

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

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

For the quarterly period ended March 31, 1998

OR

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

For the transition period from _____ to _____

Commission File Number 1-475

A.O. SMITH CORPORATION

Delaware 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, 1998: 5,815,774

Common Stock Outstanding as of April 30, 1998: 9,912,076

Exhibit Index Page 12

Index

A.O. Smith Corporation

Part I. Financial Information

Item 1. Financial Statements (Unaudited)

Condensed Consolidated Statement of Earnings, Comprehensive Earnings and Retained Earnings - Three months ended March 31, 1998 and 1997	3
Condensed Consolidated Balance Sheet - March 31, 1998 and December 31, 1997	4
Condensed Consolidated Statements of Cash Flows - Three months ended March 31, 1998 and 1997	5
Notes to Condensed Consolidated Financial Statements - March 31, 1998	6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7-9
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Part II. Other Information

Item 1. Legal Proceedings	10
Item 4. Submission of Matters to a Vote of Security Holders	10
Item 6. Exhibits and Reports on Form 8-K	10
Signatures	11
Index to Exhibits	12

PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

A.O. SMITH CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF EARNINGS,
COMPREHENSIVE EARNINGS AND RETAINED EARNINGS
Three months ended March 31, 1998 and 1997
(000 omitted except for per share data)
(unaudited)

	Three Months Ended March 31	
	1998	1997
EARNINGS		
Electric Motor Technologies	\$111,839	\$ 93,927
Water Systems Technologies	74,554	70,972
Storage & Fluid Handling Technologies	36,562	31,349
	-----	-----
NET SALES	222,955	196,248
Cost of products sold	177,186	153,450
	-----	-----
Gross profit	45,769	42,798
Selling, general and administrative expenses	27,900	27,393
Interest expense	1,624	2,244
Interest income	(1,712)	(58)
Other expense - net	722	990
	-----	-----
Provision for income taxes	17,235	12,229
	6,038	4,391
	-----	-----
Earnings before equity in loss of joint ventures	11,197	7,838
Equity in loss of joint ventures	(1,019)	(717)
	-----	-----
EARNINGS FROM CONTINUING OPERATIONS	10,178	7,121
EARNINGS FROM DISCONTINUED OPERATIONS (less related income tax provision of \$6,324)	-	12,790
	-----	-----
NET EARNINGS	10,178	19,911
Other comprehensive earnings, net of income tax (note 5):		
Foreign currency translation (less related income tax benefit 1998 - \$123 and 1997 - \$204)	(189)	(312)
	-----	-----
COMPREHENSIVE EARNINGS	\$ 9,989	\$ 19,599
	=====	=====
RETAINED EARNINGS		
Balance at beginning of period	466,514	325,361
Net earnings	10,178	19,911
Cash dividends on common shares	(2,751)	(3,560)
	-----	-----
BALANCE AT END OF PERIOD	\$473,941	\$341,712
	=====	=====
BASIC EARNINGS PER COMMON SHARE		
Continuing Operations	\$.63	\$.35
Discontinued Operations	-	.63
	-----	-----
NET EARNINGS	\$.63	\$.98
	=====	=====
DILUTED EARNINGS PER COMMON SHARE		
Continuing Operations	\$.62	\$.34
Discontinued Operations	-	.62
	-----	-----
NET EARNINGS	\$.62	\$.96
	=====	=====
DIVIDENDS PER COMMON SHARE	\$.17	\$.17

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, 1998 and December 31, 1997
(000 omitted)

	(unaudited)	
	March 31, 1998	December 31, 1997
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 2)	\$110,287	\$145,896
Receivables	144,163	126,232
Inventories (note 3)	79,132	79,049
Deferred income taxes	10,937	11,849
Other current assets	4,511	2,702
	-----	-----
TOTAL CURRENT ASSETS	349,030	365,728
Property, plant and equipment	454,745	450,147
Less accumulated depreciation	246,478	242,391
	-----	-----
Net property, plant and equipment	208,267	207,756
Investments in and advances to joint ventures	27,237	25,605
Other assets	67,559	65,644
Goodwill	51,354	51,783
	-----	-----
TOTAL ASSETS	\$703,447	\$716,516
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade payables	\$ 63,718	\$ 61,299
Accrued payroll and benefits	22,683	26,397
Product warranty	8,188	7,972
Accrued income taxes	8,044	6,607
Long-term debt due within one year	5,598	5,590
Other current liabilities	21,850	20,017
	-----	-----
TOTAL CURRENT LIABILITIES	130,081	127,882
Long-term debt (note 4)	101,605	100,972
Other liabilities	56,285	59,515
Deferred income taxes	28,650	28,442
STOCKHOLDERS' EQUITY:		
Class A common stock, \$5 par value: authorized 14,000,000 shares; issued 5,838,334	29,192	29,192
Common stock, \$1 par value: authorized 60,000,000 shares; issued 15,861,316	15,861	15,861
Capital in excess of par value	72,729	72,542
Retained earnings (note 4)	473,941	466,514
Cumulative foreign currency translation adjustments (note 5)	(1,891)	(1,579)
Treasury stock at cost	(203,006)	(182,825)
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	386,826	399,705
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$703,447	\$716,516
	=====	=====

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, 1998 and 1997
(000 omitted)
(unaudited)

	Three Months Ended March 31	
	1998	1997
CASH FLOW FROM OPERATING ACTIVITIES		
CONTINUING		
Net earnings	\$ 10,178	\$ 7,121
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	6,919	6,126
Deferred income taxes	1,120	(1,235)
Equity in loss of joint ventures	1,019	717
Net change in current assets and liabilities	(15,631)	(22,927)
Net change in noncurrent assets and liabilities	(6,423)	4,341
Other	266	130
	-----	-----
CASH USED BY OPERATING ACTIVITIES	(2,552)	(5,727)
	-----	-----
INVESTING ACTIVITIES		
Capital expenditures	(6,942)	(11,052)
Capitalized purchased software costs	(308)	(240)
Investment in joint ventures	(2,652)	(3,451)
Acquisition of business (net of cash acquired)	-	(60,443)
	-----	-----
CASH USED BY INVESTING ACTIVITIES	(9,902)	(75,186)
	-----	-----
CASH USED BY CONTINUING OPERATIONS BEFORE FINANCING ACTIVITIES	(12,454)	(80,913)
DISCONTINUED		
Cash used by discontinued operations before financing activities	(814)	(112,285)
FINANCING ACTIVITIES		
Long-term debt incurred	641	241,940
Long-term debt retired	-	(4,675)
Purchase of common stock held in treasury	(20,231)	(46,828)
Proceeds from common stock options exercised	-	2,432
Tax benefit from exercise of stock options	-	287
Dividends paid	(2,751)	(3,560)
	-----	-----
CASH PROVIDED/(USED) BY FINANCING ACTIVITIES	(22,341)	189,596
	-----	-----
Net decrease in cash and cash equivalents	(35,609)	(3,602)
Cash and cash equivalents-beginning of period	145,896	6,405
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$110,287	\$ 2,803
	=====	=====

See accompanying notes to unaudited condensed consolidated financial statements.

A.O. SMITH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1998
(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, 1998 are not necessarily indicative of the results expected for the full year. The consolidated balance sheet as of December 31, 1997 is derived from the audited financial statements but does not include all disclosures required by generally accepted accounting principles. Certain prior year amounts have been reclassified to conform to the 1998 presentation.

2. Statement of Cash Flows

For purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents include short-term investments held primarily for cash management purposes. These investments normally mature within three months from the date of acquisition.

3. Inventories

(000 omitted)	March 31, 1998	December 31, 1997
Finished products	\$ 43,993	\$ 45,091
Work in process	18,685	19,656
Raw materials	45,093	42,870
Supplies	1,615	1,634
	-----	-----
	109,386	109,251
Allowance to state inventories at LIFO cost	30,254	30,202
	-----	-----
	\$ 79,132	\$ 79,049
	=====	=====

4. Long-Term Debt

The company's long-term credit agreements contain certain conditions and provisions which restrict the company's payment of dividends. Under the most restrictive of these provisions, retained earnings of \$68.7 million were unrestricted as of March 31, 1998 for cash dividends and treasury stock purchases.

5. Comprehensive Earnings

The company has adopted Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income", which establishes the standards for reporting and displaying comprehensive earnings and its components as part of a full set of financial statements. The company's other comprehensive income consists solely of foreign currency translation adjustments, which is disclosed separately in the Condensed Consolidated Statement of Earnings, Comprehensive Earnings, and Retained Earnings, as well as the Stockholders' Equity section of the Condensed Consolidated Balance Sheet.

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

RESULTS OF OPERATIONS

FIRST THREE MONTHS OF 1998 COMPARED TO 1997

Sales were \$223.0 million in the first quarter of 1998, an increase of approximately 14% over sales in the first quarter of 1997. Excluding the sales of UPPCO, the manufacturer of subfractional motors acquired on March 31, 1997, revenues increased \$10.0 million or 5% compared with 1997 as a result of a 5% increase in sales at Water Systems and a 17% increase at Storage & Fluid Handling.

First quarter earnings of \$10.2 million were \$3.1 million or 43% higher than 1997 earnings due to improvements at Storage & Fluid Handling and Water Systems, as well as higher interest income. On a per share basis, first quarter diluted earnings increased from \$.34 to \$.62 per share, reflecting the improvement in net earnings and the benefit of the company's continuing share repurchase program.

The company's gross profit margin for the first quarter was 20.5%, compared with a margin of 21.8% in 1997. Lower margins were primarily due

to lower relative margins at UPPCO and lower pricing in the Electric Motor Technologies segment.

Sales in the first quarter for Electric Motor Technologies were \$111.8 million, or \$17.9 million higher than the same period last year. Excluding UPPCO, sales for the segment were flat compared to the first quarter of 1997, as increased sales in the pump and international business units offset a decline in the HVAC and after-market motor businesses.

First quarter operating profits for Electric Motor Technologies were essentially flat compared to the first quarter of 1997. Earnings on UPPCO product were offset by lower prices and unfavorable product mix.

Water Systems Technologies sales were \$74.6 million in the first quarter of 1998, or \$3.6 million higher than 1997 sales of \$71.0 million. Overall, unit volumes for both residential and commercial water heaters increased 8% during the quarter. Sales increased 5%, reflecting the continued difficult pricing environment in the residential water heater marketplace. First quarter profits for Water Systems Technologies were modestly higher compared with 1997.

First quarter sales for Storage & Fluid Handling Technologies were \$36.6 million or 17% higher than the same period in 1997. Both units in this segment experienced solid increases in sales, with improvements in dry and liquid storage tank sales, as well as stronger sales of fiberglass pipe for petroleum production and service station applications. First quarter profits were significantly higher than the same period last year as a result of higher volumes and lower segment selling, general and administrative (SG&A) expenses.

Overall, SG&A expenses for the first quarter of 1998 were slightly higher than the same period of 1997. As a percent of sales, SG&A expenses decreased from 14.0% in 1997 to 12.5% in 1998 as a result of lower administrative expense at both corporate and operating unit levels.

The company recognized net interest income of \$0.1 million in the first quarter of 1998, compared with net interest expense of \$2.2 million in 1997. Investment of the proceeds from the sale of the company's automotive products division in April 1997 generated \$1.7 million of interest income during the quarter.

The first quarter effective tax rate was 35.0% in 1998, compared with a rate of 35.9% in 1997. The 1998 rate benefited from the impact of the company's foreign sales corporation as well as research and development tax credits.

After-tax equity in losses of the company's Chinese joint ventures was \$1.0 million in the first quarter of 1998, or \$0.3 million higher than the same period in 1997, and is attributable to additional start up costs associated with the new water heating plant in Nanjing. The company expects current year losses in this operating unit to be comparable to the prior year.

During 1997, the Financial Accounting Standards Board issued several Statements of Financial Accounting Standards ("SFAS") that are effective for the company in 1998. SFAS No. 130, "Reporting Comprehensive Income" is effective for the company as of January 1, 1998 and has been incorporated into the company's financial statements. SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" is effective for the company for 1998. Neither of the statements will have any impact on A.O. Smith Corporation's results of operations, financial position or cash flows.

During the first three months of 1998, the company was a party to futures contracts for the purposes of hedging a portion of certain raw material purchases. The company 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 company would not have been materially affected.

Liquidity & Capital Resources

The company's working capital was \$218.9 million at March 31, 1998 compared with \$237.8 million at December 31, 1997, a decline of \$18.9 million. The reduction was primarily attributable to cash and cash equivalents which were \$35.6 million lower at March 31, 1998 than at year end 1997. The decline in cash was primarily the result of stock repurchases in the amount of \$20.2 million and a \$17.9 million sales-related increase in accounts receivable. Cash flow from operations was \$68.5 million higher than the same period last year primarily due to the \$60 million acquisition of UPPCO in the first quarter of 1997 and lower

capital expenditures during the first three months of this year compared with last year.

Capital expenditures during the first quarter totaled \$6.9 million compared with \$11.1 million during the same period last year. The company expects lower capital spending in 1998 compared with 1997, and expects such capital expenditures to be covered by 1998 operating cash flow.

The company repurchased 478,300 shares of its common stock during the first quarter of 1998 under the company's ongoing stock repurchase program. Since the program's inception in January of 1997, approximately 5.3 million shares have been repurchased. As of the end of the first quarter, \$37.2 million remained of the \$50 million authorization granted in December of 1997.

At its April 9, 1998 meeting, A. O. Smith's Board of Directors declared a regular quarterly dividend at \$.17 per share on its common stock (Classes A and Common). The dividend is payable on May 15, 1998 to shareholders of record April 30, 1998.

Forward Looking Statements

Certain statements in this report are forward-looking statements. Although the company believes that its expectations are based upon reasonable assumptions within the bounds of its knowledge of its business, there can be no assurance that its financial goals will be realized. Although a significant portion of the company's sales are derived from the replacement of previously installed product and such sales are therefore less volatile, numerous factors may affect actual results and may cause results to differ materially from those expressed in forward-looking statements made by or on behalf of the company. Among such numerous factors the company includes the continued growth of the worldwide heating, ventilating and air conditioning market, the stability of the pricing environment for residential water heaters and the successful implementation of the company's joint venture strategies in China.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

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

There have been no material changes in the environmental matters previously reported in Part 1, Item 3 and Note 12 of the Notes to Consolidated Financial Statements in the company's annual report on Form 10-K Report for the year ended December 31, 1997, which is incorporated herein by reference.

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

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- (27.1) Financial Data Schedule
- (27.2) Restated Financial Data Schedule

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the company in the first quarter of 1998.

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 11, 1998

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

May 11, 1998

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

INDEX TO EXHIBITS

Exhibit Number	Description
(27.1)	Financial Data Schedule
(27.2)	Restated 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, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

3-MOS		
	DEC-31-1998	
	JAN-01-1998	
	MAR-31-1998	3,907
		106,380
		144,163
		0
		79,132
		349,030
		454,745
	(246,478)	
	703,447	
130,081		
		101,605
0		
		0
		45,053
		341,773
703,447		
		222,955
	222,955	
		177,186
		177,186
		26,910
		0
		1,624
		17,235
		6,038
10,178		
		0
		0
		0
		10,178
		0.63
		0.62

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

1,000

	3-MOS	
	DEC-31-1997	
	JAN-01-1997	
	MAR-31-1997	
		2,803
		0
	140,304	
		0
	89,566	
	342,418	
		420,598
	(228,473)	
	1,077,380	
119,832		
		479,396
	0	
		0
		45,060
1,077,380		351,305
		196,248
	196,248	
		153,450
	153,450	
	28,325	
		0
	2,244	
	12,229	
		4,391
7,121		
	12,790	
		0
		0
	19,911	
	0.98	
	0.96	