor markets.

With our extensive technical resources, we are able to work with individual customers to design and build a motor that meets their specific needs. Our design engineers use computer-aided design tools and sophisticated math models to develop a motor that matches our customers' performance requirements, mechanical specifications, safety standards, energy

efficiency needs, and cost targets. We evaluate motor designs in well-equipped performance labs, using accelerated life tests, electrical tests, and mechanical measures to assure the design performs in often-harsh environments or under difficult operating conditions. Specialized testing includes sound chambers, wind tunnels, and combustion labs. We also test motors and customer systems in certified labs that comply with Underwriters' Laboratories, Canadian Standards Association, International Electro-Technical Commission, or European Committee for Standardization requirements, a capability that often reduces the time needed to obtain agency approval.

To remain a leader in this highly competitive industry, we are committed to being a low-cost supplier of electrical products. We were one of the first motor manufacturers to identify the cost-reduction potential of Mexican operations, and today we manufacture a majority of our electric motors in our 16 Mexican motor facilities. In 2001, we undertook an initiative to accelerate the cost-reduction programs that were already underway in our motor operations to enhance our competitive position. These initiatives include transferring six additional product manufacturing lines to our lower-cost Mexican operations; reducing salaried workforce by 10 percent; and realigning our warehouse facilities into three hub operations that will improve customer service while reducing cost. In December 2001, we acquired Shenzhen Speeda, a manufacturer of sub-fractional horsepower electric motors in China. This acquisition gave us our first Asian motor manufacturing presence, and we intend to use this capability to serve a portion of the North American HVAC market segment.

Our principal competitors in the electric motor industry are Emerson Electric Co. and General Electric Company. A number of other companies, such as Fasco Motors (a subsidiary of Invensys Motor Systems), Baldor Electric, Regal-Beloit Corporation, and Jakel Incorporated, compete with us in specific segments of the electric motor market.

WATER SYSTEMS

We are one of the two largest manufacturers and marketers of water heaters in North America, having manufactured more than 3 million units on a pro forma basis in 2001. We have a leading share in the commercial water heating segment, and we believe we are the only domestic manufacturer that offers standard and specialty commercial water heater products. We believe that our comprehensive commercial product line gives us a competitive advantage in this higher-margin segment of the water heating industry. We also are one of the leaders in the residential water heating segment with an extensive line of high-efficiency gas and electric models. We significantly broadened our market scope and product offering with the acquisition of State Industries. This acquisition allowed us to enter the retail segment of the residential market, a channel that represents approximately one-half of the total United States residential market. The acquisition of State Industries also enhanced our position in the wholesale distribution channel and gave us a position in several new distribution channels, such as direct sales to large homebuilders and the manufactured housing market.

We serve residential, commercial, and industrial end markets with a broad range of products, including:

Residential gas and electric water heaters. Our residential water heaters come in sizes ranging from two-gallon (point-of-use) models to 120-gallon appliances with varying efficiency ranges. We offer traditional atmospheric water heaters as well as direct-vented and power-vented models for today's energy efficient homes.

Standard commercial water heaters. Our gas, oil, and electric water heaters come in capacities ranging from 50 to 100 gallons and are used by customers who require a consistent, economical source of hot water. Typical applications include restaurants, hotels and motels, laundries, car washes, and small businesses.

Specialty commercial water heaters. Our products include powered burner water heaters, large-volume gas and electric water heaters, and other water heating equipment that is custom-designed for the user's application. Our units are often combined with water storage tanks to provide the customer with a complete hot water system. Typical applications include hospitals, schools, prisons, large hotels, factories, or other commercial environments where the customer requires large volumes or high-demand periods of hot water.

Copper-tube boilers. We manufacture four distinct copper-tube boiler brands designed to meet the customer's specific volume, efficiency, and cost requirements. Our high-efficiency boilers are used in potable hot water and hydronic heating applications. Applications for our boilers include schools, stadiums, prisons, and other institutions.

Pump tanks, expansion tanks, and related products. We supply expansion tanks for domestic water systems, which are used to equalize the pressure in the system, as well as tanks for reverse osmosis water purification and related applications.

Parts. Through our wholly owned APCOM subsidiary and protective coatings division, we manufacture and market a wide range of water heater components, including burners, gas manifolds, heating elements, thermostats, inlet tubes, and glass frit used in making porcelain enamel linings. APCOM and our protective coatings division provide us with a captive supply of water heater components to reduce the risk of a shortage in supply. Additionally, APCOM supplies water heater components to other major North American water heater manufacturers.

We estimate that the total sales of water heaters in the United States were approximately \$2 billion in 2001, and we believe international demand for water heaters is about twice the size of the domestic demand. We believe approximately 80 percent of our 2001 pro forma segment sales resulted from the replacement needs of end users.

We distribute our residential water heaters through the traditional plumbing wholesale and retail channels. Residential water heaters represented 63 percent of total 2001 pro forma water systems sales, with approximately 71 percent of our residential water heaters sold through the plumbing wholesale channel. With the State Industries acquisition, we now have access to the retail channel and sell water heaters to four of the six largest national hardware and home center chains, including a long-standing private label relationship with Sears. Approximately 29 percent of our pro forma residential water heater sales and 18 percent of our total 2001 pro forma segment sales were through retail channels.

We sell our commercial water systems products, including standard and specialty water heaters, high-efficiency copper-tube boilers, and large-volume hot water storage tanks, exclusively through wholesale distributors. Sales of our commercial water systems products represented approximately 20 percent of 2001 pro forma segment sales.

We have identified markets outside of North America as growth opportunities for our water systems business, and we have a manufacturing and engineering presence in Europe and Asia to complement our domestic capabilities. We opened our manufacturing plant in Nanjing, China, in 1998, and we have grown this business to more than \$26 million in sales in 2001. Our China operation offers a line of instantaneous gas and electric water heaters and wall-mounted gas and electric units for a number of Chinese residential applications. We also

recently began marketing commercial water heaters in China. In addition, we have entered into a marketing agreement with Aquecedores Cumulus S/A, the second-largest water heater manufacturer in Brazil, which allows us to sell our high-efficiency commercial water heater products in that country. Our plant in Veldhoven, The Netherlands, serves residential and commercial customers in Europe and the Middle East. Over the last several years, we have successfully adapted many of our popular U.S. commercial water systems products, such as the Cyclone XHE commercial water heater, to European standards. In 2001, our water systems business sold our products in 59 countries.

Engineering and technical support are important in the water heating industry, particularly in the commercial segment, due to the specialized needs of customers and challenging application requirements. We believe our product engineering capabilities have contributed to our leadership in this commercial segment. Our principal product engineering center is in McBee, South Carolina, with a focused boiler testing facility in El Paso, Texas. Our engineers use sophisticated computer-aided design tools to develop new residential and commercial water heater designs. We put our new products through a thorough evaluation in our performance test labs, where we monitor combustion, efficiency, standby recovery, and product safety. We test products to ensure they comply with American Gas Association, Underwriters' Laboratories, and Canadian Standards Association requirements, as well as to meet local and state codes. We also field-test products at a number of facilities around the United States. Evidence of the effectiveness of our product engineering efforts is the number of successful new products we have introduced over the last several years, including:

- - Our Cyclone XHE commercial water heater, which has 94 percent thermal efficiency, is the most efficient storage-type unit on the market. In addition to its high efficiency, the Cyclone can be either sealed-direct vented or vented conventionally, offering customers installation flexibility and substantial cost savings.
- - Our Genesis Burkey copper-tube boiler offers customers high efficiency in a compact, space-saving design. This boiler offers multiple venting options and microprocessor-controlled diagnostics. We also recently introduced a line of larger models directly targeted at hydronic heating applications.
- - Our Master-Fit line of commercial water heaters is designed for a wide range of new and replacement applications. The compact size of these products makes them well suited for retrofit applications, and we have introduced models specifically designed for restaurants as well as low-emission units.

An increasing number of government regulations will have a significant impact on the United States water heating industry in the coming years, and we believe we will benefit from our engineering expertise in this challenging environment. Beginning next year, United States water heater manufacturers will be required to comply with new flammable vapor resistance standards for residential gas water heaters. These new regulations, developed by the manufacturers in cooperation with the United States Consumer Product Safety Commission, dictate that gas water heaters must be designed to protect against accidental ignition of flammable vapors caused by spilled gasoline or other liquids. Other regulations impacting our markets include restrictions on water heater emissions of nitrogen oxides (to date mandated only in California and Texas) and a United States government requirement to increase the efficiency of residential gas and electric water heaters by January 2004. We believe we will successfully comply with these new regulations on a timely basis.

Our acquisition of State Industries provides an opportunity to improve the operations and efficiency of our overall water systems business. We are moving our water systems business headquarters to State Industries' headquarters in Ashland City, Tennessee, to facilitate the integration of State Industries with our existing water systems operations. Our integration plan will enable us to take advantage of the best practices of the two organizations to improve efficiency, consolidate our product lines, and reduce costs in the business. We have identified immediate cost reduction opportunities, including management reductions, raw materials purchasing savings, and freight and logistics savings, and we believe that these actions will enable us to realize cost savings of approximately \$5 million in 2002, \$10 to \$12 million in 2003, and over \$15 million annually in subsequent years.

Our principal domestic water heating competitors include Rheem Manufacturing Company, Inc. and, to a lesser extent, American Water Heater Company and Bradford-White Corporation. We also compete against a number of companies, such as Lochinvar Corporation, Raypak, Inc., Teledyne Laars Jandy Products (a subsidiary of Water Pik Technologies, Inc.), and many smaller, regional competitors, in certain segments of the United States water heater market, as well as numerous competitors in international markets.

MANUFACTURING AND OPERATIONS

We manufacture 99 percent of the products we sell. Our 41 manufacturing plants are well-equipped, and many are located in areas with low-cost labor, including 17 plants in Mexico and two in China. Most of our plants are focused facilities, concentrating on one particular product line. We frequently upgrade our manufacturing operations to enhance productivity, quality, and response times and regularly invest in tooling, equipment, automated processes technologies, and information systems. These capital improvements have allowed us to reduce costs and improve efficiency and product flow, helping us better serve the rapidly changing needs of our customers. All of our plants operate under a continuous improvement philosophy that encourages employee involvement and improves customer satisfaction. We rigorously test our products throughout the manufacturing process and, in some cases, have developed proprietary testing equipment and procedures.

Our manufacturing operations are highly integrated, and we fabricate a significant number of the components that comprise our motors and water heaters. This gives us flexibility in responding to market demand and enables us to upgrade continually the quality and performance of our products. In addition, we manufacture a wide range of water heater components, including all of the water heater porcelain enamels we use. We believe we are the only domestic water heater manufacturer that formulates and manufactures its own glass coatings. We take advantage of the size and scale of our businesses when purchasing raw materials such as steel, copper, and aluminum, and through our global network of suppliers we are able to reduce our overall materials cost while maintaining a consistent source of supply.

FACILITIES

The following table provides information regarding our manufacturing and other principal facilities.

SQUARE	LOCATION	FOOTAGE	STATUS
DESCRIPTION OF USE	-----		
----- ELECTRICAL PRODUCTS --			
	UNITED STATES El Paso,		
	Texas.....		
101,000	Leased Warehouse Lavergne,		
	Tennessee.....		
	188,000 Leased Warehouse		
	McMinnville,		
	Tennessee.....		
265,000	Leased Manufacturing		
	Mebane, North		
	Carolina.....		
225,000	Owned Manufacturing		
	Monticello,		
	Indiana.....		
132,000	Owned Manufacturing Mt.		
	Sterling,		
	Kentucky.....		
268,000	Leased Manufacturing		
	Owosso,		
	Michigan.....		
200,000	Owned Manufacturing		
	Ripley,		
	Tennessee.....		
103,000	Owned Manufacturing		
	Scottsville,		
	Kentucky.....		
229,000	Owned Manufacturing Tipp		
	City,		
	Ohio.....		
93,000	Owned Manufacturing Tipp		
	City,		
	Ohio.....		
167,000	Owned Warehouse Tipp City,		
	Ohio.....		
128,000	Owned Electrical Products		
	Headquarters Tipp City,		
	Ohio.....		
43,000	Leased Electrical Products		
	Headquarters Upper Sandusky,		
	Ohio.....	129,000	
	Owned Manufacturing ELECTRICAL		
	PRODUCTS -- INTERNATIONAL Acuna,		
	Mexico (2 facilities).....		
163,000	Leased Manufacturing Bray,		
	Ireland.....		
	49,000 Leased Manufacturing		
	Budapest,		
	Hungary.....		
	180,000 Leased Manufacturing		
	Gainsborough,		
	England.....	44,000	
	Owned Manufacturing Juarez, Mexico		
	(8 facilities).....	583,000	
	Leased Manufacturing Juarez,		
	Mexico (3 facilities).....		
	313,000 Owned Manufacturing		
	Monterrey, Mexico (3		
	facilities).....	175,000	Owned
	Manufacturing Shenzhen,		
	China.....		
	60,000 Owned Manufacturing		

SQUARE LOCATION FOOTAGE STATUS
DESCRIPTION OF USE - -----

----- WATER SYSTEMS --
UNITED STATES Alsip,
Illinois.....
51,000 Leased Product/Customer
Service Ashland City,
Tennessee(1).....
1,288,000 Owned Manufacturing
Charlotte, North
Carolina..... 96,000
Owned Manufacturing Cookeville,
Tennessee.....
50,000 Owned Manufacturing El
Paso,
Texas.....
100,000 Leased Manufacturing El
Paso,
Texas.....
111,000 Leased Warehouse El Paso,
Texas.....
26,000 Leased Data Center
Florence,
Kentucky.....
41,000 Owned Manufacturing
Franklin,
Tennessee.....
125,000 Owned Manufacturing
Irving,
Texas(1).....
26,000 Leased Water Systems
Headquarters McBee, South
Carolina.....
742,000 Owned Manufacturing
Renton,
Washington.....
100,000 Leased Manufacturing
WATER SYSTEMS -- INTERNATIONAL
Juarez,
Mexico.....
264,000 Owned Manufacturing
Nanjing,
China.....
189,000 Owned Manufacturing
Stratford,
Canada.....
53,000 Owned Manufacturing
Stratford,
Canada.....
56,000 Leased Warehouse
Veldhoven, The
Netherlands.....
105,000 Leased Manufacturing
CORPORATE OFFICES Milwaukee,
Wisconsin.....
110,000 Leased World Headquarters

(1) We are in the process of moving our water systems business headquarters from Irving, Texas to Ashland City, Tennessee.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion and analysis should be read together with "Selected Historical Consolidated Financial Data" and our consolidated financial statements and related notes included elsewhere in this prospectus.

OVERVIEW

We are a leading manufacturer of electric motors and water heating equipment. Our company is organized in two segments: electrical products and water systems. Our electrical products business manufactures and markets a comprehensive line of hermetic motors, fractional horsepower AC and DC motors, and integral horsepower motors. Our water systems business manufactures and markets a comprehensive line of standard and specialty commercial water heating equipment, residential gas and electric water heaters, high-efficiency copper-tube boilers, and water systems tanks.

RESULTS OF OPERATIONS

FIRST QUARTER 2002 AND 2001

Sales in the first quarter of 2002 were \$371.9 million, an increase of \$53.7 million or 16.9 percent over sales of \$318.2 million in the first quarter of 2001. Increased year-over-year first quarter sales for our water systems segment of \$83.7 million more than offset a decline in sales of \$30.0 million for our electrical products segment. The significant increase in first quarter sales of our water systems segment was attributable to the \$84.1 million of sales associated with our acquisition of State Industries on December 28, 2001. The decline in electrical products segment sales reflects continued softness in the electric motor market.

Our gross profit margin was 20.7 percent in the first quarter of 2002 compared with the 18.5 percent margin achieved in the first quarter of 2001. The increase was the result of cost reductions in our electrical products segment and the addition of State Industries.

Selling, general and administrative expense for the first quarter of 2002 was \$53.2 million or \$15.1 million higher than the \$38.1 million expense in the first quarter of 2001. The increase in selling, general and administrative expense was the result of the additional \$14.0 million of expense associated with State Industries and a \$1.7 million charge associated with the consolidation of water systems' management staff. This increase was partially offset by reduced selling, general and administrative expense in our electrical products segment resulting from the business improvement programs announced in the fourth quarter of 2001.

Interest expense in the first quarter of 2002 declined to \$4.2 million from \$4.8 million in the first quarter of 2001. While our debt levels were higher in the first quarter of 2002 than the same quarter last year, a significant decline in interest rates resulted in reduced interest expense.

We have significant pension benefit costs and credits we develop from actuarial valuations. These valuations reflect key assumptions regarding, among other things, discount rates, expected returns on plan assets, retirement ages and years of service. We are required to consider current market conditions, including changes in interest rates, in making these assumptions. Changes in related pension costs or credits may occur in the future as a result of changes affecting the assumptions. We recognized \$4.5 million of pension credits in the first quarter of 2002 including \$0.6 million of pension expense associated with the State Industries

acquisition. In the first quarter of 2001, we recognized \$4.5 million of pension credits. These credits are reflected as offsets to cost of products sold and selling, general and administrative expense.

Our effective tax rate declined from 37.0 percent in the first quarter of 2001 to 35.0 percent in the first quarter of 2002 due primarily to the implementation of a more efficient tax structure for international operations.

Net earnings in the first quarter of 2002 were \$12.1 million or \$3.6 million higher than net earnings of \$8.5 million in the first quarter of 2001. On a per share basis, net earnings in the first quarter of 2002 were \$.50 compared to the \$.36 in the first quarter of 2001. The increase in earnings was primarily attributable to increased earnings for our water systems segment (discussed subsequently), the elimination of goodwill amortization of \$1.6 million, and the aforementioned \$0.6 million decrease in interest expense.

FULL YEAR 2001, 2000 AND 1999

Sales from continuing operations in 2001 were \$1.15 billion, a decline of \$96.8 million or 7.8 percent from sales of \$1.25 billion in 2000. The decrease in sales resulted from an 11.0 percent decline in the electrical products segment, which more than offset a slight increase in sales for the water systems business. Sales in 2000 increased \$177.6 million compared with 1999, with approximately \$190 million of the increase resulting from an additional seven months of sales from the August 1999 acquisition of the MagneTek motor business, and approximately \$12 million in sales from our Chinese water heater operation. These increases were partially offset by lower sales in our base electric motor business.

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

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

We recognized pension credits of \$20.2 million, \$17.7 million and \$15.8 million in 2001, 2000, and 1999, respectively, reflected as offsets to cost of products sold and selling, general and administrative expense. See Note 11 of notes to consolidated financial statements.

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

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

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

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

We recorded net earnings from continuing operations of \$14.5 million or \$.61 per share in 2001 compared with \$41.7 million or \$1.76 per share in 2000. Excluding a \$9.4 million pre-tax special charge related primarily to the restructuring of our electric motor operations, we recorded earnings of \$20.5 million, or \$.86 per share.

OPERATIONS BY SEGMENT

		FOR THE THREE MONTHS FOR THE YEARS ENDED			
		ENDED DECEMBER 31, MARCH 31, -----			
		----- 1999 2000			
		2001	2001	2002	-----
		2001	2001	2002	-----
----- (IN MILLIONS) NET SALES:					
Electrical					
products.....		\$ 735.0			
		\$ 902.4	\$ 802.7	\$ 226.2	\$ 196.2
Water					
systems.....					
		335.3	345.5	348.5	92.0 175.7

					\$ 1,070.3
		\$ 1,151.2	\$ 318.2	\$ 371.9	=====
		=====	=====	=====	=====
OPERATING EARNINGS:					
Electrical					
products.....		\$ 78.9			
		\$ 75.5	\$ 20.8	\$ 14.0	\$ 15.1
Water					
systems.....					
		33.8	34.9	39.2	9.9 13.6

					112.7 110.4 60.0 23.9
		28.7			
General, corporate and research and development					
expenses.....					
		(22.8)	(23.2)	(21.1)	(5.6) (5.9)
Interest					
expense.....					
		(12.8)	(22.1)	(16.4)	(4.8) (4.2)

Earnings from continuing operations before income taxes.....					
		\$ 77.1	\$ 65.1	\$ 22.5	\$ 13.5 \$ 18.6
		=====	=====	=====	=====

ELECTRICAL PRODUCTS

FIRST QUARTER 2002 AND 2001

First quarter sales for our electrical products segment were \$196.2 million or \$30.0 million lower than sales of \$226.2 million in the same period last year, and reflect continued softness in the electric motor market. Our HVAC and pump business declined approximately 15 percent during the quarter compared to last year, with the remainder of the business down approximately 10 percent. Though air conditioning inventory replenishment is progressing slower than we had anticipated at the beginning of the year, we believe air conditioning

inventories remain at historically low levels and offer sales upside as we progress through the year.

Operating earnings for our electrical products segment in the first quarter of 2002 were \$15.1 million or \$0.5 million less than the \$15.6 million of operating earnings in the first quarter of 2001, as adjusted to exclude \$1.6 million of goodwill amortization. Notwithstanding this decrease in operating earnings, operating margins improved from 6.9 percent to 7.7 percent. The favorable trend in our year-over-year operating margin for electrical products was the result of cost reduction activities, including those announced in the fourth quarter of 2001.

FULL YEAR 2001, 2000 AND 1999

Sales in the electrical products segment in 2001 were \$802.7 million, \$99.7 million or 11 percent lower than 2000 sales of \$902.4 million. Sales in 1999 were \$735.0 million. Our HVAC-related business experienced the largest sales decline of approximately \$60 million or 11 percent in 2001. The lower demand for motors in 2001 was due to a number of factors including general economic conditions, reduced discretionary spending on the part of consumers, and inventory adjustments by air conditioning manufacturers and retailers. The increase in sales from 1999 to 2000 was due to the additional seven months of ownership of the MagneTek motor business which contributed approximately \$190 million in sales. Excluding the MagneTek acquisition, sales in the base motor business declined five percent in 2000 due mostly to a reduction in demand from HVAC customers.

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

In the fourth quarter of 2001, we announced a cost reduction program to address challenging motor market conditions. The program consists of three major elements. The first element involves a reduction of approximately 10 percent of the salaried workforce to be completed by the middle of 2002. The second element targets improved contribution margins and involves the repositioning of additional parts fabrication and assembly work to our lower-cost Mexican operations and is expected to be completed by the end of the first quarter of 2003. A portion of the work currently performed at six domestic plants will be transferred to our operations in Juarez, Acuna, and Monterrey, Mexico. The third element involved realignment of distribution activities into three hub warehouses, thereby reducing cost and improving customer service, and has been completed. We recognized a pre-tax charge of \$8.1 million in the fourth quarter of 2001, of which \$0.8 million was spent as of December 31, 2001. We expect the program to generate pre-tax savings of more than \$16 million in 2002 and \$20 to \$25 million annually thereafter.

WATER SYSTEMS

FIRST QUARTER 2002 AND 2001

First quarter sales for our water systems segment were \$175.7 million, or \$83.7 million higher than sales of \$92.0 million in the same period last year. The increase in sales was associated with our State Industries acquisition which recorded sales of \$84.1 million in the

first quarter. Excluding the State Industries acquisition, sales in the water systems segment were flat. Higher sales in the commercial and China business offset a modest decline in residential and other products.

Operating earnings for our water systems segment in the first quarter of 2002 were \$13.6 million, which included \$3.8 million of earnings associated with the State Industries acquisition. The net \$9.8 million of earnings for our base water heater business compared to first quarter 2001 profits of \$9.9 million and included a \$1.7 million charge associated with the consolidation of water systems' management staff.

FULL YEAR 2001, 2000 AND 1999

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

Operating earnings for our water systems segment in 2001 were \$40.5 million before special charges, reflecting a 16.0 percent increase over 2000 earnings of \$34.9 million. The improved earnings performance in 2001 was the result of higher volume, better performance in China, and improved plant efficiencies throughout the organization. The earnings improvement from \$33.8 million in 1999 to \$34.9 million in 2000 resulted from improved performance in China.

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

LIQUIDITY AND CAPITAL RESOURCES

FIRST QUARTER 2002 AND 2001

Our working capital for continuing operations was \$227.0 million at March 31, 2002, \$7.2 million higher than at December 31, 2001. A sales-related increase in accounts receivable of \$27.8 million was partially offset by increases in accounts payable and a reduction in our other current assets account as a result of receiving an expected \$12.4 million tax refund in the first quarter of 2002. Cash provided by our operations during the first quarter of 2002 was \$22.9 million compared with \$13.3 million of cash used by our operations during the same period in 2001. We had higher earnings and smaller increases to working capital during the first quarter of 2002 compared with the first quarter of 2001. We project operating cash flow of \$75 to \$80 million for the full year.

Our capital expenditures during the first quarter of 2002 totaled \$7.1 million, which was less than the \$9.5 million spent in the first quarter of 2001 due to lower spending by our electrical products segment. We are projecting 2002 capital expenditures of \$45 million, an increase of approximately \$10 million over the prior year, due primarily to the acquisition of State Industries. We expect the level of 2002 capital expenditures to be marginally lower than 2002 depreciation expense and that cash flow during 2002 will adequately cover planned capital expenditures. We believe that our present facilities and planned capital expenditures are sufficient to provide adequate capacity for our operations in 2002.

Our long-term debt decreased by \$11.5 million from \$390.4 million at December 31, 2001 to \$378.9 million at March 31, 2002. Our leverage as measured by the ratio of total debt to total capitalization was 45.7 percent, down slightly from the end of 2001. Excluding potential acquisitions and assuming current outstanding share levels, we expect 2002 cash flow to result in a year-end leverage ratio of approximately 43 percent, closer to our long-term target of 40 percent. We did not enter into any significant operating leases during the first quarter of 2002. We expect to have adequate liquidity in 2002 as we have a minimal amount of long-term debt maturing, and we have adequate credit facilities to support our short-term borrowing needs. At March 31, 2002, we had available borrowing capacity of \$92.2 million under our credit facilities. We believe that the combination of available borrowing capacity and operating cash flow will provide sufficient funds to finance our existing operations for the foreseeable future.

In connection with our acquisition of State Industries in December of 2001, we recorded additional purchase liabilities of approximately \$3.9 million associated with employee severance costs. As of March 31, 2002, we have charged \$0.6 million against this reserve. In addition, we recorded purchase liabilities of \$17.9 million in 1999 associated with our MagneTek motor acquisition, which included employee severance and relocation, as well as certain facility costs. The balance of the MagneTek purchase liabilities was \$6.0 million at March 31, 2002. We expect these activities to be completed within the next year.

On April 9, 2002, our board of directors declared a regular quarterly dividend of \$.13 per share on our common stock and class A common stock, which is payable on May 15, 2002 to stockholders of record on April 30, 2002.

FULL YEAR 2001, 2000 AND 1999

Our working capital for continuing operations at December 31, 2001 was \$219.8 million compared with \$204.3 million and \$207.3 million at December 31, 2000 and 1999, respectively. The increase in our working capital in 2001 was due to the December 28, 2001 acquisition of State Industries. The modest decline in our working capital in 2000 was due to lower accounts receivable resulting from weaker HVAC markets.

Our capital expenditures were \$35.3 million in 2001 versus \$40.5 million in 2000 and \$32.8 million in 1999. The decrease in capital spending in 2001 and increase in 2000 occurred in our electrical products segment. We are projecting 2002 capital expenditures of approximately \$45 million, an increase over 2001 primarily due to the acquisition of State Industries. The level of 2002 capital expenditures is expected to be marginally lower than 2002 depreciation expense. Our cash flow during 2002 is expected to adequately cover projected capital expenditures.

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

7.3 percent. Due to our acquisition of State Industries, long-term debt increased \$74.0 million from \$316.4 million at December 31, 2000, to \$390.4 million at December 31, 2001. Our leverage as measured by the ratio of total debt to total capitalization was 47.4 percent at December 31, 2001, compared with 42.2 percent at the end of 2000. Excluding potential acquisitions, we expect 2002 cash flow to result in a year-end leverage ratio of approximately 43 percent, closer to our long-term target of 40 percent.

We expect to have adequate liquidity in 2002 as we have a minimal amount of long-term debt maturing during 2002. In addition, we have a \$250 million multi-year revolving credit facility with a group of 10 financial institutions that expires on August 2, 2004, and an \$83 million 364-day credit agreement with a group of six banks that expires on July 26, 2002, which we expect to support any short-term borrowing needs. At December 31, 2001, we had available borrowing capacity of \$79.5 million under our credit facilities. For information about our contractual cash obligations for indebtedness, capital leases, operating leases, and related obligations as of December 31, 2001, see Note 8 of notes to consolidated financial statements.

In connection with the acquisition of State Industries in December 2001, we recorded additional purchase liabilities of approximately \$3.9 million associated with employee severance costs. In addition, we recorded purchase liabilities of \$17.9 million in 1999 associated with the MagneTek motor business acquisition, which included employee severance and relocation, as well as certain facility costs. We expect that the balance of MagneTek purchase liabilities of \$6.5 million at December 31, 2001 will be fully utilized during 2002.

Included in other assets is a \$32.8 million receivable due to the payments of claims associated with the dip tube class action lawsuit. See Note 13 of notes to consolidated financial statements. We expect a modest increase to the receivable in 2002. The receivable is classified as a long-term asset because court proceedings will not begin until late 2002 and may not conclude until 2003 or later.

We have paid dividends for 62 consecutive years. We paid total dividends of \$.52 per share in 2001 compared with \$.50 per share in 2000.

CRITICAL ACCOUNTING POLICIES

Our accounting policies are more fully described in Note 1 of notes to consolidated financial statements. As disclosed in Note 1 of notes to consolidated financial statements, the preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions about future events that affect the amounts reported in the financial statements and accompanying notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

The most significant accounting estimates inherent in the preparation of our financial statements include estimates associated with the evaluation of the recoverability of certain assets including goodwill and receivables resulting from the payment of claims associated with the dip tube class action lawsuit (see Note 13 of notes to consolidated financial statements) as well as those estimates used in the determination of liabilities related to warranty activity, litigation, product liability, environmental matters and pensions and other post-retirement benefits. Various assumptions and other factors underlie the determination of these significant estimates. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, product mix, and in some cases, actuarial

techniques. We constantly reevaluate these significant factors and make adjustments where facts and circumstances dictate. Historically, actual results have not significantly deviated from those determined using the estimates described above.

OTHER MATTERS

ENVIRONMENTAL

Our 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 us or third parties. We have expended financial and managerial resources to comply with such laws. Expenditures related to environmental matters were not material in 2001 and are not expected to be material in any single year. Although we believe that our operations are substantially in compliance with such laws, and we have procedures designed to maintain compliance, we cannot provide any assurance that substantial additional costs for compliance will not be incurred in the future.

MARKET RISK

We are exposed to various types of market risks, primarily currencies and certain commodities. We monitor our risks in these areas on a continuous basis and generally enter into forward and futures contracts to minimize these exposures for periods of less than one year. We do not engage in speculation in our derivative strategies. Further discussion regarding derivative instruments is contained in Note 1 of notes to consolidated financial statements.

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

In addition, we enter into foreign currency forward contracts to minimize the effect of fluctuating foreign currencies. At December 31, 2001, we had net foreign currency contracts outstanding of \$81 million. Assuming a hypothetical 10 percent movement in the respective currencies, the potential foreign exchange gain or loss associated with the change in rates would amount to \$8.1 million. Any gains and losses from our forward contract activities will be offset by gains and losses in the underlying transactions being hedged.

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

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Under the new standards, goodwill and indefinite lived intangible assets are no longer amortized but instead are reviewed annually for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The amortization provisions of SFAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. Accordingly, the goodwill associated with the December 2001 acquisitions of State Industries and Shenzhen Speeda will not be amortized. See Note 2 of notes to consolidated financial statements. With respect to goodwill and intangible assets acquired prior to July 1, 2001, we have applied the new accounting standards effective January 1, 2002. We have assessed the recoverability of our goodwill and intangible assets and have concluded that there is no impairment in value of these assets. All of the goodwill amortization of \$6.6 million in 2001 will be eliminated as a charge to operations in 2002.

Additionally, the FASB has issued SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 143 will become effective for us on January 1, 2003. Adoption of this statement is not expected to have a material impact on our consolidated financial statements. SFAS No. 144, which we adopted on January 1, 2002, has not had a material impact on our consolidated financial statements since its adoption.

DISCONTINUED OPERATIONS

On January 21, 2000, we announced the decision to exit the storage and fluid handling markets, consistent with our strategy to expand our presence in electrical products and water systems. On December 8, 2000, we sold our fluid handling business, Smith Fiberglass Products Company, to Varco International Corporation. On January 10, 2001, we sold substantially all of the assets of the storage tank business, Engineered Storage Products Company, to CST Industries. The sale of these businesses resulted in net after-tax proceeds of \$62 million. After-tax losses associated with discontinued operations amounted to \$11.9 million and \$7.8 million in 2000 and 1999, respectively, and consisted mostly of losses associated with the disposition of these businesses. The 2000 loss also included an after-tax charge of \$4 million related to revised estimates on certain claims that arose out of the sale of the automotive structural components business in April 1997. See Note 3 of notes to consolidated financial statements.

MANAGEMENT AND BOARD OF DIRECTORS

The following table sets forth information as of April 12, 2002, concerning our directors and certain executive officers. All of our officers serve terms of one year and until their successors are elected and qualified. Our board of directors currently includes eight members, with two directors elected by holders of common stock and six elected by holders of class A common stock and all directors serving terms of one year and until their successors are elected and qualified.

NAME	AGE	POSITION
Robert J. O'Toole	61	Chairman, President, and Elected Chairman in 1992; Chief Executive Officer since 1989; President since 1986; joined A. O. Smith in 1963
Kenneth W. Krueger	45	Senior Vice President Elected and Chief Financial Officer in August 2000; previously employed by Eaton Corporation as Group Vice President, Finance and Business Planning; Vice President, Finance at Rockwell Automation, where he worked from 1983 to 1999
Donald M. Heinrich	49	Senior Vice President Elected in July 2001; President of A. O. Smith Electrical Products Company since July 2001; joined A. O. Smith Electrical Products Company in January 2000, as Senior Vice President-Operations; served as President of Smith Fiberglass Products Company from November 1997 through January 2000; joined A. O. Smith in October 1992 as Vice President-Business Development
Ronald E. Massa	52	Senior Vice President Named President of A. O. Smith Water and Products Company in February 1999; Smith Water Products elected

Senior Vice President
in June Company 1997;
served as President of
A. O. Smith Automotive
Products Company from
June 1996 to April
1997; served as
President of A. O.
Smith Water Products
Company from 1995 to
June 1996; held other
management positions
in the A. O. Smith
Water Products Company
prior thereto; joined
A. O. Smith in 1976
Glen R.

Bomberger.....
64 Director Elected a
Director in 1986;
Executive Vice
President from 1986
through April 2001;
Chief Financial
Officer from 1986 to
2000; joined A. O.
Smith in 1960;
Director of Smith
Investment Company

NAME AGE POSITION
BACKGROUND - ---- ---

Ronald D.

Brown.....
48 Director Elected a
Director in 2001;
named Chairman,
President and Chief
Executive Officer of
Milacron Inc. in June
2001; served as
President and Chief
Operating Officer of
Milacron Inc. since
September 1999; on
Milacron Inc.'s Board
of Directors since
November 1999; served
as Chief Financial
Officer of Milacron
Inc. from 1993 through
1999; joined Milacron
Inc. in 1980 William
F.

Buehler.....
62 Director Elected a
Director in 1998; Vice
Chairman of the Board
of Directors and
President-Industry
Solutions Operations
of Xerox Corporation
from April 1999
through 2000; joined
Xerox Corporation in
1991 as Executive Vice
President and Chief
Staff Officer; prior
to joining Xerox,
spent 27 years with
AT&T Corporation;
Director of Quest
Diagnostics Kathleen

J. Hempel.....
51 Director Elected a
Director in 1998; Vice
Chairman and Chief
Financial Officer of
Fort Howard
Corporation from 1992
until its merger into
Fort James Corporation
in 1997; joined Fort
Howard Corporation in
1973; Director of
Oshkosh Truck
Corporation, Whirlpool
Corporation,
Kennametal
Corporation, Actuant
Corporation, and
Visteon Corporation
Dr. Agnar

Pytte.....
69 Director Elected a
Director in 1991;
became president of
Case Western Reserve
University in July
1987 and retired in
June 1999; prior to
July 1987, was the
Provost at Dartmouth
College where he held
other academic

positions since 1958;
currently Adjunct
Professor at Dartmouth
College; Director of
The Goodyear Tire &
Rubber Company Bruce
M.

Smith.....
53 Director Elected a
Director in 1995;
elected Chairman and
Chief Executive
Officer of Smith
Investment Company in
January 1999; elected
President of Smith
Investment Company in
1993; Executive Vice
President of A. O.
Smith Water Products
Company from 1991
through June 1993;
Managing Director of
A. O. Smith Electric
Motors (Ireland) Ltd.
from 1988 to 1991;
joined A. O. Smith in
1978; Director of
Smith Investment
Company Mark D.

Smith.....
40 Director Elected a
Director in 2001;
served as a Product
Business Manager for
Strattec Security
Corporation since
1997; Operations
Manager of A. O. Smith
Automotive Products
Company from 1994 to
1997

DESCRIPTION OF CAPITAL STOCK

Our restated certificate of incorporation provides that we have authority to issue 60,000,000 shares of common stock, 14,000,000 shares of class A common stock, and 3,000,000 shares of preferred stock. As of March 31, 2002, we had 15,218,012 shares of common stock issued and outstanding, 8,638,989 shares of class A common stock issued and outstanding and no shares of preferred stock issued and outstanding. All of the outstanding shares are fully paid and nonassessable, and the shares of common stock being sold by us will, upon completion of this offering, be fully paid and nonassessable.

The following summary of some provisions of our common stock, class A common stock, and preferred stock is not complete. You should refer to our restated certificate of incorporation, which is incorporated by reference as an exhibit to the registration statement of which this prospectus is a part, and applicable law for more information.

COMMON STOCK AND CLASS A COMMON STOCK

Dividends. The holders of shares of our class A common stock and our common stock are entitled to receive dividends, including dividends of our stock, as and when declared by our board of directors, subject to any limitations applicable by law and to the rights of the holders, if any, of our preferred stock. Whenever we pay any dividends, other than dividends of our stock, on our class A common stock, each share of common stock is entitled to receive a dividend at least equal to the dividend paid per share on our class A common stock. We may pay dividends, other than dividends of our stock, to holders of common stock in excess of dividends paid, or without paying dividends, to holders of class A common stock.

Voting Rights. Currently, and immediately following the offering, holders of our common stock, voting as a separate class, have the right to elect or remove 25 percent of our entire board of directors, rounded to the nearest whole number of directors. Currently, and immediately following the offering, holders of our class A common stock are entitled to elect the remaining directors, subject to any rights granted to holders of any series of preferred stock. Except as may be required by law and in connection with some significant actions, such as mergers, consolidations, or amendments to our restated certificate of incorporation that affect the rights of stockholders, holders of our common stock and our class A common stock will vote together as a single class, except that the holders of class A common stock will have one vote per share and the holders of common stock will have one-tenth vote per share.

Conversion. Each share of our class A common stock is convertible into one share of our common stock at any time at the holder's option.

Other Terms. None of our stockholders have preemptive or other rights to subscribe for, purchase, or receive any additional securities. No class of common stock is subject to redemption.

Transfer Agent. The transfer agent for our common stock is Wells Fargo Bank Minnesota, N.A. Shareholder Services.

PREFERRED STOCK

Our restated certificate of incorporation authorizes our board of directors to issue our preferred stock in series and to determine and fix the rights, preferences, and limitations of any series and the relative variations between series with respect to the rate and nature of dividends, the price and terms and conditions on which shares may be redeemed, the amount

payable in the event of our voluntary or involuntary liquidation, the terms of any sinking fund provisions or redemption or repurchase of shares, the terms and conditions for conversion into any other class or series of our stock, and voting rights.

The issuance of any series of our preferred stock may have an adverse effect on the rights of holders of our common stock and could decrease the amount of earnings and assets available for distribution to holders of our common stock. In addition, any issuance of our preferred stock could have the effect of delaying, deferring, or preventing a change in control of our company.

SUPERMAJORITY VOTING PROVISIONS

Under our restated certificate of incorporation, the following extraordinary corporate actions require approval by a vote of two-thirds of the total number of votes represented by the outstanding shares entitled to vote thereon:

- - any plan of merger or consolidation other than a plan of merger or consolidation with or into any of our subsidiaries of which we own at least 90 percent of the outstanding capital stock
- - any sale, lease, exchange, or other disposition of all or substantially all of our assets, if not made in the ordinary course of our business
- - any amendment to our restated certificate of incorporation that changes the supermajority voting requirements discussed above

These supermajority voting requirements could have the effect of delaying, deferring, or preventing a change of control of our company.

UNDERWRITING

Under an underwriting agreement dated _____, 2002, we have agreed to sell to the underwriters named below the indicated numbers of shares of our common stock:

NUMBER UNDERWRITER OF SHARES - -----	
Robert W. Baird & Co.	
Incorporated.....	Banc of America
Securities LLC.....	Bear,
Stearns & Co. Inc.....	

Total.....	
3,500,000 =====	

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of our common stock in the offering if any are purchased, other than those shares covered by the over-allotment option we describe below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or this offering of our common stock may be terminated.

We have granted to the underwriters a 30-day option to purchase on a pro-rata basis up to 525,000 additional shares from us at the public offering price less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of our common stock.

The underwriters propose to offer the shares of our common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a selling concession of up to \$ _____ per share. The underwriters and selling group members may allow a discount of \$ _____ per share on sales to other broker/dealers. After the offering, the underwriters may change the public offering price and concession and discount to broker/dealers. As used in this section:

- - Underwriters are securities broker/dealers that are parties to the underwriting agreement and will have a contractual commitment to purchase shares of our common stock from us, and the underwriters are the three firms acting on behalf of the underwriters.
- - Selling group members are securities broker/dealers to whom the underwriters may sell shares of our common stock at the public offering price less the selling concession above, but who do not have a contractual commitment to purchase shares from us.
- - Broker/dealers are firms registered under applicable securities laws to sell securities to the public.

The following table summarizes the compensation and estimated expenses we will pay. The compensation we will pay to the underwriters will consist solely of the underwriting discount, which is equal to the public offering price per share of common stock less the amount the underwriters pay to us per share of common stock. The underwriters have not received and will not receive from us any other item of compensation or expense in

connection with this offering considered by the National Association of Securities Dealers, Inc. to be underwriting compensation under its rules of fair practice.

PER SHARE
TOTAL -----

--- WITHOUT
WITH
WITHOUT
WITH OVER-
ALLOTMENT
OVER-
ALLOTMENT
OVER-
ALLOTMENT
OVER-
ALLOTMENT -

--

Underwriting
discounts
and
commissions
paid by
us... \$ \$ \$
\$ Expenses
payable by
us..... \$ \$
\$ \$

We have agreed to pay all of the expenses in connection with this offering. The principal components of the offering expenses payable by us will include the fees and expenses of our accountants and attorneys, the fees of our registrar and transfer agent, the cost of printing this prospectus, and filing fees paid to the Securities and Exchange Commission and the National Association of Securities Dealers, Inc.

We and our directors and key officers have agreed not to offer, sell, transfer, pledge, contract to sell, transfer or pledge, or file with the Securities and Exchange Commission a registration statement under the Securities Act of 1933, as amended, relating to any additional shares of our common stock or securities convertible into or exchangeable or exercisable for any of shares of our common stock without the prior written consent of Robert W. Baird & Co. Incorporated for a period of 90 days after the date of this prospectus, except that these restrictions will not apply to our ability to grant employee or director stock options under the terms of stock option plans in effect on the date of this prospectus or to issue our common stock upon any exercise of these options. The restrictions will also not apply to transfers by our directors and key officers by gift, will, or intestacy so long as the transferee agrees not to make further transfers of the shares during the 90-day period.

We have agreed to indemnify the underwriters against liabilities under the Securities Act of 1933, as amended, or to contribute to payments that the underwriters may be required to make in that respect.

Some of the underwriters and their affiliates have provided, and may provide in the future, advisory and investment banking services to us, for which they have received and would receive customary compensation.

The underwriters may engage in over-allotment transactions, stabilizing transactions, and syndicate covering transactions in accordance with Regulation M under the Securities Exchange Act of 1934, as amended.

- - Stabilizing transactions permit bids to purchase shares of our common stock so long as the stabilizing bids do not exceed a specified maximum.
- - Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a

syndicate short position.

- - Syndicate covering transactions involve purchases of our common stock in the open market after the distribution has been completed to cover syndicate short positions.

These stabilizing transactions and syndicate covering transactions may cause the price of our common stock to be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements, and other information with the Securities and Exchange Commission, or SEC. We have also filed a registration statement on Form S-3, including exhibits, under the Securities Act of 1933 with respect to the common stock offered by this prospectus. This prospectus is a part of the registration statement, but does not contain all of the information included in the registration statement or the exhibits. You may read and copy the registration statement and any other document that we file at the SEC's public reference rooms at 450 Fifth Street, N.W., Washington D.C., and at regional SEC offices in New York, New York and Chicago, Illinois. You can call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. You can also find our public filings with the SEC on the Internet at a web site maintained by the SEC located at <http://www.sec.gov>. Our common stock is listed on the New York Stock Exchange and reports, proxy statements and other information concerning us can be inspected at the New York Stock Exchange located at 11 Wall Street, New York, New York 10005.

INCORPORATION OF INFORMATION BY REFERENCE

We are "incorporating by reference" specified documents that we file with the SEC, which means:

- - incorporated documents are considered part of this prospectus
- - we are disclosing important information to you by referring you to those documents; and
- - information we file with the SEC will automatically update and supersede information contained in this prospectus

We incorporate by reference the documents we list below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus and before the end of the offering of our common stock:

- - our Annual Report on Form 10-K for the year ended December 31, 2001
- - our Quarterly Report on Form 10-Q for the quarter ended March 31, 2002
- - our Current Reports on Form 8-K dated December 28, 2001, as amended, and April 12, 2002
- - the description of our common stock contained in our Registration Statement on Form 8-A, filed with the SEC on December 9, 1994, including any amendment or report filed for the purpose of updating such description

You may request a copy of any of these filings, at no cost, by writing to Craig Watson, Director Public Relations, A. O. Smith Corporation, P.O. Box 245008, Milwaukee, Wisconsin 53224-9508, or by calling Mr. Watson at (414) 359-4000.

LEGAL MATTERS

Some legal matters in connection with the sale of the shares of our common stock offered by this prospectus will be passed upon for us by Foley & Lardner, Milwaukee, Wisconsin. Some legal matters will be passed upon for the underwriters by Michael Best & Friedrich LLP, Madison, Wisconsin. Jere D. McGaffey, a partner in the law firm of Foley & Lardner, is a director of our controlling stockholder, Smith Investment Company, and he is a co-trustee of trusts in which he has no beneficial interest that own approximately 60% of the capital stock of Smith Investment Company.

EXPERTS

Ernst & Young LLP, independent auditors, have audited our consolidated financial statements at December 31, 2000 and 2001, and for each of the three years in the period ended December 31, 2001, as set forth in their report appearing in this prospectus and registration statement. Ernst & Young LLP also audited the financial statement schedule incorporated by reference from our Annual Report on Form 10-K for the year ended December 31, 2001. We have included our financial statements in the prospectus and elsewhere in the registration statement and incorporated our financial statement schedule in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing.

Lattimore Black Morgan & Cain, PC, independent public accountants, have audited the financial statements of State Industries as set forth in their report incorporated by reference in this prospectus and registration statement from our Current Report on Form 8-K dated December 28, 2001, as amended on March 12, 2002. We have incorporated by reference the financial statements of State Industries in this prospectus and registration statement in reliance on Lattimore Black Morgan & Cain, PC's report, given on their authority as experts in accounting and auditing.

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of A. O. Smith Corporation at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Milwaukee, Wisconsin
January 16, 2002

CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

DECEMBER 31, -----	2000	2001	-----
----- ASSETS	CURRENT ASSETS	Cash and cash	equivalents.....
		\$ 15,287	\$ 20,759
Receivables.....	169,117	209,871	
Inventories.....	169,630	194,706	Deferred income
taxes.....		12,907	22,403
			Other current
assets.....		7,789	28,039
			Net current assets--discontinued
operations.....	22,651	1,796	-----
	---	TOTAL CURRENT	
ASSETS.....		397,381	
	477,574		Net property, plant, and
equipment.....		282,835	355,298
goodwill and other intangibles.....	244,821	301,924	Prepaid
pension.....			81,958
		103,272	Other
assets.....			
	40,380	55,855	Net long-term assets--discontinued
operations.....	17,493	--	-----
TOTAL ASSETS.....			
\$1,064,868	\$1,293,923	=====	===== LIABILITIES
			CURRENT LIABILITIES
payable.....			Notes
		\$ --	
		\$ 3,280	Trade
payables.....			
	91,780	131,073	Accrued payroll and
benefits.....		27,388	29,525
			Accrued
liabilities.....			26,865
		58,443	Product
warranty.....			11,574
		19,470	Income
taxes.....			1,695
	887		Long-term debt due within one
year.....		11,129	13,272
	-----	TOTAL CURRENT	-----
LIABILITIES.....		170,431	
	255,950		Long-term
debt.....			316,372
		390,385	Product
warranty.....			17,631
	50,162		Post-retirement benefit
obligation.....		18,012	17,073
income taxes.....			67,814
		62,154	Other
liabilities.....			
	26,213	66,321	----- TOTAL
LIABILITIES.....		616,473	
842,045			Commitments and contingencies (Notes 8 and 13)
			STOCKHOLDERS' EQUITY
Preferred			
Stock.....			
			Class A Common Stock (shares issued 8,722,720 and
8,686,484).....			
	43,614	43,432	Common Stock (shares issued 23,826,642 and
23,862,878).....	23,827	23,863	Capital in excess of par
value.....		53,521	54,785
Retained			
earnings.....			549,237
	551,420		Accumulated other comprehensive
loss.....		(5,438)	(6,858)
Treasury stock			
at cost.....			(216,366)
(214,764)			----- TOTAL STOCKHOLDERS'
EQUITY.....		448,395	451,878
	-----	TOTAL LIABILITIES AND STOCKHOLDERS'	-----
EQUITY.....	\$1,064,868	\$1,293,923	=====
	=====		

See accompanying notes which are an integral part of these statements.
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CONSOLIDATED STATEMENTS OF EARNINGS

(Dollars in Thousands, Except Per Share Amounts)

YEARS ENDED DECEMBER 31, -----	1999	2000	2001	-----
CONTINUING OPERATIONS Net sales.....	\$1,070,339	\$1,247,945	\$1,151,156	Cost of products sold..... 839,572
	999,821	948,815		-----
	Gross			
profit.....	230,767	248,124	202,341	Selling, general, and administrative expenses..... 136,304 153,695
				145,742 Interest expense.....
	12,821	22,102	16,418	Amortization of intangibles..... 5,162 6,932
				6,956 Restructuring and other charges..... -- -- 9,368
(income) expense--net.....	(612)	307	1,371	-----
	77,092	65,088	22,486	Provision for income taxes..... 26,822 23,432
	7,984			-----
FROM CONTINUING OPERATIONS.....	50,270	41,656	14,502	DISCONTINUED OPERATIONS Loss from discontinued operations less related income tax benefit 1999--\$5,017, and 2000--\$7,772.....
	(7,848)	(11,903)	--	-----
	--- NET			
EARNINGS.....	\$ 42,422	\$ 29,753	\$ 14,502	=====
	===== BASIC EARNINGS (LOSS) PER SHARE OF COMMON STOCK Continuing			
Operations.....	\$ 2.17	\$ 1.78	\$ 0.61	Discontinued Operations..... (.34)
	(.51)	--	--	-----
NET EARNINGS.....	\$ 1.83	\$ 1.27	\$ 0.61	=====
	===== DILUTED EARNINGS (LOSS) PER SHARE OF COMMON STOCK Continuing			
Operations.....	\$ 2.11	\$ 1.76	\$ 0.61	Discontinued Operations..... (.33)
	(.50)	--	--	-----
NET EARNINGS.....	\$ 1.78	\$ 1.26	\$ 0.61	=====
	=====			

CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(Dollars in Thousands)

YEARS ENDED DECEMBER 31, -----	1999	2000	2001	-----
				NET
EARNINGS.....	\$42,422	\$29,753	\$14,502	Other comprehensive earnings (loss) Foreign currency translation adjustments..... (1,750) (2,200) (981)
				Unrealized net loss on cash flow derivative instruments less related income tax benefit of \$287.....
	--	--	(439)	-----
COMPREHENSIVE EARNINGS.....	\$40,672	\$27,553	\$13,082	=====

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

YEARS ENDED DECEMBER 31, -----	-----	-----	-----
----	1999	2000	2001
CONTINUING OPERATING ACTIVITIES Earnings from continuing operations.....	\$ 50,270	\$ 41,656	\$ 14,502
Adjustments to reconcile earnings from continuing operations to cash provided by operating activities:			
Depreciation.....	30,769	36,582	38,485
Amortization.....	6,546	8,477	8,591
Net change in current assets and liabilities.....	(24,929)	3,563	11,175
Net change in noncurrent assets and liabilities.....	(13,930)	(15,343)	(22,667)
Other.....	(911)	241	(258)
CASH PROVIDED BY OPERATING ACTIVITIES.....	47,815	75,176	49,828
INVESTING ACTIVITIES Acquisition of businesses.....	(244,592)	-	-
Capital expenditures.....	(32,807)	(40,516)	(35,318)
CASH USED IN INVESTING ACTIVITIES.....	(277,399)	(40,516)	(153,306)
FINANCING ACTIVITIES Long-term debt incurred.....	229,677	--	90,565
Long-term debt retired.....	(4,629)	(33,379)	(11,129)
Purchase of treasury stock.....	(2,773)	--	--
Net proceeds from common stock and option activity.....	1,149	816	1,407
Dividends paid.....	(11,172)	(11,720)	(12,319)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES.....	212,252	(44,283)	68,524
CASH FLOW PROVIDED BY (USED IN) DISCONTINUED OPERATIONS.....	(5,573)	10,149	40,426
Net increase (decrease) in cash and cash equivalents.....	(22,905)	526	5,472
Cash and cash equivalents--beginning of year.....	37,666	14,761	15,287
CASH AND CASH EQUIVALENTS--END OF YEAR.....	\$ 14,761	\$ 15,287	\$ 20,759

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in Thousands)

YEARS ENDED DECEMBER 31,	-----	-----	-----
-----	1999	2000	2001
CLASS A COMMON STOCK Balance at beginning of year.....	\$ 43,688	\$ 43,615	
\$ 43,614 Conversion of Class A Common Stock.....	(73)	(1)	(182)
----- Balance at end of year.....	\$ 43,615	\$ 43,614	\$ 43,432
----- COMMON STOCK Balance at beginning of year.....	\$ 23,812	\$ 23,826	
\$ 23,827 Conversion of Class A Common Stock.....	14	1	36
----- Balance at end of year.....	\$ 23,826	\$ 23,827	\$ 23,863
CAPITAL IN EXCESS OF PAR VALUE Balance at beginning of year.....	\$ 51,121	\$ 53,026	\$ 53,521
\$ 53,521 Conversion of Class A Common Stock.....	59	--	146
Exercise of stock options.....	(182)	(84)	(116)
Tax benefit from exercise of stock options.....	1,797	404	1,114
Stock incentives and directors' compensation.....	231	175	120
----- Balance at end of year.....	\$ 53,026	\$ 53,521	\$ 54,785
----- RETAINED EARNINGS Balance at beginning of year.....	\$ 499,954	\$ 531,204	\$ 549,237
Net earnings.....	42,422	29,753	14,502
Cash dividends on common stock.....	(11,172)	(11,720)	(12,319)
----- Balance at end of year.....	\$ 531,204	\$ 549,237	\$ 551,420
----- ACCUMULATED OTHER COMPREHENSIVE LOSS Balance at beginning of year.....	\$ (1,488)	\$ (3,238)	\$ (5,438)
Foreign currency translation adjustments.....	(1,750)	(2,200)	(981)
Unrealized net loss on cash flow derivative instruments less related income tax benefit of \$287.....	--	--	(439)
----- Balance at end of year.....	\$ (3,238)	\$ (5,438)	\$ (6,858)
TREASURY STOCK Balance at beginning of year.....	\$(215,994)	\$(217,349)	\$(216,366)
Purchase of treasury stock.....	(2,773)	--	--
Exercise of stock options.....	1,330	901	1,524
Stock incentives and directors' compensation.....	88	82	78
----- Balance at end of year.....	\$(217,349)	\$(216,366)	\$(214,764)
TOTAL STOCKHOLDERS' EQUITY.....	\$ 431,084	\$ 448,395	\$ 451,878

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

DECEMBER 31, -----	2000	2001	--
-----	(DOLLARS IN THOUSANDS)		
Goodwill, at			
cost.....			
\$248,925	\$309,094	Other intangibles, at	
cost.....		11,424	
15,314	-----	260,349	324,408
		accumulated	
amortization.....			
15,528	22,484	-----	\$244,821
	\$301,924	=====	=====

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

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

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

COMMODITY FUTURE CONTRACTS

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

The commodity futures contracts are designated as cash flow hedges of a forecasted transaction. Derivative commodity liabilities of \$6.9 million are recorded in accrued liabilities as of December 31, 2001, with the value of the effective portion of the contracts of \$6.9 million recorded in accumulated other comprehensive earnings (loss) and reclassified into cost of products sold in the period in which the underlying transaction is recorded in earnings. Ineffective portions of the commodity hedges are recorded in earnings in the period

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

in which the ineffectiveness occurs. The impact of hedge ineffectiveness on earnings was not material for the year ended December 31, 2001.

FOREIGN CURRENCY FORWARD CONTRACTS

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

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

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

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

DECEMBER 31, -----	2000				
2001 -----		BUY	SELL	BUY	
SELL -----		(DOLLARS IN THOUSANDS)			
Euro.....					
	\$12,400	\$1,840	\$ 3,900	\$1,560	British
pound.....					1,515
	1,532	2,824	1,525		Hungarian
forint.....					3,135 --
		3,394	--		Mexican
peso.....					64,901
	--	74,279	--		
Total.....					
	\$81,951	\$3,372	\$84,397	\$3,085	=====
					=====

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

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

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

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

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

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

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:

1999	2000	2001	-----	-----

Denominator				
for basic earnings per share--				
weighted-average				
shares.....				
	23,220,813	23,396,210		
	23,648,136	Effect of dilutive		
		stock		
options.....				
566,540	294,932	266,646	-----	-----

Denominator for diluted				
earnings per				
share.....				
	23,691,142	23,914,782	23,787,353	
	=====	=====		
	=====			

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

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

2. ACQUISITIONS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

DECEMBER 28, 2001 ----- (DOLLARS IN THOUSANDS)	
	Current
assets.....	
	\$102,665 Property, plant and
equipment.....	74,409 Intangible
assets.....	3,890
Goodwill.....	
	60,123 Other
assets.....	653
	----- Total assets
acquired.....	\$241,740
	===== Current
liabilities.....	74,261
	Long-term
liabilities.....	52,094 -
	----- Total liabilities
assumed.....	126,355 -----
Net assets acquired.....	
	\$115,385 =====

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

YEARS ENDED DECEMBER 31, -----	
2000 2001 -----	(DOLLARS IN THOUSANDS)
	Net
sales.....	
	\$1,572,617 \$1,467,261 Earnings from continuing
operations.....	33,572 17,604
	Earnings per share:
Basic.....	
	1.43 .74
Diluted.....	
	1.42 .74

The pro forma results have been prepared for informational purposes only and include adjustments to depreciation expense of acquired plant and equipment, amortization of intangible assets other than goodwill and trademarks, increased interest expense on acquisition debt, and certain other adjustments, together with related income tax effects of such adjustments. Anticipated efficiencies from the consolidation of manufacturing and commercial

activities and anticipated lower material costs related to the consolidation of purchasing have been excluded from the pro forma operating results. These pro forma results do not purport to be indicative of the results of operations that would have occurred had the purchases been made as of the beginning of the periods presented or of the results of operations that may occur in the future.

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

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

3. DIVESTITURES AND DISCONTINUED OPERATIONS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

YEARS ENDED DECEMBER 31, -----	
-----	1999 2000 -----
(DOLLARS IN THOUSANDS) Earnings	
(loss) from operations: Smith	
Fiberglass Products	
Company.....	
\$ (4,355)	\$ --
Engineered Storage	
Products	
Company.....	3,465
3,139	Loss on disposition: Smith
Fiberglass Products	
Company.....	
(6,958)	(9,032)
Engineered Storage	
Products	
Company.....	--
(1,993)	Automotive Products
Company.....	
-- (4,017)	----- Net
after-tax loss from discontinued	
operations.....	
	\$(7,848)
	\$(11,903) =====

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

The \$9.0 million additional loss recorded at the time of the disposition of the fiberglass piping business in 2000 resulted from recognition of sales proceeds substantially less than originally anticipated, as the acquisition financing market, both generally and specific to the potential buyer, deteriorated to the point where the original transaction was not feasible. Subsequently, a sales contract containing a substantial reduction in sales proceeds and other concessions made by the company relative to the assumption of certain future costs was negotiated. An after-tax loss from operations (in an amount greater than what was originally anticipated as of the measurement date) of \$0.5 million is included in the \$9.0 million loss on disposition in 2000.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

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

4. BUSINESS IMPROVEMENT PROGRAMS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

5. STATEMENT OF CASH FLOWS

Supplemental cash flow information is as follows:

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

6. INVENTORIES

DECEMBER 31, -----	2000	2001	-----
(DOLLARS IN THOUSANDS) Finished			
products.....	\$109,702	\$120,231	Work in
process.....	37,186	40,210	Raw
materials.....	41,051	58,375	Inventories, at FIFO
cost.....	187,939	218,816	cost.....
	18,309	24,110	-----
	\$169,630	\$194,706	=====

7. PROPERTY, PLANT, AND EQUIPMENT

DECEMBER 31, -----	2000	2001	-----
(DOLLARS IN THOUSANDS)			
Land.....	\$ 6,690	\$ 9,408	
Buildings.....	99,888	136,189	
Equipment.....	435,440	491,906	542,018 637,503 Less
accumulated depreciation.....	259,183	282,205	-----
			\$282,835 \$355,298
			=====

8. LONG-TERM DEBT AND LEASE COMMITMENTS

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

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

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

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

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

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

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

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

9. STOCKHOLDERS' EQUITY

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

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

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

10. STOCK OPTIONS

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

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

WEIGHTED-AVERAGE PER SHARE YEARS ENDED DECEMBER 31, EXERCISE				
----- PRICE -				
2001 1999 2000 2001 --				

Outstanding at beginning of year.....	\$12.87			
2,022,900 1,979,800				
2,448,500 Granted				
1999--\$29.03 per				
share.....				
173,900 2000--\$13.56				
to \$16.28 per				
share.....				
632,000				
2001--\$15.14 per				
share.....				
15.14 510,700				
Exercised 1999--\$4.67				
to \$16.67 per				
share.....				
(217,000) 2000--\$4.67				
to \$16.33 per				
share.....				
(141,600) 2001--\$5.63				
to \$16.33 per				
share.....				
6.24				
(225,600) Expired				
2000--\$18.00 to \$27.25				
per share.....				
--				
(21,700) -- -----				

Outstanding at end of year (2001--\$8.67 to \$29.83 per share).....	17.01			
1,979,800 2,448,500				
2,733,600 =====				
=====				
Exercisable at end of year.....				

17.44 1,805,900
1,816,500 2,222,900
===== =====
=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

WEIGHTED- OPTIONS WEIGHTED- OPTIONS WEIGHTED- AVERAGE OUTSTANDING AT AVERAGE EXERCISABLE AT AVERAGE REMAINING RANGE OF DECEMBER 31, EXERCISE DECEMBER 31, EXERCISE CONTRACTUAL EXERCISE PRICES 2001 PRICE 2001 PRICE LIFE - ----- ----- -----			
----	\$8.67 to		
\$13.56.....	747,100	12.63	
	747,100	12.63	7
	years	\$15.14 to	
\$18.33.....	1,636,650	16.62	
	1,125,950	17.29	6
	years	\$25.25 to	
\$29.83.....	349,850	28.16	
	349,850	28.16	7
years -----	-----		
	-----	2,733,600	
	2,222,900	=====	
		=====	

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

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

YEARS ENDED DECEMBER 31, ----- --- 1999 2000 2001 ----- (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) Earnings: As			
reported.....	\$50,270	\$41,656	\$14,502 Pro
forma.....	49,311	40,330	12,727 Earnings per share: As
			reported:
Basic.....	\$ 2.17	\$ 1.78	\$ 0.61
Diluted.....	2.11	1.76	0.61 Pro forma:
Basic.....	2.12	1.72	0.54
Diluted.....	2.07	1.70	0.53

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

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

11. PENSION AND OTHER POST-RETIREMENT BENEFITS

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

POST-RETIREMENT PENSION BENEFITS	BENEFITS			
DECEMBER 31,	YEARS ENDED			
2000	2001	2000	2001	
(DOLLARS IN THOUSANDS) CHANGE IN				
BENEFIT OBLIGATIONS				
Benefit obligation at beginning of year.....				
\$(530,658)				
\$(561,771)	\$(17,477)	\$(17,177)		ESPP benefit obligation at beginning of year.....
				-- (6,963)
				-- -- Service cost.....
(6,631)	(5,900)	(271)	(258)	Interest cost.....
(40,926)	(41,579)	(1,267)	(1,227)	Participant contributions.....
	(264)	(387)		Plan amendments.....
(542)				-- -- Actuarial gains (losses) including assumption changes.....
	(23,084)	(15,759)	79	2
Acquisition.....				
				-- (64,642) -- -- Benefits paid.....
46,669	2,023	2,592		39,528
				Benefit obligation at end of year.....
\$(17,177)	\$(16,455)			\$(561,771) \$(650,487)
=====				
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year....				
737,119	\$ --	\$ --		\$ 755,487 \$
				-- \$ -- Actual return on plan assets.....
		21,160	(35,967)	-- -
				- Contribution by the company.....
				-- 946 1,759 2,205
				Participant contributions.....
				-- -- 264 387
Acquisition.....				
				-- 48,899 -- -- Benefits paid.....
(39,528)	(46,669)	(2,023)	(2,592)	
Fair value of plan assets at end of year.....				
\$ --				\$ 737,119 \$ 704,328 \$ --
===== FUNDED STATUS.....				
\$ 175,348	\$ 53,841	\$(17,177)	\$(16,455)	Unrecognized net actuarial loss (gain).....
	22,290	(1,845)	(1,781)	Unrecognized net transition asset.....
				(499) -- -- Unrecognized prior service cost (credit).....
	4,612	7,780	(677)	(525) -----
Net amount recognized.....				
\$ 83,911	\$(19,699)	\$(18,761)		=====
Amounts recognized in the statement of financial position consist of:				
Prepaid pension asset.....				
\$ 81,958	\$ 103,272	\$ --	\$ --	Accrued benefit liability.....
	(1,687)	(1,688)		Post-retirement benefit obligation.....
				-- -- (18,012) (17,073)
Net amount recognized.....				
\$ 81,958	\$ 83,911	\$(19,699)	\$(18,761)	=====
===== WEIGHTED-AVERAGE ASSUMPTIONS AS OF DECEMBER 31				
Discount rate.....				
7.25%	7.50%	7.25%		7.50%
Expected return on plan assets.....				
		10.25%	10.00%	n/a n/a
Rate of compensation increase.....				
		4.00%	4.00%	4.00%
				4.00%

PENSION BENEFITS POST-RETIREMENT BENEFITS YEARS ENDED DECEMBER 31, YEARS ENDED DECEMBER 31, -----					
----- 1999					
2000	2001	1999	2000	2001	----

----- (DOLLARS IN THOUSANDS) COMPONENTS OF NET PERIODIC BENEFIT COST					
Service cost..... \$					
4,890	\$ 6,631	\$ 5,900	\$ 338	\$	
Interest cost.....					
36,314	40,926	41,579	1,195		
1,267	1,227	Expected return on plan assets.....			
(56,598)	(64,854)	(68,067)	--	--	--
-- -- Amortization of prior service cost.....					
502	559	937	(152)	(152)	(152)
Amortization of transition asset.....					
(939)	(939)	(499)	--	--	--
Amortization of net actuarial gain.....					
--	--	(59)	(82)	(66)	-----

----- Defined benefit plan cost (income).....					
\$(15,831)	\$(17,677)	\$(20,150)			
\$1,322	\$1,304	\$1,267	=====		
===== Various U.S. defined contribution plans cost.....					
	5,087	3,559	2,418		

\$(10,744)	\$(14,118)	\$(17,732)			
=====					

The company did not have any pension plans with accumulated benefit obligations in excess of plan assets at December 31, 2000. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$71,561, \$68,104 and \$48,899, respectively, as of December 31, 2001.

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

12. INCOME TAXES

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

YEARS ENDED DECEMBER 31, -----					
1999	2000	2001	----- (DOLLARS IN THOUSANDS) Current:		
Federal.....					
	\$11,810	\$ 3,964	\$(10,100)		
State.....					
	2,399	428	(12)		
International.....					
	1,339	3,581	2,426		
Deferred.....					
11,274	15,459	15,670	-----	-----	\$26,822
	\$23,432	\$ 7,984	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

YEARS ENDED DECEMBER 31, -----	1999	2000	2001	-----	(DOLLARS IN THOUSANDS)	Provision at
U.S. federal statutory rate.....	35.0%	35.0%	35.0%		International income tax rate	
differential.....	(1.8)	(1.1)	2.2		State income	
and franchise taxes.....	3.6	3.0			Research tax	
credits.....	(1.8)	(.1)				
	(1.3)					
Other.....	(.2)	(.8)	.4	-----	34.8%	36.0%
				-----	35.5%	====
				-----		====

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

YEARS ENDED DECEMBER 31, -----	1999	2000	2001	-----	(DOLLARS IN THOUSANDS)	United States.....
	\$76,201	\$57,845	\$18,939		International.....	
	891	7,243	3,547	-----	\$77,092	\$65,088
			\$22,486	=====		

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

DECEMBER 31, 2000	DECEMBER 31, 2001	-----	
----- ASSETS			
LIABILITIES	ASSETS	LIABILITIES	-----
----- (DOLLARS IN THOUSANDS) Employee			
benefits.....	\$19,261		
	\$33,791	\$25,605	\$ 42,125
Inventory.....			
	1,134	-- --	3,363
Receivables.....			
-- 4,697 --	10,111	Product liability and	
warranty.....	11,814	-- 40,986 --	
		Depreciation	
differences.....	-- 27,781 -		
	- 42,781	Amortization	
differences.....	-- 13,094 -		
	- 17,941	Tax loss and credit	
carryovers.....	-- -- 9,946 --	All	
other.....			
7,753 33 --			
	\$32,209	\$87,116	\$76,570
		\$116,321	=====
			===== Net
liability.....			
	\$54,907	\$ 39,751	=====

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, -----	2000	2001	-----
----- (DOLLARS IN THOUSANDS) Current deferred income			
tax assets.....	\$ 12,907	\$ 22,403	
		Long-term deferred income tax	
liabilities.....	(67,814)	(62,154)	-----
	--	-----	Net
liability.....			
	\$ 54,907	\$ 39,751	=====

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

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

13. LITIGATION AND INSURANCE MATTERS

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

material effect on its financial position or results of operations. The following paragraphs summarize noteworthy actions and proceedings.

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

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

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

As of December 31, 2001, the company recorded a long-term receivable of \$32.8 million (as detailed below) related to dip tube repair claims, administrative costs, legal fees and related expenses. It is the company's expectation that all or a substantial portion of its costs will be

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

recovered from Perfection, American Meter Company, Manner Plastics Materials, Inc., and their insurers, as well as the company's insurers.

1999 CUMULATIVE AND PRIOR 2000 2001				
DECEMBER 31, 2001 -----				
----- (DOLLARS IN				
THOUSANDS) Repair claim				
payments.....				
\$2,537	\$ 6,268	\$13,378	\$22,183	
Administrative				
costs..... 1,021				
2,009	4,503	7,533	Legal	
fees.....				
490	2,085	470	3,045	-----
----- Total				
funding.....				
\$4,048	\$10,362	\$18,351	\$32,761	=====
=====	=====	=====		

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

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

It is impossible at this time to estimate the total cost of remediation for the Sites or the company's ultimate share of those costs, primarily because the Sites are in various stages of the remediation process and issues remain open at many Sites concerning the selection and

implementation of the final remedy, the cost of that remedy, and the company's liability at a Site relative to the liability and viability of the other PRPs.

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

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

14. OPERATIONS BY SEGMENT

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

OPERATIONS BY SEGMENT

EARNINGS FROM CONTINUING OPERATIONS -----						
----- NET SALES YEARS ENDED -----						

DECEMBER 31, YEARS ENDED						
DECEMBER 31, -----						

	1999	2000	2001	1999	2000	2001
2000	2001	-----	-----	-----	-----	-----

(DOLLARS IN MILLIONS) Electrical						
Products..... \$						
78.9	\$ 75.5	\$ 20.8	\$ 735.0	\$		
	902.4	\$ 802.7	Water			
Systems.....						
33.8	34.9	39.2	335.3	345.5	348.5	

----- Total Segments--						
EBIT..... 112.7						
110.4	60.0	\$1,070.3	\$1,247.9			
	\$1,151.2	=====	=====			
===== General Corporate and						
Research and Development						
Expenses..... (22.8)						
	(23.2)	(21.1)	Interest			
Expense.....						
(12.8)	(22.1)	(16.4)	-----	----		
-- ----- Earnings from						
Continuing Operations before						
Income Taxes.....						
77.1	65.1	22.5	Provision for			
Income Taxes..... (26.8)						
(23.4)	(8.0)	-----	-----			
- Earnings from Continuing						
Operations.... \$ 50.3 \$ 41.7 \$						
14.5	=====	=====	=====			

Net sales of the Electrical Products segment includes sales to York International Corporation of \$191.3 million, \$182.9 million, and \$171.9 million in 1999, 2000, and 2001, respectively.

TOTAL ASSETS, DEPRECIATION AND AMORTIZATION, AND CAPITAL EXPENDITURES BY SEGMENT

DEPRECIATION AND CAPITAL AMORTIZATION EXPENDITURES TOTAL						
ASSETS -----						

----- YEARS						
ENDED YEARS ENDED						
DECEMBER 31 DECEMBER 31						
DECEMBER 31 -----						

	1999	2000	2001	1999	2000	2001
2001	1999	2000	2001	----	----	----

----- (DOLLARS IN						
MILLIONS) Electrical						
Products..... \$ 705.1 \$						
700.6	\$ 680.3	\$ 27.3				
\$34.7	\$37.0	\$27.0	\$35.6			
	\$29.5	Water				
Systems.....						
177.4	182.8	420.6	8.8			
9.0	8.9	5.6	4.6	5.7	----	

----- Total						

Segments.....					
	882.5	883.4	1,100.9		
	36.1	43.7	45.9	32.6	
40.2	35.2	Corporate			
Assets.....	120.9				
	141.4	191.2	1.2	1.3	1.2
	0.2	0.3	0.1		
Discontinued					
Operations.....					
	62.2	40.1	1.8	5.3	5.6
-	5.1	1.5	--	-----	-

Total.....					
	\$1,065.6	\$1,064.9			
	\$1,293.9	\$42.6	\$50.6		
	\$47.1	\$37.9	\$42.0	\$35.3	
	=====	=====			
	=====	=====	=====	=====	
	=====	=====	=====	=====	

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

NET SALES AND LONG-LIVED ASSETS BY GEOGRAPHIC LOCATION

The following data by geographic area includes net sales based on product shipment destination and long-lived assets based on physical location. Long-lived assets include net

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

property, plant, and equipment and other long-term assets and exclude prepaid pension, intangible assets, and long-lived assets of discontinued operations.

LONG-LIVED ASSETS			
NET SALES -----			

-----	1999	2000	2001
1999	2000	2001	-----

-- (DOLLARS IN MILLIONS) (DOLLARS IN MILLIONS) United States.....			
\$192.1	\$200.1	\$283.4	
United States.....			
\$ 959.7	\$1,108.9	\$ 984.4	
Mexico.....			
91.7	98.7	102.0	
Foreign.....			
110.6	139.0	166.8	--

---- Other			
Foreign..... 28.5			
24.4	25.8		
Total.....			
\$1,070.3	\$1,247.9		
\$1,151.2	-----	-----	-----
--	=====	=====	=====
=====	=====	=====	=====
Total.....			
\$312.3	\$323.2	\$411.2	
=====	=====	=====	

15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	-----	
2000	2001	2000	2001	2000	2001
2000	2001	-----	-----	-----	-----

----- (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) Net sales.....					
\$344.6	\$318.2	\$341.3	\$308.3		
\$290.8	\$269.1	\$271.2	\$255.6		
Gross profit.....					
73.4	58.8	73.5	58.6	54.3	42.6
46.9 42.3 Earnings					
Continuing.....					
14.2	8.5	17.6	10.7	7.3	0.4
2.5 (5.1)					
Discontinued.....					
0.4	--	--	1.5	--	(13.8)

Net					
Earnings.....					
14.6	8.5	17.6	10.7	8.8	0.4
(11.3)	(5.1)	=====	=====	=====	=====
=====	=====	=====	=====	=====	=====
===== Basic earnings per share					
Continuing.....					
.61	.36	.75	.45	.31	.02 .11
(0.21)					
Discontinued.....					
.02	--	--	.07	--	(.59)

Net					

Earnings.....								
.63	.36	.75	.45	.38	.02	(.48)		
(.21)		=====	=====	=====	=====			
=====		=====	=====	=====	=====			
=====		Diluted earnings per share						
Continuing.....								
.60	.36	.74	.45	.31	.02	.11		
(.21)								
Discontinued.....								
.02	--	--	--	.06	--	(.58)	--	
-----							-----	

Net

Earnings.....							
.62	.36	.74	.45	.37	.02	(.47)	
(.21)		=====	=====	=====	=====		
=====		=====	=====	=====	=====		
		===== Common dividends					
declared.....		.12	.13	.12			
.13	.13	.13	.13	.13	=====		
=====		=====	=====	=====	=====		
=====		=====	=====	=====	=====		

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

See Note 8 for restrictions on the payment of dividends.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

(UNAUDITED) DECEMBER 31, 2001	MARCH 31, 2002	-----
-----	ASSETS	CURRENT ASSETS
cash equivalents.....	\$	
20,759	\$ 21,851	
Receivables.....		
209,871	237,690	
Inventories.....		
194,706	192,578	Deferred income
taxes.....	22,403	18,878
	Other current	
assets.....	28,039	
16,456	Net current assets--discontinued	
operations.....	1,796	--
	TOTAL CURRENT	
ASSETS.....	477,574	
487,453	Property, plant and	
equipment.....	637,503	641,804
	Less accumulated	
depreciation.....	282,205	292,817
	Net property, plant and	
equipment.....	355,298	348,987
Goodwill.....		
295,073	295,723	Other intangible
assets.....	6,851	6,480
	Other	
assets.....		
159,127	166,579	-----
		TOTAL
ASSETS.....		
\$1,293,923	\$1,305,222	=====
		=====
		LIABILITIES
		CURRENT LIABILITIES
Notes		
payable.....	\$	
3,280	\$ --	Trade
payables.....		
131,073	138,191	Accrued payroll and
benefits.....	29,525	31,464
	Accrued	
liabilities.....	58,443	
55,949	Product	
warranty.....	19,470	
19,155	Income	
taxes.....	887	
2,419	Long-term debt due within one	
year.....	13,272	13,272
	Net current	
liabilities--discontinued operations.....	--	2,902
	TOTAL CURRENT	
LIABILITIES.....	255,950	
263,352	Long-term	
debt.....	390,385	
378,867	Other	
liabilities.....		
133,556	130,277	Deferred income
taxes.....	62,154	66,577
	TOTAL	
LIABILITIES.....	842,045	
839,073	STOCKHOLDERS' EQUITY	
Class A common stock, \$5		
par value: authorized 14,000,000 shares; issued		
8,671,584.....	43,432	43,358
	Common	
stock, \$1 par value: authorized 60,000,000 shares;		
issued 23,877,778.....	23,863	
	Capital in excess of par	
value.....	54,785	55,697
	Retained	
earnings.....	551,420	
560,448	Accumulated other comprehensive	
loss.....	(6,858)	(2,815)
	Treasury stock	
at cost.....	(214,764)	
(214,417)	TOTAL STOCKHOLDERS'	
	451,878	466,149
EQUITY.....		
	TOTAL LIABILITIES AND STOCKHOLDERS'	
	\$1,293,923	\$1,305,222
	=====	
	=====	

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(UNAUDITED)

(Dollars in Thousands, Except Per Share Amounts)

THREE MONTHS ENDED MARCH 31, -----	2001		
2002 -----		Electrical	
Products.....	\$226,253	\$196,234	Water
Systems.....	91,982	175,693	----- Net
sales.....	318,235	371,927	Cost of products
sold.....			259,440
profit.....	295,026		----- Gross
58,795	76,901	Selling, general and administrative	
expenses.....	38,123	53,204	Interest
expense.....			4,801
4,177		Amortization of	
intangibles.....			1,733 81
Other expense--			
net.....			599 789 ---
-----	13,539	18,650	Provision for income
taxes.....			5,010 6,528 -----
-----			NET
EARNINGS.....			\$
8,529	\$ 12,122	=====	===== EARNINGS PER COMMON
			SHARE
Basic.....			
\$ 0.36	\$ 0.51	=====	=====
Diluted.....			
\$ 0.36	\$ 0.50	=====	===== DIVIDENDS PER COMMON
SHARE.....			\$ 0.13 \$ 0.13
			=====

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollars in Thousands)

THREE MONTHS ENDED MARCH 31, -----	-----	-----
- 2001	2002	CONTINUING
OPERATING ACTIVITIES Earnings from continuing operations.....	\$ 8,529	\$ 12,122
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation.....	9,291	11,941
Amortization.....	2,120	356
Net change in current assets and liabilities....	(27,610)	3,024
Net change in other noncurrent assets and liabilities.....	(5,832)	(5,516)
Other.....	218	927
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.....	(13,284)	22,854
INVESTING ACTIVITIES Capital expenditures.....	(9,520)	(7,080)
Acquisition of business.....	(2,050)	--
CASH USED IN INVESTING ACTIVITIES.....	(9,520)	(9,130)
CASH FLOW BEFORE FINANCING ACTIVITIES.....	(22,804)	13,724
FINANCING ACTIVITIES Long-term debt retired.....	(14,798)	(20,666)
Net proceeds from common stock and option activity... 101 815 Dividends paid.....	(3,061)	(3,094)
CASH USED IN FINANCING ACTIVITIES.....	(23,626)	(17,077)
CASH PROVIDED BY DISCONTINUED OPERATIONS.....	44,201	4,445
Net increase (decrease) in cash and cash equivalents... (2,229) 1,092		
Cash and cash equivalents-beginning of period.....	15,287	20,759
CASH AND CASH EQUIVALENTS--END OF PERIOD.....	\$ 13,058	\$ 21,851

See accompanying notes to unaudited condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002 (UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2002 are not necessarily indicative of the results expected for the full year. It is suggested that the accompanying condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements and the notes thereto included in the company's latest Annual Report on Form 10-K. Certain prior year amounts have been reclassified to conform to the 2002 presentation.

2. ACQUISITIONS

On December 28, 2001, A. O. Smith Corporation (the company) acquired all of the outstanding stock of State Industries, Inc. (State) for an aggregate purchase price of \$117.5 million. This was comprised of \$57.8 million for the outstanding stock, assumption of \$56.3 million of debt, and \$3.4 million of acquisition costs, of which \$2.1 million were paid during the three-month period ended March 31, 2002. The purchase price was allocated to the assets acquired and liabilities assumed based upon current estimates of their respective fair values at the date of acquisition. In connection with the State acquisition, additional purchase liabilities of \$3.9 million were recorded for employee severance. As of March 31, 2002, total costs incurred and charged against this liability to date totaled \$0.6 million.

On August 2, 1999, the company acquired the assets of MagneTek, Inc.'s (MagneTek) domestic electric motor business and six wholly owned foreign subsidiaries for \$244.6 million. In connection with the MagneTek acquisition, the company recorded additional purchase liabilities of \$17.9 million, which included employee severance and relocation, as well as certain facility exit costs. The remaining balance of such purchase liabilities at March 31, 2002 is \$6.0 million.

3. BUSINESS IMPROVEMENT PROGRAMS

In the fourth quarter of 2001, the company recorded restructuring and other charges of \$9.4 million. The charges included employee separation costs of \$7.7 million associated with product or component manufacturing repositioning and the realignment of certain administrative functions. The resulting reduction of workforce is approximately 150 salaried and 775 hourly employees. In addition, the company recorded facility impairment and lease charges of \$1.7 million representing estimated costs of facilities to be vacated. The company spent \$1.5 million through March 31, 2002 for employee severance and separation costs. As a result of actions taken through March 31, 2002, the workforce has been reduced by approximately 94 employees. The company expects to be substantially completed with the realignment activities prior to December 31, 2002.

4. INVENTORIES (DOLLARS IN THOUSANDS)

DECEMBER 31, 2001	MARCH 31, 2002	-----
----- Finished		
products.....		
\$120,231	\$125,155	Work in
process.....		
	40,210	37,228 Raw
materials.....		
58,375	54,305	----- 218,816
216,688 Allowance to state inventories at		
LIFO cost..... 24,110 24,110 -----		
---	\$194,706	\$192,578 =====

5. GOODWILL AND OTHER INTANGIBLE ASSETS

The company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002. Under SFAS No. 142, goodwill and certain other intangible assets are no longer amortized but are reviewed for impairment. In connection with the adoption of SFAS No. 142, the company has completed the first step of the transitional goodwill impairment test, which requires the company to compare the fair value of its reporting units to the carrying value of the net assets of the respective reporting units as of January 1, 2002. Based on this analysis, the company has concluded that no impairment existed at the time of adoption, and, accordingly, the company has not recognized any transitional impairment loss.

Changes in the carrying amount of goodwill during the first quarter of 2002 consist of the following (Dollars in thousands).

ELECTRICAL WATER PRODUCTS SYSTEMS TOTAL	-----
----- Balance at December 31,	
2001.....	\$230,004 \$65,069
\$295,073 Adjustment to property, plant and	
equipment and other	
assets.....	
(37) 328 291 Additional acquisition	
costs.....	-- 359 359 -----
----- Balance at March 31,	
2002.....	\$229,967 \$65,756
\$295,723	=====

As required by SFAS No. 142, the results of operations for periods prior to its adoption have not been restated. The following table reconciles reported net earnings and earnings per share to pro forma net earnings and earnings per share that would have resulted for the three-

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

month period ended March 31, 2001 if SFAS No. 142 had been adopted effective January 1, 2001 (Dollars in thousands, except per share amounts):

THREE MONTHS ENDED MARCH 31, 2001 -----	
	Net earnings as
reported.....	\$8,529
	Goodwill amortization--after
tax.....	995 Assembled
workforce amortization--after tax.....	58
	----- Net earnings--pro
forma.....	9,582
	===== Basic earnings per share: As
reported.....	\$ 0.36 ===== Pro
forma.....	\$ 0.41 ===== Diluted earnings per share: As
reported.....	\$ 0.36 ===== Pro
forma.....	\$ 0.40 =====

Other intangible assets at December 31, 2001 and March 31, 2002 consist of the following (Dollars in thousands):

DECEMBER 31, 2001 -----	
	----- AMORTIZATION CARRYING
	ACCUMULATED PERIOD AMOUNT AMORTIZATION
	NET -----
--	----- Intangible assets subject to
	amortization:
Patents.....	
10 - 12 years \$ 618 \$(111) \$ 507	
Customer	
lists.....	30
years 2,600 (209) 2,391	
Other.....	
5 - 15 years 1,296 (373) 923 -----	
--	----- 4,514 (693) 3,821 Intangible
	assets not subject to amortization:
	Trademarks and
other.....	3,030 --
3,030 -----	----- Total
intangible assets.....	
\$7,544 \$(693) \$6,851 =====	=====
	=====

MARCH 31, 2002 -----	
	----- AMORTIZATION CARRYING
	ACCUMULATED PERIOD AMOUNT AMORTIZATION
	NET -----
--	----- Intangible assets subject to
	amortization:
Patents.....	
10 - 12 years \$ 618 \$(126) \$ 492	
Customer	
lists.....	30
years 2,600 (231) 2,369	
Other.....	
5 - 15 years 996 (407) 589 -----	
--	----- 4,214 (764) 3,450 Intangible
	assets not subject to amortization:
	Trademarks and
other.....	3,030 --
3,030 -----	----- Total

intangible assets.....
\$7,244 \$(764) \$6,480 =====
=====

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Amortization expense is projected to be approximately \$0.2 million for each of the fiscal years ended December 31, 2002 through 2006.

6. LONG-TERM DEBT

The company's credit agreement and term notes contain certain conditions and provisions which restrict the company's payment of dividends. Under the most restrictive of these provisions, retained earnings of \$66.6 million were unrestricted as of March 31, 2002.

7. COMPREHENSIVE EARNINGS (DOLLARS IN THOUSANDS)

The company's comprehensive earnings were comprised of net earnings, foreign currency translation adjustments, and realized and unrealized gains and losses on cash flow derivative instruments. Also included in comprehensive earnings for the three-month period ended March 31, 2001 was a cumulative loss on cash flow hedges of approximately \$0.6 million in connection with the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, on January 1, 2001.

	THREE MONTHS ENDED MARCH 31, -----	2001
	2002 -----	Net
Earnings.....	\$8,529	\$12,122
Other comprehensive earnings (loss):		
Foreign currency translation		
adjustments.....	(1,817)	(276)
Unrealized net gain on cash flow derivative instruments less		
related income tax: 2001--\$209 and 2002--\$2,767...	326	
	4,319	
Comprehensive Earnings.....	\$7,038	
	\$16,165	=====

8. 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:

	THREE MONTHS ENDED MARCH 31, -----	2001	2002
Denominator for basic earnings per share--weighted-average shares.....	23,511,254	23,772,140	
Effect of dilutive stock options.....	316,965	545,337	-----
Denominator for diluted earnings per share.....	23,828,219	24,317,477	=====
			=====

9. OPERATIONS BY SEGMENT (DOLLARS IN THOUSANDS)

THREE MONTHS ENDED MARCH 31, -----			
2001	2002	-----	-----
Net sales Electrical			
Products.....			
	\$226,253	\$196,234	Water
Systems.....			
91,982	175,693	-----	\$318,235 \$371,927
===== Earnings before interest and			
taxes Electrical			
Products..... \$			
	14,024	\$ 15,162	Water
Systems.....			
9,851	13,578	-----	23,875 28,740
Corporate			
expenses.....			
	(5,535)	(5,913)	Interest
expense.....			
(4,801)	(4,177)	-----	Earnings from
continuing operations before income taxes.....			
	13,539	18,650	Provision for income
taxes..... (5,010)			
(6,528)	-----	-----	Earnings from continuing
operations..... \$ 8,529 \$			
	12,122	=====	=====

Intersegment sales, which are immaterial, have been excluded from segment revenues.

10. ACCOUNTING FOR DERIVATIVE INSTRUMENTS

The company utilizes certain derivative instruments to enhance its ability to manage currency exposures and raw materials price risks. Derivative instruments are entered into for periods consistent with the related underlying exposures and do not constitute positions independent of those exposures. The company does not enter into contracts for speculative purposes. The company has hedged certain of its forecasted exposures. Greater than 98 percent of these contracts expire by December 31, 2003. The contracts are executed with major financial institutions with no credit loss anticipated for failure of the counterparties to perform.

FOREIGN CURRENCY FORWARD CONTRACTS

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

Forward contracts are accounted for as cash flow hedges of a forecasted transaction. The fair value of these currency derivatives of \$6.6 million and \$5.9 million have been recorded in other current assets as of December 31, 2001 and March 31, 2002, respectively. Gains and

losses on these instruments are recorded in other comprehensive income(loss) until the underlying transaction is recorded in earnings. When the hedged item is realized, gains or losses are reclassified from accumulated other comprehensive income(loss) to the statement of earnings. The assessment of effectiveness for forward contracts is based on changes in the forward rates. These hedges have been determined to be perfectly effective.

COMMODITY FUTURE CONTRACTS

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

The commodity future contracts are designated as cash flow hedges of a forecasted transaction. Derivative commodity liabilities of \$6.9 million and \$1.2 million are recorded in accrued liabilities as of December 31, 2001 and March 31, 2002, respectively, with the value of the effective portion of the contracts of \$6.9 million and \$0.8 million recorded in accumulated other comprehensive income(loss) as of December 31, 2001 and March 31, 2002, respectively, and reclassified into cost of products sold in the period in which the underlying transaction is recorded in earnings. Ineffective portions of the commodity hedges are recorded into earnings in the period in which the ineffectiveness occurs. Hedge ineffectiveness and impact on earnings was not material for the three-month periods ended March 31, 2001 and 2002, respectively.

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

11. SUBSEQUENT EVENT

On April 12, 2002, the company filed a Registration Statement on Form S-3 (Reg. No. 333-86074) with the Securities and Exchange Commission to sell up to 4,025,000 shares of Common Stock.

[A. O. SMITH LOGO]

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

Securities and Exchange Commission filing fee.....	\$ 9,762
NASD filing fee.....	11,110
Transfer agent expenses and fees.....	4,000
Accounting fees and expenses.....	93,000
Legal fees and expenses.....	200,000
Printing and engraving expenses.....	50,000
Miscellaneous.....	7,128

Total expenses.....	\$375,000
	=====

All of the above fees and expenses will be paid by A. O. Smith Corporation (the "Registrant"). Other than the Securities and Exchange Commission filing fee and the NASD filing fee, all fees and expenses are estimated.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Under the provisions of Section 145 of the Delaware General Corporation Law, the Registrant is required to indemnify any present or former officer or director against expenses arising out of legal proceedings in which the director or officer becomes involved by reason of being a director or officer if the director or officer is successful in the defense of such proceedings. Section 145 also provides that the Registrant may indemnify a director or officer in connection with a proceeding in which he is not successful in defending if it is determined that he acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Registrant or, in the case of a criminal action, if it is determined that he had no reasonable cause to believe his conduct was unlawful. Liabilities for which a director or officer may be indemnified include amounts paid in satisfaction of settlements, judgments, fines and other expenses (including attorneys' fees incurred in connection with such proceedings). In a stockholder derivative action, no indemnification may be paid in respect of any claim, issue or matter as to which the director or officer has been adjudged to be liable to the Registrant (except for expenses allowed by a court).

Under the provisions of Article VII of the Registrant's By-Laws and individual indemnity agreements between the Registrant and its directors and certain of its officers, the Registrant is required to indemnify officers or directors to a greater extent than under the current provisions of Section 145 of the Delaware General Corporation Law. Except with respect to stockholder derivative actions, the By-Law provisions and the indemnity agreements generally state that the director or officer will be indemnified against expenses, amounts paid in settlement and judgments, fines, penalties and/or other amounts incurred with respect to any threatened, pending or completed proceeding (including, without limitation, proceedings brought under and/or predicated upon the Securities Act of 1933 and/or the Securities Exchange Act of 1934); provided that (i) such individual did not engage in criminal, fraudulent or intentional misconduct in the performance of his duties to the Registrant; (ii) with respect to criminal actions, such individual had no reasonable cause to believe his conduct was unlawful; and (iii) with respect to securities law actions, such individual acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Registrant and its stockholders.

The foregoing standards also apply with respect to the indemnification of expenses incurred in a stockholder derivative suit. However, in order for a director or officer to be indemnified for settlement amounts or judgments incurred in a derivative suit, it also must be determined that (i) such individual has not breached his duty of loyalty to the Registrant or its stockholders; (ii) has not committed acts or omissions in bad faith or which involve intentional misconduct or a knowing violation of the law; (iii) has not engaged in any willful or negligent conduct in paying dividends or repurchasing stock of the Registrant out of other than lawfully available funds; and (iv) has not derived an improper personal benefit from the subject transaction.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Registration Statement.

ITEM 17. UNDERTAKINGS.

- (a) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the Registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the Registration Statement shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions set forth or described in Item 15 of this Registration Statement, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.
- (c) The undersigned registrant hereby undertakes that:
 - (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.
 - (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Milwaukee, State of Wisconsin, on April 19, 2002.

A. O. SMITH CORPORATION

By: /s/ ROBERT J. O'TOOLE

Robert J. O'Toole

Chairman of the Board, President
and

Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment to the Registration Statement has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE
TITLE DATE

/s/ ROBERT
J. O'TOOLE
Chairman
of the
Board of
Directors,
April 19,
2002 -----

President
and Chief
Executive
Robert J.
O'Toole
Officer
and
Director
(Principal
Executive
Officer)
/s/
KENNETH W.
KRUEGER
Senior
Vice
President
and Chief
April 19,
2002 -----

Financial
Officer
Kenneth W.
Krueger
(Principal
Financial
Officer)
/s/ JOHN
J. KITA
Vice
President,
Treasurer
and April
19, 2002 -

Controller
John J.
Kita
(Principal
Accounting
Officer) *
Director
April 19,
2002 -----

Glen R.
Bomberger
* Director
April 19,
2002 -----

Ronald D.
Brown *
Director
April 19,
2002 -----

William F.
Buehler *
Director
April 19,
2002 -----

Kathleen
J. Hempel
* Director
April 19,
2002 -----

Agnar
Pytte *
Director
April 19,
2002 -----

Bruce M.
Smith *
Director

April 19,
2002 -----

Mark D.
Smith

*By: /s/ KENNETH W. KRUEGER

Kenneth W. Krueger

Attorney-in-fact

EXHIBIT INDEX

EXHIBIT
NUMBER
DOCUMENT
DESCRIPTION
- - - - -

----- (1)
Form of
Underwriting
Agreement.
(2) Stock
Purchase and
Sale
Agreement,
dated as of
September
13, 2001, by
and among
the
shareholders
of Ocelot
Oil Corp.,
the
beneficiaries
of the
Herbert W.
Lindahl, Jr.
State
Industries
Trust and
the John R.
Lindahl
State
Industries
Trust, State
Industries,
Inc., Ocelot
Oil Corp.,
John R.
Lindahl,
Herbert W.
Lindahl, Jr.
and A. O.
Smith
Corporation.
[Incorporated
by reference
to Exhibit 2
to A. O.
Smith
Corporation's
Current
Report on
Form 8-K
dated
December 28,
2001 (File
No. 1-475)]
(4.1)
Restated
Certificate
of
Incorporation
of the
corporation
as amended
April 5,
1995.
[Incorporated
by reference
to Exhibit 3
to A. O.
Smith
Corporation's
Annual

Report on
Form 10-K
for the year
ended

December 31,
1995 (File
No. 1-475)]

(4.2) Credit
Agreement,
dated as of
August 2,
1999, among
A. O. Smith
Corporation,
various
financial
institutions,
The First
National
Bank of
Chicago, as
Syndication
Agent, and
Bank of
America,
N.A., as
Agent.

[Incorporated
by reference
to Exhibit
4(b) to A.
O. Smith
Corporation's
Annual
Report on
Form 10-K
for the year
ended

December 31,
2000 (File
No. 1-475)]

(4.3) First
Amendment,
dated as of
July 28,
2000, to
Credit
Agreement,
among A. O.
Smith
Corporation,
various
financial
institutions,
Bank One,
N.A.

(formerly
The First
National
Bank of
Chicago), as
Syndication
Agent, and
Bank of
America,
N.A., as
Agent.*

(4.4) Second
Amendment,
dated as of
July 27,
2001, to
Credit
Agreement,
among A. O.
Smith
Corporation,
various
financial
institutions,
Bank One,

N.A.
(formerly
The First
National
Bank of
Chicago), as
Syndication
Agent, and
Bank of
America,
N.A., as
Agent.*

(4.5) The
Registrant
has
instruments
that define
the rights
of holders
of long-term
debt that
are not
being filed
with this
Registration
Statement in
reliance
upon Item
601(b)(4)
(iii) of
Regulation
S-K. The
Registrant
agrees to
furnish to
the
Securities
and Exchange
Commission,
upon
request,
copies of
these
instruments.

(5) Opinion
of W. David
Romoser,
Vice
President,
General
Counsel and
Secretary of
the
Registrant
(including
consent of
counsel).*

(23.1)
Consent of
Ernst &
Young LLP.

(23.2)
Consent of
Lattimore
Black Morgan
& Cain, PC.

(23.3)
Consent of
W. David
Romoser,
Vice
President,
General
Counsel and
Secretary of
the
Registrant.*

(24) Power
of Attorney
relating to

subsequent
amendments.*

- - - - -

* Previously filed.

A. O. SMITH CORPORATION

3,500,000 SHARES*
COMMON STOCK

UNDERWRITING AGREEMENT

, 2002

Robert W. Baird & Co. Incorporated
Banc of America Securities LLC
Bear Stearns & Co. Inc.

As Representatives of the Several Underwriters
Identified in Annex A Annexed Hereto

c/o Robert W. Baird & Co. Incorporated
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202

SECTION 1. INTRODUCTORY. A. O. Smith Corporation, a Delaware corporation (the "Company"), proposes to sell 3,500,000 shares (the "Firm Shares") of its authorized common stock, \$1.00 par value per share (the "Common Stock"), held as treasury shares by the Company, to the several underwriters identified in Annex A annexed hereto (the "Underwriters"), who are acting severally and not jointly. In addition, the Company has agreed to grant to the Underwriters an option to purchase up to 525,000 additional shares of Common Stock (the "Optional Shares") held as treasury shares by the Company as provided in Section 5 hereof. The Firm Shares and, to the extent such option is exercised, the Optional Shares are hereinafter collectively referred to as the "Shares."

You, as representatives of the several Underwriters (the "Representatives"), have advised the Company that the Underwriters propose to make a public offering of their respective portions of the Shares as soon hereafter as in your judgment is advisable and that the public offering price of the Shares initially will be \$_____ per share.

The Company hereby confirms its agreement with the Underwriters as follows:

SECTION 2. REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF THE COMPANY. The Company represents and warrants to, and agrees with, the several Underwriters, and shall be deemed to represent and warrant to, and agree with, the several Underwriters on each Closing Date (as hereinafter defined), that:

- - - - -
* Plus an option to acquire up to 525,000 additional shares of Common Stock from the Company to cover over-allotments.

(a) Each of the Company and its subsidiaries (individually, a "Subsidiary" and collectively, the "Subsidiaries") is validly existing as a corporation or limited liability company in active status or good standing under the laws of its jurisdiction of organization, with full corporate power and authority to own, lease and operate its properties and to conduct its business as presently conducted and as described in the Prospectus (as hereinafter defined) and the Registration Statement (as hereinafter defined); each of the Company and the Subsidiaries is duly registered and qualified to do business as a foreign corporation under the laws of, and is in good standing as such in, each jurisdiction in which such registration or qualification is required, except where the failure to so register or qualify would not have a material adverse effect on the financial condition, business, property, net worth or results of operations of the Company and the Subsidiaries, taken as a whole ("Material Adverse Effect"). Annexed hereto as Annex B is a complete and correct list of all of the Subsidiaries, including their jurisdiction of organization and direct equity owners. Annex B also identifies the Subsidiary that is a "significant subsidiary" (a "Significant Subsidiary") as defined in Rule 1-02 of Regulation S-X of the Securities and Exchange Commission (the "Commission"). Complete and correct copies of the certificate or articles of incorporation and bylaws (or their equivalent), as amended or restated ("Articles of Incorporation" and "Bylaws," respectively), of the Company and the Significant Subsidiary as in effect on the date hereof have been made available to counsel for the Representatives, and no changes thereto will be made on or subsequent to the date hereof and prior to each Closing Date.

(b) The shares of Common Stock issued and outstanding immediately prior to the sale of the Shares hereunder as set forth in the Prospectus have been duly authorized and validly issued, are fully paid and nonassessable (except, to the extent applicable, as otherwise provided in Section 180.0622(2)(b) of the Wisconsin Business Corporation Law, as judicially interpreted), and conform to the description thereof contained in the Prospectus and the Registration Statement. There are no preemptive, preferential or, except as described in the Prospectus, other rights to subscribe for or purchase any shares of Common Stock (including the Shares), and no shares of Common Stock have been issued in violation of such rights. The Shares to be sold by the Company to the Underwriters have been duly authorized and, when delivered and paid for pursuant to this Agreement, will be validly issued, fully paid and nonassessable (except, to the extent applicable, as otherwise provided in Section 180.0622(2)(b) of the Wisconsin Business Corporation Law, as judicially interpreted), and will conform to the description thereof contained in the Prospectus and the Registration Statement. The delivery of certificates for the sale of the Shares hereunder and payment therefor pursuant to the terms of this Agreement will pass valid title to such Shares to the Underwriters, free and clear of any lien, claim, encumbrance or defect in title, other than any of the foregoing created by any of the Underwriters. Except as described in the Prospectus, there are no outstanding options, warrants or other rights of any description, contractual or otherwise, entitling any person to be issued any class of security by the Company, and there are no holders of Common Stock or other securities of the Company, or of securities that are convertible or exchangeable into Common Stock or other securities of the Company, that have rights to the registration of such Common Stock or securities under the Securities Act of 1933, as amended, and the regulations thereunder (together, the "Act"), or the securities laws or regulations of any of the states of the United States (the "Blue Sky Laws").

(c) Except for the Subsidiaries, and as otherwise set forth in the Prospectus or on Annex B, the Company has no subsidiaries and does not own any equity interest of 5% or more in or control, directly or indirectly, any other corporation, limited liability company, partnership, joint venture, association, trust or other business organization that is material to the Company and its Subsidiaries on a consolidated basis. Except as set forth in the Prospectus or on Annex B and except for director qualifying shares (if any), the Company owns directly or indirectly through a Subsidiary all of the issued and outstanding capital stock of each Subsidiary, free and clear of any and all liens, claims, encumbrances or security interests, and all such capital stock has been duly authorized and validly issued and is fully paid and nonassessable (except, to the extent applicable, as otherwise provided in Section 180.0622(2)(b) of the Wisconsin Business Corporation Law, as judicially interpreted). There are no outstanding options, warrants or other rights of any description, contractual or otherwise, entitling any person other than the Company or a Subsidiary to subscribe for or purchase any shares of capital stock of any Subsidiary.

(d) The Company has full corporate power and authority to enter into and perform this Agreement, and the execution and delivery by the Company of this Agreement and the performance by the Company of its obligations hereunder and the consummation of the transactions described herein, have been duly authorized with respect to the Company by all necessary corporate action and will not: (i) violate any provision of the Articles of Incorporation or Bylaws of the Company or the Significant Subsidiary; (ii) violate any provisions of, or result in the breach, modification or termination of, or constitute a default under, any provision of any material agreement, lease, franchise, license, indenture, permit, mortgage, deed of trust, evidence of indebtedness or other instrument to which the Company or the Significant Subsidiary is a party or by which the Company or the Significant Subsidiary, or any property owned or leased by the Company or the Significant Subsidiary, may be bound or affected; (iii) violate any statute, ordinance, rule or regulation applicable to the Company or the Significant Subsidiary, or order or decree of any court, regulatory or governmental body, arbitrator, administrative agency or instrumentality of the United States or other country or jurisdiction having jurisdiction over the Company or the Significant Subsidiary; or (iv) result in the creation or imposition of any material lien, charge or encumbrance upon any property or assets of the Company or the Significant Subsidiary; except, in the case of subsections (ii), (iii) and (iv) above, for such violations or liens, charges or encumbrances that would not result in a Material Adverse Effect. No consent, approval, authorization or other order of any court, regulatory or governmental body, arbitrator, administrative agency or instrumentality of the United States or other country or jurisdiction is required for the execution and delivery of this Agreement by the Company, the performance of its obligations hereunder or the consummation of the transactions contemplated hereby, except for compliance with the Act, the Securities Exchange Act of 1934, as amended, and the regulations thereunder (together, the "Exchange Act"), the Blue Sky Laws applicable to the public offering of the Shares by the several Underwriters and the clearance of such offering and the underwriting arrangements evidenced hereby with the National Association of Securities Dealers, Inc. (the "NASD"). This Agreement has been duly executed and delivered by and on behalf of the Company and is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms.

(e) A registration statement on Form S-3 (Reg. No. 333-86074) with respect to the Shares, including the related preliminary form of prospectus, has been prepared by the Company in conformity in all material respects with the requirements of the Act and has been

filed with the Commission. The conditions for use of Form S-3, set forth in the General Instructions thereto, have been satisfied. Such registration statement, as finally amended and revised at the time such registration statement was or is declared effective by the Commission (including the information contained in the form of final prospectus, if any, filed with the Commission pursuant to Rule 424(b) and Rule 430A under the Act and deemed to be part of the registration statement if the registration statement has been declared effective pursuant to Rule 430A(b)) and as thereafter amended by post-effective amendment, if any, together with any registration statement and amendment filed pursuant to Rule 462 under the Act, is herein referred to as the "Registration Statement." The related final prospectus in the form first filed with the Commission pursuant to Rule 424(b) or, if no such filing is required, as included in the Registration Statement, or any supplement thereto, is herein referred to as the "Prospectus." The prospectus subject to completion in the form included in the Registration Statement at the time of the initial filing of the Registration Statement with the Commission, and each such prospectus as amended from time to time until the date of the Prospectus, is referred to herein as the "Preliminary Prospectus." Reference made herein to each Preliminary Prospectus or the Prospectus, as amended or supplemented, shall include all documents and information incorporated by reference therein and shall be deemed to refer to and include any documents filed after the date of such Preliminary Prospectus or Prospectus, as the case may be, and so incorporated by reference, under the Exchange Act. The Company has prepared and filed such amendments to the Registration Statement since its initial filing with the Commission, if any, as may have been required by the Act to the date hereof, and will file such additional amendments thereto as may hereafter be required by the Act.

(f) Neither the Commission nor any state securities commission has issued any order preventing or suspending the use of any Preliminary Prospectus, nor, to the knowledge of the Company, have any proceedings for that purpose been initiated or threatened. As of the effective date of the Registration Statement, and at all times subsequent thereto up to each Closing Date, the Registration Statement and the Prospectus conformed or will conform in all material respects to the requirements of the Act, and neither the Registration Statement nor the Prospectus included or will include any untrue statement of a material fact or omitted or will omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. The representations and warranties of the Company in this subsection shall not apply to statements in or omissions from the Registration Statement or Prospectus made in reliance upon and in conformity with information furnished by the Representatives to the Company pursuant to Section 4 hereof. Neither the Company, nor any person that controls, is controlled by (including the Subsidiaries) or is under common control with the Company, has distributed or will distribute prior to each Closing Date any written offering material in connection with the offering and sale of the Shares other than a Preliminary Prospectus, the Prospectus, the Registration Statement or other materials permitted by the Act and provided to the Representatives.

(g) The documents that are incorporated by reference in the Prospectus or the Registration Statement or from which information is so incorporated by reference, when they became effective or were filed with the Commission, as the case may be, complied in all material respects with the requirements of the Act or the Exchange Act, as applicable, and any document so filed and incorporated by reference subsequent to the effective date of the Registration

Statement shall, when it is filed with the Commission, comply in all material respects with the requirements of the Act and the Exchange Act, as applicable, and when read together with the other information included in the Prospectus, at the time the Registration Statement became effective, at the time the Prospectus was issued, and at each Closing Date, did not or will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(h) Ernst & Young LLP, which has expressed its opinion with respect to the consolidated financial statements and schedules of the Company filed with the Commission or incorporated by reference and included as a part of the Prospectus or the Registration Statement, are independent accountants with respect to the Company and the Subsidiaries as required by the Act. To the knowledge of the Company, Lattimore Black Morgan & Cain, PC, which has expressed its opinion with respect to the financial statements of State Industries, Inc. filed with the Commission or incorporated by reference and included as a part of the Prospectus or the Registration Statement, are independent accountants with respect to State Industries, Inc. as required by the Act.

(i) The consolidated financial statements of the Company and the related notes thereto included or incorporated by reference in the Prospectus and the Registration Statement present fairly, in all material respects, the financial position, results of operations and cash flows of the Company as of their respective dates or for the respective periods covered thereby, all in conformity with the accounting principles generally accepted in the United States of America consistently applied throughout the periods involved (except as otherwise noted therein). The financial statement schedules, if any, incorporated by reference into the Registration Statement present fairly, in all material respects, the information required to be stated therein on a basis consistent with the consolidated financial statements of the Company contained therein. The Company had an outstanding capitalization as set forth in the Prospectus in the column entitled "Actual" under the caption "Capitalization" as of the date indicated therein, and there has been no change therein since such date, except for changes in the amount of the Company's total debt and subsequent sales, if any, pursuant to this Agreement, pursuant to the exercise of stock options or defined contribution or benefit plans outstanding on the date hereof or pursuant to the conversion of shares of Class A Common Stock of the Company. The financial and statistical information and data relating to the Company in the Prospectus and the Registration Statement are accurately presented in all material respects and prepared on a basis consistent with the audited consolidated financial statements and books and records of the Company. The consolidated financial statements and schedules of the Company and the related notes thereto included in the Prospectus or the Registration Statement are the only such financial statements and schedules required under the Act to be set forth therein.

(j) Neither the Company nor the Significant Subsidiary is, or would be with the giving of notice or passage of time or both, in violation or in breach of: (i) its respective Articles of Incorporation or Bylaws; (ii) any statute, ordinance, order, rule or regulation applicable to the Company or the Significant Subsidiary; (iii) any order or decree of any court, regulatory body, arbitrator, administrative agency or other instrumentality of the United States or other country or jurisdiction having jurisdiction over the Company or the Significant Subsidiary;

or (iv) any provision of any agreement, lease, franchise, license, indenture, permit, mortgage, deed of trust, evidence of indebtedness or other instrument to which the Company or the Significant Subsidiary is a party or by which any property owned or leased by the Company or the Significant Subsidiary is bound or affected; except, in each case above, for such violations or breaches as do not or would not have a Material Adverse Effect. Neither the Company nor the Significant Subsidiary has received notice of any violation of any applicable statute, ordinance, order, rule or regulation applicable to the Company or the Significant Subsidiary, the consequence of which would have a Material Adverse Effect. Except where it would not have a Material Adverse Effect, (A) each of the Company and the Significant Subsidiary has obtained and holds, and is in compliance with, all permits, certificates, licenses, approvals, registrations, franchises, consents and authorizations of governmental or regulatory authorities required under all laws, rules and regulations in connection with their businesses (hereinafter "permit" or "permits"), (B) all of such permits are in full force and effect and (C) each of the Company and the Significant Subsidiary has fulfilled and performed its obligations with respect to each such permit, and no event has occurred which would result in, or after notice or lapse of time would result in, revocation or termination of any such permit or result in any other impairment of the rights of the holder of such permit. Neither the Company nor any Subsidiary is or has been (by virtue of any occurrence) in violation of any applicable foreign, federal, state, municipal or local statutes, laws, ordinances, rules, regulations or orders (including those relating to environmental protection, occupational safety and health and equal employment practices) heretofore or currently in effect, the consequence of which would have a Material Adverse Effect.

(k) There are no legal or governmental proceedings or investigations pending or, to the knowledge of the Company, threatened to which the Company or any Subsidiary is or may be a party or of which any property owned or leased by the Company or any Subsidiary is or may be the subject that are required to be described in the Registration Statement or the Prospectus but which are not so described, or which question the validity of this Agreement or any action taken or to be taken pursuant hereto. Except as described in the Registration Statement or the Prospectus, neither the Company nor any Subsidiary: (i) is in violation of any statute, ordinance, rule or regulation, or any decision, order or decree of any court, regulatory body, arbitrator, administrative agency or other instrumentality of the United States or other country or jurisdiction having jurisdiction over the Company or such Subsidiary relating to the use, disposal or release of hazardous or toxic substances or relating to the protection or restoration of the environmental or human exposure to hazardous or toxic substances (collectively, the "environmental laws"); (ii) owns or operates any real property contaminated with any substance that is subject to any environmental laws; (iii) is liable for any off-site disposal or contamination pursuant to any environmental laws; or (iv) is subject to any claim relating to any environmental laws, which violation, contamination, liability or claim contemplated by subparagraphs (i), (ii), (iii) or (iv) above would have a Material Adverse Effect.

(l) There is no transaction, relationship, obligation, agreement or other document required to be described in the Registration Statement or the Prospectus or to be filed or deemed to be filed as an exhibit to the Registration Statement by the Act that has not been described or filed as required. All such contracts or agreements to which the Company or any Subsidiary is a party have been duly authorized, executed and delivered by the Company or such Subsidiary, constitute valid and binding agreements of the Company or such Subsidiary, and are

enforceable by and against the Company or such Subsidiary, in accordance with the respective terms thereof.

(m) The Company or a Subsidiary has marketable title to all real property and good and valid title to all other property and assets reflected as owned by the Company or such Subsidiary in the Company's consolidated financial statements incorporated by reference into the Registration Statement (or elsewhere in the Registration Statement or the Prospectus), free and clear of all liens, claims, mortgages, security interests or other encumbrance of any kind or nature whatsoever except (i) those, if any, reflected in such financial statements (or elsewhere in the Registration Statement or the Prospectus) or (ii) those which do not, individually or in the aggregate, have a Material Adverse Effect. All material items of property (real and personal) held or used by the Company or a Subsidiary under leases, licenses, franchises or other agreements is held by the Company or such Subsidiary under valid and binding leases, franchises, licenses or other agreements, with such exceptions as do not have a Material Adverse Effect.

(n) Neither the Company nor any person that controls, is controlled by (including the Subsidiaries) or is under common control with the Company has taken during the five years prior to the date hereof or will take, directly or indirectly, any action designed to cause or result in, or which constituted, or which could cause or result in, stabilization or manipulation, under the Exchange Act or otherwise, of the price of any security of the Company to facilitate the sale or resale of the Common Stock.

(o) Except as described in the Registration Statement or the Prospectus, since the respective dates as of which information is given in the Registration Statement or the Prospectus and prior to each Closing Date: (i) neither the Company nor any Subsidiary has incurred any liability or obligation, direct or contingent, or entered into any transaction, that could reasonably be expected to involve a Material Adverse Effect, except in the ordinary course of business; (ii) the Company has not and will not have paid or declared any dividend or other distribution with respect to its capital stock (other than its regular quarterly dividend), and neither the Company nor any Subsidiary is or will be delinquent in the payment of principal or interest on any material outstanding debt obligation; and (iii) there has not been any change in the terms of the capital stock, any material change in the indebtedness of the Company or any Subsidiary, or any change or development involving or which could be expected to involve a Material Adverse Effect, whether or not arising from transactions in the ordinary course of business.

(p) The Company or a Subsidiary owns or possesses adequate rights to use all material patents, patent applications, trademarks, service marks, trade names, trademark registrations, service mark registrations, copyrights and licenses presently used in or necessary for the conduct of its business or ownership of its properties, and neither the Company nor any Subsidiary has violated or infringed upon the rights of others, or received any notice of conflict with the asserted rights of others, in respect thereof, except for such violations or infringements as have not or would not have a Material Adverse Effect.

(q) The Company and the Subsidiaries have in place and effective such policies of insurance, with limits of liability in such amounts, as are prudent and customary in the businesses in which they are engaged.

(r) No labor dispute with, or grievances by, the employees of the Company or the Significant Subsidiary is pending or, to the knowledge of the Company, is imminent that would be reasonably likely to result in a Material Adverse Effect. Since the initial filing of the Registration Statement, there has been no change in the relationship of the Company or any Subsidiary with any of its principal suppliers, manufacturers, contractors or customers resulting in or that would be reasonably likely to result in a Material Adverse Effect.

(s) The Company is not an "investment company," as such term is defined in the Investment Company Act of 1940, as amended.

(t) All federal, state and local tax returns required to be filed by or on behalf of the Company or the Significant Subsidiary have been filed (or are the subject of valid extension) with the appropriate federal, state and local authorities, and all such tax returns, as filed, are accurate in all material respects; and the Company or the Significant Subsidiary has paid all taxes required to be paid by it and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except for any such tax, assessment, fine or penalty that is currently being contested in good faith or that would not have a Material Adverse Effect.

(u) The Company maintains a system of internal accounting controls sufficient for it and the Significant Subsidiary to provide reasonable assurances that: (i) material transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of consolidated financial statements in conformity with generally accepted accounting principals and to maintain accountability for material assets; (iii) access to material assets is permitted only in accordance with management's general or specific authorizations; and (iv) the recorded accountability for material assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(v) Other than as described in the Prospectus, none of the Company, any Subsidiary or, to the knowledge of the Company, any officer or director of the Company or any Subsidiary is: (i) an officer, director or partner of any brokerage firm, broker or dealer that is a member of the NASD ("NASD member"); or (ii) directly or indirectly, a "person associated with" an NASD member or an "affiliate" of an NASD member, as such terms are used in the NASD Rules or Bylaws. In addition, to the knowledge of the Company, during the twelve months prior the date hereof, neither the Company nor any Subsidiary has issued or transferred any Common Stock, warrants, options or other securities, or any other items of value, to any of the Underwriters or any "related person" of any Underwriter, as such terms is used in the NASD Rules, except as provided in this Agreement.

(w) The Common Stock has been registered pursuant to Section 12(b) of the Exchange Act. The Common Stock and the Shares are authorized for listing on the New York Stock Exchange, subject only to official notice of issuance for shares of Common Stock that have not been issued.

(x) During the five years prior to the date hereof, all offers and sales of the securities of and by the Company prior to the date hereof were made in compliance in all material respects with the Act and all other applicable state and federal laws or regulations.

(y) The Company has obtained for the benefit of the Underwriters the agreement, substantially in the form annexed hereto as Annex C (each, a "Lock-Up Agreement"), enforceable by Robert W. Baird & Co. Incorporated ("Baird"), of each of the executive officers and directors of the Company listed on Annex D annexed hereto, that, for a period of 90 days after the date of the Prospectus, such persons will not, without the prior written consent of Baird or except as permitted in the Lock-Up Agreement, directly or indirectly, offer, sell, transfer, or pledge, contract to sell, transfer or pledge, or cause or in any way permit to be sold, transferred, pledged, or otherwise disposed of, any: (i) shares of Common Stock; (ii) rights to purchase shares of Common Stock (including, without limitation, shares of Common Stock that may be deemed to be beneficially owned by any such shareholder in accordance with the applicable regulations of the Commission and shares of Common Stock that may be issued upon the exercise of a stock option, warrant or other convertible security); or (iii) securities that are convertible or exchangeable into shares of Common Stock. As described more fully, and subject to the exceptions, in the Lock-Up Agreements, the Company hereby represents and warrants that it will not release or purport to release any person from any Lock-Up Agreement without the prior written consent of Baird.

A certificate signed by any officer of the Company and delivered to the Representatives or to counsel for the Underwriters shall be deemed a representation and warranty by the Company to the Underwriters as to the matters covered thereby. A certificate delivered by the Company to its counsel for purposes of enabling such counsel to render the opinion referred to in Section 8(d) will also be furnished to the Representatives and counsel for the Underwriters and shall be deemed to be additional representations and warranties to the Underwriters by the Company as to the matters covered thereby.

SECTION 3. REPRESENTATION OF UNDERWRITERS. The Representatives will act as the representatives for the several Underwriters in connection with the public offering of the Shares, and any action under or in respect of this Agreement taken by the Representatives will be binding upon all the Underwriters.

SECTION 4. INFORMATION FURNISHED BY THE UNDERWRITERS. The information set forth (i) in the second paragraph of the Table of Contents page of the Prospectus, (ii) in the table of participating Underwriters and the third paragraph appearing under the caption "Underwriting" in the Prospectus, and (iii) in the last two paragraphs appearing under the caption "Underwriting" in the Prospectus constitutes all of the information furnished to the Company by and on behalf of the Underwriters for use in connection with the preparation of the Registration Statement and the Prospectus, as such information is referred to in this Agreement.

SECTION 5. PURCHASE, SALE AND DELIVERY OF SHARES.

(a) On the basis of the representations, warranties and agreements herein contained, and subject to the terms and conditions herein set forth, the Company agrees to sell to the Underwriters identified in Annex A hereto 3,500,000 Firm Shares, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company the number of Firm Shares set forth opposite its name on Annex A at the price per share of \$_____.

(b) On the First Closing Date (as hereinafter defined), the Company will deliver to the Representatives, at the offices of Robert W. Baird & Co. Incorporated, 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202, or through the facilities of The Depository Trust Company, for the accounts of the several Underwriters, certificates representing the Firm Shares to be sold by the Company against payment in Milwaukee, Wisconsin of the purchase price therefor by wire transfer of immediately available funds payable to the order of the Company with respect to the Firm Shares. As referred to in this Agreement, the "First Closing Date" shall be on the fourth (or third, if the price set forth in Section 5(a) above is determined before 3:30 p.m., Milwaukee, Wisconsin time on the date of this Agreement) full business day after the date of the Prospectus, at 9:00 a.m., Milwaukee, Wisconsin time, or at such other date or time not later than ten full business days after the date of the Prospectus as the Representatives and the Company may agree. The certificates for the Firm Shares to be so delivered will be in denominations and registered in such names as the Representatives request by written notice to the Company prior to the first full business day preceding the First Closing Date, and such certificates will be made available for checking and packaging at 9:00 a.m., Milwaukee, Wisconsin time on the first full business day preceding the First Closing Date at a location to be designated by the Representatives.

(c) In addition, on the basis of the representations, warranties and agreements herein contained, and subject to the terms and conditions herein set forth, the Company hereby agrees to sell to the Underwriters, and the Underwriters, severally and not jointly, shall have the right at any time within 30 days after the date of the Prospectus to purchase up to 525,000 Optional Shares from the Company at the purchase price per share to be paid for the Firm Shares, for use solely in covering any over-allotments made by the Underwriters in the sale and distribution of the Firm Shares. The option granted hereunder may be exercised in whole or in part at any time (but not more than once) upon written notice by the Representatives to the Company within 30 days after the date of the Prospectus setting forth the aggregate number of Optional Shares to be purchased by the Underwriters and sold by the Company, the names and denominations in which the certificates for such shares are to be registered and the date and place at which such certificates will be delivered. Such date of delivery (the "Second Closing Date") shall be determined by the Representatives, provided that the Second Closing Date, which may be the same as the First Closing Date, shall not be earlier than the First Closing Date and, if after the First Closing Date, shall not be earlier than three nor later than ten full business days after delivery of such notice to exercise. The number of Optional Shares to be purchased by each of the Underwriters pursuant to such notice shall equal that number of full Optional Shares which (as nearly as practicable in full shares as determined by the Representatives) bears the same proportion to the number of Firm Shares to be purchased by the Underwriter under this

Agreement bears to the total number of Firm Shares. Certificates for the Optional Shares will be made available for checking and packaging at 9:00 a.m., Milwaukee, Wisconsin time, on the first full business day preceding the Second Closing Date at a location to be designated by the Representatives. The manner of payment for and delivery of (including the denominations of and the name in which certificates are to be registered) the Optional Shares shall be the same as for the Firm Shares.

(d) The Representatives have advised the Company that each Underwriter has authorized the Representatives to accept delivery of the Shares and to make payment therefor. It is understood that the Representatives, individually and not as the representatives of the Underwriters, may (but shall not be obligated to) make payment for any Shares to be purchased by any Underwriter whose funds shall not have been received by the Representatives by the First Closing Date or the Second Closing Date, as the case may be, for the account of such Underwriter, but any such payment shall not relieve such Underwriter from any obligation under this Agreement. As referred to in this Agreement, "Closing Date" shall mean either the First Closing Date or the Second Closing Date.

SECTION 6. COVENANTS OF THE COMPANY. The Company covenants and agrees with the several Underwriters that:

(a) If the effective time of the Registration Statement is not prior to the execution and delivery of this Agreement, the Company will use its best efforts to cause the Registration Statement to become effective at the earliest possible time and, upon notification from the Commission that the Registration Statement has become effective, will so advise the Representatives and counsel for the Underwriters promptly. If the effective time of the Registration Statement is prior to the execution and delivery of this Agreement and any information shall have been omitted therefrom in reliance upon Rule 430A, the Company, at the earliest possible time, will furnish the Representatives with a copy of the Prospectus to be filed by the Company with the Commission to comply with Rule 424(b) and Rule 430A under the Act, and, if the Representatives do not reasonably object to the contents thereof, will comply with such Rules. Upon compliance with such Rules, the Company will so advise the Representatives promptly. The Company will advise the Representatives and counsel to the Underwriters promptly of the issuance by the Commission or any state securities commission of any stop order suspending the effectiveness of the Registration Statement or of the institution of any proceedings for that purpose, or of any notification of the suspension of qualification of the Shares for sale in any jurisdiction or the initiation or threatening of any proceedings for that purpose, and will also advise the Representatives and counsel for the Underwriters promptly of any request of the Commission for amendment or supplement of the Registration Statement, of any Preliminary Prospectus or of the Prospectus, or for additional information, and the Company will not file any amendment or supplement to the Registration Statement (either before or after it becomes effective), to any Preliminary Prospectus or to the Prospectus (including a prospectus filed pursuant to Rule 424(b)) or file any document under the Exchange Act before the termination or completion of the public offering of the Shares by the Underwriters if such document would be deemed to be incorporated by reference in the Registration Statement, if the Representatives have not been furnished with a copy prior to such filing (with a reasonable

opportunity to review such amendment or supplement) or if the Representatives reasonably object to such filing.

(b) If, at any time when a prospectus relating to the Shares is required by law to be delivered in connection with sales by an Underwriter or dealer, any event occurs as a result of which the Prospectus would include an untrue statement of a material fact, or would omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to supplement the Prospectus to comply with the Act or to file under the Exchange Act any document which would be deemed to be incorporated by reference in the Registration Statement to comply with the Act or the Exchange Act, the Company promptly will advise the Representatives and counsel for the Underwriters thereof and will promptly prepare and file with the Commission, at the Company's expense, an amendment to the Registration Statement or file such document which will correct such statement or omission or an amendment which will effect such compliance; and, if any Underwriter is required to deliver a prospectus after the effective date of the Registration Statement, the Company, upon request of the Representatives, will prepare promptly such prospectus or prospectuses as may be necessary to permit compliance with the requirements of Section 10(a)(3) of the Act. The Company consents to the use, in accordance with the provisions of the Act and with the Blue Sky Laws of the jurisdictions in which the Shares are offered by the several Underwriters and by dealers, of each Preliminary Prospectus.

(c) Neither the Company nor any Subsidiary will, prior to the Second Closing Date, if any, acquire any of the Common Stock nor will the Company declare or pay any dividend or make any other distribution upon its Common Stock payable to shareholders of record on a date prior to such earlier date, except as described in the Prospectus.

(d) The Company will make generally available to its security holders and the Representatives an earnings statement as soon as practicable, but in no event later than 60 days after the end of its fiscal quarter in which the first anniversary of the effective date of the Registration Statement occurs, covering a period of 12 consecutive calendar months beginning after the effective date of the Registration Statement, which will satisfy the provisions of the last paragraph of Section 11(a) of the Act and Rule 158 promulgated thereunder.

(e) During such period as a prospectus is required by law to be delivered in connection with sales by an Underwriter or dealer, the Company will furnish to the Representatives, at the expense of the Company, copies of the Registration Statement, the Prospectus, any Preliminary Prospectus and all amendments and supplements to any such documents, including any document filed under the Exchange Act and deemed to be incorporated by reference in the Registration Statement, in each case as soon as available and in such quantities as the Representatives may reasonably request.

(f) The Company will apply the net proceeds from the sale of the Shares hereunder for the purposes set forth in the Prospectus.

(g) The Company will cooperate with the Representatives and counsel for the Underwriters in qualifying or registering the Shares for sale under the Blue Sky Laws of such jurisdictions as the Representatives designate, and will continue such qualifications or registrations in effect so long as reasonably requested by the Representatives to effect the distribution of the Shares. The Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any such jurisdiction where it is not presently qualified. In each jurisdiction where any of the Shares shall have been qualified as provided above, the Company will file such reports and statements as may be required to continue such qualification for a period of not less than one year from the date of this Agreement. Until the termination of the offering of the Shares, the Company shall promptly prepare and file with the Commission, from time to time, such reports as may be required to be filed by the Act and the Exchange Act, and the Company shall comply in all material respects with the undertakings given by the Company in connection with the qualification or registration of the Shares for offering and sale under the Blue Sky Laws.

(h) During the period of three years from the date of the Prospectus, the Company will furnish to each of the Representatives each report, statement or other document of the Company or its Board of Directors mailed to its shareholders or publicly filed with the Commission.

(i) Except for the issuance and sale by the Company of Common Stock upon exercise of currently outstanding stock options, the sale of the Shares pursuant to this Agreement, the issuance of Common Stock under the Company's defined contribution or benefit plans, the grant of stock options pursuant to the Company's stock option plans and the issuance of Common Stock upon the conversion of shares of Class A Common Stock of the Company, the Company shall not, for a period of 90 days after the date of the Prospectus, without the prior written consent of Baird, directly or indirectly, offer, sell or otherwise dispose of, contract to sell or otherwise dispose of, or cause or in any way permit to be sold or otherwise disposed of, any: (i) shares of Common Stock; (ii) rights to purchase shares of Common Stock; or (iii) securities that are convertible or exchangeable into shares of Common Stock.

(j) The Company will maintain a transfer agent and, if required by law or the rules of the New York Stock Exchange or any national securities exchange on which the Common Stock is listed, a registrar (which, if permitted by applicable laws and rules, may be the same entity as the transfer agent) for its Common Stock.

(k) If the sale to the Underwriters of the Firm Shares is not consummated for any reason other than termination of this Agreement pursuant to Section 11 hereof, without limiting any other rights the Underwriters may have, the Company agrees to reimburse the Underwriters upon demand for all reasonable out-of-pocket expenses (including, without limitation, reasonable fees and expenses of counsel for the Underwriters) that shall have been incurred by the Underwriters in connection with the proposed purchase and sale of the Firm Shares, provided that such out-of-pocket expenses shall not exceed \$50,000, and the provisions of Section 7 and 10 hereof shall at all times be effective and apply.

(l) The Company will use its commercially reasonable efforts to fulfill or cause to be fulfilled the conditions to the obligations of the Underwriters in Section 8 hereof.

(m) The Company will deliver to the Representatives as many (i) conformed copies of the Registration Statement (as originally filed) (one of which shall be manually signed), (ii) conformed copies of each amendment thereto (including exhibits filed therewith and documents incorporated therein by reference) (one of which shall be manually signed), and (iii) copies of each Prospectus and Preliminary Prospectus, in each case as the Representatives may reasonably request.

SECTION 7. PAYMENT OF EXPENSES. Whether or not the transactions contemplated hereunder are consummated or this Agreement becomes effective, or if this Agreement is terminated for any reason, the Company will pay the costs, fees and expenses incurred in incident to the performance of its obligations under this Agreement. Such costs, fees and expenses to be paid by the Company include, without limitation:

(a) All costs, fees and expenses (excluding the expenses incurred by the Underwriters and the legal fees and disbursements of counsel for the Underwriters, but including such fees and disbursements described in subsection (b) of this Section 7) incurred in connection with the performance of the Company's obligations hereunder, including, without limiting the generality of the foregoing: the registration fees related to the filing of the Registration Statement with the Commission; the fees and expenses related to the listing of the Shares on the New York Stock Exchange; the fees and expenses of the Company's counsel, accountants, transfer agent and registrar; the costs and expenses incurred in connection with the preparation, printing, shipping and delivery of the Registration Statement, each Preliminary Prospectus and the Prospectus (including all exhibits and financial statements) and all amendments and supplements provided for herein and this Agreement, including, without limitation, shipping expenses via overnight delivery and/or courier service to comply with applicable prospectus delivery requirements (provided, however, that the Company shall only be liable for the costs of shipping such materials to the Underwriters and not to the customers or clients of the Underwriters); and the costs and expenses associated with the production of materials related to, and travel expenses incurred by the management of the Company in connection with, the various meetings to be held between the Company's management and prospective investors.

(b) All registration fees and expenses, including legal fees (of up to \$10,000) and disbursements of counsel for the Underwriters incurred in connection with qualifying or registering all or any part of the Shares for offer and sale (or otherwise preparing and filing notices, applications and other forms) under the Blue Sky Laws, preparing and delivering the Preliminary and Supplemental Blue Sky Memoranda and the clearing of the public offering and underwriting arrangements evidenced hereby with the NASD.

(c) All fees and expenses related to printing of the certificates for the Shares, and all transfer taxes, if any, with respect to the sale and delivery of the Shares.

SECTION 8. CONDITIONS OF THE OBLIGATIONS OF THE UNDERWRITERS. The obligations of the several Underwriters under this Agreement shall be subject to the accuracy of the representations and warranties on the part of the Company herein set forth as of the date hereof and as of each Closing Date, to the accuracy of the statements of the Company's officers made pursuant to the provisions hereof, to the performance in all material respects by the Company of its obligations hereunder, and to the following additional conditions, unless waived in writing by the Representatives:

(a) The Registration Statement shall have been declared effective by the Commission not later than 5:30 p.m., Washington, D.C. time, on the date of this Agreement, or such later time and date as shall have been consented to by the Representatives, which consent shall be deemed to have been given if the Registration Statement shall have been declared effective on or before the date and time requested in the acceleration request submitted on behalf of the Representatives pursuant to Rule 461 under the Act; all filings required by Rules 424(b) and 430A under the Act shall have been timely made; no stop order suspending the effectiveness of the Registration Statement shall have been issued by the Commission or any state securities commission nor, to the knowledge of the Company, shall any proceedings for that purpose have been instituted or threatened; and any request of the Commission or any state securities commission for inclusion of additional information in the Registration Statement, or otherwise, shall have been complied with to the reasonable satisfaction of the Representatives acting in good faith.

(b) Subsequent to the execution of this Agreement,

(i) there shall not have occurred any change or development involving, or which could be reasonably expected to involve, a Material Adverse Effect, whether or not arising from transactions in the ordinary course of business, and

(ii) the Company shall not have sustained any loss or interference from any labor dispute, strike, fire, flood, windstorm, accident or other calamity (whether or not insured) or from any court or governmental action, order or decree having a Material Adverse Effect,

the effect of which on the Company, in any such case described in clause (i) or (ii) above, is in the reasonable and good faith opinion of the Representatives so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares on the terms and in the manner contemplated in the Registration Statement and the Prospectus.

(c) The Representatives shall not have advised the Company that the Registration Statement or Prospectus contains an untrue statement of fact that, in the reasonable and good faith opinion of the Representatives or counsel for the Underwriters, is material or omits to state a fact that, in the reasonable and good faith opinion of the Representatives or such counsel, is material and is required to be stated therein or necessary to make the statements therein not misleading.

(d) The Representatives shall have received opinions of Foley & Lardner, special counsel for the Company (as to the matters set forth below in subsections (i), (ii), (vi), (viii), (ix) and (xiv)), and the Vice President, General Counsel and Secretary of the Company (as to the matters set forth in subsections (iii), (iv), (v), (vii), (x), (xi), (xii) and (xiii) addressed to the Representatives, as the representatives of the Underwriters, and dated the First Closing Date or the Second Closing Date, as the case may be, to the effect that:

(i) The Company is validly existing as a corporation in good standing under the laws of Delaware, with full corporate power and authority to own, lease and operate its properties and conduct its business as presently conducted and as described in the Prospectus and the Registration Statement;

(ii) The authorized capital stock of the Company consists of 60,000,000 shares of Common Stock, par value \$1.00 per share, 14,000,000 shares of Class A common stock, par value \$5.00 per share, and 77,000,000 shares of preferred stock, \$1.00 par value per share;

(iii) The issued and outstanding shares of capital stock of the Company immediately prior to the sale of the Shares hereunder have been duly authorized and validly issued, are fully paid and nonassessable (except, to the extent applicable, as otherwise provided in Section 180.0622(2)(b) of the Wisconsin Business Corporation Law, as judicially interpreted), and, to such counsel's knowledge, there are no preemptive, preferential or, except as described in the Prospectus, other rights to subscribe for or purchase any shares of capital stock of the Company and, to such counsel's knowledge, no shares of capital stock of the Company have been issued in violation of such rights;

(iv) The Significant Subsidiary is validly existing as a corporation in good standing or active status under the laws of Tennessee, with full corporate power and authority to own, lease and operate its properties and to conduct its business as presently conducted and as described in the Prospectus and the Registration Statement; to such counsel's knowledge, the Company owns directly or indirectly and beneficially all of the issued and outstanding capital stock of the Significant Subsidiary;

(v) The certificates for the Shares to be delivered hereunder conform in all material respects to the requirements of the Delaware General Corporation Law and the rules and regulations of the New York Stock Exchange; and when duly countersigned by the Company's transfer agent, and delivered to the Representatives or upon the order of the Representatives against payment of the agreed consideration therefor in accordance with the provisions of this Agreement, the Shares represented thereby will be duly authorized and validly issued, fully paid and nonassessable (except, to the extent applicable, as otherwise provided in Section 180.0622(2)(b) of the Wisconsin Business Corporation Law, as judicially interpreted);

(vi) The Registration Statement has become effective under the Act and, to such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are threatened by the Commission; the Registration Statement and the Prospectus and any amendment or supplement thereto, including any document incorporated by reference into the Registration Statement (except for the financial statements and schedules and other statistical or financial data included therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Act; the conditions for use of Form S-3, set forth in the General Instructions thereto, have been satisfied;

(vii) To such counsel's knowledge, there are no pending or threatened legal or governmental proceedings that are required to be described in the Registration Statement or the Prospectus that are not so described, nor, to such counsel's knowledge, is there any transaction, relationship, agreement, contract or other document of a character required to be described in the Registration Statement or the Prospectus, or required to be filed under the Exchange Act if upon such filing they would be incorporated, in whole or in part, by reference therein, or to be filed as an exhibit to or incorporated by reference in the Registration Statement by the Act, which is not described, filed or incorporated by reference required;

(viii) Statements set forth in the Prospectus under the heading "Description of Capital Stock," in the description of the Common Stock contained in the Company's Registration Statement on Form 8-A, filed with the Commission on December 9, 1994, and in the Registration Statement under Item 15 insofar as such statements constitute a summary of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents and proceedings;

(ix) The Company has full corporate power and authority to enter into and perform this Agreement; the performance of the Company's obligations hereunder and the consummation of the transactions described herein have been duly authorized by the Company by all necessary corporate action and this Agreement has been duly executed and delivered by and on behalf of the Company, and is a legal, valid and binding agreement of the Company enforceable against the Company in accordance with its terms, except that rights to indemnity or contribution hereunder may be limited by applicable law and except as to enforceability of this Agreement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally, and by equitable principles limiting the right to specific performance or other equitable relief; and, to such counsel's knowledge, no consent, approval, authorization or other order or decree of any court, regulatory or governmental body, arbitrator, administrative agency or other instrumentality of the United States having jurisdiction over the Company, is required for the execution and delivery of this Agreement or the consummation of the transactions contemplated by this Agreement (except for compliance with the Act, the Exchange Act, applicable Blue Sky Laws and the clearance of the underwriting arrangements with the NASD);

(x) The execution, delivery and performance of this Agreement by the Company will not: (A) violate any provisions of the Articles of Incorporation or Bylaws of the Company or the Significant Subsidiary; (B) violate any of the provisions of, or result in the

breach, modification or termination of, or constitute a default under, any agreement, lease, franchise, license, indenture, permit, mortgage, deed of trust, other evidence of indebtedness or other instrument to which the Company or the Significant Subsidiary is a party or by which the Company or the Significant Subsidiary, or any of their respective owned or leased property is bound, and which is filed or incorporated by reference as an exhibit to the Registration Statement; or (C) violate any statute, ordinance, order, rule, decree or regulation of any court, regulatory or governmental body, arbitrator, administrative agency or other instrumentality of the United States having jurisdiction over the Company or the Significant Subsidiary (assuming compliance with all applicable federal and state securities laws);

(xi) To such counsel's knowledge, there are no holders of Common Stock or other securities of the Company, or securities that are convertible or exchangeable into Common Stock or other securities of the Company, that have rights to the registration of such securities under the Act or any Blue Sky Laws;

(xii) The Shares are authorized for trading on the New York Stock Exchange;

(xiii) To such counsel's knowledge, neither the Company nor the Significant Subsidiary is, nor with the giving of notice or passage of time or both would be, in violation of its respective Articles of Incorporation or Bylaws; and

(xiv) The Company is not an "investment company," as such term is defined in the Investment Company Act of 1940, as amended.

Such counsel shall also state that they have participated in conferences with officers and other representatives of the Company, representatives of auditors for the Company and representatives of the Underwriters and their counsel during which the content of the Registration Statement and the Prospectus and related matters were discussed and reviewed, and that, although such counsel is not verifying, is not passing upon and does not assume any responsibility for the accuracy, completeness or fairness of the statements contained or incorporated by reference into the Registration Statement or the Prospectus, on the basis of the information that was developed in the course of the performance of such services, they have no reason to believe that the Registration Statement including any document incorporated by reference therein, on its effective date, contained any untrue statement of material fact or omitted or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus, or any amendment or supplement thereto including any document incorporated by reference therein, as of its issue date and as of the Closing Date, contained or contains any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading (provided that such counsel need express no belief regarding the financial statements and related schedules and other financial or statistical data contained in the Registration Statement, any amendment thereto including any document incorporated by reference therein, or the Prospectus, or any amendment or supplement thereto including any document incorporated by reference therein).

To the extent that any of such opinions are stated to be based upon such counsel's knowledge or to be given "to the knowledge of such counsel," such qualification shall signify that no information has come to the attention of the attorneys in such firm who have been involved in the preparation or review of the Registration Statement or the Prospectus that would give them actual current knowledge of the existence or absence of such matter in question.

In rendering such opinion, counsel for the Company may rely, to the extent counsel deems such reliance proper, as to matters of fact upon certificates of officers of the Company and any governmental officials, and copies of all such certificates shall be furnished to the Representatives and for the Underwriters on or before each Closing Date.

(e) The Representatives shall have received an opinion of Michael Best & Friedrich LLP, counsel for the Underwriters, dated the First Closing Date or the Second Closing Date, as the case may be, with respect to the sale of the Shares hereunder, the Registration Statement and other related matters as the Representatives may reasonably require, and the Company shall have furnished to such counsel such documents and shall have exhibited to them such papers and records as such counsel reasonably request for the purpose of enabling them to pass upon such matters.

(f) The Representatives shall have received on each Closing Date, a certificate of Kenneth W. Krueger, Senior Vice President and Chief Financial Officer, and W. David Romoser, Vice President, General Counsel and Secretary, of the Company, in their respective capacities as such, to the effect that:

(i) The representations and warranties of the Company set forth in Section 2 hereof are true and correct as of the date of this Agreement and as of the date of such certificate, and the Company has complied in all material respects with all the agreements and satisfied all the conditions to be performed or satisfied by it at or prior to the date of such certificate;

(ii) The Commission has not issued an order preventing or suspending the use of the Prospectus or any Preliminary Prospectus or any amendment or supplement thereto; no stop order suspending the effectiveness of the Registration Statement has been issued; and to the knowledge of the respective signatories, no proceedings for that purpose have been initiated or are pending under the Act or under the Blue Sky Laws of any jurisdiction;

(iii) Each of the respective signatories has examined the Registration Statement and the Prospectus, and any amendment or supplement thereto, including any documents filed under the Exchange Act and deemed to be incorporated by reference in the Registration Statement, and such documents contain all statements of material fact required to be stated therein, and do not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and since the date on which the Registration Statement was initially filed, no event has occurred that was required to be set forth in an amended or supplemented prospectus or in an amendment to the Registration Statement that has not been so set forth, and there has been no

document required to be filed under the Exchange Act that upon such filing would be deemed to be incorporated by reference in the Registration Statement that has not been so filed; and

(iv) Since the date hereof, there shall not have occurred any change or development involving, or which could be reasonably expected to involve, a Material Adverse Effect, whether or not arising from transactions in the ordinary course of business, except as disclosed in the Prospectus and the Registration Statement as heretofore amended or as disclosed in an amendment or supplement thereto filed with the Commission and delivered to the Representatives after the execution of this Agreement. Since the date hereof, there shall not have occurred any of the following, such that when aggregated would have, or which could be reasonably expected to have, a material effect on the financial condition, business, property, net worth or results of operations of the Company and the Subsidiaries, taken as a whole: (A) except as so disclosed or in the ordinary course of business, the Company has incurred any liability or obligation, direct or indirect, or entered into any transaction that is material to the Company; (B) except as so disclosed, there has been any change in the outstanding capital stock of the Company (other than the grant of stock options under presently existing stock option plans, the issuance of shares of common stock upon exercise of currently outstanding stock options, the issuance of shares of Common Stock under the Company's defined contribution or benefit plans, or the issuance of shares of Common Stock pursuant to the conversion of shares of Class A Common Stock of the Company), or any change that is material to the Company in the short-term funded debt or long-term debt of the Company; (C) except as so disclosed, the Company has acquired any of the Common Stock or other capital stock of the Company or the Company has declared or paid any dividend (other than its regular quarterly dividend), or made any other distribution, upon its outstanding Common Stock payable to shareholders of record on a date prior to such Closing Date; (D) except as so disclosed, the Company has incurred any material contingent obligations, or material litigation is pending or threatened against the Company; and (E) except as so disclosed, the Company has sustained any material loss or interference from any strike, fire, flood, windstorm, accident or other calamity (whether or not insured) or from any court or governmental action, order or decree.

The delivery of the certificate provided for in this subsection (f) shall be and constitute a representation and warranty of the Company as to the facts required in the immediately foregoing clauses (i), (ii), (iii), and (iv) to be set forth in said certificate.

(g) At the time this Agreement is executed and also on each Closing Date, there shall be delivered to the Representatives a letter addressed to the Representatives, as the representatives of the Underwriters, from Ernst & Young LLP, the Company's independent accountants, the first letter to be dated the date of this Agreement, the second letter to be dated the First Closing Date and the third letter (if applicable) to be dated the Second Closing Date, which letters shall be in form and substance reasonably satisfactory to the Representatives, acting in good faith and shall contain information as of a date within five days of the date of such letters. There shall not have been any change or decrease in any specified items relating to the Company or the Subsidiaries set forth in any of the letters referred to in this subsection (g) which makes it impracticable or inadvisable in the reasonable and good faith judgment of the Representatives to proceed with the public offering or purchase of the Shares as contemplated thereby.

(h) At the time this Agreement is executed and also on each Closing Date, there shall be delivered to the Representatives a letter addressed to the Representatives, as the representatives of the Underwriters, from Lattimore Black Morgan & Cain, PC, State Industries, Inc.'s independent accountants, the first letter to be dated the date of this Agreement, the second letter to be dated the First Closing Date and the third letter (if applicable) to be dated the Second Closing Date, which letters shall be in form and substance satisfactory to the Representatives, acting in good faith and shall contain information as of a date within five days of the date of such letters. There shall not have been any change or decrease in any specified items relating to State Industries, Inc. set forth in any of the letters referred to in this subsection (h) which makes it impracticable or inadvisable in the good faith judgment of the Representatives to proceed with the public offering or purchase of the Shares as contemplated thereby.

(i) The Shares shall have been qualified or registered for sale under the Blue Sky Laws (or exempt from such qualification or registration) of such jurisdictions as shall have been specified by the Representatives, and the Shares shall have been authorized for listing on the New York Stock Exchange and the Common Stock shall remain registered under the Exchange Act.

(j) Such further certificates and documents as the Representatives may reasonably request (including certificates of officers of the Company).

All such opinions, certificates, letters and documents shall be in compliance with the provisions hereof only if they are satisfactory to the Representatives and Michael Best & Friedrich LLP, counsel for the Underwriters, each acting reasonably under the circumstances. The Company shall furnish the Representatives with such manually signed or conformed copies of such opinions, certificates, letters and documents as the Representatives may reasonably request.

If any condition to the Underwriters' obligations hereunder to be satisfied prior to or at either Closing Date is not so satisfied, this Agreement at the election of the Representatives will terminate upon notification to the Company without liability on the part of any Underwriter, including the Representatives, or the Company except for the provisions of Section 6(k) hereof and the expenses to be paid by the Company pursuant to Section 7 hereof and except to the extent provided in Section 10 hereof.

SECTION 9. MAINTAIN EFFECTIVENESS OF REGISTRATION STATEMENT. The Company will use its reasonable best efforts to prevent the issuance of any stop order suspending the effectiveness of the Registration Statement, and, if such stop order is issued, to obtain as soon as possible the lifting thereof.

SECTION 10. INDEMNIFICATION.

(a) The Company agrees to indemnify and hold harmless each Underwriter and each person (including each director, member, partner or officer thereof) who controls any Underwriter within the meaning of the Act or the Exchange Act from and against any losses,

claims, damages, expenses, liabilities or actions in respect thereof ("Claims"), joint or several, to which such Underwriter or each such controlling person may become subject under the Act, the Exchange Act, Blue Sky Laws or other federal or state statutory laws or regulations, at common law or otherwise (including payments made in settlement of any litigation), insofar as such Claims arise out of or are based upon any breach of any representation, warranty or covenant made by the Company in this Agreement, or any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus, or any amendment or supplement thereto, or in any application filed under any Blue Sky Law or other document executed by the Company for that purpose or based upon written information furnished by the Company and filed in any state or other jurisdiction to qualify any or all of the Shares under the securities laws thereof (any such document, application or information being hereinafter called a "Blue Sky Application") or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company further agrees to reimburse each Underwriter and each such controlling person for any legal or other expenses reasonably incurred by such Underwriter or any such controlling person in connection with investigating or defending any such Claim as such expenses are incurred; provided, however, that the Company will not be liable in any such case to the extent that any such Claim arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, any Preliminary Prospectus, the Prospectus or supplement thereto or in any Blue Sky Application in reliance upon and in conformity with the written information furnished to the Company pursuant to Section 4 of this Agreement; and provided further that the Company shall not be liable in any such case for any Claim arising out of any such defect or alleged defect in any Preliminary Prospectus if a copy of the Prospectus shall not have been given or sent by or on behalf of such Underwriter to the person asserting such Claim as determined by a court of competent jurisdiction, if required by law to have been delivered, at or prior to the written confirmation of the sale of the Shares to such person, to the extent that the Prospectus would have cured such defect or alleged defect giving rise to such Claim as determined by a court of competent jurisdiction. The indemnification obligations of the Company as provided above are in addition to and in no way limit any liabilities the Company may otherwise have.

(b) Each Underwriter, severally and not jointly, agrees to indemnify and hold harmless the Company, each of its directors and each of its officers who signs the Registration Statement, and each person if any who controls the Company within the meaning of the Act or the Exchange Act, from and against any Claim to which the Company, or any such director, officer or controlling person may become subject, under the Act, the Exchange Act, Blue Sky Laws or other federal or state statutory laws or regulations, at common law or otherwise (including payments made in settlement of any litigation, if such settlement is effected with the written consent of such Underwriter and Baird), insofar as such Claim arises out of or is based upon any untrue or alleged untrue statement of any material fact contained in the Registration Statement, any Preliminary Prospectus, the Prospectus, or any amendment or supplement thereto, or in any Blue Sky Application, in reliance solely upon and in conformity with the written information furnished by the Representatives to the Company pursuant to Section 4 of this Agreement, and from and against any Claim to the extent that such Claim results from the failure of an Underwriter to deliver a Prospectus, if the person asserting such Claim purchased Shares

from such Underwriter and a copy of the Prospectus (as then amended if the Company shall have furnished any amendments thereto) was not sent or given by or on behalf of such Underwriter to such person, if required by law so to have been delivered, at or prior to the written confirmation of the sale of the Shares to such person, and if the Prospectus (as so amended) would have cured the defect giving rise to such Claim. Each Underwriter will severally reimburse any legal or other expenses reasonably incurred by the Company, or any such director, officer or controlling person in connection with investigating or defending any such Claim as such expenses are incurred. The indemnification obligations of each Underwriter as provided above are in addition to any liabilities any such Underwriter may otherwise have. Notwithstanding the provisions of this Section, no Underwriter shall be required to indemnify or reimburse the Company, or any officer, director or controlling person, pursuant to this Agreement in an aggregate amount in excess of the total price at which the shares purchased by any such Underwriter hereunder were offered to the public, less the amount of any damages such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

(c) Promptly after receipt by an indemnified party under this Section of notice of the commencement of any action in respect of a Claim, such indemnified party will, if a Claim in respect thereof is to be made against an indemnifying party under this Section, notify the indemnifying party in writing of the commencement thereof, but the omission so to notify the indemnifying party will not relieve an indemnifying party from any liability it may have to any indemnified party under this Section or otherwise, except to the extent the indemnifying party is materially prejudiced thereby. In case any such action is brought against any indemnified party, and such indemnified party notifies an indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate in and, to the extent that he, she or it may wish, jointly with all other indemnifying parties, similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party; provided, however, if the defendants in any such action include both the indemnified party and any indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to the indemnified party and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties (it being understood, however, that the indemnifying party shall not be liable for the legal fees of more than one separate counsel, approved by Robert W. Baird & Co. Incorporated, if one or more of the Underwriters or their controlling persons are the indemnified parties). No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened action in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party unless such settlement (i) includes an unconditional release of such indemnified party from all liability on any claims that are the subject matter of such action and (ii) does not include a statement as to, or an admission of, fault, culpability or a failure to act by or on behalf of an indemnified party.

(d) Upon receipt of notice from the indemnifying party to such indemnified party of the indemnifying party's election to assume the defense of such action and upon approval by the indemnified party of counsel selected by the indemnifying party, the

indemnifying party will not be liable to such indemnified party under this Section for any legal fees or other expenses subsequently incurred by such indemnified party in connection with the defense thereof, unless:

(i) The indemnified party shall have employed separate counsel in connection with the assumption of legal defenses in accordance with the proviso to the second to last sentence of subsection (c) of this Section (it being understood, however, that the indemnifying party shall not be liable for the legal fees of more than one separate counsel, approved by Baird, if one or more of the Underwriters or their controlling persons are the indemnified parties);

(ii) The indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after the indemnified party's notice to the indemnifying party of commencement of the action; or

(iii) The indemnifying party has authorized the employment of counsel at the expense of the indemnifying party.

(e) If the indemnification provided for in this Section is unavailable to an indemnified party under subsection (a) or (b) hereof in respect of any Claim referred to therein, then each indemnifying party, in lieu of indemnifying such indemnified party, shall, subject to the limitations hereinafter set forth, contribute to the amount paid or payable by such indemnified party as a result of such Claim:

(i) In such proportion as is appropriate to reflect the relative benefits received by the Company and the Underwriters from the offering of the Shares; or

(ii) If the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above, but also the relative fault of the Company and the Underwriters in connection with the statements or omissions that resulted in such Claim, as well as any other relevant equitable considerations.

The relative benefits received by each of the Company and the Underwriters shall be deemed to be in such proportion so that the Underwriters are responsible for that portion represented by the percentage that the amount of the underwriting discounts and commissions per share appearing on the cover page of the Prospectus bears to the public offering price per share appearing thereon, and the Company (including its officers and directors and controlling persons), is responsible for the remaining portion. The relative fault of the Company and the Underwriters shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the Claims referred to above shall be deemed to include, subject to the limitations set forth in subsections (c) and (d) of this

Section, any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim.

(f) The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section were determined by pro rata or per capita allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method or allocation which does not take into account the equitable considerations referred to in subsection (c) of this Section. Notwithstanding the other provisions of this Section, no Underwriter shall be required to contribute any amount that is greater than the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute pursuant to this Section are several in proportion to their respective underwriting commitments and not joint.

SECTION 11. DEFAULT OF UNDERWRITERS. It shall be a condition to the obligations of each Underwriter to purchase the Shares in the manner as described herein, that, except as hereinafter provided in this Section, each of the Underwriters shall purchase and pay for all the Shares agreed to be purchased by such Underwriter hereunder upon tender to the Representatives of all such Shares in accordance with the terms hereof. If any Underwriter or Underwriters default in their obligations to purchase Shares hereunder on either the First Closing Date or the Second Closing Date, and the aggregate number of Shares which such defaulting Underwriter or Underwriters agreed but failed to purchase does not exceed 10% of the total number of Shares which the Underwriters are obligated to purchase on such Closing Date, the Representatives may make arrangements for the purchase of such Shares by other persons, including any of the Underwriters, but if no such arrangements are made by such Closing Date the nondefaulting Underwriters shall be obligated severally, in proportion to their respective commitments hereunder, to purchase the Shares which such defaulting Underwriters agreed but failed to purchase on such Closing Date. If any Underwriter or Underwriters so default and the aggregate number of Shares with respect to which such default or defaults occur is greater than 10% of the total number of Shares which the Underwriters are obligated to purchase on such Closing Date, and arrangements satisfactory to the Representatives for the purchase of such Shares by other persons are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any nondefaulting Underwriter or the Company except for the expenses to be paid by the Company pursuant to Section 7 hereof and except to the extent provided in Section 10 hereof.

In the event that Shares to which a default relates are to be purchased by the nondefaulting Underwriters or by another party or parties, the Representatives shall have the right to postpone the First Closing Date or the Second Closing Date, as the case may be, for not more than seven business days in order that the necessary changes in the Registration Statement, Prospectus and any other documents, as well as any other arrangements, may be effected. As used in this Agreement, the term "Underwriter" includes any person substituted for an

Underwriter under this Section. Nothing herein will relieve a defaulting Underwriter from liability for its default.

SECTION 12. EFFECTIVE DATE. This Agreement shall become effective upon the execution and delivery of this Agreement by the parties hereto. Such execution and delivery shall include an executed copy of this Agreement sent by telecopier, facsimile transmission or other means of transmitting written documents.

SECTION 13. TERMINATION. Without limiting the right to terminate this Agreement pursuant to any other provision hereof, this Agreement may be terminated by the Representatives prior to or on the First Closing Date, and the over-allotment option from the Company referred to in Section 5 hereof, if exercised, may be canceled by the Representatives at any time prior to or on the Second Closing Date, if in the reasonable and good faith judgment of the Representatives, payment for and delivery of the Shares is rendered impracticable or inadvisable because:

(a) Additional material governmental restrictions, not in force and effect on the date hereof, shall have been imposed upon the trading in securities generally, or since the date hereof, minimum or maximum prices or maximum ranges for prices shall have been generally established on the New York Stock Exchange, trading in securities generally shall have been suspended or materially limited on any of the New York Stock Exchange, the American Stock Exchange or on The Nasdaq Stock Market, trading in the Common Stock of the Company shall have been suspended by the Commission or the New York Stock Exchange, or a general banking moratorium shall have been established by either federal or state authorities in New York or Wisconsin;

(b) Any event shall have occurred or shall exist which makes untrue or incorrect in any material respect any statement or information contained in the Registration Statement or which is not reflected in the Registration Statement but should be reflected therein to make the statements or information contained therein not misleading in any material respect;

(c) After the date hereof, there has occurred any change or development involving, or which could reasonably be expected to involve, a Material Adverse Effect, whether or not arising in the ordinary course of business; or

(d) After the date hereof, there is an outbreak or material escalation of hostilities or other national or international calamity or crisis, the declaration by the United States of a national emergency or war, or any change in political, financial or economic conditions shall have occurred or shall have accelerated to such extent, in the reasonable and good faith judgment of the Representatives, as to have a material adverse effect on the financial markets of the United States, or to make it impracticable or inadvisable to proceed with the completion of the sale of and payment for the Shares as provided in this Agreement.

Any termination pursuant to this Section shall be without liability on the part of any Underwriter to the Company, or on the part of the Company to any Underwriter, except for expenses to be paid by the Company pursuant to Section 7 hereof or reimbursed by the Company

pursuant to Section 6(k) hereof and except as to indemnification to the extent provided in Section 10 hereof.

SECTION 14. REPRESENTATIONS AND INDEMNITIES TO SURVIVE DELIVERY. The respective indemnities, agreements, representations, warranties, covenants and other statements of the Company, of its officers or directors, and of the several Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or the Company or any of its or their partners, officers, directors or any controlling person, as the case may be, and will survive delivery of and payment for the Shares sold hereunder.

SECTION 15. NOTICES. All communications hereunder will be in writing and will be mailed, delivered, or telecopied (with receipt confirmed):

To the Representatives: Robert W. Baird & Co. Incorporated
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Fax No.: (414) 765-3912
Attention: Steven G. Booth, Managing Director

with a copy to: Michael Best & Friedrich LLP
One South Pinckney Street
Madison, Wisconsin 53703
Fax No.: (608) 283-2275
Attention: Tod B. Linstroth

To the Company: A. O. Smith Corporation
1270 West Park Place
Milwaukee, Wisconsin 53224-9508
Fax No.: (414) 359-4064
Attention: Robert J. O'Toole, Chairman,
President and CEO

and to: A. O. Smith Corporation
1270 West Park Place
Milwaukee, Wisconsin 53224-9508
Fax No.: (414) 359-4143
Attention: W. David Romoser, Vice President,
General Counsel and Secretary

with a copy to: Foley & Lardner
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Fax No.: (414) 297-4900
Attention: Patrick G. Quick

SECTION 16. PARTIES AND SUCCESSORS. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors, personal representatives and assigns, and to the benefit of the officers and directors and controlling persons referred to in Section 10 hereof. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person, firm or corporation any legal or equitable right, remedy or claim under or in respect to this Agreement or any provision herein contained. The term "successors" shall not include any purchaser of the Shares as such from any of the Underwriters merely by reason of such purchase.

SECTION 17. PARTIAL UNENFORCEABILITY. If any Section, paragraph, clause or provision of this Agreement is for any reason determined to be invalid or unenforceable, such determination shall not affect the validity or enforceability of any other Section, paragraph, clause or provision hereof.

SECTION 18. APPLICABLE LAW; COUNTERPARTS. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Illinois without reference to conflict of law principles thereunder. This Agreement may be signed in various counterparts that together shall constitute one and the same instrument, and shall be effective when at least one counterpart hereof shall have been executed by or on behalf of each party hereto.

[SIGNATURE PAGE FOLLOWS.]

If the foregoing is in accordance with your understanding of our agreement, kindly sign and return to us the enclosed duplicates hereof, whereupon it will become a binding agreement among the Company and the several Underwriters, including the Representatives, all in accordance with its terms.

Very truly yours,

A. O. SMITH CORPORATION

By: _____

Name: _____

Title: _____

The foregoing Underwriting Agreement is hereby confirmed and accepted as of the date first above written.

ROBERT W. BAIRD & CO. INCORPORATED

By: _____

Name: _____

Title: _____

BANK OF AMERICA SECURITIES LLC

By: _____

Name: _____

Title: _____

BEAR STEARNS & CO. INC.

By: _____

Name: _____

Title: _____

ANNEX A

Name of Underwriter	Number of Firm Shares to be Purchased -

-- Robert W. Baird & Co.	
Incorporated	
Banc of America Securities LLC Bear Stearns & Co. Inc. --	

Total	=====

ANNEX B
SUBSIDIARIES

State or
Country
Equity Owner
Subsidiary
of
Organization
(Including
%) - -----

- AOS
Holding
Company
Delaware The
Company
(100%) A. O.
Smith
International
Corporation
Delaware The
Company
(100%)
APCOM, Inc.
Tennessee
The Company
(100%)(2)
State
Industries,
Inc.(1)
Tennessee
The Company
(100%) A. O.
Smith
Export, Ltd.
Barbados The
Company
(100%) A. O.
Smith
Holdings
(Barbados)
SRL Barbados
The Company
(100%) A. O.
Smith
Enterprises
Ltd. Canada
The Company
(100%) A. O.
Smith
(China)
Water Heater
Co., Ltd.
China The
Company
(100%) A. O.
Smith
Electrical
Products
(Shenzhen)
Co., Ltd.
China The
Company
(100%)(2) A.
O. Smith
L'eau Chaude
S.a.r.l.
France The
Company
(100%)(2) A.
O. Smith
Warmwasser-

Systemtechnik
GmbH Germany
The Company
(100%)(2) A.
O. Smith
Electrical
Products
Limited
Liability
Company
Hungary The
Company
(100%) A. O.
Smith
Electric
Motors
(Ireland)
Ltd. Ireland
The Company
(100%)(2) A.
O. Smith
Holdings
(Ireland)
Ltd. Ireland
The Company
(100%) IG-
Mex, S.A. de
C.V. Mexico
The Company
(100%)(2)
Motores
Electricos
de Juarez,
S.A. de C.V.
Mexico The
Company
(100%)(2)
Motores
Electricos
de
Monterrey,
S.A. de C.V.
Mexico The
Company
(100%)(2)
Productos de
Agua, S.A.
de C.V.
Mexico The
Company
(100%)(2)
Productos
Electricos
Aplicados,
S.A. de C.V.
Mexico The
Company
(100%)(2) A.
O. Smith
Electrical
Products
B.V. The
Netherlands
The The
Company
(100%) A.O.
Smith Water
Products
Company B.V.
Netherlands
The The
Company
(100%) A.O.
Smith
Holdings
B.V.
Netherlands
The The
Company
(100%)(2)
A.O. Smith

Products
v.o.f.
Netherlands
The Company
(100%)(2) A.
O. Smith
Electrical
Products
(S.E.A.) Pte
Ltd.
Singapore
The Company
(100%) A. O.
Smith
Electrical
Products
Limited
United
Kingdom The
Company
(100%) State
Water
Heaters
(U.K.)
Limited
United
Kingdom The
Company
(100%)(2)

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(1) Denotes a "Significant Subsidiary" of the Company for purposes of this Agreement.

(2) The Company's ownership of the Subsidiary may be in whole or in part indirectly through another Subsidiary.

ANNEX C

FORM OF LOCK-UP AGREEMENT

Robert W. Baird & Co. Incorporated
Banc of America Securities LLC
Bear Stearns & Co. Inc.

As Representatives of the Several Underwriters
c/o Robert W. Baird & Co. Incorporated
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202

Re: A. O. Smith Corporation (the "Company")

Ladies & Gentlemen:

The undersigned is an owner of record or beneficially of certain shares of Common Stock of the Company (the "Common Stock") or securities convertible into or exchangeable or exercisable for Common Stock. The Company proposes to carry out a public offering of Common Stock (the "Offering") for which you will act as the representatives (the "Representatives") of the underwriters. The undersigned recognizes that the Offering will be of benefit to the undersigned and will benefit the Company by, among other things, raising additional capital for its operations. The undersigned acknowledges that you and the other underwriters are relying on the representations and agreements of the undersigned contained in this letter in carrying out the Offering and in entering into underwriting arrangements with the Company with respect to the Offering.

In consideration of the foregoing, the undersigned hereby agrees that, without the prior written consent of Robert W. Baird & Co. Incorporated, the undersigned will not, directly or indirectly, for a period commencing on the date hereof and continuing to a date 90 days after the date of the final prospectus for the Offering (the "Lock-up Period"), offer, sell, transfer, or pledge, contract to sell, transfer or pledge, or cause or in any way permit to be sold, transferred, pledged, or otherwise disposed of (collectively, a "Disposition") any (i) shares of Common Stock, (ii) rights, options, or warrants to purchase shares of Common Stock (including, without limitation, shares of Common Stock that may be deemed to be beneficially owned by the undersigned in accordance with the applicable regulations of the Commission and shares of Common Stock that may be issued upon the exercise of a stock option, warrant or other convertible security), it being agreed, however, that neither the exercise of a stock option nor the withholding or surrender of Securities to cover applicable taxes or to pay the exercise price on an option exercise shall be considered a Disposition, or (iii) securities that are convertible or exchangeable into shares of Common Stock now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition (collectively, the "Securities"). The foregoing sentence shall not apply to the Disposition of any or all of the Securities by gift, will or intestacy, provided that in any such case it shall be a condition to the Disposition that the transferee execute an agreement stating that the transferee is

receiving and holding the Securities subject to the provisions of this Lock-up Letter and there shall be no further Disposition of such Securities except in accordance with this Lock-up Letter.

The foregoing restriction has been expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of the Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than such holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Securities. The undersigned also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent and registrar against the transfer of Securities held by the undersigned except in compliance with the foregoing restrictions.

The undersigned represents and warrants that the undersigned has full power and authority to enter into this agreement and acknowledges that this agreement is enforceable against the undersigned by the Representative. This agreement is irrevocable and will be binding on the undersigned and the respective successors, heirs, personal representatives, and assigns of the undersigned.

Very truly yours,

[Name of officer or director]

ANNEX D

LIST OF OFFICERS AND DIRECTORS SUBJECT TO LOCK-UP

D-1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the reference to our Firm under the caption "Experts" and to the use of our report dated January 16, 2002 in Amendment No. 1 to the Registration Statement (Form S-3 No. 333-86074) and related Prospectus of A. O. Smith Corporation for the registration of 4,025,000 shares of its Common Stock.

We also consent to the incorporation by reference therein of our report dated January 16, 2002 with respect to the financial statement schedule of A. O. Smith Corporation for the years ended December 31, 2001, 2000 and 1999 included in the Annual Report (Form 10-K) for 2001 filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

Milwaukee, Wisconsin
April 19, 2002

CONSENT OF INDEPENDENT AUDITORS

As independent auditors, we hereby consent to the incorporation by reference in this registration statement on Form S-3 of our report dated February 2, 2001, November 27, 2001 and March 6, 2002, pertaining to the financial statements of State Industries, Inc. and its subsidiaries as of and for the year ended December 31, 2000 included in A. O. Smith Corporation's Current Report on Form 8-K, dated December 28, 2001, as amended on March 12, 2002, and to all references to our firm included in this registration statement.

/s/ Lattimore Black Morgan & Cain, PC

Lattimore Black Morgan & Cain, PC

Brentwood, Tennessee
April 18, 2002