

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1996

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-475

A.O. SMITH CORPORATION

Delaware 39-0619790  
(State of Incorporation) (IRS Employer ID Number)

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

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act  
of 1934 during the preceding 12 months and (2) has been subject to such  
filing requirements for the past 90 days. Yes X No

Class A Common Stock Outstanding as of April 30, 1996: 5,884,148

Common Stock Outstanding as of April 30, 1996: 15,034,473

Exhibit Index Page 15

Index

A. O. Smith Corporation

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Statements of Earnings and Retained Earnings	
- Three months ended March 31, 1996 and 1995	3
Condensed Consolidated Balance Sheet	
- March 31, 1996 and December 31, 1995	4-5
Condensed Consolidated Statements of Cash Flows	
- Three months ended March 31, 1996 and 1995	6
Notes to Condensed Consolidated Financial Statements	
- March 31, 1996	7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	8-11
--	------

Part II. Other Information

Item 1. Legal Proceedings	12
Item 4. Submission of Matters to a Vote of Security Holders	12
Item 6. Exhibits and Reports on Form 8-K	13
Signatures	14
Index to Exhibits	15

PART I--FINANCIAL INFORMATION  
ITEM 1--FINANCIAL STATEMENTS

A. O. SMITH CORPORATION  
CONDENSED CONSOLIDATED STATEMENT OF EARNINGS  
AND RETAINED EARNINGS  
Three months ended March 31, 1996 and 1995  
(000 omitted except for per share data)  
(Unaudited)

	Three Months Ended March 31	
	1996	1995
EARNINGS		
Electrical Products Company	\$ 92,301	\$ 85,256
Automotive Products Company	230,938	221,669
Water Products Company	69,362	64,080
Smith Fiberglass Products Inc.	13,450	13,717
Other Products	20,939	8,266
	-----	-----
NET REVENUES	\$426,990	\$392,988
Cost of products sold	363,121	328,845
	-----	-----
Gross profit	63,869	64,143
Selling, general and administrative expenses	32,944	28,962
Interest expense	3,942	3,216
Other expense - net	1,383	1,984
	-----	-----
Provision for income taxes	25,600	29,981
	10,189	11,406
	-----	-----
Earnings before minority interests and equity in earnings of affiliated companies	15,411	18,575
Equity in earnings (loss) of affiliated companies	1,800	(214)
Minority interests in net loss of joint ventures	131	--
	-----	-----
NET EARNINGS	17,342	18,361
RETAINED EARNINGS		
Balance at beginning of period	273,751	224,467
Cash dividends on common shares	(3,138)	(2,718)
	-----	-----
BALANCE AT END OF PERIOD	\$287,955	\$240,110
	=====	=====
DIVIDENDS PER COMMON SHARE	\$.15	\$.13
NET EARNINGS PER COMMON SHARE	\$.83	\$.88

See accompanying notes to unaudited condensed consolidated financial statements.

PART I--FINANCIAL INFORMATION  
ITEM 1--FINANCIAL STATEMENTS

A. O. SMITH CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEET  
March 31, 1996 and December 31, 1995  
(000 omitted)

(unaudited)  
March 31, 1996      December 31, 1996

ASSETS

Cash and cash equivalents	\$ 4,171	\$ 5,694
Trade receivables	188,229	165,924
Finance subsidiary receivables and Customer tooling	12,687	13,449
Inventories (note 2)	51,045	30,799
Deferred income taxes	113,314	103,540
Other current assets	18,124	17,542
	15,738	15,537
	-----	-----

TOTAL CURRENT ASSETS	403,308	352,485
----------------------	---------	---------

Deferred model change	27,106	25,246
Finance subsidiary receivables and Other assets	24,419	26,950
Property, plant and equipment	82,623	79,305
Less accumulated depreciation	1,010,156	975,842
	550,864	528,487
	-----	-----

Net property, plant and equipment	459,292	447,355
	-----	-----

TOTAL ASSETS	\$1,017,927	\$ 952,918
	=====	=====

LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES

Trade payables	\$ 138,045	\$ 112,645
Accrued payroll and benefits	39,939	47,763
Postretirement benefit obligation	7,806	7,837
Other current liabilities	39,606	40,469
Long-term debt due within one year	3,975	3,925
Finance subsidiary long-term debt due	1,012	1,008
	-----	-----

TOTAL CURRENT LIABILITIES	230,383	213,647
---------------------------	---------	---------

Long-term debt (note 3)	195,698	167,139
Finance subsidiary long-term debt	20,688	23,799
Postretirement benefit obligation	75,085	74,799
Other liabilities	33,113	31,955
Deferred income taxes	64,458	63,239
Minority interests in joint ventures	12,254	5,976

STOCKHOLDERS' EQUITY:

Preferred stock	--	--
Class A common stock, \$5 par value: authorized 14,000,000 shares; issued 5,880,638 and 5,888,601	29,403	29,443
Common stock, \$1 par value: authorized 60,000,000 shares; issued 15,819,012 and 15,811,049	15,819	15,811
Capital in excess of par value	68,903	68,871
Retained earnings (note 3)	287,955	273,751
Cumulative foreign currency translation adjustments	(7,819)	(7,499)
Treasury stock at cost	(8,013)	(8,013)
	-----	-----

TOTAL STOCKHOLDERS' EQUITY	386,248	372,364
	-----	-----

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,017,927	\$ 952,918
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

PART I--FINANCIAL INFORMATION  
ITEM 1--FINANCIAL STATEMENTS

A. O.SMITH CORPORATION  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
Three months ended March 31, 1996 and 1995  
(000 omitted)  
(unaudited)

	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 17,342	\$ 18,361
Adjustments to reconcile net earnings to net operating activities		
Depreciation	15,375	12,828
Deferred income taxes	637	1,772
Equity in earnings of affiliates, net of	600	214
Minority interests	(131)	-
Deferred model change and software	3,436	2,359
Other - net	47	644
Change in current assets and liabilities:		
Trade receivables and customer tooling	(42,015)	(11,787)
Current income tax accounts-net	10,072	7,589
Inventories	(9,774)	(6,420)
Prepaid expenses and other	(3,465)	(2,798)
Trade payables	25,400	5,822
Accrued liabilities, payroll and benefits	(15,526)	(14,286)
Net change in noncurrent assets and	1,680	1,318
	-----	-----
CASH PROVIDED BY OPERATING ACTIVITIES	3,678	15,616
	-----	-----
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditures	(24,522)	(14,901)
Other - net	(6,450)	(4,363)
	-----	-----
CASH USED BY INVESTING ACTIVITIES	(30,972)	(19,264)
	-----	-----
CASH FLOW BEFORE FINANCING ACTIVITIES	(27,294)	(3,648)
	-----	-----
CASH FLOW FROM FINANCING ACTIVITIES		
Long-term debt incurred	32,259	15,000
Long-term debt retired	(3,650)	(8,783)
Finance subsidiary net long-term debt retired	(3,107)	(2,509)
Proceeds from common stock options exercised	--	90
Other stock transactions	--	(13)
Joint ventures partners' contributions	3,407	--
Dividends paid	(3,138)	(2,718)
	-----	-----
CASH PROVIDED BY FINANCING ACTIVITIES	25,771	1,067
Net decrease in cash and cash equivalents	(1,523)	(2,581)
Cash and cash equivalents-beginning of period	5,694	8,485
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 4,171	\$ 5,904
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

PART I--FINANCIAL INFORMATION  
ITEM 1--FINANCIAL STATEMENTS

A. O. SMITH CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
March 31, 1996  
(unaudited)

1. Basis of Presentation

The financial statements presented herein are based on interim figures and are subject to audit. In the opinion of management, all adjustments consisting of normal accruals considered necessary for fair presentation of the results of operations and of financial position have been made. The results of operations for the three-month period ended March 31, 1996 are not necessarily indicative of the results expected for the full year. The consolidated balance sheet as of December 31, 1995 is derived from the audited financial statements but does not include all disclosures required by generally accepted accounting principles.

2. Inventories

(000 omitted)	March 31, 1996	December 31, 1995
Finished products	\$ 55,700	\$ 53,788
Work in process	47,552	44,806
Raw materials	47,332	41,968
Supplies	9,172	9,067
	-----	-----
	159,756	149,629
Allowance to state inventories at LIFO cost	46,442	46,089
	-----	-----
	\$113,314	\$103,540
	=====	=====

3. Long-Term Debt

The corporation's long-term credit agreements contain certain conditions and provisions which restrict the corporation's payment of dividends. Under the most restrictive of these provisions, retained earnings of \$104.9 million were unrestricted as of March 31, 1996 for cash dividends and treasury stock purchases.

4. Accounting for Stock-Based Compensation

In October 1995 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." The standard permits companies to continue accounting for stock options under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." The corporation intends to follow Opinion No. 25 as it requires no recognition for compensation expense when the exercise price is equal to the market price of the stock at the date of the grant. The corporation will provide the pro forma disclosures required by SFAS No. 123 in its annual report, if material.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

FIRST THREE MONTHS OF 1996 COMPARED TO 1995

Revenues for the first quarter of 1996 were \$427 million surpassing last year's first quarter revenues by \$34 million or 8.7 percent, and representing the highest quarterly revenues achieved in the corporation's history. Net earnings of \$17.3 million or \$.83 per share in the first quarter of 1996 declined \$1.1 million from the \$18.4 million or \$.88 per share reported in the same period last year.

With the exception of Smith Fiberglass Products Inc., the corporation's product operations reflected increased revenues in the first quarter of 1996 compared to 1995's first quarter. The most notable sales increases occurred at the Water Products and Electrical Products companies as both of these operations experienced over an eight percent increase in sales from the first quarter of 1995 to the same period in 1996. The sales growth occurring within the Other Products segment was attributable to the acquisition of Peabody TecTank, Inc. in December 1995.

Despite the higher 1996 first quarter sales, the corporation's gross profit margin declined from 16.3 percent in the first quarter of 1995 to 15 percent in 1996. Several factors were responsible for the lower profit margin. Automotive's margins were adversely impacted by start-up costs

associated with three facilities and higher depreciation expense. Water Products' margins were significantly reduced as a result of pricing pressure in the residential water heater segment, while unfavorable product mix caused lower margins at Smith Fiberglass Products. Further explanation of the causal factors for the lower gross profit margin are included in the various segment discussions which follow.

First quarter sales for the Automotive Products Company increased \$9.2 million or 4.2 percent from \$221.7 million in 1995 to \$230.9 million in 1996. Sales increased despite the March interruption of product shipments caused by the GM strike.

Automotive's 1996 first quarter earnings were significantly lower than the same period last year. Much of the earnings decline was caused by higher fixed costs, most notably depreciation, which increased in conjunction with higher capital spending levels in the recent past. Start-up costs for plants in Plymouth, Michigan; Bowling Green, Kentucky; and Roanoke, Virginia adversely impacted the 1996 first quarter earnings. Automotive's first quarter earnings were lower than planned due to the curtailment of scheduled production and shipment of product associated with the General Motors strike, as well as lower than anticipated productivity levels.

In March, Automotive was awarded the contract to manufacture frames for the next generation of the popular Ford Explorer sport utility vehicle. In addition, Automotive has been certified as a Full Service Supplier, which will give the company the opportunity for early involvement in new vehicle development and will enable the company to work more closely with Ford in the future. The Milwaukee, Wisconsin operation is also preparing to build the next generation of Ford Ranger frames with production scheduled to begin in the third quarter of 1997.

The trend of improved earnings which commenced in 1995 for Metalsa, the corporation's 40 percent owned Mexican affiliate continued in the first quarter of 1996. Sales increased more than 50 percent over last year's first quarter due to additional sales in Mexico to Chrysler and General Motors for the export market. The higher volumes resulted in improved first quarter earnings which compare favorably to a nominal operating profit which was more than offset by a translation loss in the first quarter of 1995.

First quarter sales for the Electrical Products Company increased \$7.0 million or 8.3 percent from a very good first quarter experienced in 1995. Market conditions remained strong for all segments of the business but most notably for the hermetic, pump, and distribution markets.

Electrical Products Company's first quarter profits exceeded 1995's first quarter earnings as a result of increased sales and improved manufacturing efficiency throughout its operations.

First quarter sales for the Water Products Company increased \$5.3 million or 8.2 percent from \$64.1 million in 1995 to \$69.4 million in 1996. The increased sales were the result of higher volumes for both residential and commercial product.

Despite the increased volume for Water Products, 1996 first quarter profits were lower than last year's first quarter as a result of pricing concessions put in place to match discounts offered by other manufacturers within the industry. The company anticipates that margins will return to more normal levels in the second half of the year.

Shipment of a new commercial water heater which achieves 94% efficiency, the most efficient of any storage type product on the market is scheduled to commence in the second quarter. This in conjunction with the completion of consolidation of the commercial boiler operation at the company's El Paso, Texas, plant should have a favorable impact on the remainder of the year.

First quarter sales for Smith Fiberglass Products were slightly lower than the same period in 1995. The small decline in sales resulted in a disproportionate drop in first quarter earnings as a higher percentage of the subsidiary's sales were concentrated in lower margin product lines.

Revenues for the Other Products segment of the corporation, consisting of A. O. Smith Harvestore Products, Inc. (AOSHPI), the recently acquired Peabody TecTank, Inc. (PTT), and AgriStor Credit Corporation increased from \$8.3 million in the first quarter of 1995 to \$20.9 million in the first quarter of 1996. The significant increase in quarterly revenues from year-to-year was attributable to the acquisition of PTT which experienced particularly strong demand for its line of bolted storage tanks. AOSHPI's first quarter revenues were adversely impacted by softness in the agricultural market, while AgriStor's revenues continue to

decline consistent with the intent to liquidate this entity. The incremental profits generated by PTT in the quarter helped this segment of the corporation's business earn a first quarter profit compared to a loss in the first quarter of 1995.

Selling, general and administrative expenses in the first quarter were \$4.0 million more than the same period of 1995. Much of this increase was associated with the acquisition of PTT as well as general increases to support higher sales volumes. The \$.7 million year-to-year increase in first quarter interest expense was a direct result of increased debt levels to support aggressive capital spending programs, the PTT acquisition, and increased working capital requirements. The effective tax rate for the first quarter of 1996 was 39.6 percent and compared to 38 percent in the first quarter of 1995. The first quarter of 1995 benefitted from the recognition of additional foreign tax credits. Additionally, 1996 first quarter earnings have been reduced by losses incurred in the Chinese joint ventures for which there is no immediate offsetting tax benefit.

During the first three months of 1996, the corporation was a party to futures contracts for purposes of hedging a portion of certain raw material purchases. The corporation was also a party to forward foreign exchange contracts to hedge foreign currency transactions consistent with its committed exposures. Had these contracts not been in place, the net earnings of the corporation would not have been materially affected in the first quarter of 1996.

#### Liquidity and Capital Resources

The corporation's working capital was \$172.9 million at March 31, 1996 compared to \$138.8 million at December 31, 1995. Business activity related increases in trade receivables, customer tooling and inventories were partially offset by a corresponding increase to trade payables.

Cash flow provided by operations was \$11.9 million lower during the first quarter ended March 31, 1996 than the same period last year due to higher working capital requirements. The corporation's long-term debt increased \$28.6 million in the first three months of 1996 to \$195.7 million to finance capital expenditures and working capital requirements. The corporation's leverage ratio as measured by total debt excluding the finance subsidiary divided by total capitalization was 34% compared to 31% at the end of December 1995. The finance subsidiary's long-term debt decreased \$3.1 million during the first quarter to \$20.7 million, reflecting the continuing liquidation of the business.

Capital expenditures during the first quarter were \$24.5 million, \$9.6 million higher than during the first quarter of 1995. As mentioned in the most recently issued Form 10-K Report, capital spending will remain higher for the remainder of the year due largely to new automotive programs. The corporation expects that cash flow from operations will cover the majority of the planned capital requirements.

At its April 4, 1996 meeting, A. O. Smith's Board of Directors increased the regular quarterly dividend to \$.17 per share on its common stock (Classes A and Common) from \$.15 per share. The dividend is payable on May 15, 1996 to shareholders of record April 30, 1996.

#### PART II - OTHER INFORMATION ITEM 1 - LEGAL PROCEEDINGS

At March 31, 1996, the Corporation or A. O. Smith Harvestore Products, Inc. ("AOSHPI"), a wholly-owned subsidiary of the Corporation, were defendants in approximately seven cases alleging damages for economic losses claimed to have arisen out of alleged defects in AOSHPI's animal feed storage equipment. In the first quarter of 1996, no new cases were filed against the Corporation and AOSHPI and one case was settled.

Two of the seven pending cases contain class action allegations. One of the cases is a New York State court action which names the corporation, AOSHPI, and two of its dealers as defendants. The court has denied the plaintiffs' motion to certify the class and has granted the defendants' motions dismissing some of the plaintiffs' allegations. The plaintiffs are appealing the court's rulings.

The second case is pending in the Federal District Court for the Southern District of Ohio. It was filed in August 1992 and the court, in March 1994, conditionally certified it as a class action on behalf of purchasers and lessees of Harvestore structures manufactured by the corporation and AOSHPI. A notice of the certification was mailed to the purported class members in the third quarter of 1994, with approximately 5,500 "opt out" forms being filed with the court, the impact of which is unknown. The

court canceled a previously set trial date as a result of motions the corporation filed seeking summary judgment or in the alternative decertification of the class. The corporation is awaiting a ruling.

Based on the facts currently available to management and its prior experience with lawsuits alleging damages for economic loss resulting from use of the Harvestore animal feed storage equipment, management is confident that the class action suits can be defeated and that the lawsuits do not represent a material threat to the corporation. The corporation believes that any damages, including any punitive damages, arising out of the pending cases are adequately covered by insurance and recorded reserves. No range of reasonably possible losses can be estimated because, in most instances, the complaint is silent as to the amount of the claim or states it as an unspecified amount in excess of the jurisdictional minimum. The corporation reevaluates its exposure periodically and makes adjustment of its reserves as appropriate.

There have been no material changes in the environmental matters previously reported in Item 3 in the Company's Form 10-K Report for the fiscal year ending December 31, 1995 which is incorporated herein by reference.

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

No matters were submitted to a vote of security holders during the first quarter of 1996.

#### ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits

- (3)(i) A. O. Smith Corporation Restated Certificate of Incorporation, as amended April 5, 1995 and as further amended February 5, 1996 [incorporated by reference to Exhibit (3)(i) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 1-475)]
- (4) A. O. Smith Corporation Restated Certificate of Incorporation, as amended April 5, 1995 and as further amended on February 5, 1996 [incorporated by reference to Exhibit (3)(i) hereto]
- (27) Financial Data Schedule

##### (b) Reports on Form 8-K

No reports on Form 8-K were filed by the corporation in the first quarter of 1996.



SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

A. O. SMITH CORPORATION

May 10, 1996

/s/ John J. Kita  
John J. Kita  
Vice President,  
Treasurer and Controller

May 10, 1996

/s/ G.R. Bomberger  
G. R. Bomberger  
Executive Vice President  
and Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number	Description
(3)(i)	A. O. Smith Corporation Restated Certificate of Incorporation, as amended April 5, 1995 and as further amended on February 5, 1996 [incorporated by reference to Exhibit (3)(i) to the registrant's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 1-475)]
(4)	A. O. Smith Corporation Restated Certificate of Incorporation, as amended April 5, 1995 and as further amended on February 5, 1996 [incorporated by reference to Exhibit (3)(i) hereto]
(27)	Financial Data Schedule

THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF A.O. SMITH CORPORATION AS OF AND FOR THE PERIOD ENDED MARCH 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

	3-MOS	
	DEC-31-1996	
	JAN-01-1996	
	MAR-31-1996	
		4,171
		0
	200,916	
		0
	113,314	
	403,308	
		1,010,156
	(550,864)	
	1,017,927	
230,383		
		216,386
0		
		0
		106,112
		280,136
1,017,927		
		426,990
	426,990	
		363,121
	363,121	
	34,327	
		0
	3,942	
	25,600	
		10,189
17,342		
		0
		0
		0
		17,342
		0.83
		0.83